

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

**If you are in any doubt as to the action you should take in relation to the General Meeting, you should consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately.**

If you have sold or otherwise transferred all of your shares in Albion Development VCT PLC you should forward this document and the enclosed form of proxy at once to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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# **ALBION DEVELOPMENT VCT PLC**

*(Incorporated and Registered in England and Wales – registered number 3654040)*

**Proposals for  
an Offer for Subscription  
of D Shares of 50 pence each,  
an Increase in Authorised Share Capital,  
an Extension of the Company's Life,  
Authority to Purchase Shares,  
Cancellation of the Share Premium Accounts,  
and  
Notice of a General Meeting**

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Brewin Dolphin Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Albion Development VCT PLC and for no one else in connection with the Proposals and will not be responsible to anyone other than Albion Development VCT PLC for providing the protections afforded to clients of Brewin Dolphin Limited or for providing advice in relation to the Proposals or on any matters referred to herein.

A Notice convening a General Meeting of Albion Development VCT PLC to be held at 1 King's Arms Yard, London EC2R 7AF at 12 noon on 28 October 2009 is set out at the end of this document. The enclosed form of proxy for use in connection with the meeting should be completed and returned to the registrars of Albion Development VCT PLC, Capita Registrars Limited, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible, but in any event so as to arrive not later than 48 hours before the time appointed for the meeting.

The existing issued Ordinary Shares have been admitted to the Official List and are traded on the main market of the London Stock Exchange. Application will be made for the D Shares to be admitted to the Official List and to trading on the London Stock Exchange.

Your attention is drawn to the letter from the Chairman of Albion Development VCT PLC which is set out in this document and which recommends that you vote in favour of the resolutions to be proposed at the General Meeting.

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## EXPECTED TIMETABLE

Latest time and date for receipt of forms of proxy for the General Meeting	12 noon on 26 October 2009
General Meeting to approve the Offer	12 noon on 28 October 2009
Subscription list for the Offer opens	8.00 a.m. on 29 October 2009
First closing for the Offer	12 noon on 23 December 2009
Final closing for the Offer for the 2009/2010 tax year (unless closed earlier)	12 noon on 5 April 2010
Final closing for the Offer for the 2010/2011 tax year (unless closed earlier)	12 noon on 30 April 2010

Dealing on the main market of the London Stock Exchange is expected to commence within 10 business days of each allotment date.

The Directors reserve the right to allot and issue D Shares at any time whilst the Offer remains open. Despatch of definitive D Share and tax certificates is expected to be completed approximately two weeks after each allotment. CREST accounts are expected to be credited by no later than the business day following the allotment.

## DEFINITIONS

“2006 Act”	the Companies Act 2006
“Admission”	admission of the D Shares to the Official List and to trading on the London Stock Exchange’s main market for listed securities
“Albion Ventures” or “Manager”	Albion Ventures LLP, the manager of the Company, which is authorised and regulated by the FSA
“Articles”	the articles of association of the Company in force from time to time
“Board” or “Directors”	the board of directors of the Company
“Brewin Dolphin”	Brewin Dolphin Limited
“Co-investment Agreement”	the agreement dated 8 December 2006 relating to the allocation of investment opportunities between the VCTs managed by Close Ventures Limited, which was novated to Albion Ventures LLP on 22 January 2009, details of which are contained on page 9 and in paragraph 3.4 of Part II
“Company” or “Albion Development VCT”	Albion Development VCT PLC
“CREST”	the relevant system (as defined in the Regulations) operated by Euroclear
“C Shares”	C shares of 50 pence each in the share capital of the Company
“D Shares”	D shares of 50 pence each in the share capital of the Company
“D Shareholders”	holders of D Shares
“Euroclear”	Euroclear UK & Ireland Limited
“FSA”	the Financial Services Authority
“FSMA”	Financial Services and Markets Act 2000
“General Meeting”	the general meeting of the Company to be held at 12 noon on 28 October 2009
“HMRC”	HM Revenue & Customs
“ITA”	Income Tax Act 2007 as amended
“Listing Rules”	the listing rules made under section 73A of FSMA
“London Stock Exchange”	London Stock Exchange Plc
“Management Agreement”	the investment management agreement dated 10 December 1998 (as amended by a supplemental agreement dated 24 September 2002 and the Incentive Fee Supplemental Agreement dated 29 May 2007) between the Company and Close Ventures Limited which was novated to Albion Ventures on 22 January 2009, details of which are contained in paragraph 3.2 of Part II
“Net Asset Value”	the aggregate of the gross assets of the Company less all liabilities of the Company

“Net Asset Value per Ordinary Share” or “Net Asset Value per D Share” or “Net Asset Value per Share”	the Net Asset Value divided by the Ordinary Shares, or the D Shares, or the Shares, as appropriate, in issue (excluding treasury shares)
“Notice”	the notice in respect of the General Meeting set out at the end of this document
“Offer”	the proposed offer for subscription of up to 30,000,000 D Shares at 100 pence per Share
“Offer Agreement”	the agreement dated 30 September 2009 between the Company, the Directors, Brewin Dolphin and the Manager, details of which are contained in paragraph 3.1 of Part II
“Offer Price”	the offer price under the Offer of 100 pence per D Share
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 50 pence each in the share capital of the Company
“Proposals”	the creation, offer for subscription and allotment of D Shares, an extension of the Company’s life, the authority to purchase Ordinary and D Shares and the cancellation of the share premium accounts
“Prospectus”	the prospectus relating to the Offer
“Qualifying Investment” and “Qualifying Holdings”	an investment made by a VCT in an unquoted trading company which comprises a qualifying holding under Chapter 4 Part 6 ITA
“Regulations”	the Uncertificated Securities Regulations 2001 (S.I. 2001/3755)
“Shareholders”	holders of Ordinary Shares and/or D Shares, as the context may require
“Shares”	Ordinary Shares and/or D Shares, as the context may require
“Supplemental Management Agreement”	the conditional supplemental management agreement dated 30 September 2009 between the Company and Albion Ventures relating to the management of the D Shares, details of which are contained in paragraph 3.3 of Part II
“Total Return”	the sum of dividends paid and Net Asset Value at a given date in relation to the Ordinary Shares or the D Shares as appropriate
“UK Listing Authority”	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“VCT”	a venture capital trust as defined by section 259 ITA

## LETTER FROM THE CHAIRMAN

# Albion Development VCT PLC

(Registered in England and Wales Registered Number 3654040)

Telephone: 020 7601 1850 Fax: 020 7601 1875

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

### Directors

Geoffrey Vero FCA (Chairman)

Andrew Phillipps PhD, MBA

David Pinckney MA, FCA

Jonathan Thornton MA, MBA, FCA

1 October 2009

Dear Shareholder

## **Proposals relating to an Offer for Subscription of D Shares of 50 pence each and Notice of a General Meeting.**

### **Introduction**

Your Company intends to raise up to £25 million (with the option to extend this to £30 million), before expenses, by way of an offer for subscription of D Shares at 100 pence per share. This will enable further growth and diversification of the Company's investment portfolio, as well as creating greater economies of scale due to the spreading of the fixed and semi-fixed overheads. It is also proposed that the share premium account which will be created upon the issue of D Shares, as well as the existing Ordinary Share premium account, be cancelled, in order to facilitate the Company's ability to pay dividends and to purchase its own shares in future, when appropriate. It is intended that the D Shares will merge with the Ordinary Shares on the basis of their respective Net Asset Values in 2015.

The purpose of this circular is to provide you with details of the Proposals, and to seek your approval for the authorities required to implement the Proposals. Notice of a General Meeting is set out at the end of the document. Accompanying this document is the Prospectus which should be read in its entirety if you intend to subscribe for D Shares under the Offer.

### **Reasons for the Offer for Subscription**

The Company began trading as a VCT in 1999. Since its launch, the investment strategy of the Company has been successfully implemented, as is reflected in the Company's recently released unaudited Half-yearly Financial Report for the six months to 30 June 2009. These results show the significant progress that has been made in achieving a strong return to Shareholders through a diversified portfolio of asset-backed and higher-growth unquoted investments. As at 30 June 2009, the total return to Ordinary Shareholders, comprising Net Asset Value and dividends paid, was £1.25 for every £1 invested, before allowing for any of the additional income tax and other taxation incentives (source: Albion Ventures).

It is the Company's policy, over the medium term, to create a strong and predictable dividend stream by supplementing dividends derived from investment income with distributions from realised capital profits. To date, Ordinary Shareholders have received average annual dividends of 4.6 pence per Share.

The D Shares will have a similar policy of creating a strong dividend stream from revenue profits supplemented by distributions from realised capital profits.

Both the Directors and the Manager now consider that an increase in the capital base of the Company would offer existing Shareholders a number of advantages, which can be summarised as follows:

- (i) the fixed and semi-fixed overhead costs of the Company will relate to a larger investment portfolio and the economies of scale which result should benefit both the Company's profitability and the dividends payable to Shareholders (although this should not be regarded as a profit forecast);

- (ii) the increase in size of the Company and the number of Shares in issue should lead to greater liquidity in the market for its Shares, both in the short to medium term, and after the conversion of D Shares into Ordinary Shares which will take place approximately five years after the closing of the Offer; and
- (iii) the Company will be able to make more Qualifying Investments and, following the conversion of the D Shares into Ordinary Shares, existing Shareholders should achieve exposure to a more diversified portfolio than would otherwise have been the case.

### **Details of the Offer**

The Offer will be available both to existing Shareholders and to new investors. D Shares will be issued at 100 pence per Share.

A copy of the Prospectus with application forms is enclosed with this document.

Application will be made for the D Shares to be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities following allotment. It is expected that Admission will become effective and that dealings in the D Shares allotted will commence on the London Stock Exchange within 10 business days of each allotment.

Successful applications for D Shares made on or before 12 noon on 23 December 2009 will entitle those subscribers to 1 additional D Share for every 100 D Shares subscribed under the Offer, thereby reducing the overall price per D Share to approximately 99 pence per Share. In addition, further D Shares will be issued where the commission payable to intermediaries who introduce subscribers for D Shares is waived and is used to 'pay up' additional D Shares. For each £1 of commission waived, subscribers will receive one additional D Share.

### **Investment of the Offer proceeds**

The funds raised through the issue of the D Shares will be invested in accordance with the Company's existing investment policy and so as to comply with the new HMRC rules, which are in place for the tax years to 5 April 2010 and 5 April 2011.

This means that investments will be made in companies with less than 50 full time equivalent employees, and there is an annual cap of £2 million on investment in these businesses by VCTs, Enterprise Investment Schemes and Corporate Venturing Scheme funds that raised funds subsequent to 5 April 2007. For funds raised after 5 April 2010, at least 70 per cent. by value of Qualifying Investments must be in 'equity'. Legislation defining 'equity' is due to be introduced in the Finance Bill 2010.

The Manager estimates that of the investments it has made over the past three years which qualified under the VCT rules in place under the previous legislation, around 70 per cent. by cost would have qualified under the new legislation.

The net proceeds of the Offer will be managed as a separate pool of assets for a period of approximately 5 years. This period of time allows for the building up of a full and mature D Share investment portfolio. The D Shares will convert to Ordinary Shares on the basis of the net assets attributable to each pool as disclosed in the audited accounts for the financial year which ends prior to the conversion date. The date of conversion will be at the Directors' discretion. This initial segregation should ensure that returns to the Ordinary Shareholders will be protected from any adverse effects which might arise, for example, from the Company holding a larger proportion of uninvested cash than would otherwise be the case. The segregation of the assets attributable to the D Shares will also mean that:

- (i) all the expenses of the Offer will be paid out of the pool of assets attributable to the D Shares and, therefore, will be borne solely by the subscribers for the D Shares;
- (ii) income and capital dividend payments to D Shareholders will be made out of the net income and net realised capital profits derived from the assets attributable to the D Shares. In determining the net income, the D Shares will bear their pro rata proportion of the overheads of the Company; and
- (iii) after approximately 5 years, the underlying assets relating to both the Ordinary Shares and the D Shares can be valued and the D Shares converted into Ordinary Shares.

## **D Share rights**

Other than as set out below, the D Shares will rank *pari passu* and have the same rights as the Ordinary Shares, as set out in the Articles (as amended). The D Shares will be issued in registered form and will be capable of being held in both certificated and uncertificated form.

The holders of D Shares will be entitled:

- to vote at meetings of the Company in the same way as existing Shareholders. Each group of Shareholders has to approve matters separately if the rights attached to the relevant class of Shares are varied;
- to receive dividends declared on income received from the realised profits arising on assets attributable to the D Shares; and
- (in the event that the Company is wound-up) to receive the assets (less liabilities) attributable to the D Shares.

The full terms of the rights attaching to the D Shares are contained in the amended Articles of the Company. The amended Articles are available for inspection in accordance with paragraph 9 of Part II of this document and will be available at the General Meeting and for at least 15 minutes prior to the meeting. A summary of the amended Articles is set out in Part V of the Prospectus.

## **Investment outlook**

Due to the diversified nature of its portfolio of investments, and supported by the fact that the Company's policy is that its investee companies should normally not have external borrowings, the Company has performed relatively robustly against a harshening economic background. From launch to 30 June 2009, the Company recorded a return (with dividends reinvested) of 36.5 per cent. compared to the FTSE All Share Index of 13 per cent. and has generated an average annual dividend to Ordinary Shareholders of 4.6 pence per Share since launch.

The portfolio spans a number of sectors which, in aggregate, provide a balance of lower-risk, often asset-backed investments combined with a smaller number of higher-growth companies. The Manager continues to receive and review a strong flow of opportunities to invest in companies, particularly those active in the healthcare and environmental sectors, which are seen as an important source of growth in the future.

The Directors believe that the potential investment opportunities in the sectors in which the Company invests will, in the current and in the next financial year, further build a base for the Company's stated strategy of providing investors with a regular and predictable source of income combined with the prospect of longer term capital growth.

## **Taxation matters relating to the D Shares**

The Directors have received the following advice on taxation matters relating to the D Shares.

HMRC has confirmed that the issue of the D Shares will not prejudice the Company's ability to satisfy the conditions for approval as a VCT under section 274 ITA. A new issue of shares by a VCT will have a separate three year period in which to reach the Qualifying Investment level of 70 per cent., provided that the funds raised are not used to buy back the Company's own Shares. The Directors and the Manager are confident that the necessary level of Qualifying Investments in respect of the D Shares will be achieved within the three year period.

Shareholders should note that a subscription for D Shares will represent a qualifying investment in a VCT for taxation purposes. Private individuals will, therefore, be able to benefit from the 30 per cent. income tax relief available for the current tax year, although this is limited to an annual investment of £200,000 for each individual and they must hold their Shares for at least five years.

The conversion of the D Shares into new Ordinary Shares will not constitute a disposal of the D Shares and the resulting new Ordinary Shares will benefit from the same taxation advantages that apply to the existing Ordinary and D Shares. These advantages are;

- (i) there will be no capital gains tax upon any gain made by investors from the sale of the existing Ordinary Shares or D Shares, or from new Ordinary Shares resulting from the conversion; and
- (ii) dividends paid by the Company will continue to be free of income tax.

This section is a summary of the taxation provisions in force at the date of this document. Further details of the taxation consequences of investing in a VCT are provided in Part I below and are also contained in the Prospectus which is enclosed with this document.

### **Co-investment Agreement**

In addition to the Company, Albion Ventures manages other funds, including six other VCTs. This provides the Company with the potential opportunity to invest alongside these funds, enabling them to gain access to larger investments in more substantial companies.

The co-investment policy for the funds raised under the Offer will be the same as for the Ordinary Shares and will be consistent with the Company's existing investment policy. The Manager will ensure that any suitable investment opportunities are allocated fairly between the D Shares and the Ordinary Shares as well as between the Company and other clients of Albion Ventures, in accordance with the Co-investment Agreement which specifies that, other than in certain circumstances, investments are allocated between funds in the ratio of cash available for investment. The agreement does, however, provide that the Manager may prioritise a particular VCT client in order to ensure that it meets applicable qualification requirements under VCT legislation. Where the Company intends to invest in a company in which one or more of the other funds that are managed by the Manager has already invested or intends to invest, the investment will be approved by the Directors who are independent of the Manager unless the investment is made either at the same time and on the same terms or in accordance with the Co-investment Agreement.

### **Arrangements relating to the costs of the Offer**

Under the Offer Agreement it is proposed that, in return for the Manager bearing all the costs of the Offer, (including printing, postage, legal and advisory costs and up-front and introductory commission) the Company will pay the Manager a fee of 5.5 per cent. of the amount raised by the Company under the Offer. This means that the costs of the Offer will be borne solely by the D Shareholders and will be limited to 5.5 per cent. of total funds raised by the Company. This ensures that Ordinary Shareholders will not be at risk for the costs of the Offer which the Directors believe is in the best interests of Shareholders and is a prerequisite for the Offer to proceed. Any costs in excess of 5.5 per cent. will be borne by the Manager.

In addition, the fee payable by the Company will be subject to a maximum of such sum which will not cause the percentage of any applicable class test in annex 1 of Listing Rule 10 to equal or exceed 5 per cent., such that this arrangement will constitute a smaller related party transaction as defined in Listing Rule 11.1.10.

The net effect for D Shareholders is that for every £1 subscribed, their investment will have an initial Net Asset Value of 94.5 pence per D Share (excluding the benefit of any additional D Shares issued to investors who apply for D Shares before 12 noon on 23 December 2009, and D Shares issued when intermediaries waive their introductory commission).

### **Management Agreement and Supplemental Management Agreement**

The exclusive discretionary Manager of the Company, Albion Ventures LLP, was formed in January 2009 by the executive directors of Close Ventures Limited when they bought the business, which had been formed in 1996, from Close Brothers Group plc. The team, the investment approach of Albion Ventures and the investment policy of the Company, remain unchanged.

Albion Ventures is one of the market leaders in the area of VCT investment, managing seven venture capital trusts with net assets of approximately £200 million. Albion recently won 'VCT of the Year' at the Investors All Stars Awards, and the team has been nominated for 'VCT Manager of the Year' at the British Private Equity Awards.

Albion Ventures manages the Company's portfolio of investments and provides certain administrative services to the Company under the terms of the Management Agreement. This agreement provides that Albion Ventures is entitled to an annual management fee and performance incentive fee payable in relation to the funds attributable to the Ordinary Shares.

The Board and the Manager are proposing to revise these arrangements in order to include the management and administration of the funds attributable to the D Shares by Albion Ventures. These revised arrangements are set out in the Supplemental Management Agreement.

The annual management fee and performance incentive arrangements relating to the D Share fund are substantially the same as the existing arrangements relating to the Ordinary Share fund, apart from the incentive fee which will be based on a target Total Return of 6.5 pence per annum on the D Share Offer Price of 100 pence and which will commence with effect from 6 April 2010.

The Management Agreement (as amended by the Supplemental Management Agreement) is terminable by either party on 12 months' written notice given at any time, subject to earlier termination (see paragraph 3.2 of Part II for details of early termination rights).

Details of the Management Agreement and the Supplemental Management Agreement are set out in paragraphs 3.2 and 3.3 of Part II.

### **Life of the Company**

Although it is not intended that the Company has a limited life, it is considered appropriate that Shareholders should have the opportunity to review the life of the Company at regular intervals. Accordingly, the Articles currently contain a provision requiring the Directors to propose an ordinary resolution at the annual general meeting of the Company in 2010 to seek confirmation from Shareholders that it should continue as a VCT. If passed, such a resolution will be proposed again at 5 year intervals thereafter. If the resolution to continue is not passed, the Directors are required, within the following four months, to convene a general meeting at which proposals for the reorganisation, reconstruction or voluntary winding up of the Company will be submitted to Shareholders, as is deemed appropriate at that time.

The Directors are seeking authorisation from Shareholders that this vote is moved from 2010 to 2015. This will allow the Company to build up a full and mature investment portfolio in respect of the D Shares up to, and following, their conversion to Ordinary Shares and enable investors subscribing for D Shares under the Offer to hold their shares for the full 5 year period required under the VCT legislation.

### **Cancellation of share premium accounts**

The Offer will give rise to a share premium account in relation to the D Shares. Additionally, the Ordinary Shares have a share premium account of approximately £3.3 million, which has arisen through allotments of C Shares in 2004 which were subsequently converted into Ordinary Shares, and subsequent issues of Ordinary Shares under the terms of the dividend reinvestment scheme operated by the Company. The Board proposes that the share premium accounts associated with both the Ordinary Shares and the D Shares, at the date of application to the Court, be cancelled. There are two main reasons for this:

First, such a cancellation will create reserves which may be used to buy back the Company's Shares for cancellation or for holding in treasury when the Directors believe that it is in the Company's best interests to do so. Such purchases should help to limit, in the future, the discount to the underlying Net Asset Value at which the Company's Shares may trade.

Secondly, the 2006 Act places restrictions on the payment of dividends by public limited companies. In particular, they can pay dividends only to the extent that accumulated realised profits exceed realised and unrealised losses. The reserves created by the cancellation of the share premium accounts relating to the Shares should be sufficient to offset the effects of any reasonably foreseeable capital losses and would allow the Company to distribute its profits in accordance with the 2006 Act.

The opportunity to cancel the share premium accounts is being taken at this stage in order to save the costs of convening an additional general meeting at a later date.

It is not currently envisaged that the creation of the new reserves will affect the Company's dividend or accounting policies.

Assuming that the special resolutions approving the cancellation of the share premium accounts are passed at the General Meeting, the Company will apply to the High Court to seek its approval and

confirmation of the cancellation in November 2009, in the case of the Ordinary Shares, and shortly after the closing of the Offer in the case of the D Shares. It is anticipated that the Court order confirming the cancellation for the Ordinary Shares share premium account will be made in December 2009, and, in the case of the D Shares (on the basis that the Offer closes by 30 April 2010), in June 2010. The cancellation of the share premium accounts will only take effect when an office copy of the Court order is duly registered by the Registrar of Companies in England and Wales.

### **Shareholder approval**

Shareholder approval is required to enable the Offer to proceed and this includes the need to increase the authorised share capital, grant the Directors the authority to allot Shares, disapply Shareholders' pre-emption rights, amend the Articles to include the rights attaching to the D Shares, extend the date on which Shareholders vote as to whether the Company should continue as a VCT and cancel the share premium accounts.

You will find set out at the end of this document a Notice convening the General Meeting to be held at 12 noon on 28 October 2009 at 1 King's Arms Yard, London EC2R 7AF at which the following ordinary and special resolutions will be proposed;

- Resolution 1 – To increase the Company's authorised share capital

This ordinary resolution, which is required under the 2006 Act, proposes an increase in the authorised share capital of the Company from £25,000,000 to £45,000,000 by the creation of 40,000,000 D Shares (being an increase of 80 per cent. of the current authorised share capital of the Company as at the date of this document). This increase will give the Directors the ability to issue the maximum number of D Shares available under the Offer, any additional D Shares issued to early investors and when intermediaries waive commission and where any further offers of D Shares are made. As at the date of this document, the Directors are not intending to issue D Shares other than in connection with the Offer, or in respect of any dividend reinvestment scheme introduced in respect of the D Shares at a later date.

- Resolution 2 – To give the Directors authority to allot Shares

If passed, this ordinary resolution, which is required under the 2006 Act, gives the Directors the authority to issue up to a maximum aggregate nominal value of £18,647,405 comprising £1,487,405 of Ordinary Shares being 10 per cent. of the Shares in issue (less treasury shares) as at 30 September 2009 and £17,160,000 of D Shares, being the nominal value of the maximum number of D Shares which may be issued under the Offer (including the maximum nominal value of additional D Shares which may be issued to early investors and when commission is waived) plus 10 per cent. of the maximum number of D Shares issued in connection with the Offer. As at the date of this document, the Directors are not intending to issue any Ordinary Shares or any D Shares, other than in connection with the Offer, under any dividend reinvestment scheme operated by the Company or where treasury shares are re-issued when it is in the interest of the Company to do so and at a price in excess of that paid for the treasury shares. This authority will expire at the end of the next annual general meeting of the Company.

- Resolution 3 – To disapply pre-emption rights

If this special resolution, which is required under the 2006 Act, is passed, the Directors will be empowered to issue for cash, Ordinary and D Shares in connection with (i) the Offer, up to a maximum aggregate nominal value of £15,600,000, which includes the maximum nominal value of additional D Shares which may be issued to early investors and when introductory commission is reinvested, (ii) a rights issue, (iii) in connection with any dividend reinvestment scheme operated by the Company and, in addition, (iv) Ordinary and D Shares representing 10 per cent. of the issued share capital of the Company following the closing of the Offer. This authority will expire at the end of the next annual general meeting of the Company.

- Resolution 4 – To amend the Articles

This special resolution, which is required under the 2006 Act, will, if passed, amend the current Articles to incorporate the rights of the D Shares. The resolution will also amend the Articles to extend the date on which Shareholders will vote as to whether the Company should continue as a VCT from

the annual general meeting held in 2010 to the annual general meeting of the Company held in 2015, so that the Company continues as a VCT for sufficient duration to enable investors under the Offer to retain the benefits of the tax reliefs available to VCTs.

The amended Articles are available for inspection in accordance with paragraph 9 of Part II of this document and will be available at the General Meeting and for at least 15 minutes prior to the meeting.

- Resolution 5 – Buyback authority

This special resolution, which is required under the 2006 Act and the Listing Rules, will, if passed, authorise the Company to purchase an amount equal to 14.99 per cent. of the Ordinary Shares in issue as at 30 September 2009 and 14.99 per cent. of the D Shares in issue following the Offer. The minimum and maximum prices to be paid for the Ordinary and D Shares are stated in the Notice. The Directors intend, subject to the availability of distributable profits and liquidity, the rules of the UK Listing Authority, the 2006 Act and VCT regulations, to pursue a policy of purchasing Ordinary and D Shares in the market in order to facilitate liquidity for Shareholders and to manage the level of the discount to Net Asset Value at which the Shares may be trading. Historically, the Company has had a policy of buying back Ordinary Shares at a discount to Net Asset Value of approximately 10 per cent. This has widened over the past year due to uncertain market conditions. It is the Board's intention to narrow this discount back to approximately 10 per cent. over time, and to maintain a discount of approximately 10 per cent. on the D Shares.

Any Ordinary and D Shares purchased by the Company may be cancelled or held as treasury shares, which may then be cancelled or sold for cash. This authority will expire at the end of the next annual general meeting of the Company, or eighteen months from the passing of the resolution, whichever is earlier.

- Resolution 6 – Cancellation of the Ordinary Shares share premium account

This special resolution, which is required under the 2006 Act, will, if passed, approve the cancellation of the amount outstanding to the credit of the Ordinary Shares share premium account.

- Resolution 7 – Cancellation of the D Shares share premium account

This special resolution, which is required under the 2006 Act, will, if passed, approve the cancellation of the amount outstanding to the credit of the D Shares share premium account.

### **Action to be taken**

Enclosed with this document is a form of proxy for use at the General Meeting. Shareholders are asked to complete and return this form to the Company's Registrars, Capita Registrars Limited, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be received as soon as possible, and, in any event, not later than 12 noon on 26 October 2009. Completion and return of the form of proxy will not affect a registered Shareholder's right to attend and vote at the General Meeting should he/she wish to do so. Shareholders are reminded to sign the proxy form, as unsigned forms will not be considered valid.

### **Recommendation**

The Board considers that the proposed increase in the authorised share capital, the authority to allot shares, the disapplication of pre-emption rights, the amendments to the Articles (including the extension of the Company's life), the authority to purchase shares and the cancellation of the share premium accounts are in the best interests of the Company and its Shareholders as a whole. The Board therefore recommends that Shareholders vote in favour of the resolutions to be proposed at the General Meeting as they intend to do in respect of their own holdings of Ordinary Shares amounting to 210,078 Ordinary Shares, representing approximately 0.7 per cent. of the Company's issued Ordinary Share capital.

Yours faithfully

Geoffrey Vero  
*Chairman*

## PART I

### VENTURE CAPITAL TRUSTS: TAXATION PROVISIONS

**The following is a summary of the tax reliefs available to investors in Albion Development VCT in the current tax year to 5 April 2010. Legislation relating to the tax year to 5 April 2011 will be enacted through the Finance Bill 2010. The following paragraphs are intended as a general guide only and are based on current legislation and HM Revenue & Customs practice, which is subject to change, possibly with retrospective effect. The comments relate to persons who are resident or ordinarily resident in the UK or who have a UK income tax liability, who are beneficial owners of the Shares and who hold them as an investment. They may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes. If you are in any doubt as to your tax position or you are subject to tax in a jurisdiction outside the UK, you should consult an appropriate professional adviser without delay.**

Individuals must be aged 18 or over to qualify for the tax reliefs below.

#### **Relief from income tax**

An investor subscribing up to £200,000 in the current tax year for shares in a VCT will be entitled to claim income tax relief on the investment, in the year in which the investment is made, at the rate of 30 per cent., (regardless of the rate at which the investor pays income tax for that year) although this relief would be withdrawn in whole or in part should the shares be sold within 5 years. The subscription must be made in the investor's own name and not through a nominee, although shares may subsequently be transferred into the name of a nominee. Relief is given by way of a deduction from the investor's income tax liability and is restricted to the amount which reduces that liability to nil. In order to obtain this relief, the shares must be held for a minimum of five years.

An investor who subscribes for or acquires shares in a VCT will not be liable for UK income tax on dividends paid by the VCT in respect of investments up to a maximum of £200,000 in the current tax year.

#### **Relief from capital gains tax**

An investor who disposes of shares in a VCT will be exempt from tax on gains arising on their disposal while any loss will not be an allowable capital loss. This treatment applies to shares however acquired, up to the permitted maximum of £200,000 in the current tax year.

#### **Loss of tax reliefs**

If a company loses approval as a VCT the company will be liable to pay corporation tax on chargeable gains which are realised after such approval is lost.

For investors, the withdrawal of formal approval as a VCT may (depending upon the timing of such withdrawal) result in;

- clawback of the 30 per cent. tax relief on subscription for new VCT shares;
- income tax becoming payable on payments of dividends by the company; and
- a liability to tax on capital gains being suffered in the normal way on the disposal of shares in the company, except that any part of the gain attributable to the period for which the VCT was approved would be exempt.

#### **Investors who are not resident in the UK**

Non-resident investors 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 another jurisdiction.

#### **Stamp duty and stamp duty reserve tax**

No stamp duty or, unless the D Shares are issued to a nominee for a clearing system or a provider of depository receipts, stamp duty reserve tax ("SDRT") will be payable on the issue of the D Shares.

Except in relation to depository receipt arrangements or clearance services, where special rules apply, under current UK legislation relating to stamp duty and SDRT, the transfer or conveyance on the sale of shares will generally be subject to stamp duty on the instrument of transfer, normally at the rate of 0.5 per cent. of the amount of the (VAT inclusive) consideration (with duty rounded up to the nearest £5).

## PART II

### GENERAL INFORMATION

#### 1. The Company

Albion Development VCT PLC was incorporated in England and Wales on 21 October 1998 and operates under the Companies Act 1985 and the 2006 Act as a public company limited by shares, with registered number 3654040.

#### 2. Rights attached to the D Shares

The rights attaching to the D Shares are set out in the Articles as amended by resolution 4 as set out in the Notice of General Meeting at the end of this document.

#### 3. Material contracts

The following section contains summaries of each material contract (not being a contract entered into in the ordinary course of business), entered into by the Company within the two years immediately preceding the date of this document and any other contract (not being a contract entered into in the ordinary course of business) entered into by the Company which contains any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document.

- 3.1 The Offer Agreement, which is conditional on the passing of the resolutions 1 to 4 at the General Meeting, between the Company (1), the Directors (2), Brewin Dolphin (3), and the Manager (4) pursuant to which Brewin Dolphin has agreed to act as sponsor to the Offer. The Company has given customary representations, warranties and indemnities to Brewin Dolphin. The Offer Agreement may be terminated by Brewin Dolphin at any time prior to Admission if it becomes aware of any material breach of warranty.

Under the Offer Agreement the Company will pay Albion Ventures a fee of 5.5 per cent. of the amount subscribed for D Shares.

Out of its fee, Albion Ventures will pay Brewin Dolphin's fee of £30,000 and will offer an introductory commission to FSA registered intermediaries at a rate of either 3 per cent. of the client funds invested in the D Shares, or an introductory commission of 2.5 per cent. of the client funds invested, with trail commission of 0.25 per cent. for the following four years (provided that the intermediary continues to act for the investor and that the application accepted bears the stamp of the registered intermediary).

Albion Ventures will also pay all other costs and expenses of, or incidental to, the Offer and the application for Admission. The total costs payable by the Company, therefore, will be limited to 5.5 per cent. of the gross proceeds of the Offer.

- 3.2 The Management Agreement pursuant to which the Manager provides or procures the provision of certain investment management and administration services to the Company for a fee payable quarterly in arrears on 1 January, 1 April, 1 July and 1 October in each year (together with any applicable VAT) of an amount equal to 2.25 per cent. per annum of the Net Asset Value of the Ordinary Share portfolio. For the purpose of calculating the fee payable to the Manager, the Net Asset Value of the Ordinary Shares is calculated on 30 June and 31 December preceding such payment.

The Manager is also entitled to an incentive fee linked to the investment performance of the Ordinary Shares. This fee is payable annually following the publication of the audited accounts of the Company. The aggregate maximum fee will be an amount equal to 20 per cent. of any excess return per Ordinary Share ("Excess Return") achieved over a Total Return of 6.5 pence per annum per Ordinary Share, on the rebased net asset value of 98.7 pence per Ordinary Shares, as of 1 January 2007, multiplied by the number of Ordinary Shares in issue.

The Management Agreement, as amended by the Supplemental Management Agreement (see below), is terminable by either party on 12 months' written notice given at any time, subject to earlier termination by any party in the event of, inter alia, the Company or the Manager having a receiver, administrator or liquidator appointed or committing a material breach of the Management Agreement, or by the Company if it ceases to be a VCT for tax purposes or if the Manager shall cease to be able to carry out its obligations under the Agreement lawfully. If terminated by the Company without due cause or on less than the requisite notice, the Manager is entitled to receive an amount representing the fees which would have been payable during the period for which notice shall not have been given, calculated by reference to the previous quarterly payment. The incentive fee will continue to be payable if the Management Agreement is terminated other than by reason of a default on the part of the Manager. The Management Agreement will terminate automatically, without compensation, upon the passing of a resolution for the voluntary liquidation, reconstruction or reorganisation of the Company under its Articles.

- 3.3 The Supplemental Management Agreement pursuant to which the Manager will, subject to Admission, provide or procure the provision of certain investment management services to the Company in respect of the D shares, on the same terms as for the Ordinary Shares under the Management Agreement, apart from the incentive fee, which will be based on a Total Return of 6.5 pence per annum on the Offer Price and calculated with effect from 6 April 2010.
- 3.4 The Co-investment Agreement pursuant to which investment opportunities are allocated as described on page 9.

#### 4. Directors' interests

As at 30 September 2009 (the latest practicable date before the publication of this document), the interests of the Directors and their immediate families in the share capital of the Company (all of which are beneficial unless otherwise stated) and which; (i) are or will be notified to the Company in accordance with rule 3 of the Disclosure and Transparency Rules ("DTR 3") by each Director; or (ii) the interests of a connected person (within the meaning of DTR 3) of a Director which are or will be required to be disclosed under (i) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director, are or are expected to be as follows:

	As at the date of this document		After the Offer has closed*		
	Number of Ordinary Shares	% of issued share capital**	Number of Ordinary Shares	Number of D Shares	% of issued share capital**
Geoffrey Vero	12,000	0.04%	12,000	10,000	0.04%
Andrew Phillipps	123,000	0.41%	123,000	20,000	0.25%
David Pinckney	5,000	0.02%	5,000	–	0.01%
Jonathan Thornton	70,078	0.24%	70,078	10,000	0.14%

\*Assuming full subscription of 25,000,000 D Shares under the Offer excluding any D Shares issued in respect of early investors and where intermediaries waive commission.

\*\*excluding treasury shares.

Partners and staff from Albion Ventures, the Manager, intend to subscribe for not less than 117,000 D Shares.

#### 5. Significant interests

As at the date of this document the Company is not aware of any person who holds or will hold, directly or indirectly, voting rights representing three per cent. or more of its issued share capital to which voting rights are attached.

## **6. Directors' service contracts and remuneration**

None of the Directors has a service contract with the Company and no such contract is proposed. The services of the Directors are provided to the Company pursuant to letters of appointment dated 30 September 2009 each of which is terminable upon 3 months' notice given by the Company at any time. Each Director receives an annual fee of £20,149.

## **7. Unusual transactions**

No Director has any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected by the Company during the current or immediately preceding financial period or during an earlier financial period and which remains in any respect outstanding or unperformed.

## **8. Other**

- 8.1 The D Shares will be admitted to the CREST system and, therefore, investors will be able to hold D Shares in either certificated or uncertificated form. Where D Shares are to be issued in uncertificated form, the Company will procure that Euroclear is instructed to credit the D Shares to the appropriate account in CREST with such investor's entitlement to D Shares.
- 8.2 All of the D Shares to be issued pursuant to the Offer will be in registered form. Temporary documents of title for the D Shares will not be issued pending despatch by post of definitive certificates, which is expected to take place by not later than two weeks following allotment. Pending despatch (where requested) of such certificates, transfers will be certificated against the register of the Company.
- 8.3 If subscriptions exceed the amount of D Shares available for issue, subscriptions will be scaled back at the Directors' discretion.
- 8.4 Fractions of D Shares will not be allotted.
- 8.5 Although the final closing date is expected to be 30 April 2010, the Offer will close earlier if the aggregate number of D Shares available under the Offer has been subscribed prior to that date.
- 8.6 There has been no significant change in the financial or trading position of the Company since 21 September 2009 being the date at which the last published approximate unaudited Net Asset Value has been prepared.
- 8.7 As at the date of this document, the Company holds 2,965,053 Shares in treasury representing 10 per cent. of the total Ordinary Shares in issue (excluding shares held in treasury).
- 8.8 The Company has not, in the 12 months preceding the date of this document, been engaged in any governmental, legal or arbitration proceedings which may have or have had a significant effect on the Company's financial position or profitability and no governmental, legal or arbitration proceedings are known to the Company to be pending or threatened against the Company.
- 8.9 As at the date of this document, there are no outstanding warrants or options to subscribe for Shares in the share capital of the Company.

## **9. Documents available for inspection**

Copies of the following documents will be available for inspection at the Company's registered office at 1 King's Arms Yard, London EC2R 7AF during normal business hours on any week day (public holidays excepted) from the date of this document until the conclusion of the General Meeting and for at least 15 minutes before and during the General Meeting;

- (i) the Memorandum and current Articles;
- (ii) the proposed amended Articles;

- (iii) the audited Annual Report and Financial Statements of the Company for the year ended 31 December 2008;
- (iv) the unaudited Half-yearly Financial Report of the Company for the six months ended 30 June 2009;
- (v) the material contracts set out in paragraph 3 above;
- (vi) the Directors' letters of appointment referred to in paragraph 6 above;
- (vii) the Prospectus; and
- (viii) this document.

Dated: 1 October 2009

# ALBION DEVELOPMENT VCT PLC

## NOTICE OF GENERAL MEETING

**NOTICE** is hereby given that a General Meeting of Albion Development VCT PLC (the “Company”) will be held at 1 King’s Arms Yard, London EC2R 7AF on 28 October 2009 at 12 noon for the purpose of considering and, if thought fit, passing the following resolutions of which numbers 1 and 2 will be proposed as ordinary resolutions and numbers 3, 4, 5, 6 and 7 will be proposed as special resolutions.

1. That the authorised share capital of the Company be increased from £25,000,000 to £45,000,000 by the creation of 40,000,000 D Ordinary Shares of 50 pence each (“D Shares”) having the rights and being subject to the restrictions set out in the amended Articles of Association of the Company to be adopted pursuant to resolution number 4.
2. That, in substitution for any existing authorities granted pursuant to section 80 of the Companies Act 1985, the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the “Act”) to allot shares in the Company up to a maximum aggregate nominal amount of £18,647,405 comprising £1,487,405 Ordinary Shares and £17,160,000 D Shares in nominal value, such authority shall expire at the end of the next annual general meeting but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require shares to be allotted after the expiry of such period and the Directors may allot shares pursuant to such an offer or agreement as if the authority had not expired.
3. That, subject to and conditional on the passing of resolution number 2, in substitution for any existing authorities granted pursuant to section 95 of the Companies Act 1985, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution number 2 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (a) in connection with the proposed offer to the public for subscription of up to 30,000,000 D Shares (the “Offer”);
  - (b) in connection with an offer of such securities by way of rights issue;
  - (c) in connection with any dividend reinvestment scheme introduced by the Company; and
  - (d) otherwise than pursuant to paragraphs (a) to (c) above, up to an aggregate nominal amount of 10 per cent. of the remaining issued share capital of the Company immediately following the closing of the Offer,

and shall expire at the conclusion of the next annual general meeting, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

In this resolution, “rights issue” means an offer of equity securities open for acceptance for a period fixed by the Directors to holders on the register on a fixed record date in proportion as nearly as may be to their respective holdings, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

4. That the Articles of Association of the Company be amended (i) to reflect the increase in its share capital and the rights and restrictions to be attached to the D Shares and (ii) to extend the date on which shareholders vote as to whether the Company should continue as a venture capital trust by five years, in each case as set out in the amended Articles of Association produced to the meeting and, for the purpose of identification, initialed by the Chairman.
5. That, the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary and D Shares on such terms as the Directors think

fit, and where such Shares are held as treasury shares, the Company may use them for the purposes set out in section 727 of the Act, provided that:

- (a) the maximum number of Ordinary and D Shares hereby authorised to be purchased is 4,459,240 Ordinary Shares representing 14.99 per cent. of the Ordinary Shares in issue (less treasury shares) on 30 September 2009 and such number of D Shares, representing 14.99 per cent. of the D Shares in issue following the Offer;
  - (b) the minimum price, exclusive of any expenses, which may be paid for an Ordinary or a D Share is 50 pence;
  - (c) the maximum price, exclusive of any expenses, which may be paid for each Ordinary or D Share is an amount equal to the higher of (a) 105 per cent. of the average of the middle market quotations for an Ordinary or D Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Ordinary or D Share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003; and
  - (d) the authority hereby conferred shall, unless previously revoked or varied, expire at the end of the next annual general meeting, or eighteen months from the date of the passing of the resolution, whichever is earlier, except in relation to the purchase of Ordinary or D Shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry.
6. That the amount standing to the credit of the share premium account of the Company attributable to the Ordinary Shares at the date of the order made by the Court on the hearing for the claim for the cancellation be cancelled.
  7. That the amount standing to the credit of the share premium account of the Company attributable to the D Shares at the date of the order made by the Court on the hearing for the claim for the cancellation be cancelled.

*By Order of the Board*  
Albion Ventures LLP  
*Secretary*

*Registered Office:*  
1 King's Arms Yard  
London  
EC2R 7AF  
Registered Number: 3654040

1 October 2009

*Notes:*

1. Your attention is drawn to pages 11 and 12 of this Circular which contain the explanation for proposing these resolutions. An ordinary resolution must be passed by simple majority of Shareholders or their proxies present at the General Meeting. A special resolution must be passed by a majority of not less than 75 per cent. of Shareholders or their proxies present at the General Meeting.
2. This notice is being sent to all members and to any person nominated by a member of the Company under section 146 of the Companies Act 2006 to enjoy information rights ("nominated person").
3. Only holders of Ordinary Shares, or their duly appointed representatives, are entitled to attend, vote and speak at the meeting. A member so entitled may appoint (a) proxy(ies), who need not be (a) member(s), to attend, vote and speak on his/her behalf. A proxy form is enclosed with this Notice. To be valid, a proxy must reach the offices of the Company's Registrars, Capita Registrars Limited, 34 Beckenham Road, Beckenham, Kent BR3 7TU not less than 48 hours before the time fixed for the meeting, or any adjournment thereof.
4. The right to appoint a proxy does not apply to nominated persons. Nominated persons may have a right under an agreement with the registered Shareholder to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the persons holding the Shares as to the exercise of voting rights.
5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the meeting is 12 noon on 26 October 2009. If the meeting is adjourned, the time by which the person must be entered on the register of members in order to have the right to attend and vote at the adjourned meeting is 12 noon on the day preceding the time fixed for the adjourned meeting. Changes to entries on the register of members after the relevant time will be disregarded in determining the rights of any person to attend and vote at the meeting.

