

# MATRIX INCOME & GROWTH 2 VCT **2** C Shares

SECURITIES NOTE  
WITH APPLICATION FORM



Offer for Subscription



# Securities Note

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult your bank manager, solicitor, accountant or other independent financial adviser fully authorised pursuant to the Financial Services and Markets Act 2000, who specialises in advising upon investment in shares and other securities, without delay.

Copies of this securities note ("Securities Note") which together with a registration document ("Registration Document") and a summary note ("Summary Note") comprise a prospectus (the "Prospectus") relating to Matrix Income & Growth 2 VCT plc (the "Company"), and has been prepared in accordance with the Listing Rules and Prospectus Rules made under Part VI of the Financial Services and Markets Act 2000. In subscribing for C Shares you will be treated as subscribing solely on the basis of this Prospectus. **Your attention is drawn to the risk factors set out on pages 3-4 and to the Terms and Conditions of Application set out on pages 30 to 33.**

Persons receiving this document should note that, in connection with this document, Blomfield Corporate Finance Limited and Matrix-Securities Limited act for the Company and no-one else, and will not be responsible for anyone other than the Company for providing the protections afforded to customers of Blomfield Corporate Finance Limited and Matrix-Securities Limited, or for providing advice in relation to this document. Both Blomfield Corporate Finance Limited and Matrix-Securities Limited are authorised and regulated by the Financial Services Authority.

The Directors of the Company, whose names appear on page 16, and the Company accept responsibility for the information contained in the Prospectus. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in the Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Application has been made to the UK Listing Authority for the Offered Shares issued to be admitted to the Official List and to the London Stock Exchange for the admission of such C Shares to trading on its market for listed securities. It is expected that admission will become effective and that dealings in the C Shares will commence within three Business Days of allotment.

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## Matrix Income & Growth 2 VCT plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 03946235)

### Offer for Subscription

of C Shares of 1 pence at the Offer Price to raise up to £10 million  
together with an over-allotment facility of further C Shares to raise up to a further £5 million

Promoter

**Matrix-Securities Limited**

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The procedure for, and the terms and conditions of, application under this offer for subscription are set out at the end of this document together with an Application Form.

Completed Application Forms must be posted or delivered by hand to the Receiving Agents, The City Partnership (UK) Limited. This Offer for Subscription will open on 19 January 2009 and will close on 30 April 2009 or as soon as the Offer is fully subscribed. The Directors in their absolute discretion may decide to extend the Offer.

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## Risk Factors

Investors should consider carefully the following risk factors in addition to the other information presented in this document. If any of the risks described below were to occur, it could have a material effect on the Company's business, financial condition or results of operations. The risks and uncertainties described below are not the only ones the Company and investors in the Shares will face. While all material risks currently known to the Company are set out below, additional risks not currently known to the Company, or that the Company currently believes are not material, may also adversely affect its business, financial condition and result of operations. The value of the Shares could decline due to any of these risk factors, and Investors could lose part or all of their investment.

An investment in the Company is suitable only for Investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. Potential Investors are advised to take their own independent financial advice before investing.

Potential Investors should be aware that the value of Shares can fluctuate and that they may not get back the amount they invested. There is a limited secondary market for shares in VCTs and most trade at below their net asset value for various reasons which may include that income tax relief is available only on new subscriptions. In addition, there is no certainty that the market price of Shares will fully reflect the underlying Net Asset Value or that any dividends will be paid. Nor should potential Investors expect that a share buyback policy, if any, which the Company might adopt from time to time, will offer any certainty of selling their Shares at a price that reflects or is close to their underlying Net Asset Value. Investors should be aware that an investment in Shares should, therefore, be considered as a long-term investment.

The past performance of funds managed or advised by the Adviser is not a guide to the future performance of the C Share Fund or the Ordinary Share Fund.

A portfolio of investments in unquoted companies can offer good investment returns but by its nature is uncertain and consequently involves a higher degree of risk than a quoted portfolio.

VCTs invest in small companies usually with limited trading records which may not produce the returns anticipated and investors could get back less than they invested.

The value of the Shares depends on the performance of the underlying assets. The value of the investment and the dividend stream can rise and fall.

Valuations of unlisted companies are determined by the Directors in accordance with the IPEVCV. These valuation guidelines provide for discounts to reflect the non-marketability of unlisted investments. The valuation of the portfolio depends, to some extent, on stock market conditions.

The fact that a share, in which the Company may invest, is quoted on AIM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. The PLUS quoted market is an exchange-regulated market regulated by PLUS. AIM is an exchange-regulated market and is regulated by the London Stock Exchange. The Company may invest in AIM and/or PLUS quoted companies.

Investment in unquoted, AIM-traded and PLUS quoted companies, by its nature, involves a higher degree of risk than investment in companies listed on the Official List. In particular, small companies often have limited product lines, markets or financial resources and may be dependent for their management on a small number of key individuals. The market for securities in smaller companies is generally less liquid than for securities of larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such securities. Proper information for determining their value or the risks to which they are exposed may also not be available. Investment returns will, therefore, be uncertain and involve a greater degree of risk than investment in a fully listed company.

Although the C Shares and the Ordinary Shares are admitted to the Official List of the UK Listing Authority and traded on the London Stock Exchange's market for listed securities, there is an illiquid market and Shareholders may find it difficult to realise their investment.

Realisation of investments in unquoted companies can be difficult and may take a considerable time. There may also be constraints imposed on the realisation of investments in order to maintain the tax status of the Company.

There can be no guarantee that the Company's investment objectives will be achieved or that suitable investment opportunities will be identified.

Whilst it will be the intention of the Directors that the Company will be managed so as to continue to qualify as a Venture Capital Trust, there can be no guarantee that such status will be maintained. A failure to continue to meet the qualifying requirements could result in the Company and Shareholders losing the tax reliefs previously obtained, resulting in adverse tax consequences for Shareholders including a requirement to repay the income tax relief obtained. Furthermore, should the Company lose its Venture Capital Trust status, dividends and any gains on disposal of Shares would become subject to tax and the Company would lose its exemption from corporation tax on capital gains.

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

To receive the tax advantages available to VCTs, Shareholders must be over the age of 18.

Any realised losses on the disposal of Shares will not be allowable losses for the purpose of capital gains tax and will, therefore, not be available for set off against any capital gains.

The information in this Prospectus is based on existing legislation, including tax legislation. The tax rules or their interpretation in relation to an investment in Shares and/or the rates of tax may change during the life of the Company and any changes could be retrospective. The value of tax reliefs depends on the personal circumstances of Shareholders, who should consult their own tax advisers before making any investment. The current legislation provides for income tax relief of up to 30% of the amount subscribed (subject to overall limitations on the amount of tax relief that can be claimed by an individual through investment in a VCT).

If a Shareholder, having subscribed for C Shares under the Offer disposes of those C Shares within five years he or she will be subject to claw back by HM Revenue & Customs of the income tax relief originally claimed.

Whilst the C Share Fund and the Ordinary Share Fund will be managed separately, VCT tax requirements and financial/distribution requirements will be assessed at a Company level which may restrict the Company's ability to pay dividends.

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

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### Offer Timetable

Offer opens	19 January 2009
Offer closes in respect of 2008/2009 tax year	3 April 2009
Offer closes in respect of 2009/2010 tax year	30 April 2009
Allotment	Fortnightly
Effective date for the listing of C Shares and commencement of dealings	within 3 Business Days of allotment

There is no minimum amount to be raised under the Offer and the Directors expect to start making allotments of C Shares in February 2009. They reserve the right to amend the date at which C Shares will begin to be allotted. The Directors also reserve the right to extend the closing date of the Offer or the amount of the Offer at their discretion. The Offer will close earlier than the date stated above if it is fully subscribed by an earlier date and has not been extended in time or amount by the Directors.

### Offer Statistics

Latest published NAV per share MIG 2 C Share (unaudited) as at 31 October 2008	91.15p
Estimated Offer Price per Share (based on a NAV of 91.15p per existing MIG 2 C Share)	96.46p
Minimum initial investment	£5,000
Amount to be raised	£10 million
Over-allotment facility	£5 million
Maximum number of Offered Shares in issue following the Offer (based on an estimated Offer Price of 96.46p per Offered Share and assuming the over-allotment facility is fully used)	15,550,487

### Costs relating to the Offer

Offer costs as a percentage of the gross proceeds	5.5%
Initial commission to intermediaries (included in 5.5% Offer costs)	2.25%
Annual commission (subject to maximum cumulative payment of 2.25% of the NAV attributable to financial intermediaries' clients' holdings)	0.375%

## Definitions

The following definitions are used throughout this document, except where the context requires otherwise:

### **Act**

Companies Act 1985 including any statutory modification or re-enactment thereof including any provisions of the Companies Act 2006 for the time being in force

### **Adviser or MPEP or Matrix Private Equity Partners**

Matrix Private Equity Partners LLP, the Company's investment adviser, duly authorised and regulated by the Financial Services Authority

### **AIM**

the Market of that name operated by the London Stock Exchange

### **Blomfield or Sponsor**

Blomfield Corporate Finance Limited, the Company's sponsor, authorised and regulated by the Financial Services Authority

### **Business Day**

any day on which banks are generally open for business in London, other than a Saturday

### **Cash**

readily realisable interest-bearing investments and deposits

### **Company or MIG 2 VCT**

Matrix Income & Growth 2 VCT plc

### **C Share Fund**

the portfolio of assets relating to the C Shares

### **C Shareholder(s)**

holder(s) of C Shares

### **C Share(s)**

"C" ordinary share(s) of 1p each in the capital of the Company

### **Directors or Board**

Directors of Matrix Income & Growth 2 VCT plc

### **HMRC**

HM Revenue & Customs

### **I&G**

The Income & Growth VCT plc, a generalist VCT focusing on a range of industrial and commercial sectors, originally named TriVest VCT plc

### **Investor**

an individual aged 18 or over who is resident in the United Kingdom

### **IPEVCV**

International Private Equity & Venture Capital Valuation guidelines

### **Issue**

the issue of C Shares pursuant to the Offer

### **London Stock Exchange**

London Stock Exchange plc

### **MBO**

Management Buy Out

### **Matrix-Securities**

Matrix-Securities Limited, the Company's promoter, a wholly owned subsidiary of Matrix Group Limited. Matrix-Securities Limited is authorised and regulated by the Financial Services Authority

### **MIG**

Matrix Income & Growth VCT plc, a generalist VCT focusing on a range of industrial and commercial sectors

### **MIG 3**

Matrix Income & Growth 3 VCT plc, a generalist VCT focusing on a range of industrial and commercial sectors

### **MIG 4**

Matrix Income & Growth 4 VCT plc, a generalist VCT focusing on a range of industrial and commercial sectors, originally named TriVen VCT plc

### **Net Asset Value or NAV**

the aggregate of the gross assets of the Company less its gross liabilities, calculated in accordance with the Company's accounting policies

### **Offer**

the offer for subscription of up to £10 million together with an over-allotment facility of a further £5 million of Offered Shares pursuant to the terms of the Prospectus at the prevailing Offer Price

### **Offer Price**

the offer price of the Offered Shares being the most recently published NAV per C Share in pence divided by 0.945 and rounded down to two decimal places, as determined by the Board

### **Offered Shares**

shares to be issued under the Offer

### **Ordinary Share Fund or O Share Fund**

the portfolio of assets relating to the Ordinary Shares



**Ordinary Shareholder(s)**

holder(s) of Ordinary Shares

**Ordinary Share(s) or O Shares**

ordinary share(s) of 1p each in the capital of the Company

**PLUS**

Plus Markets plc a recognised investment exchange under section 287 of the Financial Services and Markets Act 2000, formerly named OFEX

**Prospectus**

the combined Registration Document, Securities Note and Summary Note

**Shareholder(s)**

holder(s) of Shares

**Share(s)**

Ordinary Share(s) and/or C Share(s) as appropriate

**Tax Act or ITA**

the Income Tax Act 2007

**Total Return**

the aggregate value of an investment or collection of investments valued in accordance with the IPEVCV, plus any capital repaid and income or dividends received

**UK Listing Authority**

the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000

**VCT Qualifying Company or VCT Qualifying Investment**

an unquoted, PLUS quoted or AIM traded company which satisfies the requirements of Part 6, Chapter 4 of the Tax Act

**Venture Capital Trust or VCT**

a company which is, for the time being, approved as a Venture Capital Trust under Section 274 of the Tax Act

## Key Features

- **Significant tax benefits for Investors**

An Investor can enjoy the following tax reliefs under the Offer:

- up-front 30% income tax relief
- tax free dividends
- gains on disposal of C Shares free from capital gains tax

- **Tax free dividends**

The C Share Fund seeks to provide Shareholders with a regular and growing income stream, by way of tax free dividends, and to generate capital growth through portfolio realisations, the profits of which can then be distributed by way of additional tax free dividends.

- **Incentive to pay dividends**

The Adviser is incentivised to produce high levels of income and will only receive its performance related incentive fee if it generates returns that enable the C Share Fund to pay out annual dividends to Shareholders.

- **Focused investment strategy**

The C Share Fund will invest primarily in a diversified portfolio of established profitable unquoted companies which are cash-generative and therefore capable of producing income and capital repayments to the C Share Fund prior to their ultimate sale or flotation. The C Share Fund expects to co-invest with the other VCTs advised by the Adviser, thereby becoming able to invest in larger transactions and companies than other VCTs investing in isolation. The focus will be on investing in MBOs, a transaction type the Directors believe offers attractive investment attributes.

- **Award winning investment Adviser**

The Adviser, Matrix Private Equity Partners, is one of the most experienced, stable and successful teams engaged in managing VCTs with an executive team of eight advisers specialising in unquoted investments. The four executives who originally formed the investment team have worked together for over a decade.

The Adviser was the winner of the 2008 VCT Fund Manager of the Year Award at the unquote” British Private Equity Awards. MPEP has also won other awards for its management of VCTs, including VCT Manager of the Year (Investor AllStars Venture Capital Awards) in 2005 and 2006.

- **Proven track record**

MPEP has a proven record of investing successfully on behalf of the Company and the four other VCTs it advises. MPEP has over £115 million VCT funds under management.

- **Lower costs of running the Company**

As a consequence of raising additional capital, the annual running costs of the Company will be spread over a larger asset base which creates economies of scale enhancing the Company’s capacity for profit and its ability to pay dividends to new shareholders.

The total expense ratio remains capped at 3.60% of net assets.

- **No Minimum**

Because the Company is already established, no minimum sum is required to be raised under the Offer. This means Investors can be certain that the Offer will proceed.

- **Liquidity**

The Directors currently pursue a share buy back policy which seeks to manage the level of the discount to NAV at which the Shares trade in normal markets. The Directors operate this policy to try to ensure that Shareholders who wish to sell their holding in the Company should be able to do so while safeguarding the interests of all Shareholders.

# Chairman's Letter

## Matrix Income & Growth 2 VCT plc

(Registered No. 03946235)

One Vine Street  
London W1J 0AH

19 January 2009

Dear Investor,

Welcome to the C Share Offer from Matrix Income & Growth 2 VCT plc which is aiming to raise up to £10 million together with an over-allotment facility of a further £5 million for the Company.

### **VCT Tax Reliefs**

The Government continues to show its support for the VCT industry. Dividends remain tax-free and the up-front income tax relief is 30%. This continues the status of VCTs as one of the most tax efficient investment products available to UK investors. An Investor will, therefore, be able to receive up to 30% of his or her initial investment back in the form of a cash income tax rebate as long as the investment is held for a minimum of five years and the Investor has paid at least the amount of the tax rebate in income tax for the year of subscription.

### **Focused Investment Strategy**

The investment adviser, MPEP, has a value-driven investment approach which focuses on Management Buy Outs of unquoted, profitable and cash generative companies which are capable of delivering both income and growth. This strategy should enable Shareholders to receive tax free dividends on a regular basis. These dividends may comprise income as well as profits from the realisation of investments.

### **Background to the Company**

Matrix Income & Growth 2 VCT plc (formerly Matrix Venture Fund VCT plc) was established in April 2000 with the original strategy of investing in technology companies. The Fund raised £13.2 million in its original fundraising. In September 2005 the name of the Fund was changed to Matrix Income & Growth 2 VCT plc. At this time, its investment policy was also changed to take advantage of the Adviser's expertise within the generalist sector and the current investment team took over as adviser. From the time of this change until 31 October 2008, the shareholder NAV total return performance of the O Share Fund has increased by 12.5% and 24 pence in dividends has been paid out.

### **The C Share Fund**

Following the change in investment policy, the Directors launched the C Share Fund, which raised £9.2 million upon closing in April 2006. The Directors have decided to launch a "top up" to the C Share Fund now to benefit Shareholders in the following ways: it will provide greater opportunity for the Manager to invest in a wider spread of investments; there will be an expansion of the capital base of the Fund resulting in a reduction in running costs as a percentage of the Fund's assets thereby providing potential for enhanced dividends; and by increasing the Fund's asset base, the liquidity of the Fund's C Shares may increase in the longer term.

We believe that this is an attractive time in the UK business cycle to be investing in unquoted companies. Alternative sources of capital to such companies are expected to be fewer and this should give rise to the opportunity to invest at lower valuations. You can invest between £5,000 and £200,000 (subject to the overall £200,000 per annum VCT cap) per tax year in Matrix Income & Growth 2 VCT plc and you will find the Application Form on page 35 of this Securities Note. The Directors and the Manager have committed to invest a minimum aggregate amount of £100,000 in the Offer. We very much look forward to existing Shareholders adding to their holdings and to welcoming new Shareholders.

Yours sincerely,



Nigel Melville  
Chairman

## Part I: Why invest in MIG 2 VCT C Share Fund?

The investment objective of the C Share Fund is to provide C Shareholders with a regular and growing income stream, by way of tax free dividends, and to generate capital growth through portfolio realisations, the profits of which can be distributed as additional tax free dividends. The Adviser intends to structure investments in unquoted companies as part loan and part equity, expecting to receive regular income and to generate capital gains from trade sales and flotations.

### Twin sources of tax free dividends

A particular feature of the Fund's approach will be to invest a high proportion of its assets in mature unquoted companies in the form of yield-bearing instruments such as preference shares or loan stock. The Adviser aims to use these instruments to construct a high yield portfolio of investments enabling the Company to pay regular tax free dividends.

Furthermore, as an overriding objective when making investments, the Adviser will endeavour to ensure that the companies in which the C Share Fund invests have the potential for further growth and ultimate capital realisation. Such realisations, which are expected to comprise primarily trade sales, are expected to enable the C Share Fund to pay significant additional tax free dividends.

### Matrix Private Equity Partners – The Investment Adviser

Matrix Private Equity Partners is one of the largest teams focused on VCT investment currently advising over £115 million of funds on behalf of five VCTs. The Board believes that there are a number of features that make MPEP one of the most successful VCT investment advisers:

- **Experience** – MPEP has a team of eight private equity investment advisers, who together have a total of 140 years' experience of relevant private equity transactions.
- **Stability** – The four executives who originally formed the investment team have worked together for over a decade.
- **Commitment to VCTs** – MPEP is focused on VCT management and currently allocates its new deal flow exclusively to its VCTs.
- **Lower risk strategy** – Co-investing alongside four other VCTs enables the Company to invest in larger transactions and lower risk companies than many other VCTs. MPEP typically invests in MBOs of companies valued between £2 million and £20 million with annual turnovers between £5 million and £50 million.

- **Award winning** – The Adviser was the winner of the 2008 VCT Fund Manager of the Year Award at the unquote" British Private Equity Awards. MPEP has also won other awards for its management of VCTs, including VCT Manager of the Year (Investor AllStars Venture Capital Awards) in 2005 and 2006.

### The Team

The core of the investment team was formed in 1998 and has subsequently been increased to eight advisers.

**Mark Wignall** (51) heads the team. He is an economist and commenced his career in 1980 with MAI Plc. He joined GLE Development Capital in 1987 and became Managing Director in 1994. In March 2004 he led the management team that acquired GLE Development Capital to form Matrix Private Equity Partners. He has over 20 years' experience of private equity investment.

**Ashley Broomberg** (38) joined Matrix Group Limited in 2001. He is a chartered accountant with a background in corporate finance and strategy consulting, having previously worked with Arthur D. Little and Arthur Andersen. He has 7 years' experience of private equity investment.

**Jonathan Gregory** (47) qualified as a chartered accountant with Baker Tilly and joined the Adviser in 1995. He has over 20 years' experience working with unquoted companies. He has 13 years' experience of private equity investment.

**Bob Henry** (54) entered the private equity industry with County Bank in 1979 and established and ran HSBC Ventures from 1992, leaving to join the Adviser in 1998. He has over 25 years' experience of private equity investment.

**Eric Tung** (47) qualified as a chartered accountant with KPMG and joined Enterprise Ventures in 1990 becoming Head of Investment, leaving to join the Adviser in 2000. He has 17 years' experience of private equity investment.

**Mike Walker** (55) originally trained at 3i Plc and was a director of Gresham Trust Plc for seven years, becoming head of its Portfolio Management Unit. He joined the Adviser in 1998 and is a non-executive director of

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several of the Adviser's VCT investee companies. He has 30 years' experience of private equity investment.

**John Brandon** (63) is a qualified civil engineer and entered the venture capital industry in 1981 joining Midland Montagu Ventures. From 1992 – 2003 he was an investment director at HSBC Ventures, becoming Managing Director in 1998 following Bob Henry's

departure. He joined the Adviser in 2004 and has over 25 years' experience of private equity investment.

**Guy Blackburn** (28) joined the Adviser as an Investment Adviser in March 2007, having previously worked for 4 years in real estate for the Grosvenor Group. He has a degree in Engineering.

### MPEP's Track Record

MPEP manages over £115 million of funds at NAV across five VCTs. This includes investments made on behalf of the Company as shown below:

	First investment made	Total funds advised at NAV <sup>(1)</sup> £million	Total return per share <sup>(2)</sup>
Matrix Income & Growth 2 VCT O Shares <sup>(3)</sup>	August 2000	8.9	104.6p
Matrix Income & Growth 2 VCT C Shares	April 2006	8.3	95.2p

#### Notes

- (1) All net asset values as stated in latest publicly disclosed information.  
 (2) Total return is equal to net asset value plus cumulative dividends paid per share as stated in latest publicly disclosed information.  
 (3) The present investment team took over as adviser to this fund in September 2005.

Further details of the MIG 2 investment portfolio are shown in Part IV of this Securities Note.

In addition to acting as investment adviser to the Company, MPEP advises the VCTs shown below

	First investment made	Total funds advised at NAV <sup>(1)</sup> £million	Total return per share <sup>(2)</sup>
Matrix Income & Growth VCT	February 2005	19.0	105.9p
Matrix Income & Growth 3 VCT	April 2005	17.9	94.4p
Matrix Income & Growth 4 VCT <sup>(3)</sup>	April 1999	21.7	121.0p
The Income & Growth VCT O Shares <sup>(4)</sup>	April 2000	29.6	100.0p
The Income & Growth VCT S Shares	April 2008	11.2	94.6p

#### Notes

- (1) All net asset values as stated in latest publicly disclosed information.  
 (2) Total return is equal to net asset value plus cumulative dividends paid per share as stated in latest publicly disclosed information.  
 (3) The Adviser assumed sole management of this fund on 18 October 2006.  
 (4) The Adviser was appointed as sole manager of this fund on 11 March 2008 to take effect from 11 March 2009.

Past performance is not a guide to future performance. The C Share Fund's future returns and performance are likely to be different from those outlined above.

## Enhanced liquidity

The Directors are aware that in the past it has often been difficult for investors to sell VCT shares at or close to net asset value. The Directors currently pursue an active policy of buying back Shares in the market, seeking to provide a level of liquidity and to manage the level of discount to net asset value at which Shares trade in normal markets.

At their quarterly board meetings the Directors review, inter alia, the levels of discounts to net asset value at which comparable quoted VCTs are trading. Based on this review and other relevant factors, the Directors agree the Fund's share buyback policy for the forthcoming period. The Directors intend to continue to maintain frequent communication with the market so that, whenever a significant number of Shares come on offer in the market, the Directors will become aware.

In pursuing this policy, the Directors' highest priority is to ensure that they are acting prudently and fairly in the interests of all shareholders. Share buybacks are transacted entirely at the Directors' discretion and are subject to the Fund having sufficient liquid resources and distributable reserves available for such purposes. They are also subject to the rules of the UK Listing Authority (which stipulate inter alia that the prices at which such purchases are made must not exceed 5% of the Shares average market value for the 5 business days prior to the day that such purchase is made) and any other applicable law at the relevant time. As at the date of this document and until the next annual general meeting at which it is expected that the buyback authority will be renewed the Company is authorised to purchase up to 1,722,502 Ordinary Shares and 1,370,983 C Shares. Although the Directors' intention is that Investors who wish to sell their holding in the Fund should be able to do so, prospective investors should be aware that there is a risk that this may not be possible from time to time.

The Directors reserve the right to change this Share buyback policy in the future at their absolute discretion.

## Tax Benefits

The Offer provides a tax efficient investment opportunity, with the following attractive tax reliefs available to Investors who can currently invest up to £200,000 per person per tax year:

- Up-front income tax relief of 30% of the amount invested can be deducted from the Investor's income tax liability (provided C Shares are held for at least five years).
- all dividends paid by MIG 2 VCT are tax free.
- capital gains on disposal of C Shares in MIG 2 VCT are tax free provided C Shares have been held for at least 5 years before disposal.

This is only a brief summary of the tax benefits of investing under the Offer. Further information appears in Part VI of this Securities Note. Investors' attention is drawn to the risk factors relating to taxation referred to on page 4.

## Dividend Policy

The C Share Fund's dividend policy is to pay out income to Shareholders. Generally, a VCT is required to distribute by way of dividend such amount as ensures that it retains not more than 15% of its income derived from shares and securities.

A privileged feature of a VCT, not available to a normal investment trust, is the ability to distribute net realised capital profits. Whenever the C Share Fund makes successful realisations for cash of unquoted portfolio investments, the Directors intend to take full advantage of this feature by paying out to Shareholders as much as is prudent of any net realised capital profit with the next dividend payment.

## Details relating to the C Shares

The capital raised by the issue of C Shares will be managed and invested with the existing C Share Fund and separately to the O Share Fund unless the Directors are satisfied that it is in the best interests of both classes of Shareholders for the Funds to be merged. The Director's current intention is to review the merits of conversion no earlier than April 2011, by which time they believe that the nature of the majority of the Ordinary Share Fund qualifying holdings may be similar to those in the C Share Fund.

At conversion, the C Shares would convert into Ordinary Shares at a rate determined by the ratio between the net asset value attributable to each C Share and to each Ordinary Share. The Directors will apply their normal valuation principles in calculating the net asset values of both the Ordinary Shares and the C Shares.

The Ordinary Shares arising on conversion would be divided amongst the C Shareholders pro rata to their respective holdings of C Shares. Conversion will take place on such a Business Day as may be selected by the Directors falling no more than 60 Business Days after the calculation date.

The Ordinary Shares arising on Conversion would rank equally with the Ordinary Shares then in issue. After Conversion, all Shareholders in the Fund may also benefit from having a wider portfolio of companies.

The C Shares and, in the event of their conversion, the Ordinary Shares arising from conversion, will be listed on the Official List of the UK Listing Authority and will be admitted to trading on the London Stock Exchange's market for listed securities and may be sold at any time. Qualifying Applicants should note however that they will lose income tax relief in whole or in part if the C Shares, or Ordinary Shares arising on conversion, have not together been held for five years.

Further details of the C Shares, including the method of conversion and their rights to receive dividends, are set out in Part VIII of this document.

## Shareholder Communications

In order to allow Shareholders access to a flow of further additional information regarding new investments, developments in investee companies and portfolio performance, the Company intends to continue to produce a biannual newsletter on the Company's investment portfolio in addition to the normal statutory reports. The newsletter will be issued to Shareholders during the intervening quarters between the annual and half-yearly reports.

## The Offer Price

The Offer Price will be the most recently published NAV per C Share in pence divided by 0.945. This is to allow for the issue costs of 5.5%. The Offer Price will be rounded down to 2 decimal places. This pricing formula allows new investors to subscribe for new C Shares at their most current NAV plus costs relating to the Offer, thereby preventing, to the extent that costs can be anticipated, dilution to existing C Shareholders

## The Over-Allotment Facility

The Directors, at their discretion, if the Offer appears likely to be over-subscribed and they consider demand from investors to be strong enough, may extend the amount of the Offer by means of an over-allotment facility of further C Shares to raise up to a further £5 million, making £15 million in total. C Shares issued under the over-allotment facility would be on the same terms and conditions as other C Shares issued under the Offer. The over-allotment facility may be utilised whilst the Offer remains open.

## Part II: How will the C Share Fund be invested?

### Investment Strategy

The Directors believe that it is important to balance the safeguarding of the capital available for investment in Qualifying Companies versus the ability to provide good short term returns to Investors. Therefore in line with the Company's lower-risk strategy the net proceeds of the Offer will initially be invested in Cash (as defined) or other low risk investments.

The Adviser will aim to invest approximately 80% of the net funds raised in the Offer; the remaining 20% will be invested in Cash or other low risk investments. The Adviser primarily seeks to invest in a diverse selection of established profitable unquoted companies. The Adviser may also invest in AIM quoted and PLUS quoted businesses but only where it has had an investment in that company prior to flotation, or where it believes there is a compelling investment opportunity. Investments in VCT Qualifying Companies will generally be made in amounts ranging from £200,000 to £1 million. Not more than 10% of the C Share Fund's investments, based on cost, will be invested in any one company.

The Adviser aims to make investments that in aggregate are structured up to 70% as loan stock or preference shares with attractive income terms so that a regular stream of income should be generated for the Company which can be distributed to Shareholders as well as capital distributions on realisation of investment.

After the Company has reached its VCT qualifying target of 80% being invested in qualifying assets, the balance of the net assets will remain invested in low risk investments. These assets are expected to provide the capacity to support any future cash needs of investee companies, the operating needs of the Company, and to provide funds for any possible share buybacks, subject to distributable reserves being available.

### Investment Process

The Adviser focuses on unquoted investment opportunities, which it has consistently found to be more attractively priced than those presented by companies accessing public markets, such as AIM and PLUS. Unquoted companies also offer the opportunity for intensive appraisal, due diligence and negotiation of terms. Unquoted investment opportunities will originate from the Adviser's own extensive network of chartered accountants and corporate financiers who act as intermediaries on behalf of management teams looking to raise equity finance.

The Adviser typically looks for companies that fit the following criteria at the time of investment:

- established and robust with credible business plans and solid profit growth prospects;
- already profitable, cash generative and therefore able to sustain a stream of contractual payments of income and capital;
- make or supply the products and services that we see used around us in our daily lives; and
- valued between £5 million and £20 million with annual turnovers between £5 million and £50 million.

Examples of investments that have previously been made by MPEP on behalf of the Company are set out in Part IV of this document.

Prior to an investment being made, each selected company is subject to a rigorous process of due diligence which concentrates on the following:

- the quality of the management team;
- the track record of profitability;
- evidence of the company's competitive advantage in its markets;
- a sufficiently attractive valuation at the time of investment;
- the opportunity to structure an investment that can deliver regular income for the C Share Fund; and
- the prospect of achieving an exit, usually by way of a trade sale, within an appropriate timescale.



The Company considers investments across a broad range of sectors and concentrates on investing to support incumbent management teams in acquiring the business they manage, but do not own. This type of transaction, commonly referred to as a Management Buy Out or MBO, forms a significant proportion of UK private equity financing activity and accounted for 62% of all activity by amount invested in 2007 (Source – BVCA Report On Investment Activity 2007 published in July 2008). The Company believes MBOs offer particularly attractive investment attributes for three reasons. These are the incumbent management's:

- unique and privileged understanding of the financial risks and opportunities within their business;
- preparedness to invest personal capital to purchase shares in their business at the same time as the C Share Fund; and
- alignment of interest with the C Share Fund in seeking to buy their company at the lowest possible price with the objective of crystallising value in their investment in the medium term.

### Post-investment management

Once an investment has been made, the Adviser seeks to add value to investee companies in a number of ways including:

- reviewing strategic plans;
- helping with the development of the business;
- assisting with acquisitions or mergers and additional fundraisings; and
- preparing companies for sale.

Normally, a member of the Adviser's team and an experienced individual well known to the Adviser will be appointed to the board of each investee company as a non-executive director and chairman respectively.

### Co-investment relationships

MIG 2 VCT expects to co-invest with the four other VCT funds advised by the Adviser. This typically enables the Adviser to participate in investment rounds of up to £5 million. The Directors believe that this enables the Company to invest in larger and more robust companies than many other VCTs.

Where more than one of the Adviser's VCT funds wishes to participate in an investment opportunity, the VCTs' allocations will be made in the ratio of the net funds raised and allocated to the Adviser for each VCT. This will be subject to the availability of funds to make the investment and other portfolio considerations such as sector exposure and the requirement to achieve or maintain a minimum of 70% of a VCT fund's portfolio in VCT Qualifying Investments.

Where a VCT is in its fundraising period, its net funds raised for the purpose of allocation will be assumed to be the value of shares allotted at the time the allocation calculation is made.

When a VCT has insufficient funds available to satisfy its allocation, the balance shall be offered to the remaining VCT clients who have funds available for new investments pro rata as between themselves.

In the event that the Ordinary Share Fund has funds available for investment, any new investment made by the Company will be drawn pro rata from the Ordinary Share Fund and C Share Fund, based on initial net funds raised. Notwithstanding the above, the Directors reserve the right to allocate investment opportunities on a different basis where considered appropriate, for example to protect the VCT status of the Company as a whole or to balance the portfolio of a particular Share Fund.

Any variation from this co-investment policy, insofar as it affects the Company or where the Company makes any investment not at the same time and on the same terms as that made by other VCT funds, may only be made with the prior approval of the Directors.

## Part III: The Board

### The Board

The Board comprises four non-executive Directors, three of whom are independent of the Adviser. It has overall responsibility for the Fund's affairs including the determination of its investment policy. Investment proposals will be originated and recommended by the Adviser and then require to be formally approved by the Directors.

**Nigel Melville (Chairman)**, aged 63, was Chairman of Emtelle Holdings Limited, the UK's leading supplier of fibre-optic ducting systems until 4 August 2008, and a director of a number of other public and private companies. Between 1972 and 1995, he was an investment banker, latterly as a director of Barings responsible for international corporate finance. In 1995 he established Melville Partners to provide strategic consultancy to a range of international companies.

**Sally Duckworth (née Leeson)**, aged 40, has worked in the financial services sector since 1990 and in the private equity industry since 2000. An active angel investor, she sits on the board of several smaller companies. She is a qualified accountant, former investment banker and venture capitalist. From 2000 – 2004 she worked for Quester Capital Management Limited as part of the investment team for their VCTs.

**Adam Kingdon**, aged 50, has over twenty years experience as a turnaround specialist and of restoring companies to profitability. He is also a director of i<sup>2</sup>O Water Limited and Kingdon Burrows Performance Aircraft Limited. In 2002 he set up Adam Kingdon Associates Limited.

**Ken Vere Nicoll**, aged 66, has over 35 years' corporate finance experience and is Deputy Chairman of Matrix Corporate Capital LLP ("MCC LLP") and a Director of Matrix Group Limited and Matrix-Securities Limited. MCC LLP is authorised and regulated by the Financial Services Authority and is a member firm of the London Stock Exchange. It provides corporate finance advice and stock broking services to companies including flotations on AIM and has advised a number of these companies in the past three years. He is a non-executive director of Unicorn AIM VCT II plc.

### Corporate governance

The Board has adopted the AIC code of Corporate Governance ("the AIC Code") for the financial year ended 30 April 2008. The Financial Reporting Council (FRC) has confirmed that in complying with the AIC Code the Company will meet its obligations in relation to the Combined Code.

## Part IV: MIG 2 VCT Investment Portfolio

Matrix Income & Growth 2 VCT plc (formerly Matrix Venture Fund VCT plc) was established in April 2000 with the original strategy of investing in technology companies. The Fund raised £13.2 million in its original fundraising. In September 2005 the name of the Fund and the investment strategy was changed and the current investment team took over as adviser. From the time of this change up to 31 October 2008, the shareholder NAV total return performance of the O Share Fund has increased by 12.5% and an aggregate of 24p per Ordinary Share in dividends has been paid out.

As at 31 October 2008, the Company's NAV per Ordinary Share was 77.8p. With accumulated dividends paid of 26.8p per Ordinary Share since launch, the Ordinary Shareholder NAV total return was 104.6p. At 31 October 2008 the Ordinary Share Fund had net assets of c. £8.9 million.


As at 31 October 2008, the Company's NAV per C Share was 91.2p. With accumulated dividends paid of 4.0p per C Share since launch, the C Shareholder NAV total return was 95.2p. The C Share Fund had net assets of c. £8.3 million.


### The C Share Fund


Following the change in investment policy, the Directors launched the C Share Fund which raised £9.2 million upon closing in April 2006.


### C Share Fund – 10 Largest Investments


The C Share Fund's 10 largest investments by current valuation are:

<b>BARNFIELD MANAGEMENT INVESTMENTS LIMITED</b> - Acquisition Vehicle in Food Sector				
	Cost	£1,000,000	First Investment	July 2008
	Valuation	£1,000,000	Transaction type	Acquisition Vehicle
	Valuation basis	Cost		

<b>VANIR CONSULTANTS LIMITED</b> - Acquisition Vehicle in IT Sector				
	Cost	£1,000,000	First Investment	October 2008
	Valuation	£1,000,000	Transaction type	Acquisition Vehicle
	Valuation basis	Cost		

<b>FOCUS PHARMA HOLDINGS LIMITED</b> - Licensing and distribution of generic pharmaceuticals				
	Cost	£660,238	First Investment	October 2007
	Valuation	£677,211	Transaction type	MBO
	Valuation basis	Discounted earnings		

<b>PASTAKING HOLDINGS LIMITED</b> - Supplier to the education and food service markets				
	Cost	£191,720	First Investment	June 2006
	Valuation	£585,412	Transaction type	MBO
	Valuation basis	Discounted earnings		

<b>MONSAL HOLDINGS LIMITED</b> - Engineering services to water and waste sectors				
	Cost	£769,000	First Investment	December 2007
	Valuation	£576,750	Transaction type	MBO
	Valuation basis	Cost less provision		

**BLAZE SIGNS HOLDINGS LIMITED** - Designer, manufacturer and installer of shop front and internal signage


Cost	£606,890	First Investment	April 2006
Valuation	£569,080	Transaction type	MBO
Valuation basis	Discounted earnings		

**DIGICO EUROPE LIMITED** - Design and manufacture of audio mixing desks


Cost	£411,114	First Investment	July 2007
Valuation	£477,732	Transaction type	MBO
Valuation basis	Discounted earnings		

**ATG MEDIA HOLDINGS LIMITED** - Publisher of Antiques Trade Gazette


Cost	£355,159	First Investment	October 2008
Valuation	£355,159	Transaction type	MBO
Valuation basis	Cost		

**VSI LIMITED** - Developer and marketer of 3D software


Cost	£77,623	First Investment	April 2006
Valuation	£221,306	Transaction type	MBO
Valuation basis	Discounted earnings		

**BRITISH INTERNATIONAL HOLDINGS LIMITED** - Supplier of helicopter services


Cost	£167,173	First Investment	June 2006
Valuation	£162,426	Transaction type	MBO
Valuation basis	Cost less provision		

Source: The valuation data in the table have been derived from the unaudited accounts of the Company as at 31 October 2008. Valuations of the individual investments have been carried out in accordance with the IPEVCV.

The Directors are not aware of any information which may materially affect the above information at the date of this document.

## Part V: Management, Expenses and Administration

### The Adviser

The Adviser was appointed as investment adviser to the C Share Fund under a new management agreement which came into effect on 20 September 2005. The Adviser's appointment can be terminated by not less than twelve months' notice given at any time. The Adviser's appointment may also be terminated in circumstances of material breach or insolvency by either party.

### Issue Costs

Matrix-Securities Limited has agreed to indemnify the Company to the extent of any excess of initial costs over 5.5% of the initial funds subscribed. Accordingly, on the basis that £10 million is subscribed under the Offer, total costs will be £0.55 million and net proceeds will be £9.45 million which will be used in the furtherance of the investment policy described in Part II of this document.

### Fees

The Adviser will continue to receive a fund management fee of 2% per annum of the NAV of the C Share Fund. The fund management fees will be calculated and payable quarterly in advance together with any applicable VAT.

As is customary in the private equity industry, the Adviser may retain for its own benefit and without liability to account to the C Share Fund, subject to full disclosure having been made to the Board, arrangement fees which it receives in connection with any unquoted investment made by the C Share Fund up to a maximum of 2.5% of the amount invested by the C Share Fund in the relevant investee company. It may also receive all monitoring fees or directors' fees. Costs incurred on abortive investment proposals will be the responsibility of the Adviser.

75% of the Company's management fees are charged against capital reserves with the balance being charged against revenue.

Matrix-Securities Limited will continue to provide Company Secretarial and Accountancy services to the C Share Fund, under two agreements, each dated 20 September 2005. The appointments can be terminated by not less than one year's notice given at any time. Matrix-Securities Limited currently receives annual fees of £31,033 (plus value added tax where applicable) plus 0.3% per annum of the gross funds raised under the Offer, such figure to be increased annually in line with the Retail Prices Index (All Items).

Both fees are paid quarterly in arrears.

### VAT Recovery

Shareholders may be aware of a recent European Court ruling that management fees on investment trusts should be exempt from VAT following a test case brought by the Association of Investment Companies (AIC) and others. Subsequently, HMRC agreed that this ruling should also apply to VCTs from 1 October 2008 and has recently announced that it will accept applications to reclaim at least some of the VAT charged in the last few years. The Company will work with the Adviser to recover the applicable VAT back from HMRC. There should be some benefit to the Company but the amount and timing remain uncertain.

### Annual expenses

The annual running costs of the Company will remain capped at 3.60% per annum (excluding any irrecoverable VAT, exceptional costs and any performance related incentive fee) of the Company's NAV as at the end of each financial year. This figure covers the annual costs incurred by the Company in the ordinary course of its business and includes the management fees mentioned above, Directors' remuneration, fees payable to the Company's registrar, stockbroker, auditor, tax and legal advisers and the annual trail commission to financial advisers, as set out under the heading 'Adviser Commission' on page 20. Any costs above the capped level will be borne by the Adviser.

## Performance-related incentive fee

As is customary in the private equity industry, the Adviser will receive a performance related incentive fee to reward exceptional performance. The Adviser will be entitled to receive a performance fee equivalent to 20% of the excess above 6p, of the annual dividends paid to C Shareholders. The performance fee will only be payable if the NAV per C Share over the year relating to payment has remained at or above 100p per C Share. The performance fee will be payable annually, with any cumulative shortfalls below the 6p threshold having to be made up in later years.

## Reporting to Shareholders

The annual report and accounts of the Company are made up to 30 April each year and are normally circulated to Shareholders in July. Shareholders also receive unaudited half-yearly reports made up to 31 October each year, which are normally circulated to shareholders in December. The next report is expected to be sent to Shareholders in July 2009 and will be the annual report for the year ended 30 April 2009. In addition, Shareholders will receive from the Adviser a twice yearly newsletter on the Company's investment portfolio. The newsletter will be issued to Shareholders during the intervening quarters between the annual and half-yearly reports.

## Life of the Company

It is intended that the Company should have an unlimited life, but it is considered desirable that Shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the articles of association of the Company contain provisions requiring the Directors to put a proposal for the continuation of the Company, in its then form, to Shareholders at the tenth annual general meeting, due to be held in 2010 and thereafter at five-yearly intervals

## VCT status monitoring

PricewaterhouseCoopers LLP is retained by the Company to advise on compliance with the legislative requirements relating to VCTs. PricewaterhouseCoopers LLP also reviews the qualifying status of new investment opportunities and carries out regular reviews of MIG 2 VCT's investment portfolio.

PricewaterhouseCoopers LLP will work closely with the Adviser and the Company's accountant but will report directly to the Board.

## Adviser commission

Authorised financial intermediaries will normally be paid commission of 2.25% on successful applications.

In addition, provided they continue to act for their client and the client continues to hold their C Shares, financial advisers will normally be paid, in respect of their clients' holdings, an annual trail commission of 0.375% of the NAV (as determined from the audited annual accounts of the C Share Fund) attributable to their clients' holdings as at the time of calculation of the annual year end NAV.

The annual trail commission will normally be paid in October each year. It is anticipated that the first such payment will be paid in October 2010 in respect of the accounting period ending 30 April 2010.

The Company shall be entitled to rely on a notification from a client that he has changed his adviser. No payment of trail commission shall be made to the extent that the cumulative trail commission would exceed 2.25% of the issue price of each Offered Share.

Financial intermediaries may agree to waive their initial commission. If so an Investor's application will attract an additional allotment of C Shares amounting to the equivalent value of the waived commission at no greater cost.

## CREST

C Shares have been admitted to the CREST system and Shareholders will be able to hold their C Shares in certified or uncertified form.

## Part VI: Tax considerations for VCT shareholders

The following information is only a summary of the law concerning the tax position of individual Investors in VCTs. Potential Investors (including existing Shareholders who wish to apply for C Shares) are recommended to consult a professional adviser as to the taxation consequences of an investment in a VCT.

### Tax reliefs for Investors in the Offer

Below is a summary of the current reliefs for VCT investments made on or after 6 April 2008.

The tax reliefs set out below are available to UK residents aged 18 or over who subscribe under the Offer. Whilst there is no specific limit on the amount of an individual's acquisitions of shares in a VCT, **tax reliefs will only be given to the extent that the total of an individual's subscriptions or other acquisitions of shares in VCTs in any tax year does not exceed £200,000**. Investors who intend to invest more than £200,000 in VCTs in any one tax year should consult their professional advisers as to the tax implications.

#### 1. Income tax

##### a) Relief from income tax on investment

An investor subscribing for C Shares in the C Share Fund will be entitled to claim income tax relief on amounts up to a maximum of £200,000 in any tax year. To obtain relief an investor must subscribe on his own behalf although the C Shares may subsequently be transferred to a nominee. Relief is given at the rate of 30% on the amount subscribed, provided that the relief is limited to the amount which reduces the investor's income tax liability to nil. Investments to be used as security for or financed by loans may not qualify for relief, depending on the circumstances.

##### Effect of income tax relief on a £10,000 investment under the Offer:

	Effective cost	Income tax relief
VCT investment by an individual claiming no tax reliefs	£10,000	N/A
VCT investment by an individual claiming full 30% income tax relief	£7,000	£3,000

##### b) Dividend relief

An investor who acquires under the Offer, in any tax year, C Shares for a total cost of up to a maximum of £200,000 will not be liable to income tax on dividends paid by the C Share Fund on those Shares and no income tax will be withheld therefrom.

##### c) Purchasers in the market

An individual purchaser of existing Shares in the market will be entitled to claim dividend relief (as described in paragraph b) above) but not relief from income tax on investment (as described in paragraph a) above).

##### d) Withdrawal of relief

Relief from income tax on subscription for shares in a VCT is withdrawn if the shares, or an interest in them or right over them, are disposed of (other than between spouses or on death) within five years of issue, or if the VCT loses its VCT approval within this period.

Where an investor has acquired shares in the same VCT on more than one occasion, he will be treated as disposing of the shares which he acquired at an earlier date, in priority to those he acquired on a later date. Where he has acquired shares on the same occasion, some of which qualify for relief and some of which do not, he will be treated as disposing of the shares which do not qualify for relief in priority to those which qualify.

#### 2. Capital gains tax

##### a) Relief from capital gains tax on the disposal of Shares

A disposal by an Investor of Shares in the Company will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. The relief is limited to the disposal of Shares acquired within the limit of £200,000 for any tax year and is only available if the VCT retains its VCT status throughout the Investor's period of ownership of the Shares.

##### b) Purchasers in the market

An individual purchaser of existing Shares in the market will be entitled to claim relief from capital gains tax on disposal (as described in paragraph 2a) above).

**Loss of VCT status**

If a VCT which has been granted approval subsequently fails to comply with the conditions for approval, approval as a VCT may be withdrawn. Where approval is withdrawn:

a) *Relief from income tax on investment*

Income tax relief on investment is repayable where the shares have been held for less than five years (for an investment made before 6 April 2006 the period is three years);

b) *Dividend relief*

Dividends paid at any time in an accounting period during which approval is lost will be subject to income tax;

c) *Relief from capital gains tax on the disposal of Shares*

The Investor will be treated as having disposed of his Shares immediately before the VCT ceased to be approved, and as having immediately re-acquired them at that value (thus, any capital gain up to that date will be exempt from tax, but any gains arising after that will be taxable in the ordinary way);

d) *Capital gains tax deferral relief*

Any chargeable gain on which tax has been deferred will be brought into charge. This will only apply where the investment was made before 6 April 2004.

**Tax reliefs for existing Shareholders**

Existing investors in the Company (unless they wish to make a further investment under the Offer) will remain unaffected by the Offer and the tax treatment of their investments will continue to be the same as at the time of their original investment, namely that they will have received 20% income tax relief for the original offer of O Shares and 40% for the original offer of C Shares, and where applicable CGT deferral relief for the year of their investment and have had to have held their original Ordinary Shares for a minimum period of three years from issue.

**Obtaining tax reliefs**

The Company will provide a certificate to each investor which the investor may use to claim income tax relief, either by obtaining from HMRC an adjustment to his tax coding under the PAYE system or by waiting until the end of the tax year and using his self-assessment return to claim relief. Dividends received in respect of C Shares acquired under the Offer up to the qualifying maximum of £200,000 per tax year need not be shown in an investor's self-assessment tax return.

**Investors not resident in the UK**

Investors not resident in the UK should seek their own professional advice as to the consequences of making an investment in the Company as they may be subject to tax in other jurisdictions as well as in the UK.



## Part VII: Tax position of the Company

**The Company has to satisfy a number of tests in order to qualify as a VCT and therefore to obtain the tax benefits available to VCTs and their individual shareholders. A summary of those tests relevant on or after 6 April 2008 is set out below.**

### Qualifying as a VCT

In order to qualify as a VCT, the Company must satisfy the following conditions in each accounting period:

- (a) it must be approved as a VCT by HMRC;
- (b) it must not be a close company;
- (c) throughout the period each class of its equity share capital must be quoted on the Official List of the London Stock Exchange;
- (d) it must derive its income in that period wholly or mainly from shares or securities;
- (e) it must have at least 70% by value of its investments throughout the period in newly issued shares or securities (where the securities are not redeemable within 5 years of issue) comprised in holdings in unquoted, PLUS quoted or AIM quoted companies which satisfy the requirements of chapter 4 of part 6 of the Tax Act ("Qualifying Holdings"), of which 30% by value must be ordinary shares which carry no preferential rights to dividends or assets on winding up and no rights to be redeemed;
- (f) it must have at least 10% by value of its Qualifying Holdings in each single company or group in ordinary shares which carry no preferential rights to dividends or assets on winding up and no rights to be redeemed;
- (g) it must have not more than 15% by value of its investments throughout that period in a single company or group (other than a VCT, or other similar company); and
- (h) it must generally not retain more than 15% of the income which it derives from shares and securities in that period.

Value for the purposes of the above conditions means as set out in section 278 of the Tax Act.

The further relaxation of test (e) applies to the use of any money derived from any further issues of shares by the VCT for up to three years after the shares are issued.

### Qualifying Holdings

In order for an investment to qualify as an investment in a Qualifying Holding, not more than £1 million may be invested in the same company in any tax year. Where investments are made in two consecutive tax years up to this limit, there must be at least a six month gap between them. The £1 million limit is restricted further if the trade in which the money invested is applied is carried on through a partnership or joint venture.

In addition, to qualify as a Qualifying Holding, each company in which the Company makes an investment must satisfy the following tests:

- (a) it must be unquoted (which will, in the case of a company which was unquoted at the time of the VCT's investment, be deemed to be the case for a further five years after the company ceases to be unquoted). Companies whose shares are traded on AIM or which are PLUS quoted are treated for this purpose as unquoted;
- (b) it must be a VCT Qualifying Company (see below under the heading "Qualifying Companies and qualifying subsidiaries");
- (c) it must have gross assets of £7 million or less immediately pre-investment and £8 million or less immediately post-investment. In the case of companies which have qualifying subsidiaries (see below), the test is applied on a group basis;
- (d) it (or a relevant qualifying subsidiary of the VCT Qualifying Company) must apply the money invested for the purposes of a qualifying trade, which is carried out wholly or mainly in the UK, (see below under the heading, "Qualifying Companies and qualifying subsidiaries") within certain time periods;
- (e) it must not be able to control (whether on its own or together with a connected person) any company which is not a qualifying subsidiary;
- (f) it must not be controlled by another company (on its own or together with a connected person);
- (g) It must not have any property managing subsidiaries which do not fall into the definition of relevant qualifying subsidiaries (see below);
- (h) It must have fewer than 50 full-time employees (or their equivalents) at the date on which the relevant shares or securities are issued; and

(i) It must have raised no more than £2 million under the VCT, Enterprise Investment, or Corporate Venturing schemes in the 12 months ending on the date of the relevant investment.

In certain circumstances, a holding can be split into part-Qualifying Holdings and part non-Qualifying Holdings.

## Qualifying Companies and qualifying subsidiaries

A VCT Qualifying Company is a company which exists to carry on one or more qualifying trades (see below) or is the parent of a trading group, where all of its subsidiaries are qualifying subsidiaries and the group as a whole is not engaged in non-qualifying activities (see below).

For the purposes of the Qualifying Holdings test in (d) above, a subsidiary will be a relevant qualifying subsidiary if at least 90% of its issued share capital and its voting power is owned by the VCT Qualifying Company. Certain other tests as to the distribution of the subsidiary's profits and assets on a winding-up must also be satisfied.

In the case of Qualifying Holdings test in (e) above, a subsidiary will be a qualifying subsidiary if more than 50% of its issued share capital is owned by the VCT Qualifying Company and the other tests are also satisfied.

A trade will be a qualifying trade only if it does not to a substantial extent include non-qualifying activities (non-qualifying activities include dealing in land or shares, property development, providing financial services or activities which are largely land-based, such as farming, hotels and nursing homes). In the case of a company which is preparing to carry on a qualifying trade, the qualifying trade must begin within two years of the issue to the VCT of the shares or securities, and must continue thereafter.

## Approval as a VCT

A VCT must be approved as such at all times by HMRC. Approval has effect from the time specified in the approval, which cannot be earlier than the time at which the application for approval is made.

A VCT cannot be approved until the relevant tests (see above under the heading, "Qualifying as a VCT") have been satisfied throughout the most recent complete accounting period of the VCT and HMRC is satisfied that the tests will be satisfied in relation to the accounting period of the VCT which is current at the time the application is made.

However, in order to facilitate the launch of VCTs, HMRC may grant provisional approval to a VCT, notwithstanding that not all the relevant tests are satisfied at the time of the application, provided that HMRC is satisfied that the tests will be satisfied within a certain period. In particular, HMRC may grant provisional approval if it is satisfied that:

- (a) the relevant tests in (c), (d), (g) and (h) under the heading, "Qualifying as a VCT" above will either be satisfied in the accounting period current when the application for approval is made or in the following accounting period;
- (b) the relevant test in (e) under the heading, "Qualifying as a VCT" above, will be satisfied in relation to any accounting period beginning not more than three years after the time when approval is given, or if earlier, when it has effect; and
- (c) the relevant tests in (c), (d), (e), (g) and (h) under the heading, "Qualifying as a VCT" above, will continue to be satisfied in all subsequent accounting periods.

## Withdrawal of approval

Approval as a VCT may be withdrawn by HMRC if the relevant tests (see above under the heading, "Qualifying as a VCT") are not satisfied. Withdrawal of approval generally has effect from the time when notice of withdrawal is given to the VCT but, in relation to capital gains of the VCT only, can be backdated to not earlier than the first day of the accounting period commencing immediately after the last accounting period of the VCT in which all the tests were satisfied.

**The above is only a summary of the conditions to be satisfied under current law and practice for a company to be treated as a VCT. For comprehensive clarification, prospective investors are recommended to consult a professional adviser.**

## Part VIII: The C Shares

**The C Shares were created, and the Articles setting out the rights and restrictions attaching to the C Shares were adopted, by means of a special resolution passed at the extraordinary general meeting of the Ordinary Shareholders held on 26 March 2004. At the annual general meeting of the Company held on 10 September 2008, the issue of up to 25 million C Shares under the Offer was authorised by means of resolutions authorising the Directors to allot securities pursuant to sections 80 and 95 of the Act and disapplying the pre-emption provisions of section 89(1). The relevant provisions of the amended Articles are summarised below.**

### *a) Alteration of Share Capital*

The Company may by ordinary resolution increase, consolidate, cancel or subdivide its share capital, reduce share capital or any capital redemption reserve or share premium account or other distributable reserve.

### *b) Issue of Shares*

Subject to the provisions of the Act relating to authority, pre-emption rights and otherwise, and to any resolution of the Company in general meeting passed pursuant thereto, all unissued shares shall be at the disposal of the Directors, and they may allot or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

### *c) Transfer of Shares*

(i) A member may transfer any or all of his shares by instrument of transfer in writing in any usual or common form or in any other form acceptable to the Directors. The instrument of transfer should be signed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. The transfer shall not become effective until the name of the transferee is entered into the register of members. The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine, either generally or in respect of any class of shares provided that the register shall not be closed for more than thirty days in any year. The Directors may in their absolute discretion and without assigning any reason therefore refuse to register any transfer of shares where the shares in question are not fully paid up where such refusal does not restrict dealings on an open and proper basis. The Directors may refuse to recognise an instrument of transfer unless the instrument of transfer is:

- (a) in respect of only one class of share;
- (b) is in favour of not more than four transferees; and

(c) is lodged at the transfer office accompanied by the relevant share certificates and any other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

### *d) Dividends*

The Company may in general meeting by ordinary resolution declare dividends in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors. The Directors may pay such interim dividends as appear to them to be justified. No dividend or other monies payable in respect of a share shall bear interest as against the Company. There are no fixed dates on which entitlement to dividend arises.

All dividends unclaimed for a period of twelve years after being declared or becoming due for payment shall be forfeited and shall revert to the Company.

### *e) Voting Rights*

Subject to any special rights which may apply to any class of shares that may have been issued or may from time to time be held, every member who is present in person, including any corporation present by its duly authorised representative, at a general meeting of the Company or by proxy shall, on a show of hands, have one vote. On a poll every member present in person or by proxy shall have one vote for each share of which he is a holder. The Ordinary Shares and C Shares shall rank *pari passu* as to the rights to attend and vote at any general meeting.

### *f) Distribution of Assets on Liquidation*

On a winding-up, any surplus of assets attributable to the Shares will be divided amongst the holders of the relevant class of Shares in the Company according to the respective numbers of such Shares held by them and in accordance with the provisions of the Act, subject to the rights of any shares with special rights or privileges. The Articles provide that the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Act, divide amongst the members in specie the whole or any part of the assets of the Company in such as way as he may determine.

## C Share conversion information

The following definitions apply for the purposes of this Part VIII of the Securities Note only:

**a) Rights Attaching to the C Shares**

The following provisions apply in respect of the C Shares and their subsequent conversion into Ordinary Shares:

**"Calculation Date"** means close of business on such date as the Directors shall approve.

**"Conversion"** means conversion of the C Shares in accordance with the Articles.

**"Conversion Date"** means the close of business on the day selected by the Directors falling not more than sixty days after the Calculation Date.

**"Conversion Ratio"** is A/B where:

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

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

**"C"** is the aggregate of;

(i) the amount which, in the Directors' opinion, fairly reflects, having regard to the then current guidelines of the British Venture Capital Association, the value of all investments of the Company attributable to the C Shareholders on the Calculation Date; and

(ii) the amount which, in the Directors' opinion, fairly reflects at the Calculation Date the value of the current assets of the Company attributable to the C Shareholders (including cash and deposits with or balances at a bank and including any income and other items of a revenue nature);

**"D"** is the amount (to the extent not otherwise deducted from the assets attributable to the C Shareholders) which, in the Directors' opinion, fairly reflects the amount of the liabilities attributable to the C Shareholders on the Calculation Date;

**"E"** is the number of C Shares in issue on the Calculation Date;

**"F"** is the net asset value of the Company as at the Calculation Date which is arrived at after all adjustments reasonably deemed necessary by the Directors to reflect the current value (determined by the Directors in accordance with the then current guidelines of the British Venture Capital Association) of all assets and to allow for all liabilities including any income and other items of a revenue nature; and

**"G"** is the number of Ordinary Shares in issue on the Calculation Date;

provided that the Directors shall make such other adjustments to the value or amount of **"A"** and **"B"** as the auditors shall report to be appropriate having regard, inter alia, to the assets attributable to the C Share Fund on the Calculation Date and to the assets of the Company on the Calculation Date after such other adjustments as the Directors shall make and as the auditors shall report to be appropriate to reflect any other changes.

**"C Share Surplus"** means the net assets of the Company attributable to the C Shares (including, for the avoidance of doubt, any income and/or revenue arising from or relating to such assets) less such proportion of the Company's liabilities including the fees and expenses of liquidation or return of capital (as the case may be) as the Directors or the liquidator (as the case may be) shall reasonably allocate to the assets of the Company attributable to the C Shareholders.

**"Existing Ordinary Shares"** means the Ordinary Shares in issue as at the Calculation Date.

**"Issue Date"** means the day on which the Company receives the net proceeds of the first issue of the C Shares.

**"New Ordinary Shares"** means new Ordinary Shares arising on Conversion of the C Shares which, when issued, shall rank *pari passu* in all respects and form a single class with the Existing Ordinary Shares.

**"Ordinary Share Surplus"** means the net assets of the Company (including, for the avoidance of doubt, any income and/or revenue arising from or relating to such assets) less the Company's liabilities (including the fees and expenses of liquidation or return of capital, as the case may be) less the C Share Surplus.

**"Statutes"** means the Companies Act 1985 including any statutory modification or re-enactment thereof including any provisions of the Companies Act 2006 for the time being in force.

For the purposes of the Articles, assets attributable to the C Shareholders or the C Shares shall mean the net cash proceeds (after all expenses relating thereto) of the issue of the C Shares as invested in or represented by investments or cash or other assets from time to time less such proportion of the expenses and liabilities of the Company incurred or accrued between the Issue Date and the Calculation Date (both dates inclusive) as the Directors fairly consider to be allocable to the C Shares.

References in the Articles to the auditors certifying any matter shall be construed to mean certification of their opinion as to such matter whether qualified or not.

#### **b) Undertakings**

Until Conversion and without prejudice to its obligations under the Statutes, the Company shall (i) procure that the Company's records and bank accounts shall be operated so that the assets attributable to the C Shareholders can, at all times, be separately identified and, in particular but without prejudice to the generality of the foregoing, the Company shall procure that a separate income and expenditure account (or if applicable, profit and loss account) balance sheet and cash flow account and such other separate accounts as may, in the opinion of the Board, be desirable to ensure compliance by the Company with the provisions of section 842AA of the Taxes Act, shall be created and maintained in the books of the Company for the assets attributable to the C Shareholders, (ii) allocate to the assets attributable to the C Shareholders such proportion of the expenses and liabilities of the Company incurred or accrued between the Issue Date and Calculation Date (both dates inclusive) as the Directors fairly consider to be allocable to the C Shares and (iii) give appropriate instructions to the Company's investment managers and advisers to manage the Company's assets so that such undertakings can be complied with by the Company.

#### **c) The Conversion process**

(i) The Directors shall procure that:

within sixty days of the Calculation Date, both the Conversion Ratio as at the Calculation Date and the number of New Ordinary Shares to which each C Shareholder shall be entitled on Conversion shall be calculated; and the auditors shall be requested to certify, within sixty days of the Calculation Date, that both the calculation of the Conversion Ratio and the total number of New Ordinary Shares arising on Conversion:

(a) have been performed in accordance with the Articles; and

(b) are arithmetically accurate;

whereupon, subject to the proviso immediately after the definition of "G" above, such calculations shall become final and binding on the Company and all shareholders.

(ii) The Directors shall procure that as soon as practicable following such certification a notice is sent

to each C Shareholder advising such C Shareholder of the Conversion Date, the Conversion Ratio and the number of Ordinary Shares to which such C Shareholder shall be entitled on Conversion.

(iii) The Directors may in their absolute discretion from time to time decide the manner in which the C Shares are to be converted, subject to the provisions of the Articles and the Statutes, to the intent that on Conversion each C Share shall convert into one new Ordinary Share.

(iv) Without prejudice to paragraph (iii) above, the Directors may, where the Conversion Ratio is greater than one, in order to facilitate the Conversion, provide for the profits or reserves attributable to the C Shares to be capitalised and applied in paying up in full such number of New Ordinary Shares as shall be calculated by multiplying the number of New Ordinary Shares arising on Conversion of the C Shares by the Conversion Ratio and then deducting the number of New Ordinary Shares arising on Conversion, and allot such shares, credited as fully paid up, to the holders of C Shares pro rata to their holdings.

(v) Without prejudice to paragraph (iii) above, the Directors may, where the Conversion Ratio is less than one, in order to facilitate the Conversion, provide for the profits or reserves attributable to the Existing Ordinary Shares to be capitalised and applied in paying up in full such number of New Ordinary Shares as shall be calculated by dividing the number of Existing Ordinary Shares by the Conversion Ratio and then deducting the number of Existing Ordinary Shares and allot such shares, credited as fully paid up, to the holders of Existing Ordinary Shares pro rata to their holdings.

(vi) The Directors may deal in such manner as they think fit with any fractional entitlements to New Ordinary Shares arising upon Conversion including, without prejudice to the generality of the foregoing, selling any such shares representing such fractional entitlements and retaining the proceeds for the benefit of the Company.

(vii) Upon Conversion, the Company shall issue to each former C Shareholder certificates in respect of the New Ordinary Shares which have arisen upon Conversion.

(viii) Upon Conversion, the rights attaching to the C Shares under the Articles shall lapse.

## Part IX: Directors & Advisers

### Directors

Nigel Melville  
Sally Duckworth (née Leeson)  
Adam Kingdon  
Ken Vere Nicoll

all of:  
One Vine Street  
London  
W1J 0AH

### Secretary

Matrix-Securities Limited  
One Vine Street  
London  
W1J 0AH

### Sponsor

Blomfield Corporate Finance Limited  
1-3 College Hill  
London  
EC4R 2RA

### Stockbroker

Matrix Corporate Capital LLP  
One Vine Street  
London  
W1J 0AH

### Promoter

Matrix-Securities Limited  
One Vine Street  
London  
W1J 0AH

### Company's Registered Office

One Vine Street  
London  
W1J 0AH  
Tel: 020 3206 7000  
Email: mig2@matrixgroup.co.uk

### Registrar

Capita  
Northern House  
Woodsome Park  
Fennay Bridge  
Huddersfield  
West Yorkshire  
HD8 0LA

### Solicitors to the Company

Martineau  
No 1 Colmore Square  
Birmingham  
B4 6AA

### Investment Adviser

Matrix Private Equity Partners LLP  
One Vine Street  
London  
W1J 0AH

### Independent Auditors

PKF (UK) LLP  
Farringdon Place  
20 Farringdon Road  
London  
EC1M 3AP

### VCT Status Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RN

### Bankers

National Westminster Bank Plc  
City of London Office  
PO Box 122658  
1 Princes Street  
London  
EC2R 8PA

### Solicitors to the Offer

CMS Cameron McKenna LLP  
Mitre House  
160 Aldersgate Street  
London  
EC1A 4DD

### Receiving Agent

The City Partnership (UK) Limited  
Box 41  
196 Rose Street  
Edinburgh  
EH2 4AT

## Part X: General

### 1. The Offer Price

The Offer Price will be calculated as follows:

Offer Price = most recently published NAV per C Share at time of allotment expressed in pence per C Share divided by 0.945 and rounded down to two decimal places.

The NAV is published quarterly and released on an appropriate Regulatory Information Service.

Fractions of Offered Shares will not be issued and will be rounded down to the nearest whole number of Offered Shares.

Allotments of Offered Shares will not be made where the Offer price would be at a discount of more than 10% to the middle market price of the C Shares as at the time which they are issued.

### 2. Capitalisation and Indebtedness

The following table shows the capitalisation of the Company as at 31 October 2008, the date in respect of which the most recent unaudited half-yearly financial information on the Company has been published.

	£'000
<b>Shareholder's equity</b>	
Share capital	205
Share premium	-
Other reserves	16,986

The following table shows the Company's unaudited gross indebtedness as at 31 October 2008 (extracted without material adjustments from unaudited internal accounting records).

	£'000
<b>Total current debt</b>	
Guaranteed	-
Secured	-
Unguaranteed/unsecured	-
<b>Total non-current debt</b>	
Guaranteed	-
Secured	-
Unguaranteed/unsecured	-

As at 31 October 2008 the Company had unaudited net liquid assets (excluding its unlisted and AIM portfolio) of £4,743,000 (extracted without material adjustments from unaudited internal accounting records).

	£'000
A Cash	49
B Cash equivalents	4,694
C Trading Securities	0
<b>D Liquidity (A+B+C)</b>	<b>4,743</b>
<b>E Current financial receivables 304</b>	
F Current bank debt	0
G Current position of non current debt	0
H Other current financial debt	75
<b>I Current financial debt (F+G+H) 75</b>	
<b>J Net current financial indebtedness/(assets) (I-E-D) (4,972)</b>	
K Non-current bank loans	0
L Bonds issued	0
M Other non-current loans	0
<b>N Non-current financial indebtedness (K+L+M) 0</b>	
<b>O Net financial indebtedness/(assets) less non current indebtedness (J+N) (4,972)</b>	

### Working Capital Statement

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

## Part XI: Terms and Conditions of Application

The words and expressions defined in the Prospectus, save where the context requires otherwise, have the same meanings when used in the Application Form and explanatory notes in relation thereto. The section headed "Application Procedure" forms part of these terms and conditions of application.

### A Terms and Conditions

1. The contract created by the acceptance of applications in the manner herein set out will be conditional on the Offer Agreement between Matrix-Securities Limited, Blomfield Corporate Finance Limited, the Company and the Directors becoming unconditional in all respects and not being terminated in accordance with its terms before the first allotment of C Shares. 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 C 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. However, if any balance of funds from an application is lower than the cost of an Offered Share and £1, the monies will be donated to a registered charity. In the meantime application monies will be retained by The City Partnership (UK) Limited in a separate account.
2. The Company reserves the right to present all cheques and banker's drafts for payment on receipt and to retain documents of title and surplus application monies pending clearance of the successful applicants' cheques and banker's drafts.
3. By completing and delivering an Application Form you (as the applicant):
  - (a) irrevocably offer to subscribe for the number of C Shares specified in your Application Form (or any smaller or larger number for which the application is accepted) at the prevailing Offer Price, subject to the provisions of this Prospectus, these terms and conditions and the Memorandum and Articles of Association of the Company;
  - (b) authorise Capita Registrars to send definitive documents of title for the number of C Shares for which your application is accepted, and/or a crossed cheque for any monies returnable, by post to your address as set out in your Application Form and to procure that your name is placed on the register of members of the Company in respect of such C Shares;
  - (c) in consideration of the Company agreeing that it will not, prior to the closing date of the Offer, offer any C Shares to any persons other than by means of the procedures set out or referred to in this document, agree that your application may not be revoked until the closing date of the Offer, and that this paragraph constitutes a collateral contract between you and the Company which will become binding upon despatch by post or delivery by hand of your Application Form duly completed to The City Partnership (UK) Limited;
  - (d) agree and warrant that your cheque or banker's draft will be presented for payment on receipt and will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive certificates for the C Shares applied for or to enjoy or receive any rights or distributions in respect of such C Shares unless and until you make payment in cleared funds for such C Shares and such payment is accepted by the Company (which acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Company of such late payment in respect of such C Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such C Shares as void and may allot such C Shares to some other person in which case you will not be entitled to any refund or payment in respect of such C Shares (other than return of such late payment);
  - (e) agree that any documents of title and any monies returnable to you may be retained pending clearance of your remittance and that such monies will not bear interest;
  - (f) agree that all applications, acceptances of applications and contracts resulting therefrom will be governed by, and construed in accordance with, English law and that you submit to the exclusive jurisdiction of the English courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceeding



- 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;
- (g) agree that, in respect of those C Shares for which your application has been received and processed and not refused, acceptance of your application shall be constituted by notification of acceptance thereof by The City Partnership (UK) Limited;
- (h) agree that all documents in connection with the Offer and any returned monies will be sent at your risk and may be sent by post to you at your address as set out in the Application form;
- (i) agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations concerning the Company contained therein;
- (j) confirm that in making such application you are not relying on any information or representation in relation to the Company other than those contained in the Prospectus and you accordingly agree that no person responsible solely or jointly for this document and the Prospectus or any part thereof or involved in the preparation therefore shall have any liability for any such information or representation;
- (k) confirm that you have reviewed the restrictions contained in paragraphs 4 and 5 below and warrant as provided therein;
- (l) warrant that you are not under the age of 18 years;
- (m) agree that such Application Form is deemed to be addressed to the Company, Blomfield Corporate Finance Limited, The City Partnership (UK) Limited and Matrix-Securities Limited;
- (n) agree to provide the Company with any information which it may request in connection with your application or to comply with the VCT or other relevant legislation (as the same may be amended from time to time);
- (o) warrant that, in connection with your application, you have observed the laws of all relevant territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company, Blomfield Corporate Finance Limited, The City Partnership (UK) Limited or Matrix-Securities Limited acting in breach of the regulatory or legal requirements of any territory in connection with the Offer or your application;
- (p) agree that none of Blomfield Corporate Finance Limited, The City Partnership (UK) Limited and Matrix-Securities Limited will regard you as its customer by virtue of your having made an application for C Shares or by virtue of such application being accepted; and
- (q) declare that a loan has not been made to you or any associate, which would not have been made or not have been made on the same terms, but for you offering to subscribe for, or acquiring C Shares and that the C Shares are being acquired for bona fide commercial 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.
4. No action has been or will be taken in any jurisdiction by, or on behalf of, the Company which would permit a public offer of C Shares in any jurisdiction where action for that purpose is required, other than the United Kingdom, nor has any such action been taken with respect to the possession or distribution of this document other than in the United Kingdom. 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 nor should he in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him 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 for C Shares to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
5. The basis of allocation will be determined by the Company (after consultation, if applicable, with Blomfield Corporate Finance Limited, The City Partnership (UK) Limited and Matrix-Securities

Limited) in its absolute discretion. It is intended that applications will be accepted in the order in which they are received subject to any prior booking of allocations which may be agreed with Matrix-Securities Limited to give authorised financial intermediaries time to consult with their clients. The Offer will be closed as soon as full subscription is reached unless the size of the Offer is extended at the absolute discretion of the Directors. The right is reserved, notwithstanding the basis so determined, to reject in whole or in part and/or scale down any application, in particular multiple and suspected multiple applications, which may otherwise be admitted. The right is also reserved to treat as valid any application not complying fully with these Terms and conditions of application or not in all respects complying with the Application Procedure set out in Part XII of this document. In particular, but without limitation, the Company (after consultation with Blomfield Corporate Finance Limited, The City Partnership (UK) Limited and Matrix-Securities Limited) may accept applications made otherwise than by completion of an Application Form where the applicant has agreed in some other manner to apply in accordance with these terms and conditions.

The Directors expect to start making allotments of C Shares during February 2009 but they reserve the right to amend the date at which C Shares will begin to be allotted. Interest will not be paid on valid applications. The Offer is not underwritten.

6. Save where the context requires otherwise, terms defined in this document bear the same meaning when used in these Terms and Conditions of Application and in the Application Form.
7. Authorised financial intermediaries who, acting on behalf of their clients, return valid Application Forms bearing their stamp and FSA number will normally be paid 2.25% commission on the amount paid by the applicant in respect of the C Shares allocated for each such Application Form. In addition, provided they continue to act for their client and the client continues to hold C Shares, such intermediaries will be paid, in respect of their clients' holdings, an annual trail commission of 0.375% of the NAV (as determined from the audited annual accounts of the Company) attributable to their clients' holdings at the end of the preceding financial year. The annual trail commission will normally be paid in October each year. It is anticipated that the first payment will be paid in October 2010 in respect of the accounting period ended 30 April 2010. The administration of

annual trail commission will be managed on behalf of the Company by Matrix Registrars Limited which will maintain a register of intermediaries entitled to trail commission. The Company shall be entitled to rely on a notification from a Shareholder that he has changed his adviser in which case the trail commission will cease to be payable. No payment of trail commission shall be made to the extent that the cumulative trail commission would exceed 2.25% of the issue price of each such Share. Financial intermediaries should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for selling commission. The City Partnership (UK) Limited will collate the Application Forms bearing the financial intermediaries' stamps and calculate the selling commission payable which will be paid within 14 days of each allotment.

8. Financial Intermediaries may agree to waive initial commission in respect of your application.

If this is the case then your application will be treated as an application to apply for the amount stated in box number 2 of the Application Form plus a number of additional C Shares equivalent to the amount of commission waived at the prevailing Offer Price.

## **B Lodging of Application Forms and Dealing**

Completed Application Forms with the appropriate remittance must be posted or delivered by hand to The City Partnership (UK) Limited at the address detailed on page 33 of this document and on the Application Form. The Offer opens on 19 January 2009 and will be closed on full subscription or, if earlier, at the discretion of the Directors but in any event not later than 30 April 2009, save that the amount and the closing of the Offer may be extended by the Directors. Successful applications will be notified as soon as possible. If you post your Application Form, you are recommended to use first class post and to allow at least three business days for delivery.

It is expected that dealings in the C Shares will commence within three business days following their allotment (such allotments together with the related Offer Price being announced on a Regulatory Information Service) and that share certificates will be dispatched within seven days of allotment. The C Shares will be in registered form. Dealings prior to receipt of share certificates will be at the risk of applicants. A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated or at all. To the extent that any application is

not accepted, the monies in excess of any payment will be returned without interest by the applicant's cheque or banker's draft or by sending a crossed cheque in favour of the applicant through the post, at the risk of the person entitled thereto.

The existing C Shares are traded on the main market of the London Stock Exchange and their ISIN code is GB00B0LKLZ05.

### **C Availability of Prospectus and Application Forms**

Copies of the Securities Note, Registration Document, Summary Note and Application Forms will be available free of charge on request, until the Offer closes, from the following addresses:

#### **Matrix-Securities Limited**

One Vine Street  
London W1J 0AH  
Tel: 020 3206 7000  
Fax: 020 3206 7001

#### **Blomfield Corporate Finance Limited**

1-3 College Hill  
London  
EC4R 2RA  
Tel: 020 7489 4500

#### **The City Partnership (UK) Limited**

Box 41  
196 Rose Street  
Edinburgh  
EH2 4AT  
Tel: 0131 220 8226

19 January 2009

## Part XII: Application Procedure

Before making any application to acquire C Shares you are strongly recommended to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000. To complete the Application Form:

### Section 1

Insert your full name and address in BLOCK CAPITALS. Individuals can only apply on their own behalf and in their own name. You must be the beneficial owner of the C Shares issued to you pursuant to the Offer. You must not use a nominee name as this will jeopardise your entitlement to tax reliefs. You must also give your own address and full postcode, email address and telephone number. Telephone numbers will only be used in case of a query with regard to your application.

### Section 2

Insert (in figures) the total amount payable for the C Shares for which you are applying. Box A refers to the amount payable for C Shares in income tax year 2008/2009 and Box B for income tax year 2009/2010, Box C is the total amount applied for in Boxes A and B. Your application must be for a minimum of £5,000 in total and may be made for any higher amount in multiples of £1,000.

### PAYMENT

If you are paying by cheque please make it payable to "Matrix Income & Growth 2 VCT plc". Attach your

cheque to the Application Form. Cheques must be honoured on first presentation. The cheque or banker's draft must be drawn in sterling on an account at a bank branch or building society in the United Kingdom or the Channel Islands and bear a bank sort code number in the top right hand corner. You may, if you wish, use a personal cheque drawn by someone else, in which case your full name and address should be written on the back of the other person's cheque (please take note of Money Laundering Notice section below). Any money not accepted will be returned by the applicant's cheque or banker's draft or by sending a cheque crossed "Account Payee Only" in favour of the applicant. If you would like to send your money by electronic transfer please give your bank the following account details:

Sort Code: **20-97-78**

Account Number: **80252999**

Account Name: **Matrix Income & Growth 2 VCT plc**

### Section 3

Sign and date the form. If the form is signed on your behalf by an attorney or other agent, that person should state on the form the capacity in which they are signing and the original power(s) of attorney or a copy thereof duly certified by a solicitor must be enclosed for inspection and will be returned in due course.

### Section 4

To be completed by your financial intermediary

### Money Laundering Notice

Important procedures for Applications of £12,500 or more. The verification of identity requirements of the Money Laundering Regulations 2007 will apply and verification of the identity and address of the applicant may be required. Failure to provide the necessary evidence may result in your application being treated as invalid or in a delay in confirmation. If we have previously received the appropriate documents, you will not need to provide them again. If the application is for more than £12,500 (€15,000) (or is one of a series of linked applications which exceeds that amount):

- verification of the applicant's identity should be provided by means of a "Letter of Introduction", from an IFA or other regulated person (such as a solicitor or accountant), who is a member of a

regulatory authority and who is required to comply with the Money Laundering Regulations 2007, or a UK or EC financial institution (such as a bank). Matrix-Securities Limited will supply specimen wording on request; or

- if an application is made direct (not through an IFA) you must ensure that the following documents are enclosed with the form: a certified copy of your passport or driving license; and a recent (no more than 3 months old) original bank or building society statement or utility bill (not being a mobile phone bill) in your name. Copies should be certified by a solicitor or bank. Original documents will be returned by post at your risk. If a cheque is drawn by a third party, the above will be required from that third party as well as the applicant.

# Application Form

Before completing this Application Form you should read the Terms and Conditions of Application and the Application Procedure notes. Please send the completed Application Form with your cheque or banker's draft and proof of identity to:

**The City Partnership (UK) Limited, Box 41, 196 Rose Street, Edinburgh EH2 4AT.**

The Offer opens on 19 January 2009 and the closing date for applications in respect of the 2008/2009 tax year will be 4.00 pm 3 April 2009 and in respect of the 2009/2010 tax year will be 4.00 pm 30 April 2009 (or earlier if maximum subscription has been reached before then).

Please complete in BLOCK CAPITALS

Section 1																	
Title (Mr/Mrs/Miss/Ms/Other)					Surname												
Forename(s) in full																	
Date of Birth	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	National Insurance Number	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	D	D	M	M	Y	Y	Y	Y									

(You should be able to find your NI number on a payslip, form P45 or P60, a letter from the Inland Revenue, a letter from the DSS, or pension order book)

Permanent residential address			
	Postcode		
E-mail			
Telephone (work)		Telephone (home)	

## Section 2

I offer to subscribe the following amount for C Shares on the Terms and Conditions of Application set out in the Prospectus dated 19 January 2009.

Applications must be for a minimum of £5,000 in total and may be made for any higher amount in multiples of £1,000.

<b>2008/2009 Offer (income tax year 2008/2009)</b>	£	<b>A</b>
<b>2009/2010 Offer (income tax year 2009/2010)</b>	£	<b>B</b>
<b>TOTAL</b>	£	<b>C</b>

I have made payment by electronic transfer (see page 34 for account details)

I have enclosed a cheque/banker's draft made payable to "Matrix Income & Growth 2 VCT PLC"

Section 3		
Signature		Date



**Section 4 IFA and Commision Details**

<b>Firm Details</b>	Stamp of Intermediary
Adviser Name	
Firm Name	
<b>FSA Firm Reference No</b>	
<b>Address</b>	
<b>City</b>	
<b>Postcode</b>	
<b>Email</b>	

<b>Administrator Details</b>
Administrator Name
Administrator Email
Administrator Tel

<b>Commission Terms</b>	Please ensure both sections are completed with a figure
Commission payable to broker %	
Commission re-invested for client %	
<b>Total Commission Payable 2.25%</b>	

**Notes**

Authorised financial intermediaries should complete Section 4 giving full name and address and details of their authorisation under the Financial Services and Markets Act 2000.

**The details set out in this Application Form should be checked carefully by the authorised financial intermediary as they supersede details given in any accompanying letters or forms.**



