



ELDERSTREET

VCT plc

## Offer Document and Application Form

Offer for Subscription  
For the tax years 2011/12 and 2012/13  
To raise up to £2 million



Elderstreet portfolio company Aconite was ranked number 30 in the GrowthBusiness Top 50 Rising Stars of 2011, the annual list of the UK's most exciting businesses with the fastest-growing sales and profits in the UK in the past year (September 2011)



**GROWTH COMPANY**  
AWARDS 2010

VCT FUND MANAGER  
of the Year  
Winner

[www.elderstreet.com](http://www.elderstreet.com)

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 immediately.**

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

Application will be made to the UK Listing Authority for all the Offer Shares to be admitted to the premium segment of the Official List. Application will also be made to the London Stock Exchange for all such Offer Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in the Offer Shares will commence 10 business days following allotment. No application is currently intended to be made for the Offer Shares to be admitted to listing or dealt with on any other exchange.

**Your attention is drawn to the "Risk Factors" set out on page 36 of this document**

## **ELDERSTREET VCT PLC**

(Incorporated in England and Wales under the Companies Act 1985 No 3424984)

### **OFFER FOR SUBSCRIPTION**

The 2011/12 Offer will be open from 10.00 a.m. on 9 December 2011 until the earlier of 1.00 p.m. on 5 April 2012 (or such later date to which the Directors extend the 2011/12 Offer being not later than 3pm on 5 April 2012) and the date on which the Maximum Subscription is reached. The 2012/13 Offer will be open from 10.00 a.m. on 6 April 2012 until the earlier of 1.00 p.m. on 30 April 2012 (or such later date to which the Directors extend the 2012/13 Offer) and the date on which the Maximum Subscription is reached. The Offer is not being underwritten and is not subject to reaching a minimum subscription level.

The minimum subscription per investor is £5,000. Completed Application Forms in respect of the Offer should be sent by post or delivered by hand to SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey, KT10 9AD. This document, which is a financial promotion and not a prospectus, is issued by the Company and has been approved for the purposes of section 21 of the Financial Services and Markets Act 2000 by Howard Kennedy Corporate Services LLP, which is authorised and regulated by the Financial Services Authority, on behalf of the Company.

Howard Kennedy Corporate Services LLP is acting exclusively for the Company in connection with the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Howard Kennedy Corporate Services LLP or for advising any such person in connection with the Offer.

The Offer is not being made, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of South Africa or their respective territories or possessions, and documents should not be distributed, forwarded or transmitted in or into such territories. The Offer Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may not be offered, sold or delivered, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of South Africa.

† Issue of up to 2,870,168 ordinary shares at the prevailing offer price being the price paid (UK sterling) by Applicants for each Offer Share issued under the Offer calculated according to the Pricing Formula. Under the Pricing Formula any Net Asset Value published during the Offer period may affect the price payable by Applicants for Offer Shares and thereby the total amount raised.

\* Based on a 40% higher rate taxpayer and net of 30% income tax relief on investment

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## KEY INFORMATION

Offer Price per share (note)	70.9 pence
Maximum gross proceeds of the Offer	up to £2,034,949

## OFFER STATISTICS

Note: The Offer Price in the table above is based on a Net Asset Value of 67p per Ordinary Share as at 31 October 2011. The Offer Price of 70.9p is estimated based on the pricing formula of the application amount less 5.5 per cent. divided by NAV. As an example, if an Applicant wishes to invest the sum of £10,000 and the Company receives the valid Application in time for allotment to be made on a date when the most recently announced Net Asset Value is that as at 31 October 2011, the Application Amount less 5.5 per cent. is £9,450 and the number of Offer Shares issued to the Applicant will be that figure divided by 67p, rounded down to the nearest whole share, i.e. 14,104 Offer Shares (the effect is that the Offer Shares will have been issued at approximately 70.9 pence per Offer Share).

If an updated NAV is announced after publication of this document but before the Offer closes, the Offer Price will be based on the Pricing Formula being the application amount (in pounds) less 5.5 per cent. divided by the most recently announced NAV, rounded down to the nearest whole number of Ordinary Shares.

## EXPECTED TIMETABLE

Offer opens	9 December 2011
First allotment	5 April 2011
Dealings commence	within 3 business days of each allotment
Share certificates dispatched and CREST accounts credited	within 10 business days of each allotment

The Directors reserve the right to make an allotment of Offer Shares on any day at the Directors' absolute discretion

### Offer Closes

2011/12 Offer	1 p.m. on 5 April 2012
2012/13 Offer	1 p.m. on 30 April 2012, unless extended

from 9 December 2011 until 30 April 2012 (or such later date as they may determine). The Offer will close earlier than the date stated above if it is fully subscribed by an earlier date.

## **PART 1**

### **INFORMATION ABOUT ELDERSTREET VCT**

#### **Introduction**

Elderstreet VCT is an established generalist VCT managed by Elderstreet Investments Limited. The objective of the Company is to provide good long term tax free returns to Shareholders through a combination of dividends and capital growth. Elderstreet VCT has a track record of providing good returns for its Shareholders. Profitable realisations have enabled the Board to pay cash dividends amounting to 52p per Ordinary Share since the Company's launch in 1998. The Company has raised approximately £25 million since 1998 and is now invested in some 22 companies with a current NAV of £19.4 million (source: unaudited Interim Management Statement accounts as at 31 October 2011). The Offer enables new and existing Shareholders to invest into an established and diversified portfolio, managed by an award winning experienced investment team with a proven track record.

The Company was launched in 1998, raising £15.1 million (after expenses). A further £1.5 million was raised by way of an issue of C Shares in 2005. From 2006 to 2011 the Company raised approximately £8.3million (after expenses) through further issues of Ordinary Shares. In early 2007 the Company merged with Elderstreet Millennium. The C Shares were converted into Ordinary Shares on 31 October 2008.

The Company invests in the smaller company market, including AIM and unquoted investments. Managed by an experienced team, the Company has particular expertise in growing businesses through a 'hands-on' investment style, preferring to take significant stakes and Board positions in the investee companies; an approach that has contributed significantly to the Fund's success to-date. Elderstreet VCT has access to a strong and consistent flow of investment opportunities and since its formation has reviewed over 8,500 potential investments.

The Board and Investment Management Team and their families have invested over £830,000 in the Company to date.

It is the Board's objective to maximise dividends to shareholders subject to liquidity, and to target a dividend return of 4p per Ordinary Share per annum. This equates to an annual yield of 13.8 % based on the subscription price net of 30% income tax relief and grossed up for a taxpayer paying 40% on his income. For a 50% taxpayer this equates to a grossed up return of 16.5 %.

**The Investment Manager was voted VCT Fund Manager of the Year 2010 by Growth Company Awards for the second year in succession. Leslie Copeland, head of the Growth Company Awards judging panel commented:**

**"It is really not surprising that Elderstreet VCT, the winner of this award in 2009, won the award yet again in 2010. Achieving significant success over the years is exactly what this fund is about".**

(Source: Leslie Copeland, Chief Executive Officer, Vitesse Media Plc)

## Track Record

Since its launch in 1998, Elderstreet has paid cash dividends amounting to 52p per Ordinary Share. With an unaudited net asset value of 67p per Ordinary Share at 31 October 2011, Elderstreet has produced a total return (cumulative dividends plus net assets) of 119p per Ordinary Share.

**The returns for an Ordinary Shareholder that invested in Elderstreet at launch are shown below:**

Initial investment per share <sup>1</sup>	Cumulative cash dividend per share	NAV per share (unaudited)	Total return per share (unaudited)	Tax-free uplift on net investment <sup>2</sup>
80p	52p	67p	119 p	49%

1 Assumes an investment of 100p per Ordinary Share by a Qualifying Investor, less income tax relief at 20%, resulting in a net investment of 80p per Ordinary Share.

2 The percentage tax-free uplift is the excess of the total return over the initial investment net of tax relief received by Qualifying Investors divided by the initial investment net of income tax relief received by Qualifying Investors. The tax-free gains have been set out for illustrative purposes only, are not guaranteed and no forecast or projection should be inferred or implied.

**NAV total return per Ordinary Shares from 31 December 2003 to 31 October 2011 was 65.5 per cent. as shown below:**

## Track record since 2003

All numbers are in pence per share	Dec-03 audited	Dec-04 audited	Dec-05 audited	Dec-06 audited	Dec-07 audited	Dec-08 audited	Dec-09 audited	Dec-10 audited	Oct-11 unaudited
<b>NAV</b>	<b>56.5</b>	<b>63</b>	<b>65.1</b>	<b>76.1</b>	<b>81.9</b>	<b>72.8</b>	<b>76.7</b>	<b>76.6</b>	<b>67</b>
Cumulative Dividends paid since inception	25.5	27.5	29.5	31.5	36.5	43	46	50	52
<b>Total Return</b>	<b>82.0</b>	<b>90.5</b>	<b>94.6</b>	<b>107.6</b>	<b>118.4</b>	<b>115.8</b>	<b>122.7</b>	<b>126.6</b>	<b>119</b>
Cumulative percentage increase in NAV total return		15.0%	22.3%	45.3%	64.4%	60%	72%	79%	65.5%

The above figures are based on past performance, which is not an indication of future performance.

The Company has achieved a Net Asset Value total return of 65% since December 2003 (i.e. a Net Asset Value increase per Ordinary Share of 10.5p and a cumulative dividend over that period of 26.5p per Ordinary Share).

## Dividends

It is the Board's objective to maximise dividends to shareholders, subject to liquidity, and to target a dividend return of 4p per Ordinary Share per annum. From 2006 to 2010 the Company has paid an average dividend per annum of 4.1p per Ordinary Share. This is equivalent to a tax free yield of approximately 5.8 per cent. per annum based on the estimated Offer Price of 70.9 pence. This equates to a taxable yield of 13.8 % based on the subscription price net of 30% income tax relief and grossed up for a taxpayer paying 40% on his income. For a 50% taxpayer this equates to a grossed up return of 16.5 %.

### Dividends paid per annum from inception - pence per share

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
3.0	2.5	12.0	3.5	3.5	2.0	3.0	2.0	3.5	5.0

2008	2009	2010	Total Paid 52.0	2011 *	Total Declared 54.0
4.0	4.0	4.0		2.0	

\* 2011 is an interim dividend payable in December 2011 announced on 31 August 2011.

## Income Yield

The following table gives an illustration of potential returns to Ordinary Shareholders on the Offer Shares, assuming a dividend of 4p per annum is paid.

### Illustration of income yield per Offer Share after 30% tax relief

Offer Share price net of initial tax *	Target Annual Dividend	Tax Free Yield per annum	Grossed up yield per annum	
			40% taxpayer	50% taxpayer
49.6	4.0p	8.3%	13%	16.5%

\* Using an Offer Price of 70.9p multiplied by 70% to reflect initial 30% up front income tax relief.

## Exits

Since the Summer of 2008 the state of the financial markets has not been conducive to realisations. However, since that time there have been several informal approaches to a number of companies in the Company's portfolio. The Manager is cautious regarding selling portfolio companies at this time as, in the Managers view, offers very often do not reflect the full value of the portfolio company. The last two exits achieved were the trade sales of Wecomm Limited in March 2011 to OpenText Corporation, and Melorio plc in June 2010 to Pearson plc. The Melorio realisation achieved a multiple return of 2.2 times cost and an IRR of 33.5%. The Wecomm realisation achieved a 10% uplift on cost and a 1.9 times multiple of the 31 December 2009 valuation.

<b>Selected successful exits since 2005 (£000's)</b>					
<b>Company</b>	<b>Date</b>	<b>Cost</b>	<b>Realisation</b>	<b>Profit/Loss</b>	<b>% Uplift</b>
Wecomm	Mar-11	850	939	89	10%
Melorio	Jun-10	200	440	240	120%
Fords	Feb-09	800	1,950	1,150	144%
Mediasurface	Jul-08	670	823	153	23%
U-Mole	Mar-08	430	1,937	1,507	350%
CSG	Apr-07	1,495	3,992	2,497	167%
Ovum	Dec-06	150	237	87	58%
ET&T	Oct-06	450	660	210	47%
Milkround	Mar-06	250	397	147	59%
HJ Bean	Sep-05	587	930	343	58%
<b>Total</b>		<b>4,832</b>	<b>10,926</b>	<b>6,094</b>	<b>126%</b>

### **Investment policy**

The Company aims to invest at least 70% of its funds in VCT Qualifying Investments and up to 30% in fixed interest securities. The Company will continue to invest predominantly in a diversified portfolio of companies, with a particular emphasis on smaller unquoted companies, through investments which will usually have the following characteristics:

- established companies which are seeking development capital or funding for management buy-outs. (Investments in early stage businesses should represent only a small proportion of the portfolio at any time);
- a strong, balanced and well motivated management team;
- investments which, where appropriate, include loan stock and preference shares to enhance the security of the portfolio and to provide income; and

investments where Elderstreet Funds, being funds managed by the Investment Manager or Elderstreet Investments Limited, can typically act as lead investor and have an active involvement in the business through a board position.

The Company has a general portfolio mix by sector and its average deal size is approximately £1 million although it will syndicate deals of up to £2 million. 30 per cent. of investments will usually be in early stage companies with high growth potential and 70 per cent. will be MBO and development capital investments – mature companies yielding dividends. The target deal size is between £0.5 and £1 million across a broad range of industries. The Company will aim to have material influence, including board representation, in relation to a majority of its portfolio companies.

### **Risk Diversification**

The Company's portfolio will be diversified by investing in a portfolio of VCT Qualifying Investments covering a number of sectors. Funds not invested in VCT Qualifying Investments will generally be invested in fixed income securities. The maximum that the Company will hold in a single investment (by value at the time of investment) is 15%.

### **Borrowing**

The Company has the power to borrow up to an amount equal to 110% of its paid up share capital and reserves (subject to certain adjustments set out in the Articles). The Directors do not intend to utilise this power other than on a short term basis for cash flow management purposes, in which case the amount borrowed would not exceed 100% of the Company's paid up share capital and reserves.

### **Unquoted investments**

It is the Directors' intention that VCT Qualifying Investments made by the Company will be in companies supplying products and services to a range of markets. In particular, the Directors have specific experience and expertise in certain markets, such as information technology, manufacturing and retailing. Where appropriate, the Company will invest in these sectors.

It is intended that most of the VCT Qualifying Investments will be established businesses requiring development finance or funding for management buy-outs or buy-ins. Investments in early stage businesses should represent only a small proportion of the portfolio at any time; such investments could be made, for example, in a company whose management team Elderstreet Funds have previously backed or a start up company which can demonstrate substantial and verifiable first year sales prospects. In order to enhance the security of the portfolio and to provide income, the Company's investments may include, where appropriate, loan stock and preference shares.

Elderstreet's policy is, where appropriate, to have a member of the Investment Management Team, or an experienced individual well known to it, appointed to the board of each investee company as a non-executive director in order to play an active role in seeking to develop the full potential of the company concerned.

The Investment Manager will endeavour to add value to the investee companies in a number of ways, including strategic planning, assisting with the development of the management team, advising on acquisitions or mergers and helping to structure the company for a stock market flotation or trade sale. The Investment Manager holds Board seats in 8 of its top ten portfolio companies. Elderstreet Board representation was influential in the sale of Mediasurface plc and Computer Software Group plc as well as in securing the IPO of Snacktime plc in December 2007.

The Manager will seek to ensure that the businesses in which the Company invests will have: strong management teams; opportunities for growth; products or services able to sustain a competitive advantage; and reasonable prospects of achieving a stock market flotation or trade sale within three to five years.

### **AIM**

Companies whose shares are traded on AIM will be considered for investment, but should represent only a small part of the portfolio.

### **Fixed income securities**

The approach adopted by Smith & Williamson Investment Management Limited in respect of the fixed income securities is to concentrate on the short-dated fixed interest securities of high credit quality to provide protection for the capital invested. Accordingly, it is intended that the fixed income securities will principally consist of financial instruments and fixed income securities issued by the UK Government, major companies and institutions.

### **Share buyback and dividend policies**

Elderstreet has from time to time bought back its shares for cancellation. Elderstreet intends to continue to buy back its shares at a discount of approximately 15 per cent. to the last published NAV, subject to liquidity, VCT and Listing Rules. The Company intends to acquire its own shares in the market twice each year; once shortly after the publication of the Half-Yearly Report and once shortly after the publication of the Annual Report. The Board will agree the price at which such buy backs are undertaken which will not be more than 85% of the last published NAV although the Board may decide to buy back shares at their discretion at a larger discount subject to VCT regulations, liquidity and Listing Rules.

The Board reserves the right to allocate Company funds reserved for buy backs across Shareholders wishing to sell on a pro rata basis rather than a first come first served basis. This may result in Shareholders only being able to sell a proportion of their holding. The Board believes this to be an equitable policy to those Shareholders who wish to exit.

The implementation of the buy back policy will be at the Board's discretion and subject to Elderstreet's liquidity, stock market and other applicable regulations.

Following the revocation of investment company status in 2000, the Company has been able to distribute net realised capital profits generated by successful realisations of VCT Qualifying Investments. These profits can be passed tax-free to VCT shareholders whose shares qualify for VCT relief from tax on dividends. The Directors aim to maximise Shareholder returns and, subject to any applicable restrictions, aim to distribute substantially all available investment income. Where dividends have been paid, the Board has historically announced its interim dividend in September and paid it shortly thereafter. Starting in 2011 this will be paid in December. The final dividend has generally been announced in April and paid in June each year.

The interim dividend for 2011 (declared on 31 August 2011) was 2p per Ordinary Share. It is the Board's objective to maximise dividends to Ordinary Shareholders subject to liquidity and to target a dividend return of 4p per annum per Ordinary Share.

### **The Manager**

The Manager, which has acted as investment manager for the Company since its inception in 1998, through its wholly owned subsidiary, Elderstreet Private Equity Limited, from whom the Investment Management Agreement was novated to Elderstreet Investments Limited in 2009, was founded in 1990 and currently has more than £30 million under management. The Manager has expertise in tax-driven vehicles, including VCTs and EISs, and is a specialist in the smaller company market, AIM and the unlisted sectors. The Manager has strong proprietary deal flow and has a "hands on" portfolio management style.

In October 2009 Bluehone Holdings plc acquired an equity interest in the Manager in a share for share exchange.

The Manager was voted VCT Fund Manager of the Year 2010 in the Growth Company Awards based on comprehensive qualitative research undertaken by the Growth Company Investor team.

### **Administrator**

Downing Management Services Limited has been the Company's administrator since its inception in 1998 and performs similar services for a number of other VCTs.

### **Fees payable to the Manager and the administrator**

The Manager receives an annual fee (the "Annual Fee") equal to 2.0 per cent. of the Net Assets of the Company subject to the expenses cap (see below). The Annual Fee is calculated twice a year on 30 June and 31 December and payable quarterly in advance. Downing receives an annual fee of £50,000 plus VAT for its role as administrator.

Taking into account the expected long term returns in the form of income and capital gains, it is intended that the Manager's management fees will be allocated 25% to revenue and 75% to capital.

### **Expenses cap**

The annual running costs (including VAT) of the Company are capped at 3.5% of its net assets with any excess being refunded by way of a reduction in the fees payable to the Manager or Downing pro rata to their fees during the financial year.

The running costs include, inter alia, fees payable to the Manager and Downing, Directors' fees, audit and taxation fees, trail commissions and costs of communicating with Shareholders. The expenses cap excludes the performance incentive fee.

### **Performance incentive fees**

Performance fees are payable to the Manager when dividend payments exceed a return of 3.5p per Ordinary Share as a distribution in any one financial year subject to the NAV, before the distribution, being higher than 70.6p per Ordinary Share. The Manager will receive 20% of the distribution amount over 3.5p per Ordinary Share. The performance incentive fee will also have a catch-up should any previous year's distribution not be met. This catch-up will be cumulative so that in any years where the distribution is less than 3.5p per Ordinary Share, the shortfall must be made up prior to awarding any further incentive fees. Any performance incentive fee payable in any period of 12 months has been capped so that the fee payable under the new incentive arrangements is 24.9 per cent. of the lesser of the Company's current NAV, market capitalisation or gross assets. A performance fee of £23,288 was paid in relation to the calendar year 2009 and £24,516 for 2010.

### **Arrangement and monitoring fees**

The Manager may charge an arrangement fee to each investee company in which Elderstreet invests. This fee is restricted to 3 per cent. of the gross amount invested by Elderstreet. The Manager may also charge investee companies for its monitoring services and non executive director fees.

### **Co-investment**

Should a conflict arise in respect of the allocation of an investment opportunity between the Elderstreet Funds, allocations will normally be made on a pro rata basis (allowing for appropriate rounding of investment amounts) between the Company and the other Elderstreet Funds based on the amounts available for investment in each fund at the time the investment opportunity arises. However, the Manager will be entitled to recommend to the Board (and to the directors or trustees of relevant other Elderstreet Funds) the allocation of investment opportunities on a basis otherwise than as set out above if required in order to:

- ensure that the Company establishes and/or maintains its status as a Venture Capital Trust;
- balance the portfolios of the Company in such manner as the Manager shall consider appropriate, taking account of the liquidity of the respective funds, sector balance, relative risk profile and maturity of investments (including exit considerations); or
- take account of the status of investments as VCT Qualifying Companies under applicable VCT tax rules from time to time.

In the event of a conflict of interest between the Company and any other Elderstreet Funds, the matter shall be referred to such Directors who are independent of the Manager (the "Independent Directors"), whose determination shall be final and binding on the Manager.

In particular, where the Company intends to invest in a company in which another Elderstreet Fund has invested or intends to invest, the investment shall require approval by the Independent Directors 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 Company and the Manager. The Directors and members of the Investment Management Team do, from time to time, co-invest in the Company's portfolio companies.

Where a Director has an interest of more than 1% in a portfolio company the Director is disqualified from voting on decisions concerning that company.

### **VCT Status Monitoring**

The Directors have appointed PricewaterhouseCoopers LLP to advise the Company on compliance with the legislative requirements relating to VCTs. PricewaterhouseCoopers LLP will, if requested by the Board, review the qualifying status of new investment opportunities and carry out regular reviews of the Company's investment portfolio.

PricewaterhouseCoopers LLP will work closely with the Manager and the Administrator, but will report directly to the Board. At its outset the Company obtained HMRC approval. Since then the Company has continued to meet the conditions for approval as a venture capital trust laid down in Section 274 of the ITA.

### **Duration of the Company**

The Company's articles of association state that a resolution will be proposed at the Company's annual general meeting in 2013 to consider whether it should continue as a VCT. The Company intends to extend the winding up resolution to 2017.

## PART 2

### INVESTMENT PORTFOLIO

Set out below are the investments held by the Company as at 31 October 2011 including the 10 largest VCT Qualifying Investments, by value.

Quoted investments are valued at bid price with a liquidity discount, where appropriate, and unquoted investments are valued in accordance with International Private Equity and Venture Capital Valuation Guidelines. All figures are unaudited. The last revaluation date was 31 October 2011, the last practicable valuation date prior to publication of this document.

Ten largest investments by value	Cost	Unaudited 31 October 2011 Valuation	Unrealised Gain/Loss	Portfolio by percentage
	£'000	£'000	£'000	%
Wessex Switching Products Limited	60	2,468	2,408	16.8%
Smart Education Limited	1,274	1,901	627	12.9%
Fords Packaging Systems Limited	1,047	1,418	371	9.6%
Access Intelligence plc *	1,633	1,407	-226	9.6%
Lyalvale Express Limited	915	1,255	340	8.5%
Snacktime plc *	1,375	1,128	-247	7.7%
Anglo Info Limited	662	732	70	5.0%
Baldwin & Francis (Holdings) Limited	690	572	-118	3.9%
Fulcrum Utility Services *	500	562	62	3.8%
Aconite Technology Limited	562	562	0	3.8%
<b>Subtotal</b>	<b>8,718</b>	<b>12,005</b>	<b>3,287</b>	<b>81.5%</b>
Other venture capital investments	3,666	1,260	-2407	8.6%
<b>Total venture capital investments</b>	<b>12,384</b>	<b>13,265</b>	<b>881</b>	<b>90.1%</b>
Listed fixed income securities	1,408	1,462	54	9.9%
<b>Total investments</b>	<b>13,792</b>	<b>14,727</b>	<b>935</b>	<b>100.0%</b>
Cash at bank and in hand		4,749		
Net current liabilities		-34		
<b>Net assets</b>		<b>19,442</b>		

\* Quoted on AIM

There have been no material Investments or realisations since 31 October 2011

## Portfolio analysis

The Company classifies its investments into three different categories — mature, yielding with a significant minority holding; early stage high growth companies; and AIM companies. The tables below show the Company's top ten existing portfolio companies. In the case of Aconite Technology, Smart Education, and Anglo Info Limited the figures represent an aggregate of the company and all of its subsidiaries as shown in the relevant companies latest management accounts, as the companies have not filed consolidated accounts at Companies House. This information is unaudited and has been prepared by the Manager.

### Mature, Yielding with a Significant Minority Holding

<b>Wessex Advanced Switching Products Limited ("WASP")</b>					
<b>First investment</b>	Oct-99	<b>Year ended</b>	31-Dec-08	31-Dec-09	31-Dec-10
<b>Cost</b>	£60,311	<b>Turnover (£m)</b>	9.4	7.9	8.3
<b>Value</b>	£2,467,584	<b>Profit before interest, tax and amortisation (£m)</b>	2.0	1.4	1.0
<b>% held</b>	28.30%	<b>Net assets (£m)</b>	2.8	3.0	3.3

WASP designs and manufactures rotary switches, touch screens, membranes and keypads for defence, aerospace, telecommunication and medical instrument markets. 60% of the company's revenue is derived from aerospace and 15% from military applications. WASP is debt-free, with cash balances in excess of approximately £1.2 million, and the Investment Manager has a seat on the board of directors.

<b>Lyalvale Limited ("Lyalvale")</b>					
<b>First investment</b>	May-98	<b>Year ended</b>	31-Mar-08	31-Mar-09	31-Mar-10
<b>Cost</b>	£915,339	<b>Turnover (£m)</b>	7.5	8.1	8.7
<b>Value</b>	£1,255,376	<b>Profit before interest, tax and amortisation (£m)</b>	1.3	1.2	1.2
<b>% held</b>	19.00%	<b>Net assets (£m)</b>	4.2	4.8	5.5

Lyalvale is the leading producer of shot gun ammunition in the UK. It has developed a range of more than 30 different models of cartridge suitable for both game and clay shooting. Its products range from premium product such as that used by Richard Faulds to win an Olympic Gold Medal in Sydney to popular everyday product. It exports a significant proportion of its production. It occupies a large freehold site in Staffordshire and is dividend paying. An executive of the Investment Manager regularly attends board meetings.

<b>Baldwin &amp; Francis Holdings Limited ("Baldwin &amp; Francis")</b>					
<b>First investment</b>	Nov-04	<b>Year ended</b>	31-Mar-08	31-Mar-09	31-Mar-10
<b>Cost</b>	£689,999	<b>Turnover (£m)</b>	18.2	13.4	11.7
<b>Value</b>	£572,001	<b>Profit before interest, tax and amortisation (£m)</b>	0.7	0.2	-0.05
<b>% held</b>	30.00%	<b>Net assets (£m)</b>	1.1	1.2	1.1

Baldwin & Francis manufactures flameproof switchgear for the mining, oil and rail industries. A significant percentage of Baldwin & Francis's production is currently exported. It has subsidiary or joint venture operations in China and Canada and has a long export record to other countries including the Russian Federation, India, Turkey and the Middle East. The Manager believes that Baldwin & Francis operates in a growing global market with excellent growth prospects, although the results in 2010 have been adversely affected by the economic recession, and R&D investment. The Investment Manager has a seat on Baldwin & Francis' board.

<b>Fords Packaging Systems Limited ("Fords Packaging") *</b>					
<b>First investment</b>	Feb-09	<b>Year ended</b>	30-Jun-08	30-Jun-09	30-Jun-10
<b>Cost</b>	£1,046,665	<b>Turnover (£m)</b>	8.2	7.3	6.1
<b>Value</b>	£1,418,335	<b>Profit before interest, tax and amortisation (£m)</b>	0.3	0.1	0.7
<b>% held</b>	50.17%	<b>Net assets (£m)</b>	1.5	1.6	0.7

Based in Bedford, Fords Packaging is a leading supplier of capping presses and also manufactures rotary sealers. It is widely known for its expertise in sealing and closure technology for food and drink applications where high standards of hygiene are required. The company also acts as the UK distributor to a number of continental European end of line and packaging machinery manufacturers. 50% of its production is exported, mainly for use in the food and dairy industries. The business expects to achieve further growth from its continuing product development programme. The Investment Manager has a seat on Fords Packaging's board.

\* The 2008 and 2009 figures relate to Fords Packaging Systems 1998 Limited. A secondary buyout was completed in 2009

### Early Stage High Growth Companies

<b>Smart Education Limited ("Smart Education")</b>					
<b>First investment</b>	Oct-05	<b>Year ended</b>	31-Dec-08	31-Dec-09	31-Dec-10
<b>Cost</b>	£1,274,325	<b>Turnover (£m)</b>	6.5	6.3	9.1
<b>Value</b>	£1,900,700	<b>Profit before interest, tax and amortisation (£m)</b>	-0.5	0.1	0.6
<b>% held</b>	29.25%	<b>Net assets (£m)</b>	-2.1	-2.1	-1.5

Smart Education is a growing teacher supply agency based in London which was established in October 2005 with offices in Australia and New Zealand. It made its first acquisition of another small agency in 2008 and has grown organically and by further acquisitions. As forecast the business was loss making through its start up period and is now profitable. The Investment Manager has successfully backed the founders of Smart Education before and the Investment Manager has a seat on Smart Education's board of directors.

<b>Aconite Technology Limited ("Aconite")</b>						
<b>First investment</b>	Mar-10		<b>Year ended</b>	31-Mar-09	31-Mar-10	31-Mar-11
<b>Cost</b>	£561,673		<b>Turnover (£m)</b>	1.1	2.7	4.3
<b>Value</b>	£561,673		<b>Profit before interest, tax and amortisation (£m)</b>	-2.1	0.4	0.7
<b>% held</b>	5.3%		<b>Net assets (£m)</b>	-1.3	-0.8	

Aconite provides cost-effective solutions that enable banks and retailers to provide smart card/token based contactless payments applications, which can include prepaid and pre-authorised accounts. Aconite was recently ranked number 30 in the Growth Business Top 50 Rising Stars of 2011. The Investment Manager has a seat on the board of directors.

<b>Anglo Info Limited ("Anglo Info")</b>						
<b>First investment</b>	Sep-06		<b>Year ended</b>	31-Dec-08	31-Dec-09	31-Dec-10
<b>Cost</b>	£661,670		<b>Turnover (€m)</b>	1.3	1.2	1.6
<b>Value</b>	£731,926		<b>Profit before interest, tax and amortisation (€m)</b>	0.0	0.0	-0.1
<b>% held</b>	12.3% *		<b>Net assets (€m)</b>	0.12	-0.1	-0.09

Anglo Info is an online company providing local business directory, classified advertising and information services in the English language at [www.angloinfo.com](http://www.angloinfo.com). Anglo Info is the world's top network of websites for English-speakers living abroad. It operates in many regions of countries around the world providing vital support and information to the local international communities. The Investment Manager has a seat on Anglo Info's board of directors.

\* Beneficial ownership is 22.5% including the Fund's convertible loan

## AIM Companies

<b>Snacktime plc ("Snacktime")</b>						
<b>First investment</b>	Jul-03		<b>Year ended</b>	31-Mar-09	31-Mar-10	31-Mar-11
<b>Cost</b>	£1,375,373		<b>Turnover (£m)</b>	6.7	7.7	-17.3
<b>Value</b>	£1,127,778		<b>Profit before interest, tax and amortisation (£m)</b>	0.4	1.6	-2.1
<b>% held</b>	9.6%		<b>Net assets (£m)</b>	4.7	11.6	18.5

Snacktime is a vending machine company with a rapidly expanding estate of machines. In September 2009 Snacktime acquired its main competitor and is now the third largest vending machine operator in the British Isles. Snacktime was admitted to trading on AIM in December 2007 and the Investment Manager has a seat on Snacktime's board of directors. There were exceptional costs of £2.8 million in 2011 arising primarily from the acquisition of Vendia UK Limited and its subsidiaries in September 2010 and the essential restructuring of the group following the acquisition.

<b>Access Intelligence plc ("Access Intelligence")</b>					
<b>First investment</b>	Oct-08	<b>Year ended</b>	31-Nov-09	31-Nov-10	6 months to 31 May 11
<b>Cost</b>	£1,632,823	<b>Turnover (£m)</b>	6.0	8.0	4.0
<b>Value</b>	£1,407,637	<b>Profit before interest, tax and amortisation (£m)</b>	0.6	-1.5	0.4
<b>% held</b>	14.5% *	<b>Net assets (£m)</b>	4.3	7.8	7.9

Access Intelligence is a group of software companies delivering a range of business critical support services to private and public sector organisations through a software-as-a-service platform, which has been grown by acquisition. The range of products include: data storage back up and retrieval; sourcing and procurement software for industry and local government; electronic news and current awareness digests of Government initiatives; and compliance software for the financial services industry. The company returned to profitability in 2011.

\*Beneficial ownership is 20.3% including the Fund's options and if converted

<b>Fulcrum Utility Services plc ("Fulcrum")</b>				
<b>First investment</b>	Jul-10	<b>Year ended</b>	31-Mar-11	
<b>Cost</b>	£499,980	<b>Turnover (£m)</b>	28.4	
<b>Value</b>	£562,478	<b>Profit before interest, tax and amortisation (£m)</b>	-11.8	
<b>% held</b>	2.7%	<b>Net assets (£m)</b>	4.9	

Fulcrum was formed as a buy out from National Grid plc by Marwyn Capital and is an independent gas transporter and provider of unregulated gas connection services. Fulcrum's experience is gained from completing an average of 140,000 domestic, industrial and commercial gas connections per year from multi-million pound technical developments such as Heathrow Terminal 5 to smaller scale commercial projects like the supply upgrade to The New Angel restaurant in Dartmouth. The turnaround in performance is expected to take up to three years.

**Set out below are the Company's other investments at 31 October 2011**

Other Venture Capital Investments	Cost	Unaudited 31 October 2011 Valuation	Unrealised Gain/Loss	Portfolio by percentage
	£'000	£'000	£'000	%
The Engine Group Limited	455	385	-70	2.6%
Interquest *	336	299	-37	2.0%
Mears Group *	188	212	24	1.4%
Cashfac	260	197	-63	1.3%
Servoca *	333	48	-285	0.3%
RoseBowl	188	47	-141	0.3%
Sift	250	38	-212	0.3%
Kellan *	657	22	-634	0.2%
Sparesfinder	104	12	-92	0.1%
Infoserve (City Visitor Group)	128	0	-128	0.0%
QSS	268	0	-268	0.0%
TNSN	501	0	-501	0.0%
	<b>3,666</b>	<b>1,260</b>	<b>-2,407</b>	<b>8.6%</b>

\* Quoted on AIM/Main Market

## **PART 3**

### **MANAGEMENT TEAM**

#### **The Investment Management Team**

The Investment Management Team comprises four key executives with extensive industry backgrounds and, in aggregate, more than 50 years of venture capital experience. This experience has enabled the Manager to build up strong long-term business relationships, not only with the companies in which it has invested, but also with the key introducers of new investment enquiries in the sectors in which it operates, particularly in the software, support services and manufacturing sectors. The Manager has developed effective procedures for post investment monitoring and support of investee companies by way of board representation, monitoring of management accounts and internal reporting practices. The Directors believe that such procedures are an essential element in successful venture capital management. The Manager is actively involved with its investments, taking non-executive positions where appropriate, and has the ability and experience to add value to the investments.

**Michael Jackson** MA FCA (Chairman of the Manager) founded Elderstreet Investments Limited in 1990 and is its executive chairman. For the past 21 years, he has specialised in raising finance and investing in the smaller companies quoted and unquoted sector. From 1983 until 1987 he was a director and from 1997 until 2006 was chairman of FTSE 100 company The Sage Group plc. He was also Chairman of PartyGaming plc, another FTSE- 100 company. He is also a director of, Elderstreet portfolio companies Snacktime plc, Fords Packaging Systems Limited, and Access Intelligence plc. Michael studied law at Cambridge University, and qualified as a chartered accountant with Coopers & Lybrand before spending five years in marketing for various US multinational technology companies.

**William Horlick** joined Elderstreet Investments Limited in 1998. William graduated from RMA Sandhurst in 1980. Prior to joining Elderstreet Investments, he was managing director of a London based mail order company and spent seven years in investment banking and stockbroking. He has worked on over 35 company investments. William has held several board seats in the past on Elderstreet Investments portfolio companies. He is also the investment manager of Bedford Row VCT plc and the Smith and Williamson EIS portfolio.

**Vin Murria** DBA, MBA, BSc (Hons) Vin's career has included a combination of venture capital, private equity and CEO/operational experience, centred around twenty years of M&A activity in the software sector. Vin is a partner at Elderstreet Investments and Chief Executive Officer of Advanced Computer Software Plc, a consolidator in the healthcare sector. Prior to this, Vin was CEO of Computer Software Group plc, which she took private in May 2007, merged with IRIS in 2007 and sold to the USA based private equity vehicle Hellman Friedman. Previous roles include European COO for Kewill Systems plc, and Chairman of Leeds Group Plc. Vin remains an investor and adviser to a number of quoted and unquoted companies, including Concateno plc, BSG plc and Innovise plc.

**David Taylor** BSc DipM MBA David is a consultant to the Manager, and was investment director at Elderstreet Investments Limited for 14 years. Prior to that he spent 10 years at Montagu Private Equity where, as an investment director, he was involved in a wide variety of private equity investments. Previously he had a career in the manufacturing industry in marketing and consulting. He has an economics degree from the University of Bath, a Diploma in Marketing and an MBA from Manchester Business School. He is currently the director of a number of unquoted companies and has been responsible for the Company's investments in Fords, WASP, Umole, Snacktime and Baldwin & Francis.

## **The Board**

The Company has five directors, all of whom are non-executive and the majority of whom are independent of the Manager.

**David Brock BSc** (Chairman) was, until July 1997, a main board director of MFI Furniture Group plc and managing director of MFI International Limited, having been involved at a senior level in both MFI's management buy out and its subsequent flotation. He started his career at Marks and Spencer Plc. He is currently Chairman of Episys Group Limited, and is a non-executive director of Hargreave Hale Aim VCT 1 plc, and Puma VCT V111 plc.

**Hugh Aldous** is chairman of Capita Sinclair Henderson, Smart Education Limited, and SPL Guernsey ICC Ltd. He is a director of Henderson TR Pacific Investment Trust plc, The Eastern European Trust plc, Innospec Inc. (NASDAQ) and Polar Capital Holdings Plc. He was previously a partner of Grant Thornton UK LLP to which he is now a consultant. He was a member of the Competition Commission.

**Barry Dean FCA** is a chartered accountant, and has over 30 years experience in the private equity industry including 14 years as managing director of Dresdner Kleinwort Benson Private Equity Limited. He is currently a director of Henderson Private Equity Investment Trust plc (a quoted investment trust investing in private equity), Downing Absolute Income VCT 2 plc and ProVen VCT plc. Barry is also an Advisory Committee Member for Parallel Private Equity LLP, and serves on the investment committee of Beamreach Capital LLP which invests in private equity.

**Michael Jackson MA FCA** (see biography above)

**Nicholas Lewis MA** is a partner of Downing LLP, which has recently taken over the business of Downing Corporate Finance Limited, a company he founded in 1986. Downing specialises in promoting, managing and administering tax-based investments, having raised approximately £1 billion since 1991. He is a director of a number of other venture capital trusts and an executive director of the companies which manage many of the Downing VCTs. He was formerly with NatWest Ventures Limited and, before that, with Apax Partners & Co Limited.

The Board is responsible for the determination of the Company's investment policy.

## **PART 4**

### **INFORMATION RELATING TO THE OFFER**

#### **The Offer**

The Offer is being made by way of an offer to the UK public of new Ordinary Shares. There is no minimum subscription required for the Offer to proceed.

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

Elderstreet is a generalist VCT. It is raising funds by way of the Offer for the tax years 2011/12 and 2012/13 to fund another phase of investment. The Offer will be open until the earlier of 30 April 2012 (or later at the discretion of the Directors) and the date on which the Maximum Subscription is reached.

VCTs are tax-efficient investment vehicles with both substantial income tax relief and freedom from capital gains tax on disposal of shares. Given its proven track record and experienced management team, together with the benefits of VCT tax status, the Directors believe that the Offer may provide Investors with a more certain opportunity for dividends and growth compared to investing in a new VCT which may not reach its minimum subscription and has yet to make any investments.

#### **Benefits for existing shareholders**

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

- the running costs of the Company will be spread over a larger combined asset base as a result of the issue of Offer Shares, thereby reducing the level of the running costs attributable to each existing holder of Ordinary Shares and, therefore, providing the potential for enhanced dividends to Ordinary Shareholders.
- the Offer Shares issued will increase the capital available to the Company which may be invested alongside existing capital. This affords existing Shareholders investment opportunities they might not otherwise have.

#### **Benefits for new shareholders**

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

- the issue of the Offer Shares rather than a new class of shares provides new shareholders with immediate exposure to Elderstreet's existing portfolio, including a number of mature companies.
- the issue of the Offer Shares also provides new Shareholders with exposure to companies within Elderstreet's existing portfolio which may no longer be able to be invested in by VCTs as they may not be VCT Qualifying Investments under the VCT legislation.
- the issue of the Offer Shares also provides new Shareholders with exposure to any income streams benefiting the existing Shareholders, including dividends and loan stock interest. New VCTs which have no existing investments would initially have to fund meaningful dividends through repayment of capital.

#### **Use of proceeds**

The Board intends to invest the net proceeds from the Offer such that the Company has at least 70 per cent. of its funds invested in VCT Qualifying Investments by 31 December 2015 and up to 30 per cent. invested in non VCT Qualifying Investments.

## **Terms of the Offer**

Investors are invited to subscribe an amount in pounds sterling rather than apply for a particular number of Offer Shares. The number of Offer Shares issued to an Applicant will be determined by reference to the Pricing Formula as follows:

The Application Amount (in pounds), less 5.5% (commission), divided by the Net Asset Value (in pounds) most recently announced prior to the date of allotment (rounded down to the nearest whole number of Ordinary Shares).

The unaudited Net Asset Value as at 31 October 2011 (the latest date for which the Net Asset Value has been announced prior to the publication of this document) was 67 pence. The issue price in respect of any new Offer Shares allotted by reference to the Net Asset Value as at any later date may be higher or lower. It is intended that NAVs will be announced on a six monthly basis, or more often at the Board's discretion.

As an example, if an Applicant wishes to invest the sum of £10,000 and forwards the Application in time for allotment to be made on a date when the most recently announced Net Asset Value is that as at 31 October 2011, the Application Amount less 5.5 per cent. is £9,450 and the number of Offer Shares issued to the Applicant will be that figure divided by 67 pence, rounded down to the nearest whole share, i.e. 14,104 Offer Shares (the effect is that the Offer Shares will have been issued at approximately 70.9 pence per Offer Share).

The minimum subscription amount for each Applicant is £5,000 and, provided this condition is met, Applications may be for any amount thereafter in multiples of £1,000. There is no maximum individual subscription level under the Offer but the maximum investment on which tax reliefs on investments in VCTs are currently available is £200,000 in the 2011/12 tax year (£200,000 per spouse). All Applications should be made on an individual basis as VCT tax reliefs are not available for shares held in joint names or for Applications made in the name of nominee accounts.

It is intended that authorised financial intermediaries will be paid commission of up to 3.0 per cent. of the gross amount subscribed for Offer Shares allotted under the Offer, or an initial commission of 2.5 per cent. plus an annual trail commission of 0.25 per cent. per annum for five years (the trail commission will be calculated by reference to the number of Ordinary Shares held on 30 October each year commencing on 30 October 2012 until and including 30 October 2016) in respect of all accepted Applications which bear the stamp of the relevant authorised financial adviser. Financial intermediaries may agree to waive part or all of their initial commission, in which case it is intended that the Application Amount will be increased by the equivalent amount. The Offer is not being underwritten. Save for the individual minimum subscription amount, there is no minimum subscription level for the Offer as a whole and, accordingly, the Offer will proceed irrespective of whether or not it is fully subscribed.

## **Capital Raising Fees**

The Manager has agreed, in return for a commission of 5.5 per cent. of the monies raised, to be responsible for paying the costs of the Offer including without limitation initial commission to authorised financial advisers. There will be no initial cost to existing Shareholders in the first year for this transaction. However, any trail commission will be payable by the Company in the future.

## **Duration of the Company**

The Company's articles of association state that a resolution will be put at the Company's annual general meeting in 2012 to consider whether it should continue as a VCT. The Company intends to extend the winding up resolution to 2017.

### **Timetable**

The 2011/12 Offer will remain open until 1.00 p.m. on 5 April 2012 (or such later date to which the Directors extend the Offer) or until fully subscribed, whichever is the earlier (the "Closing Date"). The 2012/13 Offer will remain open until 1.00 p.m. on 30 April 2012 (or such later date to which the Directors extend the Offer) or until fully subscribed, whichever is the earlier. The Directors reserve the right to accept or reject in whole or in part Applications and issue Offer Shares at any time prior to the Closing Date. The Directors also reserve the right to extend the Offer. It is expected that dealings will commence no later than 10 Business Day following the date of allotment. Share certificates are expected to be issued (and, where relevant, CREST accounts credited) no later than 10 Business Days following the date of allotment.

### **Application procedure**

The Directors in their absolute discretion will determine the basis of allocation of the Offer Shares but expect to allocate on a first come/first served basis. To the extent that any Application is not accepted, any excess payment will be returned without interest by returning the Applicant's payment through the post at the risk of the person entitled thereto. The Receiving Agent will not acknowledge receipt of Applications. An Application Form together with notes on its completion is set out at the end of this document.

Provided that Applications are for a minimum of £5,000, they can be for any amount thereafter in multiples of £1,000. Application Forms should be sent or delivered, together with the full amount payable in respect of the Application, by post or by hand to SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey, KT10 9AD. All payments must be made in pounds sterling by cheque or banker's draft made payable to "SLC Registrars - Elderstreet" and crossed "A/C payee only". Your attention is drawn to the statements concerning the Money Laundering Regulations 2007 in the terms and conditions of application.

### **Admission to trading and dealing arrangements**

Application will be made for Admission in respect of the Offer Shares. Following Admission, announcements of allotments pursuant to the Offer will be made as required by the Listing Rules. It is expected that Admission will become effective and dealings in the Offer Shares will commence 10 days after their allotment. Definitive share certificates are expected to be despatched to successful Applicants by post within 10 Business Days of their allotment. Temporary documents of title will not be issued in connection with the allotment of Offer Shares. Dealings prior to receipt of share certificates will be at the risk of the Applicants.

The Offer Shares will be in registered form capable of being transferred using the CREST system. Those Applicants who wish to take advantage of the ability to trade in Offer Shares in uncertificated form, and who have access to a CREST account, may arrange with their CREST operator to hold their Offer Shares in dematerialised form. Investors should be aware that Offer Shares delivered in certificated form are likely to incur higher dealing costs than those in respect of Offer Shares held in CREST.

## **PART 5**

### **BENEFITS OF VENTURE CAPITAL TRUSTS**

Venture Capital Trusts provide private investors with an attractive and tax-efficient method of investing in a portfolio of small to medium-size trading companies in the UK. It is often difficult for private investors to have access to such investment opportunities, and few have the time or means to identify, assemble and monitor a portfolio of companies with such potential. VCTs also offer substantial tax benefits to private investors.

The principal benefits offered by VCTs to private investors are:

**Income tax relief** Private investors subscribing for new shares in a VCT in the 2011/2012 tax year should receive income tax relief at 30 per cent. of the amount subscribed against their income tax liability in the year of subscription, provided that such shares are held for at least five years. Announcement of tax relief for the 2012/13 tax year will be made in the 2012 budget statement but the VCT income tax relief is expected to remain at 30 per cent.

**Tax-free dividends** Private investors should be exempt from income tax on dividends received from a VCT.

**Capital gains tax exemption** There should be no capital gains tax on disposal of shares in a VCT; conversely, there is no relief for losses.

**Personal taxation benefits** All the reliefs described above are available to private investors, provided certain conditions are met and the shares are acquired within the permitted maximum of £200,000 in any one tax year. Relief from income tax on investment only applies to subscriptions for new shares.

**Professional investment team** VCTs are advised by professional advisers with specific experience and proven track records.

**Spread of investments** VCTs spread their investments across a range of companies, with a view to creating a more balanced portfolio than could be achieved by individuals investing in separate companies.

**Tax-Free realisations** Capital gains realised by a VCT should be exempt from corporation tax within the VCT thereby potentially increasing distributions to shareholders.

**Admission to the Official List** The shares of a VCT must be admitted to the Official List and to trading on the London Stock Exchange providing investors with a market to trade their shares. However, there is no guarantee that the market price of the Offer Shares will fully reflect their underlying net asset value or the ability to buy and sell at that price.

**The above is only an outline of the tax reliefs and should be read in conjunction with the detailed provisions of the current legislation, a summary of which appears on pages 24 and 25 of this document.**

**Prospective investors are recommended to consult a professional adviser as to the taxation consequences of making an investment in a VCT.**

## **PART 6**

### **TAX POSITION OF INVESTORS**

The tax reliefs set out below are available to individuals aged 18 or over who subscribe under the Offer. Whilst there is no specific limit on the amount of an individual's acquisitions of shares in a VCT, tax reliefs will only be given to the extent that the total of an individual's subscriptions or other acquisitions of shares in VCTs in any tax year does not exceed £200,000. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future.

**Investors who intend to invest more than £200,000 in VCTs in any one tax year should consult their professional advisers.**

#### **(a) Income Tax**

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

A private investor subscribing for Offer Shares will be entitled to claim income tax relief on amounts subscribed up to a maximum of £200,000 in any tax year. To obtain relief a private investor must subscribe on his own behalf although the shares may be subsequently transferred to a nominee. For the 2011/12 tax year the relief is given at 30 per cent. of the amount subscribed although the relief cannot exceed the amount which reduces the Investor's income tax liability to nil. Investments to be used as security for or financed by loans may not qualify for relief, depending on the circumstances.

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

An Investor who acquires in any tax year Offer Shares having a value (along with any other VCT shares acquired by him in that tax year) of up to £200,000 will not be liable to income tax on dividends paid by the VCT on those shares. Dividends carry a tax credit at the rate of one-ninth of the net dividend which is not repayable and which cannot be utilised in any other way.

The return to Investors from Elderstreet will depend on the type of profit received by it. Capital gains realised by a VCT are tax-free. No tax is payable by a VCT on distributing these gains by way of dividend and such dividends are received tax-free by shareholders who benefit from dividend relief. However, income received by a VCT will usually constitute either interest (on which the VCT may be subject to tax) or a dividend from a UK company (on which the VCT would not be subject to tax). Such income as is reduced by the payment of tax (if applicable) can be distributed tax-free to shareholders who benefit from dividend relief.

It is expected, however, that the bulk of the returns generated by Elderstreet will derive from the realisation of capital gains from its portfolio.

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

An individual purchaser of existing Ordinary 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 shares in a VCT is withdrawn if the shares are disposed of (other than between spouses) within five years of issue or if the VCT loses its approval within this period (see below). Relief also ceases to be available on any dividend paid in respect of profits or gains in any accounting period ending at a time when VCT status has been lost.

## **(b) Capital Gains Tax**

### **(i) Relief on the disposal of Offer Shares**

A disposal by an Investor of Offer 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 Offer Shares acquired within the limit of £200,000 for any tax year, determined as for dividend relief.

### **(ii) Purchases in the market**

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

### **(iii) Withdrawal of relief**

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. The exemption from corporation tax on capital gains will not apply to any gain realised by the VCT after this time. If VCT approval is withdrawn, any gains on the Offer 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. If the VCT is treated as never having been approved, gains and losses in the Offer Shares will be taxable in the usual way.

## **Obtaining tax reliefs**

A VCT 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 code 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 their own 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.

**The above is only a summary of the law as at the date of this document concerning the tax position of investors in VCTs. The tax rates and relief shown are those currently in use and could alter in future years. Prospective investors are recommended to consult a professional adviser as to the taxation consequences of an investment in a VCT.**

## **PART 7**

### **TAX POSITION OF THE COMPANY**

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

The legislation relating to VCTs sets out tests which a company has to satisfy to obtain the tax benefits for the VCT and its shareholders. The legislation summarised below is that in force as at the date of this document.

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

- (a) not be a close company;
- (b) have each class of its ordinary share capital listed on a regulated market;
- (c) derive its income wholly or mainly from shares or securities;
- (d) within certain time limits, have at least 70% by value of its investments in shares or securities in VCT Qualifying Investments, of which at least 70% by value must be in ordinary shares carrying no preferential rights to return of capital and no rights to redemption, but may have certain preferential rights to dividends. (For funds raised prior to 6 April 2011, at least 30% by value of a VCT's Qualifying Investments must be in ordinary shares carrying no preferential rights to dividends, return of capital, nor any rights to redemption);
- (e) have not more than 15% by value of its investments in a single company or group (other than a VCT or a company which would, if its shares were listed, qualify as a VCT); and
- (f) not retain more than 15% of its income derived from shares and securities in any accounting period.

#### **2 VCT Qualifying Investments**

To be a VCT Qualifying Investment, the investment must consist of shares or securities first issued to the VCT (and held by it ever since) by an unquoted portfolio company (a listing on AIM not being a quotation for these purposes) satisfying certain conditions and for which not more than £1 million was subscribed in any one tax year (nor more than £1 million in, broadly, any period of 6 months straddling two tax years). The conditions are complex but include conditions that any investment must be in a qualifying company which must:

- (a) have gross assets not exceeding £7 million immediately before and £8 million immediately after the VCT's investment (these tests are applied on a group basis if applicable. For funds raised prior to 6 April 2006 the limits are £15 million and £16 million respectively);
- (b) have fewer than 50 full-time employees (or their equivalents) at the date on which the VCT investment is made (this test is applied on a group basis if applicable). This requirement does not apply to VCT funds raised prior to 6 April 2007;
- (c) not have raised more than £2 million under any or all of the venture capital schemes (comprising the Enterprise Investment Scheme and from VCTs) in the 12 months ending on the date of the VCT investment. In respect of a VCT investment this test applies to investments made from funds raised on or after 6 April 2007;

- (d) apply the money raised for the purposes of a qualifying trade within certain time periods; and
- (e) not be controlled by another company.

There are proposals to increase the limits set out in (a) to (c) above with effect from 6 April 2012, subject to EU State Aid approval. In addition, the VCT must hold at least 10% by value of each VCT Qualifying Investment in "eligible shares". For funds raised prior to 6 April 2011, eligible shares are defined as new ordinary shares which carry no preferential rights to dividends, return of capital and no rights to redemption. For funds raised after 5 April 2011, eligible shares are new ordinary shares which carry no preferential rights to a return of capital and no rights to redemption, but may have certain preferential rights to dividends. Also, any securities held in a VCT Qualifying Investment must not involve a third party guaranteeing the loan.

### **3 Qualifying companies**

A qualifying company must exist wholly or mainly for the purpose of carrying on a qualifying trade or be the parent company of a qualifying trading group. For this purpose certain activities are prohibited (such as dealing in land or shares or providing financial, legal or accountancy services, managing nursing homes or hotels (where the manager is in occupation or owns an interest in the land), property development, leasing or farming), shipbuilding, coal and steel production and, with effect from 6 April 2012, the generation of electricity from solar or wind power from which feed-in tariffs are receivable. The trade must either be carried on by, or be intended to be carried on by, the qualifying company or by a qualifying subsidiary at the time of the issue of its shares or securities to the VCT (and by such company or by any other qualifying subsidiary at all times thereafter). A qualifying subsidiary is at least 90 per cent. directly owned by the qualifying company, or is a 100 per cent. subsidiary of at least a 90 per cent. subsidiary of the qualifying company, or is at least a 90 per cent. subsidiary of a 100 per cent. subsidiary of the qualifying company. The company in which the VCT invests must at all times 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.

A qualifying company can be the parent company of a trading group. If this is the case, the group, when taken together as one business, must carry on activities which constitute a qualifying trade. Any subsidiary must be more than 50% owned. However, if a subsidiary is one which carries on the trade by reference to which the investment is to qualify as a VCT Qualifying Investment, that subsidiary must be a qualifying subsidiary as described above.

### **4 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 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 provisionally approve a VCT notwithstanding that certain of the tests are not met at the time of application, provided that HMRC is satisfied that the tests will be met within certain time limits. In particular, in the case of the test described at 1(d) 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 when approval takes effect.

## **PART 8**

### **GENERAL INFORMATION**

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

- 1.1. Elderstreet VCT plc was incorporated in England and Wales on 26 August 1997 and operates under the Act as a public company limited by shares, with registered number 03424984.
- 1.2. The registered office of the Company is 10 Lower Grosvenor Place, London SW1W 0EN. Its principal place of business is at 32 Bedford Row, London WC1R 4HE and its telephone contact number 020 7831 5088..
- 1.3. HMRC provisional approval was granted to the Company as a VCT under ICTA on 28 January 1998 and since that date the Company has carried on its business in accordance with that Act. The Company intends to continue to carry on its business such that its VCT status will be maintained. The various requirements are now contained within the Income Tax Act 2007.

#### **2. Investment Manager**

- 2.1. Elderstreet Private Equity Limited was incorporated in England and Wales on 17 May 1995 and operates under the Act as a private company limited by shares, with registered number 03057805. It is domiciled in the United Kingdom. The Investment Management Agreement was novated to Elderstreet Investments Limited in 2009.
- 2.2. The registered office and principal place of business of the Manager is 32 Bedford Row, London WC1R 4HE and its telephone contact number is 020 7831 5088.
- 2.3. Elderstreet Investments Limited is a venture capital fund management company. Funds managed by Elderstreet Investments Limited include Elderstreet Capital Partners Limited Partnership, Elderstreet VCT plc and the Smith & Williamson EIS portfolio. Elderstreet Investments Limited is a wholly owned subsidiary of Elderstreet Holdings Limited. Michael Jackson, David Lowe and Vin Murria are the only directors and only shareholders (as to 33.3 per cent. each) of Elderstreet Holdings Limited.

#### **3. Share Capital**

As at the date of this document the issued share capital of the Company is £ 1,435,084 divided into 28,701,675 Ordinary Shares of 5 pence each, all of which Ordinary Shares are fully paid up.

#### **4. Directors' and other interests**

- 4.1. The Company is not aware of any person who is or, immediately following the Offer, will be, directly or indirectly, interested in 3% or more of the issued share capital of the Company, or who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 4.2. The interests (all of which are or will be beneficial unless otherwise stated) of the Directors, their immediate families and persons connected with the Directors within the meaning of section 252 of the Act (a "Connected Person") in the share capital of the Company which:
  - (a) have been notified to the Company; or
  - (b) are required to be entered in the register of directors' interests maintained under the provisions of section 809 of the Act; or
  - (c) are interests of a Connected Person which would, if the Connected Person were a Director, be required to be

disclosed under (a) or (b) above and the existence of which is known to, or could be reasonable diligence be ascertained by, that Director, as at the date of this document and as they will be immediately following Admission, are as set out in the following table:

<b>Director</b>	<b>At Present Shares</b>	<b>Following Admission Shares</b>
David Brock	100,000	100,000
Hugh Aldous	20,000	20,000
Barry Dean	20,627	20,627
Michael Jackson	776,485	776,485
Nicholas Lewis	50,000	50,000

- 4.3. Save as disclosed in paragraph 4.2 of this part 8, immediately following Admission, no Director, nor any Connected Person, will have any interest, whether beneficial or non-beneficial, in the share or loan capital of the Company or any of its subsidiary undertakings.
- 4.4. No Offer Shares are being reserved for allocation to existing shareholders, directors or employees of the Company Sponsor.
- 4.5. Each of the Directors has a consultancy agreement with the Company; the current fees, term and notice periods of the Directors are as follows:

<b>Director</b>	<b>Agreement Date</b>	<b>Fees per annum</b>	<b>Term</b>	<b>Notice Period</b>
David Brock	30 Jan 1998	£15,000	rolling	3 months
Hugh Aldous	1 Mar 2007	£10,000	rolling	3 months
Barry Dean*	25 Jan 2005	£10,000	rolling	3 months
Michael Jackson**	30 Jan 1998	£10,000	rolling	3 months
Nicholas Lewis***	30 Jan 1998	£10,000	rolling	3 months

\* Since January 2005 Barry Dean has also been paid £5,000 per annum by the Manager for consultancy services to the Manager.

\*\*Michael Jackson is a director of and shareholder in the Manager which is entitled to performance incentive fees and investment management fees from the Company.

\*\*\* Nicholas Lewis is a director and a shareholder in the holding company, of Downing, which provides administration services to the Company.

The Directors do not have any other commission or profit sharing arrangements with the Company. The agreements do not contain any provision for compensation payable upon early termination of the agreements.

## 5. Material Contracts

The following are the only contracts, not being contracts entered into in the ordinary course of business, which have been entered into by the Company within the two years immediately preceding the date of publication of this document and which are or may be material to the Company or have been entered into by the Company at any time and contain any provisions under which the Company has any obligations or entitlement which, at the date of this document, are or may be material to the Group:

- 5.1. An agreement (the "Investment Management Agreement") dated 30 January 1998 between the Company and Elderstreet Private Equity Limited, and varied by an agreement dated 1 July 2009. This was novated to the Manager by Elderstreet Investments Limited on 1 June 2009.

The Manager provides investment advisory services to the Company in respect of its portfolio of Qualifying Investments for a fee of 2 per cent. of net assets (as defined in the agreement), together with certain performance incentive fees which are payable when dividend payments exceed a return of 3.5p per Ordinary Share as a distribution in any one financial year subject to the NAV, before the distribution, being higher than 70.6p per Share. The Manager will receive 20% of the distribution amount over 3.5p per Ordinary Share. The performance incentive fee will also have a catch-up should any previous year's distribution not be met.

This catch-up will be cumulative so that in any years where the distribution is less than 3.5p per Ordinary Share the shortfall must be made up prior to awarding any further incentive fees. Any performance incentive fee payable in any period of 12 months has been capped so that the fee payable under the new incentive arrangements 24.9 per cent. of the lesser of the Company's current NAV, market capitalisation or gross assets. A performance fee of £23,288 was paid in relation to the calendar year 2009 and £24,516 for 2010. No other performance fee has been paid to date.

Annual running costs (including VAT) are capped at 3.5 per cent. of net asset value (as defined in the deed) with any excess being refunded by way of a reduction in the fees payable to the Manager and Downing pro rata to their fees during the financial year.

The Manager is also entitled to certain non-executive directors' fees, arrangement fees and expenses.

The Investment Management Agreement is terminable by either party at any time thereafter by one year's prior written notice and, subject to earlier termination in the event of *inter alia*, a party having a receiver, administrator or liquidator appointed or committing a material breach of the Investment Management Agreement, and, by the Company, if it fails to become or ceases to be a VCT for tax purposes, or if the Manager shall cease to be lawfully able to carry out its obligations under the Investment Management Agreement or if, in the Board's reasonable opinion, it is desirable in order to preserve the status of the Company as a VCT or if Michael Jackson should cease to be a director of the Company if, after a period of three months following any such event, in the reasonable opinion of Elderstreet, the Manager is unable to fulfil its duties under the Investment Management Agreement to a material extent. The Investment Management Agreement will terminate automatically without compensation (but without prejudice to the parties' other rights and remedies) upon the passing of a resolution for the voluntary liquidation, reconstruction or reorganisation of the Company.

Michael Jackson is a director of and shareholder in the Manager which is entitled to performance incentive fees and investment management fees from the Company.

- 5.2. An agreement (the "Administration Agreement") dated 30 January 1998 between the Company and Downing whereby Downing will provide or procure the provision of certain administration services to the Company for a fee of 0.6 per cent. (plus VAT) of the Company's net assets such sum shall be capped at £60,000 (plus VAT).

This Agreement was amended on 1 July 2009 (with retrospective effect as to fees to 1 March 2009) whereupon the fee was capped at £50,000 (plus VAT). The Administration Agreement is terminable by either party by one year's prior written notice, subject to earlier termination in the event of, inter alia, a party having a receiver, administrator or liquidator appointed or committing a material breach of the Administration Agreement and by the Company if it fails to become or ceases to be a VCT for tax purposes, or if Downing shall cease to be lawfully able to carry out its obligations under the Administration Agreement. The Administration Agreement will terminate automatically without compensation (but without prejudice to the parties' other rights and remedies) upon the passing of the resolution for the voluntary liquidation, reconstruction or reorganisation of the Company mentioned on page 21 above under the heading "Duration of the Company". The Administration Agreement contains usual provisions indemnifying Downing against liability for any negligence, fraud or breach of any law or regulation on the part of the Company where the breach was not as a result of Downing's negligence.

- 5.3 An agreement (the "S&W Investment Agreement" dated 18 November 2004 entered into between the Company and Smith & Williamson Investment Management Limited ("S&W") under which S&W will provide discretionary investment management and custody services, investing certain monies of the Company in a portfolio of investments, concentrating on short dated fixed interest securities of high credit quality with a focus on financial instruments issued by the UK Government, major companies and institutions. Fees are payable at a rate of 0.15 per cent. per annum (plus VAT) of these monies subject to a cap of £10,000 per annum (plus VAT), calculated quarterly in arrears. The agreement is terminable on three months notice by either party. The agreement contains the usual indemnities for the benefit of S&W, with S&W only being liable to the Company, for example, in cases of fraud, wilful default and negligence.

## **6. General Information**

- 6.1. Save as disclosed in this document, there has been no significant change in the trading or financial position of the Company since 30 June 2011
- 6.2. The Company is not and has not been involved in any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Company, nor are there any such proceedings pending or threatened by or against the Company of which it is aware.
- 6.3. No person receiving a copy of this document or an Application Form in any territory other than the UK may treat the same as constituting an offer or invitation to him to subscribe for or purchase Offer Shares.
- 6.4. No action has been taken to permit the distribution of this document in any jurisdiction outside the UK where such action is required to be taken. All applicants under the Offer will be required to warrant that they are not a US Person
- 6.5. The financial information set out in part 9 has been extracted from the audited financial report and accounts or relevant interim accounts of the Company, as appropriate.

9 December 2011

## **PART 9**

### **FINANCIAL INFORMATION ON THE COMPANY**

#### **Historical financial information**

Audited statutory accounts for the Company for each of the three years ended 31 December 2010 on which unqualified audit reports (not containing a statement under Section 23 7(2) or (3) of the Act) have been given by the auditors PKF (UK) LLP, Parnell House, Park Street, Guildford, Surrey, GU1 4HN, for the years ended 31 December 2008, 31 December 2009 and 31 December 2010, have been delivered to the Registrar of Companies in England and Wales.

Copies of the audited annual accounts referred to above and half year accounts to the period ended 30 June 2011 are available on the following website addresses: [www.elderstreet.com](http://www.elderstreet.com) and [www.downing.co.uk](http://www.downing.co.uk)

### **DIRECTORS AND ADVISERS**

#### **Directors**

David Michael Brock (Non-executive Chairman)  
Hugh Graham Aldous (Non-executive Director)  
Barry Malcolm Dean (Non-executive Director)  
Michael Edward Jackson (Non-executive Director)  
Nicholas Peter Lewis (Non-executive Director)  
All of  
10 Lower Grosvenor Place, London SW1W 0EN

#### **Secretary**

Grant Whitehouse

#### **Investment manager**

Elderstreet Investments Limited  
32 Bedford Row  
London WC1 4HE

#### **Fixed income securities manager**

Smith & Williamson Investment Management Limited  
25 Moorgate  
London EC2R 6AY

#### **Administration manager**

Downing Management Services Limited  
10 Lower Grosvenor Place,  
London  
SW1W 0EN

#### **VCT status adviser**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

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

Howard Kennedy  
19 Cavendish Square  
London  
W1A 2AW

**Registrars**

Capita Registrars  
The Registry, 34 Beckenham Road  
Beckenham  
Kent BR3 4TU

**Receiving agent**

SLC Registrars Limited  
Thames House  
Portsmouth Road  
Esher  
Surrey KT10 9AD

**Auditor**

PKF (UK) LLP  
Pannell House, Park St  
Guildford  
Surrey GU1 4HN

## DEFINITIONS

**In this document the following words and expressions shall, unless the context requires otherwise, have the following meanings:**

"2011/12 Offer"	the offer for subscription of Offer Shares pursuant to the terms of this document which opens on 9 December 2011 and closes on 5 April 2012
"2012/13 Offer"	the offer for subscription of Offer Shares pursuant to the terms of this document and which opens on 9 December 2011 and closes on 30 April 2012
"Act"	the Companies Act 1985, including any statutory modification or re-enactment thereof for the time being in force
"Admission"	admission of the Offer Shares to the premium segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities
"AIM"	AIM, a market operated by the London Stock Exchange, formerly known as the Alternative Investment Market
"Applicant"	an investor whose name appears in an Application Form
"Application"	offer to subscribe for Offer Shares under the Offer made by an Applicant by completing an Application Form
"Application Amount"	amount (in pounds sterling) due from an Applicant in respect of his Application or such part (if any) of his Application as is accepted
"Application Form"	application form contained at the end of this document
"Articles"	articles of association of the Company from time to time
"Capita Registrars"	a trading name of Capita IRG Plc
"C Shares"	'C' ordinary shares of 5p (sterling) each in the capital of the Company which converted to Ordinary Shares on 31 October 2008
"Company", "Elderstreet", Elderstreet VCT, or "Fund"	Elderstreet VCT plc
"CREST"	the computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by Euroclear UK & Ireland Limited
"Directors" or "Board"	directors of the Company as at the date of this document, whose names are set out on page 18 of this document
"Downing"	Downing Management Services Limited
"Elderstreet Funds"	funds managed by the Investment Manager or Elderstreet Investments Limited
"Elderstreet Millennium"	Elderstreet Millennium Venture Capital Trust plc
"FSA"	Financial Services Authority
"FSMA"	the Financial Services and Markets Act 2000 (as amended)
"HMRC"	HM Revenue & Customs
"ICTA"	Income and Corporation Taxes Act 1988 (as amended)
"Investment Management Team"	those people whose details are set out on page 19 of this document
"Investment Manager" or the "Manager"	Elderstreet Investments Limited, a wholly owned subsidiary of Elderstreet Holdings Limited
"Investor"	individual investor, who is aged 18 or over, investing no more than £200,000 in VCTs in any one tax year
"ITA"	Income Tax Act 2007 (as amended)
"Listed"	admitted to the premium segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange's main market for listed securities
"Listing Rules"	the listing rules issued by the FSA
"London Stock Exchange"	London Stock Exchange plc
"Maximum Subscription"	the lesser of £2 million in Offer Shares or 2,870,167 Offer Shares in each case at the prevailing Offer Price.
"Net Asset Value" or "NAV"	net asset value per share

"Net Assets"	gross assets less all liabilities (excluding contingent liabilities) of the Company
"Offer Price"	the price paid (UK sterling) by Applicants for each Offer Share issued under the Offer calculated according to the Pricing Formula
"Offer" or "Offer for Subscription"	the offer for subscription of Offer Shares pursuant to the terms of this document
"Offer Shares"	the ordinary shares available for subscription pursuant to the Offer
"Official List"	Official List of the UK Listing Authority
"Ordinary Shares" or "Shares"	ordinary shares of 5p (sterling) each in the capital of the Company with ISIN GB0002867140
"Pricing Formula"	formula for determining the number of Offer Shares that will be issued to an Applicant as described in the Terms and Conditions on page 37
"Qualifying Investor"	an individual who subscribes for or acquires shares in a VCT and satisfies the conditions of eligibility for tax relief available to investors in a VCT
"Receiving Agent"	SLC Registrars Limited
"Shareholders"	holders of Ordinary Shares
"Terms and Conditions"	terms and conditions of Application as set out at the end of this document
"US Person"	persons with addresses in the United States of America
"UK Listing Authority"	Financial Services Authority acting in its capacity as the competent authority for the purposes of FSMA
"VCT Investments"	investments made by the Company, other than fixed income securities
"VCT Qualifying Company"	unquoted company carrying on a qualifying trade and which satisfies certain other conditions as set out in Part 6, Chapter 4 of the ITA
"VCT Qualifying Investment"	investment in an unquoted trading company, which comprises a qualifying holding for a VCT as set out in Part 6, Chapter 4 of the ITA
"Venture Capital Trust" or "VCT"	a venture capital trust as defined in section 259 of the ITA

## RISK FACTORS

Prospective Investors should be aware that the value of the Offer Shares and the income from them can fluctuate. In addition, there is no guarantee that the market price of the Offer Shares will fully reflect their underlying net asset value or the ability to buy and sell at that price. Furthermore, in the opinion of the Directors, investing in the Company carries the following material risks:

- Although it is intended that the Company will be managed so as to retain its VCT status, there is no guarantee that such status will be maintained. Further details of the taxation implications to an Investor of an investment in the Company are set out in Part 6 of this document. However, if the Company fails to meet the qualifying requirements for a VCT, this could result in:
  - i the loss of income tax relief received if Investors have not held their Offer Shares for the required qualifying period;
  - ii the loss of income tax relief on dividends paid (or subsequently payable) to Investors;
  - iii the loss of tax relief previously obtained in relation to corporation tax on capital gains made by the Company;
  - iv a liability to tax on capital gains on any disposal of Offer Shares; and
  - v the loss of the Company's listing on the Official List and the ability of the Offer Shares to be traded on the London Stock Exchange.
- The levels and bases of reliefs from taxation may change and could apply retrospectively. The tax reliefs referred to in this document are those currently available and their value depends on the respective individual circumstances of investors.
- An investment in a VCT is free from tax on capital gains for a Qualifying Investor on a disposal of the VCT shares. Consequently, any realised losses on disposal of Offer Shares cannot be used to create an allowable loss for capital gains tax purposes.
- Although the Offer Shares will be listed on the premium segment of the Official List and traded on the London Stock Exchange's main market for listed securities, it is unlikely that a liquid market in the Offer Shares will develop and there may never be two competitive market makers. It may, therefore, prove difficult for Shareholders to sell their Offer Shares.
- Most of the Company's investments may be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise.
- In order to comply with VCT legislation, the VCT Qualifying Investments in which the Company invests must have gross assets of not more than £7 million immediately prior to investment and £8 million immediately post investment. Such companies generally have a higher risk profile than larger companies.
- There is no guarantee that the Company's objectives will be met or that suitable investment opportunities will be available.
- The Company's ability to obtain maximum value from its investments (for example, through sale) may be limited by the requirements imposed in order to maintain the VCT tax status of the Company (such as the obligation to have at least 70 per cent. by value of its investments in VCT Qualifying Investments).
- Investors should be aware that the sale of Offer Shares within five years of their subscription will require repayment of the 30 per cent. income tax relief available upon investment to the extent of the amount received from such sale. Accordingly, investment in the Company is a long term investment.
- An Investor's initial income tax relief will be withdrawn if a Shareholder, or any person associated with the Shareholder, takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of Offer Shares.
- The UK economy is only showing very limited signs of recovery, and this may impact the prospects for existing and new investments.
- A resolution to extend the winding up date of the company is to be put to shareholders in 2012. If this is not passed this could result in new Shareholders under the Offer losing their tax reliefs.
- The past performance of the Company and/or investments managed by the Manager should not be regarded as an indication of the future performance of the Company.

- Changes in legislation concerning VCTs in general, VCT Qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Company to meet its objectives and/or reduce the level of returns which would otherwise have been achievable.
- The value of Offer Shares may go down as well as up and Shareholders may not receive back the full amount invested.
- Most of the Company's investments will be in small companies which may have limited trading records and may not produce hoped for returns. Consequently, Investors could get back less than they invested.
- There is a limited secondary market for VCT shares and most trade below their net asset value.

## TERMS & CONDITIONS

1. The right is reserved to reject any application in whole or in part or to accept any Application in whole or in part. If any Application is not accepted, or if any contract created by acceptance does not become unconditional, or if any Application is accepted for fewer Offer Shares than the number applied for, the application monies or the balance of the amount paid on Application will be returned without interest by post at the risk of the Applicant.
2. By completing and delivering an Application Form, you:

(a) irrevocably offer to subscribe the amount of money specified in your Application Form or such lesser amount as is accepted (in each case such amount being referred to as the "Application Amount") which shall be applied to purchase the Offer Shares on the basis of the Pricing Formula set out below and subject to the provisions of this document, these Terms and Conditions and the Articles.

The number of Offer Shares to be issued to an Applicant in respect of the Application Amount is calculated as follows (rounded down to the nearest whole Offer Share and, for the avoidance of doubt, fractions of Offer Shares will not be issued):

The Application Amount (in pounds), less 5.5%  
of the Application Amount

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last published Net Asset Value

(b) accept that the Net Asset Value used will be the most recently announced net asset value per Ordinary Share expressed in pounds sterling prior to the date of allotment of the relevant Offer Shares (and will ordinarily be unaudited);

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

(d) in consideration of the Company agreeing that it will not, prior to the Offer closing, offer any Offer Shares for subscription to any persons other than as set out in this document, agree that your Application may not be revoked and that this paragraph constitutes a collateral contract which will become binding upon despatch by post or delivery of your Application Form duly completed to the Company or to your financial adviser;

(e) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive a share certificate for the Offer Shares applied for or to enjoy or receive any rights or distributions in respect of such Offer Shares unless and until you make payment in cleared funds for such Offer Shares and such payment is accepted by the Company (which acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses

and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Company of such late payment in respect of such Offer Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such Offer Shares as void and may allot such Offer Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Offer Shares (other than return of such late payment);

(f) agree that all cheques and bankers' drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the completion of any verification of identity required by the Money Laundering Regulations 2007 ("the Regulations") and that such monies will not bear interest;

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

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

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

(j) agree that, having had the opportunity to read this document, you are deemed to have had notice of all information and representations contained therein;

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

(l) agree that all Applications, acceptances of Applications and contracts resulting there from 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 Company to bring any action, suit or proceedings arising out of or in connection with any such Applications, acceptance and contracts in any other manner permitted by law or in any court of competent jurisdiction;

(m) authorise the Company, Capita Registrars or the Manager or any other person authorised by them, as your agent, to do all things necessary to effect registration of any Offer Shares subscribed by you into your name and authorise any representatives of the Company, Capita Registrars or the Manager to execute any document required therefore and to enter your name on the register of members of the Company;

(n) agree to provide the Company, Capita Registrars, SLC Registrars or the Manager with any information which they may request in connection with your Application or to comply with the VCT regulations or other relevant legislation (as the same may be amended from time to time);

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

(p) confirm that you have read and complied with paragraph 3 below;

(q) confirm that you have reviewed the restrictions contained in paragraph 4 below;

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

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

(t) agree that your Application Form is addressed to the Company;

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

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

(w) warrant that the Offer Shares are allotted to you for bona fide investment purposes and not as part of a scheme or arrangement, the main purpose of which, or one of the main purposes of which, is the avoidance of tax;

(x) warrant that you are not a US person or resident of Canada and that you are not applying on behalf of or with a view to the offer, sale or delivery, directly or indirectly, to or for the benefit of any US person or resident of Canada; and

(y) warrant that the information contained in the Application Form is accurate.

3. No person receiving a copy of this document or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application there under to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
4. The Offer Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the "USA"). In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. No Application will be accepted if it bears an address in the USA.
5. This Application is addressed to the Company. The rights and remedies of the Company and the Manager under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to either of them, and the exercise or partial exercise of one will not prevent the exercise of others.
6. The dates and times referred to in these Terms and Conditions of Application may be altered by the Company. In particular, the Directors may close the Offer at their sole discretion.

7. Authorised financial advisers who, acting on behalf of their clients, return valid Application Forms (bearing their stamp and FSA number) will be entitled to commission on the amount payable in respect of the Offer Shares allocated for each such Application Form at the rates specified in the paragraph "Terms of the Offer" in Part 4 of this document. Authorised financial advisers may agree to waive part or all of their initial commission in respect of an Application. If this is the case, then the Application Amount will be increased by an amount equivalent to the amount of commission waived. Financial advisers should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for their commission.
8. The section headed Application Procedure forms part of these Terms and Conditions of Application.
9. It is a condition of the Offer that compliance with the Money Laundering Regulations 2007 is ensured. SLC Registrars is, therefore, entitled to require, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to SLC Registrars to be acting on behalf of some other person. Pending the provision of evidence satisfactory to SLC Registrars as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, SLC Registrars may, in its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or SLC Registrars may not enter the Applicant on the register of members of the Company or issue any share certificates in respect of such Application. If verification of identity is required, this may result in delay in dealing with an Application and in rejection of the Application. The Company reserves the right, in its absolute discretion, for it or SLC Registrars to reject any Application in respect of which SLC Registrars considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period.

In the event of an Application being rejected in any such circumstances, the Company reserves the right in its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the Application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the Offer Shares in question (but in each case without prejudice to any rights the Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to SLC Registrars such information as may be specified by it as being required for the purpose of the Money Laundering Regulations 2007.

10. The right is also reserved to treat as valid any application not complying fully with these Terms and Conditions of Application for the Offer or not in all respects complying with the Application Procedure. In particular, but without limitation, the Company may accept Applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Company to apply in accordance with these Terms and Conditions of Application.

## **APPLICATION PROCEDURE**

**Before making an application to acquire Offer Shares you are strongly recommended to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000.**

It is essential that you complete all parts of the Application Form in accordance with the instructions in these notes. Please send the completed Application Form, together with your cheque or bankers' draft, by post, or deliver it by hand (during normal business hours), to SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey, KT10 9AD. If you have any questions on how to complete the Application Form please contact Elderstreet Investments Ltd on 020 7831 5088, email [william@elderstreet.com](mailto:william@elderstreet.com) or [vct@elderstreet.com](mailto:vct@elderstreet.com) or speak to your financial adviser. The Manager cannot offer any investment advice.

1. Insert in BLOCK CAPITALS your full name, permanent address, daytime telephone number, e-mail address (if you have one), date of birth and National Insurance Number in Box 1. Applicants must be aged 18 or over and joint applications are not permitted.
2. Insert (in figures) in the relevant tax year the total monetary amount you wish to invest in the Offer Shares (not the number of Offer Shares you wish to apply for) in Box 2.

**Please note that the minimum investment is £5,000.**

Investors should note that the maximum investment on which tax reliefs on investments in VCTs are available, is £200,000 per tax year (£200,000 per spouse).

Attach your cheque or bankers draft to the Application Form for the exact amount shown in Box 2. Your cheque or bankers' draft must be made payable to "SLC Registrars - Elderstreet" and crossed "A/C Payee only". Your payment must relate solely to this Application. No receipt will be issued.

**Money Laundering Regulations 2007 – Important note for applications of £14,000 or more (equivalent to €15,000 or more)**

The verification of identity requirements in the Money Laundering Regulations 2007 will apply and verification of the identity of the Applicant may be required. Failure to provide the necessary evidence of identity may result in your Application being treated as invalid or result in a delay.

If the amount of your Application is £14,000 or more (or is one of a series of linked applications, the value of which exceeds that amount) payment must be made by cheque or bankers' draft in pounds sterling drawn on a branch in the United Kingdom of a bank or building society which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques or bankers' drafts to be cleared through the facilities provided for members of any of these companies. Such cheques or bankers' drafts must bear the appropriate sort code in the top right hand corner. Cheques, which must be drawn on the personal account of the individual investor where they have a sole or joint title to the funds, should be made payable to "SLC Registrars - Elderstreet".

Third party cheques will not be accepted with the exception of building society cheques or bankers' drafts where the building society or bank has confirmed the name of the account holder by endorsing the cheque/bankers' draft to such effect.

The account name should be the same as that shown on the application.

Cheques may be cashed immediately upon receipt. Post-dated cheques will not be accepted.

If the amount of your Application is £14,000 or more, (or is one of a series of linked applications, the value of which exceeds that amount), and if payment is not made by personal cheque, you must also ensure that enclosed with the Application Form is one document from list A below and one document from list B below. Original documents will be returned by post at your risk. Please do not send your original passport or driving licence. Alternatively, verification of the Applicant's identity may be provided by means of a "Letter of Introduction" in the prescribed form from a UK or European Economic Area financial institution (such as a bank or stockbroker) or other regulated person (such as a solicitor, accountant or independent financial adviser) who is required to comply with the Money Laundering Regulations 2007.

The relevant financial institution or regulated person will be familiar with the requirements and the relevant form.

For Applications of £14,000 or more and subscription by way of a cheque drawn by a third party (one item from List A and one item from List B)

### **List A (Verification of Identity)**

- Certified\* copy of current signed passport
- Certified\* copy of current UK Driving Licence (a provisional licence is not acceptable)
- Original Inland Revenue Tax Notification
- Original Firearms Certificate

### **List B (Verification of Address )**

- Original recent\*\* utility bill (but not a mobile telephone bill)
- Original recent\*\* local authority tax bill
- Original recent\*\* bank or building society statement
- Original most recent mortgage statement from a recognised lender

\*Certified as a true copy of the original by a UK lawyer, banker, authorised financial intermediary (e.g. an independent financial adviser or an FSA authorised mortgage broker), accountant, teacher, doctor, minister of religion, postmaster or sub-postmaster. The person certifying the document should state that the copy is a true copy of the original, print their name, address, telephone number and profession and sign and date the copy.

\*\*Recent means within the last three months.

3. Read the declaration and sign and date the Application Form in Box 3. If someone other than the Applicant named in Box 1 signs on such Applicant's behalf, such signatory must ensure that the declaration given on behalf of such Applicant is correct.

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

## APPLICATION FORM

Please pin or staple your cheque here

Make your cheque or bankers draft out to **"SLC Registrars - Elderstreet"** and crossed **"A/C Payee only"** and return this form as soon as possible to SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey, KT10 9AD.

**1**

Title and Name in Full	
Permanent Address	
Postcode	Daytime Telephone
E-Mail Address	
Date of Birth / /19 (day/month/year)	National Insurance No

**2**

I am applying for:		
A	2011/12 Offer (income tax year 2011/12)	£
B	2012/13 Offer (income tax year 2012/13)	£
	Total (A+B minimum £5,000)	£

BY SIGNING THIS FORM I HEREBY DECLARE THAT: (i) I have received the Offer Document dated 21 December 2010 and have had the opportunity to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the Offer Shares in Elderstreet VCT plc issued to me pursuant to the Offer; and (iii) to the best of my knowledge and belief, the particulars I have given to Elderstreet VCT plc are correct.

**HM Revenue & Customs may inspect this application form. It is a serious offence to make a false declaration.**

Signature		Date	//
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**YOU MUST COMPLETE ALL THE BOXES ABOVE**

<b>For Official Use Only</b>	
Date on which Offer Shares are issued	Share Register Number
Amount paid for Offer Shares issued (£)	Number of Offer Shares Issued
Amount paid per Offer Share (£)	Amount of initial Commission waived (where applicable) (£)
<p>Due completion of the agent's box indicates that the agent is duly authorised to transact investments of this type under the Financial Services and Markets Act 2000 and confirms that the requirements of the Money Laundering Regulations 2007 have been complied with.</p>	

<b>Authorised financial advisers should stamp and complete this box</b>	
Firm Name	Clubfinance Ltd
Contact Name	David Scrivens
FSA No.	400139
Address	PO Box 1036 Hemel Hempstead, Herts
Postcode	HP1 2WU
Tel	01441 217 287
Fax	01442 241 045
E-Mail Address	contact@clubfinance.co.uk

Insert ALL or a percentage in respect of which you wish initial commission to be waived and reinvested in additional Offer Shares. <b>3.25%</b>	<b>ALL</b>
The commission is <del>2.5%</del> plus an annual trail commission of 0.25% of 5 years as described in the Securities Note; advisers who wish to receive trail commission should tick this box	Trail  ✓
DATA PROTECTION ACT: The Company and/or Elderstreet Investments Limited may use the information you give for administration, research and/or statistical purposes. Your details may be used by the Company and/or Elderstreet Investments Limited to send you information on other potential investment opportunities. If you would prefer not to receive such information, please tick this box.	