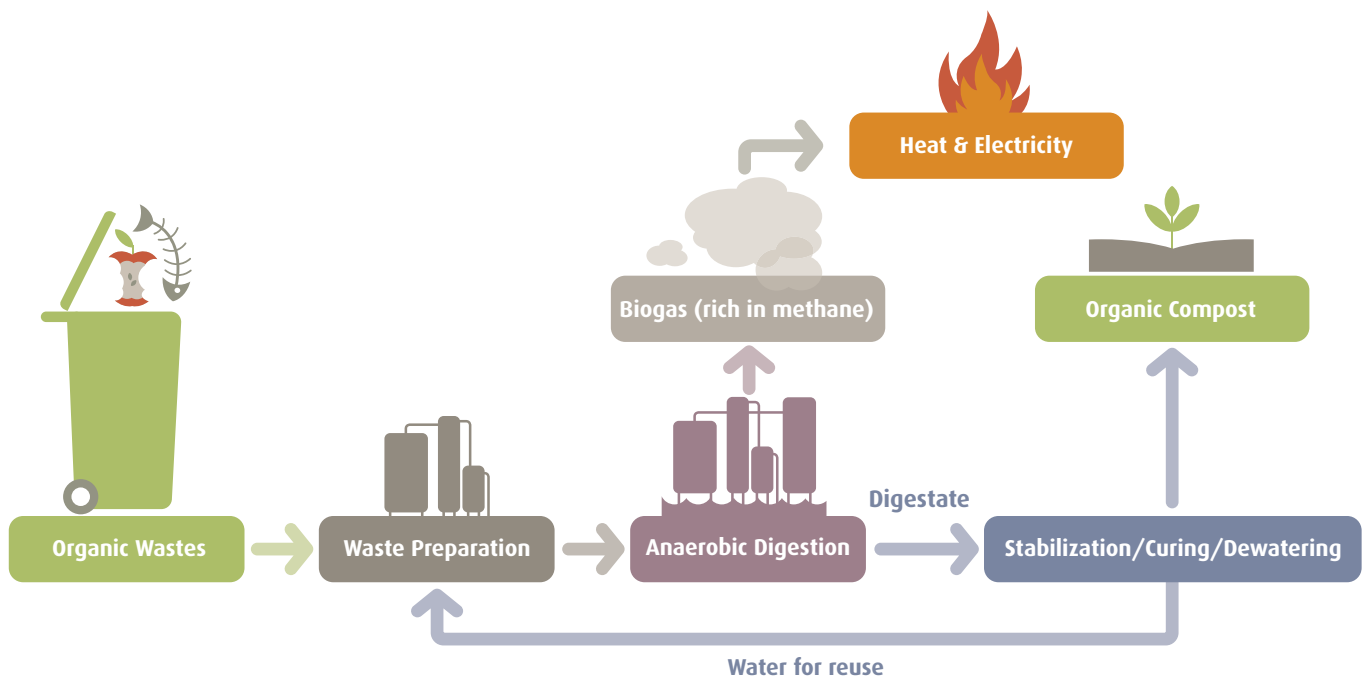


# Acuity Environmental VCT & VCT2

Linked offers for subscription  
(including application form)

Sponsored by Howard Kennedy

# Green energy and recycling for the future



A copy of this document, which is a prospectus dated 19 November 2009 relating to Acuity Environmental VCT plc and Acuity Environmental VCT 2 plc in accordance with the Listing Rules and the Prospectus Rules ("the Prospectus"), has been approved by the Financial Services Authority as a prospectus under the Prospectus Rules. This document will be made available to the public in accordance with the provisions of the Prospectus Rules.

Applications will be made for all the Ordinary Shares and all the A Shares issued and to be issued pursuant to the Offers to be admitted to the Official List of the UK Listing Authority and to be traded on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective, and that dealings in the Shares will commence, within 10 business days of the issue of such shares.

The Companies and the Directors of the Companies, whose names appear on page 12 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Companies and their 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.

Howard Kennedy is acting as sponsor of the Companies in connection with the Offers, and is not advising any other person or treating any other person as a customer or client in relation to the Offers, nor will it be responsible to any such person for providing the protections afforded to their respective customers or clients (subject to the responsibilities and liabilities imposed by the FSMA or the regulatory regime established thereunder) or for providing advice in connection with the Offers.

The whole of this document should be read. In particular, attention is drawn to the section entitled 'Risk Factors and Investment Considerations' set out on pages 9 and 10 of this document.

## Linked Prospectus for Acuity Environmental VCT Plc Acuity Environmental VCT 2 Plc

(Incorporated in England and Wales under the Companies Act 2006 with registered numbers 7049290 and 7049268)

### Linked Offers for Subscription

of up to 20,000,000 Ordinary Shares of 0.1p each  
and up to 20,000,000 A Shares of 0.1p each  
(up to 10,000,000 Ordinary Shares and 10,000,000 A Shares per Company)

Sponsor

**Howard Kennedy**

The issued share capital of each Company following the Offers, assuming that they are fully subscribed and the Redeemable Shares have been redeemed:

Issued and fully paid		
	No. of shares	Nominal value
Ordinary Shares	10,000,000	£10,000
A Shares	15,000,000	£15,000

Up to 10 million Ordinary Shares, and up to 10 million A Shares, in each Company which are being offered to the public, are being made available under two Offers in order to enable investment in two different tax years. If the Offers are over-subscribed, the Offers may be increased at the discretion of the Directors to no more than 20 million Ordinary Shares and 20 million A Shares in each Company.

The subscription list for both Offers will open on 20 November 2009 and may close at any time thereafter but in any event not later than 5.00 p.m. on 3 April 2010, in the case of the 2009/10 Offer, and at 5.00 p.m. on 28 May 2010, in the case of the 2010/11 Offer, unless previously extended by the Directors to a date no later than 18 November 2010.

Applications received and accepted by 31 December 2009 will attract Additional Shares equivalent to 2% of the amount subscribed by the Applicant under the Offers.

The terms and conditions of the Offers are set out on pages 47 to 49 of this document and are followed by an Application Form for use in connection with the Offers. The Offers will not proceed unless valid subscriptions amount to, in aggregate, not less than £2 million by 5.00 p.m. on 3 April 2010. The Offers are not underwritten.

Copies of this document are available for inspection during normal business hours at the Document Viewing Facility at the Financial Services Authority, 25 The North Colonnade, London E14 5HS following the date of publication and may be obtained free of charge for the duration of the Offers, by collection from:

**Howard Kennedy**  
19 Cavendish Square  
London W1A 2AW

**Acuity Capital Management Limited**  
Paternoster House, 65 St Paul's Churchyard  
London EC4M 8AB

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

## Summary

### Overview

A fund established by the Companies to invest in environmental infrastructure projects, focusing on organic waste recycling in the UK. Investment will be through a combination of secured debt and equity, targeting a tax free running yield of 10% (which equates to a gross equivalent yield to a higher tax payer of approximately 13.3%) once the funds are fully invested. Early return of capital will be sought and equity upside through structured exits, principally from debt re-financing. Each investment will utilise low risk proven technology and will be backed by long term supply contracts with local authorities or established companies.

### The Opportunity

- The UK currently produces over 100m tonnes of organic material per year which has the potential to generate Biogas and renewable energy. The Government estimates that up to 20% of this organic material comes from the municipal sector (i.e. local authorities' waste collections), and the majority of this material from the municipal sector is currently being directed to landfill sites across the UK as waste. If Biogas from this waste was harnessed it could make a significant contribution towards meeting the UK's renewable energy targets for 2020.
- The EU Landfill Directive came into effect in 1999 requiring the UK to make significant reductions in the quantity of biodegradable municipal waste which is disposed of through landfill. Failure to meet the Landfill Directive targets will result in the UK facing substantial fines from the EU.
- As part of the drive to comply with the Landfill Directive, the Government established the Landfill Allowances Trading Scheme (LATS) in 2005. Under the scheme local authorities are allocated tradable allowances, and set landfill targets. A key feature of the scheme is that local authorities will face stiff penalties for failure to meet these targets.
- The UK Government has also set out higher national targets for the recycling and composting of household waste with targets of at least 40% by 2010, 45% by 2015 and 50% by 2020 and the recovery of municipal waste with targets of 53% by 2010, 67% by 2015 and 75% by 2020. As a result, this should require a significant increase in the number of AD and IVC plants in the UK.
- The UK Government is promoting AD as a key technology to help meet renewable energy targets for 2020. AD is an established technology widely used in continental Europe.
- In order to support the Landfill Directive the UK Government introduced a landfill escalator tax which will significantly increase the overall cost of landfill to ensure that waste recycling plants such as AD are competitively priced compared to landfill.
- The Investment Manager has selected Envar Limited ("Envar"), the waste subsidiary of ADAS Group Limited ("ADAS"), as the Preferred Operating Partner to the funds. It is expected that a significant proportion of the funds will be invested in operating sites sourced and managed by Envar.
- It is intended that each site in which the Companies invest will be underpinned by at least a 10 year plus supply contract with a local authority or an established company.
- Revenue for each site is expected to comprise of income from gate fees (paid by the disposer of the waste per tonne of waste to be processed), the sale of compost and, in the case of AD (but not IVC) sites, the sale of electricity and Renewable Obligation Certificates ("ROCs").
- Given the potential demand in the market, and the existing commercial relationship with its Preferred Operating Partner, the Investment Manager expects to be able to invest a minimum of 70% of the funds raised through the Offers within twenty-four months of the close of the Offers.
- Due to the cash generative nature of the assets, the Investment Manager anticipates a substantial return of capital to Shareholders within seven years of the close of the Offers.
- The Investment Manager believes that the investment strategy of the Companies will result in Shareholders enjoying a significantly de-risked return on funds invested and the potential for substantial capital gains in the event that the assets attract a trade or private equity buyer.
- After the sixth anniversary of the funds the Investment Manager will seek to refinance the underlying assets to enable the return of capital and also to provide an exit route to shareholders.

### The Investment Policy of each of the Companies is:

- to maximise tax free capital gains and income to shareholders from dividends and capital distributions by investing the Companies' funds in;
- a portfolio of investments, primarily being in UK unquoted companies specialising in IVC and AD plant operations, or companies demonstrating similar investment characteristics; and
- treasury investments, fixed income funds, securities and cash deposits.

- to invest in investee companies that they believe are materially de-risked and will provide shareholders with a reliable source of tax free income, such investee companies to generally reflect the following criteria:
- a well defined business plan and ability to demonstrate strong demand for its products and services;
- products or services which are cash generative;
- objectives of management and shareholders which are similarly aligned;
- adequate capital resources or access to further resources to achieve the targets set out in its business plan;
- access to high calibre management teams;
- be companies where the Investment Manager believes there are reasonable prospects of an exit, either through a trade sale or flotation in the medium term; and
- investee companies whose performance is supported by established utilisation patterns or by long term contracts with low risk customers, such as local authorities.

The low risk approach reflected in the investment policy of the Companies should provide a regular income to fund the target dividend once the Companies are fully invested. The Companies' objective will be to pay an annual tax free dividend of 10% (which equates to a gross equivalent yield of approximately 13.3% to a higher rate tax payer). However, no profit forecast is to be inferred or implied from this statement.

### Experienced Investment Manager and Preferred Operating Partner

- The Investment Manager, Acuity Capital Management Limited, is the investment manager of three generalist venture capital trusts, Acuity VCT plc, Acuity VCT 2 plc and Acuity VCT 3 plc (together the "Acuity VCTs"), which have net assets in excess of £71 million (unaudited as at 31 March 2009).
- Prior to completing a management buy out in 2008, the Investment Management Team of the Investment Manager formed the smaller companies team within the Electra Partners Group, one of the longest established providers of private equity in the City of London.
- The Investment Manager has selected Envar Limited, the waste management subsidiary of ADAS, as Preferred Operating Partner. ADAS, whose business was originally established over 36 years ago as a government agency and which was privatised in 1997, is one of the UK's largest independent environmental consultancies, providing services to both the public and private sectors. Since privatisation it has increased its focus on the waste management and organic waste recycling sectors through its Envar subsidiary. ADAS is chaired by a bio-energy and environmental expert, Dr Valentin von Massow. It is expected that a significant proportion of the funds will be invested in operating sites sourced and managed by Envar, which is chaired by William Elliott, who has over 20

years experience in the waste management industry and also sits on the Companies' Boards.

- The Investment Management Team together has more than 35 years of experience in private equity investments, venture capital trusts and corporate finance.

### An Experienced Board

- Each of the Companies benefits from a highly experienced Board of non-executive Directors, all of whom, except for Mark Speeks and Nicholas Ross, are independent of the Investment Manager. The directors of Acuity Environmental VCT plc are David Eades (Chairman), William Elliott and Mark Speeks, and the directors of Acuity Environmental VCT 2 plc are Philip Ling (Chairman), William Elliott and Nicholas Ross.
- The Directors have committed to invest a total of £150,000 under the Offers.

### Allocations of Subscriptions

Subject to a minimum subscription level being achieved under the Offers, subscriptions will be allocated equally between the Companies so that each Investor's shareholdings will be identical between the Companies. It is the Investment Manager's intention that each Company will invest the same amount in each investment, so that they will have identical portfolios.

### Substantial Tax Reliefs to Investors

- The principal UK tax reliefs, which are available on a maximum investment of £200,000 per individual in each of the 2009/10 and 2010/11 tax years, are set out below:
  - **income tax relief** of 30% on the amount invested (irrespective of the rate of income tax that an Investor pays), subject to an Investor's income tax liability in the relevant tax year (provided that the shares are held for at least five years);
  - **tax-free dividends and capital distributions**; and
  - **capital gains tax exemption** on the disposal of Shares.
- For an Investor able to use the full tax credit, the targeted annual dividend yield of 10 pence per Share is equivalent to an annual tax free dividend of approximately 14.3% on their net investment of 70p (which is 100p less 30% income tax relief).

*The above is only a very brief summary of the UK tax position of Investors in VCTs and is based on the Companies' understanding of current law and practice. Potential Investors are recommended to consult their own appropriate professional adviser as to the taxation consequences of their investing in a VCT.*

## The Offers

- The Offers are for a total of up to 10 million Ordinary Shares and 10 million A Shares in each Company at 100p per Share (99.9p in respect of each Ordinary Share and 0.1p in respect of each A Share). If the Offers are over-subscribed, they may be increased at the discretion of the Directors.
- The Offers will open on 20 November 2009 and may close at any time thereafter but in any event not later than 5.00 p.m. on 3 April 2010, in the case of the 2009/10 Offer, and at 5.00 p.m. on 28 May 2010, in the case of the 2010/11 Offer, unless previously extended by the Directors to a date no later than 18 November 2010.
- The minimum investment for each Applicant is £5,000.
- Application will be made for the Ordinary Shares and A Shares issued and to be issued pursuant to the Offers to be admitted to the Official List of the UK Listing Authority and to be traded on the London Stock Exchange's main market for listed securities.
- Cheques may be post-dated to 6 April 2010 for applications in respect of the 2010/11 Offer.

Applications received and accepted by 31 December 2009 will attract Additional Shares equivalent to 2% of the amount subscribed by the Applicant under the Offers.

## Key Risk Factors

Although the significant tax benefits available to Investors in the Companies reduce the risk of the investment, the following should be noted, together with the Risk Factors and Investment Considerations set out on pages 9 and 10.

- *Site Identification, Acquisition and Planning Permission Risk.* Although the UK Government has identified AD and IVC as key technologies for the reduction in landfill and AD as a key technology for the targeted increase in renewable energy production, the identification, acquisition and gaining of appropriate planning permission may be subject to delay as a result of local objections and political scrutiny and control outside the control of the operating companies. However, "Planning Policy Statement 22: Renewable Energy" and "Planning Policy Statement 10: Planning for Sustainable Waste Management" have been issued by the UK Government setting out the key principles for regional planning bodies and local planning authorities which favour the granting of permissions where reasonably appropriate.
- *Construction Risk.* The construction of AD and IVC plants are subject to the normal construction risks such as incomplete design, inadequate site preparation, uncertainty over the source and availability of materials, weather and seasonal fluctuations, industrial relations problems and financing risks.
- *Plant Performance and Technology Risk.* The performance of individual AD and IVC plants is subject to the volume and quality of suitable waste ("feedstock") processed by the plants. It is intended that each site is designed on the basis of the underlying supply contracts so that the specification of each site is best suited to its feedstock. In addition, it is intended that the plant on each site benefits from equipment warranties from the construction company and that in all cases appropriate long-established reference sites are identified so that potential performance issues are identified and minimized.
- *Contract Risk.* Although it is intended to build an AD or IVC plant only if it benefits from long-term contracts which account for at least 70% of its capacity, the failure of a contracted supplier to deliver an agreed volume of suitable feedstock will have a material negative impact on the economic viability of a plant. It is intended that all supply contracts include penalties for failure to deliver agreed volumes of suitable feedstock. It is also intended that individual plants are built in locations where additional volumes of suitable feedstock may be reasonably sourced in the event that any contracted supplier fails to supply a plant.
- *Electricity Price Risk.* The price of electricity, to which part of the income of an AD plant is likely to be tied, may vary materially over time and is sensitive to levels of economic activity.
- *Renewable Obligation Scheme Risk.* The Renewable Obligation Scheme is the main support scheme for renewable electricity projects in the UK, and places an obligation on UK suppliers of electricity to source an increasing proportion of their electricity from renewable sources. This is supported by the use of ROCs. The UK Government and/or the European Union may vary its support for the Renewable Obligation Scheme, resulting in a reduction in the value of ROCs. In addition, an increase in the availability of energy from renewable sources may also result in a reduction in the value of ROCs.
- *Regulatory Risk.* The UK Government and/or the European Union may vary its commitment to a reduction of carbon emissions and the achievement of certain targets for the level of renewable energy and diversion from landfill.

## Risk Factors and Investment Considerations

There are a number of risk factors of which Investors should be aware.

The Companies and the Directors consider the following risks to be material for potential Investors, but the risks listed below do not necessarily comprise all those associated with an investment in the Companies and are not set out in any order of priority. Additional risks and uncertainties currently unknown to the Companies and the Directors (such as changes in legal, regulatory or tax requirements), or which the Companies and the Directors currently believe are immaterial, may also have a materially adverse effect on the financial condition or prospects of the Companies or on the trading price of the Shares.

Investors should be aware that the value of the Shares can fluctuate and an Investor may not receive back the full amount originally invested, and there is no certainty as to any level of dividends. In addition, there is no guarantee that the market price of Shares in the Companies will fully reflect their underlying net asset value or the ability to buy and sell at that price. Furthermore, in the opinion of the Directors, investing in VCTs such as the Companies carries particular risks, of which the principal material risks are set out below:

- Although it is intended that the Companies will be managed so as to qualify as VCTs, and retain such status, there is no guarantee that such status will be achieved or maintained for the necessary period to enable Shareholders to retain their tax reliefs. Further details of the taxation implications of an investment in the Companies are set out in Part II of this document. However, if the Companies fail to meet the qualifying requirements for VCTs, this could result in:
  - (i) Shareholders being required to repay the 30% income tax relief received on subscription for the Shares;
  - (ii) the loss of income tax relief on dividends paid (or subsequently payable) to Shareholders;
  - (iii) the loss of tax relief previously obtained in relation to corporation tax on capital gains made by the Companies;
  - (iv) a liability to tax on capital gains on any disposal of Shares; and
  - (v) the loss of the relevant Company's listing.
- The levels and bases of reliefs from taxation may change. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of Shareholders.
- An investment in a VCT is free from tax on capital gains. Consequently, any realised losses on disposal of Shares cannot be used to create an allowable loss for capital gains tax purposes.
- Although the Shares will be listed, it is highly unlikely that a liquid market in the Shares will develop, at least for the first three years from the investment in the Shares, and there may never be two competitive market makers. It may, therefore, prove difficult for Shareholders to sell their Shares.
- Most of the Companies' investments will be in smaller companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise. Such businesses may well be in high risk sectors and are usually exposed to greater risks than established businesses.
- In order to comply with VCT legislation, the Qualifying Companies, in which each of the Companies will invest at least 70% of its capital within three years, must have gross assets of not more than £7 million prior to such investment and each Qualifying Company must have less than 50 employees at the time of investment. Such companies generally have a higher risk profile than larger companies.
- There is no guarantee that the Companies' objective will be met or that suitable investment opportunities will be identified. In addition, the Companies may invest in sectors which are subject to rapid change and where it may be difficult to form an accurate view of a company's prospects.
- The Companies' 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 Companies (such as the obligation to have at least 70% by value of its investments in Qualifying Investments).
- Shareholders should be aware that the sale of Shares within five years of their subscription will require the repayment of the 30% income tax relief available upon investment to the extent of the amount received from such sale. Accordingly, investment in the Companies is not suitable as a short or medium term investment.
- A Shareholder's initial income tax relief will be withdrawn if a Shareholder, or any person associated with the Shareholder, takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of the Shares.
- The past performance of investments made by funds managed by the Investment Manager, Acuity Capital Management Limited, should not be regarded as an indication of the performance of investments to be made by the Companies.
- Changes in legislation concerning VCTs in general, and Qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Companies to meet their objectives and/or reduce the level of returns which would otherwise have been achievable.
- The value of Shares may go down as well as up and Shareholders may not receive back the full amount invested.

## Specific Risks associated with the Investment Strategy

- *Site Identification, Acquisition and Planning Permission Risk.* Although the UK Government has identified AD and IVC as key technologies for the reduction in landfill and AD as a key technology for the targeted increase in renewable energy production, the identification, acquisition and gaining of appropriate planning permission may be subject to delay as a result of local objections and political scrutiny and control outside the control of the operating companies. However, "Planning Policy Statement 22: Renewable Energy" and "Planning Policy Statement 10: Planning for Sustainable Waste Management" have been issued by the UK Government setting out the key principles for regional planning bodies and local planning authorities which favour the granting of permissions where reasonably appropriate.
- *Construction Risk.* The construction of AD and IVC plants are subject to the normal construction risks such as incomplete design, inadequate site preparation, uncertainty over the source and availability of materials, weather and seasonal fluctuations, industrial relations problems and financing risks (where the drawdown of funds may be subject to certain milestones).
- *Plant Performance and Technology Risk.* The performance of individual AD and IVC plants is subject to the volume and quality of suitable waste ("feedstock") processed by the plants. It is intended that each site is designed on the basis of the underlying supply contracts so that the specification of each site is best suited to its feedstock. In addition, it is intended that the plant on each site benefits from equipment warranties from the construction company and that in all cases appropriate long-established reference sites are identified so that potential performance issues are identified and minimized.
- *Contract Risk.* Although it is intended to build an AD and IVC plant only if it benefits from long-term contracts which account for at least 70% of its capacity, the failure of a contracted supplier to deliver an agreed volume of suitable feedstock will have a material negative impact on the economic viability of a plant. It is intended that all supply contracts include penalties for failure to deliver agreed volumes of suitable feedstock. It is also intended that individual plants are built in locations whereby additional volumes of suitable feedstock may be reasonably sourced in the event that any contracted supplier fails to supply a plant.
- *Electricity Price Risk.* The price of electricity to which part of the income of an AD plant is likely to be tied may vary materially over time and is sensitive to levels of economic activity. However, the primary source of income to individual AD plants is expected to be gate fees so the plants should not be reliant on the sale of electricity to the National Grid for fundamental viability (IVC plants do not produce electricity and are thus not exposed to electricity price risk).
- *Renewable Obligation Scheme Risk.* The Renewable Obligation Scheme is the main support scheme for renewable electricity projects in the UK. It is supported by the UK Government and the European Union, and places an obligation on UK suppliers of electricity to source an increasing proportion of their electricity from renewable sources. A ROC is a green certificate issued to an accredited generator for eligible renewable electricity generated within the United Kingdom and supplied to customers within the United Kingdom by a licensed electricity supplier. One ROC is issued for each megawatt hour (MWh) of eligible renewable output generated.
- The UK Government and/or the European Union may vary its support for the Renewable Obligation Scheme resulting in a reduction in the value of ROCs. In addition, an increase in the availability of energy from renewable sources may also result in a reduction in the value of ROCs. However, the primary source of income to individual AD plants is expected to be gate fees so they should not be reliant on the sale of ROCs for fundamental viability (IVC plants do not produce electricity and are thus not exposed to ROC price risk).
- *Regulatory Risk.* The UK Government and/or the European Union may vary its commitment to a reduction of carbon emissions and the achievement of certain targets for the level of renewable energy and diversion from landfill. For example, a relaxation or elimination of the Landfill Tax Escalator may have a material negative impact on the economic viability of AD and IVC sites. However, the UK Government's report "The UK Low Carbon Transition Plan" published in July 2009 gives no indications of a change in policy.

## Expected Timetable

The subscription list for the Offers will open on 20 November 2009 and may close at any time thereafter but in any event not later than 5.00 p.m. on 3 April 2010, in the case of the 2009/10 Offer, and 5.00 p.m. on 28 May 2010, in the case of the 2010/11 Offer, unless previously extended by the Directors to a date no later than 18 November 2010.

Dealings in respect of the Shares are expected to commence within 10 business days of the issue of such shares. CREST accounts will first be credited on the same day on which dealings in the Shares first commence.

Share certificates (where applicable), and certificates to enable a claim for tax reliefs to be made in respect of the Shares subscribed for under the Offers, will be posted to Shareholders within 30 days of the date of each allotment. No temporary documents of title will be issued.

Shares will be allotted and issued in respect of valid applications received for the 2009/10 Offer on 3 April 2010 and on any other dates (prior to 5 April 2010) on which the Directors decide. In respect of the 2010/11 Offer, Shares will be allotted and issued on 30 April 2010 and on any other dates after 5 April 2010 on which the Directors decide.

## Offer Statistics

Offer Price per Share	100p
Initial issue costs per Share	5.5p
Initial net assets per Share	94.5p
Maximum aggregate number of Ordinary Shares to be issued under the Offers	20,000,000*
Maximum aggregate number of A Shares to be issued under the Offers	20,000,000*
Maximum amount to be raised for each Company under the Offers	£10,000,000*
Maximum net proceeds for each Company, after issue costs, under the Offers	£9,450,000*
Maximum expenses of the Offers for each Company	£550,000*

\* assuming full subscription without an increase in the size of the Offers at the discretion of the Directors

The Offers will not proceed unless valid subscriptions amount to, in aggregate, not less than £2 million under the Offers when taken together, by 3 April 2010.

## Early Subscriptions

Applications received and accepted by 31 December 2009 will attract Additional Shares equivalent to 2% of the amount subscribed by the Applicant under the Offers.

## Financial Calendar

Financial year end	30 September
Preliminary results announcement and posting of annual report	December
Annual general meeting	February
Dividend	January
Half Yearly announcement and posting of Half Yearly report	May

## Directors and Advisers

**Acuity Environmental VCT plc  
Directors (all Non-Executive)**

David William Eades  
William Elliott  
Mark William Speeks  
all of  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB

**Acuity Environmental VCT 2 plc  
Directors (all Non-Executive)**

Philip Henry Ling  
William Elliott  
Nicholas Robert William Ross  
all of  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB

**Company Secretary and  
Registered Office of the Companies**

Acuity Capital Management Limited  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB

**Investment Manager  
and Administrator of the Companies**

Acuity Capital Management Limited  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB

**Sponsor to the Offers and Solicitors to the  
Companies and the Offers**

Howard Kennedy  
19 Cavendish Square  
London W1A 2AW

**Registrars and Receiving Agents  
to the Companies**

The City Partnership (UK) Limited  
Thistle House  
21 Thistle Street  
Edinburgh EH2 1DF

**Registered Auditors**

Moore Stephens LLP  
St Paul's House  
Warwick Lane  
London EC4M 7BP

**VCT Advisers to the Companies**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

**Bankers to the Companies**

HSBC plc  
60 Queen Victoria Street  
London EC4N 4TR

## Definitions and Glossary

Where used in this document the following words and expressions will, unless the context otherwise requires, have the following meanings:

<b>“2006 Act”</b>	Companies Act 2006 (as amended)
<b>“2009/10 Offer”</b>	offer for subscription of Shares in respect of the 2009/10 tax year as described in this document
<b>“2010/11 Offer”</b>	offer for subscription of Shares in respect of the 2010/11 tax year as described in this document
<b>“A Shares”</b>	A shares of 0.1p each in the capital of Acuity Environmental VCT (ISIN: GB00B5BMPY80) and/or A shares of 0.1p each in the capital of Acuity Environmental VCT 2 (ISIN: GB00B57F2M83), as the context permits
<b>“Acts”</b>	the Companies Acts as defined in s.2 of the 2006 Act
<b>“Acuity Environmental VCT”</b>	Acuity Environmental VCT plc
<b>“Acuity Environmental VCT 2”</b>	Acuity Environmental VCT 2 plc
<b>“AD”</b>	Anaerobic digestion
<b>“ADAS”</b>	ADAS Group Limited
<b>“Additional Shares”</b>	Shares issued, at no additional cost to the Applicant, by virtue of accepted Application Forms being received by 31 December 2009
<b>“Admission”</b>	admission of the Shares to the Official List and to trading on the London Stock Exchange’s main market for listed securities
<b>“AIM”</b>	Alternative Investment Market, a market operated by the London Stock Exchange
<b>“Annual Running Costs”</b>	annual costs and expenses incurred by the Companies in their business (including irrecoverable VAT but excluding exceptional and extraordinary costs)
<b>“Applicant”</b>	Investor who subscribes for Shares pursuant to the Prospectus
<b>“Application Form”</b>	form of application for Shares under the Offers set out at the end of this document
<b>“Articles”</b>	articles of association of each of the Companies
<b>“Biogas”</b>	gas produced by the biological breakdown of organic matter in the absence of oxygen
<b>“Companies”</b>	Acuity Environmental VCT and/or Acuity Environmental VCT 2, as the context permits (and each a “Company”)
<b>“CREST”</b>	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for the paperless settlement of transfers and the holding of shares in uncertificated form which is administered by Euroclear UK & Ireland
<b>“Deferred Shares”</b>	deferred shares of 0.1p each in the capital of each Company which will be converted from A Shares in the circumstances described in Part IV of this document and which will have no effective value
<b>“Directors” or “Boards”</b>	directors or boards of directors of the Companies
<b>“Fixed Income Securities”</b>	investments made by each of the Companies which do not comprise Qualifying Investments, such as bank deposits, loan stock, bonds, preference shares and other debt instruments
<b>“Hurdle”</b>	the achievement, calculated on a per Share basis at the end of the relevant financial year of the relevant Company, of (a) a Performance Value of at least 120p per Share; and (b) the payment of Shareholder Proceeds of at least 20p per Share

<b>“Investment Management Team”</b>	Mark Speeks, Nicholas Ross and Michael Kennedy
<b>“Investment Manager”</b>	Acuity Capital Management Limited or its successor
<b>“Investor”</b>	individual investor, who is a UK resident aged 18 or over, investing no more than £200,000 in VCTs in any one tax year
<b>“ITA”</b>	Income Taxes Act 2007 (as amended)
<b>“IVC”</b>	In-vessel composting
<b>“Landfill Directive”</b>	Council Directive 1999/31/EC
<b>“Listed”</b>	admitted to the Official List and admitted to trading on the London Stock Exchange’s main market for listed securities
<b>“Listing Rules”</b>	Listing Rules of the UK Listing Authority made in accordance with Part 6 of the Financial Services and Markets Act 2000
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Management”</b>	individuals engaged or otherwise involved in the management of the Companies’ investments, and other persons that the Investment Manager may in its sole discretion determine from time to time
<b>“Management A Shares”</b>	up to, in aggregate, 20,000,000 A Shares in the Companies to be issued to Management
<b>“Management and Administration Deeds”</b>	agreements dated 19 November 2009 between each of the Companies and the Investment Manager which are summarised in paragraph 5(a) of Part IV of the Prospectus
<b>“Minimum Net Proceeds”</b>	£945,000, being the minimum subscription of £1,000,000 less a fixed expense per Share of 5.5p
<b>“ML Regulations”</b>	Money Laundering Regulations 2007
<b>“NAV” or “Net Asset Value”</b>	Net Asset Value per Share
<b>“Net Assets”</b>	the net asset value of each of the Companies’ entire assets and undertaking as determined by reference to its latest annual audited accounts or, as applicable, unaudited interim accounts
<b>“Offer Price”</b>	100p per Share
<b>“Offers”</b>	together the 2009/10 Offers and the 2010/11 Offers, being offers for subscription of up to, in aggregate, 10,000,000 Ordinary Shares and 10,000,000 A Shares in each Company
<b>“Official List”</b>	Official List of the UK Listing Authority
<b>“Ordinary Shares”</b>	ordinary shares of 0.1p each in the capital of Acuity Environmental VCT (ISIN: GB00B57F1L02) and/or ordinary shares of 0.1p each in the capital of Acuity Environmental VCT 2 (ISIN: GB00B5BMQ563), as the context permits
<b>“Performance Incentive”</b>	the performance-related incentive payable to Management, represented by the entitlement on the Management A Shares as described in the subsection headed “Performance Incentive” in the section “Management Arrangements and Costs” in this document
<b>“Performance Value”</b>	in relation to a specified date, and calculated on a per Share basis, the sum of (i) the NAV of the Share as at that date and (ii) all Shareholder Proceeds paid in relation to those Shares since their issue
<b>“Preferred Operating Partner” or “Envar”</b>	Envar Limited, the waste management subsidiary of ADAS
<b>“Prospectus”</b>	this document, which describes the Offers in full

<b>“Prospectus Rules”</b>	Prospectus Rules brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No.809/2004
<b>“Qualifying Company”</b>	a company satisfying the conditions of Part 4 of Part 6 ITA
<b>“Qualifying Investment”</b>	investment in an unquoted trading company, which comprises a qualifying holding for a VCT, which satisfies the requirements of Chapter 4 of Part 6 ITA
<b>“Redeemable Shares”</b>	redeemable preference shares of £1 each in the capital of the Companies
<b>“ROC”</b>	Renewable Obligation Certificate
<b>“RPI”</b>	Retail Prices Index
<b>“Shares”</b>	Ordinary Share(s) and/or A Share(s) (excluding Management A Shares)
<b>“Shareholder Proceeds”</b>	amounts paid by way of dividends or other distributions, share buybacks, proceeds on a sale or liquidation of the Companies and any other proceeds or value received, or deemed to be received, by Shareholders in the Companies, excluding any income tax relief on subscription
<b>“Shareholders”</b>	holders of Shares
<b>“Sponsor”</b>	Howard Kennedy, which is authorised and regulated by the Financial Services Authority
<b>“UK Listing Authority”</b>	Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
<b>“VCT”</b>	a company approved as a venture capital trust under Section 274 ITA by the Commissioners of HM Revenue & Customs
<b>“VCT Regulations”</b>	The Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004

# Chairmen's Letter

19 November 2009

## Dear Investor

We are delighted to introduce the new Acuity Environmental VCT and Acuity Environmental VCT 2 seeking to raise up to £20m, in aggregate. Your subscription monies will be allocated equally between each of the funds so that your shareholdings will be identical between the two companies.

As the Chairmen of the Companies, we believe that this offer is a very attractive investment opportunity for the following key reasons:

## Excellent Market Opportunity

The European Union and the UK Government have put in place legislation to change the way in which we dispose of organic waste. This has created an opportunity for investors to be at the forefront of a new industry opportunity to invest in waste recycling infrastructure projects backed mainly by long term contracts with local authorities or established companies. These projects not only entail the recycling of organic waste but also the production of a Biogas by-product which can be used to generate electricity.

## Low Risk Investment

All investments will be in infrastructure projects utilising a low risk proven technology and backed by minimum fixed price long term supply contracts.

## Working with Experts

Prior to completing a management buy out in 2008, the Investment Management Team of Acuity Capital Management Limited formed the smaller companies team of Electra Partners Group, one of the longest established providers of private equity in the City of London. The team currently manages three other VCT's with total net assets in excess of £71 million (as at 31 March 2009, unaudited). Acuity Capital Management Limited has selected Envar Limited, the waste management subsidiary of ADAS, as the Preferred Operating Partner to the funds. ADAS is one of the UK's largest independent environmental consultancies with a heritage of over 36 years. It is expected that a significant proportion of the funds will be invested in operating sites sourced and managed by Envar.

## Maximising Tax Free Cash Returns

Given the cash generative nature of each project the Investment Manager anticipates that investors will receive an attractive annual tax free dividend once the funds are fully invested. In addition, after year six, the Investment Manager will seek to re-finance the underlying projects to provide a potential exit route for shareholders seeking an early the return of their capital. In addition, eligible investors in VCT's are entitled to 30% income tax relief on their investment which when combined with the potential uplift in value of the investments, should provide an attractive overall return.

We hope that you will give this investment opportunity serious consideration and look forward to welcoming you as a shareholder.

Yours sincerely

**David Eades**  
Chairman  
Acuity Environmental VCT plc

**Philip Ling**  
Chairman  
Acuity Environmental VCT 2 plc

## Part I Introduction

The Offers provide Investors with the opportunity to invest in environmental infrastructure projects, focusing on organic waste recycling in the UK, and to gain access to the Companies' Preferred Operating Partner, one of the most experienced organic waste recycling companies in the UK, and to the investment resources of Acuity Capital Management Limited. In addition, Investors will have the opportunity to benefit from 30% income tax relief as well as tax-free capital and income returns. Each of the Companies is seeking to raise up to £10 million under the Offers, the net proceeds of which will primarily be invested in a portfolio of unquoted companies.

The low risk approach reflected in the investment policy of the Companies (see below) should provide a regular income to fund the target dividend once the Companies are fully invested. An annual dividend of 10p per share is being targeted (once the fund is fully invested), which equates to a gross equivalent yield to a higher tax payer of approximately 13.3%. No target or projection is to be implied or inferred.

The Companies will be managed by Acuity Capital Management Limited, which specialises in investing in unquoted companies and manages companies with net assets valued in excess of £71 million (as at 31 March 2009, unaudited).

### The Opportunity

- The UK currently produces over 100m tonnes of organic material per year which has the potential to generate Biogas and renewable energy. The Government estimates that up to 20% of this organic material comes from the municipal sector (i.e. local authorities' waste collections), and the majority of such material is currently directed to landfill sites across the UK as waste. If Biogas from this waste was harnessed it could make a significant contribution towards meeting the UK's renewable energy targets for 2020.
- The EU Landfill Directive came into effect in 1999 requiring the UK to make significant reductions in the quantity of biodegradable municipal waste which is disposed of through landfill. Failure to meet the Landfill Directive targets will result in the UK facing substantial fines from the EU.
- As part of the drive to comply with the Landfill Directive, the Government established the Landfill Allowances Trading Scheme (LATS) in 2005. Under the scheme local authorities are allocated tradable allowances, and set landfill targets. A key feature of the scheme is that local authorities will face stiff penalties for failure to meet these targets.
- The UK Government has also set out higher national targets for the recycling and composting of household waste with targets of at least 40% by 2010, 45% by 2015 and 50% by 2020 and the recovery of municipal waste with targets of 53% by 2010, 67% by 2015 and 75% by 2020. As a result, this should require a significant increase in the number of AD and IVC plants in the UK.
- The UK Government is promoting AD as a key technology to help meet waste recycling and renewable energy targets for 2020. AD is an established technology widely used in continental Europe.
- In order to support the Landfill Directive the UK Government introduced a landfill escalator tax which will significantly increase the overall cost of landfill to ensure that waste recycling plants such as AD are competitively priced compared to landfill.
- The Investment Manager has selected Envar Limited, the waste management subsidiary of ADAS Group Limited ("ADAS") as the Preferred Operating Partner to the funds. It is expected that a significant proportion of the funds will be invested in operating sites sourced and managed by Envar.
- It is intended that each site in which the Companies invest will be underpinned by at least a 10 year plus supply contract with a local authority or an established company.
- Revenue for each site is expected to comprise income from gate fees (paid by the disposer of the waste per tonne of waste to be processed), the sale of compost and, in the case of AD (but not IVC) sites, the sale of electricity and ROCs.
- Given the potential demand in the market, and the existing commercial relationship with its Preferred Operating Partner, the Investment Manager expects to be able to invest a minimum of 70% of the funds raised through the Offers within twenty-four months of the close of the Offers.
- Due to the cash generative nature of the assets, the Investment Manager anticipates a substantial return of capital to Shareholders within seven years of the close of the Offers.
- The Investment Manager believes that the investment strategy of the Companies will result in Shareholders enjoying a significantly de-risked return on funds invested and the potential for substantial capital gains in the event that the assets attract a trade or private equity buyer.
- After the sixth anniversary of the funds the Investment Manager will seek to refinance the underlying assets to enable the return of capital and also provide an exit route to shareholders.

## Taxation Benefits to Investors (see Part II for further details)

The principal tax reliefs, which are available on a maximum investment of £200,000 per individual per tax year in the 2009/10 and 2010/11 tax years, are set out below:

- **Income tax relief at 30%** of the amount subscribed provided that the shares in the VCT are held for at least five years. It is not necessary for an Investor's marginal tax rate to be 30% in order for the Investor to obtain 30% income tax relief of the amount subscribed. Relief will be restricted to the amount which reduces the Investor's income tax liability to nil.
- **Tax-free dividends and capital distributions** from a VCT.
- **Capital gains tax exemption** on the disposal of eligible shares in a VCT.

The table below shows the effect of the initial tax relief:

Effect of Initial Income Tax Relief	
Cost of Investment	Pence per Share
Gross Investment	100.0p
30% income tax relief	(30.0p)
Net of tax cost of investment	70.0p
Initial Value of Investment	
Gross subscription by Investor	100.0p
Issue costs	(5.5p)
Initial NAV	94.5p
Initial "Uplift" (pence per Share)	+24.5p
Initial "Uplift" (%)	+35%

The table above shows that, assuming income tax relief is received at 30%, the Investor's net of tax cost of investment is 70p per Share and the initial NAV is 94.5p, an "uplift" of 24.5p per Share or +35%. Investors should note that they are required to hold the VCT Shares for at least five years and, as such, the initial uplift cannot be realised.

For an Investor able to use the full tax credit, the targeted annual dividend yield of 10 pence per Share is equivalent to an annual tax free dividend of approximately 14.3% on their net investment of 70p (which is 100p less 30% income tax relief).

**The above is only a summary of the tax position of Investors in VCTs and is based on the Companies' understanding of current law and practice. Potential Investors are recommended to consult their own independent professional adviser as to the taxation consequences of their investing in a VCT.**

## Investment Policy Investment Objectives

Each Company's objective is to maximise tax free capital gains and income to Shareholders from dividends and capital distributions by investing the Companies' funds in:

- a portfolio of Qualifying Investments (being investments which comprise qualifying holdings for a venture capital trust as defined in Chapter 4 Part 6 of the Income Tax Act 2007), primarily being in UK unquoted companies specialising in IVC and AD plant operations, or companies demonstrating similar investment characteristics; and
- in fixed income funds, securities and cash deposits

within the requirements imposed on VCTs.

### Investment Strategy

The Companies will seek to invest in investee companies that they believe are materially de-risked and will provide shareholders with a reliable source of tax free income. Companies will generally reflect the following criteria:

- a well defined business plan and ability to demonstrate strong demand for its products and services;
- products or services which are cash generative;
- objectives of management and shareholders which are similarly aligned;
- adequate capital resources or access to further resources to achieve the targets set out in its business plan;
- access to high calibre management teams; and
- be companies where the Manager believes there are reasonable prospects of an exit, either through a trade sale or flotation in the medium term.

### Asset Allocation

Each Company's investment policy is to focus on investing in lower risk Qualifying Companies whose performance is supported by established utilisation patterns or by long-term contracts with low risk customers, such as local authorities.

Each Company will invest approximately 90% of its funds in Qualifying Investments. Initially, whilst suitable Qualifying Investments are being identified, the funds will be invested in a mixture of fixed income funds, securities and cash deposits, with an emphasis on capital protection and maximising income yield. Such Non-Qualifying Investments (being investments made by the Companies which do not qualify as Qualifying Investments) will largely be made in "A" rated bonds issued by governments of the United Kingdom, or any other European country, major companies and institutions or similar "A" rated instruments. Progressively, this portfolio will be realised in order to fund

investments in Qualifying Investments.

Although under VCT legislation each of the Companies must have 70% of its funds invested in Qualifying Investments within 3 years, each Company intends to invest up to 90%. Accordingly, the Companies' maximum exposure to Qualifying Investments will be 90%. The Companies each intend to retain their remaining funds in Non-Qualifying Investments to fund the annual running costs of the Companies, to reduce the risk profile of the overall portfolio of their funds and to make investments which can be realised to fund any further investments in their investee companies.

It is expected that after investing 90% of funds raised in Qualifying Investments, each Company will have at least 6 investments (assuming full subscription) to provide appropriate diversification and risk protection, with a maximum investment in each Qualifying Investment of £2 million in any twelve month period. In any case, an investee company's gross assets will not exceed £7 million prior to investment to ensure compliance with VCT legislation. In relation to each Company, no single investment will at the time it is made represent more than 15% of the aggregate net asset value of its fund from time to time.

Type of Investment	Percentage of Net Assets	
	Initially	After 3 Years
Qualifying Investments	0%	90%
Fixed Income Securities and cash	100%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## Gearing

It is not intended that either Company will borrow. However, each Company will retain the power to borrow up to 25% of its net asset value.

## Risk Diversification

The structure of the Companies' funds, and their investment strategies, have been designed to reduce risk as much as possible.

The main risk management features include:

- portfolio of investee companies – the Companies will each invest in at least 6 different companies (assuming full subscription), thereby reducing the potential impact of poor performance by any individual investment;
- establishment of relationships with preferred operating partners – the Companies will establish such relationships to source a pipeline of IVC and AD plants for investee companies;
- monitoring of investee companies – the Investment Manager will closely monitor the performance of all the investments made by the Companies in order to identify any issues and to enable necessary corrective action to be taken;
- significant control over investee companies – the Companies will ensure that they have significant influence over the

management of the business of the investee companies, in particular, through rights contained in the relevant investment agreements and other shareholder/constitutional documents; and

- significant proportion of investments in fixed income funds, securities and cash deposits – a significant proportion of funds will be invested by the Investment Manager in this way. After the initial three year period, the objective is to keep approximately 10% of each Company's funds in such investments to reduce the overall risk profile of each portfolio.

## Change in Investment Policy

A material change in the investment policy of either Company will only be effected with shareholders' approval in accordance with the Listing Rules.

# In-Vessel Composting and Anaerobic Digestion Plants

## 1. Background

### Landfill Directive 1999

The Landfill Directive 1999 (1999/31/EC) came into effect on 16 July 1999 requiring significant reductions in the quantity of biodegradable municipal waste which is disposed of through landfill and prohibiting the disposal of hazardous and non-hazardous wastes in the same landfill. As part of the drive to comply with the Landfill Directive, the Government set mandatory recycling targets for local authorities. Set against a 1995 baseline, the Landfill Directive requires a reduction of 25% by 2010, 50% by 2013 and 65% by 2020. Failure to meet the Landfill Directive targets will result in the UK facing substantial fines from the EU. The UK Government's Report "*Waste Strategy for England 2007*" set out its key objectives which included "to meet and exceed the Landfill Directive diversion targets for biodegradable municipal waste in 2010, 2013 and 2020".

The Report also set out higher national targets for the recycling and composting of household waste with targets of at least 40% by 2010, 45% by 2015 and 50% by 2020 and the recovery of municipal waste with targets of 53% by 2010, 67% by 2015 and 75% by 2020.

The UK Government estimates that total waste produced in England is around 272 million tonnes per annum and that household waste represents 9% of the total or around 24 million tonnes. The UK Government estimated that in 2005/06 27% of municipal waste was recycled and composted. As stated in the report "*Waste Strategy for England 2007*", to achieve the targets set by the UK Government meant that an additional 7.2 million tonnes of biodegradable municipal waste needs to be recycled, composted, anaerobically digested or similarly treated by 2020. As a result, this will require a significant increase in the number of AD and IVC plants in the UK.

### *Landfill Escalator Tax*

In order to support the Landfill Directive the UK Government introduced a landfill escalator tax (currently £40 per tonne, rising by an additional £8 per tonne per annum in future years) which will significantly increase the overall cost of landfill to ensure that waste recycling methods such as AD are competitively priced compared to landfill. The primary purpose of the tax is to encourage the disposal of less waste to landfill, to recover more value from waste through recycling techniques such as composting and anaerobic digestion, and to stimulate moves to more environmentally friendly waste management methods. It is seen as the key driver of the UK's move away from using landfill disposal - and the main hope of meeting European waste targets under the Landfill Directive in 2010, 2013 and 2020. The 2009 Budget commented: "Landfill tax increases the price of waste sent to landfill, encouraging more sustainable ways of managing waste. The tax - working with other measures - has been successful with overall quantities of waste recorded at landfill sites registered for the tax falling by around 26%. The UK is on track to meet its 2010 targets under the Landfill Directive."

### *Landfill Allowances Trading Scheme (LATS)*

The Landfill Allowances Trading Scheme (LATS) was established in 2005 to encourage local authorities to reduce the amount of biodegradable municipal waste sent to landfill. Under the scheme local authorities were allocated tradable allowances and set landfill targets. A key feature of the scheme is that local authorities will face penalties of £150 per tonne for failure to meet these targets. To date, local authorities have been able to meet these targets through the establishment of waste recycling centres ("bring sites"), the separate collection of green waste and dry waste recycling. However, in order to meet the more stringent future targets the local authorities will have to address the collection of food waste from households and, hopefully, seek to use AD and IVC plants to turn this waste into compost.

### *Animal By-Products Regulation 2003*

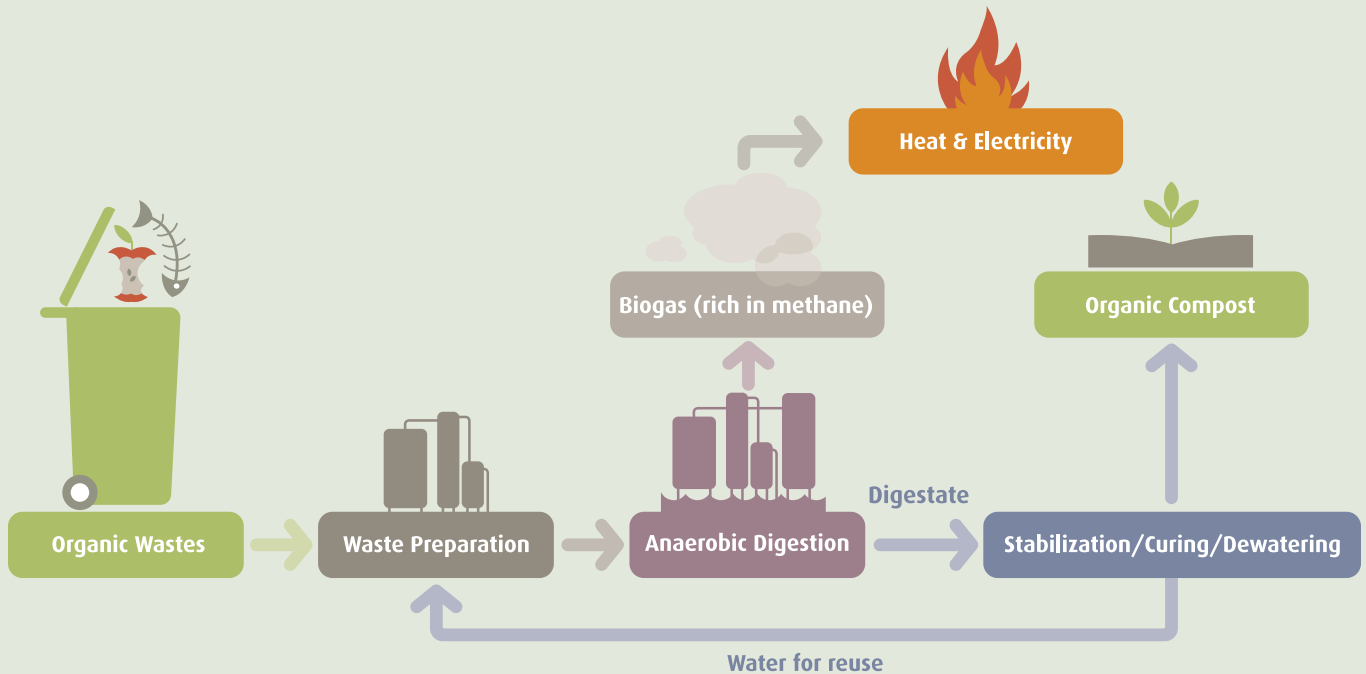
The EU Regulation concerning Animal By-Products became effective from 1 May 2003, and the Regulation came into force in England and Wales on 1 July 2003 introducing higher standards of treatment and banning the use of certain traditional methods for disposal. Given the outbreaks of human and animal disease which have focused attention on the safety of the food chain, the need to protect against pathogens, such as Salmonella, E. Coli 0157, and the need to protect against animal diseases, such as Foot and Mouth and Swine Fever, has become imperative in Government policy. It has become clear that traditional and current methods of disposal are unsafe and that organic wastes should be treated to a high standard so that they may safely be recycled to land. The EU Commission was therefore charged with preparing further implementing measures, including the approval of alternative disposal methods. The Regulation bans the disposal of animal by-products, including most food wastes to landfill. There was a transition period, after which certain former foodstuffs from retail, wholesale, distribution and manufacturing outlets has been banned from landfill and must be treated before application to land.

### *Municipal Solid Waste*

Municipal Solid Waste (MSW) is waste collected by or on behalf of a local authority. It comprises mostly household waste and it may include some commercial and industrial wastes. Historically, the quantity of MSW has risen year on year, presenting a growing problem for local authorities particularly as legislation, which limits the amount of mixed MSW that can be sent to landfill, becomes more stringent over time. One of the guiding principles for European and UK waste management has been the concept of a hierarchy of waste management options, where the most desirable option is not to produce the waste in the first place (waste prevention) and the least desirable option is to dispose of the waste to landfill with no recovery of either materials and/or energy. Between these two extremes there are a wide variety of waste treatment options that may be used as part of a waste management strategy to recover materials (for example furniture reuse, glass recycling or organic waste composting) or generate energy from the wastes (for example through incineration, or digesting biodegradable wastes to produce usable gases).

At present more than 62% of all MSW generated in England is disposed of in landfills. However, European and UK legislation has been put in place to limit the amount of biodegradable municipal waste (BMW) sent for disposal in landfills. The Landfill Directive also requires waste to be pre-treated prior to disposal. The diversion of this material is one of the most significant challenges facing the management of MSW in the UK. There are a wide variety of alternative waste management options for dealing with MSW to limit the residual amount left for disposal to landfill. These technologies include IVC and AD.

## 2. Anaerobic Digestion



Anaerobic Digestion (AD) is a biological process that happens naturally when bacteria break down organic matter in environments with little or no oxygen. It is effectively a controlled and enclosed version of the anaerobic breakdown of organic waste in landfill which releases methane.

AD is either a 'wet' process used for materials with moisture contents of more than 85% or a 'dry' process used for materials with moisture contents of less than 80%. Anaerobic processes require less energy input than aerobic composting and create much lower amounts of biologically produced heat. Additional heat may be required to maintain optimal temperatures but the Biogas produced contains more energy than is required i.e. the process is a net producer of energy.

Almost any organic material can be processed with AD, including waste paper and cardboard (where it is of too low a grade to recycle, e.g. because of food contamination), grass clippings, leftover food, industrial effluents, sewage and animal waste.

AD produces a Biogas made up of around 60% methane and 40% carbon dioxide (CO<sub>2</sub>). This can be burnt to generate heat and /or electricity, be sold into the gas supply grid or can be used as a vehicle fuel. Some clean up of the Biogas is required before it can be used to fuel a nitrogen cell and the same is the case before it can be sold into the National Gas grid. The UK Government is generally expected to issue a consultation paper by the end of 2009 on feed in tariffs for electricity, which are an alternative to ROCs as a means of providing Government financial support for renewable electricity.

As well as Biogas, AD produces a solid and liquid residue called digestate which can be used as a soil conditioner to fertilise land. It is expected that when this digestate is used as a soil conditioner it will comply with the PAS110 quality standard. The amount of Biogas and the quality of digestates obtained will vary according to the feedstock and the process used. More gas will be produced if the feedstock is putrescible, which means it is more liable to decompose. Sewage and manure yield less Biogas as the animal which produced it has already taken out some of the energy content.

AD is widely used across Europe, particularly in Germany where plants are currently used to recycle municipal and food manufacturing waste in significant quantities.

### 3. In-Vessel Composting (IVC)

Aerobic treatment (composting) technologies come in a range of designs. All systems are designed and engineered to control and optimise the biological stabilisation, sanitisation, and/or, in some cases, drying of biodegradable materials. These processes can last anywhere from a few days to 8 or more weeks depending on the degree to which the material is to be stabilised. Those that are all or predominantly enclosed, either in buildings and/or specifically designed vessels (e.g. tunnels, drums, or towers), are typically known as in-vessel composting (IVC). The techniques used to control the supply of oxygen required by the process are the mechanical agitation of waste (turning) and/or blowing or sucking air through the waste (forced aeration) offering differing levels of process control and automation.

Tunnel composting units are large-scale rectangular vessels employing forced aeration systems. They can be built as permanent structures constructed from concrete and steel, or more temporary using mobile concrete push walls and/or special fabrics stretched over steel frames. Tunnels may be single or double ended for loading and unloading, and may be fitted with retractable or opening roofs to help load or unload. Typically, composting tunnels are used to process materials in single batches (all-in/all-out), although some systems operate on a continuous flow using specially designed mechanical systems such as moving floors, rotating shafts, and augers, to move the material through the tunnel. Tunnels can be filled manually using wheeled loading shovels or using specialised filling equipment, such as conveyors. Aeration is achieved by blowing and/or sucking air through a slatted floor, perforated pipe-work cast into the tunnel floor, or special aeration channels on the tunnel floor. Oxygen and temperature are controlled by adjusting the amount of cool fresh air entering the tunnel, and the rate of air flow. Odorous gases are controlled by passing exhaust air through water and/or chemical air scrubbers, bio-filters, and thermal or ozone based oxidising units. Moisture may be controlled by pumping process water or fresh water through a spray bar positioned in the roof of the tunnel onto the material being processed.

### 4. AD versus IVC

The key driver to use AD over IVC is the production of Biogas which can be converted into electricity and the availability of Renewable Obligation Certificates (ROCs). The ROC system is a UK Government sponsored scheme designed to incentivise the generation of electricity from eligible renewable sources in the UK. The UK Government has granted double ROC's on electricity produced from AD in order to encourage the building of AD plants.

Revenue for each AD site is expected to comprise income from gate fees paid by the disposer of the waste (charged per tonne of waste to be processed), income from the sale of electricity and ROCs and the sale of compost. Of these, gate fees are likely to account for nearly 70% of the total income and are typically underpinned by guaranteed volume and fixed price (usually adjusted in line with RPI) long term contracts with local authorities or established companies. Most of the remainder of the income will be derived from the sale of electricity produced

by a plant and the related ROCs, with a small amount of income from the sale of compost. In the case of IVC which does not produce useable gas or electricity over 90% of the income is likely to arise from gate fees.

## Maximising Cash Returns to Shareholders

The Directors intend to maximise cash returns to Shareholders by operating, when appropriate, an active share buyback policy and by paying regular dividends (out of profits, where available).

### Share Buyback Policy

Subject to liquidity, the rules of the London Stock Exchange and applicable VCT regulations, and except in the first year after being established, it is intended that each of the Companies will make market purchases of its own Shares, up to a maximum number of Shares equivalent to 10% of the total number of issued Shares from time to time. The Boards intend to operate a policy of purchasing Shares in the market at a price equivalent to the Companies' most recently published NAV, at the time of purchase, less a discount of 15%.

Shareholders should note however that the Companies cannot buy Shares directly from Shareholders and that the implementation of a buy back policy through a market maker may result in the price paid by the Companies not being the same price as Shareholders are able to sell shares. This may result in some cases, for instance during a close period, in a price being offered which is materially below that of the Companies' most recently published NAV less a discount of 15%.

### Dividend Policy

A significant benefit of a VCT, not available to an investment trust company, is the ability to distribute realised capital gains. Taking full advantage of this benefit, the Directors intend to maximise the stream of tax-free dividend distributions, primarily from income arising from the investments and partly from the successful realisation of investments for cash. Initially, this will be achieved by each of the Companies being structured as an "investment company" for the purposes of the Acts, which enhances its ability to pay dividends out of income (initially from the Fixed Income Securities). Subsequently, when the Directors consider it appropriate to distribute accumulated net capital profits by way of dividend (for example, on the disposal of a successful equity investment), it is intended that investment company status will be revoked indefinitely to enable capital distributions to be made. A summary of the applicable VCT legislation is contained in Part II (Taxation) of this document.

It is envisaged that each of the Companies will distribute most of its net income each year by way of dividend, subject to liquidity, the rules of the London Stock Exchange and the Acts. It is intended that dividends will be paid once a year in January, the first dividend (if any) being payable in 2011. The Investment Manager is incentivised to maximise dividends, since only the lower level of Performance Incentive under the A Shares will be payable until Shareholders have received a minimum of 20p per

Share in Shareholder Proceeds (mainly being in the form of dividends), whereupon the higher level of Performance Incentive will be payable.

## The Investment Manager

Each Company's investments will be managed by the Investment Manager, Acuity Capital Management Limited, which was established in 1981 and is authorised and regulated by the Financial Services Authority.

The Investment Manager is the investment manager of three generalist venture capital trusts, Acuity VCT plc, Acuity VCT 2 plc and Acuity VCT 3 plc (together the "Acuity VCTs"), which have net assets in excess of £71 million (unaudited as at 31 March 2009).

The Investment Manager was established in 1981. Prior to completing a management buy-out in 2008, the Investment Management Team of the Investment Manager formed the smaller companies team within the Electra Partners Group, one of the longest established providers of private equity in the City of London. Electra Partners Limited retains a minority interest in Acuity Capital LLP, the 100% owner of the Investment Manager.

### Deal Flow

The Investment Manager has selected Envar Limited, the waste management subsidiary of ADAS, as its Preferred Operating Partner. ADAS, whose business was originally established over 36 years ago as a government agency and which was privatised in 1997, is one of the UK's largest independent environmental consultancies, providing services to both the public and private sectors. Since privatisation it has increased its focus on the waste management and organic waste recycling sectors through its Envar subsidiary. ADAS is chaired by a bio-energy and environmental expert, Dr Valentin von Massow. It is expected that a significant proportion of the funds will be invested in operating sites sourced and managed by Envar, which is chaired by William Elliott, who has over 20 years experience in the waste management industry and also sits on the Companies' Boards.

A significant part of Envar's business activity is identifying and negotiating suitable sites, projects and customer contracts for plants to be managed by it. As a result Envar has a strong pipeline of potential AD and IVC projects and contracts with local authorities and established companies for evaluation by the investment committee. The Investment Manager believes that the relationship with the Preferred Operating Partner will establish a platform for accelerated growth by its Preferred Operating Partner and for development of the Investment Manager's market position as a leading provider of finance to this market, allowing for the rapid deployment of the funds raised under the Offers.

### Investment Management Team

The Investment Management Team together has more than 35 years of experience in private equity investments, venture capital trusts and corporate finance. The team comprises the following individuals:

**Nicholas Ross** who joined Electra Partners in 1993 after several years in investment analysis and fund management. From 2001 onwards, he was responsible for the launch of the Acuity VCTs (formerly Electra Kingsway VCTs). He is Director of all three of the existing Acuity VCTs and he also sits on a number of investee company boards. Nicholas is a graduate of Nottingham University and holds associate examinations from the Institute of Investment Management and Research.

**Mark Speeks** who joined the Electra Quoted Management team in mid-2002. Mark is on the boards of a number of investee companies and prior to joining the Investment Manager, he worked for several years in the United States as Director of Acquisitions for a Fortune 500 company. Previously, he worked in corporate finance/M&A in London, Paris and New York with Panmure Gordon, Credit Commercial de France (CCF) and Charterhouse Bank. Mark holds a BA Hons degree from Exeter University and Master's degrees from both Oxford University and Yale University.

**Michael Kennedy** who joined the Electra Quoted Management Team in 2006. Michael was part of the start-up team managing the Capital Fund, the regional venture capital fund managed by YFM Group's London division. He gained his initial venture capital experience with 3i Group working on buyouts and technology investments. Previously, he has held a number of positions in Information Technology management with the consumer products business Unilever plc. Michael holds a BSc Hons Business degree from Imperial College, Wye.

### Investment Committee

The Investment Manager has an established investment committee for the Companies, which will meet regularly. The investment committee is required to approve all investments and disposals.

In addition to Nicholas Ross, Mark Speeks and Michael Kennedy, the investment committee includes independent members Hugh Mumford (who is also the chairman of the committee), Angela Lane and Tony Everett, whose details are set out below.

#### Hugh Mumford

Hugh joined Electra Partners in 1981 and has been its Managing Director since 1991. Following the management buy-out of Electra Partners from Electra Private Equity in 1999, he became the Chief Executive Officer of Electra Partners. He has represented Electra Partners on the boards of a number of private equity investments, and has chaired the Electra Partners' investment committee since 1989.

#### Angela Lane

Angela spent 18 years working in private equity at 3i having joined in 1989 after qualifying as an accountant at PwC. Her final role at 3i was as partner in 3i's Growth Capital business managing the UK portfolio. Angela has experience in a number of industries including business services (through the investment and eventual sale of Williams Lea the document services BPO provider), aviation (including the buyout and sale of Go-Fly) and consumer products through her advisory role on the sale of Organix Brands (the baby and toddler organic food company).

**Tony Everett**

Tony has a background as an entrepreneur and business owner and acts as a consultant to FF&P Private Equity. He is a non-executive director of Pendennis Shipyard, Sutton Harbour Holdings plc, Gloverman and UKRD Group Limited.

At least one of independent members of the investment committee must approve the investment or disposal before it can be effected by the Companies.

**Co-investment Arrangements and Conflicts of Interest**

The Directors of each Company consider that the ability of each Company to co-invest with the other Company and with other funds managed by the Investment Manager (all such companies and funds together being the “Acuity Companies”) is desirable as it will enable each Company to spread risk and participate in larger investments than those which it could undertake using only its own resources. Where a co-investment opportunity arises between the Acuity Companies, each Company will invest in an agreed and consistent proportion on the same terms and in the same securities as any other of the Acuity Companies. Any costs associated with any such investment will be borne by the relevant party pro-rata to its respective investment.

Each Company’s main co-investment relationship will be with the other Company and investments will generally be allocated between the two Companies on a pro-rata basis relating to the respective fund size, subject to each fund’s available cash resources.

The Investment Manager reserves the right to recommend to the Boards of the Acuity Companies the allocation of investments on a different basis from time to time. This may be required to ensure that each Acuity Company maintains status as an HMRC approved VCT, or in the interests of balancing their portfolios. A different basis may also be required to meet the requirements of potential investee companies.

Where an opportunity arises for investment in a second or subsequent round of a company in which each Acuity Company (as appropriate) has invested at an earlier stage, each of the Acuity Companies holding the existing investment will be treated as having a preferential right to take up any pro-rata entitlement that it may have in the new financing round (and the amount to be allocated according to above provisions will exclude any such entitlement to be taken up).

Any potential conflict of interest arising in connection with a proposed investment by one of the Companies and any of the other Acuity Companies will be first considered by a Risk and Conflict of Interest Committee established by the Investment Manager and then, if considered material by such committee, referred to the Boards of the Companies concerned.

In the event of a conflict of interest between the Investment Manager and any of the Acuity Companies, the matter shall be referred to the independent directors of the Acuity Companies for their determination. The independent directors are those directors who are independent of the Investment Manager.

The Articles prohibit a Director from voting at a meeting of the

Board on any matter in which he has, directly or indirectly, a material interest, save as described in paragraph 3(m) of Part IV of the Prospectus.

Where a potential conflict arises the Investment Manager, as a Financial Services Authority regulated entity, is bound by the relevant conduct of business sourcebook in relation to its dealings with each of the Companies.

## The Boards

### Directors

Each of the Companies has a highly experienced Board of three Directors, all of whom are non-executive and two of whom are independent of the Investment Manager. Nicholas Ross and Mark Speeks, who are also executives of the Investment Manager, will not vote on any matter at a board meeting or at a committee meeting of either Company where there is a conflict of interest with any of the other funds managed by the Investment Manager.

#### *Acuity Environmental VCT plc*

- David William Eades (Chairman)  
David is an experienced executive who has led businesses from start-up through to IPO. David is also non-executive Chairman of Brand Acquisitions and Loseley Dairy Ice Cream and a non-executive Director of Darwin Rhodes Group.
- William Elliott  
Bill is the Chairman of Envar Limited, a leading composting and food waste disposal company which is the Companies' Preferred Operating Partner. Bill has over 20 years experience in the waste management industry.
- Mark William Speeks  
Mark is a founding partner of the Investment Manager and has extensive experience in venture capital and corporate finance.

#### *Acuity Environmental VCT 2 plc:*

- Philip Henry Ling (Chairman)  
Philip is a non-executive Chairman of Fin Machine Company and a number of other smaller private companies. Past non-executive directorships have included Ibstock Johnsen plc, PE Consulting plc and Elderstreet Millennium VCT.
- William Elliott  
Bill is the Chairman of Envar, a leading composting and food waste disposal company which is the Companies' Preferred Operating Partner. Bill has over 20 years experience in the waste management industry.
- Nicholas Robert William Ross  
Nicholas is a founding partner of the Investment Manager, and has extensive experience in venture capital and investment management having worked at Electra partners since 1993.

### Investment by the Directors

- The Directors have committed to invest a total of £150,000 under the Offers.

### Practices and Operation

The Board of each Company is responsible for the overall control and management of that Company with responsibility for its

affairs, including determining its investment policy. However, investment proposals will be originated and decided on by the Investment Manager under the relevant Management and Administration Deed between each Company and the Investment Manager.

Each Board will meet regularly throughout the year (normally at least every four months), and all necessary information will be supplied to the Directors on a timely basis to enable them to discharge their duties effectively. Additionally, special meetings will take place or other arrangements will be made when Board decisions are required in advance of regular meetings. Each Company will operate within the Combined Code on Corporate Governance, save as set out below.

### Audit Committee

The audit committee of Acuity Environmental VCT is chaired by David Eades and its other member is William Elliott. The audit committee of Acuity Environmental VCT 2 is chaired by Philip Ling and its other member is William Elliott.

The audit committees are expected to meet not less than once a year. The Companies' auditors and the senior executives of the Investment Manager may attend and speak at audit committee meetings.

A summary of the terms of reference of each audit committee is as follows: the committee has responsibility for, among other things, the planning and reviewing of the relevant Company's annual and half-yearly financial statements and the supervision of its auditors in the review of such financial statements. The audit committee will focus particularly on the relevant Company's compliance with legal requirements, accounting standards, financial and regulatory reporting requirements, the Listing Rules and the Prospectus Rules and ensuring that effective systems for internal financial control and for reporting non-financial operating data are maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and half yearly statements will remain with the Board of the relevant Company.

### The Nomination Committee

The nomination committee of Acuity Environmental VCT is chaired by David Eades and its other member is William Elliott. The nomination committee of Acuity Environmental VCT 2 is chaired by Philip Ling and its other member is William Elliott.

The nomination committees are expected to meet on an ad hoc basis. The committees have responsibility for considering the size, structure and composition of the Boards, the retirement and appointment of Directors, and will make appropriate recommendations to the relevant Board in relation to these matters.

### Other matters

As the Companies do not have any employees, no remuneration committees have been formed. The Companies do not intend to appoint a senior independent director.

## Structure of the A Shares

To give effect to the Performance Incentive described below, each Investor will receive one Ordinary Share and one A Share at the following subscription prices:

- 99.9p for each Ordinary Share; and
- 0.1p for each A Share.

Management has been conditionally allotted 10,000,000 A Shares in each Company, at a price of 0.1p each. These A Shares will be unconditionally allotted and issued to Management in tranches, the issue of each tranche being conditional on the issue of a determined number of A Shares in each Company under the Offers to Shareholders who are not connected to Directors or Management. For example, 2,500,000 A Shares in each Company will be unconditionally allotted and issued to Management after 850,000 A Shares have been issued to Shareholders who are not connected to Directors or Management. A further 2,500,000 Management A Shares will, in aggregate, be issued to Management by each Company when 4,000,000, 9,000,000 and 14,000,000 A Shares have been issued by the relevant Company to such Shareholders. If the Offers are fully subscribed, in aggregate, 30,000,000 A Shares will be issued in the Companies, of which the 10,000,000 A Shares issued to Management will represent one-third of the total issued A Shares in the share capitals of the Companies. Likewise, if the Offers are fully subscribed, and the Directors exercise their discretion to increase the size of the Offers to the maximum permissible of 20,000,000 Ordinary Shares and 20,000,000 A Shares in each of the Companies, in aggregate, 60,000,000 A Shares will be issued in the Companies, of which the 20,000,000 A Shares issued to Management will represent one-third of the total issued A Shares in the share capitals of the Companies

At the close of the Offers, the proportion of Management's A Shares in excess of one-third of the issued A Shares in the share capitals of the Companies (if any) will be converted into worthless Deferred Shares. Therefore, after the close of the Offers, Management will own one-third of the issued A Shares in the share capitals of the Companies.

The holders of A Shares will be entitled to distributions equivalent to three times the Performance Incentive. Two-thirds of the distributions in respect of the A Shares will be allocated to Shareholders and one-third to the Management, which will result in Management receiving the level of Performance Incentive described below.

Since the A Shares are VCT qualifying, income tax relief is available at 30% of the amount subscribed (provided the A Shares are held for at least five years) and all gains and distributions can be made free of tax. Further details of the terms of the A Shares are set out in Part III of this document.

## Management Arrangements and Costs

### Annual Fees

The Annual Running Costs of each of the Companies are capped at 3.6% 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, any annual trail commissions payable and fees payable to the Sponsor (but will exclude any exceptional and extraordinary costs).

Under the terms of the Management and Administration Deed, the Investment Manager is paid by each of the Companies an administration fee of £60,000 per annum increased annually in accordance with the RPI (plus VAT, if appropriate) for administering each of the Companies, together with an annual investment management fee of 2.5%, payable quarterly in advance based on the Net Assets of each of the Companies.

All arrangement, syndication, monitoring or directors' fees payable in respect of an investment shall be retained by the Investment Manager for its own benefit. It is intended that the investment management fees payable by each of the Companies to the Investment Manager will be allocated at least 25% to revenue and up to 75% to capital, because this is in line with the Board's expectations of the long term returns to Shareholders.

The Management and Administration Deed is for a minimum period of six years and may be terminated by either each of the Companies or the Investment Manager at any time thereafter by one year's prior written notice and is subject to earlier termination in the event of, *inter alia*, either party committing a material breach (which is not remedied within a reasonable time) of such deed.

### Performance Incentive

As is customary in the venture capital industry, Management will be entitled to receive a performance-related incentive based upon returns to Shareholders. The amount of the Performance Incentive payable is based wholly on the NAV of the Shares in the Companies and on the payment of Shareholders Proceeds.

A lower level of Performance Incentive will arise until the Hurdle is achieved, whereupon a higher level of Performance Incentive will be payable.

### Split of Shareholder Proceeds

Shareholder Proceeds will be distributed as follows:

#### Shareholders

99% of the first 20p of Shareholder Proceeds (per Share) and, subject to the achievement of the Hurdle, 80% thereafter

### Management

1% of the first 20p of Shareholder Proceeds (per Share) and, subject to the achievement of the Hurdle, 20% thereafter

## The Offers

### The Offers

Ordinary Shares are being offered at 99.9p each and A Share are being offered at 0.1p each, and, therefore, for each 100p subscribed by Investors and accepted by the Companies, Applicants will be allocated one Ordinary Share and one A Share.

A maximum of 10 million Ordinary Shares, and 10 million A Shares, in each Company, which are being offered to the public, are being made available under the Offers in order to enable investment in both the 2009/10 and 2010/11 tax years. The Shares will be payable in full by cheque or bankers draft on application. Investors may post-date their cheques to 6 April 2010 for applications in respect of the 2010/11 Offer. In the event that applications are received in excess of the maximum subscription under the Offers, the Directors reserve the right to use their absolute discretion in the allocation of successful applications, giving priority to the earliest Applicants. If the Offers are over-subscribed, they may be increased at the discretion of the Directors to no more than 20 million Ordinary Shares, and 20 million A Shares, in each Company. Applicants are encouraged to submit their Application Forms early in order to be confident that their applications will be successful and to benefit from Additional Shares as set out on the front cover of this document. Multiple subscriptions by Investors are permitted.

The subscription list for both Offers will open on 20 November 2009 and may close at any time thereafter but in any event not later than 5.00 p.m. on 3 April 2010, in the case of the 2009/10 Offer, and not later than 5.00 p.m. on 28 May 2010, in the case of the 2010/11 Offers, unless previously extended by the Directors to a date no later than 18 November 2010. The result of the Offers will be announced to the London Stock Exchange through a Regulatory Information Service provider authorised by the Financial Services Authority. The Offers are not underwritten. Applications received and accepted by 31 December 2009 will attract Additional Shares equivalent to 2% of the amount subscribed by the Applicant under the Offers.

### Minimum and Maximum Subscription

The minimum investment per Applicant is £5,000. Applications in excess of £5,000 may be made for any higher amount in multiples of £1,000, subject to availability. The maximum investment per Applicant is £200,000 per tax year, since tax reliefs are available on a maximum investment of £200,000 per individual in any one tax year. A husband and wife can each invest up to £200,000 in any one tax year.

### Minimum Net Proceeds and Co-Capitalisation

The Offers will not proceed unless valid subscriptions amount to, in aggregate, not less than £2 million under the Offers when taken together, by 5.00 p.m. on 3 April 2010. If this minimum

level of applications is not reached, application monies which have been received will be returned without interest by cheque sent by post at the Applicant's risk to the address stated in the Applicant's Application Form.

The Directors may, at their absolute discretion, resolve not to launch both Acuity Environmental VCT and Acuity Environmental VCT 2 if either: (i) by 26 March 2010, valid applications received by the Companies are less than £10 million in aggregate; or (ii) at any time prior to 26 March 2010, the Directors believe, at their absolute discretion, that the Companies may receive less than £10 million of valid applications in aggregate by 26 March 2010. In either of these cases, an Applicant's application will be allocated solely to Acuity Environmental VCT and Shares will be allotted to Applicants by Acuity Environmental VCT only. If valid applications exceed £10 million in aggregate by 26 March 2010 or the Directors believe, at their absolute discretion and at any time prior to 26 March 2010, that more than this amount of valid applications may be received by 26 March 2010, then an Applicant's application will be divided equally between the Companies. It is intended that in such circumstances each Company will invest the same amount in each investment, so that they will have identical portfolios. It is, therefore, intended that realisations would also occur identically.

### Allotment, Admission and Settlement

Shares will be allotted and issued in respect of valid applications received for the 2009/10 Offer on 3 April 2010 and on any other dates (prior to 3 April 2010) on which the Directors decide. In respect of the 2010/11 Offers, Shares will be allotted and issued on 30 April 2010 (or such date as the Offers may be extended to) and on any other dates after 5 April 2010 on which the Directors decide.

Application will be made to the UK Listing Authority and the London Stock Exchange for the Shares issued and to be issued under the Offers to be admitted to the Official List of the UK Listing Authority and to be traded on the London Stock Exchange's main market for listed securities. The Shares will be issued in registered form and be transferable in both certificated and uncertificated form. No temporary documents of title will be issued. The Shares will rank for all dividends and other distributions declared, paid or made by each of the Companies thereafter. It is anticipated that dealings in the Shares will commence by within 10 business days of the issue of such shares.

Each Company will apply for the Shares issued and to be issued under the Offers to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Shares following Admission may take place within the CREST system if Shareholders wish. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so. Share certificates (where applicable) and certificates to enable a claim for income tax relief to be made in respect of Shares will be posted to Shareholders within 30 days of each allotment. Prior to despatch of definitive share certificates (where applicable), transfers (if any) will be certified against the register. CREST accounts will first be credited on the same day on which dealings in the Shares first commence.

The Offer may not be withdrawn after dealings in the Shares have commenced. In the event of any requirement for the Companies to publish a supplementary prospectus, subscribers who have yet to be entered into the Companies' registers of members will be given two days to withdraw from their subscription.

### Launch Costs and Commission

The Investment Manager will be paid an initial capital raising fee of 5.5% of the gross proceeds of the Offers (i.e. 5.5p per Share). The Investment Manager will be responsible for paying all the costs of the Offers including initial commissions payable to authorised financial advisers (on successful applications detailing their FSA number), and listing expenses. As the initial costs of the Offers are fixed at 5.5% of the gross proceeds, the net proceeds of the Offers will be 94.5p per Share and £9,450,000 at the maximum subscription for each Company (assuming that the size of the Offers are not increased at the discretion of the Directors).

Authorised financial advisers will be paid, by the Investment Manager out of its capital raising fees, an initial commission usually of up to 3% of the gross amount payable by the Applicant in respect of the Shares allotted under the Offers, in respect of all accepted applications which include the FSA number of the relevant authorised financial adviser, and, provided they continue to act for their client and their client continues to hold Shares, the Companies will pay an annual trail commission usually of 0.25% of the Net Assets of the relevant Company per Share in relation to each £1 payable by the Applicant in respect of the Shares allocated. This annual trail commission will be payable until the earlier of (i) 10 years from 31 January 2011, (ii) the Management and Administration Deed being terminated and (iii) the total trail commission payable equals 4.5% of the proceeds of the Offers. In respect of the Shares, this annual trail commission will first be paid by 31 January 2011 in respect of the financial period ending 30 September 2010 and annually thereafter. Authorised financial advisers may agree to waive part or all of their initial commission. In such circumstances, an Investor's application will attract an additional allotment of Shares at no greater cost to each of the Companies or the Investor and the commission waived will be used to satisfy the purchase price of such Shares. In the event that Investors are issued such shares, then the authorised financial advisers will no longer be eligible to receive annual trail commission.

## Other Information

### Duration of each of the Companies

Although it is intended that each of the Companies should have a limited life, Shareholders will be given the opportunity to review its future. Accordingly, the Articles contain provisions requiring the Directors to propose a resolution at each of the Companies' annual general meetings in 2020 or (if the Companies have not before the seventh annual general meeting of each of the Companies in 2017, paid or declared an aggregate amount of dividends or distributions of at least 100p per Share) in 2017, to seek confirmation from Shareholders that it should continue as a VCT and, if passed, *inter alia*, such a resolution will

be proposed at five yearly intervals thereafter (in the case of a vote passed in 2010), and in 2020 and at five yearly intervals thereafter (in the case of a vote passed in 2017). For such a resolution not to be passed, Shareholders holding at least 75% of the Shares then in issue must vote (in person or by proxy) against the resolution. If such a resolution to continue is not passed, the Directors will, within the following nine months, convene a general meeting at which new proposals for the voluntary liquidation, unitisation or other re-organisation of each of the Companies will be submitted to Shareholders, as is deemed appropriate at that time.

### Valuation of Investments

Valuation of listed investments and investments traded on AIM or other public stock markets will be stated at closing bid prices. Where quoted investments are subject to restrictions, an appropriate discount to the latest market price may be applied with regard to International Private Equity and Venture Capital ("IPEVC") valuation guidelines.

Unquoted investments are stated at the Directors' valuation. The Directors will value these investments in accordance with the IPEVC valuation guidelines.

Investments will be valued by each of the Boards on 31 December and 30 June of each year and these net asset values will be communicated to Shareholders through the Regulatory News Service. Each Company will also announce when there has been a major change to net asset value, for instance as a result of a disposal of an investment or if that Company undertakes a fundraising and needs to announce an interim valuation. The Directors do not anticipate any circumstances arising under which the calculation of the net asset value may be suspended.

### Reporting to Shareholders

Each of the Companies' annual report and accounts will be made up to 30 September in each year and will normally be sent to Shareholders in December. Each Company's first accounting period will end on 30 September 2010. Unaudited interim reports will normally be sent to Shareholders in May.

Shareholders may elect to receive this information by e-mail instead and, in that case, should ensure that their e-mail address is entered at the appropriate place on the Application Form. This financial information will also be available on the Companies' web site and released, where required, to the London Stock Exchange.

### Taxation and HM Revenue & Customs Approval

The Directors intend to conduct the affairs of each of each of the Companies so that it satisfies the conditions for approval as a VCT and that such approval will be maintained. HM Revenue & Customs has granted each of the Companies provisional approval under section 274 ITA as a VCT. Each of the Companies intends to comply with section 274 ITA and has retained PricewaterhouseCoopers LLP to advise it on VCT taxation matters.

### New Special Reserve

The Directors are aware of the possibility that the Shares may trade at a discount to their Net Asset Value at some point. The Directors consider that each Company should have the ability to purchase its Shares in the market (such shares to be automatically cancelled and not held in Treasury), subject to the provisions of the Listing Rules and the Acts, with the aim of reducing any discount and increasing the Net Asset Value of the remaining Shares. In the view of the Directors, the awareness of Investors that each Company has such a capability may tend to moderate the scale of any discount, which may emerge, and the action of buying in Shares should enable any such discount to be narrowed.

The Acts provide that a public company may only purchase its own shares out of distributable profits or out of the proceeds of a fresh issue of shares made for the purpose of the purchase. Subject to HM Revenue & Customs confirmation that such proposals will not adversely affect each Company's VCT status and Court approval, each Company intends to reduce its share premium account (created on the issue of the Shares pursuant to the Offers) by the amount standing to the credit thereof immediately following the issue of Shares pursuant to the Offers and to establish a new special reserve, which may be treated as a distributable profit, out of which purchases of Shares can be made. Further, Shareholder approval will not be required for these actions, as the necessary empowering resolutions were passed on 12 November 2009.

### Working Capital

Acuity Environmental VCT confirms that, based on the Minimum Net Proceeds being raised, the working capital available to it is sufficient for its present requirements, that is for at least 12 months following the date of this document.

Acuity Environmental VCT 2 confirms that, based on the Minimum Net Proceeds being raised, the working capital available to it is sufficient for its present requirements, that is for at least 12 months following the date of this document.

### Capitalisation and Indebtedness

Since the date of incorporation and as at the date of this document, neither of the Companies has incurred any indebtedness, whether guaranteed, unguaranteed, secured, unsecured, indirect or contingent. Each Company has the power to borrow, details of which are set out in paragraph 3(p) of Part IV.

The capitalisation of each Company as at the date of this document is as follows:

Shareholders' Equity	£
Share capital	12,500
Legal reserve	Nil
Other reserves	Nil
<b>Total</b>	<b>12,500</b>

## Category of Potential Investors

A typical Investor will be an individual (not a corporate), who is aged 18 or over and pays UK income tax who already has a portfolio of VCT and non-VCT investments such as unit trusts/OEICs, investment trusts and direct shareholdings in listed companies and may include retail, institutional and sophisticated investors and high net-worth individuals. The individual should be willing to invest over the medium to long term and be comfortable with higher risk investments.

**Before deciding whether to apply for Shares under the terms of the Offers you are recommended to consult a duly authorised independent financial adviser.**

## Forward looking Statements

You should not place undue reliance on forward-looking statements. This document includes statements that are (or may be deemed to be) "forward-looking statements", which can be identified by the use of forward-looking terminology including the terms "believes", "continues", "expects", "intends", "may", "will", "would", "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements contained in this document, based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future.

## Part II Taxation

### VCTs: Summary of the Applicable Legislation

#### 1. Approval

To obtain VCT status a company must be approved by HM Revenue & Customs as a VCT. HM Revenue & Customs has granted each of the Companies provisional approval under section 274 of ITA as a VCT.

To obtain full unconditional approval, the conditions summarised below have to be satisfied in relation to the accounting period of each of the Companies which is current when the application for approval is made, or in any event must be satisfied by no later than the beginning of the VCT's next accounting period and must continue to be satisfied throughout the life of the VCT:

- (i) the VCT's income must have been derived wholly or mainly from shares and securities (in the case of securities issued by a company, meaning loans with a five-year or greater maturity period);
- (ii) no holding in a company (other than a VCT or a company which would, if its shares were listed, qualify as a VCT) by the VCT may represent more than 15%, by value, of the VCT's total investments at the time of investment; and
- (iii) the VCT must not have retained more than 15% of the income derived from shares or securities in any accounting period.

The VCT must not be a close company. Its ordinary share capital must be quoted on the London Stock Exchange by no later than the beginning of the accounting period following that in which the application for approval is made.

The following conditions also have to be satisfied by no later than the beginning of the VCT's accounting period which commences no later than three years after provisional approval takes effect and must continue to be satisfied throughout the life of the VCT:

- (i) at least 70%, by value, of its investments is represented by shares or securities comprising qualifying investments; and
- (ii) at least 30%, by value, of its qualifying investments is represented by holdings of ordinary shares which carry no present or future preferential rights to dividends, return of capital or any redemption rights.

"Qualifying investments" comprise shares or securities (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) issued by unquoted trading companies which exist wholly or mainly for the purpose of carrying on one or more qualifying trades. The trade must be carried on by, or be intended to be carried on by, the investee company or a qualifying subsidiary at the time of the issue of the shares or securities to the VCT (and by such company or by

any other subsidiary in which the investee company has not less than a 90% interest at all times thereafter). 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. The definition of a qualifying trade excludes dealing in property, shares, securities, commodities or futures. It also excludes banking, insurance, receiving royalties or licence fees in certain circumstances, leasing, the provision of legal and accounting services, farming and market gardening, forestry and timber production, property development, shipbuilding, coal and steel production and operating or managing hotels, guest houses, nursing and residential care homes. The funds raised by the investment must be used for the purposes of the qualifying trade within certain time limits.

Qualifying investments are limited to investments of up to £1 million per investee company in any one tax year or in any six month period straddling two tax years. A qualifying investment can also be made in a company which is a parent company of a trading group where the activities of the group, taken as a whole, consist of carrying on one or more qualifying trades, one of which is carried on wholly or mainly in the United Kingdom. The investee company's gross assets must not exceed £7 million immediately prior to the investment and £8 million immediately thereafter. Neither the VCT nor any other company may control the investee company. At least 10% of the VCT's total investment in the investee company must be in ordinary non-preferential shares.

Companies whose shares are traded on AIM are treated as unquoted companies for the purposes of calculating qualifying investments. Shares in an unquoted company which subsequently become listed may still be regarded as a qualifying investment for a further five years following listing, provided all other conditions are met.

For funds raised after 5 April 2010, at least 70% by value of qualifying holdings must be in 'equity'. Legislation defining 'equity' is due to be introduced in Finance Bill 2010.

HM Revenue & Customs has confirmed that the Ordinary Shares and A Shares are both eligible VCT shares for the purposes of this section.

#### 2. Taxation of a VCT

VCTs are exempt from corporation tax on chargeable gains. There is no restriction on the distribution of realised capital gains by a VCT, subject to the requirements of company law. Each of the Companies will be subject to corporation tax on its income (excluding dividends received from UK companies) after deduction of attributable expenses.

#### 3. Tax Reliefs for Individual Investors Resident in the UK

Individuals who subscribe for Shares must be aged 18 or over to qualify for the tax reliefs outlined below.

##### *Relief from income tax*

An investor subscribing up to £200,000 in any tax year for Shares

in a VCT will be entitled to claim income tax relief on the investment, in the year in which the investment is made, at the rate of 30% for investments in the tax years 2009/10 and 2010/11, although this relief will be withdrawn if either the shares are sold within five years or an investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the investor's income tax liability to nil. However, tax credits on dividends are notional and cannot be repaid and, therefore, investors should take this into account when calculating the value of the income tax relief.

#### *Dividend relief*

An investor who subscribes for or acquires ordinary shares in a VCT will not be liable for UK income tax on dividends paid by the VCT in respect of investments of up to a maximum of £200,000 in any one tax year. Dividends carry a tax credit at the rate of one-ninth of the net dividend which is not repayable and which cannot be utilised in any other way. The income received by the VCT will usually constitute either interest (on which the VCT may be subject to tax) or a dividend from a UK company (on which the VCT would not be subject to tax). The VCT's income, reduced by the payment of tax (if applicable), can then be distributed tax-free to investors who benefit from this dividend relief.

#### *Capital gains tax relief*

A disposal by an individual investor of his shares in a VCT will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is also limited to disposals of shares acquired within the £200,000 limit described above.

#### *Loss of tax reliefs*

- (i) If a company which has been granted approval or provisional approval as a VCT subsequently fails to comply with the conditions for approval, VCT status may be withdrawn or treated as never having been given. The exemptions from corporation tax and capital gains will not apply to any gains realised by the VCT after this time.
- (ii) For investors, the withdrawal of VCT status may (depending upon the timing of such withdrawal) result in:
  - repayment of the 30% income tax relief on subscription for new VCT shares;
  - income tax becoming payable on payments of dividends by each of the Companies; and
  - a liability to tax on capital gains being suffered in the normal way on the disposal of shares in each of the Companies, except that any part of the gain attributable to the period for which the VCT was approved would be exempt.
- (iii) The consequences for investors in a company which never obtains full unconditional approval as a VCT are as follows:
  - repayment of the 30% income tax relief on subscriptions for new VCT shares and interest on overdue tax may arise;
  - income tax becoming payable on payments of dividends by each of the Companies; and
  - any gain arising on a disposal of the shares would be liable to capital gains tax and losses on the shares would be allowable losses for capital gains tax purposes.

## 4. Consequences of an Investor Dying or a Transfer of Shares Between Spouses

- (i) *Initial income tax*  
If an investor dies within five years of making an investment in a VCT, the transfer of shares on death is not treated as a disposal and, therefore, the initial income tax relief is not withdrawn. However, the shares will become part of the deceased's estate for inheritance tax purposes.
- (ii) *Tax implications for the beneficiary*  
Provided a number of conditions are met, the beneficiary of any VCT shares will be entitled to tax-free dividends and will not pay capital gains tax on any disposal, but will not be entitled to any initial income tax relief.
- (iii) *Transfer of shares between spouses*  
Transfers of shares in a VCT between spouses is not deemed to be a disposal and therefore all tax reliefs will be retained.

## 5. General

- (i) *Investors who are not resident in the UK*  
Non-resident investors, or investors who may become non-resident, should seek their own professional advice as to the consequences of making an investment in each of the Companies, as they may be subject to tax in other jurisdictions.
- (ii) *Stamp duty and stamp duty reserve tax*  
No stamp duty or (unless shares in a VCT are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax will be payable on the issue of such shares. The transfer on the sale of shares would normally be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months) stamp duty reserve tax generally, in each case at the rate of 50p for every £100 or part of £100 of the consideration paid. Such duties would be payable by a person who purchases such shares from the original subscriber.
- (iii) *Purchases in the market after listing*  
Any subsequent purchaser of existing Shares, as opposed to a subscriber for new Shares, will not qualify for income tax relief on investment but may benefit from dividend relief and from capital gains tax relief on the disposal of his Shares.
- (iv) *The VCT Regulations 2004*  
The VCT Regulations came into force on 17 September 2004. Under the VCT Regulations, monies raised by any further issue of shares by an existing VCT must be applied by that VCT for the purposes of investment which meets the 70% and 30% tests described in paragraph 1 above. These tests will be deemed not to have been met if any of the money raised (except for amounts which HM Revenue & Customs agrees are insignificant in the context of the whole issued ordinary share capital of the VCT) is used by the VCT to purchase its own shares.

## PART III

# Information on the A Shares

### Reasons for issuing A Shares

The A Shares provide a Performance Incentive to Management, the amount of the Performance Incentive being dependent on whether the Hurdle is achieved (see the section entitled "Performance Incentive" on page 28 of this document for further information).

### Allocation of Shareholders' subscriptions

Applicants will be allocated:

- one Ordinary Share at a price of 99.9p each; and
- one A Share at a price of 0.1p each.

In the event of further issues of Ordinary Shares after the close of the Offers (if the number of Shares made available under the Offers is increased by the Directors), the Directors intend to offer Management such number of further A Shares, such that they continue to hold one-third of the aggregate number of issued A Shares.

Both the Ordinary Shares and the A Shares will be listed and should qualify shares for VCT purposes.

### Management's holding of A Shares

Before the launch of the Offers, 10,000,000 A Shares in each Company were conditionally allotted to the Management, at a price of 0.1p each. These A Shares will be unconditionally allotted and issued to Management in tranches, the issue of each tranche being conditional on the issue of a determined number of A Shares in each Company under the Offers to Shareholders who are not connected to Directors or Management. (see the section entitled "Performance Incentive" on page 28 of this document for further information).

In the event that the Offers are fully subscribed, in aggregate, 30,000,000 A Shares will be issued by the Companies, of which the 10,000,000 A Shares issued to the Management will represent one-third of the total issued A Shares in the Companies. If the Offers are not fully subscribed, the proportion of Management A Shares in excess of one-third of the entire issued A Share capital in the Companies will be converted into worthless Deferred Shares. Likewise, if the Offers are fully subscribed, and the Directors exercise their discretion to increase the size of the Offers to the maximum permissible of 20,000,000 Ordinary Shares and 20,000,000 A Shares in each of the Companies, in aggregate, 60,000,000 A Shares will be issued in the Companies, of which the 20,000,000 A Shares issued to Management will represent one-third of the issued A Shares in the Companies.

Therefore, after the close of the Offers, the Management A Shares will represent one-third of the issued A Share capital of the Companies, irrespective of the amount raised under the Offers.

### Distributions of Shareholder Proceeds

Distributions of income and returns of capital (whether by way of reduction of capital or otherwise) shall be made on the following basis to the holders of Ordinary Shares and A Shares:

- Unless and until the Hurdle is met (i.e. there is a Performance Value of at least 120p per Share and the Shareholders have received Shareholder Proceeds of at least 20p per Share), distributions are made as to 97% to Ordinary Shares and 3% to A Shares (i.e. 1% in respect of the Management A Shares); thereafter
- distributions are made as to 40% to Ordinary Shares and 60% to A Shares (i.e. 20% in respect of the Management A Shares).

In relation to the A Shares, if the amount of any dividends on those shares would in aggregate be less than £5,000 per Company, or would be less than an amount being equivalent to 0.25p per A Share, then those dividends will not be declared and paid, but the funds relating to the dividend will be retained by each of the Companies and aggregated, with a dividend being declared and paid once either of those thresholds is reached. No interest will be paid on the funds prior to, or after, the declaration of such dividends.

## Part IV

# Additional Information

### 1. The Companies

- (a) The Companies were incorporated and registered in England and Wales on 19 October 2009 with limited liability as public limited companies under the 2006 Act with the names Acuity Protected Environmental VCT plc and Acuity Protected Environmental VCT 2 plc and with registered numbers 7049290 and 7049268 respectively. On 11 November 2009, the Companies changed their names to Acuity Environmental VCT plc and Acuity Environmental VCT 2 plc respectively.
- (b) On 12 November 2009, the Registrar of Companies issued the Companies with certificates under section 761 of the 2006 Act entitling them to commence business.
- (c) On 12 November 2009, the Companies gave notice to the Registrar of Companies of their intention to carry on business as investment companies under section 833 of the 2006 Act.
- (d) The Companies have not, since incorporation, been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any of the Companies are aware) which may have or have had a significant effect on each of the Companies' financial position.
- (e) The principal legislation under which each of the Companies operates, and under which the Ordinary Shares and A Shares have been created, are the Acts and the regulations made thereunder. The Companies are not regulated to conduct investment business under the Financial Services and Markets Act 2000.
- (f) The principal activity of each of the Companies is to operate as a VCT. The Directors confirm that, since the incorporation of each of the Companies on 19 October 2009, each of the Companies has not traded and no accounts have been prepared.

### 2. Share Capital and Shareholder Authorities

- (a) Each of the Companies was incorporated with an authorised share capital of £600,000 divided into 250,000,000 Ordinary Shares of 0.1p each, 300,000,000 A Shares of 0.1p each and 50,000 Redeemable Shares of £1 each, of which two Ordinary Shares were issued fully paid to the subscribers of each of the Companies, HK Registrars Limited and HK Nominees Limited.
- (b) By ordinary and special resolutions passed at a general meeting of each of the Companies' held on 12 November 2009:
  - (i) the Directors of each Company were generally and

unconditionally authorised in accordance with section 551 of the 2006 Act to allot shares up to a maximum nominal amount of £599,999.98, this authority to expire on the earlier of 15 months from the date of the resolution and the conclusion of each Company's first Annual General Meeting (unless previously revoked, varied or extended by the Companies in general meeting) but so that such authority allows each of the Companies to make offers or agreements before the expiry thereof which would or might require relevant securities to be allotted after the expiry of such authority;

- (ii) the Directors of each Company were empowered pursuant to section 570 of the 2006 Act to allot or make offers or agreements to allot equity securities (as defined in section 560(1) of the 2006 Act) for cash pursuant to the authority referred to in paragraph 2(b)(i) above as if section 561 of the 2006 Act did not apply to any such allotment during the period of such authority. This power is limited to:
  - (a) the allotment of up to 20,000,000 Ordinary Shares and 20,000,000 A Shares pursuant to the Offers
  - (b) the allotment of up to 10,000,000 Management A Shares;
  - (c) the allotment of equity securities pursuant to an offer of securities by way of rights issue;
  - (d) the allotment of up to 50,000 Redeemable Shares; and
  - (e) otherwise than pursuant to sub-paragraphs (a), (b), (c) or (d) above, the allotment of equity securities up to an aggregate nominal amount of 10% of the issued share capital of each class of share of each of the Companies immediately following the closing date of the Offers.
- (iii) each of the Companies was generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693(4) of the 2006 Act of its Ordinary Shares and A Shares which authority is limited to 10% of the issued share capital of each class of shares in the Companies at the closing date of the Offers.. The price paid must not be less than 0.1p per Ordinary Share or 0.1p per A Share nor more than 5% above the average of the middle market quotations of a share for the five business days immediately preceding the date on which the Share is contracted to be purchased. The authority, unless renewed or revoked prior to such time, expires on the earlier of 15 months from the passing of the resolution and the conclusion of the relevant Company's first Annual General Meeting;
- (iv) subject to approval by the High Court of Justice, each of the Companies was generally and unconditionally authorised the amount standing to the credit of the share premium account after the final closing of the Offers; and
- (v) each of the Companies adopted the Articles as their new articles of association.

- (c) So as to enable each of the Companies to obtain a certificate under section 761 of the 2006 Act, on 12 November 2009 the Investment Manager was allotted 50,000 Redeemable Shares of which one-quarter in nominal value was paid-up. The Redeemable Shares will be redeemed in full by each of the Companies out of the proceeds of the Offers and, thereupon, cancelled.
- (d) Save as disclosed above in this paragraph 2 and 5(d) below, since the date of its incorporation, no share or loan capital of either 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 commissions, discounts, brokerages or other special terms have been granted by either Company in connection with the issue or sale of any such capital except as disclosed herein. Neither of the Companies has any contingent liabilities.
- (e) No share or loan capital of either Company is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the Offers, no material issue of shares (other than to shareholders pro rata to existing holdings) will be made within one year without the prior approval of the respective Shareholders in general meeting.
- (f) As noted in paragraph (c) above, following the first allotment of Shares under the Offers it is intended that the Redeemable Shares will be redeemed in full. Pursuant to the 2006 Act, each of the Companies have (in the Articles adopted on 12 November 2009) dispensed with the need to have an authorised share capital.
- (g) Each of the Companies is subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of section 560 of the 2006 Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) will apply to any shares which the Companies propose to issue which are not subject to the disapplication referred to in sub-paragraphs 2(b)(ii) above.

### 3. Articles of Association of the Companies

The Articles of each Company are identical and contain provisions, *inter alia*, to the following effect:

- (a) **Limited Liability**  
The liability of the members of the Companies is limited to the amount, if any, unpaid on the shares held by them.
- (b) **Objects**  
The Articles provide that each of the Companies' principal objects are to carry on the business of a venture capital trust.
- (c) **Variation of Rights**  
Whenever the share capital of the Companies is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Acts and every

other statute for the time being in force concerning companies and affecting the Companies ("the Statutes"), be varied or abrogated in respect of the whole or any part of that class either (a) in such manner (if any) as may be provided by such rights or (b) in the absence of such provision with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class (but not otherwise). At every such separate meeting the necessary quorum shall be at least two persons present 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).

- (d) **Alteration of Share Capital**  
Each of the Companies may from time to time by ordinary resolution:
- (i) increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe; and
  - (ii) consolidate all or any of its share capital into shares of a larger amount than its existing shares.

Subject to the provisions of the Statutes, each of the Companies may by special resolution:

- (i) purchase any of its own shares (including any redeemable shares);
  - (ii) reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner; or
  - (iii) sub-divide its shares, or any of them, into shares of a smaller amount than is fixed by the Articles and by the same resolution may confer special rights on any of the shares resulting from the sub-division.
- (e) **Issue of Shares**  
The provisions of Section 561 of the 2006 Act (which, to the extent not disapplied pursuant to Section 570 of the 2006 Act, confer on Shareholders' rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to any shares which the Companies may issue under an authority passed by each of the Companies in general meeting, except to the extent disapplied by such Company in general meeting. Subject to the provisions of the Statutes relating to authority, pre-emption rights and otherwise and of any resolution of each of the Companies in general meeting passed pursuant thereto, all shares shall be at the disposal of the Directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

- (f) **Transfer of Shares**  
The shares are in registered form and are freely transferable. All transfers of shares must be effected by a transfer in writing in any usual form or any other form approved by the Directors. The instrument of transfer of a share shall be executed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of

the transferee. The Directors may refuse to register any transfer of a partly paid share, and may also refuse to register any instrument of transfer unless:

- (i) is lodged at the registered office or at such other place as the Directors may appoint and is accompanied by the certificate 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;
  - (ii) it is in respect of only one class of share;
  - (iii) the transferees do not exceed four in number; and
  - (iv) it does not relate to any shares in respect of which the relevant Company has a lien.
- (g) **Voting Rights of Ordinary Shares**  
Subject to any disenfranchisement as provided in the Articles and subject to any special terms as to voting on which any shares may be issued, on a show of hands every member present in person or by proxy (or, being a corporation present by a duly authorised representative) shall have one vote and, on a poll, every member present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder.
- (h) **Voting Rights of A Shares**  
The holders of A Shares shall not be entitled to vote at any meeting, save where the resolution put to the meeting of Shareholders is to amend any provision of the Articles relating to the rights of the A Shares or where a takeover offer has been made and remains open for acceptance.
- (i) **Redesignation of A Shares into Deferred Shares**  
On the final closing date of the Offers, any Management A Shares in excess of one-third of the total number of issued A Shares will be converted into and redesignated as Deferred Shares pro rata to each holder's respective holdings of A Shares. The Deferred Shares shall entitle the holders thereof to the following rights (subject to the following restrictions) in relation to their Deferred Shares:
- (i) as regards dividends, the holders of Deferred Shares shall not be entitled to any dividends or other distributions in respect of their holding of such shares;
  - (ii) as regards capital, on any winding up or on a return of assets on a liquidation, reduction of capital or otherwise, the holders of the Deferred Shares shall be entitled in respect of such shares to the nominal value in respect of such shares after the holders of the Ordinary Shares and A Shares shall have received £1,000,000 in respect of each such share held by them;
  - (iii) as regards voting, the holders of Deferred Shares shall not be entitled to receive notice of and attend general meetings and shall not be entitled to vote at such meetings in respect of such shares; and
  - (iv) the Deferred Shares shall be redeemable by the relevant Company at any time and on their redemption the holders thereof shall, subject to the provisions of the 2006 Act, be paid, in aggregate, 0.1p in respect of all Deferred Shares then in issue. The holders of the Deferred Shares shall promptly take all actions required by the relevant Company in relation to, or otherwise in connection with, any such redemption including,

without prejudice to the generality of the foregoing, the delivery of all share certificates in respect of such Deferred Shares to such person and at such time as directed by the relevant Company.

- (j) **Redemption provisions on Shares**  
There are no redemption provisions affecting the Shares.
- (k) **Rights attaching to the Redeemable Shares**  
Each of the Redeemable Shares carries the right to a fixed dividend of 0.1% per annum on the nominal amount thereof, but confers no right to vote except where the rights of the holders of those shares are to be varied or abrogated. On a winding-up the Redeemable Shares confer the right to be paid the nominal amount paid upon such shares. The Redeemable Shares are redeemable at any time by the relevant Company for a sum equivalent to the amount paid up on each share.
- (l) **Dividends**  
Each of the Companies may in general meeting by ordinary resolution declare dividends in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors. The Directors may pay interim dividends. No dividend or other monies payable in respect of a share shall bear interest against either Company. There are no fixed dates on which entitlement to a dividend arises. All dividends unclaimed for a period of twelve years after being declared or becoming due for payment shall be forfeited and shall revert to the relevant Company. Notwithstanding the above provisions, the profits of the relevant Company available for dividends and resolved to be distributed and any other distributions and reductions of share capital shall be applied in accordance with the respective rights of the Ordinary and A Shares as set out in Part III of this document.
- (m) **Directors' interests**  
A Director may hold any other office or place of profit except that of Auditor in conjunction with the office of Director and may act by himself or through his firm in a professional capacity to the Companies. Subject to the provisions of the Act, no such contract, arrangement, transaction or proposal entered into by or on behalf of the Companies in which any Director or person connected with him is in any way interested, whether directly or indirectly, shall be avoided, nor shall any Director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the relevant Company for any profit realised by any such contract, arrangement, transaction or proposal by reason of such Director holding that office or of the fiduciary relationship thereby established subject to the nature and extent of the Director's direct or indirect interest having been disclosed by him to the other Directors and authorisation being obtained from the Directors for the above in accordance with the provisions of the Act.

Save as set out in the Articles, a Director shall not vote in respect of any contract, arrangement, transaction or any other proposal whatsoever in which he has any direct or indirect interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or

through the relevant Company unless the Director has made a declaration disclosing the nature and extent of such interests and has obtained from the other Directors their authorisation for the above in accordance with the provisions of the Act. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

A Director shall (in the absence of some other material interest than is as indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

- (i) the giving of any security or indemnity to him in respect of monies lent or obligations incurred by him at the request of or for the benefit of the relevant Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the relevant Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares or debentures or other securities of or by the relevant Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (iv) any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he is not the holder of or beneficially interested in 1% or more of any class of the equity share capital of such company (or of a third company through which his interest is derived) or of the voting rights available to members of the company;
- (v) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which the relevant relates to both employees and Directors of the relevant Company or has been approved by or is subject to and conditional upon approval by HM Revenue & Customs for taxation purposes;
- (vi) any contract, arrangement, transaction or proposal concerning the adoption modification or operation of any scheme for enabling employees including full time executive directors of the relevant Company and/or any subsidiary to acquire shares of such Company or any arrangement for the benefit of employees of such Company or any of its subsidiaries under which the Director benefits in a similar manner to employees and which does not accord to any Director as such any privilege not accorded to the employees to whom the scheme relates; and
- (vii) any arrangement for purchasing or maintaining for any officer or auditor of the relevant Company or any of its subsidiaries insurance against any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, breach of duty or breach of trust for which he may be guilty in relation to such Company or any of its subsidiaries of which he is a director, officer or auditor.

A Director shall not vote or be counted in the quorum on any resolution concerning his own appointment as the holder of any office or place of profit with the relevant Company or any company in which such relevant Company is interested including fixing or varying the terms of his appointment or the termination thereof.

Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the relevant Company or any company in which the relevant Company is interested, such proposals shall be divided and considered in relation to each Director separately and in such cases each of the Directors concerned (if not otherwise debarred from voting) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

(n) Remuneration of Directors

The ordinary remuneration of the Directors (other than an executive director appointed under the Articles) shall not exceed £100,000 per year, to be divided among them in such proportions and manner as the Directors may determine (and any additional amount as is approved by the relevant Company in general meeting). The Directors shall also be paid by the relevant Company all travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.

Any Director who, by request of the Directors, performs special services or goes on any special journey for any purposes of the relevant Company may be paid such extra remuneration as the Directors may determine.

The emoluments and benefits of any executive director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants or, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependant on or after retirement or death.

(o) Retirement of Directors

At the annual general meeting of the relevant Company next following the appointment of a Director he shall retire from office. A Director shall also retire from office at or before the third annual general meeting following the annual general meeting at which he last retired and was re-elected. A retiring Director shall be eligible for re-election.

## (p) Borrowing Powers

(i) Subject as hereinafter provided and to the provisions of the Statutes, the Directors may exercise all the powers of each of the Companies 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 each of the Companies or of any third party.

(ii) The Directors shall restrict the borrowings of each of the Companies so as to secure that the aggregate amount at any one time owing or deemed to be owing by each of the Companies in respect of moneys borrowed without the previous sanction of an ordinary resolution of each of the Companies shall not exceed an amount equal to 25% of the relevant Company's net asset value.

## (q) Disclosure of interests in shares

If any member or other person appearing to be interested in shares of the relevant Company is in default in supplying within 28 days (or, if the shareholding is at least 0.25% of the share capital, 42 days) after the date of service of a notice requiring such member or other person to supply to such Company in writing all or any such information as is referred to in Section 793 of the Act, the Directors may, for such period as the default shall continue, impose restrictions upon the relevant shares. The restrictions available are the suspension of voting and rights of attendance at meetings of the Companies in respect of the relevant shares and, additionally, in the case of a shareholder representing at least 0.25% by nominal value of any class of shares of the relevant Company then in issue the withholding of payment of any dividends on and the restriction of transfer of the relevant shares.

## (r) Distribution of assets on liquidation

On a winding-up of either of the Companies any surplus assets will be divided amongst the holders of the shares in accordance with the respective rights of the Ordinary Shares and A Shares. The Articles provide that the liquidator may, with the sanction of a special resolution and any other sanction required by the Act, divide amongst the members in specie the whole or any part of the assets of each of the Companies in such manner as he may determine.

## (s) Duration

If the Companies have not, prior to the circulation of the relevant notice to shareholders to the seventh annual general meeting of each of the Companies following admission of the Shares to the Official List, paid or declared an aggregate amount of dividends or distributions of at least 100p per Share, then the Directors shall put an ordinary resolution to that general meeting, proposing that each of the Companies should continue as a venture capital trust for a further three year period. In any case, the Directors shall put such a resolution to the tenth annual general meeting of each of the Companies (and, if passed, to every fifth subsequent annual general meeting). For such a resolution not to be passed, a majority of Shareholders

voting holding in aggregate at least 75% of the Shares 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 each of the Companies for submission to the members of each of the Companies at a general meeting to be convened by the Directors for a date not more than nine months after such annual general meeting. Implementation of the proposals will require the approval of members by special resolution.

## (t) Investment Company Status

At any time when each of the Companies 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 each of the Companies' capital profits (within the meaning of section 833(2)(c) of the 2006 Act) shall be prohibited, except for the purpose of redeeming or purchasing its own shares in accordance with the 2006 Act, 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 2006 Act, the Directors may determine whether any amount received by each of the Companies 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 Act, any expenses, loss or liability (or provision therefor) 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 each of the Companies or be regarded or treated as profits of each of the Companies available for distribution (as defined by Section 829(1) of the 2006 Act), except for the purpose of redeeming or purchasing its own shares, or be applied in paying dividends on any shares in each of the Companies. 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 each of the Companies or be regarded or treated as profits of each of the Companies available for distribution or applied in paying dividends on any shares in each of the Companies.

## (u) Calling of general meetings

An annual general meeting shall be held within six months of the financial year end. The Directors may, whenever they see fit, and shall on requisition in accordance with statute,

proceed with proper expedition to convene a general meeting.

Subject to the Acts, an annual general meeting shall be called by at least 21 clear days' notice in writing, and any other general meeting shall be called by at least 21 clear days' notice by the relevant Company unless, in either case, it is proposed to pass a resolution for which special notice has to be given by the relevant Company, in which case 28 days' notice is required. Notice shall be given to all members, other than those who are not entitled under the Articles to receive notice, to the Directors and to 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% 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 include a prominent statement that a member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of the relevant Company.

In the case of any general meeting at which businesses other than routine business is to be transacted, the notice shall specify the general nature of such business. The notice shall say whether any resolution is to be proposed as a special resolution. In the case of an annual general meeting, the notice shall also specify the meeting as such. "Routine business" shall include only business transacted as an annual general meeting of the following classes; declaring dividends; receiving and/or adopting the accounts, the reports of the directors and auditors and other documents required to be attached or annexed to the accounts; appointing or re-appointing directors to fill vacancies arising at the meeting on retirement whether by rotation or otherwise; reappointing the retiring auditors (other than auditors last appointed otherwise than by the relevant Company in general meeting); and fixing the remuneration of the auditors or determining the manner in which such remuneration is to be fixed.

#### 4. Directors' and Others' Interests in each of the Companies

- (a) DTR 5 of the Disclosure and Transparency Rules requires a Shareholder to notify the relevant Company of the percentage of its Shares he holds if such percentage reaches, exceeds or falls below 3% or subsequent 1% thresholds. The relevant Company will make such information public through a Regulatory News Service. The Directors are not aware of any person, not being a director or a member of Management, who, as at the date of this document, is or will, directly or indirectly, be interested in 3% or more of the issued share capital of each of the Companies, or who, directly or indirectly, jointly or severally, exercises or could exercise control over any of the Companies.
- (b) Following the Offers, the interests (all of which are beneficial) of the Directors and their connected persons in the issued Shares which are known to, or could with reasonable diligence be ascertained by, the Directors, will be as follows:

Name	Number of Shares held <sup>1</sup>		Fee per annum (£)	Percentage of issued issued share capital <sup>1</sup>	
	Ordinary Shares	A Shares		Ordinary Shares	A Shares
<b>Acuity Environmental VCT</b>					
<i>David Eades</i>	-	-	15,000	-	-
<i>William Elliott</i>	-	-	15,000	-	-
<i>Mark Speeks</i> <sup>3a</sup>	25,000	1,375,000 <sup>2</sup>	-	0.25	9.2
<b>Acuity Environmental VCT 2</b>					
<i>Philip Ling</i> <sup>3b</sup>	25,000	25,000	15,000	0.5	-
<i>William Elliott</i>	-	-	15,000	-	-
<i>Nicholas Ross</i> <sup>3c</sup>	25,000	1,225,000 <sup>2</sup>	-	0.25	8.2

1 Assuming full subscription under the Offers (with no extension to the size of the Offers)

2 Included within this figure for Mark Speeks is 1,350,000 Management A Shares (representing 27% of the total Management A Shares in issue), and for Nicholas Ross is 1,200,000 Management A Shares (representing 24% of the total Management A Shares in issue)

3 Assuming full subscription under the Offers (with no extension to the size of the Offers):

- Mark Speeks will hold 25,000 Ordinary Shares and 1,375,000 A Shares in Acuity Environmental VCT 2 (the comments in note 2 above apply equally to his holding of A Shares in Acuity Environmental VCT 2 as well);
- Philip Ling will hold 25,000 Ordinary Shares and 25,000 A Shares in Acuity Environmental VCT; and
- Nicholas Ross will hold 25,000 Ordinary Shares and 1,225,000 A Shares in Acuity Environmental VCT (the comments in note 2 above apply equally to his holding of A Shares in Acuity Environmental VCT as well).

Save as disclosed in this paragraph, none of the Directors or their connected persons have any interests, whether beneficial or non-beneficial, in the share capital of either Company which are known to, or could with reasonable diligence be ascertained by, the Directors.

- (c) Each of the Directors has entered into an agreement with each Company of which he is a director, a copy of which is available for inspection at the address set out in paragraph 10 below, for the provision of their services as directors for the fees disclosed in paragraph 4(b) above. These agreements were entered into on 19 November 2009 between the appropriate Company and each of the Directors of that Company. The agreements remain in force for 3 years or until the first of the following occurs (whichever is earliest): (i) the Director is not reappointed by Shareholders following his retirement at any time in accordance with the Articles; (ii) the Director is otherwise removed as a director pursuant to the law, the Listing Rules or the Articles; (iii) the Director resigns or does not offer himself for re-election by Shareholders; (iv) the relevant Company or the Director terminates the appointment by giving three months' written notice; or (v) the relevant Company fails to raise the minimum subscription of £1,000,000 under the Offers . There are no commission or profit sharing arrangements and no compensation is payable on termination of the agreement. None of the Directors has a service agreement with the Companies.
- (d) No loan or guarantee has been granted or provided by any of the Companies to any Director.
- (e) Mark Speeks and Nicholas Ross are directors of the Investment Manager, which is a party to the contracts details of which are summarised in paragraphs 5(a) and 5(b) below, copies of which are available for inspection at the address set out in paragraph 10 below. Mark Speeks and Nicholas Ross will not vote on any Board matter where they have a conflict of interest. William Elliott is a director of Envar Limited, the Companies' Preferred Operating Partner, which will be a party to various contracts (including management contracts) with investee companies of the Companies in the future. William Elliott will not vote on any Board matter where he has a conflict of interest.
- (g) No remuneration or benefits are, to date, payable to the Directors, and no amounts have been set aside by either Company for pensions, retirement or similar benefits. It is estimated that the aggregate fees payable to the Directors by each of the Companies for the year ending 30 September 2010 will not exceed £30,000 plus VAT (where applicable).
- (h) Each of the Companies has taken out directors' and officers' liability insurance for the benefit of the Directors and the Secretary.
- (i) The following are directorships (unless otherwise stated) and partnership (including limited liability partnership) interests currently held by the Directors, or held in the five year period prior to the date of this document, and the principal activities of the Directors outside the Companies where these are significant with respect to the Companies:

Save as disclosed in this paragraph, no Director has an interest in any transaction effected by any of the Companies since its incorporation, which is or was unusual in its nature or conditions or significant to the business of any of the Companies.

- (f) Except as stated in paragraph 4(e) above, as at the date of this document, the Directors are not aware of any potential conflicts of interests between their duties to the Company of which they are a Director and their private interests or other duties. There are no family relationships between the Directors as at the date of this document.

## Current Directorships

### David William Eades

Metis (UK) Limited  
DKE Management & Financial Limited  
Metis (South) Limited  
Metis Holdings Limited  
Darwin Rhodes Group Limited  
The Completely Digital Design Company Limited  
Brand Acquisitions Limited  
Hummus Brothers Limited  
Loseley Dairy Ice Cream Limited  
Pink Soda Limited  
The Three Landlords Limited  
Galileo Limited  
Skaramoosh (London) Limited

### William Elliott

Show Presentation Services Limited (in administration)  
Renewable Green Energy Limited  
Sanastro Limited  
Envar Composting Limited  
Envar Limited  
EER (UK) Limited  
Acuity Business Services Limited  
Acuity Energy Limited  
Acuity Manufacturing Limited  
Acuity Rights Limited  
Acuity Support Services Limited  
Financial News Publishing Limited

### Philip Henry Ling

Roffey Park Institute Limited  
PHL Services Limited  
Renishaw Properties Limited  
CPL Plastics Limited  
Bond Industries Limited  
Cherry Tree Machines Limited  
Gencil Cyroma Limited  
Spiritbond Student Housing Limited  
PHL Property Services Limited  
South Wales Shower Supplies Limited  
Ensign Communications Limited  
Metal Closures (Huddersfield) Limited  
FIN Holdings Limited  
The FIN Machine Company Limited

## Previous directorships

Solcara Limited  
Skaramoosh Limited

Westerleigh Crematoria Limited  
A.K. Lander Limited  
Cemetery & Crematorium Services Limited  
Cemetery Management Limited  
Forest Park Cemetery and Crematorium Limited  
New Southgate Cemetery and Crematorium Limited  
Crematoria Management Limited  
Next Environmental Services Limited  
Torbay Cemetery and Crematorium Limited  
Westerleigh Group Limited  
Environmental Waste Controls Limited  
Fernwood Waste Recycling Limited  
Conquest Business Media Holdings Limited (in insolvent liquidation)  
Red Reef Media Limited  
NBH Limited  
NBH Group Limited  
Shipton Energy Limited  
Environmental Powders Limited  
Retrac Recycling Limited  
Show Presentation Services (Holdings) Limited (in administration)  
Giles Elliot Associates Limited  
Kingsway Business Services Limited (dissolved)  
Kingsway Generalist Limited (dissolved)  
Kingsway Media Limited (dissolved)  
Kingsway Retail Limited (dissolved)  
Kingsway Software Limited (dissolved)  
Cruscade Limited (dissolved)

Elderstreet Millennium Venture Capital Trust PLC  
Adflash Limited  
Superblend Limited  
Faucets (Northern) Limited  
Faucets Limited

## Current Directorships

**Nicholas Robert William Ross**

Acuity Capital LLP  
 Acuity Capital Management Limited  
 Acuity VCT PLC  
 Keycom PLC  
 Keycom (Employee Benefit Trust) Limited  
 Hallmarq Veterinary Imaging Limited  
 Acuity VCT 2 PLC  
 Acuity VCT 3 PLC  
 Electra Partners Pension Trustees Limited  
 Kingsway Private Equity Services Limited  
 Fin Holdings Limited  
 The Fin Machine Company Limited  
 Acrobat Music Group Limited  
 Future Noise Music Limited  
 NEA Investments LLP

## Previous directorships

Loseley Dairy Ice Cream Limited  
 Synctwin Limited  
 D J N Engineering Limited  
 FM Fabrications Limited  
 HTC Healthcare Limited

**Mark William Speeks**

Acuity Capital Management Limited  
 Acuity Business Services Limited  
 Acuity Energy Limited  
 Acuity Manufacturing Limited  
 Acuity Rights Limited  
 Acuity Support Services Limited  
 Defaqto Group Limited  
 Munro Global Limited  
 Factory Media Limited  
 Financial News Publishing Limited  
 Acuity Capital LLP  
 Red Reef Media Limited

Sanastro Limited  
 P.I.E Enterprises Limited  
 Kingsway Generalist Limited (dissolved)  
 Kingsway Media Limited (dissolved)  
 Kingsway Publishing Limited (dissolved)  
 Kingsway Retail Limited (dissolved)  
 Kingsway Software Limited (dissolved)

- (j) Save as disclosed in paragraph 4(i) above, none of the Directors has, in the five years prior to the date of this document:
- (i) had any convictions in relation to fraudulent offences;
  - (ii) been declared bankrupt or made any individual voluntary arrangements with creditors;
  - (iii) been a director with an executive function of any company which has been involved in 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 of any company;
  - (iv) been a partner of any partnership which has been involved in compulsory liquidation, administration, or partnership voluntary arrangement;
  - (v) been subject to the receivership of a personal asset or a partnership asset where he was a partner;
  - (vi) been subject to any public criticism by statutory or regulatory authorities (including designated professional bodies); or
  - (vii) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## 5. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, are all of the contracts that have been entered into by the Companies since the date of their incorporation and which are, or may be, material, or which have been entered into by the Companies and which contain any provisions under which the Companies have any obligations or entitlements which are material to the Companies as at the date of this document:

- (a) An agreement (the "Management and Administration Deed") dated 19 November 2009 between each of the Companies and the Investment Manager whereby the Investment Manager will provide investment management services to each of the Companies in respect of its portfolio of Qualifying Investments as well as its portfolio of Fixed Income Securities. The Investment Manager will receive a fee equal to 2.5% per annum of the Net Assets of each of the Companies. These fees will be payable quarterly in advance. In addition, the Investment Manager will provide or procure the provision of certain administration services to each of the Companies for an annual fee of £60,000 increased annually in accordance with the RPI (plus VAT). The Annual Running Costs of each of the Companies are capped at 3.6% of its Net Assets; any excess will either be paid by the Investment Manager or refunded by way of a reduction to its fees.

The Management and Administration Deed is for a minimum period of six years terminable by either party at any time thereafter by one year's prior written notice and subject to earlier termination in the event of, *inter alia*, a party committing a material breach of the Management and Administration Deed (which is not remedied within a 30 day period). In relation to company secretarial and administration services, the Management and Administration Deed contains provisions indemnifying the Investment Manager against any liability as a result of any negligence, fraud or breach any laws or regulations (including the Financial Services and Markets Act 2000) which is not due to its own act(s) of negligence.

- (b) An agreement dated 19 November 2009 between the Companies, the Directors, the Investment Manager and Howard Kennedy (the "Offer Agreement") whereby the Investment Manager agrees to pay all of the costs and expenses of the Offer (other than the subscription monies on Additional Shares and annual train commissions to authorised financial advisers) for a commission on the gross proceeds of the Offer of 5.5p per Share. Howard Kennedy has agreed to act as sponsor to the Companies. The Companies, the Directors and the Investment Manager have given customary representations and warranties to, and in the case of the Companies alone, a joint indemnity, to Howard Kennedy. The liability of the Directors and Investment Manager under the representations and warranties is limited to £20,000 per Director, and £1,000,000 in the case of the Investment Manager. There are no value or time limits attached to the indemnity other than the statutory limit of six years. Howard Kennedy may terminate the Offer Agreement at any time prior to

Admission if it becomes aware of any material breach of warranty prior to Admission.

- (c) By letters dated 19 November 2009 each of the Directors agreed to act as non-executive directors of the Companies on the terms set out at paragraph 4(c) of this Part IV.
- (d) Subject to the Listing Rules and other regulations, Philip Ling, Mark Speeks and Nicholas Ross have committed to invest a total of £150,000 under the Offers pursuant to irrevocable undertakings. In addition, on 19 November 2009 members of Management were conditionally allotted 10,000,000 Management A Shares in each Company at a price of 0.1p each. These A Shares in each Company will be unconditionally allotted and issued to Management in tranches, the issue of each tranche being conditional on the issue of a determined number of A Shares in each Company under the Offers to Shareholders who are not connected to Directors or Management. 2,500,000 of these A Shares will be unconditionally allotted and issued to Management after 850,000 A Shares in each Company have been issued to such Shareholders. A further 2,500,000 Management A Shares will, in aggregate, be unconditionally allotted and issued to Management by each Company when 4,000,000, 9,000,000 and 14,000,000 A Shares have been issued by the relevant Company to such Shareholders.

## 6. General

- (a) The principal place of business and registered office of each of the Companies is at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB. None of the Companies has, nor has it had since incorporation, any employees. None of the Companies has any subsidiaries or associated companies.
- (b) Acuity Capital Management Limited was incorporated in England and Wales on 28 August 1981 as a private company under the Companies Act 1985 with registered number 1583260. Its registered office is Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB (telephone number 7306 3901). The Investment Manager is authorised by the Financial Services Authority to conduct investment business.
- (c) The Offers are sponsored by the Sponsor, which is authorised and regulated by the Financial Services Authority, and whose principal place of business is at 19 Cavendish Square, London W1A 2AW.
- (d) There has been no significant change in the financial or trading position of either Company since their incorporation.
- (e) The Offer Price represents a premium of 99.8p over the combined nominal value of an Ordinary Share and an A Share and is payable in full in cash on application. No expenses are specifically charged to any Investor.
- (f) Moore Stephens LLP of St Paul's House, Warwick Lane, London EC4M 7BP, member of the Institute of Chartered Accountants of England and Wales, have been the only registered auditors of each of the Companies since their incorporation.

- (g) A detailed description of the investment policy which will be pursued by each of the Companies is set out in Part I under the heading "Investment Policy". Each 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 this published investment policy. The investment policy is in line with Chapter 15 of the Listing Rules and Part 6 ITA and the Companies will not deviate from it. A material change in the investment policy of either Company will only be effected with shareholders' approval in accordance with the Listing Rules. Each Company is subject to various rules and regulations in order to continue to qualify as a VCT, as set out in paragraph 1 of Part II of this document. Any material breach of the investment policy or such rules and regulations will be notified to Shareholders through the Regulatory News Service. The Companies will not conduct any trading activity. No more than 10%, in aggregate, of the value of the total assets of each VCT at the time an investment is made may be invested in other listed closed-ended investment funds, except where those funds have themselves published investment policies which permit them to invest more than 15% of their total assets in other listed closed-ended investment funds
- (h) Directors of each of the Companies or the Investment Manager may, from time to time, become interested in transactions with or in certain companies in which each of the Companies has invested or proposes to invest, subject to full disclosure, Board approval and compliance with the Listing Rules. If the Board of either Company is required to pass any resolution regarding the continuing appointment of Acuity Capital Management Limited as Investment Manager or other matters concerning Acuity Capital Management Limited, only directors independent of the Investment Manager will vote on such resolutions.
- (i) Neither of the Companies are a party to any related party transactions for the purposes of Annex I, item 19 to the Prospectus Directive Regulations, set out in Appendix 3.1 of the Prospectus Rules.
- (j) There is no withholding tax on dividends paid by a UK company and consequently each of the Companies does not assume responsibility for the withholding of tax at source.
- (k) Neither Company has, since incorporation, been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either of the Companies are aware) which may have or have had significant effects on either Company's financial position or profitability.
- (l) The Companies do not intend to appoint an external custodian and their assets (other than Non-Qualifying Investments) will be held in certificated form.
- (m) Where information set out in this document has been sourced from a third party the source has been identified at the relevant place in the document and the Companies confirm that this information has been accurately reproduced and, as far as the Companies are aware and able to ascertain from information published by the relevant third

parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

- (n) Except as noted in paragraph 4(e) of this Part IV, none of the Companies' service providers have any conflict, or potential conflict, as between their duty to either Company and duties owed by them to third parties and other interests.
- (o) The Offers will have a positive impact on the net assets of each Company by increasing the net assets of each Company by the same amount as the net funds raised by each Company and is expected to have a positive impact on earnings.
- (p) Each Company's expected market competitors would be other venture capital funds investing in the same sectors and asset classes referred to in this Prospectus.

## 7. Stamp Duty, Stamp Duty Reserve Tax and Close Company Status

Each of the Companies has been advised that no stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of the Shares issued under the Offers.

The transfer on sale of any Shares will be liable to ad valorem stamp duty normally at the rate of 0.5% of the amount or value of the consideration (rounded up to the nearest £5). An unconditional agreement to transfer Shares also gives rise to an obligation to account for SDRT, which is payable within seven days of the start of the month following that in which the agreement was entered into.

The payment of stamp duty gives rise to a right to repayment of any SDRT paid.

There will be no stamp duty or SDRT on the transfer of the Shares into CREST unless such a transfer is made for consideration in money or money's worth, in which case a liability to SDRT will arise usually at a rate of 0.5%. A transfer of Shares effected on a paperless basis through CREST will generally be subject to SDRT at a rate of 0.5% of the value of the consideration.

On the issue of the Shares pursuant to the Offers, none of the Companies is likely to be a close company for tax purposes.

## 8. Overseas Investors

- (a) No person receiving a copy of this document or an Application Form in any territory other than the UK may treat the same as constituting an offer or invitation to him to subscribe for or purchase Shares unless, in such territory, such offer or invitation could lawfully be made.
- (b) No action has been taken to permit the distribution of this document in any jurisdiction outside the UK where such action is required to be taken. All Applicants will be required to warrant that they are not a US person as defined in paragraph 4(y) of Part V of this document or a resident of Canada.

## 9. Consents

The Sponsor and the Investment Manager have each given and have not withdrawn their written consents to the issue of this document with the references to them in the form and context in which they appear.

## 10. Documents Available for Inspection

Copies of the following documents are available for inspection at the offices of Howard Kennedy during normal business hours on any weekday (Saturdays and public holidays excepted) whilst the Offers remain open:

- (i) the Memorandum of Association and Articles of the Companies;
- (ii) the material contracts referred to in paragraph 5 above; and
- (iii) this Prospectus.

Dated: 19 November 2009

## Part V

# Terms and Conditions of Application

1. In these Terms and Conditions of Application, the expression "Prospectus" means the document constituting the prospectus which comprises listing particulars of each of the Companies dated 19 November 2009. The expression "Application Form" means the application form for use in accordance with these Terms and Conditions of Application. Save where the content requires otherwise, the terms used in the Application Form bear the same meaning as in the Prospectus.
2. The right is reserved to reject any application or to accept any application in part only. If any application is not accepted, or if any contract created by acceptance does not become unconditional, or if any application is accepted for fewer Shares than the number applied for, the application monies or the balance of the amount paid on application will be returned without interest by post at the risk of the Applicant. In the meantime application monies will be held in trust for, and will remain the property of, the Applicant, and will be retained in a separate account.
3. You may pay for your application for Shares by cheque or bankers' draft submitted with the Application Form. The Boards may reserve shares for issue to certain persons as set out in "Other Information" in Part I of this document.
4. By completing and delivering an Application Form, you:
  - (a) offer to subscribe for the number of Shares specified on your Application Form or any smaller number for which such application is accepted at the offer price subject to the Prospectus, these Terms and Conditions of Application, and the Articles of each of the Companies;
  - (b) acknowledge that for Additional Shares and IFA commission waived as extra shares, if your subscription is accepted, you will be allocated Ordinary Share (price 99.9p per share) and A Share (price 0.1p per share) for each 100p invested;
  - (c) authorise your financial adviser or whoever he or she may direct, The City Partnership (UK) Limited ("The City Partnership") or each of the Companies to send a document of title for the number of Shares for which your application is accepted, and/or a crossed cheque for any monies returnable, by post at your risk to your address as set out on your Application Form;
  - (d) in consideration of each of the Companies agreeing that it will not, prior to the Offers closing, offer any Shares for subscription to any persons other than as set out in the Prospectus, agree that your application may not be revoked and that this paragraph constitutes a collateral contract between you and each of the Companies which will become binding upon despatch by post or delivery of your duly completed Application Form to each of the Companies or to your financial adviser;
  - (e) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive a share certificate for the Shares applied for or to enjoy or receive any rights or distributions in respect of such Shares unless and until you make payment in cleared funds for such Shares and such payment is accepted by each of the Companies (which acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by each of the Companies of such late payment in respect of such Shares, each of the Companies may (without prejudice to its other rights) treat the agreement to allot such Shares as void and may allot such Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Shares (other than return of such late payment at your risk and without interest);
- (f) agree that all cheques and bankers' drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the completion of any verification of identity required by the ML Regulations and that such monies will not bear interest;
- (g) undertake to provide satisfactory evidence of identity within such reasonable time (in each case to be determined in the absolute discretion of each of the Companies and the Sponsor) to ensure compliance with the ML Regulations;
- (h) agree that, in respect of those Shares for which your application has been received and processed and not rejected, acceptance of your application shall be constituted by each of the Companies instructing The City Partnership to enter your name on the share register;
- (i) agree that all documents in connection with the Offers and any returned monies will be sent at your risk and may be sent to you at your address as set out in the Application Form;
- (j) agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations including the risk factors and investment considerations contained therein;
- (k) confirm that (save for advice received from your financial adviser) in making such application you are not relying on any information and representation other than those contained in the Prospectus and you accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof or involved in the preparation thereof will have any liability for any such other information or representation;
- (l) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offers shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of each of the Companies to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and

- contracts in any other manner permitted by law or in any court of competent jurisdiction;
- (m) irrevocably authorise each of the Companies, The City Partnership or the Sponsor or any other person authorised by any of them, as your agent, to do all things necessary to effect registration of any Shares subscribed by or issued to you into your name and authorise any representatives of each of the Companies, The City Partnership or the Sponsor to execute any documents required therefor and to enter your name on the register of members of each of the Companies;
- (n) agree to provide each of the Companies with any information which it may request in connection with your application or to comply with the VCT regulations or other relevant legislation (as the same may be amended from time to time) including, without limitation, satisfactory evidence of identity to ensure compliance with the ML Regulations;
- (o) warrant that, in connection with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in each of the Companies or the Sponsor acting in breach of the regulatory or legal requirements of any territory in connection with the Offers or your application;
- (p) confirm that you have read and complied with paragraph 5 below;
- (q) confirm that you have reviewed the restrictions contained in paragraph 6 below;
- (r) warrant that you are not under the age of 18 years;
- (s) if the laws of any territory or jurisdiction outside the United Kingdom are applicable to your application, warrant that you have complied with all such laws and none of the Companies, or the Sponsor or any of their respective agents will infringe any laws of any such territory or jurisdiction directly or indirectly as a result or in consequence of any acceptance of your application;
- (t) agree that your Application Form is addressed to each of the Companies and to the Sponsor;
- (u) agree that the Sponsor is acting for each of the Companies in connection with the Offers and for no-one else and that they will not treat you as their customer by virtue of such application being accepted or owe you any duties or responsibilities concerning the price of Shares or concerning the suitability of Shares for you or be responsible to you for the protections afforded to its customers;
- (v) warrant that if you sign the Application Form on behalf of somebody else or yourself and another or others jointly or a corporation you have the requisite power to make such investments as well as the authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions of application and undertake (save in the case of signature by an authorised financial adviser on behalf of the Investor) to enclose a power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
- (w) warrant that you are not subscribing for the Shares using a loan which would not have been given to you or any associate, or not given to you on such favourable terms, if you had not been proposing to subscribe for the Shares;
- (x) warrant that the Shares are being acquired to you for bona fide investment purposes and not as part of a scheme or arrangement the main purpose of which, or one of the main purposes of which, is the avoidance of tax. Obtaining tax reliefs given under the VCT legislation contained in ITA is not of itself tax avoidance;
- (y) warrant that you are not a "US person" as defined in the United States Securities Act of 1933 (as amended) nor a resident of Canada and that you are not applying for any Shares on behalf of or with a view to their offer, sale or delivery, directly or indirectly, to or for the benefit of any US Person or resident of Canada;
- (z) warrant that the information contained in the Application Form is accurate; and
- (aa) agree that if you request that Shares are issued to you on a date other than 3 April 2010 or 30 April 2010 and such Shares are not issued on such date each of the Companies and its agents and Directors will have no liability to you arising from the issue of such Shares on a different date.
5. No person receiving a copy of the Prospectus or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
6. The Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the "USA"). In addition, each of the Companies has not been and will not be registered under the United States Investment Company Act of 1940, as amended. The Investment Manager will not be registered under the United States Investment Adviser Act of 1940 (as amended). No application will be accepted if it bears an address in the USA.
7. This application is addressed to each of the Companies and the Sponsor. The rights and remedies of each of the Companies and the Sponsor under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to either of

them, and the exercise or partial exercise of one will not prevent the exercise of others.

8. The dates and times referred to in these Terms and Conditions of Application may be altered by each of the Companies with the agreement of the Sponsor.
9. Authorised financial advisers who, acting on behalf of their clients, return valid Application Forms (bearing their address and FSA number) will be entitled to commission on the amount payable by the Applicant in respect of the Shares allocated for each such Application Form at the rates specified in the paragraph headed "Launch Costs and Commission" in Part I of this document. Authorised financial advisers may agree to waive part or all of their initial commission in respect of an application. If this is the case, then such application will be treated as an application to apply for the number of Shares stated in box number 2 of the Application Form together with a number of additional Shares equivalent to the amount of commission waived at £1.00 per Share, which waived commission will be applied in paying for such Shares. The City Partnership is authorised to amend such box number 2 to include any such additional Shares. Financial advisers should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for their commission.
10. The section headed Notes on Application Form forms part of these Terms and Conditions of Application.
11. It is a condition of the Offers that the ML Regulations are complied with. The Investment Manager is, therefore, entitled to require, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to The City Partnership to be acting on behalf of some other person. Pending the provision of evidence satisfactory to The City Partnership as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, The City Partnership may, in its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or The City Partnership may not enter the Applicant on the register of members or issue any share certificates in respect of such application. If verification of identity is required, this may result in delay in dealing with an application and in rejection of the application. Each of the Companies reserves the right, in its absolute discretion, for it or The City Partnership to reject any application in respect of which The City Partnership considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, each of the Companies reserves the right in its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the Shares in question (but in each case without prejudice to any rights each of the

Companies may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to The City Partnership such information as may be specified by it as being required for the purpose of the ML Regulations.

12. The right is also reserved to treat as valid and binding any application not complying fully with these Terms and Conditions of Application or not in all respects complying with the Notes on Application Form. In particular, but without limitation, each of the Companies may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to each of the Companies to apply in accordance with these Terms and Conditions of Application.

## Notes on Application Form

Before making an application to acquire Shares you are strongly recommended to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000. It is essential that you complete all parts of the Application Form in accordance with the instructions in these notes. Please send the completed Application Form, together with your cheque or bankers' draft by post, or deliver it by hand, to: The City Partnership (UK) Limited, Thistle House, 21 Thistle Street, Edinburgh EH2 1DF. If you have any questions on how to complete the Application Form please contact Acuity Capital Management Limited on (020) 7306 3901 or your financial adviser.

The following notes should be read in conjunction with the Application Form and the Terms and Conditions of Application.

**1** Insert in Box 1 in BLOCK CAPITALS your full name, permanent address, daytime telephone number, date of birth, National Insurance Number and, if you have one, your email address (if you wish to receive financial reports regarding the progress of the Companies by email). Joint applications are not permitted.

**2** Insert the number of Shares you are applying for in the 2009/10 Offer in Box A (state nil if appropriate).  
Insert the number of Shares you are applying for in the 2010/11 Offer in Box B (state nil if appropriate). You may post-date your cheque to 6 April 2010 in respect of the sum in Box B.  
Insert the total of Boxes A and B in Box C. Your application must be for a minimum of 5,000 Shares.  
Please note that Share subscriptions will be adjusted to reflect any commission waived (by agents) as extra shares or Additional Shares issued for early subscriptions.

**3** Insert (in figures) in Box 3 the total amount you are paying. This is the same number as in Box C above.

**Please note that the minimum investment is £5,000.** The maximum investment, on which tax reliefs on investments in VCTs are available, is £200,000 per tax year.

Attach your cheque or bankers' draft to the Application Form for the exact amount shown in Box 3. Your cheque or bankers' draft must be made payable to "**Acuity Environmental VCT plc**" and crossed "**A/C Payee only**". Your payment must relate solely to this application.

Your cheque or bankers' draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited, a member of the Scottish Clearing Banks Committee or the Belfast Clearing Committee or which has arranged for its cheques or bankers' drafts to be cleared through facilities provided for members of any of those companies or associations and must bear the appropriate sorting code in the top right hand corner. The right is reserved to reject, in whole or in part, any Application Form in respect of which the cheque or bankers' draft has not been cleared on first presentation. Any monies returned will be sent, at the risk of the recipient, by cheque crossed "A/C Payee only" in favour of the Applicant.

### Money Laundering ("ML") Regulations – Important note for applications of £8,000 or more

The verification of identity requirements in the ML Regulations will apply and verification of the identity of the Applicant may be required. Failure to prioritise the necessary evidence of identity may result in your Application being treated as invalid or result in a delay.

If the amount of your application is £8,000 or more (or is one of a series of linked applications, the value of which exceeds that amount) payment should be made by means of a cheque drawn on an account in the name of the Applicant. If this is not practicable and you use a cheque drawn by a third party or a building society cheque or bankers' draft, you should write the name, address and date of birth of the applicant on the back of the cheque or banker's draft and (regardless of whether or not the cheque is drawn on an account in the name of the Applicant):

**4** **Read the declaration and sign and date the Application Form in Box 4.** If someone other than the Applicant named in Box 1 signs on such Applicant's behalf, such signatory must ensure that the declaration given on behalf of such Applicant is correct.

Agents who are entitled to receive commission should stamp and complete the agent's box, giving their full name and address, telephone number and FSA number. The right is reserved to withhold payment of commission if each of the Companies is not, in its sole discretion, satisfied that the agent is so authorised.



Please pin or staple your cheque here

Reservation Number (if applicable)

## Acuity Environmental VCT plc Acuity Environmental VCT 2 plc

Each £1 invested will be equally divided between the above Companies, subject to a minimum fundraising in any one of the above Companies being not less than £5 million

## Application Form

Make your cheque or bankers' draft out to "**Acuity Environmental VCT plc**" and crossed "A/C Payee only" and return with this form as soon as possible to: The City Partnership (UK) Limited, Thistle House, 21 Thistle Street, Edinburgh EH2 1DF. **You must complete boxes 1 to 5.**

**1**

Title and Name in Full (BLOCK capitals, please)

Permanent Address

Postcode

Daytime Telephone

E-Mail Address

Date of Birth (DD/MM/YYYY)

National Insurance No

**2**

I am applying for:

**2009/10 Offer**

(income tax year 2009/10)

**Shares**

**A**

**2010/11 Offer**

(income tax year 2010/11)

**Shares**

**B**

**TOTAL**

**Shares**

**C**

Shares (each Share being comprised of 1 Ordinary Share of 0.1p each and 1 A Share of 0.1p each) or such lesser number of Shares for which this application may be accepted in the event of over subscription in respect of the Offers on the terms and conditions set out in Part V of the Prospectus dated 19 November 2009. Please send me a certificate(s) confirming my entitlement to venture capital trust tax reliefs.

**3**

The total amount I am paying for the Shares is

£

Min £5,000

NB this is the total amount you are subscribing under the Offers. Applications must be for a minimum of £5,000 in total and may be made for any higher amount in multiples of £1,000. Share subscriptions will be adjusted to reflect any commission waived (by agents) as extra shares or Additional Shares issued for early subscriptions.

**4**

Please mark with an "X" as appropriate

I enclose a cheque or bankers' draft drawn on a UK clearing bank, made payable to "**Acuity Environmental VCT plc**"

I have instructed my bank to make an electronic payment to:

Bank HSBC plc  
Account Name Acuity Environmental VCT plc  
Account Number 93936384  
Sort Code 40-05-30

Please quote your surname as a reference when making this electronic payment.

BY SIGNING THIS FORM I HEREBY DECLARE THAT: (i) I have had an opportunity to receive the Prospectus dated 19 November 2009 and to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the Shares in each of Acuity Environmental VCT plc and Acuity Environmental VCT 2 plc to be issued to me pursuant to the Offers; and (iii) to the best of my knowledge and belief, the particulars I have given are correct.

**HMRC may inspect this application form. It is a serious offence to make a false declaration.**

**5**

Signature

Date

**Authorised financial advisers should complete this box**

6

Firm Name Allenbridge Group plc

Contact Name Diane Garnham

FSA No. 137716

Address 17 Hill Street, Mayfair

Postcode W1J 5NZ

Tel 02074091111

Fax

E-Mail Address

Insert the amount of commission (up to a maximum of 3%) that you wish to be waived and invested in additional shares for your client

Due completion of the agent's box indicates that the agent is duly authorised to transact investments of this type under the Financial Services and Markets Act 2000. Authorised financial advisers will usually be paid, by the investment manager, Acuity Capital Management Limited, an initial commission of up to 3% of the funds invested through them and by the Companies an annual trail commission (until the earlier of (i) 10 years from 31 January 2011, (ii) the Management and Administration Deed being terminated and (iii) the total trail commission payable equals 4.5% of the proceeds of the Offers) usually of 0.25% per annum in respect of Investors whose successful applications were submitted through them and who continue to hold the Shares which they acquired under the Offers. The trail commission will be calculated by reference to the Net Asset Value of Shares held at each year on 30 September, commencing 30 September 2010.

**Commission payment details**

(to be used if commission is to be paid to a network or other third party)

7

Name

Contact Name

Address

Postcode

E-Mail Address

All dividends on Shares held in Acuity Environmental VCT plc and Acuity Environmental VCT 2 plc may be paid directly into bank and building society accounts. In order to facilitate this, please complete the mandate instruction form below. Dividends paid directly to your account will be paid in cleared funds on the dividend payment dates. Your bank or building society statement will identify details of the dividend as well as the dates and amounts paid.

**Please forward until further notice, all dividends that may from time to time become due on any Shares now standing, or which may hereafter stand, in my name in the register of members of each of the Acuity Environmental VCTs to:**

8

Name of Bank Building Society

Title of Branch

Address of Branch

Postcode

Account Number

Sort Code Number

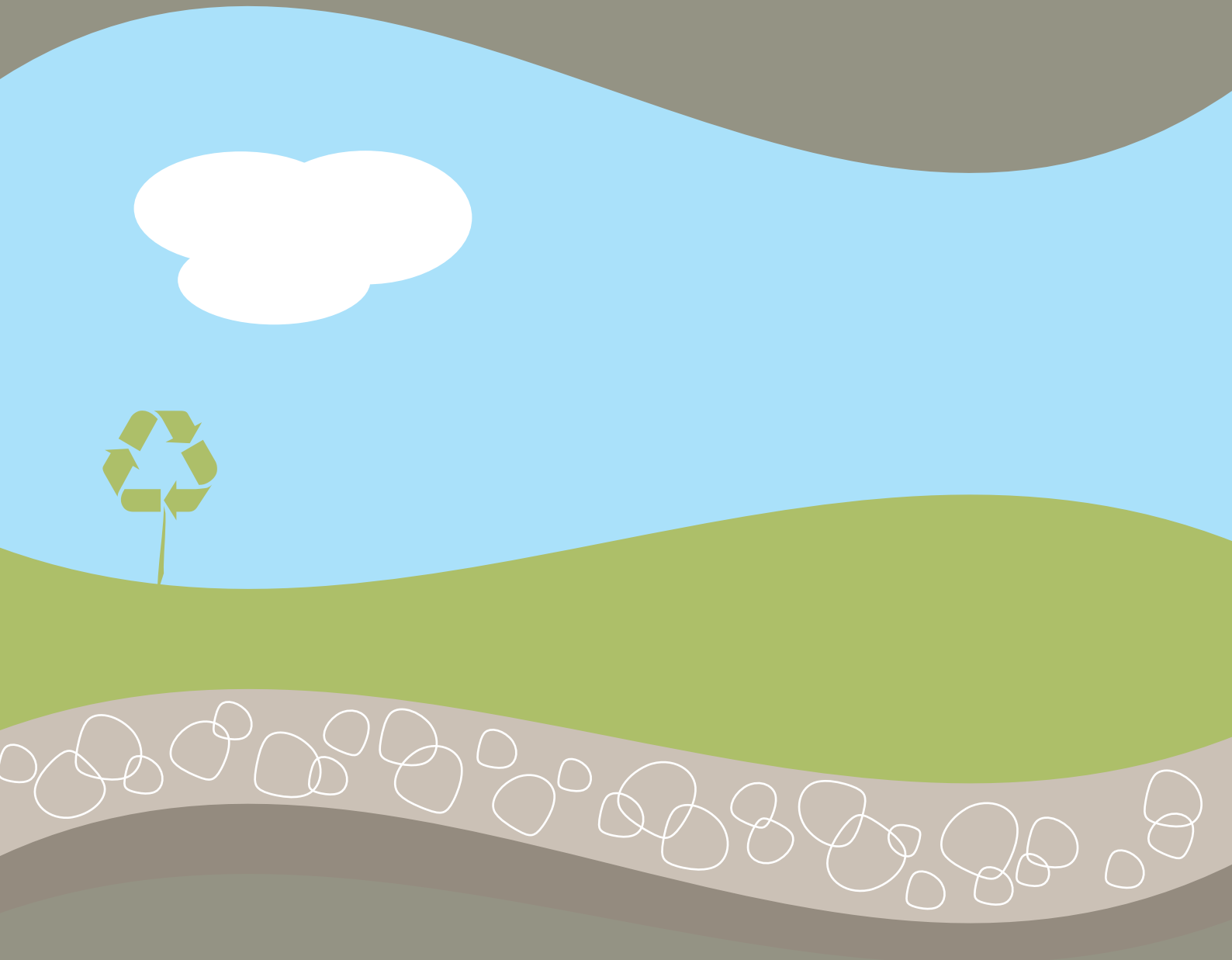
Account Name (BLOCK capitals please)

Signature

Date

Applicant's Name (BLOCK capitals please)

**The Companies and The City Partnership (UK) Limited cannot accept responsibility if any details provided by you are incorrect.**



Acuity Capital Management Ltd  
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London  
EC4M 8AB

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