

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or otherwise transferred all of your shares in Kings Arms Yard VCT 2 PLC (the Company), please send this document and accompanying documents, as soon as possible, to the purchaser or transferee or to the stockbroker, independent financial adviser or other person through whom the sale or transfer was effected for delivery to the purchaser or transferee.

Martineau, which is regulated in the United Kingdom by the Solicitors Regulation Authority, is acting as legal adviser to the Company and Kings Arms Yard VCT PLC and no-one else and will not be responsible to any other person for providing advice in connection with any matters referred to in this document.

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## **KINGS ARMS YARD VCT 2 PLC**

*(Registered in England and Wales with registered number 04063505)*

### **Recommended merger with Kings Arms Yard VCT PLC by way of a scheme of reconstruction of the Company and cancellation of the listing of the Company's shares**

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Your attention is drawn to the letter from the Chairman of the Company set out in Part III of this document which contains a recommendation to vote in favour of the resolutions to be proposed at the meetings referred to below. Your attention is also drawn to the risk factors set out in Part II of this document.

You will find set out at the end of this document notices of the First General Meeting of the Company to be held at 2.00 p.m. on 23 September 2011 to approve the Scheme and of the Second General Meeting of the Company to be held at 3.00 p.m. on 30 September 2011 to place the Company into members' voluntary liquidation. Both meetings will be held at The City of London Club, 19 Old Broad Street, London EC2N 1DS.

To be valid, the appropriate forms of proxy attached to this document for the meetings should be returned not less than 48 hours before the relevant meeting, either by post or by hand (during normal business hours only) to the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU. For further information on the meetings or the completion and return of a form of proxy, please telephone Capita Registrars between 9.00 a.m. and 5.00 p.m. (GMT) Monday to Friday on telephone number 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to Capita Registrars' helpline (0871 664 0321) are charged at 10 pence per minute (including VAT) plus your service provider's network extras. Calls to Capita Registrars from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. For legal reasons, Capita Registrars will be unable to give advice on the merits of the proposals or provide financial, legal, tax or investment advice.

**For further information, Shareholders are recommended to read the prospectus issued by Kings Arms Yard VCT PLC dated 25 August 2011 which accompanies this document.**

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## EXPECTED TIMETABLES

### EXPECTED TIMETABLE FOR THE COMPANY

Date from which it is advised that dealings in Shares should only be for cash settlement and immediate delivery of documents of title.....	9 September 2011
Latest time for receipt of forms of proxy for the First General Meeting.....	2.00 p.m. on 21 September 2011
First General Meeting .....	2.00 p.m. on 23 September 2011
Latest time for receipt of forms of proxy for the Second General Meeting.....	3.00 p.m. on 28 September 2011
Record Date for Shareholders' entitlements under the Scheme .....	29 September 2011
Register of Members closed .....	29 September 2011
Calculation Date.....	after 5.00 p.m. on 29 September 2011
Dealings in Shares suspended .....	7.30 a.m. on 30 September 2011
Second General Meeting .....	3.00 p.m. on 30 September 2011
Effective Date for the transfer of the assets and liabilities of the Company to KAY and the issue of New KAY Shares pursuant to the Scheme* .....	30 September 2011
Announcement of the results of the Scheme.....	30 September 2011
Cancellation of the Shares' listing .....	8.00 a.m. on 3 October 2011
(*see timetable for KAY with regard to admission, CREST accounts being credited and certificates being dispatched.)	

### EXPECTED TIMETABLE FOR KAY

Latest time for receipt of forms of proxy for the KAY General Meeting .....	4.00 p.m. on 21 September 2011
KAY General Meeting .....	4.00 p.m. on 23 September 2011
Calculation Date.....	after 5.00 p.m. on 29 September 2011
Effective Date for the transfer of the assets and liabilities of the Company to KAY and the issue of New KAY Shares pursuant to the Scheme* .....	30 September 2011
Announcement of the results of the Scheme.....	30 September 2011
Admission of and dealings in the New KAY Shares issued pursuant to the Scheme to commence .....	3 October 2011
CREST accounts credited with New KAY Shares issued pursuant to the Scheme .....	3 October 2011
Certificates for the New KAY Shares issued pursuant to the Scheme dispatched.....	10 October 2011
Expected completion of the cancellation of share capital and reserves.....	October/November 2011
(*this will, therefore, be the final expected date of trading of the Company's Shares.)	

## CORPORATE INFORMATION

<b>Directors</b>	Robert Adrian Wright (Chairman) Thomas William Chambers Alan Peter Mackenzie Lamb
<b>Registered Office</b>	1 King's Arms Yard London EC2R 7AF  Telephone: 020 7601 1850 Website: <a href="http://www.albion-ventures.co.uk">www.albion-ventures.co.uk</a>
<b>Company Number</b>	04063505
<b>Investment Manager, Administrator and Company Secretary</b>	Albion Ventures LLP 1 King's Arms Yard London EC2R 7AF
<b>Auditor</b>	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
<b>Solicitors</b>	Martineau No. 1 Colmore Square Birmingham B4 6AA
<b>Registrars</b>	Capita Registrars Northern House Penistone Road Fenay Bridge Huddersfield West Yorkshire HD8 0GA

## PART I

### DEFINITIONS

<b>“AIM”</b>	The Alternative Investment Market, a market operated by the London Stock Exchange
<b>“Albion”</b>	Albion Ventures LLP, the investment manager to the Company and KAY, of King’s Arms Yard, London EC2R 7AF
<b>“Articles”</b>	the articles of association of the Company, as amended from time to time
<b>“Board”</b>	the board of directors of the Company
<b>“CA 1985”</b>	Companies Act 1985, as amended from time to time
<b>“CA 2006”</b>	Companies Act 2006, as amended from time to time
<b>“Calculation Date”</b>	the date on which the Roll-Over Value and the Merger Value will be calculated, this being after the close of business on 29 September 2011
<b>“Capita Registrars”</b>	a trading name of Capita Registrars Limited
<b>“Circular”</b>	this document
<b>“Companies Acts”</b>	CA 1985 and CA 2006
<b>“Company”</b>	Kings Arms Yard VCT 2 PLC
<b>“Directors”</b>	the directors of the Company (and each a “Director”)
<b>“Effective Date”</b>	the date on which the Scheme will be completed, anticipated as being 30 September 2011
<b>“Enlarged Company”</b>	KAY, following implementation of the Scheme
<b>“First General Meeting”</b>	the general meeting of the Company to be held on 23 September 2011 at 2.00 p.m.
<b>“FSA”</b>	the Financial Services Authority
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, as amended
<b>“HMRC”</b>	Her Majesty’s Revenue & Customs
<b>“IA 1986”</b>	Insolvency Act 1986, as amended
<b>“Half-Yearly Report”</b>	the half-yearly report of the Company for the six month period ended 30 June 2011
<b>“ITA 2007”</b>	Income Tax Act 2007, as amended
<b>“KAY”</b>	Kings Arms Yard VCT PLC, registered in England and Wales under number 03139019 whose registered office is at 1 King’s Arms Yard, London EC2R 7AF
<b>“KAY Board”</b>	the board of directors of KAY
<b>“KAY Circular”</b>	the circular to KAY Shareholders dated 25 August 2011

<b>“KAY General Meeting”</b>	the general meeting of KAY to be held on 23 September 2011 at 4.00 p.m.
<b>“KAY Half-Yearly Report”</b>	the half-yearly report of KAY for the six month period ended 30 June 2011
<b>“KAY Prospectus”</b>	the prospectus issued by KAY dated 25 August 2011 in relation to the Scheme
<b>“KAY Shareholders”</b>	the holders of KAY Shares (and each a “KAY Shareholder”)
<b>“KAY Shares”</b>	ordinary shares of 5 pence each in the capital of KAY (and each a “KAY Share”)
<b>“Liquidators”</b>	William Duncan and Sarah Louise Burge of RSM Tenon Limited, Unit 1, Calder Close, Calder Park, Wakefield WF4 3BA, being the proposed liquidators of the Company
<b>“Listing Rules”</b>	the listing rules of the UKLA
<b>“London Stock Exchange”</b>	London Stock Exchange PLC
<b>“Meetings”</b>	the First General Meeting and the Second General Meeting
<b>“Merger Ratio”</b>	the Roll-Over Value divided by the Merger Value
<b>“Merger Regulations”</b>	Venture Capital Trusts (Winding-up and Mergers) (Tax) Regulations 2004
<b>“Merger Value”</b>	the value of a KAY Share calculated in accordance with paragraph 4 of Part IV of this document
<b>“NAV” or “net asset value”</b>	net asset value
<b>“New KAY Shares”</b>	new KAY Shares to be issued by KAY to Shareholders in accordance with the Scheme (and each a “New KAY Share”)
<b>“Official List”</b>	the official list of the UKLA
<b>“PLUS”</b>	a prescribed market for the purposes of Section 118 of FSMA and a recognised investment exchange operated by PLUS Markets Group PLC
<b>“Record Date”</b>	the record date to which Shareholders’ entitlements will be allocated pursuant to the Scheme, this being 29 September 2011
<b>“Resolutions”</b>	the resolutions to be proposed at the General Meeting (and each a “Resolution”)
<b>“Roll-Over Value”</b>	the value of a Share calculated in accordance with paragraph 4 of Part IV of this document
<b>“Scheme”</b>	the proposed merger of the Company with KAY by means of placing the Company into members’ voluntary liquidation pursuant to Section 110 of IA 1986 and the acquisition by KAY of all of the Company’s assets and liabilities in consideration for New KAY Shares, further details of which are set out in Part IV of this document
<b>“Second General Meeting”</b>	the general meeting of the Company to be held on 30 September 2011 at 3.00 p.m.

<b>“Shareholders”</b>	holders of Shares (and each a “Shareholder”)
<b>“Shares”</b>	ordinary shares of 1 pence each in the capital of the Company (and each a “Share”)
<b>“TCGA 1992”</b>	Taxation of Chargeable Gains Act 1992, as amended
<b>“Transfer Agreement”</b>	the agreement between KAY and the Company (acting through the Liquidators) for the transfer of all of the assets and liabilities of the Company by the Liquidators to KAY pursuant to the Scheme
<b>“UK”</b>	the United Kingdom
<b>“UKLA” or “UK Listing Authority”</b>	the UK Listing Authority, being the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
<b>“VCT” or “venture capital trust”</b>	a company satisfying the requirements of Chapter 3 of Part 6 of ITA 2007 for venture capital trusts

## PART II

### RISK FACTORS

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

#### **Scheme related risk factors**

Completion of the Scheme is dependent upon a number of conditions precedent being fulfilled, including the approval of Shareholders. Whilst the Board has identified a number of potential benefits for the Enlarged Company, there is no certainty that these benefits will lead to improved prospects for the Enlarged Company. If the merger is not approved and effected, the benefits of the merger will not be realised.

Holders of KAY Shares (existing or as may be issued pursuant to the Scheme) may be adversely affected by the performance of the investments, whether acquired from the Company or made by KAY. The performance of the investments acquired from the Company, as well as the investments of KAY, may restrict the ability of KAY following the merger to distribute any capital gains and revenue received on the investments transferred from the Company to KAY (as well as the investments of KAY). Any gains (or losses) made on the investments of KAY will, following the Scheme, be shared amongst all the KAY Shareholders *pro rata* to the number of KAY Shares then in issue.

Shareholders may be adversely affected by a change in the VCT status of KAY if a number of the investments acquired from the Company or the investments of KAY, are, or become, unable to meet VCT requirements. In addition, as VCT investment restrictions are assessed per VCT, the Enlarged Company could be adversely affected by the VCT investment restrictions which currently allow the Company and KAY to co-invest, in aggregate, larger amounts of funds.

#### **Enlarged Company risk factors**

The value of shares in the Enlarged Company can fluctuate and shareholders in the Enlarged Company may not get back the amount they invested. In addition, there is no certainty that the market price of shares in the Enlarged Company will fully reflect their underlying NAV or that any dividends will be paid, nor should shareholders in the Enlarged Company rely upon any share buyback policy to offer any certainty of selling their shares at prices that reflect the underlying NAV.

Although the existing KAY Shares have been (and it is anticipated that the New KAY Shares in the Enlarged Company to be issued pursuant to the Scheme will be) admitted to the premium segment of the Official List and are (or will be) traded on the London Stock Exchange's market for listed securities, the secondary market for VCT shares is generally illiquid (which may be partly attributable to the fact that initial tax reliefs are not available for VCT shares generally bought in the secondary market and because VCT shares usually trade at a discount to NAV) and shareholders in the Enlarged Company may find it difficult to realise their



investment. An investment in the Enlarged Company should, therefore, be considered as a long-term investment.

The past performance of the Company, KAY and/or Albion is no indication of future performance of the Enlarged Company. The return received by shareholders in the Enlarged Company will be dependent on the performance of the underlying investments. The value of such investments, and interest income and dividends therefrom, may rise or fall and shareholders in the Enlarged Company may not get back the full amount invested.

Although the Enlarged Company may receive customary venture capital rights in connection with some of its unquoted investments, as a minority investor it may not be in a position to fully protect its interests.

A number of KAY's investments are and the Enlarged Company's investments will be in companies whose securities are not publicly traded or freely marketed and may, therefore, be difficult, and take time, to realise. There may also be constraints imposed on the realisation of investments in order to maintain the VCT tax status of the Enlarged Company.

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

Investment in AIM-traded, PLUS market-traded, NASDAQ-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies listed on the Official List which could result in the value of such investment, and interest income and dividends therefrom reducing. In particular, small companies often have limited product lines, markets or financial resources and may be dependent for their management on a small number of key individuals and may be more susceptible to political, exchange rate, taxation and other regulatory changes. In addition, the market for securities in smaller companies is usually less liquid than that for securities in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such securities. Investment returns will, therefore, be uncertain and involve a higher degree of risk than investment in a company listed on the Official List.

Technology related risks are likely to be greater in early, rather than later, stage technology investments, including the risks of the technology not becoming generally accepted by the market or the obsolescence of the technology concerned, often due to the greater financial resources available to competing companies.

The success of some investments may be based on the ability of investee companies to establish, protect and enforce intellectual property rights, those rights being broad enough to protect proprietary interests and the rights not infringing third party patents.

The leisure sector, where a number of the Enlarged Company's asset-based investment may be made, is sensitive to any further down turn in the economic environment which may impact on the success of investments.

A charge given to the Enlarged Company over an asset will not always provide full capital protection for an investment. The Enlarged Company may not, therefore, recover the full amount invested in any one investee company

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

Any change of governmental, economic, fiscal, monetary or political policy could materially affect directly or indirectly, the operation of the Enlarged Company and/or the performance of the Enlarged Company and the value of and returns from shares in the Enlarged Company and/or their ability to achieve or maintain VCT status.

If a shareholder disposes of his or her shares in the Enlarged Company within five years of issue (three years if such shares were issued on or between 6 April 2000 and 5 April 2006), he or she will be subject to clawback by HMRC of any income tax reliefs originally claimed. For these purposes, the date of issue of the New KAY Shares in the Enlarged Company issued pursuant to the Scheme will be the original date of issue of the Shares in respect of which such New KAY Shares are issued. Any realised losses on the disposal of shares in the Enlarged Company cannot be used to create an allowable loss for capital gains tax purposes.

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

The tax rules, or their interpretation, in relation to an investment in the Enlarged Company and/or the rates of tax may change during the life of the Enlarged Company and may apply retrospectively which may affect tax reliefs obtained by shareholders in the Enlarged Company and the VCT status of the Enlarged Company.

Any purchaser of existing shares in the Enlarged Company in the secondary market will not qualify for the then (if any) available tax reliefs afforded to subscribers of new VCT shares on the amount invested.

## PART III

### LETTER FROM THE CHAIRMAN

## KINGS ARMS YARD VCT 2 PLC

*(Registered in England and Wales with registered number 04063505)*

*Directors:*

Robert Adrian Wright (Chairman)  
Thomas William Chambers  
Alan Peter Mackenzie Lamb

*Registered Office:*

1 King's Arms Yard  
London  
EC2R 7AF

25 August 2011

Dear Shareholder

**Recommended proposals for a merger with Kings Arms Yard VCT PLC by way of a scheme of reconstruction of the Company and cancellation of the listing of the Company's Shares**

The Board announced on 16 May 2011 that it was in preliminary discussions on terms for a merger with KAY. I am pleased to advise Shareholders that discussions have now concluded and the purpose of this letter is to set out proposals for the merger for consideration by Shareholders. The merger is expected to deliver cost savings and strategic benefits to both sets of shareholders and will, if effected, result in the Company being merged with KAY, creating an Enlarged Company with net assets of over £33.7 million.

The consent of Shareholders is required to approve the Scheme, to appoint the Liquidators and authorise them to implement the Scheme under the IA 1986. Shareholder consent is further required under the Listing Rules to cancel the listing of the Company's Shares on the premium segment of the Official List once the Scheme has been implemented.

#### **Illustrative Terms**

As an illustration, had the merger been completed on 30 June 2011, every Share in issue would effectively have been exchanged for 1.3152 New KAY Shares. The actual Merger Ratio will be calculated on the Calculation Date, this being 29 September 2011, in accordance with the merger terms set out in paragraph 4 of Part IV of this Circular.

#### **Background**

The Company is the result of the merger of SPARK VCT 2 PLC (formerly Quester VCT 4 PLC) and SPARK VCT 3 PLC (formerly Quester VCT 5 PLC) which were launched in 2000 and 2001 respectively.

In December 2010, the Board announced that Albion had been appointed as the new investment manager of the Company. Since that date the Company has adopted a new investment policy which, over time, is intended to re-balance the portfolio such that approximately 50 per cent. of the portfolio comprises an asset-based portfolio of lower risk, ungeared businesses principally operating in the healthcare, environmental and leisure sectors. The balance of the portfolio, other than funds retained for liquidity purposes, will be invested in a portfolio of higher growth businesses across a variety of sectors in the UK economy.

As at 30 June 2011, the Company had unaudited net assets of £16.3 million (21.1 pence per Share) and, in aggregate, investments in 24 companies with a carrying value. The total return to Shareholders for every £1 invested is set out in the table below:

<i>per share (pence)</i>	<i>Unaudited six months ended</i>		<i>Audited year ended</i>	
	<i>30 June 2011</i>	<i>31 December 2010</i>	<i>31 December 2009</i>	<i>31 December 2008</i>
<b>Total net asset value return</b>				
to Shareholders of the Company (formerly SPARK VCT 2 PLC/Quester VCT 4 PLC) <sup>(1)</sup>				
	30.0	31.5	37.9	43.3
Total net asset return including tax benefits <sup>(2)</sup>	50.0	51.5	57.9	63.3
<b>Total net asset value return</b>				
to former shareholders of SPARK VCT 3 PLC/Quester VCT 5 PLC) <sup>(3)</sup>				
	37.3	39.4	48.8	56.7
Total net asset return including tax benefits <sup>(2)</sup>	57.3	59.4	68.8	76.7

Notes:

1. Net asset value plus cumulative dividends per Share to Shareholders in the Company since launch in November 2000 (then called Quester VCT 4 PLC).
2. Return after 20 per cent. income tax relief, but excluding capital gains deferral.
3. Total return to original shareholders in SPARK VCT 3 PLC, launched in December 2001 (under the name Quester VCT 5 PLC), which was merged with the Company in November 2008. The share exchange ratio for former shareholders in SPARK VCT 3 PLC was 1.4613. The total return stated is applicable only to subscribers of shares in Quester VCT 5 PLC at the time of launch of Quester VCT 5 PLC in 2001. It does not represent the return to subsequent subscribers or purchasers of shares.

KAY is the result of the merger of Quester VCT PLC, Quester VCT 2 PLC and Quester VCT 3 PLC (re-named SPARK VCT PLC) which were launched in 1996, 1998 and 2000 respectively. KAY also moved its investment management contract to Albion in December 2010 and subsequently amended its investment policy. As a result, KAY has an identical investment policy and mandate as the Company.

As at 30 June 2011, KAY had unaudited net assets of £17.7 million (16.0 pence per KAY Share) and, in aggregate, investments in 21 companies with a carrying value. The total return to KAY Shareholders for every £1 invested is set out below:

<i>per share (pence)</i>	<i>Unaudited six months ended</i>		<i>Audited year ended</i>	
	<i>30 June 2011</i>	<i>31 December 2010</i>	<i>31 December 2009</i>	<i>31 December 2008</i>
<b>Total net asset value return</b>				
to shareholders of KAY (formerly SPARK VCT PLC /Quester VCT PLC) <sup>(1)</sup>				
	75.3	75.3	76.4	80.5
Total net asset return including tax benefits <sup>(2)</sup>	95.3	95.3	96.4	100.5
<b>Total net asset value return</b>				
to former shareholders of Quester VCT 2 PLC) <sup>(3)</sup>				
	61.3	61.2	62.3	66.5
Total net asset return including tax benefits <sup>(2)</sup>	81.3	81.2	82.3	86.5
<b>Total net asset value return</b>				
to former shareholders of Quester VCT 3 PLC) <sup>(4)</sup>				
	35.1	35.1	36.1	40.1
Total net asset return including tax benefits <sup>(2)</sup>	55.1	55.1	56.1	60.1

Notes:

1. Net asset value plus cumulative dividends per KAY Share to KAY Shareholders since the launch of KAY in April 1996 (then called Quester VCT PLC).

2. Return after 20 per cent. income tax relief, but excluding capital gains deferral.
3. Total return to original shareholders in Quester VCT 2 PLC, launched in March 1998, which was merged with KAY in June 2005. The share exchange ratio for former shareholders in Quester VCT 2 PLC was 1.0249. The total return stated is applicable only to subscribers of shares in Quester VCT 2 PLC at the time of launch of Quester VCT 2 PLC in 1998. It does not represent the return to subsequent subscribers or purchasers of shares.
4. Total return to original shareholders in Quester VCT 3 PLC, launched in February 2000, which was merged with KAY in June 2005. The share exchange ratio for former shareholders in Quester VCT 3 PLC was 0.9816. The total return stated is applicable only to subscribers of shares in Quester VCT 3 PLC at the time of launch of Quester VCT 3 PLC in 2000. It does not represent the return to subsequent subscribers or purchasers of shares.

Further details relating to KAY are set out in Part V of this document.

VCTs are required to be listed on the premium segment of the Official List, which involves a significant level of listing costs as well as related fees to ensure they comply with all relevant legislation. A larger VCT should be better placed to spread such running costs across a larger asset base, facilitate better liquidity management and, as a result, may be able to maximise investment opportunities and pay a higher level of dividends to shareholders over its life.

In September 2004, the Merger Regulations were introduced allowing VCTs to be acquired by, or merge with, each other without prejudicing the VCT tax reliefs obtained by their shareholders. A number of VCTs (including the Company and KAY in the past) have taken advantage of these regulations to create larger VCTs for economic and administration efficiencies.

With the above in mind, the Board entered into discussions with KAY and Albion to consider a merger of the Company and KAY to create a single, larger VCT (completing the amalgamation of the original Quester VCTs). The aim of the Board is to achieve strategic benefits and reductions in the annual running costs for both sets of shareholders and establish a platform from which the revised investment mandate can be better operated.

### **Merger with KAY**

Following detailed consideration of the portfolios and the financial position of the Company and KAY, the Board and the KAY Board have reached agreement on the terms on which to merge the Company and KAY. The merger is conditional upon the approval by the shareholders of the Company and of KAY of resolutions to be proposed at the Meetings and at the KAY General Meeting, as well as the other conditions set out in paragraph 8 of Part IV of this document.

The mechanism by which the merger will then be completed is as follows:

- the Company will be placed into members' voluntary liquidation pursuant to a scheme of reconstruction under Section 110, IA 1986; and
- all of the assets and liabilities of the Company will be transferred to KAY in consideration for the issue of New KAY Shares (which will be issued directly to Shareholders).

The merger will be completed on a relative net asset value basis, which will be calculated on the net asset values of each company as at 30 June 2011, adjusted for portfolio valuation movements and other balance sheet movements up to 29 September 2011 and each company's allocation of the merger costs being split proportionately based on the merger NAVs (ignoring merger costs).

The merger will result in the creation of an enlarged company and should result in savings in running costs and simpler administration. As both companies have the same investment policies, investment manager and other main advisers, this is achievable without major additional cost or disruption to the companies and their combined portfolio of investments.

The Board considers that this merger will bring a number of benefits to both groups of shareholders through:

- a reduction in annual running costs for the Enlarged Company compared to the total annual running costs of the separate companies;
- the creation of a single VCT of a more economically efficient size with a greater capital base over which to spread administration, regulatory and management costs;
- participation in a larger VCT with the longer term potential for a more diversified portfolio thereby spreading the portfolio risk across a broader range of investments and allowing for further investment in the pursuit of the new investment policy; and
- enhancing the ability of the Enlarged Company to raise new funds and pay dividends in the future.

Normalised annual running costs, excluding investment management fees, for the Company and KAY are approximately £220,000 per VCT or £440,000 in total. These annualised costs represent 1.3 per cent. of the Company's unaudited net assets and 1.2 per cent. of KAY's unaudited net assets, in each case as at 30 June 2011. The Board and the KAY Board consider that this level of continued administrative annual running costs could be reduced through the merger resulting in benefits to both groups of shareholders.

The aggregate anticipated cost of undertaking the merger is approximately £235,000, including VAT, legal and professional fees, stamp duty and the costs of winding up the Company. The costs of the merger will be split proportionately between the Company and KAY by reference to their respective Roll-Over Value and Merger Value.

On the assumption that the NAV of the Enlarged Company will remain the same immediately after the merger, annual cost savings for the Enlarged Company are estimated to be at least £80,000 per annum (taking into account 3 per cent. cap on normal annual expenses). This would represent 0.25 per cent. per annum of the expected net assets of the Enlarged Company. On this basis, and assuming that no new funds are raised or investments realised to meet annual costs, the Board believes that the costs of the merger would be recovered within three years.

The Board believes that the Scheme provides an efficient way of merging the companies with a lower level of costs compared with other merger routes. Although either of the companies could have acquired all of the assets and liabilities of the other, KAY was selected as the acquirer because of its larger tax losses available to offset against future profits. Shareholders should note that the merger by way of the Scheme will be outside the provisions of the City Code on Takeovers and Mergers.

Shareholders who do not vote in favour of the resolution to be proposed at the First General Meeting are entitled to dissent and have their shareholding purchased by the Liquidators at the break value price of the Shares. The break value price is expected to be at a significant reduction to the net asset value of a Share. In addition, Shareholders should note that a purchase of Shares by the Liquidators will be regarded as a disposal of the Shares for HMRC purposes, thereby triggering the payment of any capital gains tax deferral received on the original subscription. The break value received may not be sufficient to cover the amount of payment due as set out in paragraph 9 of Part IV of this document. If the conditions of the Scheme are not satisfied the Company will continue in its current form and the Board will continue to review all options available to it regarding the future of the Company.

Further information regarding the terms of the Scheme is set out in Part IV of this document.

### **KAY's Board**

The KAY Board has three non-executive directors; Robin Field (chairman), Martin Fiennes and Patrick Reeve.

The KAY Board and the Board have considered what the size and future composition of the Enlarged Company's board should be following the merger and it has been agreed that Patrick Reeve (the managing partner of Albion and an unpaid non-independent director of KAY) will step down as a director of KAY and



that Thomas Chambers and Alan Lamb (directors of this Company) will be appointed as directors of KAY (Thomas Chambers will also be appointed chairman of the KAY audit committee). This will result in reducing the aggregate number of directors from six across both companies to four for the Enlarged Company resulting, in aggregate, in an annual cost saving of over £20,000.

Thomas Chambers and Alan Lamb will remain as Directors of the Company for the duration of the winding-up process. I will resign as a Director, subject to the merger being approved and becoming effective.

### **Termination Agreements and KAY Fees**

Albion is the investment manager of the Company and of KAY and also provides administration services to both companies.

In respect of the Company, Albion has agreed to waive its investment management and administration fees until the end of December 2011. Thereafter, Albion will be entitled to an annual investment management fee of an amount equivalent to 2 per cent. of the net assets of the Company (exclusive of VAT, if any) and an annual administration fee of £50,000 (exclusive of VAT, if any). The normal annual running costs of the Company (including investment management and administration fees due to Albion, directors' remuneration, registrars' fees, stockbrokers' fees, company secretarial fees, fees of the Company's auditors and irrecoverable VAT) will, for accounting periods after 31 December 2011, be capped at an amount equivalent to 3 per cent. of net asset value of the Company, with any excess being paid by Albion or refunded by a reduction to Albion's above management and administration fees. Albion's appointment is for an initial period to 31 December 2013, thereafter terminable on 12 months' notice. The same arrangements and level of fees are in place with KAY.

The Company has no performance or incentive fee arrangements. The Company has agreed with Albion that no performance or incentive fees will be payable to Albion for any periods prior to 31 December 2012, and thereafter the Board intends to discuss an appropriate incentive arrangement with Albion, which would be subject to approval by Shareholders. The same applies to KAY.

Albion will continue to provide investment management and administration services to the Enlarged Company following the merger on the same annual fee basis as above for KAY (i.e. fees to 31 December 2011 for the Enlarged Company will continue to be waived and thereafter, annual investment management fees will be an amount equivalent to 2 per cent. of the net assets of the Enlarged Company (exclusive of VAT, if any) and an annual administration fee of £50,000 (exclusive of VAT, if any) and the normal annual running costs will be capped as set out above). No performance or incentive fees will be payable by the Enlarged Company for any periods prior to 31 December 2012. Albion has (subject to the Scheme becoming effective) agreed to terminate the investment management and administration arrangements with the Company with effect from the Effective Date without notice or penalty.

The Company's termination of its appointment of SPARK Venture Management Limited as the investment manager to the Company took effect on 1 January 2011. Under the termination agreement between the Company and SPARK Venture Management Limited, the Company has agreed to pay SPARK Venture Management Limited its management and administration fee under its investment management agreement for the period until 30 November 2011 (calculated by reference to the net asset value of the Company as at 31 December 2010, subject to appropriate adjustments in respect of dividends or realisations made during the period until 30 November 2011). Equivalent termination arrangements apply between KAY and SPARK Venture Management Limited in respect of the termination of SPARK Venture Management Limited as the investment manager to KAY. The Enlarged Company will continue to pay SPARK Venture Management Limited on the same fee basis as above and will take on the equivalent responsibility of the Company.

Capita Registrars (the Company's registrar) has (subject to the Scheme becoming effective) also agreed to terminate its existing arrangement with effect from the Effective Date without notice or penalty as Capita Registrars will also continue to provide its services to the Enlarged Company.

The aggregate annual fees payable to the KAY Board of the Enlarged Company (following the resignation and appointments referred to above) will be £70,000. As mentioned above, I will resign as a Director upon

the merger being approved and becoming effective and no further fees will be payable to me. The other Directors have both (subject to the Scheme become effective) agreed to waive directors' fees and terminate service agreements in respect of the Company from the Effective Date (Patrick Reeve, already being an unpaid director of KAY, has also agreed to terminate his appointment to the KAY Board without compensation).

### **Cancellation of Listing**

The Company will apply to the UKLA for cancellation of the listing of its Shares, upon the successful completion of the Scheme, which is anticipated to be on 3 October 2011.

### **Taxation**

The following paragraphs and Part VI of this document apply to persons holding Shares (or, as the case may be, New KAY Shares) as an investment in the Company (and subsequently in KAY) who are the absolute beneficial owners of such Shares (or, as the case may be, New KAY Shares) and are resident in the UK. They may not apply to certain classes of persons such as dealers in securities. The following information, and that contained in Part VI of this document, is based on current UK law and practice, is subject to changes therein, is given by way of general summary and does not constitute legal or tax advice. Any Shareholder in doubt about their position, or who might be subject to tax in a jurisdiction other than the UK, should consult their independent financial adviser.

As is more fully explained in Part VI of this document, the receipt by Shareholders of New KAY Shares should not constitute a disposal of their Shares in the Company for UK capital gains tax purposes. Shareholders should, for UK tax purposes, effectively be able to treat the New KAY Shares received pursuant to the Scheme as if they had been acquired at the same date and at the same price as the original Shares in the Company. Any capital gains tax deferral attaching to the original Shares in the Company will then attach to the New KAY Shares. As KAY is also a VCT, the usual VCT tax reliefs should continue to apply.

As mentioned above, however, if a Shareholder dissents and has their Shares purchased by the Liquidators, this will be regarded as a disposal of the Shares for HMRC purposes, thereby triggering the payment of any capital gains tax deferral received on the original subscription.

Further details as to the taxation consequences for Shareholders are detailed in Part VI of this document. Shareholders should note that clearances from HMRC have been obtained as is more particularly described in Part VI of this document.

### **Meetings**

Notices of the Meetings are set out at the end of this document. The Meetings will be held at The City of London Club, 19 Old Broad Street, London EC2N 1DS as follows:

- the First General Meeting will be held at 2.00 p.m. on 23 September 2011; and
- the Second General Meeting will be held at 3.00 p.m. on 30 September 2011.

The resolutions to be proposed at the First General Meeting and Second General Meeting will be proposed as special resolutions. All resolutions will require the approval of at least 75 per cent. of the votes cast on that resolution at the relevant meeting.

### **First General Meeting**

The resolution to be proposed at the First General Meeting will seek Shareholder approval for the Scheme and authorise its implementation by the Liquidators.

### **Second General Meeting**

The resolution to be proposed at the Second General Meeting will seek the following:



Paragraph (i) of the resolution will seek approval to put the Company into members' voluntary liquidation and appoint and remunerate the Liquidators for the purposes of such winding-up.

Paragraph (ii) of the resolution will seek approval to authorise the Liquidators to exercise certain powers for which the express sanction of Shareholders is required under the IA 1986, such as paying classes of creditors in full.

Paragraph (iii) of the resolution will seek approval to approve the cancellation of the listing of the Company's Shares following the successful completion of the Scheme.

### **Action to be Taken**

Before taking any action, you are recommended to read the further information set out in this document.

Shareholders will find attached at the end of this document forms of proxy for use at the Meetings. Whether or not you propose to attend the Meetings, you are requested to complete and return the forms of proxy attached so as to be received not less than 48 hours before the time appointed for holding the relevant meeting. Completion and return of the forms of proxy will not prevent a Shareholder from attending and voting in person at the relevant meeting should a Shareholder wish to do so.

### **Recommendation**

The Board is of the opinion that the proposals are in the best interests of the Shareholders as a whole and unanimously recommends you to vote in favour of the resolutions to be proposed at the Meetings as they intend to do in respect of their own holdings of 534,137 Shares representing approximately 0.69 per cent. of the issued share capital.

Finally, I would like to take the opportunity, and on the assumption the merger is approved and becomes effective, to thank my fellow Directors for the experience they have brought and the commitment they have made to the Company, particularly during the Company's recent transitional changes.

Yours faithfully

**Robert Wright**

*Chairman*

## PART IV

### THE SCHEME

#### 1. Definitions and Interpretation

The definitions set out in Part I of this document shall have the same meanings when used in the context of this Part IV.

On or immediately prior to the Effective Date, Albion (on the instruction of the Liquidators) shall calculate the Roll-Over Value and the Merger Value in accordance with paragraph 4 below.

#### 2. Provision of Information

On the Effective Date, the Liquidators shall receive all the cash, undertakings and other assets and liabilities of the Company and shall deliver to KAY:

- particulars of all of the assets and liabilities of the Company;
- a list certified by the registrars of the names and addresses of, and the number of Shares held by, each of the Shareholders on the register at 5.30 p.m. on the Record Date;
- an estimate of the winding-up costs of the Company which will form part of the costs of the Scheme; and
- the amount estimated to be required to purchase the holdings of any dissenting Shareholders.

#### 3. Transfer Agreement

On the Effective Date, the Liquidators (on behalf of the Company) and KAY will enter into the Transfer Agreement (subject to such modifications as may be agreed between the parties thereto) pursuant to which the Liquidators will procure the transfer of all of the assets and liabilities of the Company to KAY in exchange for the issue of New KAY Shares (fully paid) to Shareholders on the basis set out in paragraph 4 below.

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

#### 4. Calculation of the Roll-Over Value, Merger Value and the Number of New KAY Shares to be Issued pursuant to the Scheme

Except as otherwise provided for in the Scheme terms, for the purposes of calculating the Roll-Over Value, the Merger Value and the number of New KAY Shares to be issued, the following provisions will apply:

##### The Company

The Roll-Over Value will be calculated as:

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

where:

- A = the unaudited net asset value of the Company as at 30 June 2011 (taken from the Half-Yearly Report);
- B = any (i) increase/decrease in the valuation of an investment held by the Company where there has been an event in the period between 30 June 2011 and the Calculation Date which requires a

revaluation of the investment in accordance with Financial Reporting Standards 26 'Financial Instruments: Measurement' (IAS39) and using International Private Equity and Venture Capital Valuation Guidelines and (ii) any material increase/decrease in the cash position and/or debtors and/or the creditors of the Company between 30 June 2011 and the Calculation Date;

- C = any adjustment that both the Board and the KAY Board consider appropriate to reflect any other actual or contingent benefit or liability of the Company;
- D = the Company's *pro rata* proportion (by reference to the relative aggregate Roll-Over Value of all Shares and the aggregate Merger Value of all the KAY Share, but ignoring merger costs) of the costs of the merger plus £10,000 (representing an amount of contingency to cover any unforeseen additional costs attributable to the Company incurred by KAY, which will indemnify the Liquidators in respect of all costs of the Company following the transfer on the Effective Date);
- E = the amount estimated to be required to purchase the holdings of Shares from dissenting Shareholders; and
- F = the number of Shares in issue as at close of business on the Record Date (save for any Shares held by dissenting Shareholders).

### KAY

The Merger Value will be calculated as follows:

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

where:

- G = the unaudited net asset value of KAY as at 30 June 2011 (taken from the KAY Half-Yearly Report);
- H = any (i) increase/decrease in the valuation of an investment held by KAY where there has been an event in the period between 30 June 2011 and the Calculation Date which requires a revaluation of the investment in accordance with Financial Reporting Standards 26 'Financial Instruments: Measurement' (IAS39) and using International Private Equity and Venture Capital Valuation Guidelines and (ii) any material increase/decrease in the cash position and/or debtors and/or the creditors of KAY between 30 June 2011 and the Calculation Date;
- I = any adjustment that both the KAY Board and the Board considers appropriate to reflect any other actual or contingent benefit or liability of KAY;
- J = KAY's *pro rata* proportion (by reference to the relative aggregate Roll-Over Value of all Shares and the aggregate Merger Value of all the KAY Shares, but ignoring merger costs) of the costs of the merger; and
- K = the number of KAY Shares in issue as at close of business on the Record Date.

### New KAY Shares to Shareholders

The number of New KAY Shares to be issued to Shareholders (save for any dissenting Shareholders) will be calculated as follows:

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

where:

- L = the Roll-Over Value;
- M = the Merger Value; and

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

The number of New KAY Shares to be issued pursuant to the Scheme will not be greater than 130,000,000 and will be issued directly to Shareholders *pro rata* to their existing holdings (disregarding Shares held by dissenting Shareholders) on instruction of the Liquidators.

The merger ratio will be rounded to four decimal places and entitlements will be rounded down to the nearest whole number. Any fractional entitlements (which, in each case, will not exceed £1) will be sold in the market and the proceeds retained for the benefit of the Enlarged Company.

Where Shareholders hold their Shares in certificated form, they will receive a new certificate for the New KAY Shares issued and existing certificates will no longer be valid. Where Shareholders hold their Shares in uncertificated form, their CREST accounts will be credited with the replacement holding in New KAY Shares.

Dividend payment mandates provided for Shares will under the terms of the Scheme, unless Shareholders advise otherwise in writing to the Registrars, be transferred to the New KAY Shares.

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

### **Scheme Illustration**

As at 30 June 2011, the unaudited NAV per Share of the Company (taken from the Half-Yearly Report) was 21.1 pence. The Roll-Over Value of a Share (had the merger been completed on that date and calculated in accordance with this paragraph 4) would have been 20.9 pence (assuming no dissenting Shareholders).

As at 30 June 2011, the unaudited NAV of a KAY Share (taken from the KAY Half-Yearly Report) was 16.0 pence. The Merger Value of a KAY Share (had the merger been completed on that date and calculated in accordance with this paragraph 4) would have been 15.9 pence.

The number of New KAY Shares that would have been issued to Shareholders would then have been calculated by multiplying the number of Shares in issue by the Merger Ratio, this being the Roll-Over Value of a Share divided by the Merger Value per KAY Share. The New KAY Shares would have been issued to all Shareholders pro-rata to their holdings in the Company (assuming no dissenting Shareholders). This would effectively have given 1.3152 New KAY Shares for every Share held, 101,751,528 New KAY Shares in aggregate, had the merger been completed on 30 June 2011. The Directors do not expect the actual Roll-Over Value and the Merger Value to be materially different from the Scheme illustration, unless an unforeseen event (e.g. an exit opportunity in respect of an investment) requires a revaluation of a holding.

### **5. Modifications**

The provisions of the Scheme shall have effect subject to such non-material modifications or additions as the parties to the Transfer Agreement may from time to time approve in writing.

### **6. Reliance on Information**

The Liquidators and KAY shall be entitled to act and rely, without enquiry, on any information furnished or made available to them or any of them, as the case may be, in connection with the Scheme and the Transfer Agreement including, for the avoidance of doubt, any certificate, opinion, advice, valuation, evidence or other information furnished or made available to them by the Company, KAY, the Board, the KAY Board, any individual director of the Company or KAY, Albion, the registrar or the custodians or the bankers of the Company and KAY or its or their other professional advisers and the Liquidators shall not be liable or responsible for any loss suffered as a result thereof.

## **7. Liquidators' Liability**

Nothing in the Scheme, or in any document executed under or in connection with the Scheme, shall impose any personal liability on the Liquidators or either of them save for any liability arising out of any negligence, breach of duty or wilful default by the Liquidators in the performance of their duties and this shall, for the avoidance of doubt, exclude any such liability for any action taken by the Liquidators in accordance with the Scheme or the Transfer Agreement.

## **8. Conditions**

The Scheme is conditional upon:

- the passing of the Resolutions to be proposed at the Meetings;
- notice of dissent not having been received from Shareholders holding more than 10 per cent. in nominal value of the issued Share capital of the Company under Section 111 IA, 1986 (this condition may be waived by the Board); and
- the passing of resolution 1 to be proposed at the KAY General Meeting.

Subject to the above, the Scheme shall become effective immediately after the passing of the special resolution for the winding up of the Company to be proposed at the Second General Meeting. If it becomes effective, the Scheme shall be binding on all Shareholders and all persons claiming through or under them.

If the conditions set out above have not been satisfied by 30 November 2011, the Scheme shall not become effective and the Company will continue in its current form and the Board will continue to keep the future of the Company under review.

## **9. Dissenting Shareholders**

Provided that a Shareholder does not vote in favour of the resolution to be proposed at the First General Meeting, such Shareholder may, within seven days following the First General Meeting, express his/her dissent to the Liquidators in writing at the registered office of the Company and require the Liquidators to purchase that Shareholder's holding in the Company.

The Liquidators will offer to purchase the holdings of dissenting Shareholders at the break value price of a Share, this being an estimate of the amount a Shareholder would receive per Share in an ordinary winding-up of the Company if all of the assets of the Company had to be realised. The break value of a Share is expected to be at a significant reduction to the net asset value per Share. Shareholders should also be aware that a purchase by the Liquidators will be regarded as a disposal for HMRC purposes, thereby triggering the payment of any capital gains tax deferral received on the original subscription. The break value received may not be sufficient to cover the amount of payment due. Further details on the taxation consequences for Shareholders are set out in Part VI of this document.

## **10. Governing Law**

The Scheme shall, in all respects, be governed by and construed in accordance with the laws of England and Wales.

## PART V

### KAY

#### 1. Constitution and Status

KAY was launched in 1996 as a public limited company listed on the Official List.

KAY has met the requirement for VCTs pursuant to Chapter 3 of Part 6 ITA 2007 and intends to carry on its activities so as to continue qualifying as a VCT.

#### 2. Directors

The directors of KAY are Robin Field (chairman), Martin Fiennes and Patrick Reeve (being the managing partner at Albion).

It has been agreed that, following the merger, Patrick Reeve will step down as a director of KAY and Thomas Chambers and Alan Lamb will be appointed as directors to KAY (Thomas Chambers will also be appointed chairman of the Audit Committee).

Biographies for the directors of KAY can be found in Part II of the KAY Prospectus which accompanies this document.

#### 3. Investment Manager

The investment manager to KAY is Albion, the same investment manager as for the Company.

Albion is an investment manager with substantial experience in identifying, investing in, monitoring and subsequently exiting from companies of the size and type qualifying for VCT investment. Albion currently manages nine VCTs with over £224 million under management.

Further details relating to Albion are set out in Part III of the KAY Prospectus which accompanies this document.

#### 4. Investment Objective and Policy

KAY intends to, over time, rebalance its portfolio such that approximately 50 per cent. of the portfolio comprises an asset-based portfolio of lower risk, ungeared businesses, principally operating in the healthcare, environmental and leisure sectors (the "Asset-Based Portfolio"). The balance of the portfolio, other than funds retained for liquidity purposes, will be invested in a portfolio of higher growth businesses across a variety of sectors of the UK economy. These will range from lower risk, income producing businesses to a limited number of higher risk technology companies (the "Growth Portfolio").

In neither category would portfolio companies normally have any external borrowing with a charge ranking ahead of the VCT. Up to two thirds of qualifying investments by cost will comprise loan stock secured with a first charge on the portfolio company's assets.

KAY's investment portfolio will thus be structured to provide a balance between income and capital growth for the longer term. The Asset-Based Portfolio is designed to provide stability and income whilst still maintaining the potential for capital growth. The Growth Portfolio is intended to provide highly diversified exposure through its portfolio of investments in unquoted UK companies.

Funds held pending investment or for liquidity purposes will be held as cash on deposit or in floating rate notes or similar instruments with banks or other financial institutions with a Moody's rating of 'A' or above.

KAY's investment allocation and risk diversification policies are substantially driven by the relevant HMRC rules and it is the intention of KAY to apply the following policies in this respect:

- KAY's income will be derived wholly or mainly from shares and securities;

- At least 70 per cent. of the value of its investments will be represented throughout the year by shares of securities that are classified as 'qualifying holdings';
- At least 30 per cent. by value of its total qualifying holdings will be represented through the year by holdings of 'eligible shares';
- At no time in the year will KAY's holdings in any one company exceed 15 per cent. by value of its investments;
- KAY will not retain more than 15 per cent. of its income earned in the year from shares and securities; and
- Eligible shares will comprise at least 10 per cent. by value of the total of the shares and securities that KAY holds in any one portfolio company.

These tests drive a spread of investment risk through disallowing holdings of more than 15 per cent. in one portfolio company.

'Qualifying holdings' for KAY include shares or securities (including loans with a five year or greater maturity period) in companies which operate a 'qualifying trade' wholly or mainly in the United Kingdom.

'Qualifying trade' excludes, amongst other sectors, dealing in property or shares and securities, insurance, banking and agriculture. KAY may not control a portfolio company.

There is an annual investment limit of £1 million in each portfolio company.

Gearing will not normally be employed. As defined by KAY's articles of association, KAY's maximum exposure in relation to gearing is restricted to the amount equal to the adjusted capital and reserves.

## **5. Investments and Net Asset Value**

As at 30 June 2011, KAY had in aggregate investments in 21 companies (with a carrying value) with an aggregate value of £12.9 million and unaudited total net assets of £17.7 million (16.0 pence per KAY Share).

## **6. Dividend Policy**

In view of Albion's track record of generating deal flow of the sort of opportunities KAY is now targeting and, given the KAY Board's intention to build up a portfolio of income yielding securities, it is intended that a greater proportion of cash available from disposals should be devoted to new investments rather than to dividends.

The KAY Board's intention is to establish a sustainable and progressive dividend stream to Shareholders, with the prospect of a gradual recovery in capital value.

The current annual dividend target is 0.67 pence per KAY Share per annum, but it is hoped this will increase over time as exits are achieved and the new investment policy is fully implemented. This annual dividend target of 0.67 pence per KAY Share is consistent with the 1p per Share annual target set by the Company, when taking into consideration that a Shareholder's number of shares in the Enlarged Company will be greater than it currently is in the Company as a result of the merger formula (i.e. a Shareholder would have received 1.3152 New Kay Shares for every Share held in the Company had the merger been completed on 30 June 2011).

## **7. Shares**

KAY's share capital comprises ordinary shares of 5 pence each of which 110,417,392 are currently in issue (as at 24 August 2011).

The KAY Board considers it to be in the interest of its shareholders to enhance KAY's ability to support the future payment of dividends by restructuring the Company's balance sheet by means of the cancellation



and extinction of 4 pence of the amount paid up on its issued shares. The KAY Board do not believe that such proposal will negatively impact on individual KAY Shareholders, rather it is merely a mechanism by which further distributable reserves can be created (subject to the approval of the Court) to support payment of future dividends as well as other corporate purposes.

The third resolution to be proposed at the KAY General Meeting seeks, amongst other things, the approval of this cancellation of share capital, subject to the sanction of the Court. If this resolution is approved, the KAY Board intend to apply to Court to sanction the cancellation (which is not conditional on the merger being completed). It is expected that the completion of the cancellation will take place before the end of the year. Share certificates for shares (including New KAY Shares issued pursuant to the merger, if approved) will continue to be valid and will not be replaced as the cancellation will not affect the number of shares held.

## **8. Buyback Policy**

In order to maintain resources for dividends and the implementation of the new investment policy, the KAY Board does not intend to buy back any shares in the financial year to 31 December 2011. However, it intends to implement a share buyback policy to make purchases in the market in the region of a 10 to 15 per cent. discount to net asset value, (so far as market conditions, liquidity and reserves permit) once the fruits of the new investment policy have begun to show. Such buybacks, are subject to the overall constraint that such purchases are in the interests of KAY, including the maintenance of sufficient resources for investment in existing and new investee companies and the continued payment of dividends.

## **9. Annual Expenses and Management Fees**

Albion is the investment manager of KAY and also provides administration services to KAY.

Albion has agreed to waive investment management and administration fees in respect of KAY until the end of December 2011. Thereafter, Albion will be entitled to an annual investment management fee of an amount equivalent to 2 per cent. of the net assets of KAY (exclusive of VAT, if any) and an annual administration fee of £50,000 (exclusive of VAT, if any). The normal annual running costs of KAY (including investment management and administration fees due to Albion, directors' remuneration, registrars' fees, stockbrokers' fees, company secretarial fees, auditors fees and irrecoverable VAT) will, for accounting periods after 31 December 2011, be capped at an amount equivalent to 3 per cent of net asset value of KAY, with any excess being paid by Albion or refunded by a reduction to Albion's above fees. Albion's appointment is for an initial period to 31 December 2013, thereafter terminable on 12 months' notice. These are the same as the arrangements and level of fees are in place for the Company.

No performance or incentive fee will be payable by KAY to Albion for any periods prior to 31 December 2012, thereafter the KAY Board intends to discuss an appropriate incentive arrangement with Albion, which would be subject to the approval by the KAY Shareholders.

Albion will continue to provide investment management and administration services to the Enlarged Company following the merger on the same annual fee basis as above for KAY (i.e. fees to 31 December 2011 for the Enlarged Company will continue to be waived and thereafter annual investment management fees will be an amount equivalent to 2 per cent. of the net assets of the Enlarged Company (exclusive of VAT, if any) and an annual administration fee of £50,000 (exclusive of VAT, if any). No performance or incentive fees will be payable by the Enlarged Company for any periods prior to 31 December 2012. Albion has (subject to the Scheme becoming effective) agreed to terminate the investment management and administration arrangements with the Company with effect from the Effective Date without notice or penalty.

KAY's termination of its appointment of SPARK Venture Management Limited as its investment manager took effect on 1 January 2011. Under the termination agreement between KAY and SPARK Venture Management Limited, KAY has agreed to pay SPARK Venture Management Limited its management and administration fee under its investment management agreement for the period until 30 November 2011 (calculated by reference to the net asset value of KAY as at 31 December 2010, subject to appropriate



adjustments in respect of dividends or realisations made during the period until 30 November 2011). These are the same as termination arrangements which apply between the Company and SPARK Venture Management Limited in respect of the termination of SPARK Venture Management Limited as the investment manager to the Company. The Enlarged Company will continue to pay SPARK Venture Management Limited on the same fee basis as above and will take on the equivalent responsibility of the Company.

#### **10. Accounts and auditors**

The accounting reference date of KAY is 31 December and annual accounts are usually dispatched in April each year with half-yearly accounts for the six month period to 30 June being usually dispatched in August each year. The auditors of KAY are Grant Thornton UK LLP.

#### **11. Publication of Share Price**

The NAV of a KAY Share is calculated quarterly and published on an appropriate Regulatory Information Service. The most recent unaudited NAV and share price of a KAY Share are available on the website of the London Stock Exchange.

#### **12. Taxation**

As a VCT, KAY is not subject to UK taxation on capital gains on the disposals of its investments. KAY will, however, be subject to UK taxation on income at the usual rates.

Qualifying KAY Shareholders will not be liable to UK taxation on dividends paid on KAY Shares or capital gains on the disposals of such shares (although such disposal will trigger the payment of any capital gains tax deferred on subscription).

## PART VI

### TAXATION

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

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

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

#### **1. The Company**

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

The Board considers that the Company has to date conducted its affairs and will continue to do so, to enable it to qualify as a VCT for the period ending on the date on which the proposed liquidation is completed. Furthermore, the proposed method of winding up the Company is such that the benefit of VCT status should be available to the Liquidators, to the extent that the Liquidators effect disposals of chargeable assets for the purpose of UK taxation of capital gains to implement the Scheme.

#### **2. Receipt by Shareholders of New KAY Shares under the Scheme**

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

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

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

Although KAY will be required to pay UK stamp duty on the transfer to it of the assets and liabilities of the Company (which form part of the merger costs being allocated to both KAY and the Company), no UK stamp duty or stamp duty reserve tax will be payable directly by Shareholders as a result of the implementation of the Scheme.

#### **3. Dissenting Shareholders**

Dissenting Shareholders whose holdings are purchased for cash at the break value price shall be treated as having disposed of their existing Shares in the Company. The Company should still be able to claim the benefit of VCT status and the dissenting Shareholder should not be subject to any UK taxation in respect of any capital gains arising on disposal. However, the purchase will constitute a disposal of the existing holding in the Company and a dissenting Shareholder will be liable to pay any capital gains tax for which such dissenting Shareholder obtained deferral relief on subscription.

If the dissenting Shareholder has disposed of Shares within the holding period required to retain upfront tax relief, income tax relief on those subscriptions will also be repayable. As the Company should still be able to claim the benefit of VCT status whilst in liquidation under the Merger Regulations the dissenting Shareholder should not be subject to any UK taxation in respect of any capital gains arising from the disposal.

#### **4. Clearances**

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

Clearance has also been obtained from HMRC that the Scheme meets the requirements of the Merger Regulations and, as such, the receipt by Shareholders of New KAY Shares should not prejudice tax reliefs obtained by Shareholders on existing Shares in the Company and should not be regarded as a disposal.

## PART VII

### ADDITIONAL INFORMATION

#### 1. Responsibility

The Company and the Directors, whose names appear in paragraph 3 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. Share Capital

- 2.1 As at 24 August 2011 (this being the latest practicable date prior to the publication of this document), the authorised and issued share capital of the Company was as follows:

	<i>Issued and fully paid</i>	
	<i>No. of Shares</i>	<i>£</i>
Shares (1 pence each)	77,367,856	773,678.56

- 2.2 As at 24 August 2011 (this being the latest practicable date prior to the publication of this document), no share or loan capital of the Company was under option or had been agreed, conditionally or unconditionally, to be put under option, nor did the Company hold any share capital in treasury.

#### 3. Directors and their Interests

- 3.1 The names and business addresses of the Directors, all of whom are non-executive, are as follows:

- Robert Adrian Wright (Chairman)
- Thomas William Chambers
- Alan Peter Mackenzie Lamb

all of 1 King's Arm Yard, London EC2R 7AF (the registered office and principal place of business of the Company).

- 3.2 As at 24 August 2011 (this being the latest practicable date prior to publication of this document), the interests of the Directors (and their immediate families) and the directors of KAY, in the issued share capital of the Company and KAY were as follows:

	<i>Company</i>		<i>KAY</i>	
	<i>Shares</i>	<i>% of issued share capital</i>	<i>KAY Shares</i>	<i>% of KAY issued share capital</i>
<i>Director</i>				
Robert Wright	290,049	0.37	–	–
Thomas Chambers	174,747	0.23	–	–
Alan Lamb	69,341	0.09	–	–
Robin Field	–	–	98,993	0.09
Martin Fiennes	–	–	83,300	0.08
Patrick Reeve	–	–	80,686	0.07

- 3.3 Aggregate Directors' emoluments for the current year (assuming the merger does not take place) are expected to be £52,500 (excluding applicable employers National Insurance Contributions). Thomas Chambers and Alan Lamb will remain as Directors of the Company for the duration of the winding-up process and have agreed, subject to the Scheme becoming effective, to waive directors'

fees and terminate their service agreements from the Effective Date. Robert Wright will resign as a Director and his service agreement will be terminated, subject to the merger being approved and becoming effective. Details of the Directors' appointments are as follows:

<i>Director</i>	<i>Date of appointment</i>	<i>Date of appointment letter*</i>	<i>Annual remuneration** (£)</i>	<i>31 December 2010 remuneration*** (£)</i>
Robert Wright (Chairman)	30 October 2000	30 October 2000	20,000	20,000
Thomas Chambers (Audit Committee chairman)	13 January 2010	13 January 2010	17,500	16,904
Alan Lamb	30 October 2000	30 October 2000	15,000	15,000

\* Robert Wright is appointed pursuant to both a service agreement and consultancy agreement which will terminate immediately if Robert Wright resigns as a Director, but otherwise subject to not less than one months' notice by either party. Alan Lamb has been appointed pursuant to both an appointment letter and a service agreement. Alan Lamb's appointment does not require the Company to give any form of notice before termination or otherwise on 10 days' notice by Alan Lamb. Thomas Chambers has been appointed pursuant to a service agreement which may be terminated on failing to be re-elected in accordance with the Articles or otherwise by either party subject to not less than three months' notice. Pursuant to their service agreements Alan Lamb and Thomas Chambers provide services to the Company through companies controlled by them respectively and under which part of their directors' fees are paid.

\*\* No arrangements have been entered into by the Company, entitling the Directors to compensation for loss of office nor have any amounts been set aside to provide pension, retirement or similar benefits.

\*\*\* exclusive of applicable employers National Insurance Contributions.

- 3.4 There are no potential conflicts of interests between the duties of any Director and their private interests and/or duties.
- 3.5 Other than disclosed in this paragraph 3, no Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company in the years ended 31 December 2008, 2009 and 2010 or in the current financial year or which was effected in an earlier financial year and remains in any respect outstanding or unperformed.

#### **4. Substantial Shareholders**

As at 24 August 2011 (this being the latest practicable date prior to publication of this document), the Company is not aware of any person who has an interest in the Company's capital or voting rights which is notifiable under UK law (under which, pursuant to CA 2006, the Listing Rules and the Disclosure & Transparency Rules of the FSA, a holding of 3 per cent. or more must be notified to the Company).

#### **5. Material Contracts**

- 5.1 Save as disclosed in this paragraph 5.1, the Company has not entered, other than in the ordinary course of business, into any contract which is or may be material to the Company within the two years immediately preceding the publication of this document or into any contract containing provisions under which the Company has any obligation or entitlement which is material to the Company as at the date of this document:

- 5.1.1 An investment management agreement dated 8 December 2010 between the Company (1) and Albion (2), pursuant to which Albion provides investment management services and administration services to the Company. Albion has agreed to waive investment management and administration fees until the end of December 2011, thereafter Albion will be entitled to an investment management fee payable quarterly in arrears of an amount equivalent to 2 per cent. per annum (exclusive of VAT, if any) of the NAV of the Company calculated in accordance with the Company's normal accounting policies and an annual administration fee payable quarterly in arrears of £50,000 (exclusive of VAT, if any).

The normal annual running costs of the Company (including investment management and administration fees due to Albion, directors' remuneration, registrars' fees, stockbrokers' fees, company secretarial fees, auditors fees and irrecoverable VAT) will, for accounting periods after 31 December 2011, be capped at an amount equivalent to 3 per cent of net asset value of the Company, with any excess being paid by Albion or refunded by a reduction to Albion's above management and administration fees.

No performance or incentive fee will be payable to Albion for any periods prior to 31 December 2012, thereafter the Board intends to discuss an appropriate incentive arrangement with Albion, which would be subject to the approval by Shareholders.

Albion's appointment is for an initial period expiring on 31 December 2013, subject to immediate termination in the event of (i) a material or persistent breach by Albion or (ii) the Company fails to become, or ceases to be, a VCT for tax purposes. Thereafter the appointment is terminable on 12 months' notice (i.e. such notice only being given after 31 December 2013) to be served by either party, subject to earlier termination by either party in the event of, *inter alia*, (i) a party having a receiver, administrator or liquidator appointed or (ii) the Company fails to become, or ceases to be, a VCT for tax purposes or (iii) Albion ceases to be authorised by the FSA or (iv) Albion commits an act of fraud.

The agreement contains provisions indemnifying Albion against any liability not due to its default, gross negligence, fraud or breach of the FSMA.

- 5.1.2 A termination agreement dated 8 December 2010 between the Company (1) and SPARK Venture Management Limited (2) in respect of the termination of the appointment of SPARK Venture Management as the investment manager to the Company. Pursuant to this agreement the Company has agreed to pay SPARK Venture Management Limited its management and administration fee under its investment management agreement for the period until 30 November 2011 (calculated by reference to the net asset value of the Company as at 31 December 2010, subject to appropriate adjustments in respect of dividends or realisations made during the period until 30 November 2011). The arrangements under the termination agreement are in full and final settlement of any claims between the parties in respect of the original appointment of SPARK Venture Management as the investment manager to the Company.

- 5.2 The following contracts will be entered into, subject, *inter alia*, to the Scheme becoming unconditional:

- 5.2.1 A termination agreement dated 24 August 2011 between the Company (1) and Albion (2) pursuant to which the investment management agreement referred to at paragraph 5.1 above will be terminated from the Effective Date conditional on the Scheme being implemented.
- 5.2.2 A termination agreement dated 23 August 2011 between the Company (1) and Capita Registrars (2) pursuant to which the appointment of Capita Registrars as registrar to the Company will be terminated from the Effective Date conditional on the Scheme being implemented.
- 5.2.3 A termination agreement dated 24 August 2011 between the Company (1) and Thomas Chambers (2) pursuant to which the services provided by Thomas Chambers to the Company will be terminated from the Effective Date conditional on the Scheme being implemented.
- 5.2.4 A termination agreement dated 24 August 2011 between the Company (1) and Oxford Heyderum Limited (2) pursuant to which the services provided by Alan Lamb through Oxford Heyderum Limited to the Company will be terminated from the Effective Date conditional on the Scheme being implemented.

5.2.5 A termination agreement dated 24 August 2011 between the Company (1) and Robert Adrian Wright (2) pursuant to which Robert Wright's provision of consultancy services to the Company will be terminated from the Effective Date conditional on the Scheme being implemented.

5.2.6 A termination agreement dated 24 August 2011 between the Company (1) and Robert Adrian Wright (2) pursuant to which Robert Wright's provision of non-executive director services to the Company will be terminated from the Effective Date conditional on the Scheme being implemented.

## **6. Overseas Shareholders**

The issue of New KAY Shares to persons resident in or citizens of jurisdictions outside the UK may be affected by the laws of the relevant jurisdiction. Such Shareholders should inform themselves about and observe any legal requirements, in particular:

- (a) none of the New KAY Shares has been or will be registered under the United States Securities Act 1933, as amended, or qualify under applicable United States state statute and the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada, Australia, Japan, South Africa or New Zealand;
- (b) KAY is not registered under the United States Investment Company Act of 1940, as amended, and investors are not entitled to the benefits of that Act; and
- (c) no offer is being made, directly or indirectly, under the Scheme, in or into or by the use of mails, or by means of instrumentality (including, without limitation, facsimile, transmission, telex or telephone) of interstate or foreign commerce, or of any facility in a national securities exchange, of the United States, Canada, Japan, South Africa or New Zealand.

It is the responsibility of Shareholders with registered addresses outside the UK to satisfy themselves as to the observance of the laws of the relevant jurisdiction in connection with the issue of New KAY Shares, including the obtaining of any governmental or exchange control or other consents which may be required, the compliance with any other necessary formalities which need to be observed and the payment of any issue, transfer or other taxes or duties due in such jurisdiction.

## **7. General**

- 7.1 The Company was incorporated and registered in England and Wales under CA 1985 as a public company with limited liability on 1 September 2000, with registered number 04063505 and the name Qvester VCT 4 PLC. The Company changed its name to SPARK VCT 2 PLC on 23 July 2008 and to Kings Arms Yard VCT 2 PLC on 11 February 2011. The principal legislation under which the Company operates is the Companies Acts (and regulations made thereunder). The legal and commercial name of the Company is Kings Arms Yard VCT 2 PLC. The Company is domiciled in England.
- 7.2 Statutory accounts of the Company for the years ended 31 December 2008, 2009 and 2010, in respect of which the Company's auditors, Grant Thornton UK LLP, have made unqualified reports under Section 235 CA 1985/Section 495 CA 2006, have been delivered to the Registrar of Companies and such reports did not contain any statements under Sections 237(2) or (3) CA 1985 Sections 495 to Section 497A CA 2006.
- 7.3 Save for the fees paid to the Directors detailed in paragraph 3.3 above and fees paid to SPARK Venture Management Limited (as the former manager of the Company) of £566,000, £573,000, £408,000 and £274,000 for the years ended 31 December 2008, 2009 and 2010 and in the current year to the date of this document respectively, there were no related party transactions or fees paid by the Company during the years ended 31 December 2008, 2009 and 2010 or to the date of this document in the current financial year.
- 7.4 The Company has no employees or subsidiaries.



- 7.5 There has been no significant change in the financial or trading position of the Company since 30 June 2011, the date of the Half-Yearly Report, to the date of this document.
- 7.6 The Company is not and has not at any time in the 12 months immediately preceding the date of this document been involved in any governmental, legal or arbitration proceedings (and the Company is not aware of any such proceedings being pending or threatened) which may have, or have had a significant effect on the Company's financial position or profitability.
- 7.7 The Liquidators have given and not withdrawn their written consent to the issue of this document with the inclusion of their name and the references to them in the form and context in which they appear.
- 7.8 If the Scheme becomes effective in accordance with the expected timetable on page 3, it is anticipated that the listing of the Shares will be cancelled on 3 October 2011.
- 7.9 New KAY Shares issued to Shareholders under the Scheme will rank *pari passu* with the existing KAY Shares and will be admitted for trading on the main market of the London Stock Exchange.

## **8. Documents Available for Inspection**

Copies of the following documents will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of this document until the Effective Date at the offices of Martineau at 35 New Bridge Street, London EC4V 6BW and also at the registered office of the Company:

- 8.1 the memorandum and articles of association of the Company;
- 8.2 the audited report and accounts of the Company for the financial years ended 31 December 2008, 2009 and 2010;
- 8.3 the Company's Half-Yearly Report (for the six month period ended 30 June 2011);
- 8.4 the audited report and accounts of KAY for the financial years ended 31 December 2008, 2009 and 2010;
- 8.5 the KAY Half-Yearly Report (for the six month period ended 30 June 2011);
- 8.6 the material contracts referred to in paragraph 5 above;
- 8.7 a draft (subject to non-material updating and amendment) of the Transfer Agreement;
- 8.8 the consent referred to in paragraph 7.7 above;
- 8.9 the KAY Circular, dated 25 August 2011;
- 8.10 the KAY Prospectus, dated 25 August 2011; and
- 8.11 this document.

25 August 2011



## KINGS ARMS YARD VCT 2 PLC

(Registered in England and Wales with registered number 04063505)

### NOTICE OF FIRST GENERAL MEETING

Notice is hereby given that a general meeting of Kings Arms Yard VCT 2 PLC ("the Company") will be held at 2.00 p.m. on 23 September 2011 at The City of London Club, 19 Old Broad Street, London EC2N 1DS for the purposes of considering and, if thought fit, passing the following resolution, which will be proposed as a special resolution:

That, subject to the conditions (other than the passing of this resolution) set out in paragraph 8 of Part IV of the circular to the shareholders of the Company dated 25 August 2011 (a copy of which is produced to the meeting and initialled for the purpose of identification by the chairman of the meeting ("Circular")) having been fulfilled and notwithstanding anything in the articles of association of the Company to the contrary, the Scheme, as defined and set out in Part IV of the Circular, be and hereby is approved and the directors of the Company and William Duncan and Sarah Louise Burge of RSM Tenon Limited, Unit 1, Calder Close, Calder Park, Wakefield WF4 3BA ("the Liquidators") be and they hereby are authorised (insofar as they are not already authorised by the articles of association of the Company) to implement the Scheme and to execute any document and do any act or thing for the purpose of carrying the Scheme into effect and, in particular (but without prejudice to the foregoing generality):

- (a) the Company (acting by the Liquidators) be and hereby is authorised and directed to enter into, and the Liquidators be and they hereby are authorised and directed, pursuant to Section 110 of the Insolvency Act 1986, to give effect to, a transfer agreement in the form of the draft which is produced to the meeting and signed for the purpose of identification by the chairman of the meeting with such non-material modifications thereto as the parties to such agreement may agree ("Transfer Agreement"); and
- (b) the Liquidators be and they hereby are authorised and directed to request Kings Arms Yard VCT PLC ("KAY") to arrange for the issue of new ordinary shares of 5 pence each in the capital of KAY on the basis described in the Transfer Agreement for distribution among the holders of the ordinary shares of 1 pence each in the capital of the Company by way of satisfaction and discharge of their respective interests in so much of all of the assets and liabilities of the Company as shall be transferred to KAY in accordance therewith and with the Scheme and for the purposes of the resolution, words and expressions defined in the Circular shall have the same meanings in this resolution, save where the context requires otherwise.

Dated 25 August 2011

*By order of the Board*  
Albion Ventures LLP  
Secretary

*Registered Office:*  
1 King's Arms Yard  
London  
EC2R 7AF

## Notes:

1. Each director has an appointment letter/service agreement with the Company, a copy of which will be available for inspection at the meeting.
2. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast in accordance with Regulation 41 of the Uncertified Securities Regulations 2001), members must be registered in the register of members of the Company at 6.00 p.m. on 21 September 2011 (or, in the event of any adjournment, 6.00 p.m. on the date which is two days before the date of the adjourned meeting). Changes to the register of members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his or her behalf. A proxy need not also be a member but must attend the meeting to represent the member. Details of how to appoint the chairman of the meeting or another person as a proxy using the form of proxy are set out in the notes on the form of proxy. If a member wishes a proxy to speak on the member's behalf at the meeting the member will need to appoint their own choice of proxy (not the chairman) and give their instructions directly to them.
4. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional form(s) of proxy should be obtained by contacting the Company's registrar, Capita Registrars between 9.00 a.m. and 5.30 p.m. (GMT) Monday to Friday on telephone number 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to Capita Registrars' helpline (0871 664 0321) are charged at 10p per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. For legal reasons, Capita Registrars will be unable to give advice on the merits of the proposals or provide financial, legal, tax or investment advice. A member should indicate in the box next to the proxy holder's name the number of shares in relation to which the proxy is authorised to act as the member's proxy. A member should also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given.
5. A form of proxy is attached to this document and a reply paid envelope is enclosed. To be valid, it should be lodged with the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not later than 2.00 p.m. on 21 September 2011 or 48 hours before the time appointed for any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll. A member may return a proxy form in their own envelope with the address FREEPOST RSBH-UXKS-LRBC, PXS, 34 Beckenham Road, Beckenham BR3 4TU.
6. As at 24 August 2011 (being the last business day prior to the publication of this notice), the Company's issued voting share capital was 77,367,856 shares, each carrying one vote each. Therefore, the total voting rights in the Company as at 24 August 2011 was 77,367,856.
7. In accordance with Section 325 of the Companies Act 2006, the right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the Companies Act 2006.
8. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, in accordance with Section 149(2) of the Companies Act 2006 and under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
9. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
10. In order for a proxy appointment made by means by CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual ([www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message must be transmitted so as to be received by the issuer's agent, Capita (ID RA10), by 2.00 p.m. on 21 September 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST

members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

12. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
13. The statement of the rights of members in relation to the appointment of proxies in paragraphs 3 to 5 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.
14. If a corporate shareholder has appointed a corporate representative, the corporate representative will have the same powers as the corporation could exercise if it were an individual member of the Company. If more than one corporate representative has been appointed, on a vote on a show of hands on a resolution, each representative will have the same voting rights as the corporation would be entitled to. If more than one authorised person seeks to exercise a power in respect of the same shares, if they purport to exercise the power in the same way, the power is treated as exercised; if they do not purport to exercise the power in the same way, the power is treated as not exercised.
15. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should the member subsequently decide to do so. A member can only appoint a proxy using the procedures set out in these notes and the notes to the form of proxy.
16. Information regarding the meeting is also available at the following website: [www.albion-ventures.co.uk](http://www.albion-ventures.co.uk).

## KINGS ARMS YARD VCT 2 PLC

(Registered in England and Wales with registered number 04063505)

### NOTICE OF SECOND GENERAL MEETING

Notice is hereby given that a general meeting of Kings Arms Yard VCT 2 PLC ("the Company") will be held at 3.00 p.m. on 30 September 2011 at The City of London Club, 19 Old Broad Street, London EC2N 1DS for the purposes of considering and, if thought fit, passing the following resolution, which will be proposed as a special resolution:

That:

- (i) subject to the conditions (other than the passing of this resolution) set out in paragraph 8 of Part IV of the circular to shareholders of the Company dated 25 August 2011 (a copy of which is produced to the meeting and initialled for the purpose of identification by the chairman of the meeting ("Circular")) having been fulfilled, in each case prior to the passing of this resolution;
  - (a) the Company be wound up voluntarily under the provisions of the Insolvency Act 1986 and William Duncan and Sarah Louise Burge of RSM Tenon Limited, Unit 1, Calder Close, Calder Park, Wakefield WF4 3BA ('the Liquidators') be and they hereby are appointed liquidators for the purposes of such winding-up and any power conferred on them by law or by this resolution may be exercised, and any act required or authorised under any enactment to be done by them may be done, by them jointly or by each of them alone; and
  - (b) the Liquidators be remunerated on a time costs basis as agreed with the board of directors from time to time plus VAT, disbursements and expenses;
- (ii) the Liquidators of the Company appointed pursuant to paragraph (i)(a) set out in this notice be and hereby are authorised under Section 165 of the Insolvency Act 1986 to exercise the powers specified in Part I of Schedule 4 of the Insolvency Act 1986; and
- (iii) the cancellation of the listing of the Company's shares on the Official List following the implementation of the Scheme (as defined in the Circular) be and hereby is approved.

Dated 25 August 2011

*By order of the Board*  
Albion Ventures LLP  
Secretary

*Registered Office:*  
1 King's Arms Yard  
London  
EC2R 7AF

## Notes:

1. Each director has an appointment letter/service agreement with the Company, a copy of which will be available for inspection at the meeting. The Articles will be on display at the Company's registered office and at the meeting and will be available for inspection from the date of this notice through to the close of the meeting.
2. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast in accordance with Regulation 41 of the Uncertified Securities Regulations 2001), members must be registered in the register of members of the Company at 6.00 p.m. on 28 September 2011 (or, in the event of any adjournment, 6.00 p.m. on the date which is two days before the date of the adjourned meeting). Changes to the register of members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his or her behalf. A proxy need not also be a member but must attend the meeting to represent the member. Details of how to appoint the chairman of the meeting or another person as a proxy using the form of proxy are set out in the notes on the form of proxy. If a member wishes a proxy to speak on the member's behalf at the meeting the member will need to appoint their own choice of proxy (not the chairman) and give their instructions directly to them.
4. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional form(s) of proxy should be obtained by contacting the Company's registrar, Capita Registrars between 9.00 a.m. and 5.30 p.m. (GMT) Monday to Friday on telephone number 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to Capita Registrars' helpline (0871 664 0321) are charged at 10p per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. For legal reasons, Capita Registrars will be unable to give advice on the merits of the proposals or provide financial, legal, tax or investment advice. A member should indicate in the box next to the proxy holder's name the number of shares in relation to which the proxy is authorised to act as the member's proxy. A member should also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given.
5. A form of proxy is attached to this document and a reply paid envelope is enclosed. To be valid, it should be lodged with the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not later than 3.00 p.m. on 28 September 2011 or 48 hours before the time appointed for any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll. A member may return a proxy form in their own envelope with the address FREEPOST RSBH-UXKS-LRBC, PXS, 34 Beckenham Road, Beckenham BR3 4TU.
6. As at 24 August 2011 (being the last business day prior to the publication of this notice), the Company's issued voting share capital was 77,367,856 shares, each carrying one vote each. Therefore, the total voting rights in the Company as at 24 August 2011 was 77,367,856.
7. In accordance with Section 325 of the Companies Act 2006, the right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the Companies Act 2006.
8. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, in accordance with Section 149(2) of the Companies Act 2006 and under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
9. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
10. In order for a proxy appointment made by means by CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual ([www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message must be transmitted so as to be received by the issuer's agent, Capita (ID RA10), by 3.00 p.m. on 23 September 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to

ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

12. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
13. The statement of the rights of members in relation to the appointment of proxies in paragraphs 3 to 5 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.
14. If a corporate shareholder has appointed a corporate representative, the corporate representative will have the same powers as the corporation could exercise if it were an individual member of the Company. If more than one corporate representative has been appointed, on a vote on a show of hands on a resolution, each representative will have the same voting rights as the corporation would be entitled to. If more than one authorised person seeks to exercise a power in respect of the same shares, if they purport to exercise the power in the same way, the power is treated as exercised; if they do not purport to exercise the power in the same way, the power is treated as not exercised.
15. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should the member subsequently decide to do so. A member can only appoint a proxy using the procedures set out in these notes and the notes to the form of proxy.
16. Information regarding the meeting is also available at the following website: [www.albion-ventures.co.uk](http://www.albion-ventures.co.uk)

# PROXY FOR THE FIRST GENERAL MEETING

## KINGS ARMS YARD VCT 2 PLC

I/We .....  
(Block Capitals Please)

of.....  
being a shareholder(s) of the above-named Company, appoint the Chairman of the General Meeting or

.....  
for the following number of ordinary shares

to act as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held at The City of London Club, 19 Old Broad Street, London EC2N 1DS at 2.00 p.m. on 23 September 2011 (see note 1 below) and at every adjournment thereof and to vote for me/us on my/our behalf as directed below.

Please indicate with an 'X' if this is one of multiple proxy instructions being given

☐

Please indicate with an 'X' in the space below how you wish your vote to be cast. If no indication is given your proxy will vote for or against the resolution or abstain from voting as he thinks fit.

The proxy is directed to vote as follows:

Special Resolution	For	Against	Vote Withheld
Approval of the Scheme and authorise its implementation by the Liquidators			

Signature .....

Dated ..... 2011

**Notes:**

- The notice of the General Meeting is set out in the circular to shareholders of the Company dated 25 August 2011. Definitions used in the circular apply herein.
- If any other proxy is preferred, strike out the words "Chairman of the General Meeting" and add the name and address of the proxy you wish to appoint. The proxy need not be a member.
- You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional form(s) of proxy should be obtained by contacting the Company's registrar, Capita Registrars between 9.00 a.m. and 5.30 p.m. (GMT) Monday to Friday on telephone number 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to Capita Registrars' helpline (0871 664 0321) are charged at 10p per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. For legal reasons, Capita Registrars will be unable to give advice on the merits of the proposals or provide financial, legal, tax or investment advice.
- Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given.
- Any alterations to the form should be initialled.
- If the appointer is a corporation, this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
- The signature of any one of joint holders will be sufficient, but the names of all the joint holders should be stated.
- To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power must reach the registrars of the Company at Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than forty-eight hours before the time appointed for holding the General Meeting or adjournment as the case may be.
- In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual ([www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message must be transmitted so as to be received by the issuer's agent, Capita (ID RA10), by 2.00 p.m. on 21 September 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
- The completion of this form will not preclude a member from attending the General Meeting and voting in person.





## PROXY FOR THE SECOND GENERAL MEETING

### KINGS ARMS YARD VCT 2 PLC

I/We .....  
(Block Capitals Please)

of.....  
being a shareholder(s) of the above-named Company, appoint the Chairman of the General Meeting or

.....  
for the following number of ordinary shares

to act as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held at The City of London Club, 19 Old Broad Street, London EC2N 1DS at 3.00 p.m. on 30 September 2011 (see note 1 below) and at every adjournment thereof and to vote for me/us on my/our behalf as directed below.

Please indicate with an 'X' if this is one of multiple proxy instructions being given ☐

Please indicate with an 'X' in the space below how you wish your vote to be cast. If no indication is given your proxy will vote for or against the resolution or abstain from voting as he thinks fit.

The proxy is directed to vote as follows:

Special Resolution	For	Against	Vote Withheld
Approval to (i) put the Company into liquidation and appoint and remunerate the Liquidators for the purposes of such winding up, (ii) authorise the Liquidators to exercise certain powers for which the express sanction of Shareholders is required under the IA 1986, such as paying classes of creditors in full and (iii) cancel the listing of the Company's shares.			

Signature ..... Dated ..... 2011

#### Notes:

- The notice of the General Meeting is set out in the circular to shareholders of the Company dated 25 August 2011. Definitions used in the circular apply herein.
- If any other proxy is preferred, strike out the words "Chairman of the General Meeting" and add the name and address of the proxy you wish to appoint. The proxy need not be a member.
- You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional form(s) of proxy should be obtained by contacting the Company's registrar, Capita Registrars between 9.00 a.m. and 5.30 p.m. (GMT) Monday to Friday on telephone number 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to Capita Registrars' helpline (0871 664 0321) are charged at 10p per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. For legal reasons, Capita Registrars will be unable to give advice on the merits of the proposals or provide financial, legal, tax or investment advice.
- Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given.
- Any alterations to the form should be initialled.
- If the appointer is a corporation, this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
- The signature of any one of joint holders will be sufficient, but the names of all the joint holders should be stated.
- To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power must reach the registrars of the Company at Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than forty-eight hours before the time appointed for holding the General Meeting or adjournment as the case may be.
- In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual ([www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message must be transmitted so as to be received by the issuer's agent, Capita (ID RA10), by 3.00 p.m. on 28 September 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
- The completion of this form will not preclude a member from attending the General Meeting and voting in person.





