

## JOINT ANNOUNCEMENT

UNICORN AIM VCT PLC  
UNICORN AIM VCT VCT II PLC

29 JANUARY 2010

**RECOMMENDED PROPOSALS FOR A CONSOLIDATION OF THE SHARE CAPITAL OF UNICORN AIM VCT PLC ("VCT I") ("VCT I SHARE CONSOLIDATION") AND SUBSEQUENT MERGER BETWEEN VCT I AND UNICORN AIM VCT II PLC ("VCT II") TO BE COMPLETED BY PLACING VCT II INTO MEMBERS' VOLUNTARY LIQUIDATION PURSUANT TO SECTION 110 OF THE INSOLVENCY ACT 1986 AND THE TRANSFER BY VCT II OF ALL OF ITS ASSETS AND LIABILITIES TO VCT I IN CONSIDERATION FOR NEW ORDINARY SHARES OF 1 PENCE EACH IN THE CAPITAL OF VCT I ("VCT I NEW ORDINARY SHARES") IN THE CAPITAL OF VCT II AND THE CANCELLATION OF THE LISTING OF THE VCT II ORDINARY SHARES OF 1 PENCE EACH AND VCT II 'C' ORDINARY SHARES OF 1 PENCE EACH IN THE CAPITAL OF VCT II ("VCT II C SHARES") ("THE SCHEME")**

### SUMMARY

The boards of VCT I and VCT II, both of which are managed by Unicorn Asset Management Limited ("Unicorn AM"), announced on 4 December 2009 that agreement in principle had been reached for the merger of the two companies. Both boards are pleased to advise that discussions have concluded and both boards are today writing to their respective shareholders with proposals for consideration of the VCT I Share Consolidation and the Scheme (the VCT I Share Consolidation and Scheme together "the Merger"). The Merger will, if effected, result in VCT II being merged into VCT I creating an enlarged company ("Enlarged Company") with one class of shares having net assets of over £55 million, which is expected to deliver cost savings and other strategic benefits.

VCT I will firstly (subject to the Scheme becoming unconditional) complete the VCT I Share Consolidation by converting the ordinary shares of 1 pence each in the capital of VCT I ("VCT I Ordinary Shares") and the series 2 shares of 1 pence each in the capital of VCT I ("VCT I S<sub>2</sub> Shares") into series 3 shares of 1 pence each in the capital of VCT I ("VCT I S<sub>3</sub> Shares"). The VCT I S<sub>3</sub> Shares (existing and those created in the above redesignations) will then subsequently be redesignated as ordinary shares ("VCT I New Ordinary Shares") on a relative net asset value ("NAV") basis.

The Scheme will be effected by VCT II being placed into members' voluntary liquidation pursuant to a scheme of reconstruction under Section 110 of the Insolvency Act 1986. All of the assets and liabilities of VCT II will then be transferred to VCT I in consideration for VCT I New Ordinary Shares (which will be issued directly to the shareholders of VCT II). The Scheme will be completed on a relative net asset basis.

The effective date for the VCT I Share Consolidation and the transfer of the assets and liabilities of VCT II and the issue of VCT I New Ordinary Shares pursuant to the Scheme is expected to be 9 March 2010 ("the Effective Date"). Following the Effective Date the listing of the VCT II Shares will be cancelled and VCT II will be wound up.

The VCT I Share Consolidation and the Scheme are conditional, inter alia, on the approval of resolutions to be proposed to shareholders of VCT I and VCT II at extraordinary meetings and class meetings to be held on 25 February 2010 (for both VCT I ("VCT I Meetings") and VCT II ("VCT II First Meetings") and on 9 March 2010 (for VCT II only) ("VCT II Second Meeting")) and dissent not having been expressed by shareholders of VCT II holding more than 10 per cent. in nominal value of the entire issued VCT II share capital.

The board of VCT I also consider it appropriate, subject to the Merger becoming effective, to approve revised management arrangements with Unicorn AM and amend the existing articles of association of VCT I to reflect the VCT I Share Consolidation and recent changes brought in by the Companies Act 2006. VCT I also proposes to renew share issue and share repurchase authorities, as well as approve the further cancellation of VCT I's share premium account.

## BACKGROUND

In September 2004, the Venture Capital Trusts (Winding-up and Mergers) (Tax) Regulations 2004 were introduced, allowing venture capital trusts ("VCTs") to be acquired by, or merge with, each other without prejudicing tax reliefs obtained by their shareholders. A number of VCTs have now taken advantage of these regulations to create larger VCTs where running costs can be spread over a substantially greater asset base.

With the above in mind, the boards of VCT I and VCT II entered into discussions to consider a merger of the companies to create a single larger VCT with one class of share to reduce the overall running costs. Following detailed consideration of the portfolio and financial position of each company (both of which are managed by Unicorn AM, have the same investment policies and common advisers) the boards of VCT I and VCT II have reached an agreement to recommend that the companies be merged.

Both boards consider that this Merger will bring significant benefits to both groups of shareholders through:

- a reduction in annual running costs for the Enlarged Company compared to the aggregate annual running costs of the separate companies and relevant separate share classes in both companies;
- creation of a single VCT of a more economically efficient size with a greater capital base over which to spread administration and management costs;
- creation of an enlarged entity with a simplified capital structure;
- participation in a larger VCT with a more diversified portfolio thereby spreading risk across a broader range of investments;
- increased ability to maintain a buy-back programme due to the increased size and the reduced need to retain funds for annual expenses;
- the potential to pay distributions in the future due to the increased size and reduced overall running costs;
- increased flexibility in continuing to meet the various requirements for qualifying VCT status; and
- the potential of greater liquidity in the secondary market.

Although either company could have acquired all of the assets and liabilities of the other, VCT I was selected as the acquirer because of its greater size (and, therefore, a lower stamp duty cost would be incurred on the transfer of all of the assets and liabilities from VCT II). Shareholders should note that the merger will be outside the provisions of the City Code on Takeovers and Mergers.

## EXPECTED TIMETABLE

VCT I dividend record date	8 January 2010
VCT I dividend payment date	29 January 2010
VCT I annual general meeting	3.00 pm 25 February 2010
VCT I extraordinary general meeting	3.30 pm 25 February 2010
VCT I Ordinary Share class meeting	3.40 pm 25 February 2010
VCT I S2 Share class meeting	3.45 pm 25 February 2010
VCT I S3 Share class meeting	3.50 pm 25 February 2010
VCT II first extraordinary general meeting	4.00 pm 25 February 2010
VCT II Ordinary Share class meeting	4.10 pm 25 February 2010
VCT II C Share class meeting	4.15 pm 25 February 2010
Record date for VCT I shareholders' entitlements under the VCT I Share Consolidation and VCT II shareholders' entitlements under the Scheme	8 March 2010
VCT II register of members closed	8 March 2010
VCT II special dividend record date	8 March 2010
Calculation date of the Merger	after 5.00 pm 8 March 2010
Suspension of listing of VCT II Shares	after 7.30 am 9 March 2010
VCT II second extraordinary general meeting	10.00 am 9 March 2010

Effective date for the VCT I Share Consolidation and subsequent transfer of assets and liabilities of VCT II to VCT I and issue of VCT I New Ordinary Shares	9 March 2010
Announcement of results of the meetings and completion of the Merger (if applicable)	9 March 2010
Admission of and dealings in the VCT I New Ordinary Shares to commence	10 March 2010
CREST accounts credited with VCT I New Ordinary Shares (in respect of the VCT I Share Consolidation and the Scheme)	10 March 2010
Cancellation of VCT II Share listing	after 8.00 am 10 March 2010
VCT II special dividend payment date	19 March 2010

## BACKGROUND TO VCT I AND VCT II

VCT I was launched in 2001 and raised £33.1 million (net of expenses) through offers for subscription of its VCT I Ordinary Shares, £14.9 million (net of expenses) through offers for subscription of its VCT I S2 Shares and £4.7 million (net of expenses) through offers of subscription of its VCT I S3 Shares. VCT I's objective is to provide its shareholders with an attractive return by investing predominantly in the shares of companies listed on AIM.

As at 31 December 2009, VCT I had unaudited net assets of £32,325,134 (57.06p per VCT I Ordinary Share, 72.54p per VCT I S2 Share and 93.37p per VCT I S3 Share) and in aggregate investments in 59 companies with an unaudited valuation of £30,017,097.

VCT II was launched in 2005 and has raised £22 million (net of expenses) through offers for subscription of VCT II Ordinary Shares and £12.5 million (net of expenses) through offers for subscription of its VCT II C Shares. VCT II's object is also to provide its shareholders with an attractive return by investing predominantly in the shares of companies listed on AIM.

As at 31 December 2009, VCT II had unaudited net assets of £25,888,482 (80.89p per VCT II Ordinary Share and 68.04p per VCT II C Share) and in aggregate investments in 51 companies with an unaudited valuation of £22,626,115.

## THE MERGER

The Merger will be effected, firstly by VCT I undertaking the VCT I Share Consolidation and then the merger with VCT II being completed under the Scheme.

The Share Consolidation will be effected as follows:

- such number of VCT I Ordinary Shares held by a VCT I shareholder on the record date will be redesignated as VCT I S3 Shares as reflects the relevant proportionate number by reference to the NAVs of each share class as at the calculation date, the balance being redesignated as deferred shares having no economic value;
- such number of VCT I S2 Shares held by a shareholder on the record date will be redesignated as VCT I S3 Shares as reflects the relevant proportionate number by reference to the NAVs of each share class as at the calculation date, the balance being redesignated as deferred shares having no economic value;
- the deferred shares will be bought back by VCT I for an aggregate amount of 1p, such shares to be cancelled as issued and redesignated as VCT I Shares; and
- the VCT I S3 Shares (existing and those created in the above redesignations) will be redesignated as VCT I New Ordinary Shares.

This VCT I Share Consolidation will result in VCT I having one class of ordinary shares immediately prior to the merger with VCT II. VCT I shareholders who hold their shares in certificated form will receive replacement share certificates in respect of the VCT I New Ordinary Shares arising from the VCT I Share Consolidation and existing share certificates will no longer be valid. VCT I shareholders who hold their shares in CREST will have their CREST accounts credited with their new holding of VCT I New Ordinary Shares.

Immediately following the Share Consolidation, the Scheme will then be completed by VCT II being put into members' voluntary liquidation and all of its assets and liabilities being transferred to VCT I in consideration of VCT I New Ordinary Shares issued directly to VCT II's shareholders. The VCT I New Ordinary Shares to be issued to VCT II shareholders will be split between the holders of VCT II Ordinary Shares and VCT II C Shares in proportion to the respective net assets of each class of VCT II share as at the calculation date and then pro-rata to shareholdings within each class of VCT II share. For these purposes any VCT II shares held by dissenting VCT II shareholders will be disregarded from the calculation.

This will result in the VCT II Ordinary Shares and the VCT II C Shares being merged into the VCT I New Ordinary Share class. Following the transfer, the listing of the VCT II Shares will be cancelled and VCT II will be wound up. VCT II shareholders who hold their VCT II shares in certificated form will receive replacement share certificates in respect of the VCT I New Ordinary Shares arising from the Scheme and existing share certificates will no longer be valid. VCT II shareholders who hold their VCT II shares in CREST will have their CREST accounts credited with their new holding of VCT I New Ordinary Shares

The Merger is conditional upon the approval by the shareholders of VCT I and VCT II of resolutions to be proposed at the VCT I Meetings, the VCT II First Meetings, VCT II Second Meeting and certain other conditions as further set out in the documentation sent to shareholders today.

The aggregate anticipated cost of undertaking the Merger is approximately £410,000, including VAT, legal and professional fees, stamp duty and the costs of winding up VCT II. Unicorn AM has agreed to support the Merger by making a contribution of £100,000 to the costs, which reduces the anticipated costs of the Merger to £310,000. The costs of the Merger will be split proportionally between VCT I and VCT II by reference to their respective Merger values (ignoring Merger costs and the Unicorn AM contribution). Following the Merger becoming effective the Unicorn AM contribution will be paid directly to the Enlarged Company in two instalments (the first once the Merger becomes effective and the second twelve months thereafter) thus benefiting all shareholders.

Following completion of the Merger, annual cost savings for VCT I of at least £284,000 per annum (representing 0.51 per cent. per annum of the expected net assets of the Enlarged Company or 0.46p per VCT I New Ordinary Share) are anticipated to be achieved. On the basis that no new funds are raised or investments realised to meet annual costs, and taking into account the Unicorn AM contribution, both boards believe that the costs of the Merger would, therefore, be recovered within 14 months.

### **Unicorn AM and the Revised Management Arrangements**

Unicorn AM will continue as the investment manager of VCT I (if the Merger is effected) on its existing annual management fee arrangements of an amount equivalent to 2 per cent. of the net assets of VCT I per annum, save for investments made by VCT I in other Unicorn AM managed funds when its fee is waived, which is also the same level of annual management fee paid in respect of VCT II. Subject to shareholder approval, the VCT I board proposes, however, in light of the Merger and in recognition of Unicorn AM's support of the Merger by contributing £100,000 to the costs, to provide for a new initial three year appointment term from the effective date of the Merger, subject to a 12 months' notice period which may be given by either party after the second year.

Unicorn AM is currently entitled to performance incentive fees in relation to the performance of the various separate share classes within both VCT I and VCT II. Amalgamation of these varying performance incentive arrangements to the single class of share in the Enlarged Company would be complicated and cause an additional administrative burden. In addition, Matrix-Securities Limited (the companies' secretary and administrator), which is also entitled to performance incentive fees has agreed to waive its rights to such fees. The VCT I board, therefore, proposes to terminate the existing arrangements and enter into a revised performance incentive with the Enlarged Company, which will apply for accounting periods after 30 September 2010 (Unicorn AM having agreed to forego any incentive fee for the current year).

The proposed revised performance incentive will be similar to the arrangements currently in place for the VCT I S3 Shares and both classes of VCT II shares. The revised arrangements will entitle Unicorn AM to 20 per cent.

of subsequent cash distributions made to shareholders (whether by dividend or otherwise) over and above the Target Return in any accounting period. The Target Return for these purposes will be 6p per VCT I New Ordinary Share in any accounting period (or, if the relevant accounting period is less than or greater than 12 months, an amount equal to a pro rata reduction or increase to 6p per VCT I New Ordinary Share for that accounting period). Such payment will continue to be subject to a NAV maintenance 'high-watermark test' but, in light of the Merger and the contribution Unicorn AM has agreed to make to the costs of the Merger, this will be rebased to the closing average NAV per VCT I New Ordinary Share in the relevant period equal to the NAV of a VCT I New Ordinary Share as at 30 September 2010 (i.e. the date from which the revised performance incentive fee will apply).

This revised performance incentive arrangement will achieve a simplified arrangement for the Enlarged Company and will also better align the interests of Unicorn AM and the shareholders of VCT I following the Merger becoming effected by moving to a distribution based performance incentive with a NAV maintenance hurdle.

As the new fixed management term and the revised performance incentive arrangements (together the "Revised Management Arrangements") described above are being entered into with Unicorn AM, which is a 'related party' of VCT I under the Listing Rules, they will constitute a related party transaction requiring the approval of VCT I shareholders. In addition, the Revised Management Arrangements will only be entered into if the Merger becomes unconditional.

### **Dividends**

The VCT I Board declared interim capital dividends for the year ended 30 September 2009 of 3.5p per VCT I Ordinary Share and 2.5p per VCT I S2 Share, paid on the dividend payment date to those holders of such shares on VCT I's register on the dividend record date (i.e. prior to the Merger being effected). VCT II has also declared special dividends of 6p per VCT II Ordinary Share and 0.45p per VCT II C Share, conditional on the Merger becoming effective. These VCT II special dividends will allow cash available within VCT II to be distributed to the holders of VCT II shares on the register prior to the Merger becoming effective. The VCT II dividends (as these will be unpaid) will be taken into account as an adjustment in the calculation of the VCT II Merger value.

### **Board Changes**

The current board of each company comprises four non-executive directors. Both boards have discussed the size and future composition of the Enlarged Company's board and it has been concluded that, subject to the Merger becoming effective, David Royds will resign as a director of the VCT I board and Malcolm Diamond and Jeremy Harmer (directors of VCT II) will be appointed as directors of VCT I. If the Merger is effected the board of the Enlarged Company will, therefore, be:

- Peter Dicks (Chairman)
- Jeremy Hamer (Audit Committee Chairman)
- Jocelin Harris (Senior Independent Director)
- James H Grossman
- Malcolm Diamond MBE

If the Merger is effected, although the number of directors will increase, to ensure continuity in board representation from both companies, the total of the directors' fees across both VCT I and VCT II will reduce by £50,000 per annum.

### **DOCUMENTS AND APPROVALS**

VCT I shareholders will receive a copy of a circular convening the VCT I Meetings to be held on 25 February 2010 (together with the VCT I prospectus and annual report and accounts for the year ended September 2009) at which VCT I shareholders will be invited to approve resolutions in connection with the Merger, the Revised Management Arrangement, amend the company's articles of association, renew share issue and share repurchase authorities and approve the cancellation of VCT I's share premium account.

VCT II shareholders will receive a circular convening the VCT II First Meetings on 25 February 2010 and the VCT II Second Meeting on 9 March 2010 (together with the VCT I prospectus) at which VCT II shareholders will be invited to approve resolutions in connection with the Scheme.

Copies of the VCT I annual reports and accounts for the year ended September 2009, the prospectus and the circular for VCT I and VCT II have been submitted to the UK Listing Authority and will be shortly available for inspection at the UK Listing Authority's Document Viewing Facility which is situated at:

Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS  
Telephone: 0207 066 1000

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The directors and the proposed directors of VCT I accept responsibility for the information relating to VCT I and its directors and proposed directors contained in this announcement. To the best of the knowledge and belief of such directors and proposed directors (who have taken all reasonable care to ensure that such is the case), the information relating to VCT I and its directors and proposed directors contained in this announcement, for which they are solely responsible, is in accordance with the facts and does not omit anything likely to affect the import of such information.

The directors of VCT II accept responsibility for the information relating to VCT II and its directors contained in this announcement. To the best of the knowledge and belief of such directors (who have taken all reasonable care to ensure that such is the case), the information relating to VCT II and its directors contained in this document, for which they are solely responsible, is in accordance with the facts and does not omit anything likely to affect the import of such information.

Martineau are acting as legal advisers for VCT I and VCT II and for no one else in connection with the matters described herein and will not be responsible to anyone other than VCT I and VCT II for providing the protections afforded to clients of Martineau or for providing advice in relation to the matters described herein.

Howard Kennedy, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as sponsor for VCT I and no one else and will not be responsible to any other person for providing the protections afforded to customers of Howard Kennedy or for providing advice in relation to any matters referred to herein.