

This document, which constitutes a prospectus relating to Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc, has been prepared in accordance with the Prospectus Rules made by the Financial Services Authority pursuant to Part VI of the Financial Services and Markets Act 2000 (“FSMA”), and has been approved by and filed with the Financial Services Authority.

Application has been made to the UK Listing Authority and the London Stock Exchange for the Ordinary Shares to be issued pursuant to the Offer to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange’s market for listed securities. It is expected that such admission will become effective and that dealings in the Ordinary Shares will commence within 5 business days of their allotment.

Each of the Directors of Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc (the “Companies”), whose names are set out on page 15 of this document and the Companies, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Companies (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Howard Kennedy (the “Sponsor”), which is authorised and regulated by the Financial Services Authority, is acting for the Companies in connection with the Offer and is not advising any other person or treating any other person as a customer in relation to the Offer and will not be responsible to any such person for providing the protections afforded to customers of the Sponsor (subject to the responsibilities and liabilities imposed by FSMA and the regulatory regime established thereunder) or for providing advice in connection with the Offer. The Sponsor does not give any representation, warranty or guarantee that the Companies will qualify as venture capital trusts or that investors will obtain any tax relief in respect of their investment.

**The whole of this document should be read. In particular, your attention is drawn to the risk factors on pages 7 to 9 of this document.**

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## **HARGREAVE HALE AIM VCT 1 PLC**

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 05206425)*

## **HARGREAVE HALE AIM VCT 2 PLC**

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 05941261)*

### **Joint Offer for Subscription**

of Ordinary Shares of 1p each in Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 to raise up to, in aggregate, £10,000,000

Sponsored by

**Howard Kennedy**

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The subscription list for those Ordinary Shares which are being offered to the public under the Offer will open at 10 am on 20 March 2010 and may be closed at any time thereafter but, in any event, not later than 3.00 pm on 1 April 2010 for the 2009/10 tax year and 3.00 pm on 31 July 2010 for the 2010/2011 tax year, unless extended (but to no later than 18 March 2011) or closed prior to that date. All subscription monies will be payable in full in cash on application. The terms and conditions of the Offer are set out in Part VI of this document followed by an Application Form for use in connection with the Offer.

Copies of this document relating to the Company are available for inspection until the Offer closes only during normal business hours on any weekday (Saturday and public holidays excepted) at the Document Viewing Facility at the Financial Services Authority, 25 The North Colonnade, London E14 5HS and may be obtained, free of charge, from the Companies’ registered office and Hargreave Hale Limited at Marsden House, 4-10 Springfield Road, Blackpool, Lancashire, FY1 1QW.

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## SUMMARY

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**This summary should be read as an introduction to the Prospectus. Any decision to invest in the Ordinary Shares should be based on consideration of the prospectus as a whole by the investor. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA states, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches to the persons responsible for this summary including any translation of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus.**

### **Attractive Track Record and Returns**

Hargreave Hale AIM VCT1 is an established VCT, originally launched in August 2004 and currently has 59 investments, of which 42 are in VCT qualifying investments. The cost of investments was £17.7 million with a current valuation of £15.3 million (*Source*: unaudited NAV Report of Hargreave Hale AIM VCT1 as at 12 March 2010). As at 12 March 2010 Hargreave Hale AIM VCT1's unaudited net asset value per Ordinary Share was 64.37p per share.

Hargreave Hale AIM VCT2 is an established VCT, originally launched in September 2006 and currently has 40 investments companies, of which 21 are in VCT qualifying investments. The cost of investments was £3.8 million with a current valuation of £4.2 million (*Source*: unaudited NAV Report of Hargreave Hale AIM VCT2 as at 12 March 2010). As at 12 March 2010 Hargreave Hale AIM VCT2's unaudited net asset value per Ordinary Share was 104.67p per share.

To date, Hargreave Hale AIM VCT1 has paid dividends of 17p per Ordinary Share to those who invested through the original offer in 2004/5. Those who invested through the 2005/6 C Share issue have received dividend distributions equivalent to 6.9p per share. Shareholders in Hargreave Hale AIM VCT2 have received dividends totalling 12p per Ordinary Share.

### **Reasons for the Offer**

The raising of further funds by way of the Offer is intended to create the following benefits:

- the fixed overheads of the Companies will be attributable to a larger investment portfolio which may reduce the total expense ratio, depending on the amount of funds raised under the Offer;
- existing shareholders' interests will not be diluted as the shares will be issued at 5 per cent. above the net asset value per Ordinary Share to cover the costs of the Offer and existing shareholders will continue to be entitled to all of the benefits which may arise from the success of such funds, including any dividends which the Directors may decide to pay; and

- existing shareholders and new Investors will have the opportunity to place further funds under the management of a proven and successful team.

Investors' subscription monies will be allocated between Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 as prescribed by the Investors in their application form submitted.

## **Investment Policy**

### **(A) Investment Objectives**

The Companies' objectives are:

- to invest in a diversified portfolio of small UK based companies on a high risk, medium term capital growth basis, primarily being companies which are traded on AIM and which have the opportunity for significant value appreciation;
- to invest in smaller companies which may not be readily accessible to private individuals and which also tend to be more risky;
- to maximise distributions to shareholders from capital gains and income generated from the Companies' funds; and
- targeted investment in equities which are non-qualifying investments on an opportunistic basis to boost the performance of the Companies' funds.

### **(B) Asset Allocation**

In order to achieve these objectives, “**Qualifying Investments**” (being investments which comprise qualifying holdings for a venture capital trust as defined in Chapter 4 Part 6 of the Income Tax Act 2007) will be made in AIM companies, but the Investment Manager will also consider PLUS traded companies and private companies that meet the investment criteria summarised below. The Investment Manager will follow a stock specific, rather than sector specific, investment approach. Individual Qualifying Investments are likely to range from £100,000 to £1 million. .

Investments in AIM traded Qualifying Investments will be in new shares issued by the investee company at the time of its flotation or in new shares issued by existing AIM companies (with a preference for secondary issues of existing AIM companies as they are likely to have an established track record and these issues are often priced at an attractive discount to market price).

Initially, whilst suitable Qualifying Investments are identified the net proceeds of any share offer will be invested in gilts, other fixed interest securities and bank deposits that are readily realisable, and targeted investment in equities which are Non-Qualifying Investments on an opportunistic basis to boost the performance of the Companies' funds. Such investments will be realised as suitable Qualifying Investments are identified and made. Whilst under VCT legislation the Companies must have 70 per cent. of its funds invested in Qualifying Investments within 3 years, it is intended to invest up to 80 per cent. Accordingly, the Companies' maximum exposure to such investments will be 80 per cent. The remaining funds will be retained in “**Non-Qualifying Investments**” (being investments made by the Companies which do not qualify as Qualifying Investments), such as gilts, other fixed interest securities and bank deposits and targeted investment in equities which are Non-Qualifying Investments on an opportunistic basis to boost

the performance of the Companies' funds in order to allow for follow on investments, to fund the annual running costs of the Companies and to reduce the risk of the overall portfolio of each Company. The Investment Manager will be flexible in its approach, adapting the position of the Companies' funds to reflect market conditions.

#### **(C) Investment Strategy**

The key selection criteria to be used by the Investment Manager in deciding which Qualifying Investments to make will, among others, include:

- an experienced and proven management team;
- a credible, sound business plan; and
- strong financial controls.

#### **(D) Borrowings**

It is not the Companies' intention to have any borrowings. The Companies do, however, have the ability to borrow a maximum amount up to 15 per cent. of the "Adjusted Capital and Reserves" amount (as such term is defined in the Articles of Association of each of the Companies), which is effectively the aggregate of the nominal capital of the Companies issued and paid up and the amount standing to the credit of the consolidated reserves of the Companies, less specified adjustments, exclusions and deductions. There are no plans to utilise this ability at the current time.

#### **(E) Risk Diversification**

The design of the structure of the Companies' funds, and their investment strategies, has been developed to reduce risk as much as possible. The key risk management features include:

- *Broad portfolio of companies* – The Companies will invest in a broad portfolio of different companies, thereby reducing the potential impact of poor performance by any individual investment;
- *Significant proportion of investments in gilts, other fixed interest securities and bank deposits* – A significant proportion of funds will be invested by the Investment Manager in this way. The objective is to keep approximately 20 per cent. of the Companies funds in such investments, thereby reducing the overall risk profile of the portfolio of the Companies;
- *Close monitoring of investments* – The Investment Manager will closely monitor the performance of all the investments made by the Companies in order to identify any problems and to enable it to take swift corrective action; and
- *Co-investment* – The Investment Manager manages other funds that can invest in the same companies as the Companies. In appropriate circumstances, therefore, the Companies will invest alongside such other funds. In such cases, the Investment Manager will take into account such factors as the risk profile and investment strategy of the participating funds when deciding how much each fund will invest. If situations arise where the Companies propose to invest in the same companies as other funds managed by the Investment Manager, but at a different time or on different terms, such proposed investment must be approved by the Board members of

the Companies who are independent of the Investment Manager. In the case of private companies, this co-investment will enable the funds of the Companies to be invested in larger and more mature businesses than they might otherwise be able to access, thereby reducing the risk to the Companies' portfolios.

### **The Directors and the Investment Manager**

The Boards of the Companies both comprise three Directors, two of whom are independent of the Investment Manager. The Directors operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Companies. The Boards have wide experience of investment in both smaller growing companies and larger quoted companies. The Investment Manager of Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 is Hargreave Hale Limited, which is a specialist small companies fund manager with approximately £825 million under management (*source: Hargreave Hale*). The team of six, led by the Chief Executive Giles Hargreave, has many years of experience in investing in small companies, both on the Official List and on AIM, including more than 11 years as investment manager to a Special Situations Fund, in which period (from 1 July 1998 to 28 February 2010) the fund has returned capital growth of 664 per cent. (*source: Hargreave Hale*).

Giles Hargreave has committed to invest a total of £50,000 in Hargreave Hale AIM VCT2 under the Offer.

### **The Offer**

- The Offer is for up to £7,000,000 of Ordinary Shares in Hargreave Hale AIM VCT1 and £3,000,000 of Ordinary Shares in Hargreave Hale AIM VCT2 at an offer price determined by reference to the Pricing Formula. The offer price determined under this formula represents a 5 per cent. increase above the latest published unaudited NAV per Ordinary Share of the relevant Company. Applicants' subscriptions will be divided between the Companies, and between 2009/10 and 2010/11 tax years, as indicated by the applicant on the application form.
- In the event that applications are received for Ordinary Shares in excess of the Maximum Subscription under the Offer, the Directors reserve the right to exercise their discretion in the allocation of successful applications, although allocation will usually be on a first come first served basis.
- The minimum subscription per investor is £3,000 in respect of the Offer.
- The Offer will open at 10.00 am on 20 March 2010. The first allotment under the Offer in respect of the 2009/10 tax year is expected to be on or before 1 April 2010. Thereafter, the Directors reserve the right to allot Ordinary Shares at any time whilst the Offer remains open. All allotments will be made at the relevant price per Ordinary Share calculated by reference to the Pricing Formula..
- The closing date for the Offer in respect of the 2009/2010 tax year will be at 3.00 p.m. on 1 April 2010, and in respect of the 2010/11 Offer until 31 July 2010, unless extended (but to no later than 18 March 2011).
- Application will be made for the Ordinary Shares to be issued pursuant to the Offer to be admitted to the Official List of the UK Listing Authority and to be traded on the London Stock Exchange's main market for

listed securities.

- Cheques may be post-dated to 6 April 2010 for applications in respect of the 2010/11 Offer.

### **Significant Tax Benefits for Investors**

Individual investors in the Companies pursuant to the Offer are entitled to the following VCT tax benefits:

- up-front 30 per cent. income tax relief (such that an investment of £10,000 will effectively cost an investor £7,000). The maximum investment which can be made in order to qualify for the personal tax reliefs available from a venture capital trust is currently £200,000 per person per tax year;
- tax free dividends; and
- gains on disposal of Ordinary Shares free of capital gains tax.

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## RISK FACTORS

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Although the significant tax benefits available to Investors in Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 reduce the risk of the investment, prospective 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 each of the Company's business, financial condition or results of operations. The risks and uncertainties described below are not the only ones the Companies, the Boards or shareholders will face. Additional risks not currently known to the Companies or the Boards, or that the Companies or the Boards currently believe are not material, may also adversely affect each of the Company's business, financial condition or results of operations. The value of the Ordinary Shares could decline due to any of the risk factors described below and prospective investors could lose part or all of their investment. Prospective investors are recommended to consult an independent financial adviser authorised under the FSMA before deciding whether to apply for Ordinary Shares under the terms of the Offer.

- Prospective investors should be aware that the value of Ordinary Shares, and the income from them, may go down as well as up. An investor may not get back the amount originally invested. .
- Having regard to the Companies' investment objectives and the tax reliefs available, Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 should be considered as a long-term investment and may, therefore, not be suitable for all investors.
- If a Shareholder disposes of his Ordinary Shares within five years of issue he will be subject to clawback by HM Revenue & Customs of some or all of the 30 per cent. income tax relief originally claimed.
- Investing in venture capital trusts such as Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 (which in turn are investing in smaller companies) carries particular risks, and these material risks are set out below.
- Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 will invest in small companies, some of which will be unquoted. Such companies generally have a higher risk profile than larger "blue chip" companies and may not produce the hoped for returns. Since the value of a VCT depends on the performance of the underlying assets, the value of the investment and the dividend stream can rise and fall. This could affect an investor's ability to realise his or her initial investment.
- Although Ordinary Shares of the Companies are already listed on the Official List and are admitted to trading on the London Stock Exchange, it is possible that there may not be a liquid market in the Ordinary Shares and Shareholders may have difficulty in selling them. Therefore, the price at which the Ordinary Shares are traded may not reflect the Net Asset Value of the Companies.
- The past performance of the Investment Manager or the Companies is no indication of its future performance.

- There can be no guarantees that the Companies will meet their objectives or that suitable investment opportunities will be identified.
- An investment in a Venture Capital Trust may not be suitable for all Investors. If Investors have any doubts, they should seek advice from their independent financial adviser.
- VCTs usually trade at a discount to their net asset value. Investors could get back less than the full amount they invested.
- Investment in unquoted companies can offer good investment returns, but, by its nature, is uncertain and consequently involves a higher degree of risk than investment in a quoted portfolio.
- Investments made may be in companies whose shares are not readily marketable and, therefore, may be difficult to realise. PLUS-quoted (formerly OFEX) is not regulated by either the UK Listing Authority or the London Stock Exchange. The fact that a share is traded on PLUS-quoted, or on AIM, does not guarantee its liquidity, and an investment in such shares (in particular on PLUS-quoted) may be difficult to realise. The value of the shares in PLUS or AIM-quoted companies may go down as well as up. There may also be constraints imposed on the realisation of investments to maintain the VCT tax status of the Companies.
- Whilst it is the intention of the Directors that the Companies will be managed so as to qualify as a VCT, there can be no guarantee that it will qualify or that such status will be maintained. A failure to meet the qualifying requirements could result in the Companies losing the tax reliefs previously obtained, resulting in adverse tax consequences for Investors, including a requirement to repay the 30 per cent. income tax relief.
- It is possible for Investors to lose their tax reliefs by themselves taking or not taking certain steps, and Investors are advised to take their own independent financial advice on the tax aspects of their investment.
- The Companies will invest in companies with gross assets of not more than £7 million prior to investment (£15 million for funds raised before 6 April 2006). This may limit the number of investment opportunities available to the Companies. Such companies generally have a higher risk profile than larger "blue chip" companies.
- Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 are required under their Articles of Association to put an ordinary resolution to their shareholders (at their annual general meetings in 2011 and 2013 respectively) for approval to continue as a Venture Capital Trust for a further five year period. If, in the unlikely event that such a resolution is not passed, the Directors of the respective company are required to draw up proposals for the reorganisation, reconstruction or voluntary winding up of that company. If such a resolution is not passed, and the relevant company is subject to a reorganisation, reconstruction or a voluntary winding up, this may effect the tax reliefs claimed by Investors in relation to their Ordinary Shares (including income tax relief claimed on their original subscription).
- Changes in legislation concerning VCTs in general, and Qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Companies to meet their objectives and/or reduce the level of returns which would otherwise have been achievable.

- A failure to meet and maintain the qualifying requirements for a VCT could result in:
  - Investors being required to repay the 30 per cent. income tax relief received on subscription for Ordinary Shares;
  - loss of income tax relief on dividends paid (or subsequently payable) by the Companies;
  - loss of tax relief previously obtained in relation to corporation tax on capital gains made by the Companies;
  - a liability to capital gains tax on the disposal of Ordinary Shares; and
  - the loss of the Companies' listings on the Official List.
  
- The levels and bases of, and relief from, taxation are subject to change. Such changes could be retrospective. Those shown in this document are based upon current legislation, practice and interpretation. The tax reliefs referred to in this document are those currently available for the 2009/10 tax year and their value depends on the individual circumstances of investors. The tax reliefs that may be available, if any, for the 2010/11 tax year are not known at the date of this document. Investors should seek their own tax advice appropriate to their individual circumstances.
  
- Although the Ordinary Shares will be listed on the Official List and admitted to trading on the London Stock Exchange, shares in VCTs are inherently illiquid and there may be a limited market in the shares primarily because the initial tax relief is only available to those subscribing for newly issued shares and investors may, therefore, have difficulty in selling them. The Directors of each Company intend, subject to liquidity, the rules of the UK Listing Authority, the Acts and VCT regulations, to pursue a policy of purchasing Ordinary Shares in the market in order to facilitate liquidity for Ordinary Shareholders and to manage the level of the discount to NAV at which the Ordinary Shares may be trading. The Companies will endeavour to facilitate such sales at a price which represents a discount of no more than 10 per cent. to the last published NAV of the Company.
  
- The Companies' ability to obtain maximum value from its investments (for example, through sale) may be limited by the requirements imposed in order to maintain the tax status of the Companies.

**The Ordinary Share capital of each of the Companies in issue immediately following the Offer, assuming that the Maximum Subscription is achieved and all the allotments were made on the basis of the NAV per Ordinary Share for the relevant Company as at 12 March 2010 (as announced on 16 March 2010), will be as follows:**

	<b>Issued and to be issued fully paid</b>	
	<b>No. of Ordinary Shares</b>	<b>Nominal Value</b>
Hargreave Hale AIM VCT1	<b>38,751,583*</b>	<b>£387,515.83</b>
Hargreave Hale AIM VCT2	<b>7,218,555</b>	<b>£72,185.55</b>

\*Including 2,711,134 Ordinary Shares held in treasury

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## DEFINITIONS

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“1985 Act”	the Companies Act 1985 (as amended)
“2006 Act”	the Companies Act 2006 (as amended)
“Acts”	the 1985 Act and the 2006 Act
“Admission”	the admission of the Ordinary Shares issued, and to be issued, pursuant to the Offer to the Official List and to trading on the London Stock Exchange becoming effective
“AIM”	the AIM Market operated by the London Stock Exchange
“Application Form”	the form of application for Ordinary Shares under the Offer set out at the end of this document
“Companies” or “Funds”	Hargreave Hale AIM VCT1 and/or Hargreave Hale AIM VCT2 and “Company” or “Fund” means either one of them, as the context requires
“CREST”	the relevant system (as defined in the Regulations) operated by Euroclear
“Directors” or “Board”	the directors of each Company
“FSA”	the Financial Services Authority
“Hargreave Hale AIM VCT1”	Hargreave Hale AIM VCT 1 plc
“Hargreave Hale AIM VCT2”	Hargreave Hale AIM VCT 2 plc
“HMRC”	HM Revenue & Customs
“ITA”	Income Tax Act 2007, as amended
“Investment Manager” or “Hargreave Hale”	Hargreave Hale Limited, which is authorised and regulated by the FSA
“Investor(s)”	subscriber for Ordinary Shares under the Offer
“Listing Rules”	the rules relating to admission to the Official List
“London Stock Exchange”	London Stock Exchange plc
“Management Agreements”	the agreement dated 10 September 2004 (as amended) between Hargreave Hale AIM VCT1 and Hargreave Hale Limited governing the management of Hargreave Hale AIM VCT1’s investments and the agreement dated 8 December 2006 between Hargreave Hale AIM VCT2 and Hargreave Hale Limited governing the management of Hargreave Hale AIM VCT2’s investments
“Maximum Subscription”	the receipt of the maximum subscription monies under the Offer, being an aggregate amount of £7,000,000 in relation to Hargreave Hale AIM VCT1,

	and an aggregate amount of £3,000,000 in relation to Hargreave Hale AIM VCT2
“Net Asset Value” or “NAV”	the value of each Company’s assets, less its liabilities (divided by the appropriate number of shares in issue)
“Net Proceeds”	the gross proceeds of the Offer less the 5 per cent. expenses of the Offer
“Non-Qualifying Investment”	investments made by the Companies which do not qualify as Qualifying Investments
“Offer Agreement”	the offer agreement detailed in paragraphs 9.1.1 and 9.4.1 of Part V of this document
“Offer”	the joint offer for subscription by Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 as described in this document.
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Companies
“Performance Incentive Fee”	the fee payable to the Investment Manager, as described on pages 42 and 43
“Pricing Formula”	the last Net Asset Value of an existing Ordinary Share (with an appropriate adjustment for any performance fee potentially payable based on the Net Asset Value at that date) as published by the relevant Company prior to the date of allotment divided by 0.95 to allow for issue costs of 5 per cent. calculated, in pence, to two decimal places
“Prospectus Rules”	as defined in section 73A(4) of the Financial Services and Markets Act 2000, rules expressed to relate to transferable securities
“Qualifying Investment”	an investment made by a venture capital trust in a trading company which comprises a qualifying holding under Chapter 4 of Part 6 ITA
“Receiving Agents”	Hargreave Hale Limited
“Regulations”	the Uncertificated Securities Regulations 2001 (S.I. 2001/3755)
“Resolutions”	the resolutions relating to (i) the authority of the Directors to allot shares and (ii) the disapplication of pre-emption rights in respect of the allotment of shares set out in notices of meetings issued by the Companies on 19 February 2010
“Sponsor”	Howard Kennedy, which is authorised and regulated by the FSA and is a member of the London Stock Exchange
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Markets and Services Act 2000
“VCT”	venture capital trust as defined in section 259 ITA

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### EXPECTED TIMETABLE

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Offer opens	10.00 a.m. on 20 March 2010
Deadline for receipt of applications for final allotment in 2009/10 tax year	3.00 pm on 1 April 2010
Deadline for receipt of applications for final allotment in 2010/11 tax year	3.00 pm on 1 July 2010
First allotment	On or before 1 April 2010
First Admission and dealings expected to commence	Within 5 business days of any allotment

The deadline for receipt of applications is subject to the Offer not being fully subscribed by an earlier date. The final closing date of the Offer may be extended by the Directors at their absolute discretion (but to no later than 18 March 2011). The Directors reserve the right to allot and issue Ordinary Shares at any time whilst the Offer remains open. Definitive share and tax certificates will be despatched and CREST accounts credited as soon as practicable following allotment of Ordinary Shares. The Offer is not underwritten.

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### OFFER STATISTICS

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Offer Price per Ordinary Share in relation to the relevant Company	The price at which the Ordinary Shares in the relevant Company will be allotted will be calculated on the basis of the following formula (the "Pricing Formula"):
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The last Net Asset Value of an existing Ordinary Share in issue in the relevant Company (with an appropriate adjustment for any performance fee potentially payable based on the Net Asset Value at that date) as published by the relevant Company prior to the date of allotment divided by 0.95 to allow for issue costs of 5 per cent. calculated, in pence, to two decimal places

#### **Hargreave Hale AIM VCT1**

Maximum Net Proceeds of the Offer	£6,650,000
Maximum number of Ordinary Shares in issue following the Offer*	38,751,583
Minimum individual investment	£3,000

#### **Hargreave Hale AIM VCT2**

Maximum Net Proceeds of the Offer	£2,850,000
Maximum number of Ordinary Shares in issue following the Offer*	7,218,555

Minimum individual investment

£3,000

\* Assuming that the Maximum Subscription is achieved for each Company and all the allotments were made on the basis of the NAV per Ordinary Share for the relevant Company as at 12 March 2010 (as announced on 16 March 2010), including 2,711,134 Ordinary Shares held in treasury

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## DIRECTORS, INVESTMENT MANAGER AND ADVISERS

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### **Directors**

Sir Aubrey Thomas Brocklebank Bt  
David Alan Hurst-Brown  
Giles St George Hargreave  
all of  
19 Cavendish Square  
London  
W1A 2AW

### **Registered Office**

19 Cavendish Square  
London  
W1A 2AW

### **Registrars**

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6QQ

### **Secretary**

Stuart Brookes  
9-11 Neptune Court  
Hallam Way  
Blackpool  
FY4 5LZ

### **Principal Bankers**

The Royal Bank of Scotland plc  
5th Floor  
Kirkstane House  
139 St Vincent Street  
Glasgow  
G2 5JF

### **Custodians**

Hargreave Hale Limited  
9-11 Neptune Court  
Blackpool  
FY4 5LZ

### **VCT Taxation Advisers**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

### **Investment Manager**

Hargreave Hale Limited  
9-11 Neptune Court  
Hallam Way  
Blackpool  
FY4 5LZ

### **Marketing Adviser and Receiving Agents in Relation to the Offer**

Hargreave Hale Limited  
9-11 Neptune Court  
Hallam Way  
Blackpool  
FY4 5LZ

### **Sponsor and Solicitors to the Offer**

Howard Kennedy  
19 Cavendish Square  
London  
W1A 2AW

### **Auditors**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

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## PART I

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### ABOUT HARGREAVE HALE AIM VCT1 AND HARGREAVE HALE AIM VCT2

Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 are existing venture capital trusts. Both funds share a common objective, namely to make tax-free dividend distributions from capital gains and income generated through investment in a diversified portfolio of small UK based VCT qualifying companies. The Investment Manager will seek to enhance this return through targeted non-qualifying investments in equities and fixed income where appropriate

In both cases, the Investment Manager has already built an existing and diversified portfolio of qualifying equity investments. Both funds met the HMRC guidelines for Venture Capital Trusts by the required date and have continued to do so since. The existing portfolios have a strong bias towards companies with a listing on AIM. However, there are a limited number of investments in PLUS-quoted (formerly OFEX) and private companies.

In the case of Hargreave Hale AIM VCT1, the Directors are of the opinion that, due to its size and the substantial portfolio of Qualifying Investments, bearing in mind that additional Qualifying Investments required over the next 3 years can be funded out of the net proceeds received from its share issues in 2004/5 and 2005/6 (that are yet to be invested in Qualifying Investments), the Fund can raise £7m of new capital. Because the current VCT legislation is more restrictive, this should substantially reduce the structural investment risk.

Hargreave Hale AIM VCT2 is a much smaller fund with a lower level of Qualifying Investments. There is less scope to absorb additional funds and hence the offer is limited to £3m. It is the Directors' opinion that a £3m fundraising would bring about a material reduction in the Company's total expense ratio, to the benefit of existing Shareholders, without introducing an unacceptable level of investment risk. Again, the Directors are of the opinion that additional Qualifying Investments can be funded from capital originally raised in 2006/7, which has less restrictive requirements than the VCT rules currently in place.

Originally, the Companies were named Keydata AIM VCT plc and Keydata AIM VCT 2 plc, but following the administration of Keydata Investment Services Limited in June 2009, who dealt with the day to day administration of the Companies' affairs and their replacement with Hargreave Hale Limited, their names were changed to Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc in October 2009.

### INVESTMENT STRATEGY

The Investment Manager will continue to follow a stock specific investment approach with target companies required to meet the investment criteria summarised below. Both Companies follow a similar strategy for the Non- Qualifying Investments, although the Hargreave Hale AIM VCT1 did not adopt this until May 2009. The Hargreave Hale AIM VCT2 followed this strategy from launch in 2007. Both Companies now take equity exposure to Non Qualifying Investments. These investments can cover a much broader range of companies, with different strategies, models and

maturities to those typically found in the Qualifying Investment portfolio. Liquidity is an important theme within this Non- Qualifying Investment element of the portfolio and the Investment Manager will be careful to manage the exposure and remain flexible in its approach, adapting the Funds' profile to reflect market conditions.

Investments in AIM-listed Qualifying Investments will be in newly issued shares, issued by a company on listing or as a secondary fund raising. Individual Qualifying Investments are likely to range in size from £100,000 to £1,000,000. The Investment Manager has sought to limit stock specific risk in each Fund through diversification. In this regard, the Investment Manager's team of 6 managers and advisers is a considerable asset, allowing it to screen, meet and follow a very large number of companies.

## **TRACK RECORD OF HARGREAVE HALE AIM VCT1 AND HARGREAVE HALE AIM VCT2**

### **Hargreave Hale AIM VCT1**

Hargreave Hale AIM VCT1 is an established VCT, originally launched in August 2004. Hargreave Hale AIM VCT1 raised £14.3 million from Ordinary Shares issues between 2004 and 2005 and £17.9 million from a C Share issue between 2005 and 2006. In October 2008 the C Shares were converted into new Ordinary Shares at 1.23935 new Ordinary Shares for each C Share held based on the net asset value per share of each fund at 30 September 2008. In May 2009, as the result of a tender offer, 5,076,447 Ordinary Shares were repurchased, 2,365,313 for cancellation with the remaining 2,711,134 held in treasury for issue by the Company at a future date.

Hargreave Hale AIM VCT1 currently has 59 investments, of which 42 are Qualifying Investments. The cost of investments including qualifying, non-qualifying, government securities and loan stock was £17.7 million with a current unaudited valuation of £15.3 million (*Source*: unaudited NAV Report of Hargreave Hale AIM VCT1 as at 12 March 2010). As at 12 March 2010, Hargreave Hale AIM VCT1's unaudited net asset value per Ordinary Share was .64.37p per Ordinary Share (as announced on 16 March 2010) and the dividends paid are as follows:

Hargreave Hale AIM VCT1 Dividends		
Period Ended	Payment Date	Dividend (pence per Ordinary Share)*
March 2006	July 2006	5.00p
March 2007	June 2007	5.00p
March 2008	June 2008	4.00p
September 2008	January 2009	1.00p
March 2009	June 2009	2.00p
<b>Total</b>		<b>17.00p</b>

\* only in relation to those Ordinary Shares allotted through the original offer in 2004/5. Those who invested through the 2005/6 C Share issue have received dividend distributions equivalent to 6.9p per share.

### **Hargreave Hale AIM VCT2**

Hargreave Hale AIM VCT2 is an established VCT, originally launched in September 2006. Hargreave Hale AIM VCT2 raised £4.6 million from Ordinary Share issues between 2006 and 2007.

Hargreave Hale AIM VCT2 currently has 40 investments, of which 22 are Qualifying Investments. The cost of investments including qualifying, non-qualifying, government securities and loan stock was £3.8 million with a current unaudited valuation of £4.2 million. As at 12 March 2010 (*Source*: unaudited NAV Report of Hargreave Hale AIM VCT2 as at 12 March 2010), Hargreave Hale AIM VCT2's unaudited net asset value per Ordinary Share was 104.67p per Ordinary Share (as announced on 16 March 2010) and dividends paid are as follows:

Hargreave Hale AIM VCT2 Dividends		
Period Ended	Payment Date	Dividend (pence per Ordinary Share)
February 2008	June 2008	4.00p
February 2009	July 2009	5.00p
August 2009	November 2009	3.00p
<b>Total</b>		<b>12.00p</b>

### **Illustrative Returns on previous offers of the Companies**

Below is a table outlining investor returns as at 26 February 2010 for the three fundraisings undertaken by the Companies to date. The returns, which assume an initial investment of £10,000 are net of fees and assume a gross price paid of 100p per Ordinary Share. When establishing the return net of tax relief, the calculation assumes a net cost to investors of 60p per share for shares in Hargreave Hale AIM VCT1 and 70p per share for shares in Hargreave Hale AIM VCT2.

Tax Year	Company	NAV <sup>1</sup> £'000	Dividends Paid <sup>1</sup> £'000	Total Return <sup>1</sup> £'000	Return excl. Tax Relief	Return incl. Tax Relief	FTSE All-Share <sup>2</sup>	FTSE AIM All-Share <sup>2</sup>
2004/5	Hargreave Hale AIM VCT 1 (Ordinary Shares)	6,293	1,700	7,993	-20%	+33.2%	+10.4%	-38.7%
2005/6	Hargreave Hale AIM VCT 1 (C Shares <sup>*</sup> )	7,799	692	8,491	-15%	+41.5%	-11.3%	-44.5%
2006/7	Hargreave Hale AIM VCT 2 (Ordinary Shares)	10,200	1,200	11,400	+14%	+62.9%	-17.9%	-42.3%

<sup>\*</sup> The C Shares in Hargreave Hale AIM VCT1 were converted into Ordinary Shares on 8 October 2008.

- Sources:
1. Unaudited NAV reports of Hargreave Hale AIM VCT2 and of Hargreave Hale AIM VCT2 as at 26 February 2010
  2. Bloomberg – from the closing value of the relevant index on 5 April of the year of the initial listing of the relevant shares to 26 February 2010

## INVESTMENTS OF HARGREAVE HALE AIM VCT1 AND HARGREAVE HALE AIM VCT2

### Investment Summary

#### Hargreave Hale AIM VCT1 As at 30 September 2009

<b>Qualifying Investments</b>	<b>Cost</b>	<b>(Audited)</b>	<b>(Audited)</b>
	<b>£000</b>	<b>Valuation</b>	<b>Valuation</b>
		<b>£000</b>	<b>%</b>
Cohort	800	982	6.1
Advanced Computer Software	400	882	5.5
Abcam	167	870	5.4
Intercede	518	628	3.9
Brulines	541	506	3.2
Pressure Technologies	340	499	3.1
Animalcare	300	436	2.7
Vertu Motors	600	430	2.7
FDM	249	394	2.5
Craneware	150	379	2.4
Mount Engineering	400	331	2.1
MAMA	300	270	1.7
Rotala	400	262	1.6
CBG	534	238	1.5
K3	270	249	1.5
Universe	385	247	1.5
Keycom	300	225	1.4
Portland Gas	46	201	1.3
Idox	150	195	1.2
Energetix	380	168	1.0
Maxima	251	163	1.0
Essentially	220	147	0.9
Feedback	201	151	0.9
Tangent Communications	300	150	0.9
Neutrahealth	315	120	0.7
Jelf	174	98	0.6
Legion Group	250	89	0.6
Tasty	288	100	0.6
Autoclenz	256	86	0.5
Innovision	175	81	0.5
Plastics Capital	250	80	0.5
Relax	650	83	0.5
Advanced Power	148	70	0.4
Hexagon Human	300	58	0.4
Progressive Digital	173	58	0.4
Richoux	300	67	0.4
Enfis	146	52	0.3
Expansys	331	40	0.3
Invocas	169	41	0.3
Egdon Resources	8	30	0.2
Hardide	396	25	0.2
Infoserve	200	27	0.2
Reneuron	168	34	0.2
St Helen's Capital	211	31	0.2
Invu	200	22	0.1
Sport Media Group	300	16	0.1
Accuma	49	5	0.0
<b>Total qualifying investments</b>	<b>13,659</b>	<b>10,316</b>	<b>64.2</b>

	<b>Book Cost</b>	<b>(Audited) Valuation</b>	<b>(Audited) Valuation</b>
	<b>£000</b>	<b>£000</b>	<b>%</b>
<b>Non-Qualifying Investments</b>			
Treasury 2.25% 2014	1,467	1,479	9.2
UKTI 2.5% 2016	491	503	3.1
UKTI 2.5% 2020	482	497	3.1
	-----	-----	-----
Total – UK gilts	2,440	2,479	15.4
	-----	-----	-----
Lloyds 4% Nov 11	1,024	1,042	6.5
Nationwide 3.75% Nov 11	1,018	1,037	6.4
	-----	-----	-----
Total – UK corporate bonds	2,042	2,079	12.9
	-----	-----	-----
Optare	200	250	1.6
Hargreaves	131	189	1.2
Marstons	103	122	0.8
Cove	100	120	0.7
Lookers	124	119	0.7
Qinetiq	118	105	0.7
Cineworld	81	80	0.5
Prostrakan	83	85	0.5
Clerkenwell	47	35	0.2
OPG Group	25	30	0.2
Renew Group	28	35	0.2
UK Coal	16	25	0.2
Abcam	1	1	0.0
Advanced Computer Software	2	2	0.0
Craneware	4	5	0.0
Enfis	1	1	0.0
Hexagon	2	0	0.0
St Helen's Capital	2	0	0.0
Tasty	1	0	0.0
Vertu Motors	3	1	0.0
	-----	-----	-----
Total – non-qualifying equities	1,072	1,205	7.5
	-----	-----	-----
Total – Non-Qualifying Investments	5,554	5,763	35.8
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Total investments	19,213	16,079	100.0
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The following investments / disposals have been made since 30 September 2009:

Company Name	Investment £'000	Company Name	Disposal £'000
Abcam Ord	1	Bglobal	97
Alliance Pharma	26	Brulines	30
Anglo Pacific	159	Cineworld	81
Animalcare	1	Cove	71
Bglobal	86	Hargreaves	176
Cape	126	Int. Personal Finance	167
Greenko	24	Mama	324
Westhouse	155	Marstons	116
IMI	107	OPG	32
Int. Personal Finance	144	Optare	57
Legion	171	Prostrakan	76
Mexican Grill Ord	21	Qinetic	116
Mexican Grill Pref	185	Renew	36
Sainsbury J	170	Sainsbury J	87
Vatukoula	53	St Helens	40
		Sterling Energy	10
		FDM Group	480
		UK Coal	19
		Vatukoula	52
		Westhouse	35

## Investment Summary

### Hargreave Hale AIM VCT2 As at 31 August 2009

	Book Cost	(Unaudited) Valuation	(Unaudited) Valuation
	£000	£000	%
<b>Qualifying Investments</b>			
Hardide	150	375	7.9
Lidco	165	264	5.5
Electric Word	185	191	4.0
Advanced Computer Software	100	188	4.0
Lipoxen	95	171	3.6
Enfis	97	149	3.1
Animalcare	100	145	3.1
Renuron	75	131	2.8
Tristel	100	117	2.5
Intercede	96	114	2.4
Synchronia	100	108	2.3
Mount Engineering	75	56	1.2
Optare	116	48	1.0
Relax	100	36	0.8
Plastics Capital	100	25	0.5
Alterian	75	17	0.3
Image Scan	93	14	0.3
	-----	-----	-----
Total qualifying investments	1,822	2,149	45.3
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<b>Non-Qualifying investments</b>			
UKTI 2.25% 2014	490	493	10.4
UKTI 2.5% 2016	253	256	5.4
	-----	-----	-----
Total – UK gilts	743	749	15.8
	-----	-----	-----
Lloyds 4% Nov 11	614	626	13.2
Nationwide 3.75% Nov 11	611	623	13.1
	-----	-----	-----
Total – UK corporate bonds	1,225	1,249	26.3
	-----	-----	-----
Morrisons WM	137	138	2.9
Egdon Resources	61	105	2.2
Advanced Computer Software	76	81	1.7
Bovis	56	53	1.1
Agrifirma Brazil	52	51	1.1
Renew	43	51	1.1
Westmount	10	32	0.7
Sterling	10	30	0.6
OPG	25	26	0.5
Cleerkenwell	16	17	0.4
Richoux	33	12	0.3
Enfis	2	1	0.0
Renuron	1	1	0.0
Lidco	1	1	0.0
Lipoxen	0	0	0.0
Hardide	0	0	0.0
Optare	1	0	0.0
Galahad	0	0	0.0
	-----	-----	-----
Total – non-qualifying equities	524	599	12.6
	-----	-----	-----
Total – non-qualifying investments	2,492	2,597	42.1
	-----	-----	-----
Total investments	4,314	4,746	100.0
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The following investments / disposals have been made since 31 August 2009:

Company Name	Investment £'000	Company Name	Disposal £'000
Advanced Computer	1	Bglobal	42
Alliance Pharma	13	Bovis	118
Animalcare	2	Cineworld	81
Bglobal	37	Cove	25
Bovis	75	Education Development	13
Cape	126	Egdon Resources	130
Cineworld	81	Lloyds 4%	646
Cove	50	Morrisons WM	143
Education Development	12	Nationwide 3.75%	366
Electric Word	1	OPG	32
Greenko	24	Renew	55
IMI	54	Serco	125
Legion	100	Sterling Energy	34
Lidco	1	TR 2.25%	196
Lombard Risk	129	Tullet	46
Marwyn I	103	Uk Coal	10
Marwyn II	101	Westhouse	16
Marwyn Inv B	5		
Mexican Grill Ord	31		
Mexican Grill Pref	277		
Omega Diagnostics	102		
Prostrkan	84		
Reneuon			
Savile	151		
SDL	41		
Serco	116		
Tristel	1		
Tullet	42		
Uk Coal	8		
Westhouse	90		

## TOP INVESTMENTS OF HARGREAVE HALE AIM VCT1 AND HARGREAVE HALE AIM VCT2

### Hargreave Hale AIM VCT1 (as at 12 March 2010):

#### UK Treasury 2.25% 2014 (8.9% of NAV) 98.74p

Investment date	March 2009
Purchase Price	97.78p
Cost (£'000)	1,467
Valuation (£'000)	1,481

#### Abcam plc (6.8% of NAV) 1050p

Investment date	October 2005	Audited results for year to	June 2009
Equity held	0.3%	Turnover (£'000)	56,800
Purchase Price	167p	Profit before tax (£'000)	16,303
Cost (£'000)	167	Net assets (£'000)	36,468
Valuation (£'000)	1,051		

Abcam is a producer and distributor of research-grade antibodies headquartered in Cambridge, UK, with offices in Cambridge, Massachusetts, USA and Tokyo, Japan. The Company produces and distributes its own and third party produced antibodies to academic and commercial users throughout the world. Product ordering is available through the Company's website where customers are also able to access up-to-date and detailed technical product data sheets. All the antibodies are sold under the Abcam brand name and the Company's vision is to build the world's largest online resource of high quality and commercially viable antibodies.

#### Nationwide 3.75% 11/2011 (6.2% of NAV) 103.50p

Investment date	December 2008
Purchase Price	103.5p
Cost (£'000)	1,018
Valuation (£'000)	1,035

#### Lloyds 4% 11/2011 (6.2% of NAV) 103.93p

Investment date	December 2008
Purchase Price	103.93p
Cost (£'000)	1,024
Valuation (£'000)	1,039

**Advanced Computer Software plc (5.5% of NAV)****41p**

Investment date	May 2008	Unaudited results for 6 months to	Aug 09
Equity held	0.7%	Turnover (£'000)	11,017
Purchase Price	17p	Profit before tax (£'000)	1,944
Cost (£'000)	400	Net assets (£'000)	75,485
Valuation (£'000)	965		

ACS is a provider of software and IT services to the Primary Care sector, with the goal of improving patient flows and care. Having acquired both Adastra and BSG it aims to develop a strong position in a sector it believes is both fragmented and government-backed. Its market patient management system currently services more than 95% of Out-of-Hours Primary Care operational hubs and 50% of NHS Walk-in Centres in England. Adastra's software supports 14 million patient cases every year and delivers the information on those cases to the relevant recipients within the NHS. BSG provides hosting and IT outsourcing services and its integration into ACS will provide the hosting platform to bring Primary Care hosted products more quickly to market.

**Animalcare Group Plc (4.1% of NAV)****110p**

Investment date	December 2007	Audited results for year to	June 2009
Equity held	2.8%	Turnover (£'000)	17,638
Purchase Price	55p	Profit before tax (£'000)	1,527
Cost (£'000)	300	Net assets (£'000)	15,382
Valuation (£'000)	600		

Animalcare Group plc operates as two divisions, Companion Animal and Livestock. The Companion Animal division is focused on the supply of companion animal medicines, identification and welfare products to veterinary practices in the United Kingdom and the Republic of Ireland, and to distributors in the main EU markets. The Livestock division is focused on the supply of livestock identification and welfare products to agricultural retailers and farmers in the United Kingdom and the Republic of Ireland.

**Intercede plc (3.9% of NAV)****40p**

Investment date	May 2007	Audited results for year to	March 2009
Equity held	3.3%	Turnover (£'000)	5,700
Purchase Price	33p	Profit before tax (£'000)	1,408
Cost (£'000)	518	Net assets (£'000)	695
Valuation (£'000)	628		

Intercede is an international developer and supplier of software for identity and credential management. This software is branded as the Intercede MyID® Identity and Credential Management System. MyID is a commercial-off-the-shelf product that Intercede has licensed the use of to governments, public authorities and companies around the world to improve the level of identity assurance of their citizens and employees.

**Cohort plc (3.7% of NAV)****102p**

Investment date	February 2006	Audited results for year to	April 2009
Equity held	1.5%	Turnover (£'000)	78,571
Purchase Price	123p	Profit before tax (£'000)	6,454
Cost (£'000)	800	Net assets (£'000)	45,585
Valuation (£'000)	626		

Cohort is an independent technology business operating in defence and related markets. It was formed in 2006 as a holding company to acquire and grow businesses capitalising on the growing demand in the UK and overseas for independent technical advice and cost effective and flexible supply of niche products and services. It now has three established, wholly owned subsidiaries providing a wide range of services and products covering the full defence procurement cycle in land, sea and air systems.

**UK Treasury 2.5% 2016 (3.1% of NAV)****292.5p**

Investment date	March 2009
Purchase Price	280.7p
Cost (£'000)	253
Valuation (£'000)	263

**Brulines plc (3.0% of NAV)****117p**

Investment date	October 2006	Audited results for year to	March 2009
Equity held	1.5%	Turnover (£'000)	19,067
Purchase Price	123p	Profit before tax (£'000)	4,624
Cost (£'000)	541	Net assets (£'000)	20,061
Valuation (£'000)	485		

Brulines is a provider of volume and revenue protection systems for draught alcoholic drinks for the UK Licensed on-trade, in particular the tenanted pub sector. The Dispense Monitoring Division, which represents the Group's core product, measures the actual volume of liquid dispensed each hour against legitimate deliveries and protects the pub owners from the potential loss of revenue from 'buying out'. A more recent product offering is i-Draught, which scrutinizes the quality as well as the quantity of product being dispensed. Through acquisition Brulines has built up a range of additional services to meet the needs of the industry's vending and gaming machines. It also provides services to the petrol forecourt market.

**Hargreave Hale AIM VCT2 (as at 12 March 2010):****Lidco plc (8.1% of NAV)****17p**

Investment date	May 2009	Audited results for year to	Jan 2009
Equity held	1.0%	Turnover (£'000)	4,532
Purchase Price	10p	Profit before tax (£'000)	(1,770)
Cost (£'000)	165	Net assets (£'000)	3,179
Valuation (£'000)	281		

LiDCO is a supplier of minimally invasive hemodynamic monitoring equipment and disposables to hospitals. These products are used primarily for the management of hospital patients requiring critical care or at major cardiovascular risk. LiDCO's computer-based technology significantly reduces the complications (particularly infections) and costs associated with major surgery. The technology was invented in the Department of Applied Physiology based at St Thomas' Hospital, London. LiDCO is based in the UK.

**Mexican Grill (7.4% of NAV)****2053p**

Investment date	October 2009	Unaudited results for 12 months to	September 2008
Equity held	7.4%	Turnover (£'000)	424
Purchase Price	2053p	Profit before tax (£'000)	(86)
Cost (£'000)	308	Net assets (£'000)	666
Valuation (£'000)	308		

Mexican Grill is a private company that operates four fast casual California-Mexican restaurants that provide fresh, made to order cuisine for eat in or take-away. The four sites are in London.

**UK Treasury 2.25% 2014 (6.4% of NAV)**

**98.74p**

Investment date	March 2009
Purchase Price	98.74p
Cost (£'000)	294
Valuation (£'000)	296

**Nationwide 3.75% 11/2011 (5.5% of NAV)**

**103.50p**

Investment date	December 2008
Purchase Price	103.5p
Cost (£'000)	254
Valuation (£'000)	259

**Advanced Computer Software plc (4.9% of NAV)**

**41p**

Investment date	July 2008	Audited results for 14 months to	Feb 2009
Equity held	0.2%	Turnover (£'000)	7,327
Purchase Price	17p	Profit before tax (£'000)	1,093
Cost (£'000)	100	Net assets (£'000)	25,442
Valuation (£'000)	241		

ACS is a provider of software and IT services to the Primary Care sector. Having acquired Adastra and BSG the group is now poised to develop its strong position in a sector that is both fragmented and government backed. ASC's patient management system currently services more than 95% of Out-of-Hours Primary Care operational hubs and 50% of NHS Walk-in Centers in England. Adastra's software supports 14 million patient cases every year and delivers the information on those cases to the relevant recipients within the NHS. BSG provides hosting and IT outsourcing services and its integration into ACS will provide the hosting platform to bring Primary Care hosted products more quickly to market.

**Electric Word (4.9% of NAV)**

**4.25p**

Investment date	August 2009	Unaudited results for 6 months to	May 09
Equity held	2.2%	Turnover (£'000)	8,724
Purchase Price	3.625p	Profit before tax (£'000)	530
Cost (£'000)	185	Net assets (£'000)	5,865
Valuation (£'000)	217		

Electric Word is a specialist information business that serves the sport and education sectors. It produces a range of products and services, which include newsletters, magazines, websites, events, books, special reports and bespoke research.

**Animalcare Group plc (4.8% of NAV)****110p**

Investment date	December 2007	Audited results for year to	June 2009
Equity held	0.9%	Turnover (£'000)	17,638
Purchase Price	55p	Profit before tax (£'000)	1,527
Cost (£'000)	100	Net assets (£'000)	15,382
Valuation (£'000)	200		

Animalcare Group plc operates as two divisions, Companion Animal and Livestock. The Companion Animal division is focused on the supply of companion animal medicines, identification and welfare products to veterinary practices in the United Kingdom and the Republic of Ireland, and to distributors in the main EU markets. The Livestock division is focused on the supply of livestock identification and welfare products to agricultural retailers and farmers in the United Kingdom and the Republic of Ireland.

**Hardide plc (3.7% of NAV)****0.75p**

Investment date	June 2009	Audited results for 6 months to	March 2009
Equity held	6.0%	Turnover (£'000)	888
Purchase Price	0.3p	Profit before tax (£'000)	(54)
Cost (£'000)	150	Net assets (£'000)	550
Valuation (£'000)	200		

Hardide Plc provides high-performance surface coatings to the oil and gas, valve, pump, aerospace and general engineering industries primarily in the UK and the US. It develops tungsten carbide-based coating, which offers a combination of ultra-hardness, toughness, low friction, and chemical resistance when applied to components made from steel, alloy, and other materials. The company's products are used in a range of applications, including cylinders, nozzles, balls, pins and bushes, turbines, flow diverters, valve components, and drilling tools. Hardide is headquartered in Bicester, UK.

**Marwyn Capital (3.5% of NAV)****16p**

Investment date	December 2009	Audited results for	-
Equity held	1.6%	Turnover (£'000)	-
Purchase Price	10p	Profit before tax (£'000)	-
Cost (£'000)	100	Net assets (£'000)	-
Valuation (£'000)	160		

Marwyn Capital, a recently incorporated company, was established to identify and acquire one or more quoted or unquoted businesses or companies (in whole or part), initially by way of reverse takeover. The company will conduct its activities wholly or mainly in the UK with particular focus on media, industrials and business and support services.

**Tristel plc (3.1% of NAV)****56p**

Investment date	June 2009	Unaudited results for 6 months to	December 2009
Equity held	0.74%	Turnover (£'000)	4,027
Purchase Price	41p	Profit before tax (£'000)	656
Cost (£'000)	100	Net assets (£'000)	7,867
Valuation (£'000)	137		

Tristel focuses on infection control products for NHS and private sector hospitals, as well as primary care trusts, community hospitals and private practices. Tristel also provides products for legionella control in water systems and contamination control in the food growing, food processing and pharmaceutical industries.

**Note:**

Investment and portfolio information on pages 25 to 30 has been derived from the relevant Company's accounting records (taken from their unaudited management accounts to 12 February 2010) and, in respect of the information on the portfolio companies, from the latest financial year end accounts published by those companies. In respect of the information on the portfolio companies, the Companies confirm that this information has been accurately reproduced and, as far as the Companies are aware and able to ascertain from the information published, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The portfolio analysis on pages 25 to 30 represents not less than 50 per cent. of the NAV of each Company as at 12 March 2010 (being the latest practical date prior to publication of this document) save that valuations are stated as at 12 February 2010.

## TAX BENEFITS FOR INVESTORS

Individual investors subscribing for new shares in a VCT are entitled to the following benefits:

- up-front income tax relief to the investor of **30 per cent.** is available in the tax year 2009/2010 (provided that the shares are held for at least five years);
- dividends paid to investors are free of income tax; and
- capital gains made by investors on a disposal of shares in a VCT are tax-free.

These reliefs are available for subscriptions in shares of venture capital trusts up to in aggregate **£200,000** per tax year.

The following shows the effect of the increased tax reliefs for an individual who subscribes £10,000 in Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2:

Initial Investment	£10,000
Less income tax relief	£3,000
<b>Effective cost to Investor</b>	<b>£7,000</b>

Set out below is a table illustrating the returns to new shareholders assuming annual dividends of 5p per Ordinary Share are paid (and a gross equivalent yield on the basis of a taxpayer who pays 40% and a taxpayer who pays the new higher rate of 50% from 6 April 2010). Investors should note that the level of dividends is not guaranteed.

<b>Illustrative yield per Ordinary Share (based on an illustrative dividend of 5p per Ordinary Share issued pursuant to the Offer)</b>			
<b>Before 30% income tax relief</b>			
Offer price	Illustrative annual dividend	Tax-free yield	Gross equivalent yield <sup>2+3</sup>
100.0p	5.0p	5.0% p.a.	6.67% p.a. <sup>2</sup> 7.7% p.a. <sup>3</sup>
<b>After 30% income tax relief</b>			
Net of tax offer price <sup>1</sup>	Illustrative annual dividend	Tax-free yield	Gross equivalent yield <sup>2+3</sup>
70.0p	5.0p	7.1% p.a.	9.47% p.a. <sup>2</sup> 11.0% p.a. <sup>3</sup>

1 The returns listed after 30 per cent. income tax relief are based on an offer price of 100p multiplied by 70 per cent., to reflect initial income tax relief of 30 per cent. Investors should note that they will be required to pay the full offer price and claim the income tax relief separately.

- 2 The gross equivalent yield from UK dividends to a 40 per cent. taxpayer (reflecting the 32.5 per cent. income tax charge to a 40 per cent. taxpayer on taxable gross non-VCT dividends including the notional 10 per cent. tax credit).
- 3 The gross equivalent yield from UK dividends to a 50 per cent. taxpayer (reflecting the 42.5 per cent. income tax charge to a 50 per cent. taxpayer on taxable gross non-VCT dividends including the notional 10 per cent. tax credit).

**Investors should obtain their own independent financial advice on their eligibility for tax relief. A general guide to the conditions to be met in order for the tax reliefs to be available is given in Part II of this document.**

## THE INVESTMENT OPPORTUNITY

### Introduction to the Offer

Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 are existing Venture Capital Trusts that seek to distribute tax free dividends to shareholders as a result of capital gains and income made through the investment in a diversified portfolio of small UK based VCT qualifying companies. Both funds have a flexible investment strategy that allows the Investment Manager to make appropriate Non-Qualifying Investments, both equity and fixed income, in an attempt to generate enhanced returns.

The Hargreave Hale AIM VCT1 Offer is to raise up to £7 million gross through the issue of new Ordinary Shares, whilst the Hargreave Hale AIM VCT 2 Offer seeks to raise up to £3million gross through the issue of new Ordinary Shares. The 2009/10 Offer will remain open until 3.00 pm on 1 April 2010 and the 2010/11 Offer until 3.00 pm on 31 July 2010, unless extended (but to no later than 18 March 2011), enabling Investors to subscribe in either or both of the 2009/10 tax year and 2010/11 tax year.

### The Investment Opportunity

The raising of further funds by way of the Offer is intended to create the following benefits:

- the fixed overheads of the Companies will be attributable to a larger investment portfolio which may reduce the total expense ratio, depending on the amount of funds raised under the Offer;
- existing shareholders' interests will not be diluted as the shares will be issued at 5 per cent. above the net asset value per Ordinary Share to cover the costs of the Offer and existing shareholders will continue to be entitled to all of the benefits which may arise from the success of such Funds, including any dividends which the Directors may decide to pay; and
- existing shareholders and new Investors will have the opportunity to place further funds under the management of a proven and successful team. The net proceeds of the Offer will be invested in accordance with the Companies' published investment policy.

Investors' subscription monies will be allocated between Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 as prescribed by the Investors in their application form submitted. The Directors believe that the fundraisings are in the interest of both existing and new shareholders. Existing shareholders will benefit from a reduction in the expense ratio, a strengthened balance sheet and an enlarged allocation of capital for Non- Qualifying Investments. New shareholders will be able to invest into a mature portfolio of VCT Qualifying Investments run by an experienced and proven investment management team whilst also benefiting from VCT tax reliefs on investment in the Companies under the Offer. Both Companies have established good track records of paying regular dividends. Funds raised under the Offer will be invested in accordance with the Companies' published investment policies.

Although the investment criteria that apply to capital raised in 2009/10 and 2010/2011 are onerous, the Directors and Investment Manager have worked closely with their advisers to identify ways in which this structural investment risk can be mitigated in part by subtle changes in the structure and management of the underlying portfolios. In both cases, the Investment Manager will be able to invest capital raised in earlier years for investment into VCT Qualifying Investments, reducing and possibly entirely negating the effects of the more onerous VCT tax rules in respect of VCT qualifying investee companies currently in place. This is seen as a major advantage that is only available with an investment into a mature Venture Capital Trust. These changes will not require a change to the Companies' investment strategies.

Although the Companies operate in a difficult environment, the Board see this as an opportunity as well as risk. Bank funding for small companies remains tight or, where available, very expensive and will continue to create opportunities that may have not previously arisen; valuations remain low in many cases and the pool of capital available for investment has greatly reduced, and competition for the best opportunities is less fierce. All of these factors weigh in favour of the Companies.

## INVESTMENT POLICY

### Investment Policy

#### (A) Investment Objectives

The Companies' objectives are:

- to invest in a diversified portfolio of small UK based companies on a high risk, medium term capital growth basis, primarily being companies which are traded on AIM and which have the opportunity for significant value appreciation;
- to invest in smaller companies which may not be readily accessible to private individuals and which also tend to be more risky;
- to maximise distributions to shareholders from capital gains and income generated from the Companies' funds; and
- targeted investment in equities which are non-qualifying investments on an opportunistic basis to boost the performance of the Companies' funds.

#### (B) Asset Allocation

In order to achieve these objectives, “**Qualifying Investments**” (being investments which comprise qualifying holdings for a venture capital trust as defined in Chapter 4 Part 6 of the Income Tax Act 2007) will be made in AIM companies, but the Investment Manager will also consider PLUS traded companies and private companies that meet the investment criteria summarised below. The Investment Manager will follow a stock specific, rather than sector specific, investment approach. Individual Qualifying Investments are likely to range from £100,000 to £1 million. Investments in AIM traded Qualifying Investments will be in new shares issued by the investee company at the time of its flotation or in new shares issued by existing AIM companies (with a preference for secondary issues of existing AIM companies as they are likely to have an established track record and these issues are often priced at an attractive discount to market price).

Initially, whilst suitable Qualifying Investments are identified the net proceeds of any share offer will be invested in gilts, other fixed interest securities and bank deposits that are readily realisable, and targeted investment in equities which are Non-Qualifying Investments on an opportunistic basis to boost the performance of the Companies' funds. Such investments will be realised as suitable Qualifying Investments are identified and made. Whilst under VCT legislation the Companies must have 70 per cent. of its funds invested in Qualifying Investments within 3 years, it is intended to invest up to 80 per cent. Accordingly, the Companies' maximum exposure to such investments will be 80 per cent. The remaining funds will be retained in “**Non-Qualifying Investments**” (being investments made by the Companies which do not qualify as Qualifying Investments), such as gilts, other fixed interest securities and bank deposits and targeted investment in equities which are Non-Qualifying Investments on an opportunistic basis to boost the performance of the Companies' funds in order to allow for follow on investments, to fund the annual running costs of the Companies and to reduce the risk of the overall portfolio of each Company. The Investment Manager will be flexible in its approach, adapting the position of the Companies' funds to reflect market conditions.

### **(C) Investment Strategy**

The key selection criteria to be used by the Investment Manager in deciding which Qualifying Investments to make will, among others, include:

- an experienced and proven management team;
- a credible, sound business plan; and
- strong financial controls.

### **(D) Borrowings**

It is not the Companies' intention to have any borrowings. The Companies do, however, have the ability to borrow a maximum amount up to 15 per cent. of the "Adjusted Capital and Reserves" amount (as such term is defined in the Articles of Association of each of the Companies), which is effectively the aggregate of the nominal capital of the Companies issued and paid up and the amount standing to the credit of the consolidated reserves of the Companies, less specified adjustments, exclusions and deductions. There are no plans to utilise this ability at the current time.

### **(E) Risk Diversification**

The design of the structure of the Companies' funds, and their investment strategies, has been developed to reduce risk as much as possible. The key risk management features include:

- *Broad portfolio of companies* – The Companies will invest in a broad portfolio of different companies, thereby reducing the potential impact of poor performance by any individual investment;
- *Significant proportion of investments in gilts, other fixed interest securities and bank deposits* – A significant proportion of funds will be invested by the Investment Manager in this way. The objective is to keep approximately 20 per cent. of the Companies funds in such investments, thereby reducing the overall risk profile of the portfolio of the Companies;
- *Close monitoring of investments* – The Investment Manager will closely monitor the performance of all the investments made by the Companies in order to identify any problems and to enable it to take swift corrective action; and
- *Co-investment* – The Investment Manager manages other funds that can invest in the same companies as the Companies. In appropriate circumstances, therefore, the Companies will invest alongside such other funds. In such cases, the Investment Manager will take into account such factors as the risk profile and investment strategy of the participating funds when deciding how much each fund will invest. If situations arise where the Companies propose to invest in the same companies as other funds managed by the Investment Manager, but at a different time or on different terms, such proposed investment must be approved by the Board members of the Companies who are independent of the Investment Manager. In the case of private companies, this co-investment will enable the funds of the Companies to be invested in larger and more mature businesses than they might otherwise be able to access, thereby reducing the risk to the Companies' portfolios.

### **Significant Tax Benefits for Investors**

Individual investors in the Companies pursuant to the Offer are entitled to the following VCT tax benefits:

- up-front 30 per cent. income tax relief such that an investment of £10,000 will effectively cost an investor £7,000. The maximum investment which can be made in order to qualify for the personal tax reliefs available from a venture capital trust is currently £200,000 per person per tax year;;
- tax free dividends; and
- gains on disposal of Ordinary Shares free of capital gains tax

### **The Directors and the Investment Manager**

The Boards of the Companies both comprise three Directors, two of whom are independent of the Investment Manager. The Directors operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Companies. The Boards have wide experience of investment in both smaller growing companies and larger quoted companies. The Investment Manager of Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 is Hargreave Hale Limited, which is a specialist small companies fund manager with approximately £825 million under management (*source: Hargreave Hale*). The team of six, led by the Chief Executive Giles Hargreave, has many years of experience in investing in small companies, both on the Official List and on AIM, including more than 11 years as investment manager to a Special Situations Fund, in which period (from 1 July 1998 to 28 February 2010) the fund has returned capital growth of 664 per cent. (*source: Hargreave Hale*).

### **Deal Flow**

The Investment Manager has many years' experience of investing in AIM and PLUS-quoted (formerly OFEX) companies. This has enabled the Investment Manager to establish a good network of contacts, including other fund managers, corporate brokers and professional advisers, which should ensure a good deal flow. The investment team has regular meetings, typically 15 per week, with small companies, a number of which would be suitable for investment by the Funds. These relationships, along with the ability to co-invest alongside the other funds managed by the Investment Manager, should increase the quality and quantity of the investment pipeline.

The Companies will invest primarily in companies trading on AIM, a market associated with young and growing companies.

### **Co-Investment Policy**

The Investment Manager manages other funds that can invest in the same companies as Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2, including a Special Situations Fund and a Micro Cap Fund. In appropriate circumstances, therefore, the Companies will invest alongside other funds managed by the Investment Manager. When contemplating a co-investment, the Investment Manager will first consider factors such as the risk profiles and investment strategies of the participating funds, the size of the fund raising and anticipated allocations when deciding on how much each fund will subscribe for. Any scaling back of applications made by the Investment Manager for shares in investee companies, on behalf of the different funds it manages, will be on a pro rata basis to the amount originally requested for each fund.

Where the Companies intend to invest in the same companies as other funds managed by the Investment Manager, any such investment must first be approved by the Directors of the Board, who are independent of the Investment Manager, unless the investment is made either at the same time and on the same terms, or in accordance with a pre-existing agreement between the Companies and the Investment Manager.

### **Post-Investment Management**

The Investment Manager will monitor each investment closely and will expect to meet with the management of investee companies at least twice a year.

As the values of underlying investments increase, the Investment Manager will monitor opportunities for the Funds to realise a proportion of the capital gain, and to make tax free distributions to shareholders.

Any underperforming investments may be disposed of if the Investment Manager believes that there is unlikely to be any reasonable capital appreciation in the short to medium term.

### **The Non-Qualifying Investments Portfolio**

The Investment Manager will make targeted investments in equities which are Non-Qualifying Investments on an opportunistic basis to boost the Fund's performance. The Investment Manager will be flexible in its approach, adapting the Funds' position to reflect market conditions.

The Non-Qualifying Investment portfolio will also include gilts, other fixed interest securities and bank deposits.

### **Valuation Policy**

Investments in AIM and PLUS-quoted traded shares will be valued at the prevailing bid price.

All other investments will be valued in accordance with BVCA guidelines. A brief summary of the BVCA guidelines is set out below.

Investments should be reported at fair value where this can be reliably determined by the Board on the recommendation of the Investment Manager.

In estimating fair value for an investment, the methodology applied must be appropriate to the nature, facts and circumstances of the investment and its materiality based on reasonable assumptions and estimates. Such methodology, including earnings multiple, cost, cost less a provision for net assets, should be applied consistently.

If fair value cannot be reliably measured, the carrying value at the previous reporting date will be used unless there is evidence of impairment, in which case the value will be reduced to reflect the estimated extent of the impairment.

### **Management of Uninvested Funds**

The Companies' funds will be put on deposit or invested in short-term fixed income securities until suitable investment opportunities are found. Such uninvested funds will be managed by the Investment Manager and are usually invested in UK Treasury bills and loan stock.

### **DIVIDEND POLICY AND POTENTIAL FOR REALISATION**

Generally, a VCT must distribute by way of dividend such amount as to ensure that it retains not more than 15 per cent. of its income from shares and securities. The Directors aim to maximise tax free distributions to shareholders by way of dividends paid out of income received from investments and capital gains received following successful realisations.

Shareholders who wish to have dividends paid directly into a bank account, rather than by cheque to their registered address, should complete the dividend mandate form printed on the reverse of the Application Form. Further dividend mandate forms can be obtained upon request from the Companies' registered office.

**Your attention is again drawn to the Risk Factors set out in on pages 7 to 10 of this document.**

### **DIRECTORS**

The Boards of Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 comprise three Directors, two of whom are independent of the Investment Manager. The Directors operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Companies. The Boards have wide experience of investment in both smaller growing companies and larger quoted companies.

#### **Sir Aubrey Thomas Brocklebank Bt.**

After qualifying as a chartered accountant, Sir Aubrey worked for Guinness Mahon from 1981 to 1986, initially in its corporate finance department before assisting in the establishment of a specialist development capital department. From 1986 to 1990 he was a director of Venture Founders Limited, managing a £12 million venture capital fund, which had been raised to invest in early stage ventures. He managed the Avon Enterprise Fund (a venture capital fund of £4.5 million investing in approximately 20 companies) from 1990 until all investments had been realised in 1997. He is on the board of seven other VCTs, including the AIM Distribution Trust PLC, Puma VCT PLC, Puma VCT II PLC, Puma VCT III PLC and Puma VCT IV PLC (all as chairman) and Pennine AIM VCT 6 plc and Octopus Second AIM VCT PLC (as a non-executive director only). He is, and has also been, a director of a number of companies, some of which are, or have been, quoted on AIM.

#### **David Hurst-Brown FSI**

David worked for over 25 years in the investment banking industry starting as an investment analyst with Rowe and Pitman and becoming a partner of the firm in 1985. Following takeovers by SG Warburg and Swiss Bank Corporation

and the subsequent merger with Union Bank of Switzerland, David ultimately was an executive director in the corporate finance division of UBS Warburg. In this capacity, amongst his various duties, he was responsible for establishing a smaller companies business unit. He was a consultant to UBS from 1999 to 2002 and at the same time was an adviser to techMark, the London Stock Exchange's market for technology companies. David is presently a non-executive director of Acuity VCT 3 plc, Imagination Technologies Group Plc, Anite Plc, Ffastfill Plc and Keydata Income VCT 1 plc/ Keydata Income VCT 2 plc.

**Giles Hargreave**

See page 41 for Giles Hargreave's CV.

## **THE INVESTMENT MANAGER: HARGREAVE HALE LIMITED**

The Companies are managed by Hargreave Hale Limited, a specialist smaller companies fund manager with approximately £825 million under management (*source: Hargreave Hale*). The team of six at Hargreave Hale, led by the chief executive Giles Hargreave, has many years of experience in fund management.

The firm which became Hargreave Hale was originally founded by Marsden W Hargreave in 1897. The first office was located in Blackpool, where the firm still has its settlements office. Over the years, additional offices have been opened in London, Carlisle, Bangor, Lancaster and Worcester.

In February 2001, the firm converted from a partnership to a limited company, and at that time Investec Bank (UK) Plc acquired 35 per cent. of the company. This change coincided with the firm expanding its offices in both Blackpool and London.

The investment management team comprises the following six executives at Hargreave Hale, led by the chief executive Giles Hargreave, who has many years of experience in fund management. The team are:-

### **Giles Hargreave**

Giles Hargreave is the chief executive of Hargreave Hale Limited. After leaving Cambridge in 1969, Giles began his career as a trainee analyst with James Capel before moving to Management Agency and Music Plc as a private fund manager in 1974. In 1986 he founded Hargreave Investment Management, which he then merged with Hargreave Hale & Co in 1988. In 1998, Giles took over as the fund manager of a Special Situations Fund. He also manages a UK Micro Cap Fund and a UK Leading Companies Fund. Giles heads up Hargreave Hale's investment committee and chairs the weekly meetings in which the team reviews existing and potential investments.

### **George Finlay MA Oxon**

George has been involved in institutional research and fund management since graduating from Oxford University in 1970. He joined Hargreave Hale in 1988 following positions at both Kemp Gee and GT Management. George, who specialises in 'Old Economy' and resource companies, enjoys a particularly broad mandate that allows him to unearth thematic plays and under-researched companies, often with an international dimension.

### **Guy Feld MA Oxon FSI**

Guy Feld, a graduate of Oxford University, has over 16 years City experience in both fund management and broking at BZW, UBS and Teather & Greenwood. Guy joined the team as a research adviser in 2003 and has a particular focus on the technology sector and other "New Economy" and growth companies.

### **Richard Hallett FCA**

Richard qualified as a Chartered Accountant at Ernst & Young in 1994 and subsequently joined Singer & Friedlander in 1995 as a small companies fund manager. He moved to Hargreave Hale in 2005 and now co-manages the UK Leading Companies Fund with Giles whilst also deputising for him on the Special Situations Fund. He manages a substantial private mandate and runs Hargreave Hale's IHT portfolio service.

### **Oliver Bedford BSc MSI**

Oliver Bedford graduated from Durham University in 1995 with a degree in Chemistry. He served in the British Army for 9 years before joining Hargreave Hale in 2004. Oliver supports Giles in the management of the Hargreave Hale AIM VCTs, paying particular attention to the technical aspects of their management, the structure of the funds and their Qualifying Investments. Oliver supports other unit trusts through the investment committee and runs the Hargreave Hale Model Portfolios.

### **Siddarth Chand Lall MA**

Sid graduated from Edinburgh University with a masters in economics in 2002. He is now in his seventh year as a research analyst. Sid primarily supports the unit trusts, where his background in Pan European (including UK) small and mid cap equities and understanding of Indian companies has added a new dimension to the team. However, he also provides research and investment advice to the two Companies. Formerly of DSP, Sid joined Hargreave Hale in 2007.

## **MANAGEMENT REMUNERATION AND EXPENSES**

### **Management Agreements**

#### **Hargreave Hale AIM VCT1**

Hargreave Hale AIM VCT1 entered into an Investment Management Agreement dated 10 September 2004 with Hargreave Hale pursuant to which Hargreave Hale agreed to provide discretionary investment management and advisory services to the Company in respect of its portfolio of Qualifying Investments and Non-Qualifying Investments. This was amended by a deed of variation dated 13 October 2005 in relation to the offer of C Shares (which have since converted into Ordinary Shares).

Under the agreement, the Investment Manager receives fees (exclusive of VAT) equal to 0.9 per cent. per annum of the net asset value of the Company until the termination of the Investment Management Agreement, payable quarterly in arrears. The Investment Manager is also entitled to receive 50 per cent. of the Performance Incentive Fees and reimbursement of expenses incurred in performing its obligations. In respect of investments made in companies that are not listed on AIM, the Investment Manager is entitled to charge expenses and initial management fees to investee companies that, without the Board's consent, will not exceed 1 per cent. of the value of the total investment by the Company (and any other investor to whom the Company syndicates any part of its investment) plus, in the case of periodical fees, £10,000 per annum (plus VAT, if applicable).

The appointment may be terminated on 12 calendar months' notice by either party. No benefits are payable on termination.

#### **Hargreave Hale AIM VCT2**

The Company entered into an Investment Management Agreement dated 8 December 2006 with Hargreave Hale pursuant to which Hargreave Hale agreed to provide discretionary investment management and advisory services to the Company in respect of its portfolio of Qualifying Investments and Non-Qualifying Investments.

Under the agreement, the Investment Manager receives fees (exclusive of VAT) equal to 0.9 per cent. per annum of the net asset value of the Company until the termination of the Investment Management Agreement, payable quarterly in arrears. The Investment Manager is also entitled to receive the Performance Incentive Fees and reimbursement of expenses incurred in performing its obligations. In respect of investments made in companies that are not listed on AIM, the Investment Manager is entitled to charge expenses and initial management fees to investee companies that, without the Board's consent, will not exceed 1 per cent. of the value of the total investment by the Company (and any other investor to whom the Company syndicates any part of its investment) plus, in the case of periodical fees, £10,000 per annum (plus VAT, if applicable).

The appointment may be terminated on 12 calendar months' notice by either party. No benefits are payable on termination.

### **Performance-Related Incentive Fee**

#### **Hargreave Hale AIM VCT1**

In line with normal VCT practice, a performance related incentive fee will be payable subject to the criteria set out below. Any performance related incentive fee payable will be to the Investment Manager.

An annual performance related incentive fee will be payable at the rate of 20 per cent. of any dividends paid to Shareholders in excess of 6p per Ordinary Share per annum, provided that the Net Asset Value per Ordinary Share is at least 95p. The first payment of the performance related incentive fee will be made after 30 September 2007 and will be payable provided cumulative distributions in the first three accounting periods exceed 18p per Ordinary Share. Thereafter, a performance related incentive fee will be payable annually, provided the hurdles have been exceeded, with any cumulative shortfalls below 6p per Ordinary Share having to be made up in subsequent years before the incentive fee becomes payable. No performance related incentive fee will be payable unless the NAV per Ordinary Share is at least 95p.

#### **Hargreave Hale AIM VCT2**

In line with normal VCT practice, a performance related incentive fee will be payable subject to the criteria set out below. Any performance related incentive fee payable will be to the Investment Manager.

An annual performance related incentive fee will be payable at the rate of 20 per cent. of any dividends paid to Shareholders in excess of 6p per Ordinary Share per annum, provided that the Net Asset Value per Ordinary Share is at least 95p. The first payment of the performance related incentive fee will be made after 28 February 2010 and will be payable provided cumulative distributions in the first three accounting periods exceed 18p per Ordinary Share. Thereafter, a performance related incentive fee will be payable annually, provided the hurdles have been exceeded, with any cumulative shortfalls below 6p per Ordinary Share having to be made up in subsequent years before the incentive fee becomes payable. No performance related incentive fee will be payable unless the NAV per Ordinary Share is at least 95p.

#### **Charging Expenses to Capital**

A maximum of 75 per cent. of the Investment Manager's annual fee (plus irrevocable VAT, but excluding any incentive fee) will be chargeable against capital reserves, with the remainder of the Investment Manager's annual fee being chargeable against revenue.

## **MANAGEMENT OF SHARE LIQUIDITY**

In order to improve the liquidity in the Ordinary Shares, the Boards have each established a buy back policy whereby each Company will purchase Ordinary Shares for cancellation. As a guide and subject to the Boards' discretion and providing that, in the opinion of the Boards, there is adequate surplus cash available, each Company will consider buying back Ordinary Shares at a 10 per cent. discount to the last published NAV, subject to a maximum of 105 per cent of the middle market price per Ordinary Share over the preceding 5 Business Days and a minimum of nominal value. The Boards intend to continue to publish NAV on a weekly basis. Shareholders are reminded that if they hold their Ordinary Shares for less than five years they are likely to lose their income tax relief.

## **LIFE OF THE COMPANIES AND ANNUAL ACCOUNTS**

Hargreave Hale AIM VCT1's annual report and accounts are made up to 30 September in each year and are normally sent to shareholders in December of each year. It is the current intention of the Directors that the first report to be sent to Investors after the close of the Offer will be the audited annual accounts for the year ending 30 September 2010.

It is intended that Hargreave Hale AIM VCT1 should have an unlimited life, but the Directors consider that it is desirable for shareholders to have the opportunity to review the future of the Company at appropriate intervals. Hargreave Hale AIM VCT1's articles of association require the Directors to put a proposal to shareholders concerning the continuation of that company at the annual general meeting in 2011 and, if passed, at every fifth anniversary thereafter.

Hargreave Hale AIM VCT2's annual report and accounts are made up to 28 February in each year and are normally sent to shareholders in June of each year. It is the current intention of the Directors that the first report to be sent to Investors after the close of the Offer will be the unaudited half yearly reports in respect of the six month period ending 31 August 2010.

It is intended that Hargreave Hale AIM VCT2 should have an unlimited life, but the Directors consider that it is desirable for shareholders to have the opportunity to review the future of the Company at appropriate intervals. Hargreave Hale AIM VCT2's articles of association require the Directors to put a proposal to shareholders concerning the continuation of the Company at the annual general meeting in 2013 and, if passed, at every fifth anniversary thereafter.

## **TAXATION**

The Directors intend to continue conducting the affairs of the Companies so that they satisfy the conditions for approval as a venture capital trust laid down in section 274 of ITA. Whilst it is the intention of the Directors that Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 will be continue to be managed so as to qualify as VCTs, there can be no guarantee that they will continue to qualify or that such status will be maintained. A failure to meet the qualifying requirements could result in Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 losing the tax reliefs previously obtained, resulting in adverse tax consequences for investors, including a requirement to repay the 30 per cent. income tax relief.

Any potential investors in doubt as to the personal tax reliefs which are available as a result of investing in a venture capital trust, or the taxation consequences of the investment, disposal or holding of shares in a VCT, should consult an appropriately qualified professional adviser.

Further details of the tax position of venture capital trusts are set out in Part II of this document.

## **VCT STATUS AND MONITORING**

Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 have retained PricewaterhouseCoopers to advise on tax matters generally and, in particular, the maintenance of VCT status. HMRC has given approval of Hargreave Hale AIM VCT1 as a VCT, and provisional approval of Hargreave Hale AIM VCT2 as a VCT. Final approval of Hargreave Hale AIM VCT2 as a VCT will be sought as soon as possible and, in any event, no later than the accounting period of that Company beginning three years after provisional approval. PricewaterhouseCoopers will assist the Investment Manager in establishing the status of investments as Qualifying Investments and monitoring progress towards achieving full VCT approval, but will report directly to the Board. In order to comply with VCT requirements, at least 70 per cent. by value of each Company's investments are required to be comprised of Qualifying Investments by the accounting period commencing no later than three years after the date of provisional approval by HMRC of each Company's status as a VCT.

## **THE OFFER**

### **Amount to be Raised under the Offer**

The Offer is conditional, *inter alia*, the Offer Agreement referred to in paragraphs 9.1.1 and 9.4.1 of Part V becoming unconditional and not being terminated in accordance with its terms.

The Offer is for up to £7,000,000 in Hargreave Hale AIM VCT1 and £3,000,000 in Hargreave Hale AIM VCT2 at an offer price to be determined by the Pricing Formula. Applicants' subscriptions will be divided as indicated by the applicant on the application form. The Offer is not underwritten.

In the event that applications are received for Ordinary Shares in excess of the Maximum Subscription under the Offer, the Directors reserve the right to exercise their discretion in the allocation of successful applications, although allocation will usually be on a first come first served basis.

### **Personal Investment Levels**

The minimum subscription per investor is £3,000 in respect of the Offer. The maximum investment which can be made in order to qualify for the personal tax reliefs available from a venture capital trust is currently £200,000 per person per tax year. Applicants may make multiple applications under the Offer, provided that the investor guidelines for VCTs are followed. The Investor should take appropriate independent advice.

## **Allotment of Shares and Offer Price**

The Offer will open at 10.00 am on 20 March 2010. The first allotment under the Offer in respect of the 2009/10 tax year is expected to be on or before 1 April 2010. Thereafter, the Directors reserve the right to allot Ordinary Shares at any time whilst the Offer remains open.

Investors are invited to subscribe an amount in pounds Sterling rather than apply for a particular number of Ordinary Shares. The price of the Ordinary Shares to be issued pursuant to the Offer will be calculated on the basis of the Pricing Formula. The Pricing Formula is:

**The last Net Asset Value of an existing Ordinary Share (with an appropriate adjustment for any performance fee potentially payable based on the Net Asset Value at that date) as published by the relevant Company prior to the date of allotment divided by 0.95 to allow for issue costs of 5 per cent, calculated, in pence, to two decimal places.**

As at 12 March 2010, the unaudited net asset value per Ordinary Share of Hargreave Hale AIM VCT1 was 64.37p, which would have resulted in an offer price of 67.76p per Ordinary Share (64.37p divided by 0.95). As at 12 March 2010, the unaudited net asset value per Ordinary Share of Hargreave Hale AIM VCT2 was 104.67p, which would have resulted in an offer price of 110.18p per Ordinary Share (104.67p divided by 0.95). Monies which are not sufficient to buy one Ordinary Share will not be returned to applicants but will be retained by the relevant Company and fractions of Ordinary Shares will not be issued. The Ordinary Shares to be issued pursuant to the Offer will rank pari passu with the existing Ordinary Shares of the relevant Company.

Dealings in new Ordinary Shares are expected to commence within five business days of such allotments. The closing date for the Offer in respect of the 2009/2010 tax year will be at 3.00 p.m. on 1 April 2010. If the Offer is not fully subscribed at that time, the Directors reserve the right to allow the Offer to remain open for at least part of the 2010/11 tax year but not beyond 18 March 2011. The Offer will not be withdrawn after dealings in the Ordinary Shares have commenced. The results of the Offer will be announced through a regulatory information service within 3 business days of the closing of the Offer.

## **Listing**

Application will be made to the UK Listing Authority and the London Stock Exchange for the Ordinary Shares to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. All Ordinary Shares for each Company will be issued in registered form, will be transferable and will rank pari passu in all respects with each other. Application will be made for the Ordinary Shares issued pursuant to the Offer to be admitted to the CREST system and it is anticipated that such shareholders will be able to hold their Ordinary Shares in certificated or uncertificated form. In the case of applicants requesting share certificates, it is intended that definitive shares certificates will be despatched within 15 business days of allotment. Prior to despatch of definitive share certificates, transfers will be certified against the register. No temporary documents of title will be issued. In the case of applicants requesting Ordinary Shares in uncertificated form, it is expected that the Ordinary Shares will be issued in uncertificated form within

10 business days of allotment. The Registrars will instruct Euroclear to credit the appropriate electronic stock accounts of such persons with entitlements to Ordinary Shares within that period.

The Companies reserve the right to allot and issue new Ordinary Shares in certificated form. In normal circumstances, the right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST), or on the part of the facilities and systems operated by the Registrars in connection with CREST. This right may also be exercised if the correct details (such as Participant ID and Member Account ID details) are not provided as requested on the Application Form.

### **Category of Potential Investors**

A typical investor for whom the Offer is designed is an individual (a retail investor) who is a UK income taxpayer over 18 years of age with an investment range of between £3,000 and £200,000 per tax year who considers the investment policy as detailed in Part I of this document to be attractive. Investment in a VCT may not be suitable for all investors and should be considered as a medium to long term investment. Before deciding whether to apply for Ordinary Shares under the terms of the Offer you are recommended to consult an independent adviser authorised under FSMA.

## PART II

### Taxation Considerations for Investors

The following is only a summary of the law concerning the tax position of individual investors in VCTs. Potential investors who are in any doubt about the taxation consequences of investing in a VCT are recommended to consult a professional adviser.

#### Tax reliefs

The tax reliefs set out below are available to individuals aged 18 or over who subscribe for Ordinary Shares under the Offer. Whilst there is no specific limit on the amount of an individual's acquisition 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 do not exceed £200,000. Investors who intend to invest more than £200,000 in VCTs in any one tax year should seek professional advice.

#### (a) *Income tax*

##### (i) *Relief from income tax on investment*

Income tax relief at the rate of 30 per cent. will be available on subscriptions for Ordinary Shares up to a maximum of £200,000 in any tax year. This relief is limited to the amount which reduces the investor's income tax liability to nil.

The effect of this relief for an Investor subscribing £10,000 for Ordinary Shares is shown below:

	<b>No VCT tax relief</b>	<b>30% income tax relief</b>
Initial investment	£10,000	£10,000
30% income tax relief	-	(£3,000)
Effective investment cost	£10,000	£7,000

To obtain relief an investor must subscribe on his own behalf although the Ordinary Shares may subsequently be transferred to a nominee. Investments to be used as security for or financed by loans may not qualify for relief, depending on the circumstances.

##### (ii) *Dividend relief*

An investor who acquires in any tax year VCT shares having a value of up to £200,000 will not be liable to income tax on dividends paid by the VCT on those shares.

##### (iii) *Purchasers in the market*

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

*(iv) Withdrawal of relief*

Relief from income tax on a subscription for VCT shares will be withdrawn if the VCT shares are disposed of (other than between spouses) within five years of issue or if the VCT loses its approval within this period.

*(b) Capital gains tax*

*(i) Relief from capital gains tax on the disposal of shares*

A disposal by an investor of Ordinary Shares 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 VCT shares acquired within the limit of £200,000 for any tax year.

*(ii) Purchasers in the market*

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

**Obtaining tax reliefs**

The Companies will provide to each investor a certificate 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 tax return to claim relief.

**Investors not resident in the UK**

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

**Withholding taxation**

No taxation will be withheld at source on any income arising from the Ordinary Shares and the Companies assume no responsibility for such withholding.

**Withdrawal of approval**

If a company which has been granted approval as a VCT subsequently fails to comply with the conditions for approval, approval as a VCT may be withdrawn or treated as never having been given. In these circumstances, relief from income tax on the initial investment is repayable unless loss of approval occurs more than five years after the issue of the relevant VCT shares. In addition, relief ceases to be available on any dividend paid in respect of profits or gains in any accounting period ending when VCT status has been lost and any gains on the VCT shares up to the date from which loss of VCT status is treated as taking effect will be exempt, but gains thereafter will be taxable.

## **PART III**

### **Conditions to be met by Venture Capital Trusts**

The Companies have to satisfy a number of tests to qualify as VCTs. A summary of these tests is set out below.

#### **Qualification as a VCT**

To qualify as a VCT, a company must be approved as such by HMRC. To obtain such approval it must:

- (a) not be a close company;
- (b) have each class of its ordinary share capital quoted on the London Stock Exchange;
- (c) derive its income wholly or mainly from shares or securities;
- (d) have at least 70 per cent. by value of its investments in shares or securities in Qualifying Investments, of which 30 per cent. by value must be in ordinary shares carrying no preferential rights to dividends, assets on a winding up, or redemption;
- (e) have at least 10 per cent. by value of its Qualifying Investments in any single company or group in ordinary shares which carry no preferential rights to dividends or assets on a winding-up and no rights to be redeemed;
- (f) not have more than 15 per cent. by value of its investments in a single company (other than a VCT or a company which would, if its shares were listed, qualify as a VCT); and
- (g) not retain more than 15 per cent. of its income derived from shares and securities in any accounting period

For funds raised after 5 April 2010 at least 70 per cent. by value of Qualifying Investments must be in “equity”. Such equity must be in the form of ordinary shares carrying no fixed rights to dividends, no preferential rights to assets on a winding up and no rights to be redeemed

#### **Qualifying Investments**

A Qualifying Investment consists of shares or securities first issued to the VCT (and held by it ever since) by a company satisfying certain conditions and for which not more than £1 million was subscribed by the VCT in any one tax year (nor more than £1 million in, broadly, any period of 6 months straddling two tax years). The conditions are detailed but include that the company must be a Qualifying Company (see page 51), have gross assets not exceeding £7 million immediately before and £8 million immediately after the investment, apply the money raised for the purposes of a Qualifying Trade (see page 51) within certain time periods and not be controlled by another company. In any twelve month period the company can receive no more than £2 million from VCT funds, Enterprise Investment Schemes and Corporate Venturing Schemes, raised after 5 April 2007. The company must have fewer than 50 full time (or equivalent) employees at the time of making the investment. In certain circumstances, an investment in a company by a

VCT can be split into part Qualifying Investment and part Non-Qualifying Investment.

### **Qualifying Companies**

A Qualifying Company must be unquoted (for VCT purposes this includes companies whose shares are traded on the PLUS Market and AIM) and must carry on a Qualifying Trade. For this purpose certain activities are excluded (such as dealing in land or shares or providing financial services). The Qualifying Trade must either be carried on by, or be intended to be carried on by, the Qualifying Company or by a Relevant Qualifying Subsidiary (see below) at the time of the issue of shares or securities to the VCT (and at all times thereafter). The trade must be carried on wholly or mainly in the UK but the company need not be UK resident (however, for an investment made on or after 6 April 2010, a Qualifying Company only needs to have a permanent establishment in the UK). A company intending to carry on a Qualifying Trade must begin to trade within two years of the issue of shares or securities to the VCT and continue it thereafter.

A Qualifying Company may have no subsidiaries other than Qualifying Subsidiaries which must be more than 50 per cent. owned.

A Relevant Qualifying Subsidiary must be a 90 per cent. directly held subsidiary of the company invested in, its wholly owned subsidiary, or a wholly owned subsidiary of a 90 per cent. directly held subsidiary.

### **Approval as a VCT**

A VCT must be approved at all times by HMRC. Approval has effect from the time specified in the approval.

A VCT cannot be approved unless the tests detailed above are met throughout the most recent complete accounting period of the VCT and HMRC is satisfied that they will be met in relation to the accounting period of the VCT which is current when the application is made. However, in order to facilitate the launch of a VCT, HMRC may approve a VCT notwithstanding that certain of the tests are not met at the time of application, provided HMRC is satisfied that the tests will be met within certain time limits. In particular, in the case of the test described at (d) under the heading "Qualification as a VCT" above, approval may be given if HMRC is satisfied that this will be met throughout an accounting period of the VCT beginning no more than three years after the date on which approval takes effect.

The Directors intend to conduct the affairs of the Companies so that they satisfy the conditions for approval as VCTs and that such approval will be maintained. HMRC has granted the Companies approval under section 274 ITA as VCTs. The Companies intend to comply with section 274 ITA and have retained PricewaterhouseCoopers LLP to advise them on VCT taxation matters.

### **Withdrawal of Approval**

Approval of a VCT may be withdrawn by HMRC if the various tests set out above are not satisfied. Withdrawal of approval generally has effect from the time when notice 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 of the tests were satisfied.

**The above is only a summary of the conditions to be satisfied for a company to be treated as a VCT.**

## **PART IV**

### **FINANCIAL INFORMATION ON THE COMPANIES**

#### **HARGREAVE HALE AIM VCT1**

Audited financial information on the Company is published in the annual reports for the years ended 30 September 2007, 30 September 2008 and 30 September 2009 and unaudited information in the half yearly accounts for the six month period ended 31 March 2008 and 31 March 2009. Since the Company only changed its name from Keydata AIM VCT plc on 7 October 2009, all the published financial information will be in the name of Keydata AIM VCT plc (with the exception of the annual reports for the year ended 30 September 2009).

The annual report for the year ended 30 September 2007 was audited by Ernst & Young of George House, 50 George Square, Glasgow G2 1RR and the annual reports for the years ended 30 September 2008 and 30 September 2009 were audited by BDO LLP of 55 Baker Street, London W1U 7EU. All audit reports were unqualified under the 1985 Act and the 2006 Act (as relevant).

The annual reports referred to above were prepared in accordance with UK generally accepted accounting practice (GAAP) and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'. The annual reports contain a description of the relevant company's financial condition, changes in financial condition and results of operation for each relevant financial year and, together with the half-yearly reports referred to, are being incorporated by reference and can be accessed at the following website:

[www.hargreave-hale.co.uk/VCT/aimvct/Index.html](http://www.hargreave-hale.co.uk/VCT/aimvct/Index.html)

Copies of these accounts are available free of charge at Hargreave Hale, 9-11 Hallam Way, Blackpool FY5 5ZL and are also available for inspection at the FSA's document viewing facility, which is situated at:

Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Where these documents make reference to other documents, such other documents are not incorporated into and do not form part of this document.

Such information includes the following:

	Audited financial statements for the period ended 30 September 2007	Audited financial statements for the period ended 30 September 2008	Audited financial statements for the period ended 30 September 2009	Unaudited half yearly financial statements for the six months ended 31 March 2008	Unaudited half yearly financial statements for the six months ended 31 March 2009
<b>Page numbers</b>					
Income statements	24	25	25	4-5	4-5
Statement of changes in equity	26	27-28	27-28	8	8
Balance sheets	25	26	26	6	6
Cash flow statements	26	27	27	7	7
Accounting policies	27	29	29	n/a	n/a
Notes to the accounts	27-33	29-36	29-37	9	9
Independent auditor's report	22-23	23-24	23-24	n/a	n/a

## Operating and Financial Review

	Audited financial statements for the period ended 30 September 2007	Audited financial statements for the period ended 30 September 2008	Audited financial statements for the period ended 30 September 2009	Unaudited half yearly financial statements for the six months ended 31 March 2008	Unaudited half yearly financial statements for the six months ended 31 March 2009
Page numbers					
Chairman's statement	5	5	4	3	3
Investment Manager's report	7	7	6-7	n/a	n/a

This information in the annual reports has been prepared in a form consistent with that which will be adopted in the Company's next published annual financial statements having regard to accounting standards and policies and legislation applicable to those financial statements.

As at 30 September 2009, the date to which the most recent audited financial information on the Company has been drawn up, the Company had audited net assets of £17.1 million or 63.98p per Ordinary Share.

## Other

There has been no significant change in the financial or trading position of Hargreave Hale AIM VCT1 since 30 September 2009 (being the date on which audited financial information was last published).

## HARGREAVE HALE AIM VCT2

Audited financial information on the Company is published in the annual reports for the periods ended 29 February 2008 and 28 February 2009 and unaudited information in the half yearly accounts for the six months ended 31 August 2008 and 31 August 2009. Since the Company only changed its name from Keydata AIM VCT 2 plc on 7 October 2009, all the published financial information will be in the name of Keydata AIM VCT 2 plc (with the exception of the half yearly accounts for the six months ended 31 August 2009). The annual report for the period ended 29 February 2008 covered the period from the incorporation of the Company.

The annual reports for the years ended 29 February 2008 and 28 February 2009 were audited by BDO LLP of 55 Baker Street, London W1U 7EU. All audit reports were unqualified under the 1985 Act.

The annual reports referred to above were prepared in accordance with UK generally accepted accounting practice (GAAP) and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'. The annual reports contain a description of the relevant company's financial condition, changes in financial condition and results of operation for each relevant financial year and, together with the half-yearly reports referred to, are being incorporated by reference and can be accessed at the following website:

[www.hargreave-hale.co.uk/VCT/Index.html](http://www.hargreave-hale.co.uk/VCT/Index.html)

Copies of these accounts are available free of charge at Hargreave Hale, 9-11 Hallam Way, Blackpool FY5 5ZL and are also available for inspection at the FSA's document viewing facility, which is situated at:

Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Where these documents make reference to other documents, such other documents are not incorporated into and do not form part of this document.

Such information includes the following:

	Audited financial statements for the period ended 29 February 2008	Audited financial statements for the period ended 28 February 2009	Unaudited half yearly financial statements for the six months ended 31 August 2008	Unaudited half yearly financial statements for the six months ended 31 August 2009
Page numbers				
Income statements	24	24	4	4
Statement of changes in equity	26	26	7	7

Balance sheets	25	25	5	5
Cash flow statements	26	26	6	6
Accounting policies	27	27	n/a	n/a
Notes to the accounts	27-33	27-34	8	8
Independent auditor's report	22-23	22-23	n/a	n/a

## Operating and Financial Review

	Audited financial statements for the period ended 29 February 2008	Audited financial statements for the period ended 28 February 2009	Unaudited half yearly financial statements for the six months ended 31 August 2008	Unaudited half yearly financial statements for the six months ended 31 August 2009
Page numbers				
Chairman's statement	5	5	3	3
Investment Manager's report	7	7	n/a	n/a

This information in the annual reports has been prepared in a form consistent with that which will be adopted in the Company's next published annual financial statements having regard to accounting standards and policies and legislation applicable to those financial statements.

As at 31 August 2009, the date to which the most recent unaudited half-yearly financial information on the Company has been drawn up, the Company had unaudited net assets of £4.97 million or 108.45p per Ordinary Share.

## Other

There has been no significant change in the financial or trading position of Hargreave Hale AIM VCT2 since 31 August 2009 (being the date on which unaudited financial information was last published).

## **PART V**

### **ADDITIONAL INFORMATION**

#### **1. THE COMPANIES**

- 1.1 Hargreave Hale AIM VCT1 was incorporated and registered in England and Wales on 16 August 2004 under the 1985 Act with registered number 5206425 as a public company limited by shares. It was incorporated with the name Keydata AIM VCT plc, which was changed to Hargreave Hale AIM VCT 1 plc on 7 October 2009.
- 1.2 Hargreave Hale AIM VCT2 was incorporated and registered in England and Wales on 20 September 2006 under the 1985 Act with registered number 5941261 as a public company limited by shares. It was incorporated with the name Keydata AIM VCT 2 plc, which was changed to Hargreave Hale AIM VCT 2 plc on 7 October 2009.
- 1.3 On 2 September 2004, the Registrar of Companies issued Hargreave Hale AIM VCT1 with a certificate under section 117 of the 1985 Act entitling it to commence business.
- 1.4 On 30 November 2006, the Registrar of Companies issued Hargreave Hale AIM VCT2 with a certificate under section 117 of the 1985 Act entitling it to commence business.

#### **2. REGISTERED OFFICES AND PRINCIPAL LEGISLATION**

- 2.1 The registered office of both Companies is at 19 Cavendish Square, London, W1A 2AW. The administration office of both Companies is at 19 Cavendish Square, London, W1A 2AW., Their telephone number is +44 (0) 20 7009 4900.
- 2.2 The principal legislation under which the Companies operate and which govern the Ordinary Shares are the Acts.

#### **3. SHARE AND LOAN CAPITAL**

##### **Hargreave Hale AIM VCT1**

- 3.1 Hargreave Hale AIM VCT1 was incorporated with an authorised share capital of £500,000 divided into 50,000,000 Ordinary Shares of 1p each, of which two Ordinary Shares (“Hargreave Hale AIM VCT1 Subscriber Shares”) were issued, nil paid, to the subscribers to the memorandum of association.
- 3.2 The subscribers to the memorandum of association were Oyez Professional Services Limited of Oyez House, 7 Spar Road, London SE16 3QQ, a company formation agent and Howard Kennedy Limited of 19 Cavendish Square, London W1A 2AW.
- 3.3 Ordinary and special resolutions were passed on 11 October 2005:
  - 3.3.1 to authorise the Directors to allot securities under Section 80 of the Companies Act 1985;
  - 3.3.2 to increase the authorised share capital of the Company;
  - 3.3.3 to authorise the Directors pursuant to Section 95 of the Companies Act 1985 to allot equity securities for cash without regard to pre-emption rights;

- 3.3.4 to amend the Articles of Association;
  - 3.3.5 (on the conversion date) to divide the C Shares into C Shares of 1p each;
  - 3.3.6 (on the conversion date) to alter the share capital by the conversion of C Shares into Ordinary Shares and deferred shares and the repurchase and redesignation of the deferred shares;
  - 3.3.7 to authorise the purchase of C Shares;
  - 3.3.8 to cancel the share premium account to be created upon the issue of the C shares;
  - 3.3.9 to authorise the Directors to offer Shareholders the right to receive Shares in lieu of dividends in terms of the Dividend Reinvestment Schemes;
  - 3.3.10 to approve the proposed management and performance incentive arrangements for Hargreave Hale Limited in relation to the proposed C Share Fund; and
  - 3.3.11 to approve the appointment of Keydata Investment Services Limited as the Promoter in relation to the C Share Offer.
- 3.4 Ordinary and special resolutions were passed on 19 May 2009:
- 3.4.1 to ratify and approve the purchase of Ordinary Shares by the Company in the period from 22 January to 30 September 2008;
  - 3.4.2 to ratify and approve the conduct of all the Directors of the Company in relation to the purchase of Ordinary Shares by the Company in the period from 22 January to 30 September 2008;
  - 3.4.3 to approve an amendment to the Company's investment policy;
  - 3.4.4 to adopt new Articles of Association;
  - 3.4.5 to authorise the tender offer proposal to purchase up to 8,000,000 of the Company's Ordinary Shares; and
  - 3.4.6 to authorise the Company to call general meetings (other than an annual general meetings) on not less than 14 clear day's notice.
- 3.5 A special resolution was passed on 30 September 2009 that the name of the Company be changed to "Hargreave Hale AIM VCT1 Plc"
- 3.6 At a general meeting of the shareholders of Hargreave Hale AIM VCT1 held on 17 March 2010, resolutions were passed to:
- 3.6.1 authorise the Directors to allot shares and grant rights to subscribe for shares under Section 551 of the Companies Act;

- 3.6.2 authorise the Directors pursuant to Section 571 of the Companies Act 2006 to allot equity securities for cash without regard to pre-emption rights:

**Hargreave Hale AIM VCT2**

- 3.7 Hargreave Hale AIM VCT2 was incorporated under the name Keydata AIM VCT 2 plc with an authorised share capital of £500,000 divided into 50,000,000 Ordinary Shares of 1p each, of which two Ordinary Shares were issued, nil paid, to the subscribers to the memorandum of association. The subscribers to the memorandum of association were Oyez Professional Services Limited of Oyez House, 7 Spar Road, London SE16 3QQ, a company formation agent and Howard Kennedy Limited of 19 Cavendish Square, London W1A 2AW.
- 3.8 By special resolution passed on 30 September 2009 the name of the Company was changed to “Hargreave Hale AIM VCT1 Plc”.
- 3.9 At a general meeting of the Shareholders of Hargreave Hale AIM VCT2 held on 17 March 2010, resolutions were passed to:
- 3.9.1 authorise the Directors to allot shares and grant rights to subscribe for shares under Section 551 of the Companies Act;
- 3.9.2 authorise the Directors pursuant to Section 571 of the Companies Act 2006 to allot equity securities for cash without regard to pre-emption rights.
- 3.10 At the date of this document the issued fully paid share capital of each of the Companies is:

	<i>Class of shares</i>	<i>Nominal value</i>	<i>Issued (fully paid)</i>	
			<i>£</i>	<i>No.</i>
Hargreave Hale AIM VCT1	Ordinary Shares	£0.01	284,210.05*	28,421,005*
Hargreave Hale AIM VCT2	Ordinary Shares	£0.01	44,957.38	4,495,738

\*Including 2,711,134 Ordinary Shares held in treasury

- 3.11 The issued fully paid share capital of the Companies immediately after the Offer has closed (assuming the Offer is fully subscribed and all the allotments were made on the basis of the NAV per Ordinary Share for the relevant Company as at 12 March 2010) will be as follows:

	<i>Class of shares</i>	<i>Nominal value</i>	<i>Issued (fully paid)</i>	
			<i>£</i>	<i>No.</i>
Hargreave Hale AIM VCT1	Ordinary Shares	£0.01	£387,515.83*	387,515.83*
Hargreave Hale AIM VCT2	Ordinary Shares	£0.01	£72,185.55	7,218.555

\*Including 2,711,134 Ordinary Shares held in treasury

- 3.12 Other than the issue of Ordinary Shares pursuant to the Offer, the Companies have no present intention to issue any of the authorised but unissued share capital of the Companies.
- 3.13 The Companies do not have in issue any securities not representing share capital.
- 3.14 No shares of the Companies are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.
- 3.15 There has been no issue of share or loan capital of the Companies in the two years immediately preceding the date of this document and (other than pursuant to the Offer) no such issues are proposed.
- 3.16 No share or loan capital of the Companies is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 3.17 Save as disclosed in paragraphs 9.1.1 and 9.4 below, no commissions, discounts, brokerages or other special terms have been granted by the Companies in connection with the issue or sale of any share or loan capital of the Companies.
- 3.18 Other than pursuant to the Offer, none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to the Official List.
- 3.19 The Ordinary Shares will be in registered form. No temporary documents of title will be issued and prior to the issue of definitive certificates, transfers will be certified against the register. It is expected that definitive share certificates for the Ordinary Shares not to be held through CREST will be posted to allottees as soon as practicable following allotment of the Ordinary Shares. Ordinary Shares to be held through CREST will be credited to CREST accounts on Admission. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and otherwise than by a written instrument. No notification will be made to successful applicants prior to dispatch of definitive share certificates.
- 3.20 The ISIN and SEDOL Code of Hargreave Hale AIM VCT1 Shares is GB00B02WHS05 and B02WHS0, respectively. The ISIN and SEDOL Code of Hargreave Hale AIM VCT2 Shares is GB00B1GDYS53 and B1GDYS5, respectively.

#### 4. MEMORANDUM AND ARTICLES OF ASSOCIATION

- 4.1 The memorandum of association of each Company provides that the Company's principal object is to carry on the business of a VCT. The objects of each Company are set out in full in clause 4 of its memorandum of association.
- 4.2 The articles of association of each Company ("the Articles"), contain, *inter alia*, the following provisions. In this paragraph 4, "the Company" means each of the Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2.
- 4.3 The articles of association of each Company provides that its principal object is to carry on the business of a Venture Capital Trust and that the liability of members is limited.
- 4.4 The articles of association of each Company contain, *inter alia*, provisions to the following effect:

##### 4.4.1 Voting Rights

Subject to any special terms as to voting on which any Shares may be issued, on a show of hands every member present in person (or being a corporation, present by authorised representative) shall have one vote and, on a poll, every member who is present in person or by proxy shall have one vote for every Share of which he is the holder. The Shares shall rank *pari passu* as to rights to attend and vote at any general meeting of the relevant Company.

##### 4.4.2 Transfer of Shares

The Ordinary Shares are in registered form and will be freely transferable. All transfers of Ordinary Shares must be effected by a transfer in writing in any usual form or any other form approved by the Directors. The instrument of transfer of an Ordinary Share shall be executed by or on behalf of the transferor and, in the case of a partly paid share by or on behalf of the transferee. The Directors may refuse to register any transfer of a partly paid Share, provided that such refusal does not prevent dealings taking place on an open and proper basis and may also refuse to register any instrument of transfer unless:

4.4.2.1 it is duly stamped (if so required), is lodged at the relevant Company's registered office or with its registrars or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

4.4.2.2 it is in respect of only one class of share; and

4.4.2.3 the transferees do not exceed four in number.

##### 4.4.3 Dividends

Each 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 an Ordinary Share shall bear interest as against the relevant Company. There are no fixed dates on which entitlement to a dividend arises.

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

#### 4.4.4 Disclosure of Interest in Ordinary Shares

If any member or other person appearing to be interested in shares of either of the Companies is in default in supplying within 42 days (or 28 days where the shares represent at least 0.25 per cent. its the share capital) after the date of service of a notice requiring such member or other person to supply to the relevant Company in writing all or any such information as is referred to in section 793 of the 2006 Act, the Directors may, for such period as the default shall continue, impose restrictions upon the relevant shares.

The restrictions available are the suspension of voting or other rights conferred by membership in relation to meetings of the Companies in respect of the relevant shares and additionally in the case of a shareholder representing at least 0.25 per cent. by nominal value of any class of shares of the relevant Company then in issue, the withholding of payment of any dividends on, and the restriction of transfer of, the relevant shares.

#### 4.4.5 Distribution of Assets on Liquidation

On a winding-up any surplus assets of each Company respectively will be divided amongst the holders of its Shares according to the respective numbers of Shares held by them in the relevant Company and in accordance with the provisions of the Act, subject to the rights of any shares which may be issued with special rights or privileges. The articles of association provide that the liquidator may, with the sanction of a 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 relevant Company in such manner as he may determine.

#### 4.4.6 Changes in Share Capital

4.4.6.1 Without prejudice to any rights attaching to any existing shares, any share may be issued with such rights or restrictions as each Company may by ordinary resolution determine or in the absence of such determination, as the Directors may determine. Subject to the Act, each Company may issue shares, which are, or at the option of the relevant Company or the holder are, liable to be redeemed.

4.4.6.2 Each Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, sub-divide its shares or any of them into shares of smaller amounts, or cancel or reduce the nominal value of any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount so cancelled or the amount of

the reduction.

4.4.6.3 Subject to the Act, each Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account, and may also, subject to the Act (and by resolution of the holders of the shares repurchased where such shares are convertible shares), purchase its own shares.

#### 4.4.7 Variation of Rights

Whenever the capital of either Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of that class) be varied or abrogated either with the consent in writing of the holders of not less than three-fourths of the nominal amount of the issued shares of the class or with the sanction of a resolution passed at a separate meeting of such holders.

#### 4.4.8 Directors

Unless and until otherwise determined by either Company in General Meeting pursuant to Article 122 the number of Directors shall not be less than two nor more than ten. The continuing Directors may act notwithstanding any vacancy in their body, provided that if the number of the Directors be less than the prescribed minimum the remaining Director or Directors shall forthwith appoint an additional Director or additional Directors to make up such minimum or shall convene a General Meeting of that Company for the purpose of making such appointment.

Any Director may in writing under his hand appoint (a) any other Director, or (b) any other person who is approved by the Board of Directors as hereinafter provided to be his alternate. A Director may at any time revoke the appointment of an alternate appointed by him. Every person acting as an alternate Director shall be an officer of the Company, and shall alone be responsible to the Company for his own acts and defaults, and he shall not be deemed to be the agent of or for the Director appointing him.

Subject to the provisions of the Act, the Directors may from time to time appoint one or more of their body to be Managing Director or Joint Managing Directors of either Company or to hold such other executive office in relation to the management of the business of that Company as they may decide.

A Director of a Company may continue or become a Director or other officer, servant or member or any company promoted by that Company or in which it may be interested as a vendor shareholder, or otherwise, and no such Director shall be accountable for any remuneration or other benefits derived as director or other officer, servant or member of such company.

The Directors may from time to time appoint a President of a Company (who need not be a Director of the Company) and may determine his duties and remuneration and the period for which he is to hold office.

The Directors may from time to time provide for the management and transaction of the affairs of the Company in any specified locality, whether at home or abroad, in such manner as they think fit.

#### 4.4.9 Directors' Interests

- 4.4.9.1 A Director who is in any way, directly or indirectly, interested in a transaction or arrangement with either Company shall, at a meeting of the Directors, declare, in accordance with the Act, the nature of his interest.
- 4.4.9.2 Provided that he has declared his interest, a Director may be a party to or otherwise interested in any transaction or arrangement with the relevant Company or in which that Company is otherwise interested and may be a director or other officer or otherwise interested in any body corporate promoted by the Company or in which the Company is otherwise interested. No Director so interested shall be accountable to the Company, by reason of his being a Director, for any benefit that he derives from such office or interest or any such transaction or arrangement.
- 4.4.9.3 A Director shall not vote nor be counted in the quorum at a meeting of the Directors in respect of a matter in which he has any material interest otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through either Company, unless his interest arises only because the case falls within one or more of the following paragraphs:
- 4.4.9.3.1 the giving to him of any guarantee, security or indemnity in respect of money lent or an obligation incurred by him at the request of or for the benefit of the relevant Company or any of its subsidiary undertakings;
  - 4.4.9.3.2 the giving to a third party of any guarantee, security or indemnity in respect of a debt or an obligation of the relevant Company or any of its subsidiary undertakings for which he has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - 4.4.9.3.3 any proposal concerning the subscription by him of shares, debentures or other securities of the relevant Company or any of its subsidiary undertakings or by virtue of his participating in the underwriting or sub-underwriting of an offer of such shares, debentures or other securities;
  - 4.4.9.3.4 any proposal concerning any other company in which he is interested, directly or indirectly, whether as an officer or shareholder or otherwise, provided that he and any persons connected with him do not to his knowledge hold an interest in shares representing one per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of the relevant company;
  - 4.4.9.3.5 any proposal relating to an arrangement for the benefit of the employees of the relevant Company or any subsidiary undertaking which does not award to any Director as such any privilege or advantage not generally awarded to the employees to whom such arrangement relates; and

4.4.9.3.6 any arrangement for purchasing or maintaining for any officer or auditor of the relevant Company or any of its subsidiaries insurance against any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, breach of duty or breach of trust for which he may be guilty in relation to the relevant Company or any of its subsidiaries of which he is a director, officer or auditor.

4.4.9.4 When proposals are under consideration concerning the appointment of two or more Directors to offices or employment with either Company or any company in which that Company is interested the proposals may be divided and considered in relation to each Director separately and (if not otherwise precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

#### 4.4.10 Remuneration of Directors

4.4.10.1 The ordinary remuneration of the Directors shall be such amount as the Directors shall from time to time determine (provided that unless otherwise approved by the relevant Company in general meeting the aggregate ordinary remuneration of such Directors, including fees from both Companies, shall not exceed £200,000 per year) to be divided among them in such proportion and manner as the Directors may determine. The Directors shall also be paid by that Company all reasonable travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.

4.4.10.2 Any Director who, by request of the Directors, performs special services for any purposes of either Company may be paid such reasonable extra remuneration as the Directors may determine.

4.4.10.3 The emoluments and benefits of any executive director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants or, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

#### 4.4.11 Retirement of Director

A Director shall also retire from office at or before the third annual general meeting following the annual general meeting at which he last retired and was re-elected. A retiring Director shall be eligible for re-election. A Director shall be capable of being appointed or re-appointed a Director despite having attained any particular age.

#### 4.4.12 Borrowing powers

Subject as provided below, the Directors may exercise all the powers of each Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital.

The Directors shall restrict the borrowings of each Company and exercise all voting and other rights or powers of control over its subsidiary undertakings (if any) so as to secure that the aggregate amount at any time outstanding in respect of money borrowed by the group, being that Company and its subsidiary undertakings for the time being (excluding intra-group borrowings), shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to 15 per cent. of the aggregate total amount received from time to time on the subscription of shares of that Company.

#### 4.4.13 Distribution of Realised Capital Profits

At any time when either Company has given notice in the prescribed form (which has not been revoked) to the Registrar of Companies of its intention to carry on business as an investment company (“a Relevant Period”) the distribution of that Company’s capital profits (within the meaning of section 266(2)(c) of the 1985 Act) shall be prohibited. The Board shall establish a reserve to be called the capital reserve. During a Relevant Period, all surpluses arising from the realisation or revaluation of investments and all other monies realised on or derived from the realisation, payment or other dealing with any capital asset in excess of the book value thereof and all other monies which are considered by the Board to be in the nature of accretion to capital shall be credited to the capital reserve. Subject to the 1985 Act, the Board may determine whether any amount received by the relevant Company is to be dealt with as income or capital or partly one way and partly the other. During a Relevant Period, any loss realised on the realisation or payment or other dealing with investments, or other capital losses, and, subject to the 1985 Act, any expenses, loss or liability (subscription therefore) which the Board considers to relate to a capital item or which the Board otherwise considers appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. During a Relevant Period, all sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable except and provided that during a Relevant Period no part of the capital reserve or any other money in the nature of accretion to capital shall be transferred to the revenue reserves of the relevant Company or be regarded or treated as profits of that Company available for distribution (as defined in section 263(2) of the 1985 Act) or be applied in paying dividends on any shares in that Company. In periods other than a Relevant Period, any amount standing to the credit of the capital reserve may be transferred to the revenue reserves of the relevant Company or be regarded or treated as profits of the Company available for distribution (as defined by section 263(2) of the 1985 Act) or applied in paying dividends on any shares in the Company.

#### 4.4.14 General Meetings

Annual general meetings shall be held at such time and place as may be determined by the Directors and not more than fifteen months shall elapse between the date of one general meeting and that of the next.

The Directors may, may whenever they think fit, convene a general meeting of a Company, and general meetings shall also be convened on such requisition or in default may be convened by such requisitionists as are provided by the Act. Any meeting convened under this Article by requisitionists shall be convened in the same manner as near to as possible as that in which meetings are to be convened by the Directors.

An annual general meeting shall be called by not less than twenty-one days notice in writing, and all other general meetings of a Company shall be called by not less than fourteen days notice in writing. The notice shall be exclusive of the day on which it is given and of the day of the meeting and shall specify the place, the day and hour of meeting, and in case of special business the general nature of such business. The notice shall be given to the members, other than those who, under the provisions of the articles or the terms of issue of the shares they hold, are not entitled to receive notice from the Company, to the Directors and to the Auditors. A notice calling an annual general meeting shall specify the meeting as such and the notice convening a meeting to pass a special resolution or an ordinary resolution as the case may be shall specify the intention to propose the resolution as such.

In every notice calling a meeting of a Company or any class of the members of a Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him, and that a proxy need not also be a member.

If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened by or upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned to such time (being not less than fourteen days and not more than twenty-eight days hence) and at such place as the Chairman shall appoint. At any such adjourned meeting the member or members present in person or by proxy and entitled to vote shall have power to decide upon all matters which could properly have been disposed of at the meeting from which the adjournment took place. A Company shall give not less than seven clear days notice of any meeting adjourned for the want of a quorum and the notice shall state that the member or members present as aforesaid shall form a quorum.

The Chairman may, with the consent of the meeting (and shall, if so directed by the meeting) adjourn any meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

#### 4.4.15 Duration of the Company

The Directors shall put an ordinary resolution to the annual general meeting of the Company in 2011 (in respect of the Hargreave Hale Aim VCT I) and 2013 (in respect of Hargreave Hale Aim VCT II) and, if passed, to every fifth subsequent annual general meeting, proposing that the Company should continue as a Venture Capital Trust for a further five year period. If any such resolution is not passed, the Directors shall draw up proposals for the reorganisation, reconstruction or voluntary winding up of the Company for submission to the members of the Company at an extraordinary general meeting to be convened by the Directors on a date not more than 9 months after such annual general meeting. Implementation of the proposals will require the approval of members by ordinary resolution. For the purposes of this, an ordinary resolution will not have been carried only if those members in person or by proxy who vote against such resolution hold in aggregate not less than twenty five per cent. of the issued share capital of the Company at such time entitled to attend and vote at such a meeting.

## 5. CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Ordinary Shares are eligible for settlement in CREST.

## 6. DIRECTORS' INTERESTS

6.1 As at the date of this document and after the Offer closes the interests of the Directors and their immediate families (all of which are beneficial) in the share capital of the Companies which:

6.1.1 are or will be notified to the Companies in accordance with rule 3 of the Disclosure and Transparency Rules ("DTR 3") by each Director; or

6.1.2 are interests of a connected person (within the meaning in DTR 3) of a Director which are or will be required to be disclosed under paragraph 6.1.1 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:

		<i>As at the date of this Document</i>		<i>After the Offer has closed**</i>	
	<i>Director</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital*</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital*</i>
Hargreave Hale AIM VCT1	Aubrey Brocklebank	5,000	0.02	5,000	0.01
	David Hurst-Brown	27,250	0.11	27,250	0.08
	Giles Hargreave	109,163	0.42	109,163	0.30
Hargreave Hale AIM VCT2	Aubrey Brocklebank	5,000	0.11	5,000	0.07
	David Hurst-Brown***	26,250	0.58	26,250	0.36
	Giles Hargreave	51,500	1.15	96,880****	1.34

\* excluding 2,711,134 Ordinary Shares held in treasury in relation to Hargreave Hale VCT1

\*\* assuming that the Maximum Subscription is achieved and all the allotments are made on the basis of the NAV per Ordinary Share for the relevant Company as at 12 March 2010

\*\*\* includes 26,250 Ordinary Shares held by Jacqueline Mary Hurst-Brown

\*\*\*\* assuming that £50,000 to be invested by Giles Hargreave pursuant to the Offer is invested on the basis of the NAV per Ordinary Share for the relevant Company as at 12 March 2010

6.2 At the date of this document and after the Offer has closed, the Companies are aware of the following persons who are or will hold, directly or indirectly, voting rights representing 3 per cent. or more of the issued share capital of the Companies to which voting rights are attached (assuming that the Offer is fully subscribed):

		<i>As at the date of this Document</i>		<i>After the Offer has closed**</i>	
	<i>Name</i>	<i>Number of Ordinary Shares*</i>	<i>Percentage of voting rights*</i>	<i>Number of Ordinary Shares*</i>	<i>Percentage of voting rights of the Ordinary Shares*</i>
Hargreave Hale AIM VCT1	Treasury Shares	2,711,134	Nil	2,711,134	Nil
Hargreave Hale AIM VCT2	Mrs Patricia Davenport	203,000	4.52%	203,000	2.81
	Frank Nominees Ltd	263,900	5.87%	263,900	3.66

\* excluding 2,711,134 Ordinary Shares held in treasury in relation to Hargreave Hale VCT1

\*\* assuming that the Maximum Subscription is achieved and all the allotments are made on the basis of the NAV per Ordinary Share for the relevant Company as at 12 March 2010

- 6.3 Save as disclosed in paragraphs 6.1 and 6.2 above, the Companies are not aware of any person who will, immediately following Admission of the Ordinary Shares, hold (for the purposes of rule 5 of the Disclosure and Transparency Rules (“DTR 5”)) directly or indirectly voting rights representing 3 per cent. or more of the issued share capital of either Company to which voting rights are attached or could, directly or indirectly, jointly or severally, exercise control over either Company.
- 6.4 The persons including the Directors referred to in paragraphs 6.1 and 6.2 above, do not have voting rights in respect of the share capital of either of the Companies (issued or to be issued) which differ from any other shareholder of the Companies.
- 6.5 The Companies and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Companies.
- 6.6 Save in respect of the arrangements referred to in paragraphs 7 and 9 no Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Companies and which were effected by the Companies in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- 6.7 Giles Hargreaves, as a director and shareholder of Hargreave Hale Limited, is interested in the arrangements referred to in paragraph 9 below. Save in respect of these arrangements, there are no potential conflicts of interest between any duties owed to the Companies by the Directors and their private and/or other duties.

6.8 In addition to their directorships of the Companies, the Directors currently hold, and have during the five years preceding the date of this document held, the following directorships, partnerships or been a member of the senior management:

<i>Name</i>	<i>Current Directorships/Partnership Interests</i>	<i>Past Directorships/Partnership Interests</i>
Aubrey Brocklebank	Aim Distribution Trust Plc  Aubrey Brocklebank & Associates Ltd Epiquest Live Inc Grasshopper LLP  Legacy Associates Plc Octopus Second AIM VCT Plc Pennine AIM VCT6 Plc  Puma VCT Plc Puma VCT II Plc Puma VCT III Plc Puma VCT IV Plc  The Media Vehicle Group Ltd Urban & Country Leisure Ltd	AT Communications Group PLC (in administration) Backglass Limited (dissolved) Bar Room Bar Ltd (in administration) Brocklebank & Co. Limited (dissolved) Innvotec Ltd Lance Leisure (Mexborough) Ltd Medcell Bioscience Ltd (voluntary arrangement) Old Park Lane Plc ReInVenture LLP (dissolved) The Classic 2CV Racing Club Ltd Top Ten Bingo Ltd Top Ten Holdings Plc Walker Group Ltd Walker Holdings (UK) Ltd Walker Leisure (UK) Ltd Walker Property Management Group Limited Westvale Leisure Ltd
David Hurst-Brown	Acuity VCT3 Plc Anite Plc  Boyle Electrical Generation Ltd Burley Energy Ltd Clarke Power Services Ltd Cooke Generation Ltd Docherty Heat & Energy Distributor Ltd Ffastfill Plc  Grove House Publishing Ltd Hughes Power Ltd Imagination Technologies Group Plc Keydata Income VCT 1 Plc Keydata Income VCT2 Plc Leadhall Bay Ltd Nevin Energy Resources Ltd Spencer Energy Services Ltd Strath Hallade Partnership Sainn Partnership Woodham House Ltd Woodham School Ltd	MGHB Investments Ltd  Red Labell Ltd SBCW Co Ltd Smart Approach Group Plc*  Smart Realisation Ltd Woodham Catering Ltd
Giles Hargreave	Hargreave Hale Ltd Progress Nominees Ltd Hargreave Hale Nominees Ltd Hargreave Music Management (partnership)	

\* David Hurst-Brown was a director of Smart Approach Group Plc when it went into administration in February 2006. It was subsequently dissolved on 2 November 2007 after its business was sold by the administrator.

The business address of all the Directors is 19 Cavendish Square, London W1A 2AW.

- 6.9 None of the Directors or members of the Investment Manager in the five years prior to the date of this Prospectus save as set out in paragraph 6.8 above:-
- 6.9.1 is currently a director of a company or a partner in a partnership or has been a director of a company or a partner in a partnership within the 5 years immediately preceding the date of this document;:
  - 6.9.2 has any convictions in relation to fraudulent offences;
  - 6.9.3 has had any bankruptcies, receiverships or liquidations through acting in the capacity of a member of any administrative, management or supervisory bodies or as a partner, founder or senior manager of any partnership or company; and
  - 6.9.4 has had any official public recriminations and/or sanctions by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a Court from acting as a member of the administrative management or supervisory bodies of any company or firm acting, or in the management or conduct of the affairs of, any company.
- 6.10 There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any Director was selected as a member of the administrative, management or supervisory bodies or member of senior management.
- 6.11 There are no restrictions agreed by any Director on the disposal within a certain period of time of their holdings in the Companies' securities.
- 6.12 There are no outstanding loans or guarantees provided by either of the Companies for the benefit of any of the Directors nor are there any loans or any guarantees provided by any of the Directors for either of the Companies.
- 6.13 No Shares are being reserved for allocation to existing Shareholders, Directors or employees.
- 6.14 There are no amounts set aside or accrued by the Company is to provide pension, retirement or similar benefits to the Directors or members of the Investment Manager.
- 6.15 Save as set out in paragraph 6.1.2 above, and in the table below, no Director, employees of the Investment Manager nor any person connected with any Director or employees of the Investment Manager has any interest in the share capital or loan capital of the Companies whether beneficial or non-beneficial and no shares in the capital of either Company are being reserved for allocation to existing shareholders, Directors or employees of the Companies.

	<i>Employee of the Investment Manager or any person connected to them</i>	<i>As at the date of this Document</i>		<i>After the Offer has closed**</i>	
		<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital*</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital*</i>
Hargreave Hale AIM VCT1	George Finlay	140,857	0.55	140,857	0.39
	Richard Pollitzer	38,515	0.15	38,515	0.11
	Daniel Coleman	51,500	0.20	51,500	0.14
	Guy Feld	25,450	0.10	25,450	0.07
Hargreave Hale AIM VCT2	George Finlay	50,000	1.11	50,000	0.69
	Adam Howard Caplan	25,000	0.56	25,000	0.35
	Guy Feld	3,090	0.07	3,090	0.04
	Judith Hallett	7,725	0.17	7,725	0.11

\* excluding 2,711,134 Ordinary Shares held in treasury in relation to Hargreave Hale VCT1

\*\* assuming that the Maximum Subscription is achieved and all the allotments are made on the basis of the NAV per Ordinary Share for the relevant Company as at 12 March 2010

6.16 The Companies' major shareholders do not have different voting rights.

6.17 There are no family relationships between any of the Directors or members of the Investment Manager or between any of the Directors and the members of the Investment Manager

## **7. DIRECTORS' REMUNERATION, SERVICE AGREEMENTS AND CONSULTANCY ARRANGEMENTS**

7.1 In the financial year ended 30 September 2009, the remuneration of the Directors from Hargreave Hale AIM VCT1 was £49,365 and for financial year ended 28 February 2009, the remuneration of the Directors from Hargreave Hale AIM VCT2 was £48,000. The remuneration of the Directors in respect of the current financial year (under the arrangements in force at the date of this document) is expected to be £48,000 for each Company.

7.2 The Directors, other than Sir Aubrey Brocklebank Bt, are entitled to receive £15,000 per annum (exclusive of VAT, if any) from Hargreave Hale AIM VCT1 and £15,000 per annum (exclusive of VAT, if any) from Hargreave Hale AIM VCT2. Sir Aubrey Brocklebank Bt, as Chairman, is entitled to receive £18,000 per annum (exclusive of VAT, if any) from Hargreave Hale AIM VCT1 and £18,000 per annum (exclusive of VAT, if any) from Hargreave Hale AIM VCT2. Payments in respect of Giles Hargreave as Non-Executive Director will be paid to Hargreave Hale Limited.

7.3 None of the Directors has a service contract with either of the Companies and no such contract is proposed. Each of the Directors have been appointed on terms which can be terminated by either party on three months' notice.

7.4 The Directors are not entitled to compensation on termination of their directorships.

- 7.5 Sir Aubrey Brocklebank Bt and David Hurst-Brown have each entered into consultancy agreements with the Companies (in the case of Sir Aubrey Brocklebank Bt the agreements being entered into separately with him and through his associated company, Aubrey Brocklebank & Associates Ltd). The fees payable in relation to these agreements are included in the fees referred to in paragraph 7.2 above.

## **8. THE COMPANY AND ITS SUBSIDIARIES**

The Companies do not have any subsidiaries.

## **9. MATERIAL CONTRACTS**

- 9.1 The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Companies in the two years immediately preceding the date of this document or which are expected to be entered into prior to Admission and which are, or may be, material or which have been entered into at any time by the Companies and which contain any provision under which either Company has any obligation or entitlement which is, or may be, material to the relevant Company as at the date of this document:

### **HARGREAVE HALE AIM VCT 1**

- 9.1.1 Under the Offer Agreement dated 19 March 2010 and made between the Company (1), the Directors (2), the Sponsor (3), and the Investment Manager (4), the Sponsor has agreed to act as sponsor to the Offer and the Investment Manager has undertaken as agent of the Company to use its reasonable endeavours to procure subscribers under the Offer. Under the Offer Agreement, the Company will pay the Investment Manager a commission of 5 per cent. of the aggregate value of accepted applications for Ordinary Shares received pursuant to the Offer.
- 9.1.2 Out of this fee, the Investment Manager will pay all other costs and expenses of or incidental to the Offer.
- 9.1.3 Under the Offer Agreement, which may be terminated by the parties in certain circumstances, the Investment Manager, the Company and the Directors have given certain warranties and indemnities to the Sponsor. Warranty claims must be made by no later than 3 months after the second annual general meeting of the Company following the closing date of the Offer at which Shareholders approve the Company's accounts or by the date the Company is subject to a takeover. The warranties and indemnities are in usual form for a contract of this type and the warranties are subject to limits of the total proceeds of the Offer for the Investment Manager, and one year's director fees for each Director. The Company has also agreed to indemnify the Sponsor in respect of its role as Sponsor and under the Offer Agreement. The Offer Agreement may be terminated, *inter alia*, if any statement in the Prospectus is untrue, any material omission from the Prospectus arises or any breach of warranty occurs.
- 9.2 An agreement ("the Investment Management Agreement") dated 10 September 2004 (as amended) between the Company and the Investment Manager on the terms described on page 42.

- 9.3 Under supplemental management agreements between each Company (1) and Hargreave Hale (2) dated 10 September 2009, Hargreave Hale will provide administrative and custodian services to the Company and the services of Stuart Brookes, as company secretary and Giles Hargreave, as a non-executive director for an annual fee of £77,000 (plus VAT) terminable on 3 months' notice either side. Giles Hargreave is interested in this Agreement as a director and shareholder of Hargreave Hale.
- 9.4 Pursuant to Offer Agreements dated 10 September 2004 and 13 October 2005, the Company paid Keydata Investment Services Limited (now in administration) a fee of 5 per cent. of the aggregate value of accepted applications for shares received pursuant to the offer the subject of the agreement together with an annual commission of 0.9 per cent. per annum of the Net Asset Value of the Company, payable quarterly in arrears. Out of its fee, Keydata Investment Services Limited paid all other costs and expenses of or incidental to the offer the subject of the agreement. Authorised financial advisers were paid by Keydata Investment Services Limited. Under the agreement, Keydata Investment Services Limited agreed to indemnify the Company against annual running costs exceeding 3.5 per cent. of its net asset value.

#### **HARGREAVE HALE AIM VCT 2**

- 9.4.1 Under the Offer Agreement dated 19 March 2010 and made between the Company (1), the Directors (2), the Sponsor (3), and the Investment Manager (4), the Sponsor has agreed to act as sponsor to the Offer and the Investment Manager has undertaken as agent of the Company to use its reasonable endeavours to procure subscribers under the Offer. Under the Offer Agreement, the Company will pay the Investment Manager a commission of 5 per cent. of the aggregate value of accepted applications for Ordinary Shares received pursuant to the Offer.
- 9.4.2 Out of this fee, the Investment Manager will pay all other costs and expenses of or incidental to the Offer.
- 9.4.3 Under the Offer Agreement, which may be terminated by the parties in certain circumstances, the Investment Manager, the Company and the Directors have given certain warranties and indemnities to the Sponsor. Warranty claims must be made by no later than 3 months after the second annual general meeting of the Company following the closing date of the Offer at which Shareholders approve the Company's accounts or by the date the Company is subject to a takeover. The warranties and indemnities are in usual form for a contract of this type and the warranties are subject to limits of the total proceeds of the Offer for the Investment Manager, and one year's director fees for each Director. The Company has also agreed to indemnify the Sponsor in respect of its role as Sponsor and under the Offer Agreement. The Offer Agreement may be terminated, *inter alia*, if any statement in the Prospectus is untrue, any material omission from the Prospectus arises or any breach of warranty occurs.
- 9.5 An agreement ("the Investment Management Agreement") dated 8 December 2006 between the Company and the Investment Manager on the terms described on page 42.
- 9.6 Pursuant to an Offer Agreement dated 8 December 2006, the Company paid Keydata Investment Services Limited (now in administration) a fee of 5 per cent. of the aggregate value of accepted applications for shares received pursuant to the offer the subject of the agreement together with an annual commission of 0.9 per cent. per annum of the Net Asset Value of the Company, payable quarterly in arrears. Out of its fee, Keydata Investment Services

Limited paid all other costs and expenses of or incidental to the offer the subject of the agreement. Authorised financial advisers were paid by Keydata Investment Services Limited. Under the agreement, Keydata Investment Services Limited agreed to indemnify the Company against annual running costs exceeding 3.5 per cent. of its net asset value.

- 9.7 Subject to the Listing Rules and other regulations, Giles Hargreave has committed to invest a total of £50,000 in Hargreave Hale AIM VCT2 under the Offer pursuant to an irrevocable undertaking.

## **10. RELATED PARTY TRANSACTIONS**

Other than the agreements referred to at paragraphs 7 and 9.1 to 9.7, there have been no related party transactions relating to the Companies (since their respective date of incorporation).

## **11. SPECIFIC DISCLOSURES IN RESPECT OF CLOSED ENDED FUNDS**

- 11.1 The Investment Manager intends to structure the investments of the Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 Share funds in accordance with the Companies' object of spreading investment risk and in accordance with their respective published investment policies as set out in the sections of Part I entitled "About Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2. This investment policy is in line with the VCT rules and neither of the Companies will deviate from them. Further, in accordance with the VCT rules, the Companies will invest in ordinary shares, in some cases a small number of preference shares where applicable, and always in accordance with such rules.
- 11.2 The Companies are not authorised or regulated by the FSA (or equivalent overseas regulator) although VCTs need to meet a number of conditions set out in tax legislation in order for the VCT tax reliefs to apply, and comply with the rules and regulations of the UK Listing Authority.
- 11.3 Each of the Companies is regulated by the VCT rules in respect of the investments they make. Each of the Companies has appointed PricewaterhouseCoopers LLP as its VCT status monitor. PricewaterhouseCoopers LLP will report twice yearly to the Companies as a part of their annual and interim reporting obligations. In respect of any breach of the VCT rules, the Company, together with PricewaterhouseCoopers LLP, will report directly and immediately to HMRC to rectify the breach and announce the same immediately to each of the Companies' shareholders through a Regulatory News Service provider. In addition, the Companies intend to maintain the investment approach as detailed in part I of this document.
- 11.4 Neither Company will invest more than 15 per cent. of its gross assets in any single company, in accordance with the VCT legislation, nor will either Company control the companies in which it invests in such a way as to render them subsidiary undertakings until it has obtained approval as a VCT from HMRC.
- 11.5 The Companies will not conduct any trading activity which is significant in the context of their groups (if any) as a whole. No more than 10 per cent., in aggregate, of the value of the total assets of the Company at the time an investment is made may be invested in other listed closed-ended investment funds, except where those funds themselves have published investment policies which permit them to invest no more than 15 per cent. of their total assets in other listed closed-ended investment funds.
- 11.6 Each Board must be able to demonstrate that they will act independently of the Investment Manager. A majority of the Board (including the Chairman) must not be directors, employees, partners, officers, or professional

advisors of or to, the Investment Manager or any company in the Investment Manager's group or any other investment entity which they manage.

- 11.7 Neither Company will invest directly in physical commodities.
- 11.8 Neither Company will invest in any property collective investment undertaking.
- 11.9 Neither Company will invest in any derivatives, financial instruments, money market instruments or currencies other than for the purposes of efficient portfolio management (i.e. solely for the purpose of reducing, transferring or eliminating investment risk in the underlying investments of the collective investment undertaking, including any technique or instrument used to provide protection against exchange and credit risks).
- 11.10 The Investment Manager is responsible for the determination and calculation of the Net Asset Value of the Companies on a weekly basis.
- 11.11 The Net Asset Value of the Companies' investments will be determined weekly. The value of investments will be determined according to their listing status. Quoted securities will be valued at mid-market price unless the investment is subject to restrictions or the holding is significant in relation to the share capital of a small quoted company, in which case a discount may be appropriate as per the BVCA guidelines. Unquoted investments will be valued on a cost basis in the first year and reviewed subsequently on the basis of the progression of the business. The Net Asset Value of the Companies will be communicated to Investors in Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 through a Regulatory News Service provider at the same frequency as the determinations.

In the event of any suspension, valuations are held at the suspended price and a view is taken with consideration to best market practice and information from advisers.

- 11.12 The Directors do not anticipate any circumstances arising under which the valuations may be suspended. Should the determination of Net Asset Value differ from that set out above then this will be communicated to investors in Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 through a Regulatory News Service provider.
- 11.13 Except as noted in paragraph 6.7 of this Part V, none of the Companies' service providers have any conflict, or potential conflict, as between their duty to either Company and duties owed by them to third parties and other interests.

## **12. INFORMATION ON INVESTMENT MANAGER AND ADVISERS**

- 12.1 Hargreave Hale Limited is regulated and authorised by the Financial Services Authority and registered in England and Wales under number 209741 and was incorporated on 16 January 1996 in the UK and operates under the Acts and the regulations made under those Acts. Hargreave Hale Limited is domiciled in the UK and is a limited company. It is registered at Marsden House, 4-10 Springfield Road, Blackpool FY1 1QW. The telephone number is 01253 621575.
- 12.2 The original administrator of each Company was Keydata Investment Services Limited. Keydata Investment Services Limited went into administration on 8 June 2009. The assets and business of the Companies were ring fenced from the activities of Keydata Investment Services Limited and as such were not affected by the

administration. The investment, management and custody of the Companies' assets was at all times undertaken by Hargreave Hale Limited.

### **13. WORKING CAPITAL**

The Directors are of the opinion that the working capital of each Company is sufficient for their present requirements that is, for at least the period of 12 months from the date of this document.

### **14. CAPITALISATION AND INDEBTEDNESS**

14.1 The capitalisation and indebtedness of the Companies as at 31 December 2009 for Hargreave Hale AIM VCT1 and as at 31 January 2010 for Hargreave Hale AIM VCT2 were as follows:

	Hargreave Hale AIM VCT1 (£000)	Hargreave Hale AIM VCT2 (£000)
Indebtedness	148	61
Shareholders' equity		
Share capital	22,892	4,267
Reserves	(6,417)	399
Total	16,475	4,667
Cash at bank	406	249

14.2 All of the indebtedness of the Companies is unsecured and unguaranteed. The Companies have incurred no indirect or contingent indebtedness.

14.3 There has been no material change in the capitalisation of either of the Companies since the dates stated in paragraph 14.1 above.

### **15. CORPORATE GOVERNANCE**

15.1 Each Board has put in place arrangements which they consider appropriate for a VCT to ensure proper corporate governance.

15.2 Each Board considers that the relevant Company complies with the recommendations of the Code except as disclosed below.

15.3 Due to the size of the Boards, each Board has not set up separate audit, nomination and remuneration committees (as required by Code C3.1, A4.1 and B2.1 respectively) on the grounds that the Board as a whole considers these matters. As all Directors are non-executives, each Board has not appointed a senior independent non-executive director (Code A3.3) as the Chairman performs the role.

### **16. LITIGATION**

Neither of the Companies are or have been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Companies are aware) during the

12 months preceding the date of this document, which may have, or have had in the recent past, significant effects on either of the Company's financial position or profitability.

## **17. GENERAL**

- 17.1 The estimated costs and expenses relating to the Offer, assuming full subscription, payable by both Companies are estimated to amount to approximately £500,000 (excluding VAT) in total. The total net proceeds of the Offer, after all fees, are expected to be £6,650,000 for Hargreave Hale AIM VCT1 and £2,850,000 for Hargreave Hale AIM VCT2 (assuming full subscription). There is no minimum subscription for either Company.
- 17.2 None of the annual reports referred to in Part IV contained any statements under section 237(2) or (3) of the Act. Statutory accounts of the Companies for each of the financial years since incorporation have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.
- 17.3 The Companies take all reasonable steps to ensure that its auditors are independent of them and will obtain written confirmation from their auditors that they comply with guidelines on independence issued by their national accountancy and auditing bodies.
- 17.4 Howard Kennedy's office address is at 19 Cavendish Square, London W1A 2AW. Howard Kennedy is regulated by the Financial Services Authority and is acting in the capacity as Sponsor to the Companies.
- 17.5 Howard Kennedy has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 17.6 There are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to either Company's business or profitability.
- 17.7 The Companies do not assume responsibility for the withholding of tax at source.
- 17.8 All third party information in this prospectus has been identified as such by reference to its source and in each instance has been accurately reproduced and, so far as the Companies are aware and able to ascertain from information published by the relevant party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 17.9 The results of the Offer will be announced through a regulatory information service within 3 business days of the closing of the Offer.
- 17.10 The Directors believe that the Offer has the potential to constitute a significant gross change in each Company including an increase in the net assets of each Company of an amount that is equal to the net proceeds it receives under the Offer, the net proceeds expected to be £6,650,000 for Hargreave Hale AIM VCT1 and £2,850,000 for Hargreave Hale AIM VCT2 (assuming full subscription in each case). If the Offer is fully subscribed, an increase in net assets would have certain consequences, including a reduction in the annual expenses ratio of each Company, increasing each Company's earnings, increasing the size and range of investments which each Company could undertake and increasing the number of investments each Company would be required to make in order to meet the VCT eligibility rules.

17.11 Neither Company has, nor has it had since incorporation, any employees and neither Company owns nor occupies any premises.

**18. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the registered office of each Company:

- 18.1 the memorandum of association of each of the Companies and the Articles;
- 18.2 the material contracts referred to in paragraph 9 above;
- 18.3 the interim results of Hargreave Hale AIM VCT1 for the periods ending 31 March 2008 and 31 March 2009, and the annual accounts for the periods ending 30 September 2007, 30 September 2008 and 30 September 2009;
- 18.4 the interim results of Hargreave Hale AIM VCT2 for the periods ending 31 August 2008 and 31 August 2009, and the annual accounts for the periods ending 29 February 2008 and 28 February 2009;
- 18.5 the consent letter referred to in paragraph 17.5 above; and
- 18.6 this Prospectus.

Dated: 19 March 2010

## PART VI

### TERMS AND CONDITIONS

- (a) The contract created by the acceptance of applications under the Offer will be conditional upon:
- (i) the Offer Agreement referred to in paragraphs 9.1.1 and 9.4.1 of Part V becoming unconditional and not being terminated in accordance with its terms; and
  - (ii) in respect of each Company, the passing of the Resolutions.
- (b) The right is reserved by the Companies to present all cheques and bankers' drafts for payment on receipt and to retain surplus application monies pending clearance of successful applicants' cheques. The Companies also reserve the right to reject, in whole or in part, any application. If any application is not accepted in full or if any contract created by acceptance does not become unconditional, the application monies or, as the case may be, the balance thereof will be returned by crossed cheque in favour of the applicant through the post at the risk of the person entitled thereto. The Directors reserve the right to withdraw the Offer at any time prior to satisfaction of the conditions set out in paragraph (a) above.
- (c) By completing and delivering an Application Form you:
- (i) offer to subscribe for the number of Ordinary Shares as will be determined by the amount specified in your Application Form (or such lesser number for which your application is accepted) divided by the price of the Ordinary Shares as resulting from the application of the Pricing Formula on the terms of and subject to this document, including these terms and conditions, and the Memorandum and Articles of Association of the Companies;
  - (ii) agree that, in consideration of the Companies agreeing that they will not issue or allot any Ordinary Shares which are subject to the Offer to any person other than by means of the procedures referred to in this document, your application shall not be revoked until after 1 April 2010 for the 2009/10 admission and 18 March 2011 for the 2010/11 Offer and this paragraph shall constitute a collateral contract between you and the Companies which will become binding upon despatch by post to, or (in the case of delivery by hand) on receipt by, the Receiving Agents of your Application Form;
  - (iii) warrant that your remittance will be honoured on first presentation and agree that if it is not so honoured you will not be entitled to receive a share certificate or have your CREST account credited, in respect of the Ordinary Shares applied for unless and until you make payment in cleared funds for such Ordinary Shares and such payment is accepted by the Companies in their absolute discretion (which acceptance 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 you agree that, at any time prior to the unconditional acceptance by the Companies, it may (without prejudice to other rights) avoid the agreement to allot such Ordinary Shares and may allot such Ordinary Shares to some other person, in which case you will not be entitled to any payment in respect of such Ordinary Shares;

- (iv) agree that, in respect of those Ordinary Shares for which your application has been received and is not rejected, acceptance of your application shall be constituted, at the election of the Companies either (i) by notification to the London Stock Exchange of the basis of allocation (in which case acceptance shall be on that basis) or (ii) by notification of acceptance thereof to the Receiving Agents;
- (v) agree that any monies returnable to you may be retained by the Receiving Agents pending clearance of your remittance and the completion of any verification of identity required by the Money Laundering Regulations 2007 and that such monies will not bear interest;
- (vi) subject as provided in paragraphs (iii) and (iv) above, authorise the Receiving Agents to send a share certificate or credit your CREST account in respect of the number of Ordinary Shares for which your application is accepted and/or to send a crossed cheque for any monies returnable, by post, at the risk of the person entitled thereto, to the address of the person named as the applicant in the Application Form;
- (vii) warrant that if you sign the Application Form on behalf of somebody else you have due authority to do so on behalf of that other person and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained herein and undertake to enclose your power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
- (viii) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offer shall be governed by and construed in accordance with English law, and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Companies to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
- (ix) confirm that in making such application you are not relying on any information or representation in relation to the Companies other than the information contained in this document and accordingly you agree that no person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof shall have any liability for any such other information or representation;

- (x) authorise the Receiving Agents and/or Hargreave Hale, or any persons authorised by either of them, as your agent, to do all things necessary to effect registration of any Ordinary Shares subscribed by you into your name or into the name of any person in whose favour the entitlement to any such Ordinary Shares has been transferred and authorise any representative of the Receiving Agents to execute any document required therefor;
- (xi) agree that, having had the opportunity to read this document, you shall be deemed to have had notice of all information and representations concerning the Companies contained herein;
- (xii) confirm and warrant that you have read and complied with paragraph (d) below;
- (xiii) confirm that you have read the restrictions contained in paragraph (e) below and warrant as provided therein;
- (xv) warrant that you are not under the age of 18; and

agree that all documents and cheques sent by post to, by or on behalf of the Companies or the Receiving Agents, will be sent at the risk of the person(s) entitled thereto.

- (d) 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 hereunder 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 requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
- (e) The Ordinary Shares have not been and will not be registered under the United States Securities Act 1933 (as amended) and, subject to certain exceptions, the Ordinary Shares may not be offered, sold, renounced, transferred or delivered, directly or indirectly, in the United States or to any person in the United States. Persons subscribing for Ordinary Shares shall be deemed, and (unless the Companies are satisfied that their respective Ordinary Shares can be allotted without breach of United States securities laws) shall be required, to represent and warrant to the Companies that they are not a person in the United States and that they are not subscribing for such Ordinary Shares for the account of any such person and will not offer, sell, renounce, transfer or deliver, directly or indirectly, such Ordinary Shares in the United States or to any such person. As used herein, "United States" means the United States of America (including each of the States and the District of Columbia), its territories or possessions or other areas subject to its jurisdiction. In addition, the Companies have not been and will not be registered under the United States Investment Company Act of 1940, as

amended. The Investment Manager is not registered under the United States Investment Advisers Act of 1940, as amended.

- (f) Applicants are encouraged to submit their Application Forms early in order to be confident that their applications will be successful. In the event that applications are received for an amount in excess of the Maximum Subscription, the Directors reserve the right to exercise their discretion in the allocation of successful applications although the allocation will usually be on a first come first served basis. The right is also reserved to reject in whole or in part any application or any part thereof and to treat as valid any application not in all respects completed in accordance with the instructions relating to the Application Form.
- (g) Save where the context otherwise requires, words and expressions defined in this document have the same meaning when used in the Application Form and any explanatory notes in relation thereto.

#### Availability of this Prospectus

Copies of this document and the Application Form are available until the Offer closes from:

Hargreave Hale Limited, 9-11 Neptune Court, Blackpool FY4 5LZ;

Hargreave Hale AIM VCT1 Plc and Hargreave Hale AIM VCT2 Plc (at <http://www.hargreave-hale.co.uk/VCT/aimvct> and <http://www.hargreave-hale.co.uk/VCT/aimvct2>); and

Howard Kennedy, 19 Cavendish Square, London W1A 2AW.

**A copy of this document will also be available to the public for inspection at the Document Viewing Facility at the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.**

## GUIDE TO THE APPLICATION FORM

The following instructions should be read in conjunction with the Application Form.

1. Insert your full name, address and date of birth and national insurance number in Block Capitals in Section 1.

Applications may only be made by persons aged 18 or over.

2. Insert in Section 2 the sums you are subscribing in respect of the 2009/2010 tax year and the 2010/2011 tax year. The total sum you are subscribing for must be a minimum of £3,000.

Your cheque or bankers' draft must be payable to "Joint Offer Account of Hargreave Hale AIM VCT1 Plc and Hargreave Hale AIM VCT2 Plc" and should be crossed "A/C Payee". Receipt of your application will be acknowledged within a day of its having been received. Your cheque or bankers' draft must be drawn in sterling on an account at a bank, and must bear the appropriate sort code number in the top right hand corner. The right is reserved to reject any application. Applications may be accompanied by a cheque or bankers' draft drawn by someone other than the applicant(s), but any monies to be returned will be sent by crossed cheque in favour of the person(s) named in Section 1.

### Money Laundering Regulations

It is a term of the Offer that, to ensure compliance with the Money Laundering Regulations 2007, the Receiving Agent may at its absolute discretion require verification of identity from any person lodging an Application Form (the "Applicant") in an amount greater than £11,000 and without prejudice to the generality of the foregoing, in particular any person who either (i) tenders payment by way of cheque or bankers' draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to be acting on behalf of some other person. In the former case, verification of the identities of both the Applicant and the third party may be required. In the latter case, verification of the identity of any person on whose behalf the Applicant appears to be acting may be required.

If within a reasonable period of time following a request for verification of identity and in any case by no later than 3.00 p.m. on the relevant date of allotment the Receiving Agents have not received evidence satisfactory to them as aforesaid, the Companies with the agreement of the Receiving Agents may, at their absolute discretion, reject any such application in which event the remittance submitted in respect of that application will be returned to the Applicant (without prejudice to the rights of the Companies to undertake proceedings to recover any loss suffered by it as a result of the failure to produce satisfactory evidence of identity).

Where possible Applicants should make payment by their own cheque. If a third party cheque, bankers' draft or building society cheque is used, the Applicant should:

- (a) write his/her name and address on the back of the draft or cheque and, in the case of an individual, record his/her date of birth against his/her name; and
- (b) ask the bank or building society (if relevant) to endorse on the reverse of the draft or cheque the full name and account number of the person whose account is being debited and stamp such endorsement

The above information is provided by way of guidance to reduce the likelihood of difficulties, delays and potential rejection of an Application Form (but without limiting the Receiving Agents' right to require verification of identity as indicated above).

3. Sign and date the Application Form in Section 3. The Application Form may be signed by someone else on your behalf, if duly authorised by power of attorney to do so, but any power of attorney pursuant to which it is done (or a duly certified copy thereof) must be endorsed for inspection.

4. Agents who are entitled to receive commission should stamp and complete Section 4, giving their full name and address, telephone number and details of their authorisation under the Financial Services and Markets Act 2000. The right is reserved to withhold payment of any commission if the Receiving Agents are not, in their sole discretion, satisfied that the agent is so authorised.

Commission will be paid on one of the following bases:

- i) 3 per cent. initial commission of the amount invested by their client (and no trail commission); or
- ii) 2.25 per cent. of the amount invested by their client plus an annual trail. The trail commission will be paid annually on each anniversary of the date of allotment of the Ordinary Shares (provided that the financial intermediary continues to act for the client and the client continues to hold the Ordinary Shares) at the rate of 0.375 per cent. per annum of the amount invested by the client, subject to a maximum of 2.25 per cent.

Intermediaries must indicate on the Application Form the basis on which they wish to receive their commission.

5. If you wish to have your share and income tax relief certificates sent to someone other than yourself, please complete Section 5 accordingly. Copy certificates will not be sent to you.

6. Dividend payments directly to Bank or Building Society Accounts; if you would like all future dividends to be paid directly into your bank or building society account, please complete the mandate instruction form in Section 6.

7. If you have any queries on the procedure for application and payment, you should contact Hargreave Hale Limited (telephone 0207 009 4937) or your normal financial adviser. No financial advice can be given.

8. Delivery of Application Form

Send the completed Application Form together with your cheque or bankers' draft by post, or deliver it by hand (during normal business hours only), to Hargreave Hale Limited, 9-11 Neptune Court, Blackpool FY4 5LZ so as to be received no later than 3.00 pm. on 1 April 2001 for the 2009/2010 tax year and no later than 3.00 pm. on 31 July 2010 for the 2010/2011 tax year (unless the Offer is otherwise closed earlier or extended).

If you post your Application Form you are recommended to use first class post and to allow at least two working days for delivery.

## ORDINARY SHARE APPLICATION FORM

### HARGREAVE HALE AIM VCT1 PLC and HARGREAVE HALE AIM VCT2 PLC

Before completing this Application Form you should read the Terms and Conditions of Application and the Guide to the Application Form. The Offer opens on 20 March 2010 and the closing date in respect of the 2009/2010 Offer will be 3.00 pm on 1 April 2010 and if the Offer is extended beyond that date, the closing date in respect of the 2010/2011 Offer will be 3.00 pm on 31 July 2010 unless extended (but to no later than 18 March 2011), or earlier if the Maximum Subscription has been reached before then. Please send this Application Form together with your cheque or bankers' draft, if appropriate, and proof of identity if required to Hargreave Hale Limited, 9-11 Neptune Court, Blackpool FY4 5LZ.

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"/>	National Insurance Number: <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>

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

Permanent residential address:	
Postcode:	
Email:	
Telephone (work):	Telephone (home

These contact details will be used for all communications, distributions and dividends.

If you wish to nominate another address to receive your share and income tax relief certificates, please complete Section 5.

Section 2

I offer to subscribe the following amount for Ordinary Shares on the Terms and Conditions of Application set out in the Prospectus dated **19 March 2010** and the Memoranda and Articles of Association of the Companies. Applications must be for a minimum of £3,000 in total and may be made for any higher amount in multiples of £1,000.

	Hargreave Hale AIM VCT1	Hargreave Hale AIM VCT2
<b>2009/2010 Offer (income tax year 2009/2010)</b>	£	£
<b>2010/2011 Offer (income tax year 2010/2011)</b>	£	£
<b>TOTAL</b>	£	£

Please mark with an 'x' as appropriate

I enclose a cheque or bankers' draft(s) drawn on a UK clearing bank,  
made payable to "**Joint Offer Account of Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc**"

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

Bank .....

Account Name Joint Offer Account of Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc

Account Number .....

Sort Code .....

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

Section 3

**By signing this form I hereby declare that I have read the terms and conditions of subscription contained in the Prospectus and agree to be bound by them.**

Signature	Date
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ORDINARY SHARE APPLICATION FORM

Continued

Section 4

For completion by authorised financial intermediaries ONLY

Name of Firm: Allenbridge Group plc - FSA 137716	Stamp:
Address: 17 Hill Street, Mayfair	
Postcode: W1J 5NZ	
Telephone: 0207 4091111	
Fax:	
Name of Contact: Priti Patel	
Email Address:	
Signature of authorised signatory of authorised financial intermediary::	Date

**Commission payment details**

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

Name:
Contact:
Address:
Postcode:
Email:

**Commission options**

(choose the options in A or B (not both))

**A Introductory Commission of 3 per cent**

A1 to receive introductory commission of 3 per cent place an 'X' in this box

**B Introductory Commission of 2.25 per cent .plus trail commission**

B1 to receive introductory commission of 2.25 per cent place an 'X' in this box

A2 Insert the amount of 3 per cent commission you wish to be waived and reinvested in additional Ordinary shares for your client (e.g. 0%, 1%, 1.5%, 2%, 3%)

B2 Insert the amount of 2.25 per cent introductory commission you wish to be waived and reinvested in additional Ordinary Shares for your client (e.g. 0%, 1%, 2.25%),

Section 5

Please complete Section 5 if you wish to nominate an alternative address, such as an account or financial advisor for your share and income tax relief certificates

Title (Mr/Mrs/Miss/Ms/Other)	Surname
Forename(s) in full:	
Company Name:	
Reference: (if required)	
Address:	
Postcode:	

Section 6

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

Please forward until further notice, all dividends that may from time to time become due on any Shares now standing, or which may hereafter stand, in my name in the register of members of each of the Hargreave Hale AIM VCT1 and Hargreave Hale AIM VCT2 to:

Bank or Building Society reference number and details

a.	Name of Bank/Building Society:	
	Title of Branch:	
	Address of Branch:	
b.	Account Number:	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
c.	Sort Code Number:	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
d.	Account Name: (BLOCK capitals please)	
e.	Signature:	
f.	Date:	
g.	Applicant's name and Postcode	
	(in BLOCK capitals please, as given in Section 1)	Postcode:

The Companies and Equiniti cannot accept responsibility if any details provided by you are in incorrect.