



# IONA ENVIRONMENTAL VCT PLC OFFERS FOR SUBSCRIPTION



APPLICATION FORM INCLUDED

A copy of this document, which is a prospectus dated 4 July 2011 relating to Iona Environmental VCT 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.

Application will be made for all the B Shares to be issued pursuant to the Offers to be admitted to the premium tier of 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 B Shares will commence, within 10 business days of the issue of such shares.

Application will also be made for 1,399,879 A Shares issued pursuant to, and in connection with, the 2009 Offers to be admitted to the premium tier of 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 of these A Shares will become effective, and that dealings in such shares will commence, within 10 business days from the date of this document.

The Company and the Directors of the Company, whose names appear on page 11 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and its 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 Corporate Services LLP is acting as sponsor of the Company 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 6 to 8 of this document.

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## **PROSPECTUS FOR IONA ENVIRONMENTAL VCT PLC**

*(Incorporated in England and Wales  
under the Companies Act 2006 with registered number 7049290)*

**Offers for Subscription  
of up to 10,000,000 B Shares  
of 0.1p each in the share capital of the Company  
together with the admission of a further 1,399,879 A Shares  
of 0.1p each which have been allotted and issued  
in the share capital of the Company**

**Sponsor  
Howard Kennedy Corporate Services LLP**

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The issued share capital of the Company following the Offers, assuming that they are fully subscribed, will be:

	<b>No. of shares</b>	<b>Issued and fully paid</b>	<b>Nominal value</b>
<b>Ordinary Shares</b>	5,345,499		£5,345.50
<b>A Shares</b>	8,018,246		£8,018.25
<b>B Shares</b>	10,000,000		£10,000

Up to 10 million B Shares in the 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.

The subscription list for the Offers will open on 5 July 2011 and may close at any time thereafter but in any event not later than 1.00 p.m. on 5 April 2012, in the case of the 2011/12 Offer, and at 5.00 p.m. on 1 June 2012, in the

case of the 2012/13 Offer. All subscription monies will be payable in full in cash on application.

Applications received and accepted by 31 December 2011 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 61 to 63 of this document and are followed by an Application Form for use in connection with the Offers. The Offers are not underwritten.

Copies of this document may be viewed on the National Storage Mechanism (NSM) of the UKLA at <http://www.hemscott.com/nsm.do> and following the date of publication may be obtained free of charge for the duration of the Offers by collection from:

Howard Kennedy Corporate Services LLP  
19 Cavendish Square  
London W1A 2AW

Iona Capital 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 the B Shares in the Company 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**

The original fund was launched by the Company in 2009 to invest in Anaerobic Digestion (“AD”) and In-Vessel Composting (“IVC”) plant operations, or companies demonstrating similar investment characteristics. The Company is launching a further fund by the issue of a new class of share, the B Shares, and broadening its investment policy to allow it to invest in environmental infrastructure projects, focusing on organic waste recycling in the UK. Investment of the existing fund and the new fund will be through a combination of subordinated debt and equity, with funds being invested in new investments pro rata to the size of the existing fund and the new fund at the date of the investment (subject to other co-investment considerations which the Investment Manager may need to take into account). The new fund (like the existing fund) will target a tax free running yield of 10% (which equates to a gross equivalent yield to a 40% higher rate tax payer of approximately 13.3%, and to a gross equivalent yield to a 50% higher rate tax payer of approximately 15.65%) once the fund is fully invested. Early return of capital will be sought and equity upside through structured exits, principally from debt re-financing. Each investment will be in infrastructure projects utilising low risk proven technology and will typically be backed by commercial supply contracts with predetermined prices.

In recognition that the Investment Manager is now wholly focused on the waste renewables sector and, along with significant changes to the composition of the investment team, the Investment Manager changed its name from Acuity Capital Management Limited to Iona Capital Limited and the Board has changed the name of the Company from Acuity Environmental VCT Plc to Iona Environmental VCT Plc.

### **The Opportunity**

- 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.
- It is estimated that the UK currently sends around 7m tonnes of food waste direct to landfill per annum.
- The UK Government has signed up to the EU wide initiative to increase renewable energy generation, and has introduced ROCs and FiTs to encourage this, and is in the process of introducing a Renewable Heat Incentive (RHI) scheme. This initiative is driving a significant increase in the demand for organic waste recycling and renewable energy plants.
- AD is a biological process that occurs naturally when bacteria breaks down organic matter in environments with no oxygen. The AD process is effectively a controlled and enclosed version of the anaerobic breakdown of organic waste that takes place in landfill which produces a biogas (methane) that can be burnt to produce electricity as well as digestate (compost) which can be converted for use as soil fertiliser.
- AD is not a new technology. It has been widely used in Continental Europe, especially in Germany and Denmark, for several years.
- The potential available Anaerobic Digestion market based on DEFRA “Anaerobic Digestion Strategy and Action Plan” estimates indicate up to 5m tonnes per annum of food waste and somewhere in the region of 20m – 60m tonnes per annum of animal waste may be processed using anaerobic digestion technology. The Department of Energy and Climate Change (DECC) in their June 2011 report

estimates the current installed capacity for both off farm and on farm AD is around 28 Megawatts of installed electrical capacity (MWe), and projects that this will rise to between 200 - 700 MWe by 2020. Combined with the Government's stated policy set out in DEFRA's "Anaerobic Digestion Strategy and Action Plan" to "enable a thriving AD industry to grow in England over the next few years", there will be a requirement for a significant number of new AD facilities if the growth forecasts and Government policy aspirations are to be achieved.

- As highlighted in DEFRA's "Anaerobic Digestion Strategy and Action Plan", there are significant funding issues in the provision of finance for new AD plants (especially small and medium scale plants), which is inhibiting the development of the sector. There is, therefore, a significant opportunity to provide equity and subordinated debt funding to this nascent market.

### **Summary of the Investment Policy**

In summary, the Investment Policy of the Company (revised in light of the proposals to broaden the Investment Policy referred to above) will be:

- to maximise tax free capital gains and income to shareholders from dividends and capital distributions by investing the Company's funds in;
- a portfolio of investments, primarily being in UK unquoted companies specialising in environmental infrastructure, focusing on organic waste recycling in the UK; 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 commercial supply agreements.

The low risk approach reflected in the investment policy of the Company should provide a regular income to fund the target dividend once the Company's funds are fully invested. The Company's 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 40% higher rate tax payer, and to a gross equivalent yield to a 50% higher rate tax payer of approximately 15.65%). However, no profit forecast is to be inferred or implied from this statement.

## Specialist Investment Manager and Operating Partners

- The Investment Manager currently manages the Iona Environmental VCT. The unaudited net asset value of the Company as at 31 March 2011 was approximately £4.9 million. The Investment Manager is currently raising an institutional fund with the intention that such a fund will invest in similar investment projects.
- The investment management team of the Investment Manager together has more than 30 years of combined experience in venture capital and/or the waste industry.
- The Investment Manager has been working closely with a number of industry operators who specialise in AD and IVC projects. In particular, the Investment Manager has established a close working relationship with BiogenGreenfinch and has been assisting them in their bids for the Welsh local authority tenders that are currently in progress. BiogenGreenfinch is a British company based in Bedfordshire, which designs, builds, owns and operates commercial-scale AD plants for processing food waste. It operates three commercial AD plants in the UK, which are located in Rushden, Northamptonshire (opened in June 2009), Milton Ernest, Bedfordshire (opened in 2005) and Ludlow, Shropshire (opened in 2006). BiogenGreenfinch is one of the leading players in the operation of AD plants for processing food waste in the UK, and has a pipeline of potential new projects.
- In addition to its relationship with BiogenGreenfinch, the Company is also currently in discussions with a number of other waste management businesses with a view to funding the development of their planned AD and IVC plants.
- The Operating Partners are responsible for sourcing site projects, negotiating with waste stream suppliers as well as building and operating the plants. The Operating Partners are not obliged to offer such investment opportunities to the Investment Manager for the Company to invest in, and the Company is not obliged to invest in such opportunities.

## An Experienced Board

- The Company benefits from three highly experienced non-executive Directors, all of whom, except for Michael Dunn, are independent of the Investment Manager. The directors of the Company are David Eades (Chairman), Philip Ling and Michael Dunn.

## Key Risk Factors

Although the significant tax benefits available to Investors in the Company reduce the risk of the investment, the following should be noted, together with the Risk Factors and Investment Considerations set out on pages 6 to 8.

- *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.
- *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 minimised.

- *Contract Risk.* Although it is intended to build an AD and IVC plant only if it benefits from commercial supply contracts, 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.
- *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.

### **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 2011/12 and 2012/13 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 B Shares.
- For an Investor able to use the full tax credit, the targeted annual dividend yield of 10 pence per B 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 Company's 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 up to 10 million B Shares in the Company at 100p per B Share.
- The Offers will open on 5 July 2011 and may close at any time thereafter but in any event not later than 1.00 p.m. on 5 April 2012, in the case of the 2011/12 Offer, and not later than 5.00 p.m. on 1 June 2012, in the case of the 2012/13 Offer.
- The Offers will not proceed unless valid subscriptions amounting to not less than £800,000 under the Offers (when taken together) are received by 1.00 p.m. on 5 April 2012.
- The minimum investment for each Applicant is £5,000.
- Application will be made for the B Shares to be issued pursuant to the Offers to be admitted to the premium tier of 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 2012 for applications in respect of the 2012/13 Offer.

Applications received and accepted by 31 December 2011 will attract Additional Shares equivalent to 2% of the amount subscribed by the Applicant under the Offers.

## RISK FACTORS AND INVESTMENT CONSIDERATIONS

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

The Company 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 Company and are not set out in any order of priority. Additional risks and uncertainties currently unknown to the Company and the Directors (such as changes in legal, regulatory or tax requirements), or which the Company and the Directors currently believe are immaterial, may also have a materially adverse effect on the financial condition or prospects of the Company or on the trading price of the B Shares.

Investors should be aware that the value of the B 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 B Shares in the Company 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 Company carries particular risks, of which those risks that the Directors consider to be material are set out below:

- Although it is intended that the Company will be managed so as to qualify as a VCT, 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 Company are set out in Part II of this document. However, if the Company fails 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 B 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 Company;
  - (iv) a liability to tax on capital gains on any disposal of B Shares; and
  - (v) the loss of the listing of the Company's B Shares.
- 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.
- In common with other investment entities, many VCTs' shares trade at a discount to their net asset values.
- The Company is seeking up to £10 million under the Offers. To the extent that a relatively small level of funds is raised, the Company may find it more difficult to achieve a spread of investments. This may lead to the Company investing in a less diverse portfolio (increasing risk) and the Company may prove more costly to manage.
- An investment in a VCT is free from tax on capital gains. Consequently, any realised losses on disposal of B Shares cannot be used to create an allowable loss for capital gains tax purposes.
- Although Shares in the Company are already listed (and those to be issued pursuant to the Offers will be listed), it is highly unlikely that a liquid market in B Shares will develop, at least for the first five years from the investment in the B Shares, and there may never be two competitive market makers. It may, therefore, prove difficult for Shareholders to sell their B Shares.
- Most of the Company's 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 the Company 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 Company's objective will be met or that suitable investment opportunities will

be identified. In addition, the Company 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 Company's ability to obtain maximum value from its investments (for example, through their sale) may be limited by the requirements imposed in order to maintain the VCT status of the Company (such as the obligation to have at least 70% by value of its investments in Qualifying Investments).
- Shareholders should be aware that the sale of B 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 Company 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 B Shares.
- The past performance of investments made by funds managed by the Investment Manager, Iona Capital Limited, should not be regarded as an indication of the performance of investments to be made by the Company.
- Changes in legislation concerning VCTs in general, and Qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Company to meet its objectives and/or reduce the level of returns which would otherwise have been achievable.
- The value of B 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.
- *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 minimised.
- *Contract Risk.* Although it is intended to build an AD and IVC plant only if it benefits from commercial supply contracts, 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.
- *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.

## **Forward Looking Statements**

Potential Investors 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. The information contained in this document will be updated as required by the Prospectus Rules, Listing Rules and the DTR, as appropriate.

## EXPECTED TIMETABLE

The subscription list for the Offers will open on 5 July 2011 and may close at any time thereafter but in any event not later than 1.00 p.m. on 5 April 2012, in the case of the 2011/12 Offer, and 5.00 p.m. on 1 June 2012, in the case of the 2012/13 Offer.

Dealings in respect of the B 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 B Shares first commence.

Dealings in respect of the 1,399,879 A Shares (allotted and issued pursuant to, and in connection with, the 2009 Offers) are expected to commence within 10 business days of the date of this document.

Share certificates (where applicable), and certificates to enable a claim for tax reliefs to be made in respect of the B 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.

B Shares will be allotted and issued in respect of valid applications received for the 2011/12 Offer on 5 April 2012 and on any other dates (prior to 5 April 2012) on which the Directors decide. In respect of the 2012/13 Offer, B Shares will be allotted and issued on 30 April 2012 and on any other dates after 5 April 2012 on which the Directors decide.

## OFFER STATISTICS

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

\* assuming no Additional Shares are issued, and that the maximum amount is raised for the Company under the Offers

The Offers will not proceed unless valid subscriptions amounting to not less than £800,000 under the Offers (when taken together) are received by 1.00 p.m. on 5 April 2012.

## EARLY SUBSCRIPTIONS

Applications received and accepted by 31 December 2011 will attract Additional Shares equivalent to 2% of the amount subscribed by the Applicant under the Offers.

## FINANCIAL CALENDAR

Financial year end	<i>30 September</i>
Preliminary results announcement and posting of annual report	<i>December</i>
Annual general meeting	<i>February</i>

Dividend

*January*

Half Yearly announcement and posting of Half Yearly report

*May*

## **DIRECTORS AND ADVISERS**

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

David William Eades  
Philip Henry Ling  
Michael Brian Dunn

all of  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB

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

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

**Investment Manager  
and Administrator of the Company**

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

**Sponsor to the Offers**

Howard Kennedy Corporate Services LLP  
19 Cavendish Square  
London W1A 2AW

**Solicitors to the  
Company and the Offers**

Howard Kennedy LLP  
19 Cavendish Square  
London W1A 2AW

**Registrars and Receiving Agents  
to the Company**

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

**Registered Auditors**

Moore Stephens LLP  
150 Aldersgate  
London EC1A 4AB

**VCT Advisers to the Company**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

**Bankers to the Company**

HSBC Bank 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 Offers"</b>	the offers for subscription made by the Company and Acuity 2 made in respect to the 2009/10 and 2010/11 tax years pursuant to a joint prospectus of those companies dated 19 November 2009
<b>"2011/12 Offer"</b>	offer for subscription of B Shares in respect of the 2011/12 tax year as described in this document
<b>"2012/13 Offer"</b>	offer for subscription of B Shares in respect of the 2012/13 tax year as described in this document
<b>"A Shares"</b>	A shares of 0.1p each in the capital of the Company (ISIN: GB00B5BMPY80)
<b>"Acts"</b>	the Companies Acts as defined in s.2 of the 2006 Act
<b>"Iona Environmental VCT" or the "Company"</b>	Iona Environmental VCT plc
<b>"Acuity 2"</b>	Acuity Environmental VCT 2 plc
<b>"AD"</b>	Anaerobic digestion
<b>"Additional Shares"</b>	B Shares issued, at no additional cost to the Applicant, by virtue of accepted Application Forms being received and accepted by 31 December 2011
<b>"Admission"</b>	admission of the B Shares issued pursuant to the Offers to the premium tier of 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 Company in its business (including irrecoverable VAT but excluding exceptional and extraordinary costs and any Performance Incentive Fees)
<b>"Applicant"</b>	Investor who subscribes for B Shares pursuant to the Prospectus
<b>"Application Form"</b>	form of application for B Shares under the Offers set out at the end of this document
<b>"Articles"</b>	the articles of association of the Company
<b>"B Shares"</b>	B shares of 0.1p each in the capital of the Company (ISIN: GB00B40HX431)
<b>"Biogas"</b>	gas produced by the biological breakdown of organic matter in the absence of oxygen
<b>"BiogenGreenfinch"</b>	the trading name of Biogen (UK) Limited, the eco-technology division of Bedfordia Group Plc
<b>"Circular"</b>	the proposed circular to Shareholders to be issued by the Company on or about 4 July 2011 to convene the General Meeting
<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 Limited
<b>"Deed of Variation"</b>	the deed of variation dated 4 July 2011 between the Company and the Investment Manager in relation to the Management and Administration Deed which is summarised in paragraphs 5(f) of Part V of the Prospectus
<b>"Deferred Shares"</b>	deferred shares of 0.1p each in the capital of the Company which have no effective value

<b>"Directors" or "Board"</b>	directors or the board of directors of the Company
<b>"Feed-in Tariffs" or "FiTs"</b>	Feed-in tariffs, being a guaranteed price per unit of energy paid to generators of electricity from renewable energy sources
<b>"Fixed Income Securities"</b>	investments made by the Company which do not comprise Qualifying Investments, such as bank deposits, loan stock, bonds, preference shares and other debt instruments
<b>"FSMA"</b>	Financial Services and Markets Act 2000 (as amended)
<b>"General Meeting"</b>	the general meeting of the Company to be held on 8 August 2011 at which the resolutions described in paragraph 2(d) of Part V of this document will be proposed
<b>"Investment Manager"</b>	Iona Capital Limited or its successor
<b>"Investor"</b>	an 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 Tax 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 premium tier of 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 Company's investments, and other persons that the Investment Manager may in its sole discretion determine from time to time
<b>"Management A Shares"</b>	2,777,749 A Shares in the Company issued to Management in connection with the 2009 Offers
<b>"Management and Administration Deed"</b>	the agreement dated 19 November 2009 between the Company and the Investment Manager which is summarised in paragraph 5(a) of Part V of the Prospectus; as amended by the Deed of Variation
<b>"MBT Facility"</b>	a mechanical and biological treatment facility
<b>"ML Regulations"</b>	Money Laundering Regulations 2007
<b>"MSW"</b>	municipal solid waste
<b>"NAV" or "Net Asset Value"</b>	Net Asset Value per share
<b>"Net Assets"</b>	the net asset value of the Company's entire assets and undertaking as determined by reference to its latest annual audited accounts or, as applicable, unaudited interim accounts
<b>"New Articles"</b>	the articles of association proposed to be adopted at the General Meeting
<b>"Offer Price"</b>	100p per B Share
<b>"Offers"</b>	together the 2011/12 Offer and the 2012/13 Offer, being the offers for subscription of up to 10,000,000 B Shares in the Company
<b>"Official List"</b>	Official List of the UK Listing Authority
<b>"Operating Partners"</b>	BiogenGreenfinch and/or such other operating partners as the Company shall select from time to time
<b>"Ordinary Shares"</b>	ordinary shares of 0.1p each in the capital of the Company (ISIN: GB00B57F1L02)
<b>"Original Share Fund"</b>	the fund represented by all the Ordinary Shares and the A Shares
<b>"Original Share(s)"</b>	one Ordinary Share and one A Share or multiples thereof
<b>"Performance Incentive Fees"</b>	the performance-related incentive fees payable in relation to the B Shares to the Investment Manager, as described in the subsection headed "Performance Incentive Fees" in the section "Management

<b>"Performance Value"</b>	Arrangements and Costs" in this document in relation to the relevant financial year end, and calculated on a per B Share basis, the sum of (i) the NAV of a B Share as at that date ; all performance related incentive fees previously paid by the Company to the Investment Manager in relation to a B Share; (ii) all Shareholder Proceeds declared and/or paid in relation to a B Shares since their Admission
<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 Chapter 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 Company
<b>"Resolutions"</b>	the resolutions set out in the Circular, to be proposed at the General Meeting, to enable the Offers to proceed
<b>"ROC"</b>	Renewable Obligation Certificate
<b>"RPI"</b>	Retail Prices Index
<b>"Shares"</b>	Ordinary Share(s) and/or A Share(s) and/or B 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 Company and any other proceeds or value received, or deemed to be received, by Shareholders in relation B Shares in the Company, excluding any income tax relief on subscription
<b>"Shareholders"</b>	holders of Shares
<b>"Sponsor"</b>	Howard Kennedy Corporate Services LLP, 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 FSMA
<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
<b>"WRAP"</b>	Waste and Resources Action Programme, a UK Government agency

## Chairman's Letter

4 July 2011

Dear Investor

### **Background**

As explained in the Chairman's Statements in both the 2010 Annual Report and Accounts and in the recently issued Half Year Report and Accounts, the Board has been evaluating the current position of the fund given its small size and structural changes which were taking place at the Investment Manager. After a lengthy period of consultation the Board decided that it was in the Shareholders' best interests to continue with the original investment strategy to invest in Anaerobic Digestion ("AD") and In-Vessel Composting ("IVC") projects and that, given the size of the investment pipeline being pursued by the Investment Manager, the Investment Manager was the best placed to deliver that strategy. This decision was reinforced by BiogenGreenfinch, supported by the Investment Manager, becoming sole remaining bidder for an AD contract in North West Wales. BiogenGreenfinch is one of the leading AD operators for food waste in the UK, and all being well, this decision will lead to a formal contract for the construction of the plant which will be part funded by the VCT.

The Board recognises that the demand for AD facilities is set to grow strongly in order to meet the Government's waste recycling targets and that this fund is well positioned to participate in the financing of that market at attractive rates of return. The Board also recognises that a broader investment strategy would enable the Manager to take advantage of the market opportunity as it starts to develop. Therefore in view of the investment opportunity, the investment pipeline and relatively small size of the fund, the Board is recommending to Shareholders that additional funds be raised in the next twelve months. The Board has also reached an agreement with the Investment Manager that sets out an investment timetable for the investment of the Company's capital (with the Company having the ability to transfer the management of the Company to another manager – with no compensation being payable to the Investment Manager on termination of the appointment - if certain milestones in that timetable are not met). In recognition that the Investment Manager is now wholly focused on the waste renewables sector and, along with significant changes to the composition of the investment team, the Investment Manager changed its name from Acuity Capital Management Limited to Iona Capital Limited and the Board has changed the name of the company from Acuity Environmental VCT Plc to Iona Environmental VCT Plc.

In November 2009 the Company launched the original 2009 Offers, which raised approximately £5.2 million. The Directors and the Company's Investment Manager now wish to increase the funds available to the Company. This will enable the Company to make more investments and allow it to spread its fixed costs over a larger asset base which will result in economies of scale that will ultimately increase the Company's profitability to the benefit of all Shareholders.

The Directors and the Investment Manager believe that the best way to achieve this goal is by way of an offer of a new class of B Shares. The money raised from the Offers by the issue of the B Shares will form a separate pool of capital (as distinct from the capital pool represented by the Ordinary Shares and the A Shares), that will invest alongside new investments made out of funds raised from the Company's original 2009 Offers launched in November 2009. It is the intention that funds from both pools of capital will be invested in new investments (through a combination of and equity and subordinated debt) pro rata the size of the respective pools of capital at the date of the investment (subject to other co-investment considerations which the Investment Manager may need to take into account as described in this document).

### **Substantial Tax Benefits**

Eligible investors in VCTs are entitled to 30% income tax relief on their investment and tax free dividends which, when combined with the potential uplift in value of the investments, should provide an attractive overall return.

### **Excellent Market Opportunity**

The UK Coalition Government is promoting Anaerobic Digestion as a key technology in achieving the renewable energy targets established for 2020. The European Union and the UK Government have also put in place legislation to reduce the amount of organic waste being sent to landfill.

The Investment Manager has been working closely with BiogenGreenfinch, one of the leading operators of AD plants for food waste in the UK, to secure good long term investment opportunities backed in most cases by stable waste supply contracts. These projects not only entail the recycling of organic waste but also the production of a Biogas by-product which is used to generate electricity.

#### **Low Risk Investment**

Investments will be in infrastructure projects utilising low risk proven technology and typically backed by commercial supply contracts with predetermined prices.

#### **Recent Government announcements on Feed in Tariffs**

The Company was initially established in the 2009/10 tax year and sought to invest in AD projects which benefitted from renewable obligation certificates (ROCS). These are industry pricing subsidies to encourage the development of renewable energy. In 2010 the Government also introduced Feed in Tariffs (FiTs) to encourage investment in smaller renewable energy projects. These entailed a government subsidy based on the amount of energy created from a qualifying process. The scheme was initially inundated with a high number of large solar projects which has caused the Government to scale back the subsidies to small projects. The Company's intention to invest in AD plants was always based on the ROCS scheme and so the proposed changes to the FiTs Scheme will not affect the Company's plans.

#### **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 new fund represented by the B Shares is fully invested<sup>1</sup>. In addition, within five years, the Investment Manager will seek to re-finance the underlying projects (principally through debt finance) to provide a potential exit route for shareholders seeking an early the return of their capital.

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  
Iona Environmental VCT plc

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<sup>1</sup>See responsibility statement at paragraph 9(a) of Part V of this document

# **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 Company's Operating Partners (including BiogenGreenfinch, one of the leading operators of AD plants for food waste in the UK), and to the investment experience of Iona Capital Limited. In addition, Investors will have the opportunity to benefit from 30% income tax relief as well as tax-free capital and income returns (see Part II). The Company is seeking to raise up to £10 million under the Offers, which will form a separate pool of capital, and which will primarily be invested in a portfolio of unquoted companies.

The Offers follow on from the 2009 Offers and provide Investors with the opportunity to benefit from generous tax reliefs whilst gaining exposure to a separate investment pool from that created by the 2009 Offers.

In view of the operation of the performance incentive mechanism used for the Original Shares issued pursuant to the 2009 Offers, and the rights of existing investors in the existing investment pool attributable to those Original Shares, the Directors believe that the creation of a separate investment pool in the Company for further funds is the most appropriate mechanism for raising further funds. This separate investment pool will have a separate performance incentive mechanism (which will be in the form of Performance Incentive Fees from the Company to the Investment Manager, and not in the form of dividends on Management A Shares as was the case in the 2009 Offers).

The existing investments and cash attributable to the Original Shares will be kept separate from the proceeds of the issue of the B Shares, which will be administered as a separate investment pool. The holders of B Shares will have the right to participate (by way of dividends and return of capital) in those assets attributable to the B Shares but not in those assets attributable to the Original Shares. Conversely, the holders of Original Shares will have the right to participate (by way of dividends and return of capital) in the assets attributable to the Original Shares but not in those assets attributable to the B Shares. In relation to voting rights, holders of B Shares will be entitled to receive notice of, to attend, speak and vote at any general meeting of the Company, *pari passu* in such respects with the holders of Ordinary Shares.

The low risk approach reflected in the investment policy of the Company (see below) should provide a regular income to fund the target dividend once the funds of the Company are fully invested. An annual dividend of 10p per B Share is being targeted (once the fund is fully invested), which equates to a gross equivalent yield to a 40% higher rate tax payer of approximately 13.3% and to a 50% higher rate tax payer of approximately 15.65%. No target or projection is to be implied or inferred.

The Company is managed by Iona Capital Limited, which is an investment manager specialising in the environmental sector with a particular focus on the waste to energy market.

## **Market Background and Investment Pipeline**

The UK currently sends to landfill around 7m tonnes of food waste per annum that is appropriate for treatment using Anaerobic Digestion.

The trend demonstrated by recent projects at the planning and pre-construction stages indicates the preference of the energy from waste sector for AD projects based on separately collected feedstocks, both commercial and municipal, rather than larger scale installations designed to incinerate residual waste (that have thus far proven to be controversial). The development of such larger scale facilities has been primarily linked to the PFI sector and have typically been linked to the development of large scale thermal solutions for the solid outputs from MBT Facilities e.g. Greater Manchester Waste PFI.

There has been an additional development in the past year that has further improved the opportunity for AD based technologies. The Energy Act 2008 will be updated (during the course of 2011) to incorporate the Renewable Heat Incentive (RHI), a new scheme that provides a subsidy for the provision of heat from renewable sources, including AD. Although investments after 5 April 2012 in companies receiving FiTs will not be a qualifying investment for VCTs (as a result of the Budget in March 2011), Renewable Obligation Certificates continue to be available for investee companies seeking funds from VCT funds investing in this sector. Overall

the legislative drivers provide an attractive economic background for the development of AD for the treatment of a variety of input materials, including the opportunity to use AD for the processing of energy crops.

Figures from WRAP (July 2010) showed there were 11 operational AD facilities treating food waste in the UK (this figure excludes farm-based digesters treating a combination of slurries along with separately collected organic waste). These 11 plants had a combined treatment capacity of approximately 320,000 tonnes per annum.

**Operational AD Plants treating food waste in the UK**

Operator	Location	Municipal / C&I <sup>1</sup> / Both	Capacity (tonnes per annum)
Andigestion Limited (Summerleaze Group)	Holsworthy	C&I	80,000
Barfoots	Bognor Regis	C&I	28,000
Biffa	Wanlip, Leicester	Municipal (MSW <sup>1</sup> )	40,000 (AD plant only)
Biocycle (subsidiary of BiogenGreenfinch)	Ludlow, Shropshire	Formerly Municipal (Aug 2010)	6,000
BiogenGreenfinch	Milton Earnest, Beds Rushden, Northants	C&I C&I	42,000 45,000
Heat & Power	Orkney	C&I	3,200
John Rennie & Son	Turiff, Aberdeenshire	C&I	12,000
Lower Reule Bioenergy	Staffordshire	C&I	15,000
Scottish Water	Deerdykes, Cumbernauld	C&I	30,000
Western Isles	Lewis	Municipal (MSW <sup>1</sup> )	20,000

Source: WRAP (July 2010)

Note: 1. C&I means commercial and industrial and MSW means municipal solid waste

The recent DEFRA “Anaerobic Digestion Strategy and Action Plan” shows the market growing with treatment capacity as follows:

Treatment capacity of existing 54 AD plants	534,200 tonnes of commercial waste
	382,000 tonnes from food and drink manufacture
	136,156 tonnes in farm – based plants

Further DEFRA estimated in its “Anaerobic Digestion Strategy and Action Plan” that there were 50 AD projects across the UK with planning consent granted. As at February 2011 there were 30 AD projects that were in the planning application process (Source: WRAP).

The reports “The Government Review of Waste Policy in England 2011” and “Anaerobic Digestion Strategy and Action Plan” (both published on 14 June 2011) state that the Coalition Government is committed to being the “greenest Government ever” and achieving that will in part mean substantially increasing energy from waste through Anaerobic Digestion.

As highlighted in the “Anaerobic Digestion Strategy and Action Plan”, there are significant funding issues in the provision of finance for new AD plants (especially small and medium scale plants), which is inhibiting the development of the sector. There is, therefore, a significant opportunity to provide equity and subordinated debt funding to this nascent market.

**Deal Pipeline of the Investment Manager**

As at 16 June 2011, the pipeline of potential investment opportunities being pursued by the Investment Manager for funding by the Company totalled approximately £7m in value of which the majority are AD plants addressing the waste food marketplace. The most advanced investment opportunities include three local authority competitive tenders in Wales of which the North West Wales region has already confirmed

BiogenGreenfinch as the sole remaining bidder. The Welsh Assembly was one of the early adopters of the AD solution for the treatment of waste food and has established a comprehensive tender programme covering the whole country. These local authority backed contracts entail long term waste supply agreements with predetermined prices and minimum volumes thereby reducing project risk. Other opportunities include AD and IVC investments in Scotland, the Midlands and the South West. The Investment Manager has been in discussions with a number of industry operators who specialise in AD and IVC projects to secure investment pipeline.

## **THE OPPORTUNITY**

### **Macro and Regulatory Drivers**

It is estimated that the UK currently sends around 7m tonnes of food waste direct to landfill per annum and UK agriculture produces roughly 90m of slurry and manures per annum.

#### *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 potential available Anaerobic Digestion market based on the DEFRA "Anaerobic Digestion Strategy and Action Plan" estimates indicate up to 5m tonnes per annum of food waste and somewhere in the region of 20m – 60m tonnes per annum of animal waste may be processed using anaerobic digestion technology. As a result targets imposed by the Landfill Directive, 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. This is currently £56 per tonne, rising by an additional £8 per tonne per annum to £80 by 2014/15 (with a minimum floor under that level of tax until at least 2020 ) which will significantly increase the overall cost of landfill. This will 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 2013 and 2020.

#### *Renewable Energy Generation*

The UK Government has also signed up to the EU wide initiative to increase renewable energy generation. Under this initiative, the UK is expected to produce 15% of its energy from renewable sources by 2020. The Renewable Obligation Scheme is the 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 UK and supplied to customers within the UK by a licensed electricity supplier. One ROC is issued for each megawatt hour (MWh) of eligible renewable output generated. A ROC is currently priced at approximately £48. AD qualifies for double ROCs, and, therefore, the AD plant will receive approximately £96 per MWh of electricity produced. Also in support of the initiative, the UK Government is in the process of introducing a Renewable

Heat Incentive (RHI) scheme.

The Department of Energy and Climate Change (DECC) in their June 2011 report estimates the current installed capacity for both off farm and on farm AD is around 28 Megawatts of installed electrical capacity (MWe), and projects that this will rise to between 200 - 700 MWe by 2020. Combined with the Government's stated policy set out in DEFRA's "Anaerobic Digestion Strategy and Action Plan" to "enable a thriving AD industry to grow in England over the next few years", there will be a requirement for a significant number of new AD facilities if the growth forecasts and Government policy aspirations are to be achieved.

### *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).

In 2009/10 46.9% of all MSW generated in England was 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 various categories of 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.

## **Environmental Infrastructure Investment Opportunity**

### *Overview of Investment Opportunity*

The Company provides Investors with the opportunity to invest in a diversified portfolio of environmental infrastructure companies and plants. The funds will be primarily focused on investing in organic waste recycling (e.g. Anaerobic Digestion and In-Vessel Composting) companies and plants. Other environmental infrastructure investment opportunities with similar characteristics will also be considered.

The UK Government is promoting AD as a key technology to help meet waste recycling and renewable energy targets for 2020<sup>2</sup>. AD is not a new technology. It has been widely used in Continental Europe, especially in Germany and Denmark, for several years. It is expected that a significant number of AD plants will be required to be built in order to meet the demand from the commercial sector, e.g. supermarkets. To date, the Investment Manager is aware of in excess of 60 IVC plants operating in the UK but only 22 AD plants (excluding those plants dedicated to the treatment of farm waste and sewage sludge)<sup>3</sup>.

### *Waste Supply*

The key target for the Company is the municipal serviced waste sector as local authorities have to find alternative waste treatments for organic waste in line with the Government's timetable. In Wales, for instance, local authorities have, therefore, invited tenders from private sector operators to build AD plants in return for guaranteed supply contracts. In such cases local authorities are specifying in the tender that AD is the preferred technology as this is the Government's preferred strategy.

The commercial sector is another target sector for the Company. This includes food from supermarkets, catering establishments and food manufacturers which is not subject to waste targets (if such food waste is not collected by local authorities) but is impacted by the cost of landfill. The landfill escalator tax effectively pushes up the

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<sup>2</sup> The UK Coalition Government's Manifesto, published on 20 May 2010, has explicitly highlighted AD as the means by which it will be promoting a "huge increase in energy from waste".

<sup>3</sup> See responsibility statement at paragraph 9(a) of Part V of this document

cost of landfill to such an extent that it becomes too expensive when compared to the cost of AD. Therefore increasingly the commercial sector, in particular the supermarkets, are seeking AD capacity as it will be more cost effective and helps to underpin their environmental credentials.

## 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 2011/12 and 2012/13 tax years, are set out below:

- **Income tax relief at 30%** of the amount subscribed provided that the Shares in a 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:

<b>Effect of Initial Income Tax Relief*</b>	
<b>Cost of Investment</b>	<b>Pence per Share</b>
Gross Investment	100.0p
30% income tax relief	(30.0p)
Net of tax cost of investment	<u>70.0p</u>
<b>Initial Value of Investment</b>	
Gross subscription by Investor	100.0p
Issue costs	(5.5p)
Initial NAV	<u>94.5p</u>
Initial "Uplift" (pence per B 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 B Share and the initial NAV is 94.5p, an "uplift" of 24.5p per B Share or +35% (assuming no Additional Shares are issued, and that the maximum amount is raised for the Company under the Offers). Investors should note that they are required to hold the B 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 B 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 Company's 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

The current investment policy of the Company is set out below. Subject to Shareholder approval, the Board proposes to broaden the investment policy as set out on page 23.

### Investment Objectives

The Company's objective is to maximise tax free capital gains and income to Shareholders from dividends and capital distributions by investing the Company's 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 Company will seek to invest in investee companies that it believes 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 Investment Manager believes there are reasonable prospects of an exit, either through a trade sale or flotation in the medium term.

### **Asset Allocation**

The 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.

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

It is expected that after investing 90% of funds raised in Qualifying Investments, the Company will have at least 6 investments in relation to each fund (assuming full subscription under the respective offer) 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 the Company, no single investment will at the time it is made represent more than 15% of the aggregate net asset value of its funds from time to time.

<b>Type of Investment</b>	<b>Percentage of Net Assets</b>	
	<b>Initially</b>	<b>After 3 Years</b>
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 the Company will borrow. However, the Company will retain the power to borrow up to 25% of its net asset value.

## **Risk Diversification**

The structure of the Company's fund, and its investment strategy, have been designed to reduce risk as much as possible.

The main risk management features include:

- portfolio of investee companies – the Company will invest in at least 6 different companies in relation to each fund (assuming full subscription under the respective offer), thereby reducing the potential impact of poor performance by any individual investment;
- establishment of relationships with operating partners – the Company 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 Company in order to identify any issues and to enable necessary corrective action to be taken;
- significant control over investee companies – the Company will ensure that it has 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 the 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 the Company will only be effected with shareholders' approval in accordance with the Listing Rules.

## **Proposal to Broaden the Investment Policy**

The Board proposes to broaden the above investment policy to ensure that the Investment Manager is able to invest in similar proven technologies to Anaerobic Digestion and In-Vessel Composting in the waste to energy sector, provided that such technologies have similar investment characteristics. The waste to energy market is set to grow significantly over the next five years and the Board wants to ensure that the Company is able to take advantage of the growth in this sector in order to maximise returns to Shareholders and Investors. Accordingly, at the General Meeting, Shareholders are being asked to approve the Resolutions which will authorise a change in investment policy relating to the funds awaiting investment and the new funds to be raised under the Offers.

It is, therefore, proposed that the following sub-paragraph in "Investment Objectives" section of the current investment policy be deleted:

- “• 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 replaced with:

- “• 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 environmental infrastructure, focusing on organic waste recycling in the UK;”

It is also proposed that the first paragraph in the “Asset Allocation” section of the investment policy be deleted, being:

“The 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.”

and replaced with:

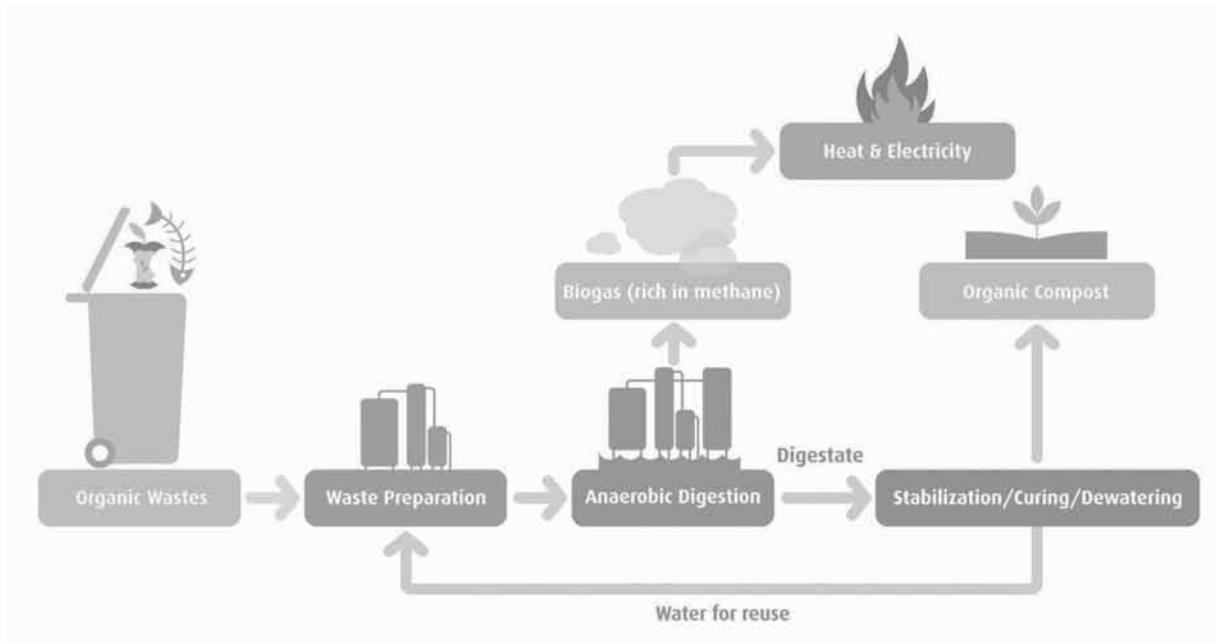
“The Company's investment policy is to focus on investing in lower risk Qualifying Companies which utilise existing technologies which are supported by commercial supply agreements”.

The Directors do not believe that widening the investment policy as set out above constitutes a greater risk for the fund as shorter term commercial contracts are often more profitable than longer term local authority contracts and that there is significant demand for AD capacity from the commercial sector. Whilst AD is widely acknowledged as a low risk technology there are a number of similar waste to energy processes that have similar risk characteristics. The key to the risk profile of the fund is to achieve a blend of projects that provide a satisfactory level of project and customer diversification.

A copy of the investment policy (as amended) is set out in Part III of this document.

## ANAEROBIC DIGESTION AND IN-VESSEL COMPOSTING PLANTS

### Anaerobic Digestion



Anaerobic Digestion is a biological process that happens naturally when bacteria break down organic matter in environments with 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 grass clippings, leftover food, 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 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.

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 has been widely used in Continental Europe, particularly in Germany and Denmark, for several years.

### In-Vessel Composting

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. 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.

## **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, it is intended that the Company 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 of the relevant class (as at the date of the passing of the resolution in the case of the Original Shares, and in issue after the closing of the Offers in the case of the B Shares). In the case of the B Shares, no buyback of these will take place in the first year after the initial allotment of those shares. The Boards intend to operate a policy of purchasing Shares in the market at a price equivalent to the Company's most recently published NAV, at the time of purchase, less a discount of 15%.

Shareholders should note, however, that the Company cannot buy Shares directly from Shareholders and that the implementation of a buyback policy through a market maker may result in the price paid by the Company 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 Company's 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 the Company 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 the Company 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 on B Shares issued under the Offers in 2013. The Investment Manager is incentivised to maximise the payment of dividends, since Performance Incentive Fees payable in relation to the performance of the B Shares will only become payable (subject to other thresholds also being met) once holders of B Shares have received a minimum of 20p per B Share in Shareholder Proceeds

(mainly being in the form of dividends).

## **THE INVESTMENT MANAGER**

The Company's investments are managed by Iona Capital Limited, which was originally established in 1981 as part of the Electra Partners Group. Iona Capital Limited is authorised and regulated by the Financial Services Authority. The Investment Manager is an investment manager specialising in the environmental sector with a particular focus on the waste to energy market. The Investment Manager manages the Iona Environmental VCT which has unaudited net assets of approximately £4.9m (as at 31 March 2011). The Investment Manager is currently raising an institutional fund with the intention that such a fund will co-invest alongside the Company in similar investment projects.

### **Investment Management Team and Investment Committee**

The investment management team of Colin Clark, Michael Dunn and Nicholas Ross together has more than 30 years of combined experience in venture capital and/or the waste industry.

In addition, the Investment Manager has established an investment committee for the Company, which meets regularly to approve all investments and disposals. This committee is chaired by a leading waste industry executive, John Kutner.

Details of the individuals are set out below:

**Colin Clark** is a chartered accountant with broad senior financial and commercial experience in a variety of business sectors including: major capital-intensive businesses (transport, international mining); business process outsourcing; global commodity and capital market trading; and consultancy (NHS, MoD). Over the last twenty years he has held senior positions at Amey plc, ENI spa and London Underground.

**Michael Dunn** has held various senior positions within the waste management and renewable sector over the last 15 years. His most recent role was as Managing Director of Shanks PFI Investments and Chairman of ELWA Limited, which operates the largest MBT Facility in the UK. Michael is experienced in government procurement processes and long term contracting within the renewable sector. He was previously head of PFI infrastructure advisory services at PKF and has held senior roles within the Veolia Group. Michael currently has various non-executive directorships within the sector, including London Waste Limited and Oaktech Limited, a company specialising in AD. He has a Masters Degree in Finance from the London Business School. Michael is also a member of the investment committee of the Company.

**John Kutner** is a qualified FCA and served as Financial Director and Deputy Chief Executive of Veolia Environmental Services (previously Onyx Environmental Group) since its establishment in the UK in 1990. John is the independent Chairman of the investment committee established by the Company to oversee all investment decisions.

**Nicholas Ross** joined Electra Partners in 1993 after several years in investment analysis and fund management. From 2001 onwards he was part of the Electra team investing in smaller company transactions and the launch of a number of VCTs under the Electra Kingsway brand. Nick has a broad range of investment experience having sat on a number of investee company boards and sits on the Company's investment committee. Nick is an economics graduate of Nottingham University and holds associate examinations from the Institute of Investment Management and Research.

At least one independent member of the investment committee must approve an investment or disposal before it can be effected by the Company. The Company intends to appoint at least one other independent member to the investment committee in the near future.

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

The Directors of the Company consider that the ability of the Company to co-invest with any other funds managed by the Investment Manager (all such companies and funds together being the “Iona Companies”) is desirable as it will enable the 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 Iona 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 Iona Companies. Any costs associated with any such investment will be borne by the relevant party pro-rata to its respective investment.

The Investment Manager reserves the right to recommend to the boards of the Iona Companies the allocation of investments on a different basis from time to time. This may be required to ensure that the Iona Companies which are VCTs maintain their status as HMRC approved VCTs, or in the interests of balancing the portfolios of the Iona Companies. 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 Iona Company (as appropriate) has invested at an earlier stage, each of the Iona 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 the above provisions will exclude any such entitlement to be taken up).

Any potential conflict of interest arising in connection with a proposed investment by the Company and any of the other Iona 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 board of the company concerned.

In the event of a conflict of interest between the Investment Manager and any of the Iona Companies, the matter shall be referred to the independent directors of the Iona 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 V of this document.

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 the Company.

### **Operating Partners**

The Investment Manager has been working closely with a number of industry operators who specialise in AD and IVC projects. In particular, the Investment Manager has established a close working relationship with BiogenGreenfinch and has been assisting them in their bids for the Welsh local authority tenders that are currently in progress. BiogenGreenfinch is a British company based in Bedfordshire, which designs, builds, owns and operates commercial-scale AD plants for processing food waste. It operates three commercial AD plants in the UK, which are located in Rushden, Northamptonshire (opened in June 2009), Milton Ernest, Bedfordshire (opened in 2005) and Ludlow, Shropshire (opened in 2006). BiogenGreenfinch is one of the leading players in the operation of AD plants for processing food waste in the UK, and has a pipeline of potential new projects.

In addition to its relationship with BiogenGreenfinch, the Company is also currently in discussions with a number of other established waste management businesses, with a view to funding the development of their planned AD and IVC plants.

The Operating Partners are responsible for sourcing site projects, negotiating with waste stream suppliers as well as building and operating the plants. The Operating Partners are not obliged to offer such investment opportunities to the Investment Manager for the Company to invest in, and the Company is not obliged to invest in such opportunities.

## **THE BOARDS**

### **Directors**

The Company has three highly experienced Directors, all of whom are non-executive and, except for Michael Dunn, independent of the Investment Manager. Michael Dunn, who is also a director of the Investment Manager, will not vote on any matter at a board meeting or at a committee meeting of the Company where there is a conflict of interest between the Company and any other fund managed by the Investment Manager.

- David William Eades (Chairman)

David is an experienced qualified accountant who has held several executive roles including as managing director and finance director. He has led businesses from start-up through to IPO and assisting companies with fund raisings. David has held non-executive chairman roles as well as several non-executive directorships.

- Philip Henry Ling

Philip is currently a director of a number of private companies, and in the past has been a non-executive director of several public companies including Ibstock Johnsen plc, PE Consulting plc and Elderstreet Millennium VCT.

- Michael Brian Dunn

Michael is a director of the Investment Manager. He brings to the Board extensive commercial and financial experience within the waste and renewables sector. Michael also serves on a number of other boards in a non-executive capacity including London Waste Limited.

Michael's previous relevant sector appointments include serving as a board director within various Shanks Group companies and previous to that as a partner within PKF LLP where he headed up the renewables/waste advisory teams.

### **Practices and Operation**

The Board of the Company is responsible for the overall control and management of the Company with responsibility for its affairs, including determining its investment policy. However, investment proposals originate and are decided on by the Investment Manager under the Management and Administration Deed between the Company and the Investment Manager.

The Board meets 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. The Company will operate within the UK Corporate Governance Code, save as set out below.

### **Audit Committee**

The audit committee of Iona Environmental VCT is chaired by Philip Ling.

The audit committee is expected to meet not less than once a year. The Company's 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 the audit committee is as follows: the committee has responsibility for, among other things, the planning and reviewing of the 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 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 Company.

#### **The Nomination Committee**

The nomination committee of Iona Environmental VCT is chaired by David Eades and its other member is Philip Ling.

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

#### **Remuneration Committee**

The remuneration committee of Iona Environmental VCT is chaired by David Eades and its other member is Philip Ling.

The remuneration committee is expected to meet on an ad hoc basis. The committee has responsibility for considering matters relating to remuneration and will make appropriate recommendations to the Board in relation to these matters.

#### **Other matters**

The Company has appointed Philip Ling as senior independent director.

## **MANAGEMENT ARRANGEMENTS AND COSTS**

#### **Annual Fees**

The Annual Running Costs of the Company 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).

In April 2010 the Board and the Investment Manager announced that they would waive the directors, administration and annual management fees and none of these fees have been charged for the first 18 months of the life of the fund. In recognition of the progress in the investment pipeline the Board intends to reinstate the directors and administration fees, the exact timing of which will depend on the incidence of investments. The Investment Manager will continue to waive the annual management fee until total gross funds raised exceed £8m or the Original Share Fund is 50% invested in Qualifying Investments.

Under the terms of the Management and Administration Deed (as varied by the Deed of Variation proposed to take effect on the allotment of the B Shares), the Company will pay the Investment Manager an administration fee of £60,000 per annum increased annually in accordance with RPI (plus VAT, if appropriate) for administering the Company, together with an annual investment management fee (of 2.5% in relation to the fund created by the Original Shares, and 2.0% in relation to the fund created by the B Shares) payable quarterly in advance based on the Net Assets of the Company. The administration fee will not increase as a result of the Offers or the issue of B Shares. In relation to the fund represented by the B Shares, the Investment Manager will be entitled to the payment of a performance-related incentive fee (see below).

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 of the Company 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 the Company 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. The Investment Manager and the Company have entered into an agreement that sets out an investment timetable for the investment of the Company's capital (with the Company having the ability to transfer the management of the Company to another manager – with no compensation being payable to the Investment Manager on termination of the appointment - if certain milestones in that timetable are not met). Further details of that agreement are set out in paragraph 5(e) of Part V of this document.

### **Performance Incentive Fees on B Shares**

As is customary in the venture capital industry, the Investment Manager will be entitled to receive a Performance Incentive Fee based upon returns to the holders of B Shares. The Performance Incentive Fee is designed to ensure that there are significant tax-free dividend payments made to the holders of B Shares as well as strong performance in terms of capital and income growth, before any payment of a Performance Incentive Fee is made.

The amount of the performance incentive Fee is based wholly on the NAV of the B Shares in the Company and on the payment of Shareholder Proceeds in relation to the B Shares. Therefore, if by the end of a financial year (commencing no earlier than close of the 2014 financial year), Shareholder Proceeds per B Share have reached 20p in aggregate and if the Performance Value at that date exceeds 120p per B Share, a performance incentive fee equal to 20% of the excess of such Performance Value over 100p per B Share will be payable to the Investment Manager. If, on a subsequent financial year end, the Performance Value of the Company falls short of the Performance Value on the previous financial year end, no incentive fee will arise. If, on a subsequent financial year end, the performance exceeds the previous best Performance Value of the Company, the Investment Manager will be entitled to 20% of such excess in aggregate.

## **THE OFFERS**

### **The Offers**

B Shares are being offered at 100p each.

A maximum of 10 million B Shares in the Company, which are being offered to the public, are being made available under the Offers in order to enable investment in both the 2011/12 and 2012/13 tax years. The B Shares will be payable in full by cheque or banker's draft on application. Investors may post-date their cheques to 6 April 2012 for applications in respect of the 2012/13 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. 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 the Offers will open on 5 July 2011 and may close at any time thereafter, but in any event not later than 1.00 p.m. on 5 April 2012, in the case of the 2011/12 Offer, and not later than 5.00 p.m. on 1 June 2012, in the case of the 2012/13 Offer. 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 2011 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 Level of Applications**

The Offers will not proceed unless valid subscriptions amounting to not less than £800,000 under the Offers (when taken together) are received by 1.00 p.m. on 5 April 2012. 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.

### **Allotment, Admission and Settlement**

B Shares will be allotted and issued in respect of valid applications received for the 2011/12 Offer on 5 April 2012 and on any other dates (prior to 5 April 2012) on which the Directors decide. In respect of the 2012/13 Offer, B Shares will be allotted and issued on 30 April 2012 and on any other dates after 5 April 2012 on which the Directors decide.

Application will be made to the UK Listing Authority and the London Stock Exchange for the B Shares to be issued under the Offers to be admitted to the premium tier of the Official List of the UK Listing Authority and to be traded on the London Stock Exchange's main market for listed securities. The B 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 B Shares will rank for all dividends and other distributions declared, paid or made by the Company thereafter. It is anticipated that dealings in the B Shares will commence within 10 business days of the issue of such shares.

The Company will apply for the B Shares to be issued under the Offers to be admitted to CREST with effect from admission of the relevant B Shares. Accordingly, settlement of transactions in the B 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 B 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 B Shares first commence.

In the event of any requirement for the Company to publish a supplementary prospectus, subscribers who have yet to be entered into the Company's register 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 B Share). As the Investment Manager has agreed to waive its management fees on the Original Share Fund and on the fund represented by the B Shares until the total gross funds raised by both funds exceeds £8m or the Original Shares Fund is 50% invested in Qualifying Investments, the Company will be responsible for paying the legal and sponsor costs of the Company in relation to the Offers and Admission. The Investment Manager will be responsible for paying all the other costs of the Offers including initial commissions payable to authorised financial advisers (on successful applications detailing their FSA number) and listing expenses (but not the subscription monies on Additional Shares). The Investment Manager will reimburse the Company for the legal and sponsor costs referred to above from and to the extent of its initial capital raising fee (after deduction of any initial commissions that the Investment Manager is required to pay). The initial costs of the Offers to the Company will be 5.5% of the gross proceeds, together with an amount between approximately £73,000 (at the minimum subscription threshold for the Offers to proceed) to £0 (if gross subscriptions exceed approximately £3.72m). If the maximum subscription of £10m is raised under the Offers, the net proceeds of the Offers will be 94.5p per B Share and the maximum initial capital raising fee payable to the Investment Manager will be £550,000.

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 B 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 B Shares, the Company will pay an annual trail commission usually of 0.25% of the Net Assets of the Company per B Share in relation to each £1 payable by the Applicant in respect of the B Shares allocated. This annual trail commission will be payable until the earlier of (i) 10 years from 31 January 2013, (ii) the Management and Administration Deed (as varied by the Deed of Variation) being terminated and (iii) the total trail commission payable equals 4.5% of the proceeds of the Offers. In respect of the B Shares, this annual trail commission will first be paid by 31 January

2013 in respect of the financial period ending 30 September 2012 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 B Shares at no greater cost to the Company 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, the authorised financial advisers will not be eligible to receive annual trail commission on those shares.

## **OTHER INFORMATION**

### **Duration of the Company**

Although it is intended that the Company 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 the Company's annual general meeting in 2020 or (if the Company has not before the seventh annual general meeting of the Company in 2017, paid or declared (in relation to one Ordinary Share and one A Share) an aggregate amount of dividends or distributions of at least 100p (in relation to such shares issued under the first offer for subscription of the Company)) in 2017, to seek confirmation from all 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 2017), and in 2020 and at five yearly intervals thereafter (in the case of a vote passed in 2020). 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 the Company 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 the Board on 31 December and 30 June of each year and these net asset values will be communicated to Shareholders through a Regulatory News Service. The 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 the 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**

The Company's annual report and accounts will be made up to 30 September in each year and will normally be sent to Shareholders in December. The Company's first accounting period ended 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 Company's 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 the Company so that it satisfies the conditions for approval as a VCT and that such approval will be maintained. HM Revenue & Customs has granted the Company provisional approval under section 274 ITA as a VCT, the approval being effective from the first day on which the Company's Ordinary and A Shares were listed on the London Stock Exchange being 22 April 2010. The Company intends to comply with section 274 ITA and has retained PricewaterhouseCoopers LLP to advise it on VCT taxation matters.

To date the Company has made no VCT-qualifying investments. Proceeds of the 2009 Offers were retained as cash or invested in money market funds. Although it was unknown at the time the cash was invested, the money market funds had been aggregated and, therefore, potentially breached the 15% test for VCTs (i.e. no more than 15% can be invested in any one investment). On discovering this potential inadvertent breach of this requirement, the Company immediately contacted HMRC with a view to seeking a dispensation for this potential breach, which it received on 18 March 2011. After discovering the potential breach, all monies were withdrawn from the money market funds. All funds of the Company are currently held as cash deposits pending investment in qualifying holdings.

### **New Special Reserve**

The Directors are aware of the possibility that the B Shares (like the existing Shares) may trade at a discount to their Net Asset Value at some point. The Directors consider that the 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 the 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 the Company's VCT status and Court approval, the Company intends to cancel its share premium account (created on the issue of the B Shares pursuant to the Offers) and to establish a new special reserve, which may be treated as distributable profit, out of which purchases of B Shares can be made.

Shareholder approval will not be required for such actions in relation to the Original Shares, as the necessary empowering resolutions were passed on 12 November 2009. In relation to the B Shares, the necessary empowering resolutions are to be proposed at the General Meeting.

### **Working Capital**

The Company confirms that 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**

As at the date of this document, the Company has not incurred any indebtedness, whether guaranteed, unguaranteed, secured, unsecured, indirect or contingent. The Company has the power to borrow, details of which are set out in paragraph 3(p) of Part V.

The capitalisation of the Company as at 31 March 2011, the most practicable date prior to the publication of this document, is as follows:

<b>Shareholders' Equity</b>	<b>£'000</b>
Share capital	26
Legal reserve	4,989
Other reserves	(118)
<b>Total</b>	<b>4,897</b>

There has been no material change in the capitalisation of the Company, total debt or Shareholders' equity since 31 March 2011.

**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 B Shares under the terms of the Offers you are recommended to consult a duly authorised independent financial adviser.**

# 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 the Company 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 the Company 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 listed on a European regulated market 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 70% by value of its qualifying investments is represented by eligible shares, being shares which have no redemption rights, no preferential rights to assets on a winding up, but are permitted to have certain preferential rights to dividends. For funds raised prior to 6 April 2011, a VCT must have at least 30% by value of its qualifying holdings in ordinary shares which have no preferential rights to dividends or return of capital, nor 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. It is proposed that from 6 April 2012, a new investment in a company which receives the whole or a substantial part of its income from Feed-in Tariffs should not be a qualifying holding. 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. The Company in which a VCT invests must have a permanent establishment in the UK. 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.

From 6 April 2012, it is proposed that:

- (i) the amount that any single company or group can receive under the EIS or from VCTs will be increased from £2 million in any twelve month period to £10 million
- (ii) the limit on the number of employees will be increased so that investee companies with fewer than 250 employees can qualify; and
- (iii) the gross assets limit prior to investment will be raised from £7 million to £15 million.

These changes are subject to EU State Aid approval being received.

HM Revenue & Customs has confirmed that the B Shares are 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. The VCT 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 2011/12 and 2012/13, 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 the VCT; and
  - a liability to tax on capital gains being suffered in the normal way on the disposal of shares in the VCT, 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 VCT 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 the VCT; 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 the Company, 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 in a VCT. 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 in a VCT, 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% qualifying holdings test described in paragraph 1 above. This test 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**

### **RESTATED INVESTMENT POLICY**

The investment policy of the Company (if adopted at the General Meeting) will be as set out below:

#### **Investment Objectives**

The Company's objective is to maximise tax free capital gains and income to Shareholders from dividends and capital distributions by investing the Company's 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 environmental infrastructure, focusing on organic waste recycling in the UK;
- in fixed income funds, securities and cash deposits

within the requirements imposed on VCTs.

#### **Investment Strategy**

The Company will seek to invest in investee companies that it believes 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 Investment Manager believes there are reasonable prospects of an exit, either through a trade sale or flotation in the medium term.

#### **Asset Allocation**

The Company's investment policy is to focus on investing in lower risk Qualifying Companies which utilise existing technologies which are supported by commercial supply agreements.

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

It is expected that after investing 90% of funds raised in Qualifying Investments, the Company will have at least 6 investments in relation to each fund (assuming full subscription under the respective offer) 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 the Company, no single investment will at the time it is made represent more than 15% of the aggregate net asset value of its funds 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>

\* the 3 year VCT investment period for the fund represented by the 'B' Shares will be different from the investment period that applies to the fund represented by the Ordinary Shares and the 'A' Shares.

### Gearing

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

### Risk Diversification

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

The main risk management features include:

- portfolio of investee companies – the Company will invest in at least 6 different companies in relation to each fund (assuming full subscription under the respective offer), thereby reducing the potential impact of poor performance by any individual investment;
- establishment of relationships with operating partners – the Company 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 Company in order to identify any issues and to enable necessary corrective action to be taken;
- significant control over investee companies – the Company will ensure that it has 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 the 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 the Company will only be effected with shareholders' approval in accordance with the Listing Rules.

## PART IV

### FINANCIAL INFORMATION ON THE COMPANY

#### 1. Introduction

The audited statutory accounts of the Company for the year ended 30 September 2010 contains an unqualified report under Sections 495, 496 and 497 of the Act, made by the Company's auditors Moore Stephens LLP, of 150 Aldersgate, London EC1A 4AB. The reports made by Moore Stephens LLP, registered auditor and a member firm of the Institute of Chartered Accountants in England and Wales, on the statutory accounts of the Company for the year ended 30 September 2010 did not contain any statement under Section 498 (2) or (3) of the Act. The unaudited interim accounts for the period ended 31 March 2011 were announced on 31 May 2011. Copies of these audited statutory accounts and unaudited interim accounts are available at the Company's registered office. The audited statutory accounts of the Company are drawn up under UK Generally Accepted Accounting Practice (UK GAAP). These financial statements also contain a description of the Company's financial condition, changes in financial condition and results of operations for the financial period.

#### 2. Historical Financial Information Incorporated by Reference

The historical financial information (which includes information on certain related party transactions) contained in the Company's audited statutory accounts for the year ended 30 September 2010 and the Company's unaudited interim financial report for the period ended 31 March 2011 is incorporated by reference in this Prospectus. Where these documents make reference to other documents, such other documents are not incorporated into and do not form part of this Prospectus.

Historical financial information relating to the Company on the matters referred to below is included in the published audited statutory accounts and the published unaudited interim accounts of the Company for the period stated as follows

<i>Nature of Information</i>	<i>Audited Statutory Accounts for Year Ended 30 September 2010</i>	<i>Unaudited Interim Accounts for Six Months Ended 31 March 2011</i>
<i>Financial highlights</i>	3	3
<i>Chairman's Statement</i>	4	4
<i>Investment Manager's Review</i>	5	5
<i>Income Statement</i>	20	9
<i>Balance sheet</i>	21	10
<i>Cash flow statement</i>	22	11
<i>Notes to the financial statements</i>	26-33	13
<i>Independent auditors' report</i>	19	N/A
<i>Related party transactions</i>	N/A	N/A

Details of all changes in the equity of the Company for the period ended 30 September 2010 are contained in paragraph 11 of the section “Notes to the financial statements” referred to above.

### 3. Operating and Financial Review

The Chairman’s Statements and the Investment Manager’s Reviews in respect of the Company for the period ended 30 September 2010 and 31 March 2011 are set out on those pages (specified in the table above) of the historical financial information referred to in paragraph 2 of this Part IV, such statements and reviews being incorporated by reference. Your attention is drawn to the Risk Factors and Investment Considerations on page 6 of this document.

### 4. Financial Highlights

Key financial highlights as extracted from the audited statutory accounts and the unaudited interim accounts are as follows:

	<b>As at 30 September 2010</b>			<b>As at 31 March 2011</b>
<b>Net assets</b>	£4.9 million			£4.9 million
	<b>Ordinary Shares</b>	<b>A Shares</b>	<b>Ordinary Shares</b>	<b>A Shares</b>
Net asset value per share	89.6 p	2.2 p	88.7 p	1.8 p
Dividend paid per share	0.0 p	0.0 p	0.0 p	0.0 p
<b>Cumulative Return to shareholders since launch:</b>				
Dividends paid per share	0.0 p	0.0 p	0.0 p	0.0 p
Net asset value plus dividends paid per share	89.6 p	2.2 p	88.7 p	1.8 p

### 5. Investments portfolio and investments

As at the date of this document the Company does not have any investments.

All funds of the Company are currently held as cash deposits.

# PART V

## ADDITIONAL INFORMATION

### 1. The Company

- (a) The Company was incorporated and registered in England and Wales on 19 October 2009 with limited liability as a public limited company under the 2006 Act with the name Acuity Protected Environmental VCT plc and with registered number 7049290. On 11 November 2009, the Company changed its name to Acuity Environmental VCT plc, and on 26 May 2011, changed to Iona Environmental VCT plc.
- (b) On 12 November 2009, the Registrar of Companies issued the Company with a certificate under section 761 of the 2006 Act entitling it to commence business.
- (c) On 12 November 2009, the Company gave notice to the Registrar of Companies of its intention to carry on business as an investment company under section 833 of the 2006 Act.
- (d) The principal legislation under which the Company operates, and under which the Ordinary Shares and A Shares have been created (and under which the B Shares will be created), are the Acts and the regulations made thereunder. The Company is not regulated to conduct investment business under the Financial Services and Markets Act 2000, and is neither regulated nor authorised by any particular regulatory authority. By virtue of the fact the Company is a VCT it will be subject to the regulations of HMRC, the Act, the UK Listing Authority and other relevant regulations and legislation.
- (e) The principal activity of the Company is to operate as a VCT.

### 2. Share Capital and Shareholder Authorities

- (a) The Company 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 the Company, HK Registrars Limited and HK Nominees Limited. After the close of the 2009 Offers, and as at the date of this document, there are 5,345,499 Ordinary Shares and 8,018,246 A Shares in issue.
- (b) By ordinary and special resolutions passed at a general meeting of the Company held on 12 November 2009:
  - (i) the Directors 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 the Company's first Annual General Meeting (unless previously revoked, varied or extended in general meeting) but so that such authority allows the Company 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 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 2009 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 immediately following the closing date of the 2009 Offers.

- (iii) the Company 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 was limited to 10% of the issued share capital of each class of shares at the closing date of the 2009 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 Company's first Annual General Meeting;
  - (iv) subject to approval by the High Court of Justice the Company was generally and unconditionally authorised to cancel the amount standing to the credit of the share premium account after the final closing of the 2009 Offers; and
  - (v) the Company adopted the Articles as its new articles of association.
- (c) So as to enable the Company 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 were redeemed in full by the Company out of the proceeds of the 2009 Offers and, thereupon, cancelled, on 4 July 2011.
- (d) By ordinary and special resolutions passed at the annual general meeting of the Company held on 24 March 2011:
- (i) the Directors were generally and unconditionally authorised in accordance with Section 551 of the 2006 Act to allot:
    - (a) Ordinary Shares, or to grant rights to subscribe for or to convert any securities into Ordinary Shares, up to a maximum nominal amount of £550 (representing approximately 10% of the Ordinary Share capital in issue at the date of the resolution); and
    - (b) A Shares, or to grant rights to subscribe for or to convert any securities into A Shares, up to a maximum nominal amount of £810 (representing approximately 10% of the A share capital in issue at the date of the resolution);

this authority to expire at the earlier of the conclusion of the Company's Annual General Meeting next following the passing of the resolution and the expiry of 15 months from the passing of the relevant resolution (unless previously revoked, varied or extended by the Company in general meeting) but so that such authority allows the Company to make offers or agreements before the expiry thereof which would or might require shares to be allotted, or rights to subscribe for or to convert any securities into shares to be granted, after the expiry of such authority;

- (ii) the Directors were empowered pursuant to Section 570(1) of the Act to allot or make offers or agreements to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority referred to in resolution referred to in (d)(i) above as if Section 561(1) of the Act did not apply to any such allotments and so that:
  - (a) reference to allotment in the resolution shall be construed in accordance with Section 560(2) of the Act; and
  - (b) the power conferred by the resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding the expiry of such power. and this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the annual general meeting of the Company next following the passing of the resolution or, if earlier, on the expiry of 15 months from the passing of the resolution.
- (iii) that the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the 2006 Act) of its own Ordinary Shares and A Shares in the capital of the Company provided that:

- (a) the maximum number of Ordinary Shares and A Shares hereby authorised to be purchased shall not exceed 14.9% of the present issued share capital of the Company;
- (b) the minimum price which may be paid for an Ordinary Share is 0.1p and for an A Share is 0.1p, exclusive of all expenses;
- (c) the maximum price which may be paid for an Ordinary Share or an A Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the Ordinary Shares or A Shares as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the share is contracted to be purchased;
- (d) the Company may validly make a contract to purchase Ordinary Shares or A Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of Ordinary Shares or A Shares in pursuance of any such contract;

and this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the annual general meeting of the Company next following the passing of the above resolution or, if earlier, on the expiry of 15 months from the passing of the above resolution.

- (e) By ordinary and special resolutions to be proposed at a general meeting of the Company to be held on 8 August 2011, the Company is seeking the following Shareholder approvals:
  - (i) that the Directors be generally and unconditionally authorised in accordance with Section 551 of the 2006 Act to exercise all the powers of the Company to allot shares in the capital of the Company or to grant rights to subscribe for or to convert any security into shares in the Company (“Rights”) up to an aggregate nominal value of £30,0000, the authority to commence on the passing of the resolution and to expire on the later of the conclusion of the Company’s next annual general meeting and the expiry of 15 months from the passing of the resolution (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of the said authority offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry, the power and authority conferred by this resolution shall be in substitution for all previous authorities;
  - (ii) that the Directors be empowered, during the period commencing on the passing of this resolution and expiring at the conclusion of the Company’s next annual general meeting or on the expiry of 15 months from the date of the passing of this resolution, whichever is the later (unless previously revoked, varied or extended by the Company in general meeting pursuant to Section 570 of the 2006 Act), to make offers or agreements to allot equity securities for cash pursuant to the general authority conferred upon the Directors in accordance with Section 551 of the 2006 Act pursuant to resolution referred to in paragraph (e)(i) above, as if Section 561 of the 2006 Act did not apply to any such allotment, but so that this authority shall allow the Company to make offers or agreements before the expiry which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired

Provided however that the power conferred by this Resolution shall be limited:

- (a) to the allotment of equity securities in connection with the offer for subscription of 10,000,000 B Shares under the Offers;
- (b) to the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of Ordinary Shares, A Shares and/or B Shares or other persons entitled to participate therein for cash in proportion (as nearly as may be) to the holdings of Ordinary Shares, A Shares or B Shares of such holders (or, as appropriate, to the numbers of Ordinary Shares, A Shares or B Shares which such other persons are for these purposes deemed to hold), subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body in, any territory; and
- (c) otherwise than pursuant to sub-paragraphs (a) – (b) above, to the allotment of equity securities to:

- (i) an aggregate nominal amount of 10 per cent of the issued Ordinary Share capital of the Company from time to time,
- (ii) an aggregate nominal amount of 10 per cent of the issued A Share capital from time to time; and
- (iii) an aggregate nominal amount of 10 per cent of the issued B Share capital immediately following the closing of the Offers;

the power and authority conferred by this resolution shall be in substitution for all previous authorities;

(iii) that the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693(4) of the 2006 Act) of shares (the “Shares”) provided that:

- (a) the maximum aggregate number of B Shares authorised to be purchased is such number equal to 10% of the total B Shares in issue following the close of the Offers;
- (b) the minimum price paid for a B Share is 0.1 pence;
- (c) the maximum price paid for a B Share is an amount exclusive of expenses, equal to 105 per cent. of the average of the middle market prices shown in the quotations for such a share in the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which that share is purchased; and
- (d) the Company may validly make a contract or contracts to purchase B Shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiry of such authority, and may validly make a purchase of such shares in pursuance of any such contract

and unless renewed, the authority conferred in this resolution above shall expire either at the conclusion of the next annual general meeting of the Company or on the expiry of fifteen months following the passing of this resolution, whichever is the later to occur. The power and authority conferred by this resolution shall be in substitution for all previous authorities save for that conferred by resolution 8 passed at the annual general meeting of the Company held on 24 March 2011;

- (iv) that, subject to approval by the High Court of Justice, the Company be generally and unconditionally authorised to cancel the share premium account created on the issue of the B Shares;
  - (v) that the New Articles be approved and adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association;
  - (vi) to approve the payment to the Investment Manager of 5.5% of the gross proceeds of the Offers under the terms of the 2011 Offer Agreement, entered into by the Companies on 4 July 2011, such payment being conditional on shareholder approval; and
  - (vii) to approve the proposed amendments to the Company’s investment policy as set out in the Circular.
- (f) On 3 April 2010 of 4,869,352 Ordinary Shares and 4,869,352 A Shares were allotted and issued to various subscribers in the Company. On 3 April 2010 1,350,000 A Shares were unconditionally allotted and issued to Management. On 14 April 2010 a further 157,775 Ordinary Shares and 157,775 A Shares were allotted and issued to various subscribers in the Company. On 28 May 2010 a further 132,800 Ordinary Shares and 132,800 A Shares were allotted and issued to various subscribers in the Company. On 1 July 2010 a further 17,800 Ordinary Shares and 17,800 A Shares were allotted and issued to various subscribers in the Company. On 20 August 2010 a further 58,640 Ordinary Shares and 58,640 A Shares were allotted and issued to various subscribers in the Company. On 22 September 2010 a further 32,000 Ordinary Shares and 32,000 A Shares were allotted and issued to various subscribers in the Company. On 25 November 2010 a further 77,130 Ordinary Shares and 1,399,879 A Shares were allotted and issued to various subscribers in the Company. Therefore, 2,672,749 Management A Shares are held by Management at the date of this document.

- (g) Following the allotment and issue of the Ordinary Shares and A Shares referred to above, applications were made at the relevant times for such shares to be admitted to the premium tier of the Official List of the UK Listing Authority and to be traded on the London Stock Exchange's main market for listed securities. However, in relation to 1,399,879 A Shares issued on 25 November 2010, for technical reasons related to the application of the Prospectus Rules to the 2009 Offers, it has not been possible to have these shares admitted. Following the publication of this document, the Company will make an application for such shares to be admitted to the premium tier of the Official List of the UK Listing Authority and to be traded on the London Stock Exchange's main market for listed securities pursuant to this document as a consequence of it being a prospectus.
- (h) Save as disclosed above in this paragraph 2, since the date of its incorporation, no share or loan capital of the Company has been issued or agreed to be issued or (except pursuant to the Offers) is now proposed to be issued, for cash or any other consideration, and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital except as disclosed herein.
- (i) No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the 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.
- (j) Pursuant to the 2006 Act, the Company has dispensed with the need to have an authorised share capital.
- (k) The Company 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), which will apply to any shares which the Company proposes to issue which are not subject to the disapplication referred to in sub-paragraphs 2(b)(ii), 2(d)(ii) and 2(e)(ii) above.

### **3. Articles of Association of the Company**

The Articles of the Company currently contain provisions, *inter alia*, to the effect described below.: The Board proposes that in relation to the Offers Shareholders approve the amendment of the Articles to include, *inter alia*, the rights of the B Shares.

#### **(a) Limited Liability**

The liability of the members of the Company is limited to the amount, if any, unpaid on the shares held by them.

#### **(b) Objects**

The Articles provide that the Company's principal objects are to carry on the business of a venture capital trust.

#### **(c) Variation of Rights**

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Acts and every other statute for the time being in force concerning companies and affecting the Company ("the Statutes"), be varied or abrogated in respect of the whole or any part of that class either (a) in such manner (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

The Company 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, the Company 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 Company may issue under an authority passed by the Company in general meeting, except to the extent disapplied in general meeting. Subject to the provisions of the Statutes relating to authority, pre-emption rights and otherwise and of any resolution of the Company 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 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 2009 Offers, any Management A Shares in excess of one-third of the total number of A Shares issued in relation to the 2009 Offers 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 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 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 Company for a sum equivalent to the amount paid up on each share.

(l) Dividends

The Company 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 the 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 Company. Notwithstanding the above provisions, the profits of the 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 the prospectus for the 2009 Offers.

(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 Company. Subject to the provisions of the Act, no such contract, arrangement, transaction or proposal entered into by or on behalf of the Company 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 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 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 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 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 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 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 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 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 the 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 Company or any company in which such 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 Company or any company in which the 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 Company in general meeting). The Directors shall also be paid by the 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 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 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 the Company to borrow money, and to mortgage or charge its undertaking, property, assets and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ii) The Directors shall restrict the borrowings of the Company so as to secure that the aggregate amount at any one time owing or deemed to be owing by the Company in respect of moneys borrowed without the previous sanction of an ordinary resolution of the Company shall not exceed an amount equal to 25% of the 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 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 the 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 Company 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 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 the Company 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 the Company in such manner as he may determine.

(s) Duration

If the Company has not, prior to the circulation of the relevant notice to shareholders to the seventh annual general meeting of the Company following admission of the Shares to the Official List, paid or declared (in relation to one Ordinary Share and one A Share) an aggregate amount of dividends or distributions of at least 100p for such shares, then the Directors shall put an ordinary resolution to that general meeting, proposing that the Company 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 the Company (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 the Company for submission to the members 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 the Company has given notice in the prescribed form (which has not been revoked) to the Registrar of Companies of its intention to carry on business as an investment company ("a Relevant Period"), distribution of the Company's capital profits (within the meaning of section 833(2)(c) of the 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 the Company is to be dealt with as income or capital or partly one way and partly the other. During a Relevant Period, any loss realised on the realisation or payment off of or other dealing with any investments or other capital assets and, subject to the Act, any expenses, loss or liability (or provision therefore) which the Directors consider to relate to a capital item or which the Directors otherwise consider appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. During a Relevant Period, all sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable except and provided that notwithstanding any other provision of the Articles no part of the capital reserve or any other money in the nature of accretion to capital shall be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution (as defined by Section 829(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 the Company. In periods other than a Relevant Period, any amount standing to the credit of the capital reserve may be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution or applied in paying dividends on any shares in the Company.

(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 Company unless, in either case, it is proposed to pass a resolution for which special notice has to be given by the 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 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 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 the Company

- (a) DTR 5 of the Disclosure and Transparency Rules requires a Shareholder to notify the Company of the percentage of its voting Shares he holds if such percentage reaches, exceeds or falls below 3% or subsequent 1% thresholds. The 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 voting share capital of the Company, or who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- (b) Following the Offers (assuming the Offers are fully subscribed but assuming that no Additional Shares are issued) 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				Fee per annum (£) <sup>2</sup>	Percentage of issued issued share capital <sup>1</sup>			
	Ordinary Shares	A Shares	B Shares			Ordinary Shares	A Shares	B Shares	
<i>David Eades</i>	0	0	0		15,000	0	0	0	
<i>Philip Ling</i>	105,000	105,000	0		15,000	1.96	1.31	0	
<i>Michael Dunn</i>	0	0	0		0	0	0	0	

1 Assuming full subscription under the Offers

2. In April 2010, the Board announced that they would waive the directors fees, and none of these fees have been charged for the first 18 months of the life of the fund. In recognition of the progress in the investment pipeline the Board intends to reinstate the directors fees, the exact timing of which will depend on the incidence of investments.

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 the Company which are known to, or could with reasonable diligence be ascertained by, the Directors.

- (c) Each of the Directors has entered into a letter of appointment with the Company, 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 letters were entered into on 19 November 2009 in relation to David Eades, Mark Speks and William Elliott (the latter two having since resigned as Directors on 15 April 2010 and 22 October 2010 respectively), and on 15 April 2010 in relation to Philip Ling (whose letter was later varied) and Nicholas Ross (the latter who has since retired as a Director on 24 March 2011). Michael Dunn entered into such a letter on 31 May 2011. The letters remain in force for 3 years from the date of signature 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 Company or the Director terminates the appointment by giving three months' written notice; or (v) the Company fails to raise the minimum subscription of £1,000,000 under the 2009 Offers (this latter provision does not apply to the letters signed by Philip Ling, Nicholas Ross and Michael Dunn). There are no commission or profit sharing arrangements and no compensation is payable on termination of the appointment. None of the Directors has a service agreement with the Company.
- (d) No loan or guarantee has been granted or provided by the Company to any Director.

- (e) Michael Dunn is a director of the Investment Manager, which is party to the contracts summarised in paragraph 5 (a), (b), (e), (f) and (g) below. Michael Dunn will not vote on any Board matter where he has a conflict of interest. Save as disclosed in this paragraph, no Director has an interest in any transaction effected by the Company since its incorporation, which is or was unusual in its nature or conditions or significant to the business of the Company.
- (f) Except as stated in paragraph 4(e) above, as at the date of this document, there are no potential conflicts of interests between the Directors' duties to the Company and their private interests or other duties. There are no family relationships between the Directors as at the date of this document.
- (g) The remuneration of individual Directors (exclusive of national insurance contributions) for the financial period ended 30 September 2010 was:

David Eades	£0
William Elliott (resigned on 22 October 2010)	£0
Philip Ling	£0
Nicholas Ross (resigned on 24 March 2011)	£0
Mark Speeks (resigned on 15 April 2010)	£0
Total	£0

Michael Dunn was appointed as a director of the Company on 31 May 2011.

In April 2010, the Board and the Investment Manager announced that they would waive the directors, administration and annual management fees and none of these fees have been charged for the first 18 months of the life of the fund. In recognition of the progress in the investment pipeline the Board intends to reinstate the directors and administration fees, the exact timing of which will depend on the incidence of investments.

- (h) No expenses were paid to any Director for the financial period ended 30 September 2010. No remuneration or benefits are, to date, payable to the Directors, and no amounts have been set aside by the Company for pensions, retirement or similar benefits. It is estimated that the aggregate fees payable to the Directors by the Company for the year ending 30 September 2011 will not exceed £7,500 plus VAT (where applicable).
- (i) The Company has taken out directors' and officers' liability insurance for the benefit of the Directors and the Secretary.
- (j) 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 Company where these are significant with respect to the Company:

*Current Directorships*

**David William Eades**

Bincho Yakitori Restaurants Limited  
 Darwin Rhodes Group Limited  
 DKE Management & Financial Limited  
 Dryden Human Capital Group Limited  
 Fandango Productions Limited  
 Gallileo Limited  
 Hummus Brothers Limited  
 Iona Environmental VCT Plc  
 Skaramoosh (London) Limited  
 The Completely Digital Design Company Limited  
 The Three Landlords Limited

*Previous directorships*

Ablux Holdings Limited  
 Brand Acquisitions Limited (in administration)  
 Loseley Dairy Ice Cream Limited (in administration)  
 Metis Healthcare Limited  
 Metis (South) Limited  
 Pink Soda Limited  
 Skaramoosh Limited  
 Solcara Limited

Yakitori Restaurants (St.Giles) Limited

***Philip Henry Ling***

Bond Industries Limited  
Cherry Tree Machines Limited  
Iona Environmental VCT Plc  
Metal Closures (Huddersfield) Limited  
PHL Services Limited  
Renishaw Properties Limited  
Roffey Park Institute Limited  
Roofwind Technology Limited  
South Wales Shower Supplies Limited  
Spiritbond Student Housing Limited.

Acuity Environmental VCT 2 plc  
Adflash Ltd  
Adflash Taxi Ltd  
Carpathia Investments Ltd  
DJN Engineering Ltd  
Elderstreet Millennium VCT plc  
Electronique Group Limited  
Ensign Communications Ltd  
F N Fabrications Ltd  
Faucets Ltd  
Faucets (Northern) Ltd  
Fin Holdings Limited  
Halifax Industrial Ltd  
PHL Property Services Limited  
Renishaw Developments Limited  
Superblend Limited  
The Fin Machine Company Limited

***Michael Brian Dunn***

Apocaps Limited  
Iona Capital Limited  
Iona Environmental VCT Plc  
London Waste Limited  
Oaktech Limited  
8 VBR Limited

Elwa Limited  
Poulet Limited  
Shanks Cumbria Holdings Limited  
Shanks Cumbria Limited  
Shanks PFI Investments Limited  
Shanks SRF Trading Limited  
Shanks Waste Management Limited  
Staffordshire Green Energy Operations Limited

- (k) Save as disclosed in paragraph 4(j) 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 Company since the date of its incorporation and which are, or may be, material, or which have been entered into by the Company and which contain any provisions under which it has any obligations or entitlements which are material to the Company as at the date of this document:

- (a) An agreement (the “Management and Administration Deed”) dated 19 November 2009 between the Company and the Investment Manager whereby the Investment Manager provides investment management services to the Company in respect of its portfolio of Qualifying Investments as well as its portfolio of Fixed Income Securities. The Investment Manager receives a fee equal to 2.5% per annum of the Net Assets of the Company. These fees are payable quarterly in advance. In addition, the Investment Manager provides or procures the provision of certain administration services to the Company for an annual fee of £60,000 increased annually in accordance with RPI (plus VAT). The Annual Running Costs of the Company 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 of any laws or regulations (including the Financial Services and Markets Act 2000) which is not due to its own act(s) of negligence.

In April 2010, the Board and the Investment Manager announced that they would waive their respective director, annual management and administration fees and none of these fees have been charged for the first 18 months of the life of the fund. In recognition of the progress in the investment pipeline the Board intends to reinstate the directors and administration fees, the exact timing of which will depend on the incidence of investments. The Investment Manager will continue to waive the annual management fee until total funds raised exceed £8m. or the Original Share Fund is 50% invested in Qualifying Investments.

- (b) An agreement dated 19 November 2009 between the Company, Acuity 2, the Directors, the Investment Manager and Howard Kennedy (the “2009 Offer Agreement”) whereby the Investment Manager agreed to pay all of the costs and expenses of the 2009 Offers (other than the subscription monies on additional shares and annual trail commissions to authorised financial advisers) for a commission on the gross proceeds of the 2009 Offers of 5.5p per Original Share. Howard Kennedy agreed to act as sponsor to the Company and Acuity 2. The Company, Acuity 2, the Directors of those companies and the Investment Manager gave 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 was limited to £20,000 per Director, and £1,000,000 in the case of the Investment Manager. There were no financial or time limits attached to the indemnity other than the statutory limit of six years. Howard Kennedy were able to terminate the 2009 Offer Agreement at any time prior to admission of the Original Shares if it became aware of any material breach of warranty prior to admission of those shares.
- (c) By letters dated 19 November 2009 David Eades, William Elliott (who resigned as a Director on 22 October 2010) and Mark Speeks (who resigned as a Director on 15 April 2010), and by letters dated 15 April 2010, Philip Ling (whose letter was later varied) and Nicholas Ross (who retired as a Director on 24 March 2011), agreed to act as non-executive directors of the Company. On 31 May 2011 Michael Dunn agreed to act as a non-executive director of the Company. The terms of such appointments are set out in paragraph 4(c) of this Part V.
- (d) Philip Ling, Mark Speeks (a former director of the Company) and Nicholas Ross (a former director of the Company) committed to invest a total of £150,000 under the 2009 Offers pursuant to irrevocable undertakings. In addition, on 19 November 2009 members of Management were conditionally allotted 10,000,000 Management A Shares in the Company at a price of 0.1p each. 1,350,000 of these Management A Shares were unconditionally allotted and issued to Management on 6 April 2010, with a further 1,322,749 Management A Shares unconditionally allotted and issued to Management on 25 November 2010
- (e) A deed dated 16 June 2011 between the Company and the Investment Manager whereby the Investment Manager agrees to use all reasonable endeavours to progress the various investment opportunities referred to in that document for the benefit of the Company, and to give warranties in relation to the position of

those investment opportunities. The Investment Manager also agreed that if (i) by 31 July 2011 a document constituting heads of terms has not been signed (or a preferred bidder letter has not been issued) by a procuring authority in relation to an investment opportunity in which the Company intends to participate, or (ii) by 31 October 2011 such a document or letter has not been signed or issued by a procuring authority in relation to a second investment opportunity in which the Company intends to participate (or, in relation to either of those investment opportunities, such an investment opportunity had not been completed by 31 October 2011 or 31 December 2011 respectively), then the Company would have the option to terminate the appointment of the Investment Manager on a date to be specified by the Company. The Company and the Investment Manager also agreed for the Company to recommend a change of investment policy to the shareholders of the Company and for the Investment Manager to reimburse the Company for the costs the Company has incurred in relation to legal and sponsor advice in relation to the prospectus and the circular for the Offers (together with other incidental costs of Offers) from and to the extent of the Investment Manager's capital raising fee (after deduction of any initial commissions that the Investment Manager is required to pay). The Investment Manager also agreed to pay the costs the Company has incurred for legal advice on the deed. The deed also provides that on the Company exercising the option to terminate, for the termination of the Management and Administration Deed and all management incentive arrangements created in relation to the Offers (with no compensation being payable to the Investment Manager on termination of the appointment), the transfer of Management A Shares from certain individuals involved in the management of the Investment Manager, and the provision of post-termination assistance in the transfer of the management of the Company to another investment manager.

- (f) A Deed of Variation to the Management and Administration Deed (the "Deed of Variation") dated 4 July 2011 between the Company and the Investment Manager whereby the Investment Manager and the Company agree to amend the Management and Administration Deed with effect from the first allotment of the B Shares for the Investment Manager to provide investment management services to the Company in respect of its portfolio of Qualifying Investments as well as its portfolio of Fixed Income Securities comprising of those funds created by the issue of the B Shares. As a result of the variation, the Investment Manager will receive a fee equal to 2.0% per annum of the Net Assets of the Company in relation to the fund created by B Shares, plus a Performance Incentive Fee in relation to the performance of that fund. These fees will be payable quarterly in advance. The management fees payable in relation to the fund represented by the Ordinary Shares and the A Shares (the "Original Share Fund"), and the fund represented by the B Shares, will only become payable on the earlier of the date when the Company has raised gross proceeds of, in aggregate, £8m under the 2009 Offers and the 2011 Offers, and the date on which the Company has invested 50% of the Original Share Fund in Qualifying Investments. The Investment Manager will provide or procure the provision of certain administration services to the Company in relation to the funds. The administration fee will not increase as a result of the Offers or the issue of B Shares. Further details are set out in the section titled "Management Arrangements and Costs" in Part 1 of this document.
- (g) An agreement dated 4 July 2011 between the Company, the Directors, the Investment Manager and Howard Kennedy Corporate Services LLP (the "2011 Offer Agreement") whereby the Investment Manager agreed to pay all of the costs and expenses of the 2011 Offers (other than legal and sponsor costs incurred by the Company, the subscription monies on Additional Shares and annual trail commissions to authorised financial advisers) for a 5.5% commission on the gross proceeds of the Offers. The Company has agreed to pay all costs in relation to legal and sponsor advice with respect to the prospectus and the circular for the Offers, with the Investment Manager agreeing to reimburse the Company for these costs from and to the extent of its capital raising fee (after deduction of any initial commissions that the Investment Manager is required to pay). Howard Kennedy Corporate Services LLP has agreed to act as sponsor to the Company. The Company, its Directors and the Investment Manager have given customary representations and warranties to, and in the case of the Company alone, an indemnity, to Howard Kennedy Corporate Services LLP. 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 financial or time limits attached to the indemnity other than the statutory limit of six years. Howard Kennedy Corporate Services LLP may terminate the 2011 Offer Agreement at any time prior to admission of B Shares or the admission of the remaining A Shares under the 2011 Offer Agreement if it becomes aware of any material breach of warranty prior to such admission. The commission payable to the Investment Manager is conditional on a resolution being passed at the General Meeting of the Company.

## 6. General

- (a) The principal place of business and registered office of the Company is at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB. The Company does not have, nor has it had since incorporation, any employees. The Company does not have any subsidiaries or associated companies.
- (b) Iona Capital Limited (previously, in the period from the date of incorporation of the Company until 19 May 2011, 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 the Company since 31 March 2011 (being the date to which the most recent published unaudited financial information of the Company was made up).
- (e) The Offer Price represents a premium of 99.9p over the nominal value of a B Share and is payable in full in cash on application. No expenses are specifically charged to any Investor.
- (f) Moore Stephens LLP of 150 Aldersgate, London EC1A 4AB, member of the Institute of Chartered Accountants of England and Wales, have been the only registered auditor of the Company since its incorporation.
- (g) A detailed description of the investment policy which will be pursued by the Company is set out in Part I under the heading "Investment Policy" (with a description of changes to that policy which are to be proposed at the General Meeting). The Company must, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with this published investment policy. The investment policy is in line with Chapter 15 of the Listing Rules and Part 6 ITA and the Company will not deviate from it. A material change in the investment policy of the Company will only be effected with shareholders' approval in accordance with the Listing Rules. The 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 Company will not conduct any trading activity. No more than 10%, in aggregate, of the value of the total assets of a 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 no more than 15% of their total assets in other listed closed-ended investment funds
- (h) The Directors of the Company or the Investment Manager may, from time to time, become interested in transactions with or in certain companies in which the Company has invested or proposes to invest, subject to full disclosure, Board approval and compliance with the Listing Rules. If the Board of the Company is required to pass any resolution regarding the continuing appointment of Iona Capital Limited as Investment Manager or other matters concerning Iona Capital Limited, only directors independent of the Investment Manager will vote on such resolutions.
- (i) Save as disclosed in paragraph 5 above, the Company is not 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 the Company does not assume responsibility for the withholding of tax at source.

- (k) There is no, and since incorporation there has been no, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which have, or have had in the recent past, significant effects on the Company's financial position or profitability.
- (l) The Company does not intend to appoint an external custodian and its 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 Company confirms that this information has been accurately reproduced and, as far as the Company is 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 V, none of the Company's service providers have any conflict, or potential conflict, as between their duty to the Company and duties owed by them to third parties and other interests.
- (o) If valid subscriptions amounting to not less than £800,000 under the Offers (when taken together) are received so as to enable the Offers to proceed, then the Offers will have a positive impact on the net assets of the Company by increasing the net assets of the Company by the same amount as the net funds raised by the Company. The effect of the Offers should enable the Company to increase its earnings but the effect of the Offers on the earnings of the holders of Ordinary Shares and A Shares will be neutral as the proceeds of the Offers will be held as a separate pool of assets, and the effect of the Offers on the earnings of the potential holders of B Shares is expected to be positive. If the Offers do not proceed (because valid subscriptions amounting to less than £800,000 are received by the relevant time), then the costs incurred by the Company in relation to the Offers and Admission referred in the paragraph headed "Launch Costs and Commission" in Part 1 will be met out of the net assets of the Original Share Fund.
- (p) The 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**

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

The transfer on sale of any B 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 B 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 B 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 B 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 B Shares pursuant to the Offers, the Company is not 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 B 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 5(y) of Part VI of this document or a resident of Canada.

## **9. Investment Manager's Responsibility and Consents**

- (a) The Prospectus contains statements of belief made by the Investment Manager on page 16 and page 20, which are referenced to this paragraph 9(a). Such statements are included, in the form and context in which they appear, with the consent of the Investment Manager, who has authorised, and takes responsibility for, such statements of belief under rule 5.5.3(2)(f) of the Prospectus Rules. To the best of the knowledge and belief of the Investment Manager (which has taken all reasonable care to ensure that such is the case), such statements of belief are in accordance with the facts and do not omit anything likely to affect their import.
- (b) The Sponsor, the Investment Manager and BioGen (UK) Limited 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 Corporate Services LLP during normal business hours on any weekday (Saturdays and public holidays excepted) whilst the Offers remain open:

- (i) the Articles of Association of the Company (existing and proposed);
- (ii) the audited report and accounts of the Company for the year ending 30 September 2010 and the unaudited interim accounts for the period ending 31 March 2011;
- (iii) the consent letters from Howard Kennedy Corporate Services LLP, Investment Manager and BioGen (UK) Limited referred to in paragraph 9(b) above;
- (iv) the material contracts referred to in paragraph 5 above; and
- (v) this Prospectus.

Dated: 4 July 2011

## PART VI

### 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 the Company dated 4 July 2011. 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 B 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 on behalf of, and will remain the property of, the Applicant, and will be retained in a separate account.
3. You may pay for your application for B Shares by cheque or banker’s draft submitted with the Application Form. The Company may reserve B Shares for issue to certain persons as set out in “Other Information” in Part I of this document.
4. The Offers are conditional on all of the Resolutions being passed at the General Meeting of the Company to be held on 8 August 2011, notice of which is set out in the Circular.
5. By completing and delivering an Application Form, you:
  - (a) offer to subscribe for the number of B Shares specified in 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 the Company;
  - (b) acknowledge that for Additional Shares and IFA commission waived as extra shares, if your subscription is accepted, you will be allocated one B Share (price 100p per share) on the basis of each 100p invested;
  - (c) authorise your financial adviser or whoever he or she may direct, The City Partnership (UK) Limited (“The City Partnership”) or the Company to send a document of title for the number of B 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 the Company agreeing that it will not, prior to the Offers closing, offer any B 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 the Company which will become binding upon despatch by post or delivery of your duly completed Application Form to the Company 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 B 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 the Company (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 the Company of such late payment in respect of such shares, the Company 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 the Company and the Sponsor) to ensure compliance with the ML Regulations;
  - (h) agree that, in respect of those B Shares for which your application has been received and processed and not rejected, acceptance of your application shall be constituted by the Company 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 the Company 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 the Company, 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 B Shares subscribed by or issued to you into your name and authorise any representatives of the Company, The City Partnership or the Sponsor to execute any documents required therefor and to enter your name on the register of members of the Company;
- (n) agree to provide the Company 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 the Company 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 6 below;
- (q) confirm that you have reviewed the restrictions contained in paragraph 7 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 Company, 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 the Company and to the Sponsor;
- (u) agree that the Sponsor is acting for the Company 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 B Shares or concerning the suitability of B Shares for you or be responsible to you for the protections afforded to its customers (subject to the responsibilities and liabilities imposed by the FSMA or the regulatory regime established thereunder);
- (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 B 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 B Shares;
- (x) warrant that the B Shares are being acquired by 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 B 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 B Shares are issued to you on a date other than 5 April 2012 or 30 April 2012 and such shares are not issued on such date the Company and its agents and Directors will have no liability to you arising from the issue of such shares on a different date.

6. 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.
7. The B 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, the Company 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.
8. This application is addressed to the Company and the Sponsor. The rights and remedies of each of the Company 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.
9. The dates and times referred to in these Terms and Conditions of Application may be altered by the Company with the agreement of the Sponsor.
10. 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 New 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 B 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 the address and FSA number to substantiate any claim for their commission.
11. The section headed Notes on Application Form forms part of these Terms and Conditions of Application.
12. 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. The Company 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, the Company 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 New Shares in question (but in each case without prejudice to any rights the Company 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.
13. 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, the Company may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Company to apply in accordance with these Terms and Conditions of Application.

## NOTES ON APPLICATION FORM

Before making an application to acquire B 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 banker's 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 Iona Capital 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 Company by email). Joint applications are not permitted.

**2**

Insert the number of B Shares you are applying for in the 2011/12 Offer in Box A (state nil if appropriate).  
Insert the number of B Shares you are applying for in the 2012/13 Offer in Box B (state nil if appropriate). You may post-date your cheque to 6 April 2012 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.  
Please note that subscriptions for B Shares will be adjusted to reflect any commission waived (by agents) as extra B 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 banker's draft to the Application Form for the exact amount shown in Box 3. Your cheque or bankers' draft must be made payable to "**Iona Environmental VCT plc**" and crossed "**A/C Payee only**". Your payment must relate solely to this application.

Your cheque or banker's 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 banker's 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 banker's 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 £13,000 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 £13,000 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 banker's 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 5.** 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 the Company is not, in its sole discretion, satisfied that the agent is so authorised.



Please pin or staple  
your cheque here

Reservation Number  
(if applicable)

# Iona Environmental VCT plc

## APPLICATION FORM

Make your cheque or banker's draft out to "**Iona Environmental VCT plc**" and crossed "A/C Payee only" and return this form as soon as possible to The City Partnership (UK) Limited, Thistle House, 21 Thistle Street, Edinburgh EH2 1DF.

**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:	<b>2011/12 Offer</b> (income tax year 2011/12)	<input type="text" value="B Shares"/>	<b>A</b>
	<b>2012/13 Offer</b> (income tax year 2012/13)	<input type="text" value="B Shares"/>	<b>B</b>
	<b>TOTAL</b>	<input type="text" value="B Shares"/>	<b>C</b>

B Shares of 0.1p each or such lesser number of B 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 VI of the Prospectus dated 4 July 2011. Please send me a certificate(s) confirming my entitlement to venture capital trust tax reliefs.

**3**

The total amount I am paying for the B 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. Subscriptions in B Shares 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 banker's draft drawn on a UK clearing bank, made payable to "**Iona Environmental VCT plc**"

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

Bank                   HSBC plc  
Account Name       Iona 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 4 July 2011 and to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the B Shares in Iona Environmental VCT plc to be issued to me pursuant to the Offer; 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.**

<b>5</b>	Signature <input style="width: 200px; height: 20px;" type="text"/>	Date <input style="width: 150px; height: 20px;" type="text"/>
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**YOU MUST COMPLETE ALL THE WHITE BOXES ABOVE**

**Authorised financial advisers should complete this box**

<b>6</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">Firm Name</td> <td>Allenbridge Limited</td> </tr> <tr> <td>Contact Name</td> <td></td> </tr> <tr> <td>FSA No.</td> <td>197107</td> </tr> <tr> <td>Address</td> <td>17 Hill Street London</td> </tr> <tr> <td>Postcode</td> <td>W1J 5NZ</td> </tr> <tr> <td>Tel 020 7409 1111</td> <td>Fax</td> </tr> <tr> <td>E-Mail Address</td> <td></td> </tr> </table> <p>Insert the amount of commission (up to a maximum of 3%) that you wish to be waived and invested in additional B Shares for your client: <input style="width: 40px; height: 15px;" type="text"/> %</p>	Firm Name	Allenbridge Limited	Contact Name		FSA No.	197107	Address	17 Hill Street London	Postcode	W1J 5NZ	Tel 020 7409 1111	Fax	E-Mail Address	
Firm Name	Allenbridge Limited														
Contact Name															
FSA No.	197107														
Address	17 Hill Street London														
Postcode	W1J 5NZ														
Tel 020 7409 1111	Fax														
E-Mail Address															

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, Iona Capital Limited, an initial commission of up to 3% of the funds invested through them and by the Company an annual trail commission (until the earlier of (i) 10 years from 31 January 2013, (ii) the Management and Administration Deed being terminated and (iii) the total trail commission payable equals 4.5% of the proceeds of the Offer) usually of 0.25% per annum in respect of Investors whose successful applications were submitted through them and who continue to hold the B Shares which they acquired under the Offers. The trail commission will be calculated by reference to the Net Asset Value of B Shares held at each year on 30 September, commencing 30 September 2012. No trail commission shall be payable in relation to those B Shares issued as extra shares with respect to commissions waived by agents or in relation to Additional Shares issued for early subscriptions.

**Commission payment details**

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

<b>7</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 100%;">Name</td> </tr> <tr> <td>Contact</td> </tr> <tr> <td>Address</td> </tr> <tr> <td style="text-align: right;">Postcode</td> </tr> <tr> <td>Email Address</td> </tr> </table>	Name	Contact	Address	Postcode	Email Address
Name						
Contact						
Address						
Postcode						
Email Address						

All dividends on B Shares held in Iona Environmental VCT 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 B Shares now standing, or which may hereafter stand, in my name in the register of members of Iona Environmental VCT plc to:**

<b>8</b>	a. Name of Bank Building Society	
	Title of Branch	
	Address of Branch	
	b. Account Number	
	c. Sort Code Number	
	d. Account Name (BLOCK capitals please)	
	e. Signature	
f. Date		
g. Applicant's Name (BLOCK capitals please)	Postcode	

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

## NOTES

## NOTES

Paternoster House  
65 St Paul's Churchyard  
London  
EC4M 8AB

t: +44 (0) 20 7306 3901  
f: +44 (0) 20 7214 4210  
e: [info@ionacapital.co.uk](mailto:info@ionacapital.co.uk)

[www.ionacapital.co.uk](http://www.ionacapital.co.uk)

