



## HAZEL RENEWABLE ENERGY VCT1 PLC & HAZEL RENEWABLE ENERGY VCT2 PLC

LINKED TOP-UP OFFER DOCUMENT  
(Including Application Form)

Linked Offer for Subscription for the Tax Year 2011/12



HAZEL CAPITAL





## HAZEL RENEWABLE ENERGY VCT1 PLC & HAZEL RENEWABLE ENERGY VCT2 PLC

**(Incorporated in England and Wales under the Companies Act 2006 with registered numbers 7378392 and 7378395)**

Linked Top-Up Offer for Subscription for the tax year 2011/2012 of up to 4,150,000 Ordinary Shares of 0.1p each and up to 4,150,000 A Shares of 0.1p each (up to 2,075,000 Ordinary Shares and 2,075,000 A Shares per Company).

A maximum of 2,075,000 New Ordinary Shares, which are being offered to the public, are being made available by each of the Companies under the Offers. The subscription list for the Offers will open on 1 March 2012 and may close at any time thereafter but, in any event, not later than 12 noon on 1 April 2012. The terms and conditions of application are set out on pages 30 to 33 of this document and are followed by an Application Form for use in connection with the Offers. The minimum subscription under the Offers is £10,000 per Investor. The Offers are not underwritten. The Boards reserve the right to accept Application Forms and issue New Shares at any time. The Offers are conditional upon resolutions 8 and 9 as set out in the notices of annual general meetings of the Companies dated 30 January 2012 being passed at those annual general meetings to be held on 27 March 2012.

### **Important Notice**

There is no guarantee that the Companies' investment objectives will be attained. If you are in any doubt as to what action to take, you should contact an independent financial adviser authorised under FSMA who specialises in advising on the acquisition of shares or other securities. The levels and bases of reliefs from taxation described in this document are those currently available. These may change and their value depends on an Investor's individual circumstances.

Your attention is drawn to the Risk Factors set out on pages 8 to 10 of this document. An investment in the Companies is only suitable for Investors who are capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss which might arise.

Further copies of this document may be downloaded at [www.hazelcapital.com](http://www.hazelcapital.com) or obtained from the promoter of the Offers:

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## Expected Timetable

The subscription list for the Offers will open on 1 March 2012 and may close at any time thereafter but in any event not later than 12 noon on 1 April 2012.

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

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

New Shares will be allotted and issued on or before 5 April 2012 in respect of valid applications received under the Offers.

The Boards reserve the right to accept Application Forms and issue New Shares at any time.

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## Offer Statistics

Minimum subscription per Investor	£10,000
Estimated Offer Price per Share*	104.9p per one Ordinary Share* and 0.1p per one A Share
Initial issue costs per Share	5.5%

*\*Based on the latest published unaudited net asset value of 93.3p per Ordinary Share as at 31 December 2011, as adjusted for the costs of the Offers and the dividend of 3.5p per Ordinary Share to be paid on 30 March 2012, plus 10.8% and rounded to the nearest one-tenth of a penny.*

Authorised financial advisers will be paid an initial commission usually of (i) up to 3% of the gross amount payable by the Applicant in respect of the Shares allotted under the Offers, in respect of all accepted applications which include the FSA number of the relevant authorised financial adviser, or (ii) up to 2% of the gross amount payable by the Applicant in respect of the Shares allotted under the Offers in respect of all accepted applications which include the FSA number of the relevant authorised financial adviser and, provided they continue to act for the Applicant and the Applicant continues to hold the relevant Shares, an annual trail commission of up to 0.5% of that gross amount. The Investment Manager will pay out of its capital raising fees the upfront commissions and, in return for the payment by each of the Companies to the Manager of an annual sum equal to 0.4% of their NAVs, will pay any annual trail commission. This annual trail commission will be payable until the earlier of (i) the sixth anniversary of the closing of the Offers and (ii) the Investment Management Agreement being terminated.

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## Financial Calendar

Financial year end	30 September
Final results announcement	January
Annual General Meeting	March
Dividends paid annually in	March
Half yearly results announcement	May

## Risk Factors

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

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

Although it is intended that the Companies will be managed so as to qualify as VCTs, and retain such status, there is no guarantee that such status will be achieved or maintained for the necessary period to enable Shareholders to retain their tax reliefs. Further details of the taxation implications of an investment in the Companies are set out in Part II of this document. However, if the Companies fail to meet the qualifying requirements for VCTs, this could result in:

- (i) Shareholders being required to repay the 30% income tax relief received on subscription for the Shares;
- (ii) the loss of income tax relief on dividends paid (or subsequently payable) to Shareholders;
- (iii) the loss of tax relief previously obtained in relation to corporation tax on capital gains made by the Companies;
- (iv) a liability to tax on capital gains on any disposal of Shares; and
- (v) the loss of the relevant Company's listing.



The levels and bases of reliefs from taxation may change, and such changes may be retrospective in nature. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of Shareholders.

An investment in a VCT is free from tax on capital gains. Consequently, any realised losses on disposal of Shares cannot be used to create an allowable loss for capital gains tax purposes.

Although the Shares will be listed, it is highly unlikely that a liquid market in the Shares will develop, at least for the first three years from the investment in the Shares, and there may never be two competitive market makers. It may, therefore, prove difficult for Shareholders to sell their Shares.

Most of the Companies' investments will be in smaller companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise. Such businesses may well be in high risk sectors and are usually exposed to greater risks than established businesses.

In order to comply with VCT legislation, the Qualifying Companies, in which each of the Companies will invest at least 70% of its capital within three years, must have gross assets of not more than £7 million prior to such investment (from 6 April 2012 this limit is proposed to increase to £15 million) and each Qualifying Company must have less than 50 employees at the time of investment (it is proposed to increase this to 250 from 6 April 2012). Such companies generally have a higher risk profile than larger companies.

There is no guarantee that the Companies' objective will be met or that suitable investment opportunities will be identified. In addition, the Companies may invest in sectors which are subject to rapid change and where it may be difficult to form an accurate view of a company's prospects.

The Companies' ability to obtain maximum value from its investments (for example, through their sale) may be limited by the requirements imposed in order to maintain the VCT status of the Companies (such as the obligation to have at least 70% by value of its

investments in Qualifying Investments of which, for funds raised on or after 6 April 2011, at least 70 per cent by value must be in "eligible shares", as described on page 24.

Shareholders should be aware that the sale of Shares within five years of their subscription will require the repayment of the 30% income tax relief available upon investment to the extent of the amount received from such sale. Accordingly, investment in the Companies is not suitable as a short or medium term investment.

A Shareholder's initial income tax relief will be withdrawn if a Shareholder, or any person associated with the Shareholder, takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of the Shares.

The past performance of investments made by funds managed by the Investment Manager, Hazel Capital LLP, should not be regarded as an indication of the performance of investments to be made by the Companies.

Changes in legislation concerning VCTs in general, and Qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Companies to meet their objectives and/or reduce the level of returns which would otherwise have been achievable.

The value of Shares may go down as well as up and Shareholders may not receive back the full amount invested.

### **Specific Risks associated with the Investment Strategy**

The Companies will be subject to risks associated with renewable energy projects, which include lower than expected wind speeds, lower than projected irradiation levels, lower than expected energy output, downtime of any energy generation equipment, changes in government legislation, annual volatility for revenues, increasing operational costs and unavailability of PPAs. The Companies intend to mitigate the associated risks through a diversified portfolio in proven technology, long-term guaranteed contracts and trusted historical data.

Annual energy output may fluctuate and as such annual revenue may experience volatility. This may

influence the availability of dividends that can be paid out to Investors. The risk can be mitigated through a diversified portfolio without reliance on one single project or technology.

A change of Government or a change in Government policy could alter the policies that influence the electricity prices and thus the revenues of the Companies. Hazel, however, believes that the risk is significantly mitigated by long term contracts that are guaranteed and index price linked, such as FiTs or PPAs. Furthermore, the UK government is renowned for grandfathering the regulatory support for any already consented or operational projects. In addition the Manager intends to invest in Europe, therefore reducing risk exposure through access to a variety of European government subsidies.

It is possible that future investee projects will be unable to secure PPAs or FiTs at current rates for a sufficient period of time when the Companies are seeking to make new investments. In this situation the Manager would typically intend to secure a higher equity stake in the investee project for the funds invested and thus secure higher equity returns over the life of the project.

Increases in interest rates or changes in the terms offered by senior lenders in financing renewable energy projects could reduce the returns available from investment in renewable energy projects. If debt is used to finance investee projects then this risk should be reduced as lending will typically be at a fixed rate of interest over the term of the debt. It is further possible that investments into the investee project could be made in the form of Non-Qualifying Investments and as such the Company would receive interest payments.

There is no guarantee that the VCT will source sufficient deal flow of operational or fully consented projects to meet the required 70% criteria of Qualifying Investments. If such a situation arises then Qualifying Investments will be sought in AIM listed companies to fulfil the Companies' primary aim of securing and maintaining their VCT status. This could, however, reduce the possible returns from the investments. Hazel believes that this risk is mitigated by recent government legislation that allows UK based VCTs to invest in the EU, thus giving access to a larger, more diversified selection of potential investments.

There can be no certainty that the equipment used to generate renewable energy will not be subject to downtime and reduce the margins of the investee plants. The Companies will mitigate this risk by utilising proven technology with multi-year warranties and maintenance contracts.

Shareholders will vote at the annual general meeting in 2016 as to whether the Companies continues as VCTs. In the event that Shareholders vote not to continue as VCTs, proposals could be implemented such that Shareholders would not be able to achieve the minimum five-year holding period for their VCT shares.

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## Part I

### Letter from the Chairmen

#### HAZEL RENEWABLE ENERGY VCTS

1 March 2012

Dear Investor,

##### **Opportunity to subscribe for New Shares in Hazel Renewable Energy VCT1 Plc and Hazel Renewable Energy VCT2 Plc**

We are pleased to invite investors to participate in a linked offer for subscription for New Shares in Hazel Renewable Energy VCT1 Plc and Hazel Renewable Energy VCT2 Plc. Investment will be for the current tax year 2011/12. We have taken the decision to re-open the VCTs for a "top-up offer" and are seeking to raise, in aggregate, approximately £4 million (net of costs). The maximum amount raised under the Offers will be the lower of Euro 5 million and 10 per cent of the aggregate issued share capital of the Companies, being the amount which the Companies may raise under the Prospectus Rules without the publication of a full prospectus.

The key features of the opportunity for Investors can be summarised as follows:

1. Income tax relief – Subscriptions to VCTs currently attract income tax relief at the rate of 30%. This means that, for every £1 invested, the net cost to Investors should be 70p.
2. Strong dividend policy – The Companies have an objective of paying annual dividends of at least 5p per Ordinary Share. Based on an Offer Price per Ordinary Share of 100p, this dividend stream would provide new Shareholders with a tax-free yield of 5% per annum equivalent to a gross of tax yield of 8.3% for a 40% taxpayer or 10% for a 50% taxpayer. Please note the level of dividend payments may vary and is not guaranteed.
3. Index-linked revenue streams – FiT based project investments benefit from revenues that are Index-linked to RPI as dictated by the government-mandated FIT scheme and for 20 years for most projects and 25 years for solar projects.
4. Mature Portfolio – The Companies hold an existing portfolio of 12 Qualifying Investments in UK renewable energy projects all of which qualify for the Government-backed, FiT regime. Investment activity has to date focused upon three areas: ground mounted solar (6 projects), rooftop solar (2 projects), and small wind generation (4 projects). Access to the existing portfolio provides Investors with an immediate exposure to a portfolio of established companies and to FiT-based project companies prior to legislation changes that will prohibit such investments by VCTs and enterprise investment scheme companies from 6 April 2012.

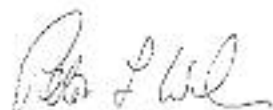
Further details are provided within this document.

If investors have any questions regarding this investment they should contact their financial adviser. For questions relating to an application, please telephone Hazel on 020 3434 1010 or the Company's administrator, Downing LLP on 020 7416 7780. Investors should note that no investment advice can be given by Hazel and their attention is drawn to the Risk Factors set out on pages 8 to 10 of this document.

Yours sincerely



Chairman Hazel Renewable Energy VCT1 plc



Chairman Hazel Renewable Energy VCT2 plc

## PART II - The Offers

### Introduction

The Companies were launched as part of a linked VCT offering in October 2010. £41.6 million was raised for this linked VCT offer which was closed to new investment in August 2011.

The Companies were established in order to take advantage of favourable conditions for investment in renewable energy projects as a result, in particular, of the Feed-In tariff (FiT) regulatory regime, which was passed into law in April 2010. Qualifying Investments have so far been made in small wind (4 projects), rooftop (2 projects) and ground-mounted solar projects (6 projects), either once commissioned or at the construction stage. Today all projects are operational and most are accredited to receive FiTs for the life of the projects (20 years for wind and 25 years for solar). Any projects that are not yet accredited, accrue income from the date of commissioning.

VCTs have so far been able to access the tax-free income and long term capital growth (the minimum holding period is for 5 years) offered by such renewable energy projects. However, as a result of recent legislation, taking effect from April 6th 2012, it will not be possible for VCTs to make Qualifying Investments into FiT projects. However, capital which is invested but not fully deployed in operating companies benefiting from FiTs will continue to be Qualifying Investments if these companies invest the remainder of their capital in FiT projects. The latter will be one source of incremental investment opportunities.

In addition, there are three other areas in which the proceeds under the Offers may be used namely:

#### **Renewable Heat Incentive (RHI) projects.**

Similar to the FiT, this applies to renewable generation of heat as opposed to electricity.

#### **Renewable Obligation Certificates (ROC) projects.**

This mechanism has been in place for large scale renewable technologies such as onshore and offshore wind. The focus would be on Solar ROC projects. Given the lower cost of solar equipment today, which declined by approximately 50% in 2011, ROC projects are now expected to meet the Companies' target returns.

#### **Other projects which do not require government-driven incentives to generate target returns.**

Although this is not possible today in the UK, opportunities in solar are appearing in southern Europe, in particular Spain.

Each of the opportunities shown above, represent several million pounds of investment opportunity. The Manager's investment committee will recommend the most attractive investments to the Boards once the Offers have closed.

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## Reasons for the Offers

The current credit shortage has created an opportunity for VCTs to invest in renewable energy, one that was previously occupied by traditional forms of lending from financial institutions or large utilities companies. Lending or investment in small, UK or European based business has dropped considerably as banks have preferred to balance their books rather than lend to small businesses. The Manager believes that the Companies are perfectly positioned to provide the necessary funding that these businesses are seeking. In return the Manager believes they will be able to secure greater equity stakes at a lower price than has been possible in recent times. The Manager's experience in investing in renewable energy means that the Companies are well placed to select investments that are best positioned to benefit from government subsidies and can contribute valuable contacts and advice to maximise returns and minimise risk.

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## Benefits for Existing Shareholders

The Directors believe that the proposed fundraising will benefit existing Shareholders in the following ways:

The New Shares issued will increase the capital available to the Companies which may be invested alongside existing capital. This affords the Companies the opportunity to invest in businesses they might not otherwise have the ability to do. Furthermore, there are two other benefits associated with this capital:

- Investments from the proceeds of the Offers are expected to be 100% Qualifying Investments helping the VCTs maintain their VCT Qualifying status more easily
  - Investments from the proceeds of the Offers are expected to be at a higher returns than existing investments
  - The running costs of the Companies will be spread over a larger combined asset base as a result of the issue of New Shares, thereby reducing the level of the running costs attributable to existing Shareholders and, therefore, providing the potential for enhanced returns to Shareholders.
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## Benefits for New Shareholders

The Directors believe that the proposed fundraising will benefit holders of New Shares in the following ways:

- 30% income tax relief on their investment;
- An investment portfolio with index linked income streams;
- The Boards intend to pay regular dividends of at least 5p per Ordinary Share per annum which are tax free for qualifying Investors; and
- FiT investments are no longer available to VCTs after 5 April 2012.

The issue of the New Shares rather than a new class of shares provides immediate exposure to the Companies' existing portfolio of 12 UK wide renewable energy projects, with the benefit of reduced risk given the projects are known, approved and most are already generating electricity and accruing revenue.

Further details on tax benefits are set out below and in Part III.

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## Investment Objectives

Each of the Company's objectives is to maximise tax free capital gains and income to Shareholders from dividends and capital distributions by investing the Companies' funds, within the conditions imposed on all VCTs under current and future VCT legislation applicable to the Companies, in the following investments:

- A portfolio of Qualifying Investments, primarily being in UK and EU based unquoted companies that specialise in long term renewable energy projects and energy developers; and
  - A range of non-Qualifying Investments, comprised from a selection of fixed income funds, securities, cash deposits and secured loans and will have a credit rating of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated). In addition, as the portfolio of Qualifying Investments will involve smaller, start-up companies VCT non-qualifying loans could be made to these companies to negate the need to borrow from banks and, therefore, undermine the companies' security.
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## The Opportunity

The Offers have been made in order to take advantage of favourable conditions for investment in renewable energy generation. Investments are to be made in operating or close to operating projects which have secured or will secure long term Government guaranteed subsidies. Investors are therefore able to access the tax-free income associated with VCTs and the long term capital growth offered by such projects which are supported by Government subsidies.

## Taxation Benefits to Investors

(see Part III for further details)

The principal UK tax reliefs, which are available to qualifying Investors on a maximum investment of £200,000 per individual in the 2010/11 tax year, are set out below:

- Income tax relief at 30% of the amount subscribed provided the VCT shares are held for at least five years. Relief is restricted to the amount which reduces the investor's income tax liability to nil.
- Tax-free dividends and capital distributions from a VCT.
- Capital gains tax exemption on any gains arising on the disposal of VCT shares.

The table below shows the financial effects of the tax incentives available to a private investor in a VCT and the extent to which the return on both income and capital may be enhanced. The example shows the return from an investment in a VCT by a higher rate income tax payer, even if New Shares show no capital growth on the Offer Price:

### Effect of Initial Income Tax Relief

Financial effects of the tax incentives	The return for a higher rate income taxpayer investing in the Companies	The table above assumes (i) average dividends of 5p per £1 invested are paid (ii) that the Investor disposes of his New Shares after 5 years at the original cost to the Investor and (iii) the higher rate Investor pays tax on dividends at 36.1 per cent. The table is provided for illustrative purposes only and should not be regarded as a forecast of dividends or profits. It should be noted that neither the dividends nor the capital return from an investment in the Companies can be predicted with any certainty and that they may differ materially from the example shown.
Amount Invested	£10,000	
Effective holding cost after 30% income tax relief	£7,000	
<b>Income Return</b>		
Average annual dividend of 5p per £1 invested	£500	
Annual return on effective holding cost	7.1%	
Equivalent annual return grossed up for a higher rate income taxpayer	11.1%	

## Investment Portfolio

The following investments were held by the Companies as at the date of this document (the audited valuations being as at 30 September 2011).

	Cost £'000	Valuation £'000	Valuation Increase /(Decrease) vs Cost £'000	Portfolio Weighting (%)
<b>Qualifying and part-qualifying investments</b>				
AEE Renewables UK 3 Limited*~	3,500	3,500	0	18.0%
AEE Renewables UK26 Limited*~	1,794	1,794	0	9.2%
ZW Parsonage Limited*~	1,210	1,210	0	6.2%
Hewas Solar Limited*	1,363	1,363	0	7.0%
St Columb Solar Limited~	700	700	0	3.6%
New Energy Era Limited	884	884	0	4.5%
HRE Willow Limited	875	875	0	4.5%
Small Wind Generation Limited	300	300	0	1.5%
Tumblewind Limited	300	300	0	1.5%
Minsmere Power Limited	300	300	0	1.5%
South Marston Solar Limited*~	1,110	1,110	0	5.7%
Beechgrove Solar Limited~	1,000	1,000	0	5.1%
	<b>13,336</b>	<b>13,336</b>	<b>0</b>	<b>68.3%</b>
<b>Non-qualifying investments</b>				
AEE AG	750	750	0	3.9%
Quiet Revolution Limited	600	600	0	3.1%
Lime Technology Limited	100	100	0	0.5%
	<b>1,450</b>	<b>1,450</b>	<b>0</b>	<b>7.5%</b>
Cash at bank and in hand		4,683		24.2%
<b>Total investments</b>	<b>14,786</b>	<b>19,469</b>		<b>100.0%</b>

\*Part-qualifying investments

~Currently non-qualifying but expected to become qualifying

Hazel Cleantech Opportunities Fund 1LP, which is also managed by Hazel Capital LLP, holds a 23.7% stake in Quiet Revolution Ltd and a 21.3% stake in Lime Technology Ltd.



## Investment Strategy

The Companies will seek to invest in investee companies that have been or can be materially de-risked and will provide Shareholders with a reliable source of tax free income and maximise the potential for capital preservation. Companies will generally reflect the following criteria:

- a well-defined business plan and ability to demonstrate strong demand for its products and services;
  - products or services which are cash generative;
  - objectives of management and shareholders which are similarly aligned;
  - adequate capital resources or access to further resources to achieve the targets set out in its business plan;
  - high calibre management teams;
  - be companies where the Manager believes there are reasonable prospects of an exit, either through a trade sale or flotation in the medium term; and
  - a focus on small and long term renewable energy projects that utilise proven technology and qualify for the highest possible long term government guaranteed subsidies.
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## Share Buy-Back Policy

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

Shareholders should note however that the Companies cannot buy Shares directly from Shareholders and that the implementation of a buy back policy through a market maker may result in the price paid by the Companies not being the same price as Shareholders are able to sell shares. This may result in some cases, for instance during a close period, in a price being offered which is materially below that of the Companies' most recently published NAV less a discount of 10%.

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## Life of the Companies

A resolution will be put to Shareholders at the annual general meeting due to take place in 2016 (and, thereafter, at five yearly intervals) on whether they wish to wind up the Companies or continue as VCTs. Should the Shareholders wish to wind up the VCTs then the Boards will draw up proposals for the liquidation reconstruction or reorganisation of the Company. Any such proposals would be mindful of the five-year holding period for Shareholders investing in this Linked Top-Up Offer.

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## Investment Manager

The investment manager is Hazel Capital LLP, an FSA authorised and regulated investment fund manager that specialises in the Cleantech Sector. Hazel was established in 2007 by Ben Guest, who had spent over 11 years investing in technology and cleantech at Cantillon Capital Limited and Lazard Asset Management. Hazel is managed by like-minded individuals with strong financial, engineering and technical backgrounds and who have recognised expertise in the Cleantech Sector.

Current aggregate funds under management or advice total nearly £120m as at the date of this document. The Investment Management Team together have more than 60 years' experience in the fund management industry.

### **Ben Guest -**

#### ***Founder and CIO of Hazel Capital LLP***

Ben has a total of 18 years investment experience, 14 years of which have been spent investing in the technology and Cleantech sectors. Ben founded Hazel Capital in 2007, the manager of the VCTs, which invests in Cleantech in the areas of Venture Capital, Global equities and Renewable Energy Infrastructure. Prior to founding Hazel, Ben was a co-founder of Cantillon Capital, where he managed over \$1 billion in a global technology fund called Cantillon Technology from 2003 to 2006. Prior to that Ben managed over \$200m in a fund he established at Lazard Asset Management called Lazard Technology Opportunities. His track record generated a compound return of approximately 14% net of fees over a 6 year period. Ben started his fund management career in 1994 with Lazard Asset Management having graduated from Imperial College, London with a BEng in Mechanical Engineering. Ben has previously been an Associate of the Association of Investment Managers and a Chartered Financial Analyst (CFA) having completed all examinations successfully in 1998.

### **Tom Vernon -**

#### ***Investment Director Renewable Energy Projects***

Tom joined Hazel Capital in 2007 as an equity analyst with 5 years of buy-side research experience in Cleantech. Previous to Hazel, he worked for Cantillon Capital on the Cantillon Technology fund managed by Ben Guest as part of the investment management team. At Hazel, Tom covers a broad universe of

Cleantech companies and has developed a strong knowledge of the wind, solar, ocean, tidal, biomass and materials industries. He holds a MEng in Civil Engineering (1st Class degree) from the University of Edinburgh. Tom is a CFA Level 3 Candidate.

### **Gareth Owen -**

#### ***Investment Director Renewable Energy Projects***

Gareth has 11 years of experience executing structured transactions across a variety of different projects. At Hazel, he is an Investment Director of the Renewable Energy Infrastructure Projects where he is responsible for analysing various renewable energy projects and for the origination and execution of the VCT investments together with post-transaction asset management. Gareth worked at Barclays Capital between 2001 and 2009, where he was a Vice President in Barclays Natural Resource Investments, a captive \$1.5bn private equity fund investing equity in natural resources and renewable energy sectors. Prior to Barclays Capital, he worked in the Structured Transaction Group at Deutsche Bank. Gareth started his career in infrastructure project finance at Greenwich NatWest. Gareth gained his MBA from Imperial College Business School (Distinction) and holds an MSc of Engineering Project Management and a BEng of Civil Engineering from the University of Manchester.

### **Bozkurt Aydinoglu -**

#### ***Co-Portfolio Manager Public Equity Funds and Head of Research***

Bozkurt has 18 years' experience in principal investments with 15 years' experience in the Cleantech Sector. Bozkurt has spent the last 5 years managing Cleantech listed-equity portfolios. Previous to Hazel Bozkurt co-founded and built New Energy Finance, a leading independent research & information provider in Clean Energy, this was later sold to Bloomberg. Bozkurt also has 5 years of VC experience funding, assisting and successfully exiting high growth companies in Europe, North America and Israel. He graduated Imperial College, London with an MSc in Electrical Engineering.

## The Boards

### *James Bailey-House -*

#### *Operations Manager*

James joined Hazel Capital in September 2010 as Operations Manager and is responsible for overseeing trading operations, reporting portfolio performance and managing relationships with prime brokers, counterparties and fund administrators. Additionally, James handles all corporate secretarial and administrative duties for the VCT and the renewable energy infrastructure projects. James has over thirteen years' experience within custodial, investment bank and hedge fund operations, with product coverage including equity, fixed income, interest rate derivatives and distressed debt. Previous affiliations before Hazel include Northern Trust, JPMorgan Chase and Aviva Investors.

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### **Directors**

Each of the Companies has a highly experienced Board of three Directors, all of whom are non-executive and, with the exception of Ben Guest, all of whom are independent of the Investment Manager. Ben Guest, who is also a member of the Investment Manager, will not vote on any matter at a board meeting or at a committee meeting of VCT1 where there is a conflict of interest with any of the other funds managed by the Investment Manager.

### **Hazel Renewable Energy VCT1 plc**

#### *Michael Cunningham (Chairman)*

Formally a director of Rathbone Investment Management where he was responsible for the Pennine AIM VCTs. Michael is a non-executive director of Downing Distribution VCT 1 & 2. He is also a non-executive director of several companies both AIM and Unquoted.

#### *Stephen Hay*

Stephen is a self-employed consultant specialising in financial and environmental issues. He is a former managing director of Goldman Sachs, where he worked for 20 years primarily in equities and research. He was director of Equity research in both London and Tokyo. Stephen is also a non-executive of the Homerton Hospital where he chairs the Audit and Environmental committees.

#### *Ben Guest*

See page 18.

### **Hazel Renewable Energy VCT2 plc**

#### *Peter Wisher (Chairman)*

Peter Wisher is currently a partner and COO of Carbon Search, a specialist global financial services search firm based in London and has been there since 2008. Previous to this position he was COO of Baines Gwinner and has a background in senior financial and operating positions in service related businesses. He has also worked as an investment banker and was head of mergers and acquisitions at Charterhouse in London.

### **Alexander Hambro**

Alex has been in the private equity industry for 21 years during which time he has acted as a principal investor, manager and sponsor of private equity and venture capital teams. Alex managed the venture capital and private equity fund investment portfolio for Hambros plc, prior to its sale to Societe Generale in 1998. He is chairman of Crescent Capital, a Belfast-based venture capital fund manager and an independent consultant for a number of private equity and venture capital fund management groups and family office investors, advising them on the establishment of alternative investment funds and investment strategies. Fund managers that he has advised include STAR Capital, Sand Aire Private Equity, Lennox Investment Management and Prospect Investment Management Limited. In addition to his private equity activities, Alex is chairman of Judges Scientific plc and is a non-executive director of Octopus Eclipse VCT 4 plc.

### **Christian Yates**

Between June 2009 and January 2012 he was a Partner in London based specialist Cleantech investment manager Hazel Capital LLP where he helped establish the Hazel Renewable Energy VCTs and set up two other funds investing in both public equity and venture capital respectively. From 2004 - 2008 Christian was a Senior Managing Director and member of the International Management Committee at Bear Stearns. He was responsible for leading and building all asset management activities of the Group outside of the US. In this London based role he determined the strategic direction of the business and then implemented it through building out an international asset management platform, creating product distribution channels, identifying and negotiating team lift outs and securing a major joint venture in the Middle East. Prior to that he was CEO of the \$7bn London centered institutional fixed income fund management operation of the Julius Baer Group where he initiated and led the successful introduction of hedge funds to the Group (best new fund of 2002 Eurohedge awards). Previous affiliations include Chase Asset Management where from 1998 - 2000 he was Head of EMEA; Lazard Asset Management; and Wellington Management. Before starting his career in the City he served eight years in the Army. Christian is an active investor of the field of renewable energy and is a Director of and investor in a developer of large-scale biomass power plants in the UK. He has also acted as a special adviser to The Renewable Energy Foundation, a leading think tank and provider of empirical data on the renewable energy sector.

## Structure of the A Shares

To give effect to the Performance Incentive described on page 21, each Investor will receive one Ordinary Share and one A Share at the Offer Price.

For the purpose of the payment of the Performance Incentive, Management has been conditionally allotted Management A Shares in each Company, at a price of 1,037,500. These Management A Shares will be unconditionally allotted and issued to Management in tranches, the issue of each tranche being conditional on the issue of A Shares in each Company under the Offers. The following table illustrates the aggregate number of Management A Shares in each Company that will be unconditionally allotted and issued to Management upon the closing of the Offers:

Number of A Shares Issued Under the Offers	Number of Management A Shares
500,000	250,000
1,000,000	500,000
1,500,000	750,000
2,000,000	1,000,000

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

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

Since the A Shares are VCT qualifying, income tax relief is available at 30% of the amount subscribed (provided the A Shares are held for at least five years) and all gains and distributions can be made free of tax.

# Management Arrangements and Costs

## Annual Fees

The Annual Running Costs of each of the Companies are capped at 3.5% of its Net Assets; any excess will either be paid by the Investment Manager or refunded by way of a reduction to the Investment Manager's fee.

Annual Running Costs include, inter alia, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders and all the annual fees payable to the Investment Manager, any annual trail commissions payable and fees payable to the Sponsor (but will exclude any exceptional and extraordinary costs).

Under the terms of an investment management agreement entered into between each of the Companies and the Manager on 20 October 2010, the Investment Manager is paid by each of the Companies an annual investment management fee of 2%, payable quarterly in advance based on the Net Assets of each of the Companies.

Under the terms of an administration agreement entered into between each of the Companies and Downing on 20 October 2010, Downing is paid by each of the Companies an administration fee of £35,000 per annum for administering each of the Companies.

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

## Performance Incentive

As is customary in the venture capital industry, the Management will be entitled to receive a performance-related incentive based upon returns to Shareholders. The amount of the Performance Incentive payable is based wholly on the NAV of the Shares in the Companies and on the payment of annual dividends per Ordinary Share, per annum and is payable from the first year.

Prior to "the hurdle" of a 5p dividend being paid out per Ordinary Share, per annum, the Management will receive 0.033% of any dividends payable. If an annual dividend of 5p per Ordinary Share is reached then the Management will be entitled to receive 20% of any excess and if, but for the entitlement of the A Shareholders for amounts in excess of 5p, an annual dividend of 10p per Ordinary Share is reached then the Management will be entitled to receive 30% of any excess. The aggregate net asset value of one Ordinary Share and one A Share must be at least 100p for the Performance Incentive to be paid. The entitlements in respect of dividend payments are illustrated in the table below.

## Launch Costs and Commission

The Investment Manager will be paid an initial capital raising fee of 5.5% of the gross proceeds of the Offers. The Investment Manager will be responsible for paying all the costs of the Offers including initial commissions payable to authorised financial advisers (on successful applications detailing their FSA number), and listing expenses.

Annual Dividend	Ordinary Share Entitlement	A Share Entitlement (Management A Share Entitlement)
4p	3.996p	0.004p (0.0013p)
8p	6.195p	1.805p (0.6017p)
12p	7.195p	4.805p (1.6017p)

Authorised financial advisers will be paid, an initial commission usually of (i) up to 3% of the gross amount payable by the Applicant in respect of the Shares allotted under the Offers, in respect of all accepted applications which include the FSA number of the relevant authorised financial adviser, or (ii) up to 2% of the gross amount payable by the Applicant in respect of the Shares allotted under the Offers in respect of all accepted applications which include the FSA number of the relevant authorised financial adviser and, provided they continue to act for the Applicant and the Applicant continues to hold the relevant Shares, an annual trail commission of up to 0.5% of that gross amount. The Investment Manager will pay out of its capital raising fees the upfront commissions and, in return for the payment by each of the Companies to the Manager of an annual sum equal to 0.4% of their NAVs, will pay any annual trail commission. This annual trail commission will be payable until the earlier of (i) the sixth anniversary of the closing of the Offers and (ii) the Investment Management Agreement being terminated.

The annual trail commission due on Shares issued under the Offers will first be paid by 31 January 2013 in respect of the financial period ending 30 September 2012 and annually thereafter. Authorised financial advisers may agree to waive part or all of their initial commission. In such circumstances, an Investor's application will attract an additional allotment of Shares at no greater cost to each of the Companies or the Investor and the commission waived will be used to satisfy the purchase price of such Shares. In the event that Investors are issued such Shares, then the authorised financial advisers will no longer be eligible to receive annual trail commission.

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## Offer Price

The Offer Price per Ordinary Share is 104.9p per Ordinary Share, being the latest published unaudited net asset value of 93.3p per Ordinary Share as at 31 December 2011, as adjusted for the costs of the Offers and the dividend of 3.5p per Ordinary Share to be paid on 30 March 2012, plus 10.8% and rounded to the nearest one-tenth of a penny (subject to adjustment in the event of any publication of a revised NAV of more than 5 per cent during the Offers).

The Offer Price per A Share will be 0.1p.

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## Minimum and Maximum Subscription

The minimum investment per Applicant under the Offers is £10,000. Applications in excess of £10,000 may be made for any higher amount in multiples of £1,000, subject to availability. The maximum investment per Applicant is £200,000 per tax year, since tax reliefs are available on a maximum investment of £200,000 per individual in any one tax year. A husband and wife can each invest up to £200,000 in any one tax year.

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## Conditionality

The Offers are conditional upon resolutions 8 and 9 as set out in the notices of annual general meetings of the Companies dated 30 January 2012 being passed at those annual general meetings to be held on 27 March 2012.

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## PART III

### Taxation

#### VCTs: Summary of the Applicable Legislation

##### 1. Approval

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

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

(i) the VCT's income must have been derived wholly or mainly from shares and securities (in the case of securities issued by a company, meaning loans with a five-year or greater maturity period);

(ii) no holding in a company (other than a VCT or a company which would, if its shares were listed, qualify as a VCT) by the VCT may represent more than 15%, by value, of the VCT's total investments at the time of investment; and

(iii) the VCT must not have retained more than 15% of the income derived from shares or securities in any accounting period.

The VCT must not be a close company. Its ordinary share capital must be quoted on a European regulated market by no later than the beginning of the accounting period following that in which the application for approval is made. The following conditions also have to be satisfied by no later than the beginning of the VCT's accounting period which commences no later than three years after provisional approval takes effect and must continue to be satisfied throughout the life of the VCT:

(i) for funds raised on or after 6 April 2011, have at least 70%, by value, of its investments represented by shares or securities comprising Qualifying Investments of which at least 70 per cent by value

must be in "eligible shares". Eligible shares are ordinary shares which do not have any preferential rights to assets on a winding up or any rights to be redeemed, but which may have a preferential dividend right, so long as that right is non cumulative and is not subject to discretion.

(ii) for funds raised prior to 6 April 2011, have at least 70%, by value, of its investments represented by shares or securities comprising Qualifying Investments of which at least 30%, by value, of its Qualifying Investments being represented by holdings of ordinary shares which carry no present or future preferential rights to dividends, return of capital or any redemption rights.

"Qualifying investments" comprise shares or securities (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) issued by unquoted trading companies which exist wholly or mainly for the purpose of carrying on one or more qualifying trades. The trade must be carried on by, or be intended to be carried on by, the investee company or a qualifying subsidiary at the time of the issue of the shares or securities to the VCT (and by such company or by any other subsidiary in which the investee company has not less than a 90% interest at all times thereafter). A company intending to carry on a qualifying trade must begin to trade within two years of the issue of shares or securities to the VCT and continue it thereafter. The definition of a qualifying trade excludes dealing in property, shares, securities, commodities or futures. It also excludes banking, insurance, receiving royalties or licence fees in certain circumstances, leasing, the provision of legal and accounting services, farming and market gardening, forestry and timber production, property development, shipbuilding, coal and steel production and operating or managing hotels, guest houses, nursing and residential care homes. The funds raised by the investment must be used for the purposes of the qualifying trade within certain time limits.

Qualifying investments are limited to investments of up to £1 million per investee company in any one tax year or in any six month period straddling two tax years (it is proposed that this limit will be removed for investments after 5 April 2012). A qualifying investment can also be made in a company which is a parent company of



a trading group where the activities of the group, taken as a whole, consist of carrying on one or more qualifying trades. An investee company must at all times have a permanent establishment in the UK. The investee company cannot receive more than £2 million from VCTs or from investors claiming tax relief under the Enterprise Investment Scheme in any twelve month period (it is proposed that this limit is increased to £10 million from 6 April 2012). The investee company's gross assets must not exceed £7 million immediately prior to the investment and £8 million immediately thereafter (from 6 April 2012 the limits are proposed to increase to £15 million and £16 million respectively). Neither the VCT nor any other company may control the investee company. At least 10% of the VCT's total investment in the investee company must be in ordinary non-preferential shares.

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

## **2. Taxation of a VCT**

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

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

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

### **Relief from income tax**

An investor subscribing up to £200,000 in any tax year for eligible shares in a VCT will be entitled to claim income tax relief on the investment, in the year in which the investment is made, at the rate of 30% for investments in the tax year 2011/12, although this relief will be withdrawn if either the shares are sold within five years or an investor takes out a loan which would not have been made, or would not have been

made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the Investor's income tax liability to nil. However, tax credits on dividends are notional and cannot be repaid and, therefore, Investors should take this into account when calculating the value of the income tax relief. HM Revenue & Customs has confirmed that the Ordinary and A Shares are eligible VCT shares for the purposes of this section.

### **Dividend relief**

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

### **Capital gains tax relief**

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

### **Loss of tax reliefs**

(i) If a company which has been granted approval or provisional approval as a VCT subsequently fails to comply with the conditions for approval, VCT status may be withdrawn or treated as never having been given. The exemptions from corporation tax and capital gains will not apply to any gains realised by the VCT after this time.

(ii) For investors, the withdrawal of VCT status may (depending upon the timing of such withdrawal) result in:

- Repayment of the 30% income tax relief on subscription for new VCT shares;

- Income tax becoming payable on payments of dividends by each of the Companies; and
- A liability to tax on capital gains being suffered in the normal way on the disposal of shares in each of the Companies, except that any part of the gain attributable to the period for which the VCT was approved would be exempt.

(iii) The consequences for investors in a company which never obtains full unconditional approval as a VCT are as follows:

- Repayment of the 30% income tax relief on subscriptions for new VCT shares and interest on overdue tax may arise;
- Income tax becoming payable on payments of dividends by each of the Companies; and
- Any gain arising on a disposal of the shares would be liable to capital gains tax and losses on the shares would be allowable losses for capital gains tax purposes.

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

##### **(i) Initial income tax**

If an investor dies within five years of making an investment in a VCT, the transfer of shares on death is not treated as a disposal and, therefore, the initial income tax relief is not withdrawn. However, the shares will become part of the deceased's estate for inheritance tax purposes.

##### **(ii) Tax implications for the beneficiary**

Provided a number of conditions are met, the beneficiary of any VCT shares will be entitled to tax free dividends and will not pay capital gains tax on any disposal, but will not be entitled to any initial income tax relief.

##### **(iii) Transfer of shares between spouses**

Transfers of shares in a VCT between spouses is not deemed to be a disposal and therefore all tax reliefs will be retained.

#### **5. General**

(i) Investors who are not resident in the UK  
Non-resident investors, or investors who may become non-resident, should seek their own professional advice as to the consequences of making an investment in each of the Companies, as they may be subject to tax in other jurisdictions.

##### **(ii) Stamp duty and stamp duty reserve tax**

No stamp duty or (unless shares in a VCT are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax will be payable on the issue of such shares. The transfer on the sale of shares would normally be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months) stamp duty reserve tax generally, in each case at the rate of 50p for every £100 or part of £100 of the consideration paid. Such duties would be payable by a person who purchases such shares from the original subscriber.

##### **(iii) Purchases in the market after listing**

Any subsequent purchaser of existing Shares, as opposed to a subscriber for new Shares, will not qualify for income tax relief on investment but may benefit from dividend relief and from capital gains tax relief on the disposal of his Shares.

##### **(iv) The VCT Regulations 2004**

The VCT Regulations came into force on 17 September 2004. Under the VCT Regulations, monies raised by any further issue of shares by an existing VCT must be applied by that VCT for the purposes of investment which meets the 70% and 30% tests described in paragraph 1 above. These tests will be deemed not to have been met if any of the money raised (except for amounts which HM Revenue & Customs agrees are insignificant in the context of the whole issued ordinary share capital of the VCT).

## PART IV

### Advisers to the Companies

<b>Company Secretary and Registered Office of the Companies</b>	Grant Whitehouse 10 Lower Grosvenor Place London SW1W 0EN
<b>Investment Manager of the Companies</b>	Hazel Capital LLP 59 Gloucester Place London W1U 8JH
<b>Solicitors to the Companies</b>	Howard Kennedy LLP 19 Cavendish Square London W1A 2AW
<b>Administrators of the Companies</b>	Downing LLP 10 Lower Grosvenor Place London SW1W 0EN
<b>Receiving Agent of the Companies</b>	Downing LLP 10 Lower Grosvenor Place London SW1W 0EN
<b>Registrars to the Companies</b>	Capita Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA
<b>Registered Auditors of the Companies</b>	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
<b>VCT Advisers to the Companies</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Bankers to the Companies</b>	Royal Bank of Scotland 119/121 Victoria Street London SW1E 6RA

## PART V

### Definitions and Glossary

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

**"A Shares"** A shares of 0.1p each in the capital of VCT1 (ISIN: GB00B4L13999) and/or A shares of 0.1p each in the capital of VCT2 (ISIN: GB00B4KWC525), as the context permits

**"A Shareholder"** a holder of A Shares

**"Admission"** admission of the Shares to the Official List and to trading on the London Stock Exchange's main market for listed securities

**"AIM"** Alternative Investment Market, a market operated by the London Stock Exchange

**"Annual Running Costs"** annual costs and expenses incurred by the Companies in their business (including irrecoverable VAT but excluding exceptional and extraordinary costs)

**"Applicant"** Investor who subscribes for Shares under the Offers

**"Application Form"** form of application for Shares under the Offers set out at the end of this document

**"Articles"** articles of association of each of the Companies

**"Cleantech Sector"** represents a diverse range of products, services, and processes, intended to provide performance at lower costs, while reducing or eliminating negative ecological impact, at the same time as improving the productive and responsible use of natural resources

**"Companies"** VCT1 and/or VCT2, as the context permits (and each a "Company")

**"CREST"** the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for the paperless settlement of transfers and the holding of shares in uncertificated form which is administered by Euroclear UK & Ireland

**"Directors" or "Boards"** directors or boards of directors of the Companies

**"Downing"** Downing LLP

**"FiTs"** have the meaning set out on page 12

**"Investment Management Team"** as described on pages 18 and 19

**"Investment Manager" "Manager" or "Hazel"** Hazel Capital LLP or its successor

**"Investor"** individual investor under the Offers, who is a UK resident aged 18 or over, investing no more than £200,000 in VCTs in any one tax year

**"ITA"** Income Tax Act 2007 (as amended)

**"Listing Rules"** Listing Rules of the UK Listing Authority made in accordance with Part 6 of the Financial Services and Markets Act 2000

**"London Stock Exchange"** London Stock Exchange plc

**"Management"** individuals engaged or otherwise involved in the management of the Companies' investments, and other persons that the Investment Manager may in its sole discretion determine from time to time

**"Management A Shares"** the A Shares in the Companies that are to be issued to the Investment Management Team

**"ML Regulations"** Money Laundering Regulations 2007

**"NAV" or "Net Asset Value"** Net Asset Value per Share

**"Net Assets"** the net asset value of each of the Companies' entire assets and undertaking as determined by reference to its latest annual audited accounts or, as applicable, unaudited interim accounts

**"New Shares"** Shares being offered by each of the Companies pursuant to its respective Offer (and each a "New Share")

**"Offers"** the offer for subscription by the Companies contained in this document (and each an "Offer")

**"Offer Price"** (i) 93.3p per Ordinary Share, 93.3p per Ordinary Share, being the latest published unaudited net asset value of 93.4p per Ordinary Share as at 31 December 2011, as adjusted for the costs of the Offers and the dividend of 3.5p per Ordinary Share to be paid on 30 March 2012, plus 10.8% and rounded to the nearest one-tenth of a penny (and subject to adjustment in the event of any publication of a revised NAV of more than 5 per cent. during the Offers) and (ii) 0.1p per A Share

**“Official List”** Official List of the UK Listing Authority

**“Ordinary Shareholder”** a holder of Ordinary Shares

**“Ordinary Shares”** ordinary shares of 0.1p each in the capital of VCT1 (ISIN: GB00B4M2G812) and/or ordinary shares of 0.1p each in the capital of VCT2 (ISIN: GB00B43GVJ82), as the context permits

**“Performance Incentive”** the performance-related incentive payable to Management as described on page 21 of this document

**“PPAs”** Power Purchase Agreements which are contracts between renewable energy generators and utilities that can be fixed and RPI linked for up to 25 years

**“Prospectus Rules”** Prospectus Rules brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No.809/2004

**“Qualifying Company”** a company satisfying the conditions of Chapter 4 of Part 6 ITA

**“Qualifying Investment”** investment in an unquoted trading company, which comprises a qualifying holding for a VCT, which satisfies the requirements of Chapter 4 of Part 6 ITA

**“Receiving Agent”** Downing LLP

**“ROCs”** have the meaning set out on page 12

**“RPI”** Retail Prices Index

**“Shares”** the Ordinary Shares and/or the A Shares

**“Shareholders”** holders of Shares

**“UK Listing Authority”** 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

**“VCT”** a company approved as a venture capital trust under Section 274 ITA by the Commissioners of HM Revenue & Customs

**“VCT1”** Hazel Renewable Energy VCT1 Plc

**“VCT2”** Hazel Renewable Energy VCT2 Plc

**“VCT Regulations”** The Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004.

## PART VI

### Terms and Conditions of Application

1. In these Terms and Conditions of Application, the expression “Application Form” means the application form for use in accordance with these Terms and Conditions of Application. Save where the content requires otherwise, the terms used in the Application Form bear the same meaning as in this document.

2. The right is reserved to reject any application or to accept any application in part only. If any application is not accepted, or if any contract created by acceptance does not become unconditional, or if any application is accepted for fewer Shares than the number applied for, the application monies or the balance of the amount paid on application will be returned without interest by post at the risk of the Applicant. In the meantime application monies will be held in trust for, and will remain the property of, the Applicant, and will be retained in a separate account.

3. By completing and delivering an Application Form, you:

(a) offer to subscribe for the number of Shares specified on your Application Form or any smaller number for which such application is accepted at the offer price subject to this document, these Terms and Conditions of Application, and the Articles of each of the Companies;

(b) acknowledge that for IFA commission waived as extra shares, if your subscription is accepted, you will be allocated Shares at the Offer Price;

(c) authorise your financial adviser or whoever he or she may direct, Capita Registrars Limited or each of the Companies to send a document of title for the number of Shares for which your application is accepted, and/or a crossed cheque for any monies returnable, by post at your risk to your address as set out on your Application Form;

(d) in consideration of each of the Companies agreeing that it will not, prior to the Offers closing, offer any Shares for subscription to any persons other

than as set out in this document, agree that your application may not be revoked and that this paragraph constitutes a collateral contract between you and each of the Companies which will become binding upon despatch by post or delivery of your duly completed Application Form to each of the Companies or to your financial adviser;

(e) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive a share certificate for the Shares applied for or to enjoy or receive any rights or distributions in respect of such Shares unless and until you make payment in cleared funds for such Shares and such payment is accepted by each of the Companies (which acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by each of the Companies of such late payment in respect of such Shares, each of the Companies may (without prejudice to its other rights) treat the agreement to allot such Shares as void and may allot such Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Shares (other than return of such late payment at your risk and without interest);

(f) agree that all cheques and banker’s drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the completion of any verification of identity required by the ML Regulations and that such monies will not bear interest;

(g) undertake to provide satisfactory evidence of identity within such reasonable time (in each case to be determined in the absolute discretion of each of the Companies) to ensure compliance with the ML Regulations;

(h) agree that, in respect of those Shares for which your application has been received and processed and not rejected, acceptance of your application shall be constituted by each of the Companies instructing Capita Registrars Limited to enter your name on the share register;

(i) agree that all documents in connection with the Offers and any returned monies will be sent at your risk and may be sent to you at your address as set out in the Application Form;

(j) agree that, having had the opportunity to read this document, you shall be deemed to have had notice of all information and representations including the risk factors and investment considerations contained therein;

(k) confirm that (save for advice received from your financial adviser) in making such application you are not relying on any information and representation other than those contained in this document and you accordingly agree that no person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof will have any liability for any such other information or representation;

(l) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offers shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of each of the Companies to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;

(m) irrevocably authorise each of the Companies, Downing and Capita Registrars Limited or any other person authorised by any of them, as your agent, to do all things necessary to effect registration of any Shares subscribed by or issued to you into your name and authorise any representatives of each of the Companies, Downing or Capita Registrars Limited to execute any documents required therefor and to enter your name on the register of members of each of the Companies;

(n) agree to provide each of the Companies with any information which it may request in connection with your application or to comply with the VCT legislation or other relevant legislation (as the same may be amended from time to time) including, without

limitation, satisfactory evidence of identity to ensure compliance with the ML Regulations;

(o) warrant that, in connection with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in each of the Companies or the Sponsor acting in breach of the regulatory or legal requirements of any territory in connection with the Offers or your application;

(p) warrant that you are not under the age of 18 years;

(q) if the laws of any territory or jurisdiction outside the United Kingdom are applicable to your application, warrant that you have complied with all such laws and none of the Companies, or the Sponsor or any of their respective agents will infringe any laws of any such territory or jurisdiction directly or indirectly as a result or in consequence of any acceptance of your application;

(r) agree that your Application Form is addressed to each of the Companies;

(s) agree that the Howard Kennedy is acting for each of the Companies in connection with the Offers and for no-one else and that they will not treat you as their customer by virtue of such application being accepted or owe you any duties or responsibilities concerning the price of Shares or concerning the suitability of Shares for you or be responsible to you for the protections afforded to its customers;

(t) warrant that if you sign the Application Form on behalf of somebody else or yourself and another or others jointly or a corporation you have the requisite power to make such investments as well as the authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions of application and undertake (save in the case of signature by an authorised financial adviser on behalf of the Investor) to enclose a power of attorney or a copy thereof duly certified by a solicitor with the Application Form;



(u) warrant that you are not subscribing for the Shares using a loan which would not have been given to you or any associate, or not given to you on such favourable terms, if you had not been proposing to subscribe for the Shares;

(v) warrant that the Shares are being acquired to you for bona fide investment purposes and not as part of a scheme or arrangement the main purpose of which, or one of the main purposes of which, is the avoidance of tax. Obtaining tax reliefs given under the VCT legislation contained in ITA is not of itself tax avoidance;

(w) warrant that you are not a "US person" as defined in the United States Securities Act of 1933 (as amended) nor a resident of Canada and that you are not applying for any Shares on behalf of or with a view to their offer, sale or delivery, directly or indirectly, to or for the benefit of any US Person or resident of Canada;

(x) warrant that the information contained in the Application Form is accurate; and

(y) agree that if you request that Shares are issued to you on a date and such Shares are not issued on such date each of the Companies and its agents and Directors will have no liability to you arising from the issue of such Shares on a different date.

4. No person receiving a copy of this document or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue,

transfer or other taxes required to be paid in such territory.

5. The Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the "USA"). In addition, each of the Companies has not been and will not be registered under the United States Investment Company Act of 1940, as amended. The Investment Manager will not be registered under the United States Investment Adviser Act of 1940 (as amended). No application will be accepted if it bears an address in the USA.

6. This application is addressed to each of the Companies. The rights and remedies of each of the Companies under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to either of them, and the exercise or partial exercise of one will not prevent the exercise of others.

7. It is a condition of the Offers that the ML Regulations are complied with. The Companies or the Receiving Agent are, therefore, entitled to require, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to the Receiving Agent to be acting on behalf of some other person. Pending the provision of evidence satisfactory to the Receiving Agent as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, the Receiving Agent may, in its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or Capita Registrars Limited may not enter the Applicant on the register of members or issue any share certificates in respect of such application. If verification of identity is required, this may result in delay in dealing with an application and in rejection of the application. Each of the Companies reserves the right, in its absolute



discretion, for it or the Receiving Agent to reject any application in respect of which the Receiving Agent considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, each of the Companies reserves the right in its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the Shares in question (but in each case without prejudice to any rights each of the Companies may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to the Receiving Agent such information as may be specified by it as being required for the purpose of the ML Regulations.

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





Please pin or staple  
your cheque here.

Tax Year 2011/12

Reservation Number  
(if applicable)

## Hazel Renewable Energy VCT1 plc Hazel Renewable Energy VCT2 plc

Subscriptions will be allocated to either VCT1 or VCT2 subject to the absolute discretion of the Board.

### LINKED TOP-UP OFFER APPLICATION FORM

Make your cheque or banker's draft out to "Hazel Renewable Energy VCT1 plc" and crossed "A/C Payee only" and return this form as soon as possible to Downing LLP.

1

Title and Name in Full (BLOCK CAPITALS, PLEASE) \_\_\_\_\_  
Permanent Address \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Postcode \_\_\_\_\_ Daytime Telephone \_\_\_\_\_  
Email \_\_\_\_\_  
Date of Birth \_\_\_\_\_ (DD/MM/YYYY) National Insurance No. \_\_\_\_\_

2 The total amount I am subscribing is

£

Min £10,000

NB this is the total amount you are subscribing under the Offers. Applications must be for a minimum of £10,000 in total and may be made for any higher amount in multiples of £1,000. Share subscriptions will be adjusted to reflect any commission waived (by agents) as extra shares. Please send me a certificate confirming my entitlement to venture capital trust tax reliefs.

3 Please mark with an "X" as appropriate

- ☐ I enclose a cheque or banker's draft drawn on a UK clearing bank, made payable to "Hazel Renewable Energy VCT1 plc"
- ☐ I have instructed my bank to make an electronic payment to:

Bank: Royal Bank of Scotland  
Account Name: Hazel Renewable Energy VCT1 plc  
Account Number: 00289729  
Sort Code: 16-01-09

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

BY SIGNING THIS FORM I HEREBY DECLARE THAT: (i) I have had an opportunity to receive the Offer Document dated 1 March 2012 and to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the Shares in each of Hazel Renewable Energy VCT1 plc and/or Hazel Renewable Energy VCT2 plc to be issued to me pursuant to the Offers; and (iii) to the best of my knowledge and belief, the particulars I have given are correct.

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

4

Signature

Date

YOU MUST COMPLETE ALL THE WHITE BOXES ABOVE

Authorised financial advisers should complete this box

5

Firm Name _____	OPTION (i) (3% UPFRONT) <input type="text"/>
Contact Name _____	OPTION (ii) (2% +TRAIL) <input type="text"/>
FSA No. _____	
Address _____	
_____	
Postcode _____	
Tel _____	Fax _____
Email _____	
Insert the amount of commission (up to a maximum of 3%/2%) that you wish to be waived and invested in additional shares for your client. <input type="text"/> %	

Due completion of the agent's box indicates that the agent is duly authorised to transact investments of this type under the Financial Services and Markets Act 2000. Authorised financial advisers will usually be paid, by the investment manager, an initial commission of (i) 3% of the gross amount payable by the Applicant in respect of the Shares allotted under the Offers, in respect of all accepted applications which include the FSA number of the relevant authorised financial adviser, or (ii) 2% of the gross amount payable by the Applicant in respect of the Shares allotted under the Offers in respect of all accepted applications which include the FSA number of the relevant authorised financial adviser and, provided they continue to act for their Applicant and their Applicant continues to hold the relevant Shares, an annual trail commission of up to 0.5% of that gross amount. This annual trail commission will be payable until the earlier of (i) the sixth anniversary of the closing of the Offers and (ii) the Investment Management Agreement being terminated.

#### Commission payment details

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

6

Name _____
Contact _____
Address _____
_____
Postcode _____
Email _____

7

#### Dividend Payments

All dividends on Shares held in Hazel Renewable Energy VCT1 plc and Hazel Renewable Energy VCT2 plc may be paid directly into bank and building society accounts. In order to facilitate this, please complete the mandate instruction form below. Dividends paid directly to your account will be paid in cleared funds on the dividend payment dates. Your bank or building society statement will identify details of the dividend as well as the dates and amounts paid.

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

Name of Bank or Building Society _____
Title of Branch _____
Address of Branch _____
_____
Account Number _____
Sort Code _____
Account Name (BLOCK CAPITALS, PLEASE) _____

Signature <input type="text"/>	Date <input type="text"/>
Applicant's Name <input type="text"/>	Postcode <input type="text"/> (BLOCK CAPITALS, PLEASE)

THE COMPANIES CANNOT ACCEPT RESPONSIBILITY FOR MISSING DIVIDENDS IF ANY DETAILS PROVIDED BY YOU ARE INCORRECT.

# Notes on Linked Top-Up Offer Application Form

Before making an application to acquire Shares you are strongly recommended to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000. It is essential that you complete all parts of the Application Form in accordance with the instructions in these notes. Please send the completed Application Form, together with your cheque or banker's draft by post, or deliver it by hand, to: Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN. If you have any questions on how to complete the Application Form please contact Downing LLP on 020 7416 7780 or your financial adviser.

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

- A** Insert in Box 1 in BLOCK CAPITALS your full name, permanent address, daytime telephone number, date of birth, National Insurance Number and, if you have one, your email address (if you wish to receive financial reports regarding the progress of the Companies by email). Joint applications are not permitted.
- B** Insert (in figures) in Box 2 the total amount you are subscribing.  
**Please note that the minimum investment is £10,000.**  
**The maximum investment, on which tax reliefs on investments in VCTs are available, is £200,000 per tax year.**  
Attach your cheque or banker's draft to the Application Form for the exact amount shown in Box 2. Please note that share subscriptions will be adjusted to reflect any commission waived (by agents) as extra shares or additional shares issued for early subscriptions.
- C** Your cheque or banker's draft must be made payable to "Hazel Renewable Energy VCT1 plc" and crossed "A/C Payee only". Your payment must relate solely to this application.

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

## Money Laundering ("ML") Regulations - Important note for applications of £10,000 or more

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

If the amount of your application is £10,000 or more (or is one of a series of linked applications, the value of which exceeds that amount) payment should be made by means of a cheque drawn on an account in the name of the Applicant. If this is not practicable and you use a cheque drawn by a third party or a building society cheque or banker's draft, you should write the name, address and date of birth of the applicant on the back of the third party cheque, building society cheque or banker's draft and if a building society cheque or banker's draft is used, the building society or bank must also endorse on the cheque or draft the name and account number of the person whose account is being debited. If a cheque is drawn by a third party, you must ensure that the following documents are enclosed with the form (original documents will be returned by post at your risk):

- **Verification of identity:** a copy of your current and valid passport or driving licence certified as being a true copy by a solicitor or bank (please note that paper-style UK provisional licences are not acceptable); and
- **Verification of address:** an original bank or building society statement or utility bill which is no more than three months old (please note that a mobile telephone bill is not acceptable).

- D** **Read the declaration and sign and date the Application Form in Box 5.** If someone other than the Applicant named in Box 1 signs on such Applicant's behalf, such signatory must ensure that the declaration given on behalf of such Applicant is correct. Agents who are entitled to receive commission should stamp and complete the agent's box, giving their full name and address, telephone number and FSA number. The right is reserved to withhold payment of commission if each of the Companies is not, in its sole discretion, satisfied that the agent is so authorised.



#### **Further Information**

*For further information about the  
Hazel Renewable Energy VCTs, Hazel Capital,  
or any of our other products, please contact us at:*

**Hazel Capital LLP**  
59 Gloucester Place  
London W1U 8JH

Tel: +44 (0)203 434 1010  
Fax: +44 (0)203 434 1029  
Email: [ir@hazelcapital.com](mailto:ir@hazelcapital.com)  
[www.hazelcapital.com](http://www.hazelcapital.com)