

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action to be taken, you should immediately consult your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your Shares in Acuity VCT 2 Plc (“the Company”), you should send this document, as soon as possible, to the purchaser, transferee, stockbroker, independent financial adviser or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

This document, which comprises a prospectus relating to the Company dated 21 December 2009, has been prepared in accordance with the prospectus rules made under Part VI of the Financial Services and Markets Act 2000, and has been approved for publication by the Financial Services Authority as a prospectus under the prospectus rules on 21 December 2009.

The Company and the Directors, whose names appear on page 10 of this document, accept responsibility for the information contained herein. To the best of the knowledge and belief of the Company and 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.

Persons receiving this document should note that Howard Kennedy, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as sponsor for the Company and no-one else and will not be responsible to any other person for providing the protections afforded to customers of Howard Kennedy (subject to the responsibilities and liabilities imposed by FSMA and the regulatory regime established thereunder) or providing advice in connection with any matters referred to herein.

ACUITY VCT 2 PLC

(Registered in England and Wales with registered number 5210737)

Prospectus

relating to the issue of New Shares in connection with the scheme of reconstruction of Acuity VCT Plc

The Shares in issue at the date of this document are listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange’s main market for listed securities. Application has been made to the UK Listing Authority for all of the New Shares to be listed on the Official List and application will be made to the London Stock Exchange for the New Shares to be admitted to trading on its main market for listed securities. It is expected that such admission will become effective and that trading in the New Shares will commence within 5 days of the allotment of such New Shares.

The attention of Shareholders of the Company who are resident in, or citizens of, territories outside the United Kingdom is drawn to the information under the heading “Shareholders not resident in the UK” in Part VI of this document. In particular, the New Shares to be issued pursuant to the Scheme have not and will not be registered under the United States Securities Act 1933 or the United States Investment Company Act 1990. The attention of persons receiving this document is drawn to the risk factors on pages 7 and 8 of this document.

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SUMMARY

This summary should be read as an introduction to this Prospectus of the Company dated 21 December 2009. Any decision to invest in the New Shares should be based on consideration of the Prospectus as a whole. Where a claim relating to the information contained in this Prospectus is brought before a court, the claimant investor might, under the national legislation of the EEA States, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary including any translation of the summary if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

Background to the proposed Merger

The Company has raised some £35.0 million which is now invested in some 27 companies. As at 30 September 2009 (the date of the Company's most recently published financial information), the Company's audited NAV was £28.7 million.

In addition to managing the Company's investments, the Investment Manager also manages Acuity 3, which has the same investment policy as that of the Company and Acuity 1.

For some time the Board have been reviewing the merits of merging the Company with Acuity 1, with a view to creating a larger and more commercially viable fund and, at the same time, providing a number of cost benefits to shareholders of both companies. Since 2004, VCTs have been able to merge without shareholders losing their VCT tax reliefs. Some 25 commonly managed VCTs have now merged.

Reasons for the proposed Merger

The main purpose of the proposed Merger is to create a single larger VCT that will bring a number of commercial advantages to both sets of shareholders, namely:

- a reduction in the annual running costs of the Enlarged Company compared to the total annual running costs of the separate companies;
- the creation of a single VCT of a more economically efficient size with a greater capital base over which to spread administration, regulatory and management costs;
- participation in a larger VCT with a more diversified portfolio thereby spreading the portfolio risk across a broader range of investments and businesses;
- increase the potential to pay dividend distributions and reinstate and maintain a buy-back programme due to the increased size and the reduced need to retain funds to remain at an economically viable size; and
- increase the flexibility in meeting the qualifying VCT requirements.

Accordingly, your Board has agreed with the board of Acuity 1 to merge the companies on terms reflecting their respective net assets as set out in this document, with the existing investment management arrangements between Acuity Capital and the Company remaining in place.

The Scheme

The Scheme operates by Acuity 1 being placed into members' voluntary liquidation, and its net assets being purchased by the Company in exchange for New Shares. The number of New Shares will be determined on the basis of the relative net assets of the Company and Acuity 1, adjusted in accordance with the Scheme. Once the assets have been transferred to the Company, Acuity 1's listing will be cancelled and Acuity 1 wound up.

Effect of the Scheme

As at 30 September 2009, the audited net asset value of the Company was £28.7 million. As at 30 September 2009, the audited net asset value of Acuity 1 was £20.0 million.

The number of New Shares to be issued to the shareholders of Acuity 1 will be calculated by reference to the relative net assets of the Company and Acuity 1, adjusted in accordance with the Scheme, as detailed in Part I. Such New Shares will be issued *pro rata* to Acuity 1 shareholders on the register of members on the Record Date. For these purposes, dissenting shareholders in Acuity 1 will be disregarded.

Holdings of dissenting Acuity 1 shareholders will be purchased for cash by Acuity 1 at the 'break value' which will be an estimate of the amount a shareholder of Acuity 1 would receive in an ordinary winding-up of Acuity 1 if all the assets of Acuity 1 had to be realised. The break value is expected to be significantly below the estimated relevant Roll-Over Value.

The Board

The current Board comprises five non-executive directors: Rupert Pennant-Rea (Chairman), David Donnelly, Catrina Holme, David Sebire and Nicholas Ross. Nicholas Ross is also a director of the Investment Manager. The Board will remain unchanged following completion of the Scheme.

The Investment Manager

The Company and Acuity 1 have the same investment manager, namely Acuity Capital. Acuity Capital, which is authorised by the FSA, was formed in 1981, and was the subject of a management buy out from the Electra Partners Group in February 2008. The Acuity Capital management team together have more than 30 years in private equity investments, venture capital trusts and corporate finance. Prior to completing the management buyout, the investment management team formed the smaller companies team of Electra Partners Limited, one of the longest established providers of institutional private equity in London. Acuity Capital's fees will remain unchanged following completion of the Scheme.

Summary of Investment Policy

The Company's objective is to achieve capital gains and maximize UK tax-free income to its shareholders from dividends and capital distributions. It is intended that this objective will be achieved by investing the majority of the Company's funds in a portfolio of VCT qualifying investments which it believes have a high growth potential.

The Company will seek to invest in a diversified portfolio of unquoted, PLUS traded and AIM quoted companies and will not specialise unduly in any particular industry sector. There are no criteria set by the Directors regarding the size of the target companies, except, with respect to each specific pool of capital, that an investee company's gross assets must comply with current UK VCT legislation. Investments in start-up companies will generally be avoided.

None of the Company's investments at the time of acquisition will represent more than 15 per cent. (by value) of all the Company's investments.

The Directors do not wish the Company to be restricted by having a fixed limit on what exposure to gearing it may have, apart from the restriction in the Company's Articles, which limits borrowing to an amount equal to its adjusted capital and reserves.

Dividend Policy

The Company's dividend policy is to achieve capital gains and to maximise tax free income for shareholders through dividend distributions. A dividend of 2p per share was paid to holders of Ordinary Shares in respect of the year ended 30 September 2008 which brought the total distributions to 4.5p since the commencement of the Company. However, the Board has decided that no dividend distributions would be paid with respect to the year ended 30 September 2009 due to the Board's concern to maximise the liquidity of the Company. While the Board will consider the overall liquidity of the Company and act in the best interests of the

shareholders as a whole, the Board is committed to making further distributions as soon as it is prudent to do so.

Change of Name

A resolution is to be proposed at the general meeting of the Company convened for 21 January 2010 that, subject to the Scheme becoming effective, the name of the Company be changed to “Acuity Growth VCT plc”.

Share Issue and Share Buy Back Programme

In order to implement the Scheme, the Company will need to authorise the Board to allot New Shares pursuant to the Scheme, and the Company is also taking this opportunity to seek new authorities to issue up to 10 per cent. of its enlarged issued share capital and to buy-back up to 14.9 per cent. of its enlarged issued share capital.

As set out in the chairman’s statement in the report and accounts for the year ended 30 September 2008, the Board decided to suspend the Company’s buy back programme after the year end due to the exceptional market turbulence at the time and to maintain the suspension for the whole of the year ended 30 September 2009 in order to preserve the liquidity of the Company. The Board recognises that the suspension of the programme may adversely affect the share price available to shareholders and is committed to its reinstatement as soon as it is reasonable in the interests of the shareholders as a whole. Therefore, the Board will actively review the working capital requirements of the Company and the liquidity of its investments and seek to reinstate its buy back programme as soon as the Board considers appropriate. If reinstated, Shares would be acquired by the Company at a 15 per cent. discount to the last published NAV per Share, subject to the Listing Rules, the CA 2006 and the VCT Rules.

Adoption of new Articles of Association of the Company

A resolution is to be proposed at the general meeting of the Company convened for 21 January 2010 that new Articles of the Company be adopted. Although the Articles were adopted in September 2008, further changes to the Articles are required because of the final implementation of the CA 2006 in October of this year, and the coming into force of other legislation. The Board is also proposing to increase the limit of total remuneration that can be paid annually to the Directors of the Company (as stated in the Articles of Association) from £100,000 to £140,000, to permit an increase in directors’ fees.

Risk Factors

An investment in the Company is subject to a number of risks, which could materially and adversely affect its value and a summary of the material risks is set out below:

- Completion of the Proposals is dependent upon a number of conditions precedent being fulfilled, including the approval of Shareholders and Acuity 1 shareholders, and the Scheme becoming effective;
- The value of New Shares can fluctuate and Shareholders may not get back the amount they invested;
- Although it is anticipated that the New Shares will be admitted to the Official List and will be traded on the London Stock Exchange’s market for listed securities, the secondary market for VCT shares is generally illiquid and Shareholders may find it difficult to realise their investment. An investment in the Company should, therefore, be considered as a long-term investment;
- The past performance of the Company, Acuity 1 and/or Acuity Capital is no indication of future performance;
- Investment in AIM-traded, PLUS market-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies listed on the Official List, and such investments may be difficult, and take time, to realise;

- Whilst it is the intention of the Board that the Company will continue to be managed so as to qualify as a VCT, there can be no guarantee that such status will be maintained. Failure to continue to meet the qualifying requirements could result in Shareholders losing the tax reliefs available for VCT shares, resulting in adverse tax consequences;
- If at any time VCT status is lost for the Company, dealings in its Shares will normally be suspended until such time as proposals to continue as a VCT or to be wound-up have been announced; and
- The tax rules, or their interpretation, in relation to an investment in the Company and/or the rates of tax may change during the life of the Company and may apply retrospectively.

Taxation

The implementation of the Scheme should not affect the status of the Company as a VCT or the tax reliefs obtained by Shareholders on subscription of existing Shares. It is the intention of the Board to continue to comply with the requirements of ITA 2007 following implementation of the Scheme so as to continue to qualify as a VCT.

The exchange of existing Acuity 1 Shares for New Shares will not constitute a disposal of the existing Acuity 1 Shares for the purposes of UK taxation. Instead, the New Shares will be treated as having been acquired at the same time and at the same cost as the existing Acuity 1 Shares from which they are derived. Any capital gains tax deferral relief obtained on subscription of the Acuity 1 Shares will not, therefore, be crystallised but will be transferred to the New Shares. Acuity 1 shareholders will receive a new share certificate in respect of the New Shares issued pursuant to the Scheme.

RISK FACTORS

Shareholders and prospective Shareholders should consider carefully the following risk factors in addition to the other information presented in this document. If any of the risks described below were to occur, it could have a material effect on the Company's business, financial condition or results of operations. The risks and uncertainties described below are not the only ones the Company, the Board or Shareholders will face. Additional risks not currently known to the Company or the Board, or that the Company or the Board currently believe are not material, may also adversely affect the Company's business, financial condition or results of operations. The value of the Shares could decline due to any of the risk factors described below and Shareholders could lose part or all of their investment. Shareholders and prospective Shareholders should consult an independent financial adviser authorised under the Financial Services and Markets Act 2000. References to the Company should be taken as including the Enlarged Company, if appropriate.

Completion of the Proposals is dependent upon a number of conditions precedent being fulfilled, including the approval of Shareholders and Acuity 1 shareholders, and the Scheme becoming effective.

The value of New Shares may go down as well as up and Shareholders may not receive back the full amount invested. In addition, there is no certainty as to any level of dividends. The value of New Shares will depend on the performance of the underlying assets. The value of the investment and the dividend stream can rise and fall.

Although the New Shares will be listed, it is highly unlikely that a liquid market in the New Shares will develop in the short term and there may never be two competitive market makers. It may, therefore, prove difficult to sell the New Shares. In addition, there is no guarantee that the market price of shares in VCTs will fully reflect their underlying net asset value or the ability to buy and sell at that price. Shares in VCTs usually trade at a discount to NAV. There is a limited secondary market for shares in VCTs primarily because the initial income tax relief is only available to those subscribing for newly issued shares.

The past performance of investments made by the Acuity VCTs or funds managed by the Investment Manager should not be regarded as an indication of the performance of investments to be made by the Company.

There may be constraints imposed on the realisation of investments in order to maintain the VCT tax status of the Company.

It can take a period of years for the underlying value or quality of the businesses of smaller companies, such as those in which the Company invests, to be fully reflected in their market values and their market values are often also materially affected by general market sentiment, which can be negative for prolonged periods.

Most of the Company's investments will be held in Qualifying Companies (including investments in AIM-traded, PLUS market-traded and unquoted companies). Qualifying Companies generally have a higher risk profile than companies listed on the Official List. Also, in relation to securities which are not publicly traded or freely marketable, they may be difficult, and take time, to realise. In addition, there is no guarantee that suitable investment opportunities will be identified or that the Company's objective will be met. VCTs invest in small companies normally with limited trading records which may not produce anticipated returns, and investors could get back less than the full amount they invested.

Whilst it is the intention of the Board that the Company will continue to be managed so as to qualify as a VCT, there can be no guarantee that such status will be maintained. Failure to continue to meet the qualifying requirements could result in Shareholders losing the tax reliefs available for VCT shares, resulting in adverse tax consequences including, if the holding has not been held for the relevant holding period, a requirement to repay the tax reliefs obtained. Furthermore, should the Company lose its VCT status, dividends and gains arising on the disposal of Shares would become subject to tax and the Company would also lose its exemption from corporation tax on its capital gains.

Any loss realised on disposal of New Shares will not be an allowable loss for UK capital gains tax purposes.

The Company's ability to obtain maximum value from its investments (for example, through their sale) may be limited by the requirements imposed in order to maintain the VCT status of the Company (such as the requirement to have at least 70 per cent. by value of its funds in VCT qualifying investments).

The valuation of the portfolio and opportunities for realisation depend on stock market conditions.

Although the Company intends to make market purchases of its own Shares each year (up to a maximum number of Shares equivalent to 14.9 per cent. of the total number of issued Shares from time to time), any such market purchases will be subject to the liquidity of the Company, the Listing Rules, the CA 2006 and the VCT Rules.

If at any time VCT status is lost for the Company, dealings in its Shares will normally be suspended until such time as proposals to continue as a VCT or to be wound-up have been announced.

The tax rules, or their interpretation, in relation to an investment in the Company and/or the rates of tax may change during the life of the Company and may apply retrospectively.

EXPECTED TIMETABLES

EXPECTED TIMETABLE FOR THE COMPANY

Latest time for receipt of forms of proxy for the General Meeting	11.00 a.m. on 19 January 2010
General Meeting	11.00 a.m. on 21 January 2010
Calculation Date	after 5.00 p.m. on 28 January 2010
Effective Date for the transfer of the assets and liabilities of Acuity 1 to the Company and the issue of New Shares to Acuity 1 shareholders	29 January 2010
Announcement of the results of the Scheme	29 January 2010
Admission of and dealings in the New Shares to commence	3 February 2010
CREST accounts credited with New Shares	3 February 2010
Certificates for the New Shares dispatched to Acuity 1 shareholders	17 February 2010

EXPECTED TIMETABLE FOR ACUITY 1

Date from which it is advised that dealings in Acuity 1 Shares should only be for cash settlement and immediate delivery of documents of title	4 January 2010
Latest time for receipt of forms of proxy for the Acuity 1 First General Meeting	11.30 a.m. on 19 January 2010
Acuity 1 First General Meeting	11.30 a.m. on 21 January 2010
Latest time for receipt of forms of proxy for the Acuity 1 Second General Meeting	11.30 a.m. on 27 January 2010
Record Date for Acuity 1 shareholders' entitlements under the Scheme	28 January 2010
Acuity 1's Register of Members closed	5.00 p.m. on 28 January 2010
Calculation Date	after 5.00 p.m. on 28 January 2010
Dealings in Acuity 1 Shares suspended	8.00 a.m. on 29 January 2010
Acuity 1 Second General Meeting	11.30 a.m. on 29 January 2010
Effective Date for the transfer of the assets and liabilities of Acuity 1 to the Company and the issue of New Shares	29 January 2010
Announcement of the results of the Scheme	29 January 2010
Cancellation of the Acuity 1 Shares' listing	3 February 2010

COMPANY INFORMATION

Directors

Rupert Lascelles Pennant-Rea
David John Donnelly
Nicholas Robert William Ross
David John Sebire
Catrina Holme

Registered Office, Company Secretary and Administrator

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PART I

PROPOSED MERGER OF ACUITY 2 AND ACUITY 1

Introduction

This document has been published in respect of the issue by the Company of New Shares pursuant to the Scheme. Your Board and the Acuity 1 Board consider that the interests of both companies' shareholders will be better served by an enlarged single company with a more diverse investment portfolio, reduced annual costs and an increased level of funds available for investment. The New Shares are not being offered to the existing Shareholders of the Company or the public.

Background

The Company has raised some £35.0 million over the past 5 years and is now invested in some 27 companies. As at 30 September 2009 (the date of the Company's most recently published financial information), the Company's audited NAV was £28.7 million.

In addition to managing the Company's and Acuity 1's investments, the Investment Manager also manages Acuity 3, which has the same investment policy as that of the Company and Acuity 1.

For some time the Board have been reviewing the merits of merging the Company with Acuity 1, with a view to creating a larger and more commercially viable fund and at the same time providing a number of cost benefits to shareholders of both companies. Since 2004 VCTs have been able to merge without shareholders losing their VCT tax relief. Some 25 commonly managed VCTs have now merged.

Reasons for the proposed Merger

The main purpose of the proposed Merger is to create a single larger VCT that will bring a number of commercial advantages to both sets of shareholders, namely:

- a reduction in the annual running costs of the Enlarged Company compared to the total annual running costs of the separate companies;
- the creation of a single VCT of a more economically efficient size with a greater capital base over which to spread administration, regulatory and management costs;
- participation in a larger VCT with a more diversified portfolio thereby spreading the portfolio risk across a broader range of investments and businesses;
- increase the potential to pay dividend distributions and reinstate and maintain a buy-back programme due to the increased size and the reduced need to retain funds to remain at an economically viable size; and
- increase the flexibility in meeting the various qualifying VCT requirements.

Accordingly, your Board has agreed with the board of Acuity 1 to merge the companies on terms reflecting their respective net assets as set out in this document, with the existing investment management arrangements between Acuity Capital and the Company remaining in place.

Transfer

The Scheme provides for Acuity 1 to be placed into members' voluntary liquidation and for all of its assets and liabilities to be transferred to the Company in consideration for New Shares being issued directly to the shareholders of Acuity 1, such number of New Shares being determined by reference to the adjusted relative net assets of the companies. Once the Scheme is effected, the listing of Acuity 1's Shares will be cancelled and the company wound up.

Conditionality

The Scheme is conditional upon:

- the passing of Resolutions 1 and 3 to be proposed at the General Meeting;
- notice of dissent not having been received from shareholders of Acuity 1 holding more than 10 (ten) per cent. in nominal value of its issued share capital under Section 111 IA 1986 (this condition may be waived by the Acuity 1 Board, as necessary); and
- the passing of the resolutions to be proposed at the Acuity 1 Meetings.

Terms of the Scheme

Acuity Capital, instructed by the Liquidators, will be required to calculate the Roll-Over Value and the Merger Value as set out below on or immediately prior to the Effective Date.

On the Effective Date, the Liquidators will receive all the cash, undertakings, other assets and will assume all the liabilities of Acuity 1 and deliver to the Company:

- details of all the assets and liabilities of Acuity 1;
- a list certified by the registrars of the names and addresses of, and the number of Acuity 1 Shares held by, each of the shareholders of Acuity 1 on the register at 5.30 p.m. on the Record Date;
- an estimate of the winding-up costs (which will be allocated between the Company and Acuity 1 by reference to their respective net assets); and
- the amount estimated to be required to purchase the shareholdings of any dissenting Acuity 1 shareholders.

On the Effective Date, the Company will enter into the Transfer Agreement (subject to such modifications as may be agreed between the parties thereto) pursuant to which the Liquidators will procure the transfer of all of the assets and liabilities of Acuity 1 to the Company in consideration of the issue of New Shares to the shareholders of Acuity 1 on the basis set out below.

In further consideration of such transfer of all of the assets and liabilities of Acuity 1 to the Company, the Company will, pursuant to the Transfer Agreement, undertake to pay all liabilities incurred by the Liquidators including but not limited to the implementation of the Scheme, the winding-up of Acuity 1 and the purchase for cash of any holdings of dissenting Acuity 1 shareholders.

For the purposes of calculating the Roll-Over Value, the Merger Value and the number of New Shares to be issued, the following provisions will apply:

Acuity 1

The Roll-Over Value will be calculated as:

$$\frac{(A + B + C) - (D + E)}{F}$$

where:

A = the audited net asset value of Acuity 1 as at 30 September 2009, calculated in accordance with Acuity 1's normal accounting policies;

B = any increase/decrease in the valuations of: (i) quoted investments held by Acuity 1 in securities listed on a recognised stock exchange (including AIM and the PLUS market) by reference to their bid price as at the close of business from 30 September 2009 to the Record Date; (ii) unquoted investments held by Acuity 1 where there has been an event in the period between 30 September 2009 and the Record Date which requires a revaluation of the investment in accordance with Financial Reporting

Standards 26 'Financial Instruments: Measurement (IAS 39)' and using the International Private Equity and Venture Capital Valuation Guidelines; and (iii) any investment held by Acuity 1 following an event in the period between 30 September 2009 and the Record Date, which, in the opinion of both the Board and the Acuity 1 Board (acting jointly), has had a material impact on such an investment;

- C = any adjustment that both the Board and the Acuity 1 Board (acting jointly) consider appropriate to reflect any other actual or contingent benefit or liability of Acuity 1 between 30 September 2009 and the Record Date (including, for the avoidance of doubt, acquisitions and disposals of investments, income from securities and running costs of Acuity 1);
- D = Acuity 1's *pro rata* proportion (by reference to the relative Roll-Over Value and Merger Value but ignoring merger costs) of the costs of the Scheme plus £20,000 (representing an amount of contingency to cover any unforeseen additional costs attributable to Acuity 1 incurred by the Company, which will indemnify the Liquidators in respect of all costs of Acuity 1 following the transfer on the Effective Date);
- E = the amount estimated to be required to purchase the holdings of Acuity 1 Shares from dissenting Acuity 1 shareholders; and
- F = the number of Acuity 1 Shares in issue following close of business on the Record Date (save for any Acuity 1 Shares held by dissenting Acuity 1 shareholders).

The Company

The Merger Value will be calculated as follows:

$$\frac{(G + H + I) - (J)}{K}$$

where:

- G = the audited net asset value of the Company as at 30 September 2009, calculated in accordance with the Company's normal accounting policies;
- H = any increase/decrease in the valuations of: (i) quoted investments held by the Company in securities listed on a recognised stock exchange (including AIM and the PLUS market) by reference to their bid price as at the close of business from 30 September 2009 to the Record Date; (ii) unquoted investments held by the Company where there has been an event in the period between 30 September 2009 and the Record Date which requires a revaluation of the investment in accordance with Financial Reporting Standards 26 'Financial Instruments: Measurement (IAS 39)' and using the International Private Equity and Venture Capital Valuation Guidelines; and (iii) any investment held by the Company following an event in the period between 30 September 2009 and the Record Date, which, in the opinion of both the Board and the Acuity 1 Board (acting jointly), has had a material impact on such an investment;
- I = any adjustment that both the Board and the Acuity 1 Board (acting jointly) consider appropriate to reflect any other actual or contingent benefit or liability of the Company between 30 September 2009 and the Record Date (including, for the avoidance of doubt, acquisitions and disposals of investments, income from securities and running costs of the Company);
- J = the Company's *pro rata* proportion (by reference to the relative Roll-Over Value and Merger Value but ignoring merger costs) of the costs of the Scheme; and
- K = the number of the Shares in issue following close of business on the Record Date.

New Shares

The number of New Shares to be issued to Acuity 1 shareholders (save for any dissenting Acuity 1 shareholders) will be calculated as follows:

$$\left(\frac{L}{M}\right) \times N$$

Where:

L = the Roll-Over Value;

M = the Merger Value; and

N = the number of Acuity 1 Shares in issue as at close of business on the Record Date (save for any Acuity 1 Shares held by dissenting Acuity 1 shareholders).

The New Shares to be issued to Acuity 1 Shareholders will be allocated between the Acuity 1 Ordinary Shareholders and Acuity 1 C Shareholders by reference to the respective net asset value of such shares as at the Calculation Date, as determined by Acuity Capital, in accordance with their respective rights as set out in the articles of association of Acuity 1.

The New Shares to be issued pursuant to the Scheme will be issued directly to Acuity 1 shareholders (save for any dissenting Acuity 1 shareholders) *pro rata* to their existing holdings on instruction of the Liquidators.

Entitlements will be rounded down to the nearest whole number and any fractional entitlements (which will not exceed £5) will be sold in the market and the proceeds retained for the benefit of the Enlarged Company.

The New Shares will be issued in registered form. New Shares are eligible for electronic settlement and can be held within the CREST system. If, following issue, recipients of New Shares pursuant to the Scheme should wish to hold their New Shares in uncertificated form they should contact their broker or independent financial adviser.

Application has been made to the UKLA for the New Shares to be listed on the Official List and will be made to the London Stock Exchange for such New Shares to be admitted to trading on its market for listed securities. The New Shares will rank *pari passu* with the existing issued Ordinary Shares from the date of issue.

Effect of the Scheme

The number of New Shares to be issued to the shareholders of Acuity 1 will be calculated by multiplying the number of Acuity 1 Shares in issue by the Merger Ratio, this being the Roll-Over Value per Acuity 1 Share divided by the Merger Value per Share. Such New Shares will be issued *pro rata* to Acuity 1 Shareholders on the register of members on the Record Date. For these purposes, dissenting shareholders in Acuity 1 will be disregarded.

As at 30 September 2009, the audited net asset value of the Company was £28.7 million. As at 30 September 2009, the audited net asset value of Acuity 1 was £20.0 million.

Holdings of dissenting Acuity 1 shareholders will be purchased for cash by the liquidator of Acuity 1 at the 'break value' which will be an estimate of the amount a shareholder of Acuity 1 would receive in an ordinary winding-up of Acuity 1 if all the assets of Acuity 1 had to be realised. The break value is expected to be significantly below the estimated relevant Roll-Over Value.

Taxation

The following information is based on current UK law and practice, is subject to changes therein, is given by way of general summary and does not constitute legal or tax advice. The following paragraphs apply to the Company and to persons holding New Shares as an investment in the Company who are the absolute beneficial owners of such New Shares and are resident in the UK. They may not apply to certain classes of persons, such as dealers in securities.

The implementation of the Scheme should not affect the status of the Company as a VCT or the tax reliefs obtained by Shareholders on subscription of existing Shares. It is the intention of the Board to continue to

comply with the requirements of ITA 2007 following implementation of the Scheme so as to continue to qualify as a VCT.

If you are in any doubt about your position, or if you may be subject to tax in a jurisdiction other than the UK, you should consult your independent financial adviser.

Receipt by Acuity 1 shareholders of New Shares under the Scheme

The effective exchange of existing Acuity 1 Shares for New Shares will not constitute a disposal of the existing Acuity 1 Shares for the purposes of UK taxation. Instead, the new holding of New Shares will be treated as having been acquired at the same time and at the same cost as the existing Shares from which they are derived. Any capital gains tax deferral relief obtained on subscription of the existing Acuity 1 Shares will not, therefore, be crystallised but will be transferred to Acuity 1 shareholders who will receive a new share certificate in respect of the New Shares issued pursuant to the Scheme.

Shareholders in the Company will be afforded the usual tax reliefs available to shareholders in VCTs. Qualifying shareholders should continue to receive tax-free dividends and will not be subject to UK taxation on any capital gains on the disposal of New Shares.

Dissenting Acuity 1 Shareholders

Dissenting Acuity 1 shareholders' holdings will be purchased for cash at the 'break value', which will be an estimate of the amount a shareholder of Acuity 1 would receive in an ordinary winding-up of Acuity 1 if all the assets of Acuity 1 had to be realised. The break value is expected to be significantly below the estimated Roll-Over Value.

Dissenting Acuity 1 shareholders whose Acuity 1 Shares are purchased will be treated as having disposed of their existing Acuity 1 Shares. Acuity 1 shareholders will still be able to claim the benefit of VCT status whilst in liquidation under the Merger Regulations and the dissenting Acuity 1 shareholders will not be subject to any UK taxation in respect of any capital gains arising on disposal of their New Shares under the Scheme. However, the purchase will constitute a disposal of the existing holding in Acuity 1 Shares and a dissenting Acuity 1 shareholder will be liable to repay any initial income tax relief obtained on Acuity 1 shares not held for the requisite holding period plus any capital gains tax deferred by such dissenting Acuity 1 shareholder on the original subscription. The tax payable is likely to be materially higher than the cash received by any such dissenting Acuity 1 shareholders.

The Company

The implementation of the Scheme should not affect the status of the Company as a VCT or the tax reliefs obtained by Shareholders on subscription of existing Shares.

Clearances

Clearance has been obtained from HMRC in respect of the Scheme under Section 701 ITA 2007 and Section 138 TCGA 1992. The receipt of New Shares should not, except in the case of dealers, be regarded as an income receipt for the purposes of UK taxation.

Clearance has also been obtained from HMRC that the Scheme meets the requirements of the Merger Regulations and as such the receipt by Acuity 1 shareholders of New Shares should not prejudice tax reliefs obtained by Acuity 1 shareholders on their existing Acuity 1 Shares.

Stamp Duty and Stamp Duty Reserve Tax

No UK stamp duty or stamp duty reserve tax will be payable by Acuity 1 shareholders as a result of the implementation of the Scheme.

PART II

INFORMATION ON ACUITY 2

Constitution and Status

The Company was incorporated and registered in England and Wales on 20 August 2004 with limited liability as a public limited company under CA 1985 with the name *De Facto* 1151 Limited and with registered number 05210737. On 5 October 2004 the Company changed its name to Electra Kingsway VCT 2 plc, and then on 7 March 2008 to Acuity VCT 2 plc. A resolution has been proposed at the general meeting of the Company convened for 21 January 2010 that, subject to the Scheme becoming effective, the name of the Company will be changed to “Acuity Growth VCT plc”. The Company operates under the CA 2006 and the regulations made thereunder.

VCTs are unregulated but are required to manage their affairs to obtain and maintain approval as a VCT under the provisions of chapter 3 of Part 6 of ITA 2007. HMRC granted approval of the Company as a VCT under section 259 of ITA 2007 on 3 December 2004. However, the Company is not authorised and/or regulated by the FSA or an equivalent overseas regulator. The Company’s Shares are listed on the Official List.

The business of the Company has been, and it is intended will be, carried on so as to continue to comply with that section to maintain full approval.

Selected Financial Information

Certain selected financial information is set out below:

<i>Year ended 30 September</i>	<i>2007</i> £'000	<i>2008</i> £'000	<i>2009</i> £'000
Investment income and deposit interest	1,221	781	563
Revenue return on ordinary activities before taxation	628	243	71
Revenue return/(loss) per Ordinary Share	1.4p	0.4p	(0.2)p
Revenue return/(loss) per C Share		(0.9)p	(1.3)p
Dividends per Ordinary Share	1.5p	2.0p	0.0p
Dividends per C Share		0	0
Net assets	34,200	29,600	28,700
NAV per Ordinary Share	100.8p	93.6p	88.5p
NAV per C Share	–	89.5p	86.7p

As at 30 September 2009, the audited NAV of the Company was £28.7 million.

Board of Directors

The Company currently has five Directors, all of whom are non-executive and four of whom are independent of the Investment Manager. Nicholas Ross, who is also a director of the Investment Manager, does not vote on any matter at a Company board meeting or at a committee of the Investment Manager where there is a conflict of interest with the Investment Manager or any other funds it manages.

The Directors are:

Rupert Pennant-Rea (Chairman)

Rupert is a former Deputy Governor of the Bank of England and former editor of *The Economist*. He is currently Chairman of Henderson plc and a Director of Go-Ahead Group plc and a number of other companies. He is Chairman of the Nomination Committee.

David Donnelly

David is Chairman of Caithness Petroleum. Previously he was CEO of the Private Equity business of Fleming Family & Partners. Previous directorships included Highland Participants (Chairman and Chief Executive), a listed exploration company and R&W Hawthorn Leslie & Co (Executive Director), a publicly quoted shipbuilding and repair company. He was formerly a member of the London Stock Exchange. He is Chairman of the Remuneration Committee.

Nicholas Ross

Nicholas is a director of the Investment Manager, having previously been at Electra Quoted Management since 1993. Previously, he had several years in investment analysis and fund management. He has been responsible for the launch of the three Acuity VCT funds. He is also a director of all three Acuity VCT funds. He also sits on a number of investee company boards.

David Sebire

David is a Chartered Accountant with extensive industrial and corporate finance experience. Previous chairmanships have included Bridport, PTS and Clearspeed Technology. He is Chairman of PegasusBridge Corporate Finance and a number of private companies. He has been nominated the Senior Independent Director under the Combined Code on Corporate Governance and is additionally Chairman of the Audit Committee.

Catrina Holme

Catrina has had extensive experience in the venture capital and private equity industry. Initially a private equity lawyer, she has held both executive, non-executive and investment roles in the sector. Previously a member of Cazenove Private Equity and a Partner at DFJEsprit, she is currently a Venture Partner at Fidelity Ventures and runs a consulting business, Investor Inside, working with technology companies to maximise their investment success.

All the Directors are also directors of Acuity 1.

Directors' Fees

In June 2008, the Financial Reporting Council issued a revision to the Combined Code on Corporate Governance, to which listed companies are bound. One of the principles set out in the Code is that levels of remuneration should be sufficient to attract, retain and motivate the directors of the quality required. At the same time, recent economic circumstances have resulted in greater scrutiny of the role played by directors. As the *2009 Review of the Combined Code: Final Report* emphasises, *inter alia*, boards need to take responsibility for assessing the major risks facing their companies and greater overview of the risk management systems. The *Final Report* also recommends periodic external reviews of the performance of the board.

In the light of these changes to the burden being placed on directors of public companies, the Remuneration Committee decided to review the levels of remuneration of Board members. A survey of public companies of similar size and complexity was undertaken. As a result, recognising that the base fees paid to Directors of £15,000 p.a. have remained unchanged since the founding of the Company in 2004 with additional fees of £5,000 p.a. being each to the Chairman of the Board and to the Chairman of the Audit Committee in respect of their further duties, the Board is proposing to increase the overall limit of the annual aggregate remuneration of the Directors from £100,000 to £140,000 and to increase the base remuneration of Directors to £30,000 p.a. and the additional fee paid to the Chairman of the Board and the Chairman of the Audit Committee to £10,000 p.a. each. These changes will only take place if the proposed Merger proceeds. Nicholas Ross receives no fee in relation to his role as director.

Corporate Governance and Board Committees

The Board, which meets regularly, comprises five Directors, all of whom are non-executive. All of the Directors, apart from Nicholas Ross, are considered by the Board to be independent from the Investment Manager. The Board have nominated David Sebire as the senior independent director.

The Board has agreed a schedule of matters reserved for its specific approval, which include a regular review of the Company's management agreement with Acuity Capital, together with the monitoring of the performance thereunder. The management agreement with Acuity Capital sets out matters over which it has authority in accordance with the policies and directions of the Board. The Board Meetings consider as appropriate such matters as overall strategy, investment performance, share price performance, share price discount and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively.

The Company complies with the Combined Code, and so complied during the year ended 30 September 2009.

Audit, Remuneration and Nomination Committees have been established with written terms of reference. The Audit Committee comprises all the Directors of the Company other than the chairman of the Board and Nicholas Ross, with David Sebire as chairman. The Remuneration Committee comprises all Directors of the Company other than the chairman of the Board and Nicholas Ross, with David Donnelly as chairman. The Nomination Committee comprises all the Directors apart from Nicholas Ross, with Rupert Pennant-Rea as chairman.

Investment Manager

The Investment Manager to both the Company and Acuity 1 is Acuity Capital, which was formed in 1981, and was the subject of a management buy out from the Electra Partners Group in February 2008. The Acuity Capital management team together have more than 30 years in private equity investments, venture capital trusts and corporate finance.

Prior to completing the management buyout, the investment management team formed the smaller companies team of Electra Partners Limited, one of the longest established providers of institutional private equity in London. Details of Acuity Capital's fees are set out on page 21 of this document. The fees will remain unchanged following completion of the Scheme.

Acuity Capital was incorporated and registered in England and Wales on 28 August 1981 as a private limited company with register number 01583260. Acuity Capital is authorised and regulated by the FSA and the principal legislation under which it operates is the CA 2006.

Investment Policy

In accordance with the prospectus issued by the Company dated 6 October 2004, the Company's objective is to achieve capital gains and maximize UK tax-free income to its shareholders from dividends and capital distributions. It is intended that this objective is to be achieved by investing the majority of the Company's funds in a portfolio of qualifying investments as described below.

Investment Strategy

The Company offers investors the opportunity to gain access to the venture capital market.

The investment focus of the Investment Manager has been to seek out established companies, most of whom are cash positive, in preference to early stage opportunities.

In addition, investments are normally structured as a mixture of equity and loan stock. The loan stock representing the majority of finance provided. Typically, funds managed by the Investment manager own a significant percentage of the equity of the investee companies.

This investment focus, combined with a diversified sector strategy and the typical investment structure, will, in the opinion of the Directors, contribute materially to reducing the overall risk of investing in smaller companies.

As at 30 September 2009, the Company had invested in 23 qualifying companies and 4 non-qualifying companies that have been selected for their growth potential and in a further 5 qualifying companies which are preparing to trade. The Directors believe that current economic conditions favour opportunistic investment and the use of companies preparing to trade allows for the acquisition of qualifying trades on the most advantageous terms as they are permitted an additional 18 months in which to identify the trades.

As at 30 September 2009, the Company has no bank indebtedness.

The Directors do not wish the Company to be restricted by having a fixed limit on what exposure to gearing it may have, apart from the restriction in the Company's Articles, which limits borrowing to an amount equal to its adjusted capital and reserves.

Co-investment

The Company also invests alongside the other Acuity VCTs which enables shareholders to participate in larger unquoted transactions, which tend to have a lower risk profile than smaller venture capital investments.

Qualifying Investments

The Company intends to invest in companies that it believes have a high growth potential. In the Director's opinion, each of these companies should generally reflect the following criteria:

- a well defined business plan and ability to demonstrate strong demand for its products or services;
- products or services that can be supplied at sustainable high margins and be cash generative;
- objectives of management and shareholders to be similarly aligned;
- adequate capital resources or access to further resources to achieve the targets set out in the business plan; and
- high calibre management teams.

The Company seeks to invest in a diversified portfolio of unquoted, PLUS traded and AIM quoted companies and will not specialise unduly in any particular industry sector. Unquoted investments will typically be in companies where the Company believes that there are reasonable prospects of an exit either through a trade sale or flotation in the medium term.

There are no criteria set by the Directors regarding the size of the target companies, except, with respect to each specific pool of capital, that an investee company's gross assets must comply with current UK VCT legislation. Investments in start-up companies where, in the opinion of the Company, levels of risk are unacceptably high, in particular the technology sector, will generally be avoided.

None of the Company's investments at the time of acquisition will represent more than 15 per cent. (by value) of all the Company's investments.

As at 30 September 2009, the Company has invested approximately 92 per cent. of its net assets by valuation in a total of 23 qualifying companies. The average investment size at cost is £1.0 million.

Non-Qualifying Investments

Associated Funds

As at 30 September 2009, 0.8 per cent. of total assets by valuation of the Company was invested in CF Acuity Real Active Management Fund.

Cash Management

In addition to investments held in associated funds, as at 30 September 2009, 5 per cent. of its net funds by valuation of the Company were invested in cash deposits to provide immediate liquidity, pending suitable qualifying investments being identified.

Risk Management

Since the Company is flexible with regard to those areas in which it invests, it aims to achieve a significant degree of diversification and to spread risk by investing in unquoted, PLUS traded and AIM quoted companies. In addition, there is no emphasis on any particular industry sector and even the non-qualifying investments have quite a high level of in-built diversification.

Other restrictions

The Company is restricted to investing no more than 15 per cent. of the value of its total assets at the time of investment in any one individual qualifying investment or non-qualifying investment.

The Enlarged Company will have the same investment policy as the Company. Any significant changes to this investment policy will be subject to shareholder approval.

Dividend Policy

The Company's dividend policy is to achieve capital gains and to maximize tax free income for shareholders through dividend distributions. A dividend of 2p per share was paid to holders of Ordinary Shares in respect of the year ended 30 September 2008 which brought the total distributions to 4.5p since the commencement of the Company. However, the Board decided that no dividend distributions would be paid with respect to the year ended 30 September 2009 due to the Board's concern to maximise the liquidity of the Company. While the Board will consider the overall liquidity of the Company and act in the best interests of the shareholders as a whole, the Board is committed to making further distributions as soon as it is prudent to do so.

Investment Portfolios, Cash and Borrowings

As at 30 September 2009 (the most recent practicable date prior to the publication of this document), the investment portfolio of the Company comprised investments in 27 companies with a value of £27.0 million, details of which can be found in the audited information contained in Part V of this document.

As at 30 September 2009 (the most recent practicable date prior to the publication of this document), the investment portfolio of Acuity 1 comprised investments in 21 companies with a value of £18.4 million, details of which can also be found in the audited information contained in Part V of this document.

The Company has some £0.9 million of uninvested cash which has been retained for working capital and follow-on or new investments. The Company has no borrowings, other than the Loan Notes described in paragraph 6 of Part VIII.

The borrowing powers of the Company are set out on page 53 of this document.

Annual Fees

The Annual Running Costs of the Company (including irrecoverable VAT) are capped at 3.6 per cent, of its Net Assets; any excess will either be paid by the Investment Manager or refunded by way of a reduction to the Investment Manager's fee. Annual Running Costs include, *inter alia*, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders and all the annual fees payable to the Investment Manager (including the annual commission described above), but do not include any incentive payments to the Investment Manager's executives (as described more fully below) or the costs of the Scheme.

The Investment Manager receives a quarterly management fee (exclusive of VAT) equal to 2.5 per cent. per annum of the Net Assets of the Company. In addition, the Investment Manager receives administration fees of £60,000 per annum, increased annually in accordance with the retail prices index.

All arrangement, syndication, monitoring and directors' fees payable in respect of an investment are retained by the Investment Manager for its own benefit. Where the Investment Manager receives an additional management fee in relation to investments made by the Company in other funds managed by Acuity Capital then that fee will be rebated to the Company. The investment management fees payable by the Company to the Investment Manager are allocated at least 25 per cent. to revenue and up to 75 per cent, to capital, because this is in line with the Board's expectations of the long term returns to Shareholders.

Performance Incentive – Ordinary Shares

As is customary in the venture capital industry, certain employees of, and persons engaged in, the business of the Investment Manager, will be entitled to receive a performance related incentive based upon returns to Shareholders. The incentives are designed to encourage significant dividend payments to Shareholders and an NAV performance that would equate to a historic top decile industry ranking, before any performance fee payment is made. Therefore, if by the end of a financial year, distributions of 30p per Ordinary Share have been declared and if the Performance Value at that date exceeds 130 per Ordinary Share, then the beneficiaries will be entitled to an incentive equal to 20 per cent. of the excess of such Performance Value over 100p per Ordinary Share. If, on a subsequent financial year end, the performance of the Company falls short of the performance of the Company on the previous financial year end, the beneficiaries will not be entitled to any incentive. If, on a subsequent financial year end, the performance of the Company exceeds the previous performance of the Company, the beneficiaries will be entitled to 20 per cent. of such excess. To give effect to this performance related incentive, Loan Notes have been issued by the Company to certain employees of, and persons engaged in, the business of the Investment Manager. No Loan Notes have been issued directly to the Investment Manager itself. Further details of the terms of the Loan Notes are set out in paragraph 6 of Part VIII below.

Performance Incentive – C Shares

Certain employees of, and persons engaged in the business of, the Investment Manager will be entitled to receive a performance-related incentive based upon returns to holders of C Shares in similar terms to those applicable to the Ordinary Shares. The incentives are designed to encourage total return and dividend payments to Shareholders. Therefore, if by the end of a financial year the Performance Value at that date exceeds 100p per C Share, then the beneficiaries will be entitled to an incentive equal to 30 per cent. of the aggregate value of all distributions declared in respect of such financial year. If, at a subsequent financial year end, the performance of the Company falls short of the performance of the Company on the previous financial year end, the beneficiaries will not be entitled to any incentive. If the performance of the Company falls short of the target in any period, such shortfall must be made up before the beneficiaries are entitled to any incentive in respect of subsequent periods. The Performance Value is adjusted at the beginning of each financial year by the amount of any distributions made by the Company and any payments made to the Investment Manager during the previous financial year. To give effect to this performance-related incentive, Loan Notes have been issued by the Company to certain employees of, and persons engaged in the business of, the Investment Manager. No Loan Notes have been issued directly to the Investment Manager itself. Further details of the terms of the Loan Notes are set out in paragraph 6 of Part VIII. Upon or prior to conversion of the C Shares, proposals will be submitted to existing Shareholders in relation to the amalgamation of the performance fee relating to the Ordinary Shares and the Loan Notes issued in relation to the issue of C Shares.

There will be no change to these performance incentive arrangements following implementation of the Merger.

Merger Cost Savings

The combined annual running costs of the two companies for the financial year ended 30 September 2009 were £1,883,000 (including VAT). Following the completion of the Merger, it is anticipated that the annual running costs for the Company will be £1,512,000 (including VAT).

Communication with Shareholders and Financial Calendar

The Company places great importance on communication with the Company's shareholders. In addition to the annual and interim reports, shareholders are sent regular newsletters from the Investment Manager. At the Annual General Meeting all shareholders are welcome to attend and have the opportunity to put questions to the Board. The notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. A separate resolution is proposed on each substantially separate issue including the annual report and accounts. All proxy votes are counted and, except where a poll is called, the level of proxies lodged for each resolution is announced at the Meeting and is published on Acuity Capital's website.

Shareholders will be sent both half yearly and year end results, and the Company will publish interim management statements. The Company's financial calendar is as follows:

Financial year end	30 September
Financial results announcement	December
Annual general meeting	March
Half yearly results announcement	May

VCT Compliance

The Company intends to continue to comply with Part 6 of the ITA to maintain its VCT status and has retained PricewaterhouseCoopers LLP to advise it on VCT taxation matters.

Share Issue and Share Buy Back Programme

In order to implement the Scheme, the Company will need to authorise the Board to allot New Shares pursuant to the Scheme, and the Company is also taking this opportunity to seek new authorities to issue up to 10 per cent. of its enlarged issued share capital and to buy-back up to 14.9 per cent. of its enlarged issued share capital.

As set out in the chairman's statement in the report and accounts for the year ended 30 September 2008, the Board decided to suspend the Company's buy back programme after the year end due to the exceptional market turbulence at the time and to maintain the suspension for the whole of the year ended 30 September 2009 in order to preserve the liquidity of the Company. The Board recognises that the suspension of the programme may adversely affect the share price available to shareholders and is committed to its reinstatement as soon as it is reasonable in the interests of the shareholders as a whole. Therefore, the Board will actively review the working capital requirements of the Company and the liquidity of its investments and seek to reinstate its buy back programme as soon as the Board considers appropriate. If reinstated, Shares would be acquired by the Company at a 15 per cent. discount to the last published NAV per share, subject to the Listing Rules, the CA 2006 and the VCT Rules.

Valuation Policy

General

In valuing investments, the Directors follow the principles recommended in the International Private Equity and Venture Capital Valuation Guidelines issued in September 2009. Investments are valued by the Directors at fair value at the reporting date. Fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. In estimating fair value, the Directors use a methodology which is appropriate in the light of the nature, facts and circumstances of the investment. Methodologies are applied consistently from one period to another except where a change results in a better estimate of fair value. Because of the inherent uncertainties in estimating the value of private equity

investments, the Directors exercise appropriate prudence in applying the various methodologies. As part of the valuation process, the proposed valuations are reviewed by the independent members of the Investment Committee before being examined by the auditors and then approved by the Directors.

All AIM or other quoted investments will be valued quarterly at the bid price of its shares, in accordance with generally accepted accounting practice.

Unquoted Investments

The principal methodologies applied in valuing unquoted investments, including PLUS investments (a UK market focused on small and medium companies which the Directors do not regard as an active market with sufficient liquidity), include the following: earnings multiple, price of recent investment and net assets.

In applying the earnings multiple methodology, the Directors apply a market based multiple that is appropriate and reasonable to the maintainable earnings of the company. In the majority of cases, the Enterprise Value of the underlying business is derived by the use of an Earnings Before Interest, Tax and Depreciation multiple applied to current year's earnings where these can be forecast with a reasonable degree of certainty and are deemed to represent the best estimate of maintainable earnings. Where this is not the case, historic earnings will generally be used in their place. In the case of unquoted investments, fair value is established by using measurements of value such as price of recent transaction, earnings multiple and net assets; where no reliable fair value can be estimated using such techniques. Where a recent investment has been made, either by the Company or by a third party in one of Company's investments, this price will be used as the estimate of fair value from the date on which the investment was made. One of the principal methodologies, as above, may be used at any time if this is deemed to provide a better assessment of the fair value of the investment. Unquoted investments may be subject to an impairment adjustment to valuation where necessary.

The fair value of an investment in a company will be arrived at through the following process:

- The enterprise value of the underlying business will be calculated using one of the above methodologies;
- The enterprise value of the underlying business will then be adjusted for surplus assets or excess liabilities to arrive at an enterprise value for the company; and
- The valuation of the Company's investment will be calculated from the enterprise value for the company after deduction of prior ranking debt and other financial instruments and an appropriate discount.

In terms of the discount, this will normally be in the range of 10-30 per cent. (in steps of 5 per cent.) applied to the comparable multiple of the company.

The amount of the discount is a question of judgement and will reflect several factors including the ability of the Company to influence the timing and nature of any realisation. Where the Company has the ability to influence an exit, or is part of a syndicate of like-minded investors who initiate the exit, a smaller discount will be applied. This may vary according to market and investee company circumstances. Where the likelihood of an exit is high, the discount is likely to be lower. Where there is no ability to initiate an exit and exit is not under discussion, the discount is likely to be higher. In cases where no exit is contemplated by controlling shareholders, the investment may be valued by discounting the cash flow from the investment itself.

Although the Company holds more than 20 per cent. of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio. Accordingly, and as permitted by FRS 9 'Associates and joint ventures', their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of the holdings represent investments in associated undertakings. Under FRS 2 'Accounting for subsidiary undertakings' control is presumed to exist when the parent owns, directly or indirectly more than half of the voting power by a number of means. The Company does not hold more than 50 per cent. of the equity of any of the companies within the portfolio. In addition, it does not

control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

The net asset value of the Company's shares is calculated quarterly and published on a regulatory information service.

Crest

The Shares are in registered form and are eligible for electronic settlement. The Shares can be held within the CREST system so that, should they so wish, Shareholders are able to hold their Shares in uncertificated form. The New Shares issued pursuant to the Scheme will be in registered form. If, following issue, recipients of New Shares pursuant to the Scheme should wish to hold their New Shares in uncertificated form they should contact their broker or independent financial adviser.

PART III

FINANCIAL INFORMATION ON ACUITY 2 AND ACUITY 1

Audited financial information on the Company is published in the annual reports for the years ended 30 September 2007, 30 September 2008 and 30 September 2009. Audited financial information on Acuity 1 is published in the annual reports for the years ended 30 September 2007, 30 September 2008 and 30 September 2009.

The annual report for the Company for the year ended 30 September 2007 was audited by PricewaterhouseCoopers of Southwark Towers, 32 London Bridge Street, London SE1 9SY and the annual reports for the years ended 30 September 2008 and 30 September 2009 were audited by KPMG Audit plc of Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG. All reports were without qualification and contained no statements under section 237(2) or (3) of the CA 1985 or section 498(2) or (3) of the CA 2006.

The annual report for Acuity 1 for the years ended 30 September 2007 was audited by PricewaterhouseCoopers of Southwark Towers, 32 London Bridge Street, London SE1 9SY and the annual reports for the years ended 30 September 2008 and 30 September 2009 were audited by KPMG Audit plc of Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG. All reports were without qualification and contained no statements under section 237(2) or (3) of the CA 1985 or section 498(2) or (3) of the CA 2006.

The annual reports referred to above were prepared in accordance with UK generally accepted accounting practice (GAAP), the fair value rules of the CA 2006 and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'. The annual reports contain a description of the relevant company's financial condition, changes in financial condition and results of operation for each relevant financial year and, are being incorporated by reference and can be accessed at the following website:

www.acuitycapital.co.uk

and are available for inspection at the FSA's document viewing facility, which is situated at:

Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Where these documents make reference to other documents, such other documents are not incorporated into and do not form part of this document.

Such information includes the following:

The Company

<i>Description</i>	<i>30 September 2007 Annual Report</i>	<i>30 September 2008 Annual Report</i>	<i>30 September 2009 Annual Report</i>
Balance Sheet	Page 28	Page 32	Page 32
Income Statement (or equivalent)	Page 26	Page 29	Page 29
Statement showing all changes in equity (or equivalent note)	Page 21	Page 31	Page 31
Cash Flow Statement	Page 29	Page 33	Page 33
Accounting Policies and Notes	Page 30	Page 34	Page 34
Auditors' Report	Page 25	Page 28	Page 28

This information has been prepared in a form consistent with that which will be adopted in the Company's next published annual financial statements having regard to accounting standards and policies and legislation applicable to those financial statements.

Such information also includes operating/financial reviews as follows:

Description

The Company

	<i>30 September 2007</i>	<i>30 September 2008</i>	<i>30 September 2009</i>
<i>Description</i>	<i>Annual Report</i>	<i>Annual Report</i>	<i>Annual Report</i>
Objective	Page 2	Page 2	Page 2
Performance Summary	Page 3	Page 4	Page 4
Results and Dividend	Page 3	Page 4	Page 4
Investment Policy	Page 2	Page 2	Page 2
Outlook	Page 4	Page 6	Page 6
Manager's Review	Page 5	Page 7	Page 7
Portfolio Summary	Page 7	Page 9	Page 9
Business Review	Page 16	Page 18	Page 18
Valuation Policy	Page 30	Page 34	Page 34

As at 30 September 2009, the date to which the most recent audited financial information on the Company has been drawn up, the Company had net assets of £28,656,000 and 88.5p per Ordinary Share and 86.7p per C Share.

Acuity 1

	<i>30 September 2007</i>	<i>30 September 2008</i>	<i>30 September 2009</i>
<i>Description</i>	<i>Annual Report</i>	<i>Annual Report</i>	<i>Annual Report</i>
Balance Sheet	Page 27	Page 33	Page 32
Income Statement (or equivalent)	Page 25	Page 31	Page 30
Statement showing all changes in equity (or equivalent note)	Page 29	Page 35	Page 34
Cash Flow Statement	Page 28	Page 34	Page 33
Accounting Policies and Notes	Page 30	Page 36	Page 35
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This information in the annual reports has been prepared in a form consistent with that which will be adopted in Acuity 1's next published annual financial statements having regard to accounting standards and policies and legislation applicable to those financial statements.

Such information also includes operating/financial reviews as follows:

	<i>30 September 2007</i>	<i>30 September 2008</i>	<i>30 September 2009</i>
<i>Description</i>	<i>Annual Report</i>	<i>Annual Report</i>	<i>Annual Report</i>
Objective	Page 2	Page 2	Page 2
Performance Summary	Page 3	Page 4	Page 4
Results and Dividend	Page 3	Page 4	Page 4
Investment Policy	Page 2	Page 2	Page 2
Outlook	Page 4	Page 6	Page 6
Manager's Review	Page 5	Page 7	Page 7
Portfolio Summary	Page 6	Page 9	Page 9
Business Review	Page 15	Page 19	Page 18
Valuation Policy	Page 30	Page 37	Page 35

As at 30 September 2009, the date to which the most recent audited six month financial information on Acuity 1 has been drawn up, Acuity 1 had audited net assets of £19,965,000.

PART IV

PRO FORMA FINANCIAL INFORMATION

ACCOUNTANT'S REPORT ON THE PRO FORMA FINANCIAL INFORMATION

The Directors
Acuity VCT 2 Plc
Paternoster House
65 St Paul's Churchyard
London
EC4M 8AB

21 December 2009

Dear Sirs

Acuity VCT 2 Plc (“the Company”)

We report on the pro forma financial information (“the pro forma financial information”) set out in Part IV of the prospectus dated 21 December 2009 (“the Prospectus”), which has been prepared on the basis described, for illustrative purposes only, to provide information about how the Scheme (as defined in the Prospectus) might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the year ended 30 September 2009. This report is required by paragraph 20.2 of Annex I of the Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I to the Commission Regulation (EC) 809/2004, consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the directors of the Company to prepare the pro forma financial information in accordance with item 20.2 of Annex I of the Commission Regulation (EC) 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Commission Regulation (EC) 809/2004.

Yours faithfully

Scott-Moncrieff

PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information of the Company has been prepared for illustrative purposes only, to show the impact of the Scheme on the Company's audited net assets as at 30 September 2009 on the basis that the Scheme and the acquisition of the investment portfolio and all of the other assets and liabilities of Acuity 1 by the Company had been completed on that date.

The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results.

	<i>Adjustments</i>			
<i>Company (as at 30 September 2009) (£'000) (Note 1)</i>	<i>Acquisition of the assets and liabilities of Acuity 1 (£'000) (Note 2)</i>	<i>Expenses of the Scheme (£'000) (Note 3)</i>	<i>Enlarged Company pro forma (as at 30 September 2009) (£'000)</i>	
Investments (at fair value)	26,984	18,350	–	45,334
Debtors	1,612	1,208	–	2,820
Cash and overnight deposits	860	1,002	–	1,862
Creditors: amounts falling due within one year	(445)	(433)	(326)	(1,204)
Net current assets	2,027	1,777	(326)	3,478
Creditors: amounts falling due after one year	(355)	(162)	–	(517)
Net current assets	1,672	1,615	–	2,996
Net assets	<u>28,656</u>	<u>19,965</u>	<u>(326)</u>	<u>48,295</u>

Notes:

1. The financial information on the Company has been extracted without material adjustment from the audited financial statements of the Company for the year ended 30 September 2009.
2. The acquired assets and liabilities of Acuity 1 are based on the assets and liabilities of Acuity 1 as extracted without material adjustment from its audited accounts for the year ended 30 September 2009.
3. Total costs of approximately £326,000 (inclusive of VAT) are expected to be incurred in relation to the Scheme.
4. The pro forma statement of net assets of the Company does not take account of any transactions of the Company, or Acuity 1 or other changes in the value of the assets and liabilities of the Company and Acuity 1 since 30 September 2009 in respect of both the Company and Acuity 1.
5. The Company is now proposing to acquire the investment portfolio and all of the other assets and liabilities of Acuity 1 which, as set out on page 34 of this document, as at 30 September 2009 (being the date of the most recently published audited accounts), amount in aggregate to £20 million. The total costs associated with the Scheme referred to in note 3 above payable by the Company are estimated to be approximately £326,000 (inclusive of VAT). The earnings of the Company would not, other than being reduced by the amount of these costs, have otherwise been affected by the Merger had it been completed on 30 September 2009.
6. The financial information has been prepared in a manner which is consistent with the accounting policies adopted by the Company in its report and accounts for the period ended 30 September 2009.

PART V

INVESTMENT PORTFOLIO OF ACUITY 2 AND ACUITY 1

The Company

The investment portfolio of the Company as at 18 December 2009 (being the latest practical date prior to publication of this document) is as follows (all of which information is unaudited):

<i>Investments</i>	<i>Cost £</i>	<i>Valuation £ (as at 30 September 2009)</i>	<i>% of Portfolio by value</i>
Acuity Business Services Limited	100,000	82,000	0.3%
Acuity Energy Limited	100,000	82,000	0.3%
Acuity Manufacturing Limited	100,000	87,000	0.3%
Acuity Rights Limited	100,000	77,000	0.3%
Acuity Support Services Limited	100,000	82,000	0.3%
Amber Taverns Limited	750,000	2,511,000	9.3%
Brand Acquisitions Limited	1,511,000	1,488,000	5.5%
Connect 2 Holdings Limited	1,276,000	1,623,000	6.0%
Defaqto Group Limited	2,405,000	2,786,000	10.3%
Emote Games Limited	1,173,000	Nil	0.0%
Factory Media Limited	1,925,000	2,850,000	10.6%
Future Noise Music Limited	796,000	766,000	2.8%
Jelf Group plc	250,000	142,000	0.5%
Keycom plc	496,000	153,000	0.6%
Loseley Dairy Ice Cream Limited	900,000	1,947,000	7.2%
Ma Hubbards Limited	800,000	186,000	0.7%
Managed Support Services plc	888,000	169,000	0.7%
Mount Engineering plc	391,000	324,000	1.2%
Munro Global Limited	1,615,000	2,085,000	7.7%
Red Reef Media Limited	813,000	559,000	2.1%
Financial News Publishing Limited	116,000	755,000	2.8%
Sport Media Group plc	500,000	27,000	0.1%
Target Entertainment Limited	2,000,000	1,467,000	5.4%
Fin Machine Company Limited	2,150,000	5,814,000	21.5%
Zamano plc	750,000	577,000	2.2%
CF Acuity Real Active Mgt Fnd	246,000	223,000	0.8%
Electra Private Equity (EIT)	92,000	122,000	0.5%
Total portfolio investments	22,343,000	26,984,000	100%
 Other Assets			
Cash		860,000	
Total investments		27,844,000	
Debtors		1,612,000	
Creditors (falling due in less than 1 year)		(445,000)	
Creditors (falling due in more than 1 year)		(355,000)	
Net assets		28,656,000	
Total		28,656,000	

Since 30 September 2009, there has been no significant change in the value of the unquoted investments in the portfolio.

Ten largest investments

The ten largest investments of the Company by valuation (which represent at least 50 per cent. of the Company's investment portfolio, by value) as at 30 September 2009:

Fin Machine Company Limited

Fin Machine is a manufacturer of capital equipment that is used to manufacture aluminum heat exchangers for the air conditioning and automotive industries. Its business comprises selling new machines, refurbishing existing ones and supplying spare parts to customers.

Accounts for the year ended 30 September 2008

	<i>£'m</i>
Profit/(loss) before tax	2.8
Retained profit/(loss)	2.1
Net assets/(liabilities)	4.4

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
19,350 C shares	20%	2.2	5.8	21.5%
354,000 C shares 8%				
506,000 preference shares				
£431,000 loan stock 8%				
£644,000 loan stock 10%				

Factory Media Limited

Factory specialises in action sports magazines in areas that include surfing, snowboarding and BMX biking. The company has built up a portfolio of action sports titles through acquisition and enhanced these through its digital platform mpora.com

Accounts for the year ended 31 December 2008

	<i>£'m</i>
Profit/(loss) before tax	(0.5)
Retained profit/(loss)	(0.5)
Net assets/(liabilities)	(0.2)

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
75,000 A ordinary shares	25%	1.9	2.9	10.6%
117,500 B ordinary shares				
£807,500 8% loan notes				
£925,000 8% loan notes				

Defaqto Group Limited

Defaqto is UK provider of online information on retail financial products to regulatory bodies, financial services businesses and professional intermediaries.

Accounts for the year ended 31 March 2009

	<i>£'m</i>
Profit/(loss) before tax	(0.4)
Retained profit/(loss)	(0.4)
Net assets/(liabilities)	(8.1)

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
283,316 A ordinary shares	16%	2.4	2.8	10.3%
£899,606 10% unsecured loan notes				
£1,035,000 8% unsecured loan D notes				
£229,594 unsecured E loan notes				

Amber Taverns Limited

Amber Taverns has built up a chain of unbranded freehold pubs across the North of England, focusing on acquiring underperforming freehold and long leasehold properties that are refurbished to return them to their full operational potential.

Accounts for the year ended 31 January 2009

	<i> £'m</i>
Profit/(loss) before tax	0.1
Retained profit/(loss)	0.0
Net assets/(liabilities)	0.6

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
225,000 ordinary shares	17%	0.8	2.5	9.3%
525,000 preference shares				

Munro Global Limited

Munro is a market research agency which specialises in customer satisfaction benchmarking, mystery shopping research and market fieldwork.

Accounts for the year ended 31 July 2008

	<i> £'m</i>
Profit/(loss) before tax	0.2
Retained profit/(loss)	0.1
Net assets/(liabilities)	0.7

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
102,301 A ordinary shares	25%	1.6	2.1	7.7%
£787,499 8% loan notes				
£666,000 8% loan notes				

Loseley Dairy Ice Cream Limited

Loseley is an ice cream manufacturer based in South Wales. The company operates three principle brands – Loseley, Yorkshire Dales and Hill Station as well as manufacturing own label ice cream for supermarket chains.

No accounts yet produced

Profit/(loss) before tax	N/A
Retained profit/(loss)	N/A
Net assets/(liabilities)	N/A

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
75,000 ordinary shares	35%	0.9	1.9	7.2%
5,000 D shares				
£820,000 loan notes				

Connect 2 Holdings Limited

Connect 2 is a cross platform (mobile/IP) content publisher formed through the consolidation of three businesses. The company acts as a developer and global publisher and distributor for digital entertainment for both B2B and B2C marketplaces.

*Accounts for the period 16 June 2008
to 31 December 2008*

	<i>£'m</i>
Profit/(loss) before tax	(0.7)
Retained profit/(loss)	(0.7)
Net assets/(liabilities)	3.8

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
3,843 Ordinary Shares	13%	1.5	1.6	6%

Brand Acquisitions Limited

Brand Acquisitions was established to acquire the Peter Werth clothing brand which specialises in men's knitwear and casual wear aimed at the 18 to 35 age group.

Accounts for the year ended 31 January 2009

	<i>£'m</i>
Profit/(loss) before tax	0.3
Retained profit/(loss)	0.2
Net assets/(liabilities)	0.7

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
49,801 A Ordinary	17%	1.5	1.5	5.5%
150,199 B Ordinary				
800,000 Libor+3% Loan Notes				
511,000 Floating Rate Loan Notes				

Target Entertainment Limited

Target is a UK independent television distributor and a full media rights management business with an established international infrastructure.

Accounts for the year ended 31 December 2007

	<i>£'m</i>
Profit/(loss) before tax	(0.5)
Retained profit/(loss)	(0.3)
Net assets/(liabilities)	(0.5)

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
533,333 A ordinary shares	13%	2.0	1.5	5.4%
£1,466,667 loan notes	8%			

Future Noise Music Limited

Future Noise is a master rights music catalogue.

	<i> No accounts yet produced</i>
Profit/(loss) before tax	N/A
Retained profit/(loss)	N/A
Net assets/(liabilities)	N/A

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
27,000 common stock	43%	0.8	0.8	2.8%
£89,250 loan notes	15%			

Note:

The above investment and portfolio information has been derived from the Company's accounting records (taken from their audited accounts to 30 September 2009) and, in respect of the information on the portfolio companies, from the latest financial year end accounts published by those companies.

Acuity 1

The investment portfolio of Acuity 1 as at 18 December 2009 (being the latest practical date prior to publication of this document) is as follows (all of which information is unaudited):

<i> Investments</i>	<i> Cost £'000</i>	<i> Valuation £'000 (as at 30 September 2009)</i>	<i> % of Portfolio by value</i>
Advanced Medical Solutions	381	1,279	7.0
Amber Taverns Limited	750	2,511	13.7
Brand Acquisitions Limited	1,200	1,178	6.4
Conexion media (MCS)	483	71	0.4
Connect 2 Holdings Limited	1,024	1,127	6.1
Defaqto Group Limited	1,230	1,447	7.9
Emote Games Limited	491	–	0.0
Fairst Dental	750	81	0.4
Future Noise Music Limited	281	271	1.5
Hallmarq	1,600	1,177	6.4
Keycom plc	1,705	131	0.7
Loseley Dairy Ice Cream Limited	900	1,947	10.6
Ma Hubbards Limited	800	186	1.0
Media Square	1,579	130	0.8
Mount Engineering plc	251	207	1.1
Red Reef Media Limited	873	489	2.7
Financial News Publishing Limited	194	1,258	6.9
Sport Media Group plc	249	13	0.1
Target Entertainment Limited	2,000	1,467	8.0
Fin Machine Company Limited	1,200	3,245	17.6
Electra Private Equity (EIT)	75	135	0.7
Total portfolio investments	18,016	18,350	100.0

	<i>Valuation £'000 (as at 30 September 2009)</i>
<i>Investments</i>	
Other Assets	
Cash	1,002
Debtors	1,208
Creditors (falling due in less than 1 year)	(433)
Creditors (falling due in more than 1 year)	(162)
Net assets	<u>19,965</u>
Total	<u>19,965</u>

Since 30 September 2009, there has been no significant change in the value of the investments in the portfolio.

Ten largest investments

The ten largest investments of Acuity 1 by valuation (which represent at least 50 per cent. of Acuity 1's investment portfolio, by value) as at 30 September 2009:

Fin Machine Company Limited

Fin Machine is a manufacturer of capital equipment that is used to manufacture aluminum heat exchangers for the air conditioning and automotive industries. Its business comprises selling new machines, refurbishing existing ones and supplying spare parts to customers.

*Accounts for the year ended 30 September 2008
£'m*

Profit/(loss) before tax	2.8
Retained profit/(loss)	2.1
Net assets/(liabilities)	4.4

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
101,800 C shares	10.8%	1.2	3.2	17.6%
480,000 C preference shares 8%				
£600,000 loan stock 8%				

Amber Taverns Limited

Amber Taverns has built up a chain of unbranded freehold pubs across the North of England, focusing on acquiring underperforming freehold and long leasehold properties that are refurbished to return them to their full operational potential.

*Accounts for the year ended 31 January 2009
£'m*

Profit/(loss) before tax	0.1
Retained profit/(loss)	0.0
Net assets/(liabilities)	0.6

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
225,000 ordinary shares	16.5%	0.8	2.5	13.7%
525,000 8% preference shares				

Loseley Dairy Ice Cream Limited

Loseley is an ice cream manufacturer based in South Wales. The company operates three principle brands – Loseley, Yorkshire Dales and Hill Station as well as manufacturing own label ice cream for supermarket chains.

	<i>No accounts yet produced</i>			
Profit/(loss) before tax				N/A
Retained profit/(loss)				N/A
Net assets/(liabilities)				N/A

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
89,456 ordinary shares	34.6%	0.9	1.9	10.6%
5,000 D shares				
£850,910 loan notes				

Target Entertainment Limited

Target is a UK independent television distributor and a full media rights management business with an established international infrastructure.

	<i>Accounts for the year ended 31 December 2007</i>			
				<i>£'m</i>
Profit/(loss) before tax				(0.5)
Retained profit/(loss)				(0.3)
Net assets/(liabilities)				(0.5)

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
533,333 A ordinary shares				
£1,466,667 loan notes 9%	13.33%	2.0	1.5	8%

Defaqto Group Limited

Defaqto is a UK provider of online information on retail financial products to regulatory bodies, financial services businesses and professional intermediaries.

	<i>Accounts for the year ended 31 March 2009</i>			
				<i>£'m</i>
Profit/(loss) before tax				(0.4)
Retained profit/(loss)				(0.4)
Net assets/(liabilities)				(8.1)

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
130,540 A ordinary shares	9.0%	1.2	1.5	7.9%
£899,606 10% unsecured loan notes				
£90,000 8% unsecured loan D notes				
£117,140 unsecured E loan notes				

Advanced Medical Solutions

Advanced Medical Solutions runs an operation of designing, development and manufacture of polymers and medical adhesives.

Accounts for the year ended 31 December 2008

	£'m
Profit/(loss) before tax	2.9
Retained profit/(loss)	3.3
Net assets/(liabilities)	19.9

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
4,487,352 ordinary shares	4%	0.4	1.3	7%

Financial News Publishing

Financial News Publishing's business involves B2B publishing and related conferences.

No accounts yet produced

Profit/(loss) before tax	N/A
Retained profit/(loss)	N/A
Net assets/(liabilities)	N/A

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
4,500 A ordinary shares	36.1%	0.2	1.3	6.9%
45,000 ordinary shares				
£144,250 loan notes				

Brand Acquisitions Limited

Brand Acquisitions was established to acquire the Peter Werth clothing brand which specialises in men's knitwear and casual wear aimed at the 18 to 35 age group.

Accounts for the year ended 31 January 2009

	£'m
Profit/(loss) before tax	0.3
Retained profit/(loss)	0.2
Net assets/(liabilities)	0.7

<i> Holding</i>	<i>Percentage of Equity (%)</i>	<i>Cost £'m</i>	<i>Valuation £'m</i>	<i>Percentage of Portfolio by value (%)</i>
49,800 A ordinary shares	16.6%	1.2	1.2	6.4%
150,200 B ordinary shares				
£1000,000 loan notes	3%			

Hallmarq

Hallmarq design, manufacture and sell MRI equipment to the equine market.

Accounts for the year ended 31 August 2008

	£'m
Profit/(loss) before tax	(0.2)
Retained profit/(loss)	(0.2)
Net assets/(liabilities)	1.6

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
110,528 ordinary shares £500,000 loan notes 8%	16.7%	1.6	1.2	6.4%

Connect 2 Holdings Limited

Connect 2 is a cross platform (mobile/IP) content publisher formed through the consolidation of three businesses. The company acts as a developer and global publisher and distributor for digital entertainment for both B2B and B2C marketplaces.

*Accounts for the period 16 June
to 31 December 2008*

	<i>£'m</i>
Profit/(loss) before tax	(0.7)
Retained profit/(loss)	(0.8)
Net assets/(liabilities)	3.8

<i> Holding</i>	<i> Percentage of Equity (%)</i>	<i> Cost £'m</i>	<i> Valuation £'m</i>	<i> Percentage of Portfolio by value (%)</i>
8,934 Ordinary Shares	9%	1.0	1.1	6.1%

Note:

The above investment and portfolio information has been derived from the Acuity 1's accounting records (taken from their audited accounts to 30 September 2009) and, in respect of the information on the portfolio companies, from the latest financial year end accounts published by those companies.

PART VI

TAX POSITION OF SHAREHOLDERS

The following paragraphs apply to the Company and to persons holding Shares as an investment who are the absolute beneficial owners of such Shares and are resident in the UK. They may not apply to certain classes of persons, such as dealers in securities. The following information is based on current UK law and practice, is subject to changes therein, is given by way of general summary and does not constitute legal or tax advice.

If you are in any doubt about your position, or if you may be subject to a tax in a jurisdiction other than the UK, you should consult your independent financial adviser.

The tax reliefs set out below are available to individuals aged 18 or over who receive Shares under the Scheme.

The Company

The Company has obtained approval as a VCT under Chapter 3 of Part 6 ITA 2007.

The Board considers that the Company has conducted its affairs and will continue to do so to enable it to qualify as a VCT. The implementation of the Scheme will not affect the VCT status of the Company.

Receipt by Acuity 1 shareholders of New Shares under the Scheme

The effective exchange of existing Acuity 1 Shares for New Shares should not constitute a disposal of such shares for the purposes of UK taxation. Instead, the new holding of New Shares should be treated as having been acquired at the same time and at the same cost as the existing Acuity 1 Shares from which they are derived. Any capital gains tax deferral relief obtained on subscription of the existing Acuity 1 Shares should not, therefore, be crystallised for payment but will be transferred to the New Shares.

For Acuity 1 shareholders holding (together with their associates) more than 5 per cent. in either of the Acuity 1 Shares in issue, clearance has been obtained from HMRC in terms of Section 138 of TCGA 1992 that the treatment described above for persons who (together with their associates) own less than 5 per cent. of the Acuity 1 Shares in issue should also apply to them.

Shareholders of the Company

Shareholders should continue to be afforded the usual tax reliefs as shareholders of a VCT including:

1. Income Tax

1.1 *Dividend relief*

An investor who acquires in any tax year VCT shares having a value of up to the annual limit will not be liable to income tax on dividends paid on those shares.

1.2 *Purchasers in the market*

An individual purchaser of existing VCT shares in the market will be entitled to claim dividend relief (as described in paragraph 1.1 above).

1.3 *Withdrawal of relief*

Relief from income tax on a subscription for VCT shares will be withdrawn if the VCT shares are disposed of (other than between spouses) within five years of issue (or three years if issued after 5 April 2000 but before 6 April 2006) or if the VCT loses its approval within this period. Dividend relief ceases to be available once the investor ceases to own the VCT shares in respect of which it has been given.

2. Capital Gains Tax

2.1 *Relief from capital gains tax on the disposal of VCT shares.*

A disposal by a shareholder of VCT shares will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. The relief is limited to the disposal of VCT shares acquired within the annual limit for any tax year.

2.2 *Purchasers in the market*

An individual purchaser of existing VCT shares in the market will be entitled to claim relief from capital gains tax on disposal (as described in paragraph 2.1 above).

Withdrawal of Approval

If a company which has been granted approval as a VCT subsequently fails to comply with the conditions for approval as a VCT, approval may be withdrawn or treated as never having been given. In these circumstances, reliefs from income tax on the initial investment are repayable unless loss of approval occurs more than five years after the issue (three years if issued after 5 April 2000 but before 6 April 2006) of the relevant VCT shares. In addition, relief ceases to be available on any dividend paid in respect of profits or gains in an accounting period ending when VCT status has been lost and any gains on the VCT shares up to the date from which loss of VCT status is treated as taking effect will be exempt, but gains thereafter will be taxable.

Shareholders not resident in the UK

Shareholders not resident in the UK should seek their own professional advice as to the consequences of making an investment in a VCT as they may be subject to tax in other jurisdictions as well as in the U.K.

PART VII

TAX POSITION OF ACUITY 2

The Company has to satisfy a number of tests to continue to qualify as a VCT. A summary of these tests is set out below. The following information is based on current UK law and practice, is subject to changes therein, is given by way of general summary and does not constitute legal or tax advice.

Qualification as a VCT

To qualify as a VCT, a company must be approved as such by HMRC. To obtain such approval it must:

- not be a close company;
- have each class of its ordinary share capital quoted on the London Stock Exchange;
- derive its income wholly or mainly from shares or securities;
- have at least 70 per cent. by VCT Value of its investments in shares or securities in qualifying holdings, of which 30 per cent, by VCT Value must be in ordinary shares carrying no preferential rights to dividends, voting, or assets on a winding-up and no rights to be redeemed;
- have at least 10 per cent. by VCT Value of each qualifying holding in ordinary shares which carry no preferential rights to dividends, voting or assets on a winding-up and no rights to be redeemed;
- not have more than 15 per cent. by VCT Value of its investments in a single company at the time of investment (other than a VCT or a company which would, if its shares were listed, qualify as a VCT); and
- not retain more than 15 per cent. of its income derived from shares and securities in any accounting period.

Qualifying Holdings

A qualifying holding consists of shares or securities first issued to the VCT (and held by it ever since) by a company satisfying certain conditions and for which not more than £1 million was subscribed in any one tax year (nor more than £1 million in, broadly, any period of six months straddling two tax years). The conditions are detailed but include for funds raised before 6 April 2006, that the company must be a qualifying company, that it has gross assets not exceeding £15 million immediately before and not exceeding £16 million immediately after the investment (and £7 million immediately before and £8 million immediately after the investment for funds raised thereafter), applies the money raised for the purposes of a qualifying trade within certain time periods and that it is not controlled by another company. In certain circumstances, an investment in a company by a VCT can be split into a part which is a qualifying holding and a part which is a non-qualifying holding.

Qualifying Companies

A Qualifying Company must be unquoted (for VCT purposes this includes companies whose shares are traded on AIM and the PLUS Markets) and must carry on a qualifying trade. For this purpose certain activities are excluded such as dealing in land or shares or providing financial services. The qualifying trade must be carried on by, or be intended to be carried on by, the Qualifying Company or by a qualifying subsidiary at the time of the issue of shares or securities to the VCT (and at all times thereafter). The trade must be carried on wholly or mainly in the UK but the company need not be a UK resident. A company intending to carry on a qualifying trade must begin to trade within two years of the issue of shares or securities to the VCT and continue it thereafter.

A Qualifying Company may have no subsidiaries other than qualifying subsidiaries which must be more than 50 per cent. owned.

For the investment of funds raised after 5 April 2007 a Qualifying Company is one with less than 50 full-time equivalent employees and has not had more than £2 million of VCT funds raised after 5 April 2007 (together with funds under the Enterprise Incentive Scheme and the Corporation Venturing Scheme) in any rolling 12 month period.

Approval as a VCT

A VCT must be approved at all times by HMRC. Approval has effect from the time specified in the approval. A VCT cannot be approved unless the tests detailed above are met throughout the most recent complete accounting period of the VCT and HMRC is satisfied that they will be met in relation to the accounting period of the VCT which is current when the application is made. However, where a VCT raises further funds, VCTs are given grace periods to invest those funds before such funds need to meet the relevant tests.

Withdrawal of Approval

Approval of a VCT may be withdrawn by HMRC if the various tests set out above are not satisfied. Withdrawal of approval generally has effect from time to time when notice is given to the VCT but, in relation to capital gains tax of the VCT only, can be backdated to not earlier than the first day of the accounting period commencing immediately after the last accounting period of the VCT in which all of the tests were satisfied.

PART VIII

ADDITIONAL INFORMATION

1. THE COMPANY

1.1 *General Information*

1.1.1 The Company was incorporated and registered in England and Wales on 20 August 2004 with limited liability as a private limited company under the CA 1985 with the name De facto 1151 Limited and with registered number 5210737. On 5 October 2004, the Company re-registered as a public limited company and changed its name to Electra Kingsway VCT 2 plc. On 7 March 2008 the Company changed its name to Acuity VCT 2 plc.

1.1.2 On 24 September 2004, the Company gave notice to the Registrar of Companies of its intention to carry on business as an investment company under section 266 of the CA 1985.

1.1.3 The Company has not, since incorporation, been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened by or against the Company of which the Company is aware) which may have or have had a significant effect on the Company's financial position or profitability.

1.1.4 The principal legislation under which the Company operates is the CA 2006 and the regulations made thereunder.

1.1.5 The principal activity of the Company is to operate as a VCT.

1.1.6 The Company does not hold any share capital in the treasury.

1.1.7 The ISIN number of the New Shares is GB00B031G676.

1.1.8 The Company is neither authorised nor regulated by the FSA.

1.2 *Duration of the Company*

Although it is not intended that the Company should have a limited life, Shareholders are given the opportunity to review its future at regular intervals. The Articles contain provisions requiring the Directors to propose a resolution at the Company's fifteenth annual general meeting following the admission of the Ordinary Shares to the Official List to seek confirmation from Shareholders that it should continue as a VCT for a five year period and, if passed, a similar resolution will be proposed at five yearly intervals thereafter.

1.3 *Borrowing Policy*

The Articles allow the Company to borrow up to an amount equal to its "adjusted capital and reserves" as such term is defined. Although the Directors have no present intention of using this power, it has been made available to give the Company flexibility, if required, in future unforeseen circumstances. A summary of the borrowing powers of the Company contained in the Articles is set out in paragraph 3.9 below.

2. SHARE CAPITAL

2.1 The authorised share capital of the Company is £1,125,000, comprising 85 million Ordinary Shares, 25 million C Shares and 25 million deferred shares of 0.1p each ("Deferred Shares"). As at 18 December 2009 (being the latest practicable date prior to the publication of this document), the issued and fully paid share capital was £324,039, comprising 31,626,320 Ordinary Shares and 777,589 C Shares (there being no Deferred Shares in issue).

- 2.2 During the three year period preceding the date of this document, the following purchases and issues of Ordinary Shares and C Shares have taken place:

<i>Date</i>	<i>Purchase/Issue</i>	<i>Number of Ordinary Shares</i>	<i>Number of C Shares</i>	<i>Average Price per Share</i>
1/10/2006–30/9/2007	Purchase	226,125	Nil	100.3
1/10/2007–30/9/2008	Purchase	2,300,376	Nil	82.5
1/10/2008–30/9/2009	Purchase	Nil	Nil	N/A
6/4/2008	Issue	Nil	777,589	94.5

- 2.3 Except for the Loan Notes described in paragraph 6 below, since the date of its incorporation, no share or loan capital of the Company has been issued or agreed to be issued or (except pursuant to the Offers) is now proposed to be issued, for cash or any other consideration, and no commission, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital except as disclosed herein. The Company has no contingent liabilities.
- 2.4 No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the Scheme and the authorities referred to above in this paragraph 2, no material issue of Shares (other than in circumstances where such Shares are offered to Shareholders *pro rata* to their existing holdings or any conversion of C Shares into Ordinary Shares in accordance with the Articles of Association of the Company) will be made within one year without the prior approval of Shareholders in general meeting.
- 2.5 The New Shares will be in registered form and temporary documents of title will not be issued. It is intended that the Shares may be held in certificated form or in the CREST system.
- 2.6 The provisions of section 561 of the CA 2006 (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up wholly in cash) will apply to the balance of the authorised but unissued share capital of the Company which is not subject to the disapplication approved at the General Meeting.
- 2.7 The following resolutions will be proposed at the general meeting of the Company convened for 21 January 2010:

2.7.1 That:

- 2.7.1.1 in substitution for existing authorities, the Directors be and hereby are authorised in accordance with section 551 of the CA 2006 to exercise all of the powers of the Company to allot Ordinary Shares or to grant rights to subscribe for or to convert any security into Ordinary Shares in the Company up to an aggregate nominal value of £260,000 in connection with the Scheme provided that the authority conferred by this resolution shall expire on the fifth anniversary of the date of the passing of this resolution unless renewed, varied or revoked by the Company in general meeting, so that all previous authorities of the Directors pursuant to section 80 of the CA 1985 be and are hereby revoked and to the extent that any restriction on the Director's authority to allot shall apply to the Company by virtue of the operation of paragraph 42(2)(a) of the Companies Act 2006 (Commencement No. 8 Transitional Provisions and Savings) Order 2008, such restrictions shall be and is hereby revoked in accordance with paragraph 42(2)(b) of that Order; and
- 2.7.1.2 in substitution for existing authorities but subject to the authority conferred by resolution and the proviso thereto referred to in 2.7.1.1 above, the Directors be and hereby are authorised in accordance with section 551 of CA 2006 to exercise all of the powers of the Company to allot Ordinary Shares and/or C Shares or to grant rights to subscribe for or to convert any security into Ordinary Shares and/or C Shares in the Company up to an aggregate nominal value representing (in the case of Ordinary Shares) no more than 10 per cent. of the aggregate nominal value of the Ordinary

Shares issued from time to time, and (in the case of C Shares) representing no more than 10 per cent. of the aggregate nominal value of the C Shares issued from time to time provided that the authority conferred by this resolution shall expire on the conclusion of the annual general meeting of the Company to be held in 2011 or 19 April 2011, whichever is the later, unless renewed, varied or revoked by the Company in general meeting (except that the Company may, before such expiry, make offers or agreements which would or might require Ordinary Shares and/or C Shares to be allotted or rights to be granted to subscribe for or to convert any security into Ordinary Shares and/or C Shares in the Company after such expiry and notwithstanding such expiry the Directors may allot Ordinary Shares and/or C Shares or grant rights to subscribe for or to convert any security into Ordinary Shares and/or C Shares in the Company in pursuance of such offers or agreements).

2.7.2 That:

2.7.2.1 the acquisition by the Company of the assets and liabilities of Acuity 1 on the terms set out in the Acuity 1 Circular be and hereby is approved;

2.7.2.2 in substitution for existing authorities, the Directors be empowered pursuant to Section 570 of CA 2006 of the Company to allot or make offers or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 560(1) of CA 2006) for cash pursuant to the authority given in accordance with Section 551 of CA 2006 by the resolution referred to in 2.7.1.2 as if Section 561(1) of CA 2006 did not apply to such allotment provided that the power conferred by this resolution shall expire on the conclusion of the annual general meeting of the Company to be held in 2011 or 19 April 2011, whichever is the later, where the proceeds may in whole or part be used to purchase Ordinary Shares and/or C Shares;

2.7.2.3 in substitution for existing authorities, the Company be empowered pursuant to section 701 of CA 2006 to make one or more market purchases within the meaning of Section 693(4) of the CA 2006 of its own Ordinary Shares and/or C Shares (either for cancellation or for the retention as treasury shares for future re-issue or transfer) provided that:

2.7.2.3.1 the maximum aggregate number of Ordinary Shares which may be purchased is such number thereof being 14.9 per cent. of the issued Ordinary Shares from time to time;

2.7.2.3.2 the maximum aggregate number of C Shares which may be purchased is such number thereof being 14.9 per cent. of the issued C Shares from time to time;

2.7.2.3.3 the minimum price which may be paid per Ordinary Share and/or C Shares is 1p, the nominal value thereof;

2.7.2.3.4 the maximum price which may be paid per Ordinary Share and/or C Share is an amount equal to 105 per cent. of the average of the middle market quotation of such share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such share is to be purchased;

2.7.2.3.5 the authority conferred by this resolution shall expire on the conclusion of the annual general meeting of the Company to be held in 2011 or 19 July 2011, whichever is the earlier, unless such authority is renewed prior to such time; and

2.7.2.3.6 the Company may make a contract to purchase Ordinary Shares and/or C Shares under the authority conferred by this resolution prior to the expiry

of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of such shares pursuant to any such contract or contracts.

2.7.2.4 subject to the Scheme becoming effective, the name of the Company shall be changed to “Acuity Growth VCT plc”;

2.7.2.5 new articles of association be adopted.

3. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association of the Company provides that the Company’s principal objects are to carry on the business of a venture capital trust company and the business of an investment company to undertake all kinds of trust and agency business. The objects of the Company are set out in full in clause 4 of the Memorandum of Association, which is available for inspection at the address specified in paragraph 11 below.

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

3.1 *Variation of Rights*

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the CA 2006 (as amended) and every other statute for the time being in force concerning companies and affecting the Company (the “**Statutes**”), be varied or abrogated in respect of the whole or any part of that class either (a) in such manner as may be provided by such rights or (b) in the absence of any such provision (i) with the consent in writing of the holders of three quarters in nominal value of the issued shares of the class or (ii) with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise). The special rights may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up. At every such separate general meeting the necessary quorum shall be at least two persons holding or representing by proxy at least one third in nominal value of the issued shares of the class (but so that at any adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum).

3.2 *Alteration of Share Capital*

The Company may from time to time by ordinary resolution:

3.2.1 increase its share capital by such sum to be divided into shares of such amounts and having such rights as the resolution shall prescribe;

3.2.2 consolidate all or any of its share capital into shares of a larger amount than its existing shares;

3.2.3 cancel any shares which at the date of the passing of the resolution, have not been subscribed for, or agreed to be subscribed for by any person and diminish the amount of its capital by the nominal amount of the shares so cancelled; and

3.2.4 sub-divide its shares or any of them, into shares of a smaller amount than is fixed by the Memorandum of Association of the Company (subject, nevertheless, to the provisions of the Statutes) and by the same resolution may confer special rights on any of the shares resulting from the sub-division.

Subject to the provisions of the Statutes, the Company may:

3.2.5 purchase any of its own shares (including any redeemable shares); or

3.2.6 by special resolution reduce its share capital or any capital redemption reserve, share premium account or other non-distributable reserves in any way.

3.3 *Issue of Shares*

Subject to the provisions of the Articles and to the Statutes, any unissued shares in the capital of the Company (whether forming part of the original or any increased capital) and all (if any) shares in the Company lawfully held by or on behalf of it shall be at the disposal of the Board which may offer, allot (with or without a right of renunciation), issue or grant options over such shares to such persons, at such time and for such consideration and upon such terms and conditions as the Board may determine.

3.4 *C Shares and Pre-Conversion Obligations*

3.4.1 Until Conversion and without prejudice to its obligations under applicable laws, the Company shall:

3.4.1.1 procure that the Company's records and bank and custody accounts shall be operated so that the assets attributable to the C Shares can, at all times, be separately identified and, in particular but without prejudice to the generality of the foregoing, the Company shall, without prejudice to any obligations pursuant to applicable laws, procure that separate business cash accounts, broker settlement accounts and investment ledger accounts shall be created and maintained in the books of the Company for the assets attributable to the C Shares;

3.4.1.2 allocate to the assets attributable to the C Shares such proportion of the income, expenses and liabilities of the Company incurred or accrued between the Issue Date and the Calculation Date (both dates inclusive) as the Directors fairly consider to be attributable to the C Shares; and

3.4.1.3 give appropriate instructions to the Investment Manager to manage the Company's assets so that such undertakings can be complied with by the Company.

3.5 *Conversion of C Shares into Ordinary Shares*

In relation to the description of the conversion rights of the C Shares the following definitions apply:

"Calculation Date" means the earliest of:

- (a) close of business on 1 April 2013;
- (b) such later date as the Directors may determine;
- (c) close of business on the day on which the Directors resolve that *Force Majeure* Circumstances have arisen or are imminent

"Conversion Date" means the close of business on such business day as may be selected by the Directors and falling not more than 30 days after the Calculation Date

"Conversion Ratio" is the ratio of the net asset value ("**NAV**") per C Share to the NAV per Ordinary Share, which is calculated as:

$$\frac{A}{B}$$

where:

$$A = \frac{C-D}{E}$$

and

$$B = \frac{(F-C) - (G-D)}{E}$$

and where “C” is the aggregate of:

- (a) the value of the investments of the Company attributable to the C Shares (other than investments which are subject to restrictions on transfer or a suspension of dealings, which are in each case to be valued in accordance with (b) immediately below) which are traded on or dealt in on a stock exchange or market calculated by reference to the middle-market price quotations at close of business on the Calculation Date or, if appropriate, the daily average of the prices marked, for those investments on the Calculation Date on the principal stock exchange or market where the relevant investment is traded on or dealt in as derived from the relevant exchanges’ or market’s recognised method of publication of prices for such investments where such published prices are available;
- (b) the value of all investments of the Company attributable to the C Shares (other than investments included in (a) above) on the Calculation Date, having regard to the then current IPEVC guidelines, calculated by reference the Director’s belief as to a fair current value for those investments after taking into account any other price publication services reasonably available to the Directors; and
- (c) the amount which, in the Directors’ opinion, fairly reflects, on the Calculation Date, the value of the current assets of the Company attributable to the C Shares, including cash and deposits with or balances at a bank and including any accrued income less accrued expenses and other items of a revenue nature.

“D” is the amount (to the extent not otherwise deducted in the calculation of C) which, in the Directors’ opinion, fairly reflects the amount of the liabilities of the Company attributable to the C shares on the Calculation Date, plus the costs attributable to Conversion;

“E” is the number of C Shares in issue on the Calculation Date (excluding any C Shares held as treasury shares);

“F” is the aggregate of:

- (a) the value of all the investments of the Company (other than investments which are subject to restrictions on transfer or a suspension of dealings, which are in each case to be valued in accordance with (b) immediately below) which are traded on or dealt in on a stock exchange or market calculated by reference to the middle-market price quotations at close of business, or, if appropriate, the daily average of the prices marked for, those investments on the Calculation Date on the principal stock exchange or market where the relevant investment is traded on or dealt in as derived from the relevant exchanges’ or market’s recognised method of publication of prices for such investments where such published prices are available;
- (b) the value of all investments of the Company (other than investments included in (a) above) on the Calculation Date, having regard to the then current IPEVC guidelines, calculated by reference to the Director’s belief as to a fair current value for those investments after taking into account any other price publication services reasonably available to the Directors; and
- (c) the amount which, in the Directors’ opinion, fairly reflects, on the Calculation Date, the value of the current assets of the Company, including cash and deposits with or balances at a bank and including any accrued income less accrued expenses and other items of a revenue nature.

“G” is the amount (to the extent not otherwise deducted in the calculation of F) which, in the Director’s opinion, fairly reflects the amount of liabilities of the Company on the Calculation Date;

“H” is the number of Ordinary Shares in issue on the Calculation Date (excluding any Ordinary Shares held as treasury shares)

provided that the Directors make such adjustments to the value or amount of A or B as the Company’s auditors shall report to be appropriate;

“Force Majeure Circumstances” means any political and/or economic and/or market circumstances and/or actual or anticipated changes in fiscal or other legislation which, in the reasonable opinion of the Directors, renders it necessary or desirable to bring forward the Conversion Date and/or Calculation Date;

“Issue Date” means the day on which the Company receives the net proceeds of the first issue of the C Shares pursuant to the Offers:

Conversion

3.5.1 The C Shares shall be sub-divided and converted into new Ordinary Shares and Deferred Shares on the Conversion Date in accordance with the following provisions of this paragraph:

3.5.1.1 within 30 days of the Calculation Date, the Directors:

- (i) shall procure that the Conversion Ratio as at the Calculation Date and the numbers of new Ordinary Shares to which each holder of C Shares shall be entitled on Conversion shall be calculated;
- (ii) may request that the auditors of the Company, or such other accountants as the Directors may decide, confirm that such calculations as have been made by the Company have, in their opinion, been performed in accordance with the Articles and are arithmetically accurate;

whereupon such calculations shall become final and binding on the Company and all holders of Ordinary Shares and C Shares, subject to the provision immediately after the definition of H in the definition of Conversion Ratio above;

3.5.1.2 the Directors shall procure that, as soon as practicable following such confirmation and in any event within 30 days of the Calculation Date, a notice is sent to each holder of C Shares advising such holder of C Shares of the Conversion Date, the Conversion Ratio and the numbers of Ordinary Shares to which the holders of the C Shares will be entitled on Conversion;

3.5.1.3 on Conversion, each C Share shall convert into such number of new Ordinary Shares and Deferred Shares as shall be necessary to ensure that, upon such Conversion being completed:

- (i) the aggregate number of new Ordinary Shares into which the C Shares are converted equals the number of C Shares in issue on the Calculation Date multiplied by the Conversion Ratio (rounded down to the nearest whole new Ordinary Share); and
- (ii) each C Share which does not convert into a new Ordinary Share shall convert into one Deferred Share;

3.5.1.4 the new Ordinary Shares and Deferred Shares arising upon Conversion shall be divided amongst the holders of the former C Shares *pro rata* according to their respective holdings of C shares (provided always that the Directors may deal in such manner as they think fit with fractional entitlements to new Ordinary Shares and Deferred Shares arising upon Conversion including, without prejudice to the generality of the foregoing, selling any such shares representing such fractional entitlements and retaining the proceeds for the benefit of the Company);

3.5.1.5 forthwith on Conversion, the share certificates relating to the C Shares shall be cancelled and the Company shall issue to each former holder of C Shares new certificates in respect of the new Ordinary Shares which have arisen upon Conversion to which he or she is entitled. Share certificates in respect of the Deferred Shares will not be issued;

- 3.5.1.6 forthwith upon Conversion, the rights attached to the C Shares as set out herein shall lapse and those attaching to the Deferred Shares shall lapse upon the purchase of the Deferred Shares whereupon each Deferred Share comprised in the authorised but unissued capital of the Company shall be redesignated as an Ordinary Share without further resolution or consent; and
- 3.5.1.7 the Directors may make such adjustments to the terms and timing of Conversion as they in their discretion consider are fair and reasonable having regard to the interests of all shareholders.

Deferred Shares

3.5.2 The following shall apply to the Deferred Shares:

- 3.5.2.1 the C Shares are issued on such terms that the Deferred Shares (but not the new Ordinary Shares arising on Conversion) may be redeemed by the Company in accordance with the terms set out below;
- 3.5.2.2 immediately on Conversion, the Company shall redeem all of the Deferred Shares which arise as a result of the Conversion for an aggregate consideration of 1p for every 1,000,000 Deferred Shares; and
- 3.5.2.3 the Company shall not be obliged to:
 - (i) issue share certificates to the holders of Deferred Shares in respect of the Deferred Shares; or
 - (ii) account to any holder of Deferred Shares for the redemption monies in respect of such monies.

3.6 ***Transfer of Shares***

Any member may transfer all or any of his certificated shares by instrument of transfer in the usual or common form or in any other form acceptable to the Directors and may be under hand only (save as provided below in relation to uncertificated shares). The instrument of transfer of a certificated share shall be signed by or on behalf of the transferor and, (except in the case of fully paid shares) by or on behalf of the transferee. Any member may transfer all or any of his uncertificated shares by means of a relevant system. The registration of transfers either generally or in respect of any class of shares may be suspended by the Directors at any time, provided that the register of members may not be closed for more than 30 days in any year. The Directors may, in their absolute discretion and without assigning any reason thereunder, refuse to register a transfer of any share which is not fully paid up or in respect of which the Company has a lien. The Directors may decline to recognise any instrument of transfer unless the instrument of transfer:

- 3.6.1 is in respect of only one class of share;
- 3.6.2 is deposited at the registered office for the time being of the Company or such other place as the Directors may appoint, accompanied by the certificates for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer provided that, in the case of a transfer by stock exchange nominee, the lodgement of a share certificate will only be necessary if a certificate has been issued in respect of share in question;
- 3.6.3 is in favour of not more than four transferees; and
- 3.6.4 relates to a share in respect of which all sums presently payable to the Company have been paid.

The Directors may decline to register a transfer if a member or any other person appearing to be interested in shares held by him in the Company shall have been served with a notice under

section 793 CA 2006 and he is in default for the prescribed period from such service in supplying the information thereby required provided those shares represent at least 0.25 per cent. in nominal value of the issued shares of any class and subject to the exceptions specified in the Articles relating to disclosure of interests.

3.7 *Votes of Members*

Subject to any terms as to voting upon which any shares may be issued or may for the time being be held and to the provisions of these Articles, on a show of hands every member who is present in person or by proxy shall have one vote and on a poll every member who is present in person or by proxy and entitled to vote shall have one vote for each share of which he is the holder or proxy. On a poll, a member entitled to more than one vote need not, if he votes, use all his votes or cast all the votes in the same way. The Ordinary Shares and the C Shares rank *pari passu* in all respects as to rights to attend and vote at any general meeting of the Company. No member shall, unless the Directors otherwise determine, be entitled in respect of shares held by him to vote at a general meeting or a meeting of the holders of any class of shares either personally or by proxy or to exercise any other right conferred by membership in relation to such meetings of the Company if unless all calls or other sums presently payable by him to the Company in respect of such shares have been paid. or if that member or any other person appearing to be interested in shares held by him in the Company shall have been served with a notice under section 793 CA 2006 and be in default for the prescribed period from such service in supplying the information thereby required. A proxy need not be a member of the Company. An instrument appointing a proxy shall be in writing and must be left at the place specified in the notice calling the meeting. If the Directors from time to time so permit, a proxy may be appointed by electronic communication to such address as may be notified by or on behalf of the Company for that purpose, or by any other lawful means from time to time authorised by the Directors. The appointment of a proxy shall be deposited or communicated not less than 48 hours before the time appointed for the holding of the meeting.

3.8 *Directors*

3.8.1 Unless otherwise determined by ordinary resolution of the Company, the Directors shall not be less than two nor more than ten in number.

3.8.2 The Directors shall not be required to hold any shares in the Company by way of qualification. A Director who is not a member shall nevertheless be entitled to attend and speak at any general meeting.

3.8.3 The fees of the Directors shall not in aggregate exceed £100,000 per annum (or such higher sum as may from time to time be determined by an ordinary resolution) and shall be divided among the Directors as they may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for the proportion of fees related to the period during which he held office. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with the business of the Company, or in attending and returning from meetings of the Directors or of committees of the Directors or general meetings of the Company or otherwise in connection with the discharge of their duties as Directors. Any Director who holds any executive office or the position of chairman or vice chairman of the Company whether or not such office is held in an executive capacity or who serves on any committee of the Directors, or who otherwise performs services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director may be paid such extra remuneration by way of salary, commission or otherwise as the Directors may determine. The Directors shall have power to provide benefits, whether by payment of gratuities or pensions or by insurance or otherwise, to any Director who has held but no longer holds any executive office or employment with the Company and for the purpose of providing any such gratuities, pensions or other benefits to contribute to any scheme or fund or to pay premiums. The Directors may purchase and maintain insurance for, or for the benefit of, any persons who are or were Directors, officers or employees of the Company or an

associated company or who are or were trustees of any pension fund in which employees of the Company or any such other company or subsidiary undertaking are interested.

- 3.8.4 The Directors may from time to time appoint one or more of their body to an executive office (including, where considered appropriate, the office of chairman or vice chairman) on such terms and for such periods as they may (subject to the provisions of the Statutes) determine and, without prejudice to the terms of any contract entered into in any particular case, may at any time revoke any such appointment.
- 3.8.5 A Director who is party to, or in any way interested in, any contract or arrangement or transaction to which the Company is a party, or in which the Company is in any way interested shall declare the nature of his interest at the meeting of the Board of Directors at which the question of entering into a contract, arrangement, transaction or proposal is first considered, if he knows his interest then exists or, in any other case, at the first meeting of the Board of Directors after he knows that he is or has become so interested. For the purposes of this article, a general notice given by a director to the Board of Directors that he has such an interest shall be deemed to be a disclosure of the same. Similarly, an interest of which a Director has no knowledge and of which it is unreasonable to expect him to have knowledge shall not be treated as an interest of his.
- 3.8.6 Save as otherwise provided in the Articles, a Director shall not vote in respect of any contract or arrangement or any other proposal in which he has any material interest otherwise than by virtue of his interest in shares or debentures or other securities or rights of, or otherwise in or through, the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is not entitled to vote. Subject to the provisions of the Statutes, a Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
- 3.8.6.1 relating to the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings; or relating to the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security or under a guarantee or indemnity;
- 3.8.6.2 any proposal whereby the Company or any of its subsidiary undertakings is offering securities in which Offers he is or may be interested as a holder of securities or as a participant in the underwriting or sub-underwriting thereof;
- 3.8.6.3 any proposal relating to any other company in which he does not to his knowledge hold an interest in shares (as that expression is deemed for the purposes of the CA 2006) representing one per cent. or more of either any class of the equity share capital of such company or the voting rights in such company;
- 3.8.6.4 any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and
- 3.8.6.5 any proposal concerning any insurance that the Company proposes to maintain or purchase or maintain for or for the benefit of any Directors or for the benefit of persons who include Directors.
- 3.8.7 At each annual general meeting, one third of the Directors shall retire from office. The Directors to retire will be those who have been the longest in office, or in the case of those who are appointed or re-appointed on the same day, will be (unless they otherwise agree) determined by lot.

3.9 ***Borrowing Powers***

3.9.1 Subject as hereinafter provided and to the provisions of the Statutes, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property, assets and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

3.9.2 The Directors shall restrict the borrowings of the Company so as to secure that the aggregate amount at any one time owing or deemed to be owing by the Company in respect of moneys borrowed without the previous sanction of an ordinary resolution of the Company shall not exceed an amount equal to the Adjusted Capital and Reserves, provided that prior to the publishing of the first audited balance sheet of the Company such amount shall not, at any time without the previous sanction of an ordinary resolution of the Company, exceed 90 per cent. of the amount paid on the issued share capital of the Company.

3.9.3 The expression “Adjusted Capital and Reserves” means at any material time a sum equal to the aggregate of:

3.9.3.1 the amount paid up on the issued share capital of the Company; and

3.9.3.2 the amount standing to the credit of the reserves of the Company (including any share premium account, capital redemption reserve and any credit balance on profit and loss account);

all as shown by the then latest published balance sheet of the Company but subject to the deductions and adjustments set out in the Articles.

3.10 ***Dividends***

3.10.1 Subject to the Statutes the Company may by ordinary resolution declare that out of profits available for distribution there be paid dividends to members in accordance with their respective rights and priorities but no such dividend shall exceed the amount recommended by the Directors.

3.10.2 The rights of members to receive dividends are as follows:

3.10.2.1 the Ordinary Shareholders shall be entitled to receive, in that capacity, any dividends paid out of the profits available for distribution derived from the assets attributable to the Ordinary Shares;

3.10.2.2 the C Shareholders shall be entitled to receive, in that capacity, any dividends paid out of the profits available for distribution derived from the assets attributable to the C Shares;

3.10.2.3 the New Ordinary Shares arising on Conversion of the C Shares shall rank in full for all dividends and other distributions declared, paid or made by reference to a record date falling after the Conversion Date and, for the avoidance of doubt, shall not rank for any dividends payable on the Ordinary Shares in respect of financial periods of the Company ending prior to the Calculation Date; and

3.10.2.4 the Deferred Shares shall entitle the holders thereof to a fixed non-cumulative dividend of 1p per annum per share payable on the date six months following the Conversion Date and annually thereafter, but shall not entitle thereof to any other right to share in the profits of the Company.

3.10.3 Except as otherwise provided by these Articles or the rights attached to any shares, all dividends shall be declared and paid according to the amounts paid on the shares in respect of which the dividend is paid.

- 3.10.4 Any general meeting declaring a dividend may, upon the recommendation of the Board, by ordinary resolution direct that it shall be paid or satisfied wholly or partly by the distribution of assets.
- 3.10.5 Subject to the Statutes, the Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company available for distribution and the position of the Company, and the Board may also pay the fixed dividend payable on any shares of the Company with preferential rights half-yearly or otherwise on fixed dates whenever such profits, in the opinion of the Board, justify that course.
- 3.10.6 Any new Ordinary Shares shall rank in full for all dividends and other distributions declared, paid or made by reference to a record date falling after the Conversion Date (but not for any dividends payable on the Ordinary Shares in respect of financial periods of the Company ending prior to the Calculation Date).
- 3.10.7 Any dividend unclaimed after a period of 12 years from the due payment date of such dividend shall be forfeited and revert to the Company.
- 3.10.8 The Company may pay any dividend, interest or other monies payable by direct debit, bank transfer, cheque, dividend warrant or money order, and in respect of shares in uncertificated form, in such manner as the Company shall consider sufficient, by means of the relevant system concerned.

3.11 *Rights as to capital*

- 3.11.1 The holders of the Ordinary Shares, the C Shares and the Deferred Shares shall, subject to the provisions of the Articles, have the following rights as to capital:
- 3.11.1.1 the surplus capital and assets of the Company shall on a winding-up or on a return of capital (otherwise than on a purchase by the Company of any its shares) prior to Conversion be applied amongst the holders of Ordinary Shares *pro rata* according to the nominal capital paid up on their holdings of Ordinary Shares after having deducted from them an amount equivalent to the sum of C minus D using the methods of calculation of C and D given in the definitions of the Conversion ratio, which amount shall, to the extent it is available for distribution, be applied amongst the holders of C Shares *pro rata* according to the nominal capital paid up on their holdings of C Shares, and for the purposes of this paragraph the Calculation Date shall be such date as the liquidator may determine; and
- 3.11.1.2 the surplus capital and assets of the Company shall on a winding-up or on a return of capital (otherwise than on a purchase by the Company of any of its shares) after Conversion be applied as follows:
- (i) first, if there are Deferred Shares in issue, in paying to the holders of Deferred Shares 1 p in respect of every 1,000,000 Deferred Shares (or part thereof) of which they are respectively the holders: and
 - (ii) secondly, the surplus shall be divided amongst the holders of Ordinary Shares *pro rata* according to the nominal capital paid up on their holdings of Ordinary Shares.

3.12 *Investment Company Status*

At any time when the Company has given notice in the prescribed form (which has not been revoked) to the Registrar of Companies of its intention to carry on business as an investment company (a "Relevant Period"), distribution of the Company's capital profits (within the meaning of section 833(2)(c) of the CA 2006) shall be prohibited, except for the purpose of redeeming or purchasing its own shares in accordance with the CA 2006 and the Directors shall establish a reserve to be called the capital reserve. During a Relevant Period, all surpluses arising from the realisation or

revaluation of investments and all other moneys realised on or derived from the realisation, payment off of or other dealing with any capital asset in excess of the book value thereof and all other moneys which are considered by the Directors to be in the nature of accretion to capital shall be credited to the capital reserve. Subject to the CA 2006, the Directors may determine whether any amount received by the Company is to be dealt with as income or capital or partly one way and partly the other. During a Relevant Period, any loss realised on the realisation or payment off of or other dealing with any investments or other capital assets and, subject to the CA 2006, any expenses, loss or liability (or provision therefore) which the Directors consider to relate to a capital item or which the Directors otherwise consider appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. During a Relevant Period, all sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable except and provided that notwithstanding any other provision of the Articles no part of the capital reserve or any other money in the nature of accretion to capital shall be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution (as defined by section 829 of the CA 2006), except for the purpose of redeeming or purchasing its own shares in accordance with sections 160 and 162 of the CA 1985, or be applied in paying dividends on any shares in the Company. In periods other than a Relevant Period, any amount standing to the credit of the capital reserve may be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution (as defined by section 829 of the CA 2006) or applied in paying dividends on any shares in the Company.

3.13 *Untraced Shareholders*

The Company shall be entitled to sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled by transmission if:

3.13.1 during a period of 12 years, at least three dividends have been paid in relation to such shares and no such dividend has been claimed; and

3.13.2 the Company shall on expiry of such period of 12 years have inserted advertisements in both a national daily newspaper and in a newspaper circulating in the area in which the last known address of the member or the address at which service may be effected under the Articles is located giving notice of its intention to sell the said shares and notice in writing has been given by the Company to the UK Listing Authority of its intention to make such sale; and

3.13.3 a period of three months has passed since the date of the advertisements.

The Company shall be obliged to account to the former member or person entitled to transmission for the net proceeds of the sale of such shares but no trust shall be created in respect of the debt and no interest shall be payable in respect of the same and the Company shall not be required to account for any money earned on the net proceeds.

3.14 *Duration and Winding up*

The Directors shall put an ordinary resolution to the fifteenth annual general meeting of the Company following admission of the Ordinary Shares to the Official List and, if passed, to every fifth subsequent annual general meeting, proposing that the Company should continue as a venture capital trust for a further five year period. For such a resolution not to be passed, Shareholders voting in person or by proxy and holding in aggregate not less than 25 per cent. of the issued shares capital of the Company then in issue must vote against the resolution. If any such resolution is not passed, the Directors shall draw up proposals for the voluntary liquidation, unitisation or other reorganisation of the Company for submission to the members of the Company at a general meeting to be convened by the Directors for a date not more than nine months after such general meeting. Implementation of the proposals will require the approval of members by special resolution.

If the Company shall be wound up voluntary, the liquidator may, with the authority of a special resolution and subject to any provision sanctioned in accordance with the CA 2006, the Insolvency Act 1986 (as amended) or the rights of any other class of shares, divide among the members *in specie*

the whole or any part of the assets of the Company and may determine how such division shall be carried out as between the members or different classes of members. Any such division shall be in accordance with the existing rights of members. The liquidator may, with the like authority, vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the like authority shall determine, but no member shall be compelled to accept any assets on which there is a liability.

3.15 *Uncertificated Shares*

CREST, a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by a written instrument. The Articles are consistent with CREST membership and allow for the holding and transfer of shares in uncertificated form pursuant to the Regulations as amended and/or supplemented.

3.16 *Calling of annual general meetings and general meetings*

Annual general meetings shall be convened by the Board in accordance with the Statutes. The Board may call a general meeting whenever it thinks fit and, on the requisition of members in accordance with the CA 2006, it shall forthwith proceed to convene a general meeting for a date not more than 28 days after the date of the notice convening the meeting.

An annual general meeting shall be called by at least 21 clear days' notice in writing. Subject to the Statutes, any other general meeting shall be called by at least 14 clear days' notice by the Company. Subject to the provisions of these Articles, to the rights attaching to any class of shares and to any restriction imposed on any holder, notice of any general meeting shall be given to all members, the Directors and (in the case of an annual general meeting) the auditors. A general meeting may be called by shorter notice if it is agreed: (i) in the case of an annual general meeting, by all the members entitled to attend and vote; and (ii) in the case of a general meeting, by a majority in the number of the members having a right to attend and vote, being a majority together holding at least 95 per cent. in nominal value of the shares giving that right.

Every notice calling a general meeting shall specify the place, day and hour of the meeting. Every notice must specify with reasonable prominence that a member entitled to attend and vote is entitled to appoint a proxy or proxies to attend, speak and vote instead of him and that proxy need not be a member of the Company. The notice of an annual general meeting or a general meeting shall state whether a resolution is to be proposed as a special resolution, and in the case of special business, the general nature of the business to be transacted;. In the case of an annual general meeting, the notice shall also specify the meeting as such.

4. DIRECTORS' AND OTHER INTEREST IN THE COMPANY

4.1 The Company is not aware of any person, not being a member of its administrative, management or supervisory bodies, who, as at the date of this document, is directly or indirectly, interested in 3 per cent. or more of the issued share capital of the Company and is required to notify such interest in accordance with the Disclosure and Transparency Rules of the FSA or who directly or indirectly owns or controls the Company.

4.2 As at 18 December 2009 (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial) of the Directors and their respective immediate families and persons connected with them in the share capital of the Company were as follows:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Number of issued C Shares</i>	<i>Percentage of Ordinary Share capital</i>	<i>Percentage of issued C Share capital</i>
Rupert Pennant-Rea	102,000	–	0.3%	0.0%
David Donnelly	–	–	0.0%	0.0%
Nicholas Ross	103,100	–	0.3%	0.0%
David Sebire	–	–	0.0%	0.0%
Catrina Holme	–	–	0.0%	0.0%

Save as disclosed in this paragraph, and in sub-paragraph 4.5 below, no Director nor any person (to the extent the same is known to, or could with reasonable diligence be ascertained by, that Director) connected with any Director has any interest in the share or loan capital of the Company.

- 4.3 Each of the Directors has entered into an agreement with the Company, a copy of which is available for inspection at the address set out in paragraph 11 of this Part VIII below, for the provision of their services as directors for the fees disclosed in paragraph 4.7 below. These agreements were entered into on 6 October 2004 between the Company and each of the Directors (apart from Catrina Holme, who was appointed pursuant to a letter dated 17 December 2008). The agreements remain in force until either the Director resigns or the directorship is terminated as prescribed by law or the Articles of the Company. None of the agreements provides for any compensation to be paid to the Director on termination of the relevant agreement. No amounts have been put aside to provide pensions, retirement or similar benefits to any Directors.
- 4.4 No loan or guarantee has been granted or provided by the Company to any Director.
- 4.5 Nicholas Ross is a director of the Investment Manager, which is a party to certain material contracts, details of which are set out in paragraph 5 below and available for inspection at the address set out in paragraph 11 below and Nicholas Ross is also the holder of £6,332 of Loan Notes.
- 4.6 Save as disclosed in this paragraph 4.6, no Director has an interest in any transaction effected by the Company since its incorporation which is or was unusual in its nature or conditions or significant to the business of the Company or material to the Company or the Scheme.
- 4.7 The current annual remuneration of the Directors is as follows:

<i>Director</i>	<i>Annual Fees</i>
Rupert Pennant-Rea	£20,000
David Donnelly	£15,000
Nicholas Ross	£nil
David Sebire	£20,000
Catrina Holme	£15,000

The aggregate fees paid to the Directors by the Company for the financial period ended 30 September 2009 under the arrangements in force at the date of this document were £70,000.

- 4.8 The Company maintains directors' and officers' liability insurance for the benefit of the Directors and the Company Secretary.

- 4.9 The following are directorships (unless otherwise stated) and partnerships held by the Directors in the five years prior to the date of this document and the principal activities of the Directors other than in relation to the Company where these are significant with respect to the Company:

Directorships and partnerships

<i>Director</i>	<i>Current</i>	<i>Previous</i>
Rupert Pennant-Rea	Defaqto Group Limited Economist Newspaper Limited (The) Acuity VCT Go-Ahead Group Plc (The) Henderson Group Plc PGI Group Plc Times Newspapers Holdings Limited	Action Medical Research British American Tobacco Plc Security Printing and Systems Limited Globalvault Public Limited Company Fieldmetal Limited AMI (Zimbabwe) Limited Bell Managed Information Technologies Limited Changescent Limited Efinancial Careers Limited Efinancial Group Limited Efinancialnews Limited Efinancialnews Holdings Limited Fancode Limited Fieldmetal Limited Gordon House Limited Gordon House Asset Management Limited Globalvault Plc Key Asset Management (UK) Limited Media AMI (UK) Limited Mexicoblade Limited Overseas Development Institute Security Printing and Systems Limited Security Printing and Systems Group Limited Stationery Office Enterprises Limited (The) Stationery Office Group Limited (The) Stationery Office Holdings Limited (The) Stationery Office Limited (The) TSO Content Solutions Limited ISO Holdings A Limited TSO Holdings B Limited TSO Property Limited 3M Security Printing and Systems Limited HGI Group Limited

Director
David Donnelly

Current
British Equity Investment
Company Limited
Caithness Petroleum Limited
Caithness Services Limited
Acuity VCT plc
FF&P General Partner (No. 1)
Limited
FF&P General Partner (No. 3)
Limited
FF&P General Partner (No. 4)
Limited
FF&P General Partner (No. 5)
Limited
FF&P General Partner (No. 6)
Limited
FF&P General Partner (No. 7)
Limited
FF&P General Partner (No. 8)
Limited
FF&P General Partner (No. 9)
Limited
FF&P General Partner (No. 10)
Limited
FF&P General Partner (No. 11)
Limited
FF&P General Partner (No. 12)
Limited
FF&P General Partner (No. 13)
Limited
FF&P General Partner (No. 14)
Limited
FF&P General Partner (No. 15)
Limited
FF&P Private Equity Limited
FF&P Private Equity
(Scotland) Limited
GH LLP
Gordon House Asset
Management Limited
Gordon House Limited
Gordon House Securities
Limited

Previous
Real Return Global Fund plc
(The)

<i>Director</i>	<i>Current</i>	<i>Previous</i>	
Nicholas Ross	Acuity Capital LLP	Acrobat Music Group	
	Acuity Capital Management Limited	D J N Engineering Limited FEH Limited	
	Acuity Environmental VCT 2 Plc	FM Fabrications Limited	
	Acuity VCT Plc	Loseley Dairy Ice Cream Limited	
	Acuity VCT 2 Plc	Synctwin Limited	
	Acuity VCT 3 Plc	Trestad Limited	
	Electra Partners Pension Trustees Limited		
	Fin Holdings Limited		
	The Fin Machine Company Limited		
	Future Noise Music Limited		
	Hallmarq Veterinary Imaging Limited		
	Keycom (Employee Benefit Trust) Limited		
	Keycom Plc		
	Kingsway Private Equity Services Limited		
	NEA Investments LLP		
	David Sebire	BVS Outlet Villages LP	Clearspeed Solutions Limited
		Colson Limited	Clearspeed Technology Plc
		Deedlock Limited	ControlSoft Europe Limited
		Acuity VCT plc	FG Employee Trust Company Limited
		Enigma Engineering Limited	Flightstore Inflight Retailing Limited
Enoch Pinson Limited		Highbury House Communications plc	
Lynx Security Technology Limited		Medico-Legal Consultancy plc	
Newater Investments Limited		Newater Developments Limited	
PegasusBridge Corporate Finance Limited		The PegasusBridge Defence & Security Fund Limited	
PegasusBridge Fund Management Limited		The PegasusBridge Defence & Security Fund LP	
PegasusBridge Fund Management LLP		Security Engineering (Willenhall) Limited	
R K Harrison & Co Limited		Smart Approach Group plc	
Securefast plc		SOE Academy Limited	
Ultra Securities (Holdings) Limited		Tewkesbury Marina Limited	
United Aerospace Industries Limited		V Phase Plc	
Catrina Holme		FirstMile Limited	Avantium International BV
		Investor Inside Limited	DFJEsprit LLP
	Acuity VCT plc	Environment IQ Holdings Limited*	
		Intense Limited	
	NetEconomy Holdings BV		
	Powerlase Limited**		
	Envictor Limited		

* In voluntary liquidation

** In administration

- 4.10 None of the Directors has:
- 4.10.1 any unspent convictions in relation to indictable offences or convictions in relation to fraudulent offences in the previous five years;
 - 4.10.2 been associated with any bankruptcy, receivership or liquidation in his capacity as director or other member of an administrative, management or supervisory body, or as senior manager, in each case for the previous five years;
 - 4.10.3 been an executive director or senior manager of any company which, at the time of or within 12 months following his executive directorship, has been subject to receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors;
 - 4.10.4 been a partner or senior manager in any partnership which, at the time of or within 12 months following his being a partner, has been subject to a compulsory liquidation, administration, or partnership voluntary arrangement;
 - 4.10.5 owned any assets which have been subject to a receivership or been a partner in partnership subject to a receivership where he was a partner at the time or within the 12 months preceding such event; or
 - 4.10.6 been subject to public criticism or any official public incrimination and/or sanctions by any statutory or regulatory authority (including recognised or designated professional bodies) or been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for the previous five years.
- 4.11 The Company is not aware of any persons who, directly or indirectly, exercises or could exercise control over the Company except in the case of the Investment Manager and its officers pursuant to the Management and Administration Deed. At the date of the Prospectus, there are no arrangements in place that may, at a subsequent date, result in a change of control of the Company.
- 4.12 As at the date of this document, there are no potential conflicts of interest between any duties of any Director or Acuity Capital and their private interests and/or other duties.
- 4.13 None of the Company's major shareholders has voting rights different from other holders of Shares.

5. MATERIAL CONTRACTS

- 5.1 The following, together with the Loan Note Instrument summarised in paragraph 6 below and the non-executive director appointment letters are (a) the only contracts, not being contracts entered into in the ordinary course of business, that have been entered into by the Company within the two years preceding date of publication of this document and which are or may be material to the Company, and (b) the only contracts, not being contracts entered into in the ordinary course of business, that have been entered into by the Company within the two preceding years and contain any provisions under which the Company has any obligation or entitlement which are material to the Company as at the date of this document:
- 5.1.1 An agreement dated 21 December 2009 between the Company, the Directors, Acuity Capital and Howard Kennedy pursuant to which Howard Kennedy will act as sponsor to the Company. Under the agreement, which may be terminated by Howard Kennedy in certain circumstances, certain warranties have been given by the Company, the Directors and Acuity Capital to Howard Kennedy. The Company has also agreed to indemnify Howard Kennedy in respect of its role as sponsor. The warranties and indemnity are in usual form for a contract of this type. The agreement may be terminated if any statement in the Prospectus is untrue, any material omission from the Prospectus arises or any breach of warranty occurs.

- 5.1.2 An investment and administration agreement dated 6 October 2004 between the Company (1) and Electra Quoted Management Limited (the former name of Acuity Capital) (2), as amended and restated pursuant to an amended and restated management and administration deed dated 8 February 2008, pursuant to which Acuity Capital is appointed as discretionary investment manager and administrator to the Company. The appointment is for a fixed period to 5 April 2013, and thereafter on 12 months notice. The appointment may also be terminated in circumstances of material breach by either party. Acuity Capital is entitled to an annual investment management fee of 2.5 per cent. of the net assets of the Company and an administration fee of £60,000 per annum, increased annually in accordance with the retail prices index. These arrangements will continue to apply to the Enlarged Company following the Merger.
- 5.2 The following contracts will be entered into subject, *inter alia*, to the approval by Shareholders of the resolutions to be proposed at the General Meeting and the:
- 5.2.1 A transfer agreement between the Company and Acuity 1 (acting through the Liquidators) pursuant to which all of the assets and liabilities of Acuity 1 will be transferred to the Company (subject only to the consent required to transfer such assets and liabilities) in consideration for New Shares in accordance with Part I of this document. The Liquidators will agree under this agreement that all sale proceeds and/or dividends received in respect of the underlying assets of Acuity 1 will be transferred on receipt to the Company as part of the Scheme.
- 5.2.2 An indemnity from the Company to the Liquidators pursuant to which the Company will indemnify the Liquidators for expenses and costs incurred by them in connection with the Scheme.

6. LOAN NOTES

In order to incentivise the Investment Manager, the Company has entered into the Loan Note Instrument creating up to £125,000 in nominal value of Loan Notes of which £21,000 have been issued to a number of individuals who are either employees of, or are engaged in the business of, the Investment Manager. £6,332 of these Loan Notes have been issued to Nicholas Ross, as an executive of the Investment Manager and Director of the Company.

The Loan Notes entitle the Holders to interest at a rate of 4.75 per cent per annum payable on 30 September in each year (the "Initial Interest"). In addition to the Initial Interest, the Loan Notes entitle the Holders to be paid additional interest (the "Additional Interest") which is dependent upon the performance of the Company and is calculated and payable as set out below.

Additional Interest will be payable to the Holders depending on the extent to which the Performance Value exceeds a target level. At the first financial year end of the Company on which this target is met, the Holders will be entitled to receive Additional Interest equalling 30 per cent. of the amount by which the Performance Value exceeds 100 pence per C Share. At each subsequent financial year end, Additional Interest will only be payable if the Performance Value at that date exceeds the Performance Value achieved on the previous date on which Additional Interest was payable. If such target is met the Holders will be entitled to receive Additional Interest equalling 30 per cent. of the value of all distributions declared in respect of the relevant financial year. If there is a shortfall in the Performance Value it must be made up before Additional Interest is payable in respect of a subsequent period.

The amount to be paid by the Company in respect of Additional Interest is limited broadly to the amount of cash available to the Company. If the Company does not have sufficient funds to pay any Additional Interest, then the debt thereby arising will be carried forward to be paid when the funds are available.

The Loan Notes are redeemable in certain circumstances. On the winding up of the Company, all outstanding Loan Notes will be redeemed in full at par. If there is a change of control event of the Company or the Management and Administration Deed is terminated for any reason (other than because of fraud or material breach by the Investment Manager), all Loan Notes then outstanding shall be redeemed in full at par along with any Additional Interest calculated as payable at that point.

The Company has the ability to redeem Loan Notes at par when a Holder becomes bankrupt or ceases to be engaged with the Investment Manager and its group. The amount of Loan Notes redeemed is determined by the circumstances in which the Holder ceases to be engaged with the Investment Manager and its group. The ability of the Company to redeem Loan Notes is restricted since it may not redeem Loan Notes held by certain Holders even where such Holders cease to be engaged with the Investment Manager and its group. The Loan Notes are transferable, subject to certain conditions.

The Investment Manager's employees have the right to take up additional Loan Notes, provided that the nominal amount of Loan Notes in issue does not at any time exceed £125,000.

7. RELATED PARTY TRANSACTIONS

The Company has entered into certain related party transactions during the period covered by the financial information referred to in Part III of this document and up to the date of this document. Specifically, Acuity Capital is regarded as a related party of the Company insofar as it is party to a management and administration deed and receives fees in respect of the services provided to the Company as described in paragraph 5.1.2 of this Part VIII. The Investment Manager and Nicholas Ross, a director of the Investment Manager, are also regarded as related parties of the Company insofar as they also benefit from the performance-related incentive referred to in paragraph 6 of this Part VIII. Save for these arrangements, there are no other arrangements into which the Company has entered with a related party during such period.

8. TAXATION

8.1 The following paragraphs, which are intended as a general guide only and are based on current legislation and HMRC practice, summarise advice received by the Board as to the position of the Company's Shareholders who hold Shares other than for trading purposes. Any person who is in any doubt as to his taxation position or may be subject to taxation in any jurisdiction other than the United Kingdom should consult his professional advisers.

8.2 **Taxation of dividends** – Under current law, no tax will be withheld by the Company when it pays a dividend.

8.3 **Stamp duty and stamp duty reserve tax** – The Company has been advised that no stamp duty or stamp duty reserve tax will be payable on the issue of the New Shares to be issued pursuant to the Scheme. The Company has been advised that the transfer of New Shares will, subject to any applicable exemptions, be liable to *ad valorem* stamp duty at the rate of 0.5 per cent. of the consideration paid. An unconditional agreement to transfer such New Shares if not completed by a duly stamped stock transfer will be subject to stamp duty reserve tax generally at the rate of 50p per £100 (or part thereof) of the consideration paid.

8.4 **Close company** – the Board believes that the Company is not, and expects that following completion of the Scheme it will not be, a close company within the meaning of ITA 2007. If the Company was a close company in any accounting period, approval as a VCT for the Company would be withdrawn.

9. GENERAL

Working Capital Statement

9.1 The Company is of the opinion that its working capital is sufficient for its present requirements, that is for at least the twelve month period from the date of this document.

Capitalisation and Indebtedness Statement

9.2 The table set out below shows the capitalisation as at 30 September 2009 (being the latest practical date prior to publication of this document).

	<i>£'000</i>
Shareholder's equity	
Share capital	325
Share premium	702
Other reserves	27,629

There has been no material change in the capitalisation of the Company since 30 September 2009.

The following table shows the Company's net indebtedness as at 30 September 2009:

	<i>£'000</i>
A Cash	860
B Cash equivalents	–
C Trading securities	–
D Liquidity (A+B+C)	860
E Current financial receivable	1,237
F Current bank debt	–
G Current position of non-current debt	–
H Other current financial debt	–
I Current financial debt (F+G+H)	–
J Net current financial indebtedness (I-E-D)	(2,097)
K Non-current bank loans	–
L Bonds issued	–
M Other non-current loans	21
N Non-current financial indebtedness (K+L+M)	21
O Net financial indebtedness (J+N)	(2,076)

There is no indirect nor contingent indebtedness.

10. OTHER

- 10.1 Other than the costs of the Scheme, the acquisition is not expected to have a material effect on the levels of revenue and losses to be incurred by the Company relative to its enlarged asset base had the acquisition occurred on 30 September 2009.
- 10.2 The Company has not at any time in the 12 months immediately preceding the date of this document, been engaged in any governmental, legal or arbitration proceedings, and the Company and the Directors are not aware of any governmental, legal or arbitration proceedings pending or threatened by or against the Company, nor of any such proceedings having been pending or threatened at any time in the 12 months immediately preceding the date of this document, in each case which may have, or have had in the past, a significant effect on the Company's financial position or profitability.
- 10.3 There has been no significant change in the financial or trading position of the Company since 30 September 2009, the date to which the last audited financial statements have been published, to the date of this document.
- 10.4 The Company paid dividends totalling 4.5p per share to holders of Ordinary Shares and 0.0p per share to holders of C Shares in the period from issue of the respective shares to 30 September 2009.
- 10.5 There have been no important events so far as the Company and the Directors are aware relating to the development of the Company or its business.
- 10.6 There have been no significant factors, whether governmental, economic, fiscal, monetary or political, including unusual or infrequent events or new developments nor any known trends, uncertainties,

demands, commitments or events that are reasonably likely to have an effect on the Company's prospects or which have materially affected the Company's income from operations so far as the Company and the Directors are aware.

- 10.7 There are no known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year, so far as the Company and the Directors are aware.
- 10.8 Scott-Moncrieff (a member of the Institute of Chartered Accountants) has given and has not withdrawn its written consent to the inclusion in this document of its report set out in Part IV of this document in the form and context in which it is included and has authorised the contents of its report for the purposes of Rule 5.5.3(2)(f) of the Prospectus Rules.
- 10.9 Howard Kennedy and the Liquidators have given and not withdrawn their written consent to the issue of this document and the inclusion of their names and the references to them in this document in the form and context in which they appear.
- 10.10 The costs and expenses of the Scheme payable by the Company, including any irrecoverable value added tax and all fees and commissions payable are estimated to be £326,000 inclusive of VAT. Whilst the Roll-Over Value and Merger Value take into account anticipated costs to be incurred by them respectively in relation to the Scheme and an amount of contingency in relation to the Company providing an indemnity to the Liquidators in respect of Acuity 1 liabilities and expenses, under the terms of the Transfer Agreement the Company has agreed to meet all the costs of Acuity 1 in relation to the Scheme and of winding up Acuity 1 whether or not so anticipated.
- 10.11 Shareholders will be informed, by means of the interim and/or annual report or through a Regulatory Information Service announcement if the investment restrictions which apply to the Company as a VCT detailed in this document are breached.
- 10.12 The Company's capital resources are restricted insofar as they may be used only in putting into effect the investment policies in this document. There are no firm commitments in respect of the Company's principal future investments.
- 10.13 All Shareholders have the same voting rights in respect of the share capital of the Company. The Company is not aware of any person who, directly or indirectly, exercises or could exercise control over the Company, nor of any arrangements, the operation of which, may be at a subsequent date result in a change of control of the Company.
- 10.14 PricewaterhouseCoopers were auditors of the Company until 8 May 2008 and KPMG Audit Plc since 8 May 2008. Both firms are members of Institute of Chartered Accountants in England and Wales.
- 10.15 The Company has no employees or subsidiaries.
- 10.16 The typical investor for whom investment in the Company is designed is an individual retail investor aged 18 or over who is resident and a taxpayer in the United Kingdom.
- 10.17 The Company does not have any material shareholders with different voting rights.
- 10.18 Application has been made for the admission of the New Shares to be issued under the Scheme to be listed on the Official List and application will be made for the New Shares to be admitted to trading on the London Stock Exchange's market for listed securities. A Regulatory Information Service announcement will be made following the Calculation Date stating the number of such New Shares to be issued. Dealings may not commence in the New Shares issued pursuant to the Scheme before notification of the number of New Shares to be issued is given. The Shares issued pursuant to the Scheme will be in registered form. If, following issue, recipients of New Shares pursuant to the Scheme should wish to hold their New Shares in uncertificated form they should contact the Company's registrar.

- 10.19 The Company is subject to the investment restrictions relating to a venture capital trust in ITA 2007, as more particularly detailed in Part VII of this document, and in the Listing Rules which specify that (i) the Company must, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with its published investment policy as set out in page 18 of this document; (ii) the Company must not conduct any trading activity which is significant in the context of its group as a whole; and (iii) the Company may not invest more than 10 per cent., in aggregate, of the value of the total assets of the issuer at the time an investment is made in other listed closed-ended investment funds. Any material change to the investment policy of the Company will require the approval of Shareholders pursuant to the Listing Rules. The Company intends to direct its affairs in respect of each of its accounting periods so as to qualify as a venture capital trust and accordingly:
- 10.19.1 the Company's income is intended to be derived wholly or mainly from shares or other securities, as this phrase is interpreted by HMRC;
 - 10.19.2 the Company will not control the companies in which it invests in such a way as to render them subsidiary undertakings;
 - 10.19.3 none of the investments at the time of acquisition will represent more than 15 per cent. by VCT Value of the Company's investments; and
 - 10.19.4 not more than 20 per cent. of the Company's gross assets will at any time be invested in the securities of property companies.
- 10.20 The Company and its Shareholders are subject to the provisions of the Takeover Code and the CA 2006, which require shares to be acquired/transferred in certain circumstances.
- 10.21 Had the Scheme been implemented on 30 September 2009, based on the relative audited net asset values of the Company and Acuity 1 as at that day, 22,525,185 New Shares would have been issued to Acuity 1 shareholders representing 41.0 per cent. of the current issued Share capital.
- 10.22 The total costs of the Scheme are anticipated to be £326,000 (inclusive of VAT), which will be split between the Company and Acuity 1 on a relative net asset basis.
- 10.23 The custodian of the assets of the Company is the Investment Manager. The Investment Manager is authorised and regulated by the Financial Services Authority with the registration number 121887. Their registered office and principal place of business is Paternoster House, 65 St. Paul's Churchyard, London EC4M 8AB (telephone 0207 306 3901).
- 10.24 In valuing investments, the Directors follow the principles recommended in the International Private Equity and Venture Capital Valuation Guidelines issued in March 2005. The Directors have also adopted the requirements of FRS 26 "Financial Instruments Measurement". Investments are valued at Fair Value at the reporting date. Unquoted investments and investments traded on PLUS are stated at the Directors' valuation at Fair Value. Quoted investments are stated at the last traded bid price on the balance sheet date without discount. The Company's portfolio is valued twice a year by the Investment Manager for the purposes of reporting the net assets value of the Company in the annual and interim reports.
- 10.25 The Company is not regulated by the Financial Services Authority as an authorised person under the Financial Services and Markets Act 2000, but it is subject to regulation by HMRC under the VCT Rules in order to continue to qualify as a VCT.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of this document until the Effective Date at the offices of Howard Kennedy, 19 Cavendish Square, London W1A 2AW and also at the registered office of the Company:

- 11.1 the memorandum and articles of association of the Company;
- 11.2 the audited report and accounts of the Company for the financial years ended 30 September 2007, 30 September 2008 and 30 September 2009;
- 11.3 the audited report and accounts of Acuity 1 for the three financial years ended 30 September 2007, 30 September 2008 and 30 September 2009;
- 11.4 the material contracts referred to in paragraph 5 above;
- 11.5 a draft of the Transfer Agreement;
- 11.6 the consents referred to in paragraphs 10.8 and 10.9 above;
- 11.7 the circular to Shareholders dated 21 December 2009;
- 11.8 the Acuity 1 Circular dated 21 December 2009;
- 11.9 the pro forma financial information together with a report from Scott-Moncrieff set out in Part IV of this document; and
- 11.10 this document.

21 December 2009

PART IX

DEFINITIONS

“Acuity 1”	Acuity VCT plc, registered in England and Wales under number 4286368, whose registered office is at Paternoster House, 65 St Paul’s Churchyard, London EC4M 8AB
“Acuity 1 Board”	the board of directors of Acuity 1
“Acuity 1 C Shares”	C shares of 1p each in the capital of Acuity 1
“Acuity 1 Circular”	the circular to Acuity 1 shareholders dated 21 December 2009
“Acuity 1 First General Meeting”	the first general meeting of Acuity 1 to be held on 21 January 2010
“Acuity 1 Meetings”	the Acuity 1 First General Meeting and the Acuity 1 Second General Meeting
“Acuity 1 Ordinary Shares”	ordinary shares of 1p each in the capital of Acuity 1
“Acuity 1 Second General Meeting”	the second general meeting of Acuity 1 to be held on 29 January 2010
“Acuity 1 Shares”	Acuity 1 Ordinary Shares and/or Acuity 1 C Shares (as the context may require)
“Acuity 3”	Acuity VCT 3 Plc, registered in England and Wales under number 05544383, whose registered office is at Paternoster House, 65 St Paul’s Churchyard, London EC4M 8AB
“Acuity Capital” or “Investment Manager”	Acuity Capital Management Limited, the investment manager to the Company and Acuity, of Paternoster House, 65 St Paul’s Churchyard, London EC4M 8AB
“Acuity VCTs”	the Company, Acuity and Acuity 3
“Admission”	the date on which the New Shares allotted pursuant to the Scheme are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange’s market for listed securities
“AIM”	AIM, the market of that name operated by the London Stock Exchange
“Annual Running Costs”	annual costs and expenses incurred by the Company in carrying on its business (including irrecoverable value added tax but excluding any amount payable in respect of the Loan Notes)
“Articles”	the articles of association of the company, as amended from time to time
“Board” or “Directors”	the board of directors of the Company
“Business Days”	any day (other than a Saturday) on which clearing banks are open for normal banking business in sterling
“C Shares”	C shares of 1p each in the capital of the Company
“CA 1985”	Companies Act 1985

“CA 2006”	Companies Act 2006
“Calculation Date”	the date on which the Roll-Over Value and the Merger Value will be calculated, being 28 January 2010
“Capita Registrars”	a trading name of Capita Registrars Limited
“Company” or “Acuity 2”	Acuity VCT 2 Plc, registered in England and Wales under number 5210737, whose registered office is at Paternoster House, 65 St Paul’s Churchyard, London EC4M 8AB
“Disclosure & Transparency Rules”	the disclosure and transparency rules of the FSA
“EEA States”	the member states of the European Economic Area
“Effective Date”	the date on which the Scheme will be completed, anticipated as being 29 January 2010
“Electra Active Management”	Electra Active Management Plc
“Electra Partners”	Electra Partners Group Limited and/or its subsidiaries for the time being
“Electra Private Equity”	Electra Private Equity plc
“Enlarged Company”	the Company, following implementation of the Scheme
“FSA”	the Financial Services Authority
“FSMA”	the Financial Services and Markets Act 1986
“General Meeting”	the general meeting of the Company convened for 21 January 2010 (or any adjournment thereof)
“HMRC”	Her Majesty’s Revenue & Customs
“Holders”	persons who hold Loan Notes
“Howard Kennedy”	Howard Kennedy, which is authorised and regulated by the Financial Services Authority, is a UKLA registered sponsor and is a member of the London Stock Exchange
“IA 1986”	Insolvency Act 1986, as amended
“ICTA 1988”	Income and Corporation Taxes Act 1988, as amended
“IPEVC Guidelines”	the International Private Equity and Venture Capital Valuation Guidelines
“IPO”	initial public offering
“ITA 2007”	Income Tax Act 2007, as amended
“Liquidators”	William Duncan and Jonathan Paul Philmore of Tenon Limited, Unit One, Calder Close, Calder Park, Wakefield WF4 3BA
“Listing Rules”	the listing rules of the UKLA
“Loan Notes”	up to £125,000 in nominal value 4.75 per cent, unsecured redeemable loan notes issued by the Company pursuant to the Loan Note Instrument

“Loan Note Instrument”	loan note instrument dated 8 February 2008 constituting the Loan Notes, the terms of which are summarised in paragraph 6 of Part VIII of this document
“London Stock Exchange”	London Stock Exchange plc
“Meetings”	the General Meeting and the Acuity 1 Meetings (and each a “Meeting”)
“Memorandum”	the memorandum of association of the Company
“Merger Ratio”	the Roll-Over Value per Acuity 1 Share divided by the Merger Value per Share
“Merger Regulations”	Venture Capital Trusts (Winding-up and Mergers) (Tax) Regulations 2004
“Merger Value”	the value of a Share calculated in accordance with Part I of this document
“NAV” or “net asset value”	net asset value
“New Shares”	the new Shares to be issued to the shareholders of Acuity 1 in accordance with the Scheme
“Official List”	the official list of the UKLA
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Performance Value”	for the relevant financial year end, the sum of (i) the Company’s NAV per ‘C’ Share as at that date and (ii) the aggregate of all the amounts calculated by dividing each dividend declared in respect of the ‘C Shares since the date of the Loan Note Instrument by the number of ‘C Shares in respect of which that dividend was declared
“Proposals”	the proposals to implement the merger by way of the Scheme, and pass the resolutions to be proposed at the General Meeting
“Prospectus”	this document, being the prospectus issued by the Company dated 21 December 2009
“Prospectus Rules”	the prospectus rules of the UKLA
“Qualifying Company”	a company satisfying the requirements of Chapter 4 of Part 6 of ITA 2007
“quoted”	quoted on the London stock Exchange’s market for listed securities, AIM or PLUS Markets
“Record Date”	the record date to which Acuity shareholders’ entitlements will be allocated pursuant to the Scheme, being 28 January 2010
“Roll-Over Value”	the value of a Acuity Share calculated in accordance with Part I of this document
“Scheme” or “Merger”	the proposed merger of the Company with Acuity by means of placing Acuity into members’ voluntary liquidation pursuant to Section 110 of IA 1986 and the acquisition by the Company of all of Acuity’s assets and liabilities in consideration for New Shares as set out in Part I of this document
“Shareholder”	a holder of Shares

“Shares”	Ordinary Shares and/or C Shares (as the context may require)
“Statutes”	means every statute (including any orders, regulations or other subordinate legislation made under it) from time to time in force concerning companies insofar as it applies to the Company
“TCGA 1992”	Taxation of Chargeable Gains Act 1992, as amended
“Total Return”	sum of net assets per share and the cumulative dividends per share paid to Shareholders
“Transfer Agreement”	the agreement between the Company, the Liquidators and Acuity 1 (acting through the Liquidators) for the transfer of all of the assets and liabilities of Acuity 1 by the Liquidators to the Company pursuant to the Scheme
“UK”	the United Kingdom
“UKLA” or “UK Listing Authority”	the UK Listing Authority, being the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Market Act 2000
“unquoted”	private or public companies not quoted on any market or exchange
“VCT” or “venture capital trust”	a company satisfying the requirements of Chapter 3 of Part 6 of ITA 2007 for venture capital trusts
“VCT Rules”	Part 6 ITA 2007 and every other statute (including any orders, regulations or other subordinate legislation made under them) for the time being in force concerning VCTs and affecting the Company
“VCT Value”	the value of an investment for VCT purposes calculated in accordance with Section 279 of ITA 2007

