

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult immediately your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 or, if you are in a country outside the United Kingdom, another appropriately authorised independent financial adviser.

A copy of this document, which comprises a circular prepared in accordance with the Listing Rules and issued by the Company in connection with the Proposals, has been filed with the FSA in accordance with rule 9.6.1 of the Listing Rules.

If you have sold or otherwise transferred all your Ordinary Shares, please send this document, together with the accompanying Form of Proxy or Form of Directions (as appropriate) and 2009 Annual Report and Accounts, at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

Intelli Corporate Finance, which is authorised and regulated in the United Kingdom by the FSA, is acting solely for Active Capital Trust plc and for no one else, including any recipient of this document, in connection with the Proposals and will not be responsible to anyone other than Active Capital Trust plc for providing the protections afforded to clients of Intelli Corporate Finance or for affording advice in relation to the Proposals or any other matter referred to in this document.

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# ACTIVE CAPITAL TRUST PLC

*(Incorporated in England & Wales under the Companies Act 1985 with registered number 4182363)  
(An investment company under section 833 of the Companies Act 2006)*

## RECOMMENDED PROPOSALS REGARDING THE FUTURE OF THE COMPANY AND NOTICE OF ANNUAL GENERAL MEETING

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A notice convening the Annual General Meeting is set out in Part 6 of this document. The AGM will be held at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY, on Thursday, 27 August 2009 commencing at 4.00 p.m.

To be valid for use at the AGM, the accompanying Form of Proxy in relation to the AGM should be completed and returned by Ordinary Shareholders in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by not later than 48 hours before the time of the AGM. Appointments of proxy made by utilising the CREST electronic proxy appointment service must be made, in accordance with the procedures set out in the notes at the end of the AGM Notice and in the Form of Proxy, no later than 48 hours before the appointed time for the Annual General Meeting.

The accompanying Form of Directions for use by Savings Scheme Participants in relation to the AGM should be completed and returned in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by not later than 4.00 p.m. on Monday, 24 August 2009.

Your attention is drawn to the section headed "Risk Factors" in Part 3 of this document, which sets out the risk factors associated with the Proposals. However, this document should be read in its entirety.

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## EXPECTED TIMETABLE

	<i>2009</i>
Latest time and date for receipt of Form of Directions for AGM	4.00 p.m. on Monday, 24 August
Latest time and date for receipt of Forms of Proxy for AGM	4.00 p.m. on Tuesday, 25 August
Annual General Meeting*	4.00 p.m. on Thursday, 27 August

*\*To be held at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY*

## PART 1

### LETTER FROM THE CHAIRMAN

#### ACTIVE CAPITAL TRUST PLC

*(Incorporated in England & Wales under the Companies Act 1985 with registered number 4182363)  
(An investment company under section 833 of the Companies Act 2006)*

#### *Directors*

Jon Pither (*Chairman*)  
Brian Holford (*Deputy Chairman*)  
Christopher Agar  
Lord Gordon of Strathblane, CBE  
Dr Kim Tan  
Elizabeth Thom

#### *Registered Office*

Exchange House  
Primrose Street  
London  
EC2A 2NY

4 August 2009

*To Ordinary Shareholders and Savings Scheme Participants and, for information only, Founder Shareholders*

Dear Ordinary Shareholder and/or Savings Scheme Participant

### RECOMMENDED PROPOSALS REGARDING THE FUTURE OF THE COMPANY

#### AND

### NOTICE OF ANNUAL GENERAL MEETING

#### **Introduction**

The eighth annual general meeting of the Company has been convened for Thursday, 27 August 2009. The Board previously undertook to provide Ordinary Shareholders with an opportunity to vote on the Company's future at this year's annual general meeting if certain performance objectives were not achieved as at 31 May 2009. Following the Company's failure to meet those performance objectives, the Board consulted with the largest Ordinary Shareholders and considered a number of options for the Company's future. Discussions were held with the Company's existing manager, Bluehone, and a number of other parties interested in taking over the management of the Company. As a result of that process, the Board announced, on 31 July 2009, proposals regarding the future of the Company. In summary, the Proposals comprise:

- changing the Company's investment objective and policy with a view to realising the Company's investments in an orderly manner and progressively returning cash to Ordinary Shareholders;
- after settlement of and provision for liabilities of the Company and repayment of the Company's bank debt, returning cash to Ordinary Shareholders principally through regular returns of capital but with the flexibility to buy back Ordinary Shares if, in the Directors' opinion, this is in the interests of Ordinary Shareholders as a whole;
- relinquishing of the Company's investment company status to permit the returns of capital;
- amending the Investment Manager's fee and incentive arrangements in light of the Company's new investment objective;
- buying back Founder Shares, which were issued on the Company's launch as a performance incentive for its investment manager, for a nominal consideration and then cancelling them;

- sub-dividing and reclassifying the unissued Founder Shares as Ordinary Shares in order to simplify the Company's capital structure;
- adopting new articles of association of the Company to reflect, in particular, the Company's new single share class structure and further changes to company law following the implementation of the Companies Act 2006; and
- reducing the Company's fixed running costs.

The Board believes the principal benefits of the Proposals to be as follows:

- they will facilitate the realisation of the Company's investments in a manner that achieves a balance between returning cash quickly to Ordinary Shareholders and maximising value for Ordinary Shareholders;
- the Ordinary Shares will continue to be traded on the London Stock Exchange, and the Company will continue to conduct its affairs so as to qualify as an investment trust, during the realisation process;
- the principal method for returning capital to Ordinary Shareholders is more flexible and cost effective than other methods of returning capital; and
- the new fee and incentive arrangements with Bluehone will align Bluehone's interests more closely with those of Ordinary Shareholders following the change in the Company's investment objective.

The purpose of this document is to provide you with details of the Proposals, which are conditional on certain resolutions being passed at the AGM. Details of the resolutions to be proposed at the AGM are set out under the heading "Annual General Meeting" below. The items of ordinary business will be familiar to you as normal business at an annual general meeting, whilst, broadly, the items of special business relate to the Proposals. The notice convening the AGM is set out in Part 6 of this document.

The proposal to amend the Investment Manager's fee and incentive arrangements with the Company constitutes a related party transaction for the purpose of the Listing Rules. Accordingly, only independent Ordinary Shareholders (being Ordinary Shareholders who are neither the Investment Manager nor parties associated with the Investment Manager) may vote on the resolution to be proposed at the AGM approving such amendment (being resolution 7 in the AGM Notice).

Your Board is recommending that you vote in favour of all of the resolutions to be proposed at the AGM. The procedure for voting at the AGM is set out under the heading "Action to be Taken" on page 10 of this document.

### **Background to, and Reasons for, the Proposals**

When the Company was launched in April 2001, the objective was to return to Ordinary Shareholders 99.9p per Ordinary Share plus an amount equal to 7.5 per cent. per annum compounded annually (based on an issue price of 100p per Ordinary Share from the Company's launch date to the date of payment) by 31 May 2007. Following Shareholders' approval in July 2006, the target date for such return was extended to 31 May 2012. When the target date for such return was extended, the Board gave a commitment to provide Ordinary Shareholders with an opportunity to vote on the Company's future at the annual general meeting in 2009 if certain performance objectives were not achieved as at 31 May 2009. Following the Company's failure to meet those performance objectives, the Board consulted with the largest Ordinary Shareholders and subsequently considered proposals for the Company's future which were received from several interested parties, including Bluehone.

Having considered the feedback received from the Ordinary Shareholders consulted and the proposals received from the interested parties, the Board concluded that it is in the best interests of Ordinary Shareholders as a whole to convert the Company into a realisation fund and that this would be best undertaken by Bluehone. Accordingly, the Board has formulated the proposals regarding the Company's future described under the heading "Details of the Proposals" below. Certain elements of the Proposals require to be approved by Ordinary Shareholders in general meeting before they can be implemented and the requisite resolutions will be proposed at the AGM.

## Details of the Proposals

The Proposals envisage:

- ***Changing the Company's investment objective and policy***

The Company's current investment objective is to provide Ordinary Shareholders with medium to long term capital growth by investing in a portfolio of predominantly UK smaller companies which have the potential to increase their value either by delivering on a growth business plan or by structural, corporate or shareholder change. The Board is proposing that the investment objective should be restated as follows:

*"To realise value from the Company's portfolio of investments and progressively return cash to Ordinary Shareholders."*

The Board and the Investment Manager believe that the Company's portfolio will require careful investment management in order to achieve the Company's proposed new investment objective. If resolution 5 in the AGM Notice is passed, the Company will adopt and adhere to the amended and restated investment policy set out in Part 2 of this document. That policy can be summarised as follows:

- There will be a continuing evaluation of the portfolio in order to assess the most appropriate realisation strategy to be pursued in relation to each investment. Whilst some investments may be considered appropriate for sale in the shorter term, other investments may be held for a longer period in order to enable their inherent value to be realised successfully.
- The strategy for realising individual investments will be flexible and the strategy for a particular investment may need to be altered to reflect changes in the circumstances of that investment or in market conditions. Bluehone expects to realise assets through a variety of channels, including:
  - stimulating broker and market activity;
  - encouraging the company concerned to buy back its own securities or undertake a re-organisation of capital and return capital to shareholders; and
  - sales to particular interest groups, such as other shareholders, potential bidders, trade buyers or private equity specialists.
- With regard to those investments which, in the absence of concerted action, would be likely to become residual holdings towards the end of the portfolio realisation process, Bluehone will adopt strategies that will be designed to realise the maximum value from those investments at an earlier stage.
- The Company will not make any investments, save that cash may be invested in liquid non-equity securities, such as cash funds, pending its return to Ordinary Shareholders.
- The Company will not incur or draw down any new borrowings.

The Board will meet on a monthly basis to review progress in implementing the Company's new investment objective and the current position of the unrealised holdings.

- ***Returning cash to Ordinary Shareholders***

The net cash proceeds from realisations of investments, after settlement of and provision for liabilities of the Company, will be applied initially to the repayment of the Company's bank borrowings, which stood at £8.0 million as at 31 July 2009 (the latest practicable date prior to the publication of this document). Once the Company's bank borrowings have been repaid in full, the Board intends to apply such net cash proceeds to effect returns of capital to Ordinary Shareholders on a quarterly basis (expected to be in January, April, July and October each year), provided that the amount available for return is at least 1p per Ordinary Share. At present, it is anticipated that the first return of capital will be made in January 2010.

On each occasion on which a return of capital is made, Ordinary Shareholders will receive a cash payment per Ordinary Share calculated in accordance with the following formula (rounded down to the nearest whole pence):

$$\frac{A}{B}$$

where "A" is the cash proposed to be returned on the relevant occasion and "B" is the aggregate number of Ordinary Shares in issue at the latest practicable date prior to the announcement of the proposed return of capital. The Company will give not less than 14 days' notice of a return of capital by announcing details of the proposed return of capital through an announcement issued through a Regulatory Information Service.

The Board expects the net cash proceeds from realisations of investments, after settlement of and provision for liabilities of the Company and repayment of the Company's bank debt, to be used predominantly to fund returns of capital on the basis described above. However, the Board believes that it is desirable to have flexibility for the Company to buy back Ordinary Shares through the market if the Ordinary Shares are trading at a substantial discount to their underlying net asset value (such buy-backs would result in an increase in net asset value per Ordinary Share for the remaining Ordinary Shareholders) and the Board is of the opinion that the buy-back is in the interests of Ordinary Shareholders as a whole. Accordingly, the Board is proposing that the Company's current authority to buy back Ordinary Shares through the market should be renewed, at the AGM, on the following basis:

- the maximum aggregate number of Ordinary Shares which may be purchased pursuant to the new authority will be 14.99 per cent. of the Ordinary Shares in issue on the date on which the relevant resolution is passed at the AGM;
- the price paid for Ordinary Shares bought back under the new authority (exclusive of expenses) will not be less than their nominal value (0.1p per share) or more than the higher of (i) 5 per cent. above the average of the market value of the Ordinary Shares for the five business days before the relevant Ordinary Shares are purchased or (ii) the higher of the last independent trade and the highest current bid on the London Stock Exchange; and
- the new authority will expire on the earlier of (i) the conclusion of the annual general meeting of the Company in 2010 or (ii) 27 November 2010.

Any Ordinary Shares repurchased under the new authority will be cancelled.

Returns of capital may only be paid out if the Company has sufficient reserves to do so. The Company is proposing to fund the returns of capital, and any share buy-backs, out of its special reserve created following the cancellation of the Company's share premium account in November 2004. It should be noted that returns of capital will only be paid by the Company for so long as the amount of the special reserve remains sufficient. As at 31 July 2009 (the latest practicable date prior to the publication of this document), the special reserve amounted to £34.0 million and the Company had net assets of £26.7 million.

- ***Relinquishing investment company status***

The Company is currently classified as an investment company under section 833 of the Companies Act 2006. This enables the Directors, from time to time and subject to satisfying certain statutory tests, to distribute the Company's accumulated realised revenue profits less accumulated revenue losses (whether realised or not) by way of dividend. One of the criteria for investment company status under the Companies Act 2006 is that the Company must be prohibited under its Articles from distributing its capital profits. Since the Company now wishes to be able to treat its capital reserves as distributable in order to pay out the returns of capital envisaged by the Proposals, it is proposed that the Company relinquish its investment company status and amend its Articles accordingly (further details of this amendment are set out in paragraph 4.4 of Part 4 of this document).

The consequences of the Company ceasing to be an investment company are that it will cease to be able to declare dividends on the basis referred to above (falling instead within the usual public company regime for payment of dividends) and will therefore be able to utilise previously undistributable reserves to satisfy the statutory tests required before paying out returns of capital.

The Company's investment trust status is not affected by the Proposals.

- ***Amending the Company's investment management arrangements with Bluehone***

The Company currently pays Bluehone a basic fee of 1.25 per cent. per annum of the Company's gross assets, which is payable monthly in arrears. Bluehone is also entitled to a performance fee if the Company buys back Ordinary Shares as a consequence of a tender offer and the purchase price exceeds the targeted return referred to under the heading "Background to, and Reasons for, the Proposals", in which event Bluehone is entitled to 20 per cent. of such excess in respect of the Ordinary Shares bought back. In addition, F&C Asset Management plc, Bluehone and individual fund managers within Bluehone hold Founder Shares, which were issued at the Company's launch as a performance incentive.

The Board and Bluehone have agreed that the management fee and incentive arrangements should be amended so as to align Bluehone's interests more closely with those of Ordinary Shareholders in the event of the proposals to convert the Company into a realisation fund and return capital to Ordinary Shareholders over time being implemented. Accordingly, subject to Ordinary Shareholder approval at the AGM, the current basic and performance fee arrangements, together with the incentivisation provided through the rights of the Founder Shares, will be replaced with new fee arrangements comprising three elements, a basic fee, a realisation fee and an equity appreciation fee, as follows:

- *Basic fee*

The basic fee will be £30,000 per month in respect of the three month period which began on 1 July 2009, £25,000 per month in respect of the three month period beginning on 1 October 2009, £20,000 per month in respect of the three month period commencing on 1 January 2010, £15,000 per month in respect of the three month period commencing on 1 April 2010 and, with effect from 1 July 2010, £10,000 per month. The basic fee will be payable monthly in arrears.

- *Realisation fee*

The realisation fee will be payable at the rate of 1.0 per cent. of the net proceeds on sale of the Company's investments during the 12 month period which began on 1 July 2009, of which 40 per cent. of such fee will be payable upon receipt by the Company of such net proceeds and 60 per cent. will be accrued and will only become payable if and when at least 47p per Ordinary Share has been returned to Ordinary Shareholders.

- *Equity appreciation fee*

The equity appreciation fee will be equal to 5 per cent. of any value returned to Ordinary Shareholders in excess of a hurdle return (and, for this purpose, the hurdle return will be an amount equal to 52p per Ordinary Share as increased at the rate of 7.5 per cent. per annum with effect from 1 July 2009, such increase to be compounded daily) and will only become payable if and when returns in excess of the hurdle return are made to Ordinary Shareholders.

For the purpose of both the realisation fee and the equity appreciation fee, returns to Ordinary Shareholders will include all returns of capital and any dividends paid in respect of the Ordinary Shares. In addition, returns to Ordinary Shareholders will include, in the event of a cash offer for the Company that becomes or is declared wholly unconditional, the cash offered per Ordinary Share. In the event of a securities exchange offer for the Company that becomes or is declared wholly unconditional, the value of the securities being offered as at the close of business on the last dealing day preceding the commencement of the offer period (or, in the event that the offer is revised, on the last dealing day preceding the announcement of the revised offer) will be deemed to be capital returned to Ordinary Shareholders. For the avoidance of doubt, buy-backs of Ordinary Shares will not be treated as returns to Ordinary Shareholders for the purpose of either the realisation fee or the equity appreciation fee.

Subject to resolution 7 in the AGM Notice being passed, the Company and Bluehone will enter into a new investment management agreement which will:

- incorporate the new fee arrangements described above;
- replace the existing 12-month notice period for terminating the investment management arrangements with Bluehone with a new three-month notice period, provided that no such notice period may expire earlier than 31 March 2010;

- terminate automatically on the Company’s liquidation without any damages or payment in lieu of notice or other compensation being payable to Bluehone (although any realisation and/or equity appreciation fee(s) would remain payable to Bluehone on the terms described above); and
- contain a number of amendments to reflect regulatory changes since the Investment Management Agreement was entered into.

- ***Buying back and cancelling of Founder Shares***

As mentioned earlier, Founder Shares were issued on the Company’s launch as a performance incentive for its investment manager. The proposed new fee arrangements with Bluehone are intended to replace both the existing basic and performance fees and also the Founder Shares. Accordingly, the holders of the Founder Shares have undertaken, subject to the relevant Ordinary Shareholder approvals at the AGM, to sell back their Founder Shares to the Company for an aggregate consideration of 5p. This buy-back of Founder Shares will be effected off-market and the Founder Shares, once bought back, will be cancelled.

Under the Companies Act 1985, an off-market purchase of shares by the Company must be approved in advance by Ordinary Shareholders. Accordingly, the purchase agreements proposed between the Company and each of the Founder Shareholders will be tabled for approval at the AGM.

- ***Sub-division, conversion and reclassification of Founder Shares***

Following completion of the buy-back of Founder Shares referred to above, there will no longer be any Founder Shares in issue. Therefore, in order to simplify the Company’s capital structure going forward and to enable the Founder Share rights to be removed from the Articles of Association, the Directors are proposing that each unissued Founder Share be sub-divided and converted into, and reclassified as, five Ordinary Shares.

- ***Adopting new Articles of Association***

The existing Articles include the detailed class rights of the Founder Shares and the Ordinary Shares. It is proposed that, subject to the buy-back, cancellation, sub-division and reclassification of the Founder Shares on the basis described above being completed, the Company should adopt new Articles, which will be in substantially the same terms as the existing Articles save that the new Articles will remove all references to the Founder Shares and the class rights of the Ordinary Shares (since they will then be the only class of share in the Company’s share capital). The new Articles will also remove the prohibition on the Company distributing its capital profits to reflect the fact that it will no longer be an investment company under the Companies Act 2006. In addition, the new Articles will up-date certain terms to reflect further changes to company law that have been implemented since the Company adopted new Articles at the annual general meeting held in 2008. Further information regarding the changes that will be made in the new Articles are set out in paragraph 4 of Part 4 of this document.

- ***Reducing the Company’s fixed running costs***

In view of the proposed conversion of the Company into a realisation fund, the Directors believe that it is appropriate to reduce the size of the Board. Accordingly, Lord Gordon of Strathblane, who retires by rotation at the AGM, will not be standing for re-election. In addition, Dr Kim Tan will also resign from the Board following the conclusion of the AGM.

In addition to the reduction in the aggregate fees payable to Directors resulting from reducing the number of Directors, the Board has identified other costs savings that the Company can make in light of its new investment objective. The Directors have identified aggregate cost savings of approximately £70,000 per annum, although it should be noted that not all of these will be achievable immediately. The Board will review the Company’s running costs on a regular basis and seek to identify opportunities for further cost savings.

Once substantially all of the Company’s portfolio has been realised, the Directors will convene a general meeting of the Company at which a resolution or resolutions will be put forward for the voluntary winding up or reconstruction of the Company for approval by Ordinary Shareholders.

## Benefits of the Proposals

The Board believes the principal benefits of the Proposals to be as follows:

- they will facilitate the realisation of the Company's investments in a manner which achieves a balance between returning cash quickly to Ordinary Shareholders and maximising value for Ordinary Shareholders;
- the Ordinary Shares will continue to be traded on the London Stock Exchange, and the Company will continue to conduct its affairs so as to qualify as an investment trust under section 842 of the ICTA 1988, whilst the majority of the Company's investments are realised;
- the principal method for returning capital to Ordinary Shareholders is more flexible and cost effective than other methods of returning capital; and
- the new fee arrangements with Bluehone will align Bluehone's interests more closely with those of Ordinary Shareholders following the change in the Company's investment objective.

## Costs of Implementing the Proposals

The costs of implementing the Proposals payable by the Company are estimated to be approximately £200,000 (including VAT). A proportion of these costs will be incurred regardless of whether or not the Proposals are implemented.

## Taxation

A summary of the tax consequences of the Proposals is set out in paragraph 7 of Part 4 of this document. If you are in any doubt as to your tax position or the impact of the Proposals on you, you are recommended to consult your independent professional adviser.

## Annual General Meeting

The annual general meeting of the Company is being convened for Thursday, 27 August 2009 at 4.00 p.m. The AGM will be held at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY. The notice convening the AGM is set out in Part 6 of this document. The following resolutions will be proposed at the AGM:

### Ordinary Business

- *Resolution 1, which will be proposed as an ordinary resolution:* to receive the 2009 Annual Report and Accounts. A copy of the 2009 Annual Report and Accounts accompanies this document.
- *Resolution 2, which will be proposed as an ordinary resolution:* to approve the 2009 Directors' remuneration report, which is set out on pages 27 and 28 of the 2009 Annual Report and Accounts.
- *Resolution 3, which will be proposed as an ordinary resolution:* to re-elect Mrs E Thom, who retires by rotation, as a Director.
- *Resolution 4, which will be proposed as an ordinary resolution:* to re-appoint Ernst & Young LLP as the Company's auditors and to authorise the Directors to determine their remuneration.

### Special Business

- *Resolution 5, which will be proposed as an ordinary resolution:* to approve the changes to the Company's investment objective and policy described under the sub-heading "Changing the Company's investment objective and policy" above.
- *Resolution 6, which will be proposed as a special resolution:* to authorise the Company to buy back through the market up to 14.99 per cent. of the issued Ordinary Shares. The terms of the proposed authority are summarised under the sub-heading "Returning cash to Ordinary Shareholders" above.
- *Resolution 7, which will be proposed as an ordinary resolution:* to approve the changes to the management arrangements referred to under the sub-heading "Amending the Company's investment management arrangements with Bluehone" above by entering into the New IMA. This resolution is conditional on resolution 5 being passed at the AGM.

Under the Listing Rules, Bluehone is regarded as a related party of the Company as a consequence of being the Company's investment manager. Entering into the New IMA constitutes a related party transaction between the Company and Bluehone. The New IMA therefore requires the approval of the requisite majority of the Independent Ordinary Shareholders. As at the date of this document, associates (as defined in the Listing Rules) of Bluehone held 0.01 per cent. of the issued Ordinary Shares. Bluehone has undertaken to take all reasonable steps to ensure that its associates abstain from voting on resolution 7. Bluehone itself does not hold any Ordinary Shares.

As at the date of this document, discretionary clients of F&C Asset Management plc held 16.7 per cent. of the issued Ordinary Shares. F&C provides company secretarial and administrative services to the Company on the terms set out in paragraph 6.1 of Part 4 of this document. Furthermore, F&C benefits from revenues earned by the Investment Manager. Although it is not an associate of the Investment Manager or a related party of the Company for the purpose of the Listing Rules, in view of these various interests, F&C has undertaken to abstain, and to take all reasonable steps to ensure that its associates abstain, from voting on resolution 7.

- *Resolution 8, which will be proposed as a special resolution:* to approve, and authorise the Company to enter into, purchase contracts with the holders of Founder Shares to buy back Founder Shares on the terms described under the sub-heading "Buying back and cancelling of Founder Shares" above. This resolution is conditional on resolution 7 being passed at the AGM and becoming unconditional.

Under the Companies Act 1985, holders of Ordinary Shares who also hold Founder Shares will be prohibited from voting on resolution 8.

- *Resolution 9, which will be proposed as an ordinary resolution:* to sub-divide, convert and reclassify the unissued Founder Shares into Ordinary Shares. This resolution is conditional on resolution 8 being passed at the AGM and completion of the buy-back and cancellation of the Founder Shares.
- *Resolution 10, which will be proposed as a special resolution:* to adopt new Articles of Association. A summary of the key changes that will be made to the Articles is set out under the sub-heading "Adopting new Articles of Association" above and in paragraph 4 of Part 4 of this document. This resolution is conditional on the Founder Shares having been sub-divided, converted and reclassified pursuant to resolution 9 being passed at the AGM.

For an ordinary resolution to be passed, more than 50 per cent. of the votes cast must be in favour of it. In order to be passed, a special resolution requires at least 75 per cent. of the votes cast to be in favour of it. The quorum requirement for the AGM is not less than two Ordinary Shareholders present in person or by proxy (or, in the case of a corporation, by a duly appointed representative).

### **Additional Information**

Your attention is drawn to the risk factors set out in Part 3 of this document and to the additional information set out in Part 4 of this document. You should read the whole of this document and not just rely on the information provided in this letter.

A copy of the 2009 Annual Report and Accounts is enclosed with this document. In addition, if you are a Savings Scheme Participant, you will also find enclosed with this document an explanatory letter which explains the options that will be available to you when returns of capital are made as envisaged by the Proposals, together with the action you should take to elect for one or more of those options.

### **Action to be Taken**

If you are in any doubt as to the action you should take, you should consult immediately your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 or, if you are in a country outside the United Kingdom, another appropriately authorised independent financial adviser.

### **Ordinary Shareholders**

If you are an Ordinary Shareholder, you will find enclosed with this document a Form of Proxy for use at the AGM.

If you are an Ordinary Shareholder, please complete the Form of Proxy and return it by post to the address set out on it as soon as possible and in any event so as to be received not later than 4.00 p.m. on Tuesday, 25 August 2009. You may also return your Form of Proxy electronically by following the instructions set out in the Form of Proxy so as to be received by the Company's registrar, Equiniti Limited, by no later than 4.00 p.m. on Tuesday, 25 August 2009.

In the case of CREST members wishing to appoint a proxy electronically, Ordinary Shareholders are required to notify the Company of their appointment of proxy, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in the notes at the end of the AGM Notice, not later than 48 hours before the AGM.

The completion and return of a Form of Proxy, or the appointment of a proxy electronically, will not prevent an Ordinary Shareholder from attending the AGM and voting in person if they wish to do so.

### ***Savings Scheme Participants***

If you hold Ordinary Shares through any of the Savings Schemes, you will find enclosed with this document a Letter of Directions for use at the AGM.

If you hold Ordinary Shares through the Savings Schemes, please complete the Letter of Directions and return it by post to the address set out in it as soon as possible and in any event so as to be received not later than 4.00 p.m. on Monday, 24 August 2009.

### ***General***

Founder Shareholders are not entitled to attend or vote at the AGM.

### **Recommendation**

The Board considers the ordinary business to be conducted at the AGM (being resolutions 1 to 4 set out in the AGM Notice) to be in the best interests of Ordinary Shareholders and Savings Scheme Participants as a whole.

The Board, which has been advised by Intelli Corporate Finance, considers that the special business to be conducted at the AGM (being resolutions 5 to 10 set out in the AGM Notice) to be in the best interests of Ordinary Shareholders and Savings Scheme Participants as a whole. Furthermore, the Board, which has been so advised by Intelli Corporate Finance, considers that the proposed terms of the New IMA are fair and reasonable as far as Ordinary Shareholders and Savings Scheme Participants are concerned. In providing advice to the Directors, Intelli Corporate Finance has taken into account the Directors' own commercial assessment of the Proposals.

The Board recommends that you vote in favour of all of the resolutions to be proposed at the AGM. The Directors intend to vote in favour of the resolutions to be proposed at the AGM in respect of their own beneficial holdings of Ordinary Shares amounting, in aggregate, to 427,887 Ordinary Shares (representing approximately 0.8 per cent. of the Ordinary Shares in issue).

As explained under the heading "Annual General Meeting" above, neither Bluehone nor F&C will vote on resolution 7 to be proposed at the AGM and they have each undertaken to take all reasonable steps to ensure that their respective associates (as defined in the Listing Rules) abstain from voting on that resolution.

Yours faithfully

Jon Pither  
*Chairman*

## PART 2

### AMENDED AND RESTATED INVESTMENT POLICY

If resolution 5 in the AGM Notice is passed, the Company's existing investment policy will be amended as summarised under the sub-heading "Changing the Company's investment objective and policy" in Part 1 of this document. Set out below is the full text of the Company's investment policy as amended, which will be published each year in the Company's annual report and accounts in accordance with the Listing Rules (commencing with the annual report and accounts for the year ending 31 May 2010). Any material change to this investment policy would require Ordinary Shareholder approval in accordance with the Listing Rules.

The Company has invested in a portfolio of predominantly UK smaller companies which have the potential to increase their value either by delivering on a growth business plan or by structural, corporate or shareholder change. The Company is invested primarily in quoted equities, although its portfolio includes other securities (in particular, unquoted equities).

The Company has not invested more than 15% of its gross assets (measured at the time of investment) in other listed closed-end investment funds.

Ordinary Shareholders approved changes to the Company's investment objective and policy at the annual general meeting of the Company held on 27 August 2009. Since then, the Company may not make any investments, save that cash may be invested in liquid non-equity securities, such as cash funds, pending its return to Ordinary Shareholders in accordance with the Company's investment objective.

The Company's investments are now being realised in an orderly manner (that is, with a view to achieving a balance between returning cash to, and maximising value for, Ordinary Shareholders). This involves a continuing evaluation of the portfolio in order to assess the most appropriate realisation strategy to be pursued in relation to each investment. Whilst some investments may be considered appropriate for sale in the shorter term, other investments may be held for a longer period in order to enable their inherent value to be realised successfully.

The strategy for realising individual investments is flexible and the strategy for a particular investment may need to be altered to reflect changes in the circumstances of that investment or in market conditions. The Investment Manager expects to realise investments through a variety of channels, including:

- stimulating broker and market activity;
- encouraging the company concerned to buy back its own securities or undertake a re-organisation of capital and return capital to shareholders; and
- sales to particular interest groups, such as other shareholders, potential bidders, trade buyers or private equity specialists.

With regard to those investments which, in the absence of concerted action, would be likely to become residual holdings towards the end of the portfolio realisation process, the Investment Manager adopts strategies that are designed to realise the maximum value from those investments at an earlier stage.

The net cash proceeds from realisations of investments, after settlement of and provision for liabilities of the Company, are applied to the repayment of the Company's outstanding bank borrowings (if any). The Company will not incur or draw down any new borrowings.

## PART 3

### RISK FACTORS

Ordinary Shareholders should consider carefully the specific risks described below, in addition to the other information set out in this document, when considering the Proposals. The following risks are those risks that the Directors consider to be material as at the date of this document (based on the assumption that the Proposals are implemented). If any of the adverse events described below actually occur, the Company's business, financial condition or results or prospects could be materially and adversely affected. Additional risks and uncertainties which were not known to the Directors at the date of this document or that the Directors considered at the date of this document to be immaterial (based on the assumption that the Proposals are implemented) may also materially and adversely affect the Company's business, financial condition or results or prospects.

#### 1. Investment Objective

There is no guarantee that the changes to the Company's investment policy will result in the Company achieving its new investment objective.

#### 2. Risks Relating to the Shares

- 2.1 The market value and the net asset value of the Ordinary Shares may go down as well as up. The market value of the Ordinary Shares at any particular time may vary significantly and not reflect their underlying net asset value. Ordinary Shareholders may not get paid the amount they originally invested on a sale of their Ordinary Shares or on a liquidation of the Company (even after taking into account returns of capital made as envisaged by the Proposals).
- 2.2 The marketability of the Ordinary Shares may be limited. The trading volume of the Ordinary Shares may be even lower following the implementation of the Proposals as returns of capital will result in a corresponding reduction in the underlying net asset value of the Ordinary Shares and any repurchases of Ordinary Shares will reduce the number of Ordinary Shares in issue.
- 2.3 Returns of capital may only be made to the extent that the Company has sufficient funds available for distribution in its special reserve (as at the date of this document, the special reserve amounted to £34.0 million). Buy-backs of Ordinary Shares by the Company through the market may only be made to the extent of the aggregate amount standing to the credit of the Company's special capital reserve and any other distributable reserves less any accumulated realised losses (if any) from time to time.

#### 3. Risks Associated with the Company's Investments

- 3.1 The value of the investments comprised in the Company's portfolio and any income derived from them may go down as well as go up. The market in the Company's investments is, on the whole, illiquid. The realisation value of an investment may not match its valuation by the Company.
- 3.2 The Company's investee companies could be adversely affected by changes in economic conditions (for example, interest rates and rates of inflation), industry conditions, competition, political and diplomatic events and trends, changes in tax law or specific developments within such companies.
- 3.3 The Company's ability to realise its unquoted investments will depend on the Investment Manager's ability to find purchasers for such investments. The availability of any means of exit (such as a sale to a trade purchaser or private equity specialist or through an initial public offering (IPO) or share buy-back by an investee company) will be dependent upon the market conditions prevailing at the proposed time of realisation. Any material adverse change affecting market conditions in general or the private equity market in particular could seriously limit the exit opportunities available to the Company in respect of its unquoted investments.
- 3.4 As a result of converting the Company into a realisation fund, the number of investments in its portfolio will reduce over time and, as a consequence, the aggregate return on the remaining investments will become increasingly geared by the performance, favourable or unfavourable, of the remaining individual investments.

#### **4. Taxation**

- 4.1 The Company intends to continue to conduct its affairs so as to qualify as an investment trust, but there is no guarantee that such status will be maintained. If the Company fails to meet the qualifying requirements, this could result in loss of tax relief in relation to corporation tax on capital gains made by the Company.
- 4.2 The general guide on taxation in the United Kingdom set out in paragraph 7 of Part 4 of this document is based on current UK legislation and what is understood to be HMRC practice as at the date of this document. The current legislation and practice may change and/or HMRC may not follow such practice and any such event may affect the taxation liabilities of Ordinary Shareholders in relation to returns of capital as envisaged by the Proposals. Any change in the tax treatment of the returns of capital envisaged by the Proposals could adversely affect Ordinary Shareholders.

#### **5. General**

Past performance is not a guide to future performance.

## PART 4

### ADDITIONAL INFORMATION

#### 1. Shares

- 1.1 As at 31 July 2009 (being the latest practicable date prior to the publication of this document), 51,437,364 Ordinary Shares and 6,000,000 Founder Shares were in issue.
- 1.2 As at 31 July 2009 (being the latest practicable date prior to the publication of this document), the unaudited net asset value per Ordinary Share was 51.82p.

#### 2. Directors' Interests

- 2.1 As at 31 July 2009 (being the latest practicable date prior to the publication of this document), the interests (all of which were beneficial) of the Directors, their immediate families and related trusts and (insofar as was known to them or could with reasonable diligence be ascertained by them) persons connected (within the meaning of section 346 of the Companies Act 1985) with the Directors in the share capital of the Company, including interests arising pursuant to any transaction notified to the Company pursuant to Rule 3.1.2 of the FSA's Disclosure and Transparency Rules, were as follows:

<i>Director</i>	<i>No. of Ordinary Shares</i>	<i>% of Issued Ordinary Share Capital</i>
Mr J P Pither ( <i>Chairman</i> )	195,098	0.38
Mr J B Holford ( <i>Deputy Chairman</i> )	120,193	0.23
Mr C J Agar*	–	–
Lord Gordon of Strathblane	82,596	0.16
Dr Kim Tan	25,000	0.05
Mrs E Thom	5,000	0.01

\*Mr C J Agar is an employee and representative of Laxey Partners Limited, a major Ordinary Shareholder (see paragraph 3.1 below).

- 2.2 There are no service contracts in existence between the Company and any of the Directors, nor are any such contracts proposed.
- 2.3 No Director has any interest in a transaction which is of an unusual nature, contains unusual terms or is significant to the business of the Company and which was effected by the Company during the current or immediately preceding financial year or during any earlier financial year and which remains in any respect outstanding or unperformed.

#### 3. Major Shareholders

##### 3.1 Ordinary Shares

As at 31 July 2009 (being the latest practicable date prior to the publication of this document), the Company was aware of the following persons being interested, directly or indirectly, in 3.0 per cent. or more of the issued Ordinary Shares:

<i>Holder</i>	<i>No. of Ordinary Shares</i>	<i>% of Issued Ordinary Share Capital</i>
Friends Provident Group plc	8,606,327	16.7
Laxey Partners Limited <sup>1</sup>	8,394,629	16.3
East Riding of Yorkshire Council	6,400,000	12.4
Deutsche Bank <sup>2</sup>	5,668,659	11.0
Merseyside Pension Fund	2,400,000	4.7
C G Asset Management	1,730,643	3.4

Notes: <sup>1</sup> Includes 700,000 contracts for differences. <sup>2</sup> Includes 1,125,615 contracts for differences.

### 3.2 *Founder Shares*

As at 31 July 2009 (being the latest practicable date prior to the publication of this document), the Company was aware of the following persons being interested, directly or indirectly, in 3.0 per cent. or more of the issued Founder Shares:

<i>Holder</i>	<i>No. of Founder Shares</i>	<i>% of Issued Founder Share Capital</i>
F&C Asset Management plc	1,920,000	32.0
Mr B Brown	1,277,575	21.3
Mr R Mitchell	1,071,515	17.3
Bluehone Investors LLP	865,455	14.4
Mr S Rollason	865,455	14.4

### 4. **Principal Differences between the Existing Articles and the Proposed New Articles**

The principal differences between the existing Articles and the proposed new Articles to be adopted at the Annual General Meeting are as follows:

#### 4.1 *Removal of Provisions Relating to the Founder Shares*

If the proposed buy-back of the Founder Shares for cancellation and the sub-division and reclassification of unissued Founder Shares into Ordinary Shares are approved by Ordinary Shareholders at the Annual General Meeting, there will no longer be any Founder Shares in existence. In this case, the provisions of the existing Articles relating to the Founder Shares will no longer be required. The proposed Articles therefore remove all of the provisions relating to Founder Shares and are further simplified by removing all the class rights of Ordinary Shares.

#### 4.2 *Returns of Capital*

If the Proposals are implemented, it is proposed that the existing Articles be amended to remove the rights of Ordinary Shareholders to receive returns of capital on the basis set out in the existing Articles on 31 May 2012 to enable Ordinary Shareholders to receive returns of capital on the basis set out under the heading "Returning Cash to Ordinary Shareholders" in Part 1 of this document.

#### 4.3 *Shareholders' Rights Regulations*

The Companies (Shareholders' Rights) Regulations 2009 (the "**Shareholder Regulations**") came into effect on 3 August 2009. In addition to tidying up requirements in relation to voting rights which apply to all companies, the Shareholder Regulations amend the Companies Act 2006 to impose further requirements on companies which have voting shares traded on the London Stock Exchange.

As a result of the Shareholder Regulations coming into force, it is proposed that the existing Articles be amended as follows:

- (i) by the removal of the article which confers a casting vote on the chairman at a general meeting;
- (ii) by the removal of the provisions in the existing Articles which allow a general meeting to be called by a shorter notice period than set out in the Articles where agreed by the members of the Company. The ability to call class meetings by less than 14 days' notice has been retained where agreed by a majority of 95 per cent. in nominal value of the shares of the class in question;
- (iii) by the inclusion of provisions which allow the Directors to enable persons entitled to attend general meetings to do so by participation through electronic means;
- (iv) by the removal of the provisions relating to a change in the place and/or time of general meetings;
- (v) by the inclusion of provisions relating to the exercise of votes attaching to shares by proxies where the proxy has been appointed by more than one member and has been instructed to vote both for and against a resolution by different members. In this case, the proposed Articles provide that the proxy will have one vote for and one vote against the resolution;

- (vi) by the inclusion of provisions relating to the appointment of multiple corporate representatives by members which are bodies corporate. In such case, the proposed Articles provide that each representative will have one vote on a resolution on a show of hands if the body corporate is entitled to vote on that resolution. Where more than one representative purports to exercise a power to vote on behalf of a body corporate in respect of the same shares, the proposed Articles provide that where the representatives vote in the same way as each other, the power is treated as being exercised in the same way. If the representatives do not purport to vote in the same way, the power is treated as not exercised;
- (vii) by the inclusion of a provision relating to the record date for general meetings of the Company. This provides that the Company must determine a time by which persons must be entered on the register of members in order to be entitled to attend and vote at a meeting being such time that is not more than 48 hours before the time fixed for the general meeting;
- (viii) by the reduction in the minimum notice period for a general meeting which is adjourned for a lack of quorum from 14 days to 10 clear days; and
- (ix) by the removal of the provisions in the existing Articles relating to ordinary and special business. The existing Articles provide that a notice of general meeting at which business other than ordinary business is proposed must specify the nature of the business to be transacted at the meeting. However, section 311 of the Companies Act 2006 provides that a notice of general meeting must state the general nature of all business to be transacted at the meeting.

#### 4.4 *Investment Company Status*

The Articles (in accordance with the Company's current status as an investment company) presently impose restrictions on the distribution of the Company's capital profits. The new Articles will revise these restrictions to permit the distribution of capital profits but provide that, whilst the Company is an investment trust for the purpose of section 842 of ICTA 1988, no monies credited to the capital reserve will be available for distribution as dividend within the meaning of that section 842 save that they may be applied in the redemption or buy-back of the Company's shares in accordance with the Companies Act 2006.

### 5. **Management Arrangements**

- 5.1 By an investment management agreement dated 10 May 2005 (as amended by supplemental agreements dated 19 January 2006 and 9 June 2006) between the Company and the Investment Manager, the Investment Manager agreed (subject to the overall policy and supervision of the Directors and such directions as the Directors may give from time to time) to manage the assets of the Company in return for:
- (i) a basic management fee of 1.25 per cent. per annum of the total assets of the Company as at the close of business on the last day of the relevant quarter; and
  - (ii) a performance fee in the event that the Company repurchases any Ordinary Shares by way of tender offer (excluding the tender offer that took place in 2006) and the price per Ordinary Share payable pursuant to any such repurchase exceeds, as at the date by reference to which the repurchase price is calculated, the targeted return (being the aggregate targeted return described under the heading "Background to, and Reasons for, the Proposals" in Part 1 of this document), with the amount of the performance fee being such sum as is equal to 20 per cent. of the amount by which the relevant repurchase price exceeds the relevant targeted return multiplied by the number of Ordinary Shares repurchased by the Company pursuant to that tender offer.

The Manager is also entitled to the reimbursement of all reasonable out-of-pocket expenses (plus VAT, if any) incurred on behalf of the Company.

The Investment Management Agreement is terminable on 12 months' notice by either party. The Investment Management Agreement may also be terminated by the Company at any time by giving less than 12 months' notice subject to the Investment Manager being paid compensation, calculated in accordance with the provisions of the Investment Management Agreement. The Investment

Management Agreement may also be terminated by the Company forthwith without compensation if, *inter alia*:

- (a) the Investment Manager commits a material breach which remains unremedied;
- (b) the Investment Manager shall suffer an insolvency event (as specified in the Investment Management Agreement); or
- (c) there is a change of control of the Investment Manager.

The Investment Management Agreement provides for the indemnification by the Company of the Investment Manager in circumstances where the Company is in breach of the Investment Management Agreement or where the Investment Manager suffers loss arising out of action properly taken by it in accordance with the Investment Management Agreement (such provisions are standard for this type of agreement). The Investment Manager accepts responsibility for loss to the Company to the extent that such loss is attributable to its negligence, fraud, wilful default or breach of the Investment Management Agreement.

5.2 Conditional upon the passing of resolution 7 set out in the AGM Notice, a new investment management agreement will be entered into between the Company and the Investment Manager, the effect of which will be to amend the terms of the Investment Management Agreement. Under the terms of the New IMA, the basic management and performance fees referred to in paragraph 5.1 of this Part 4 will be deemed to have been replaced by the basic, realisation and equity appreciation fees described under the sub-heading "Amending the Company's investment management arrangements with Bluehone" in Part 1 of this document with effect from 1 July 2009. In addition, under the terms of the New IMA:

- (i) the aggregate basic, realisation and equity appreciation fees payable to Bluehone in respect of any financial year of the Company shall not exceed 20 per cent. of the value of the Company's net assets, or, if less, 24.9 per cent. of the Company's market capitalisation, as at the close of business on the first business day of that year, provided that:
  - (a) in respect of the financial year ending 31 May 2010, the first business day of that year shall be deemed to be 1 July 2009 (the date on which the fee arrangements in the New IMA will be deemed to have become effective); and
  - (b) for the purpose of this limit, realisation fees accrued but not paid in respect of any financial year shall be taken into account in the year in respect of which they are accrued and not in the year, if any, in which they are paid;
- (ii) the existing 12 month notice period in the Investment Management Agreement will be replaced by a new three month notice period, provided that no such notice period may expire earlier than 31 March 2010; and
- (iii) the New IMA will terminate automatically on the Company's liquidation without any damages or payment in lieu of notice or other compensation being payable to Bluehone (although any realisation and/or equity appreciation fee(s) would remain payable to Bluehone).

## 6. Material Contracts

6.1 By a secretarial and administrative services agreement dated 10 May 2005 between the Company and F&C (the "**Secretarial Agreement**"), F&C agreed to provide certain secretarial and administrative services to the Company in return for an annual fixed fee (exclusive of VAT) of £80,299 together with a variable fee of 0.05 per cent. per annum of the value of the Company's total assets in excess of £75 million, payable quarterly in arrears. Under the terms of the Secretarial Agreement the fixed fee is recalculated on 31 May each year (or such other date as the parties shall agree) so that, as from such date, the fixed fee shall be such amount as shall represent the fixed fee prevailing immediately before the recalculation multiplied by the greater of (i) one and (ii) A/B where "A" equals the retail price index last published before the date of adjustment and "B" equals the retail price index last published before the first such date (as at the date of this document, the recalculated annual fixed fee was £92,612).

The Secretarial Agreement is terminable upon 12 months' written notice by either party to expire at the end of a calendar month. In the event that termination is effective otherwise than at a quarter end, then F&C will be entitled to a *pro rata* payment in respect of the relevant quarter during which the appointment subsisted. Either party may terminate the Secretarial Agreement if the other commits a material breach, becomes insolvent or commences a liquidation (save for the purposes of reconstruction), has a receiver, administrator or similar appointed or assigns or purports to assign the Secretarial Agreement without the consent of the other. Upon an offer for 30 per cent. or more of the Company's issued share capital, F&C is also entitled to terminate on six months' notice in writing. In the event of a change of control of F&C, the Company is entitled to terminate upon six months' notice in writing.

The Secretarial Agreement contains warranties and indemnities which are usual for an agreement of this nature.

The Company and F&C have entered into a supplemental agreement to the Secretarial Agreement dated 3 August 2009 to amend the terms of the Secretarial Agreement conditional upon the passing, at the AGM, of resolution 5 set out in the AGM Notice. Under that supplemental agreement, subject to resolution 5 in the AGM Notice being passed, the 12 and six month notice periods referred to earlier in this paragraph 6.1 will be replaced with a three month notice period in all cases, provided that no notice given under any shortened notice period shall expire earlier than 9 June 2010 in respect of the 12 month notice period and 9 December 2009 in respect of the six month notice periods.

- 6.2 By a supplemental agreement dated 28 and 29 July 2009, the Company has agreed with The Royal Bank of Scotland plc (the "**Bank**") the terms upon which the facility agreement dated 24 and 28 November 2008 (as amended by extension agreement dated 7 July 2009) relating to an on demand term loan facility for £17 million would be extended to 7 September 2009. The facility is repayable on demand and is subject to weekly review and secured by a charge over the Company's cash and gilts deposited with the Bank and a debenture. Interest on the loan is payable at the rate of 2.3 per cent. above LIBOR per annum (increasing to 4.6 per cent. in the event that the demand for repayment is not met) over each interest period together with certain mandatory costs. The Company is subject to a number of undertakings to the Bank which are usual for an agreement of this nature.
- 6.3 Save for the agreements described in paragraphs 5, 6.1 and 6.2 of this Part 4, the Company has not:
- (i) entered into any material contract (being a contract entered into other than in the ordinary course of business) within the two years immediately preceding the date of this document; or
  - (ii) entered into any other contract (being a contract entered into other than in the ordinary course of business) which contains any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document.

## 7. Taxation

The information set out in this paragraph 7 relates to certain aspects of the United Kingdom taxation treatment applicable to the Company and to Ordinary Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who hold their Ordinary Shares as investments (and not as securities to be realised in the course of a trade). The information is based on current legislation and HMRC practice as at the date of this document. Legislation and practice may change. The information is given by way of general summary only and does not constitute legal or tax advice to any Ordinary Shareholder. Any Ordinary Shareholder who is in any doubt as to their tax position or who is subject to taxation in a jurisdiction other than the United Kingdom should consult an independent professional adviser.

### 7.1 *The Company*

The Directors have been advised that the manner in which it is proposed to return cash to Ordinary Shareholders, as described under the sub-heading "Returning cash to Ordinary Shareholders" in Part 1 of this document, should not affect the status of the Company as regards its ability to apply annually to HMRC and to be granted approval under section 842 of ICTA 1988 as an investment trust.

## 7.2 *Ordinary Shareholders*

To the extent that aggregate payments to Ordinary Shareholders do not exceed 66.18p per Ordinary Share, they will be treated as returns of capital and will fall to be taxed in accordance with the rules relating to the taxation of capital gains. Any payments in excess of 66.18p per Ordinary Share (unless paid out by a liquidator in the course of winding up the Company) will be treated as a dividend and will be taxable as income on Ordinary Shareholders.

### 7.2.1 *Sums Taxable as Capital*

In relation to individual and corporate Ordinary Shareholders who are UK resident, other than dealers in securities, the capital returns will be treated, subject to what is said in the following paragraph, under TCGA 1992 as the proceeds of a part disposal of their holding of Ordinary Shares.

A UK resident Ordinary Shareholder will generally be required to calculate the chargeable gain (or allowable loss) arising on any such part disposal. For UK resident corporate Ordinary Shareholders, indexation allowance may be available to reduce the amount of any taxable gain.

The Directors believe that, in certain circumstances, sums paid by way of a return of capital to Ordinary Shareholders will be "small" for the purpose of TCGA 1992. The receipt by an Ordinary Shareholder of a return of capital which is "small" will not be treated as a disposal, or part disposal, of an asset and no UK tax will be due on receipt of the capital return. Instead, an amount equal to the amount received will fall to be deducted from the tax base cost of the Ordinary Shareholder's holding of Ordinary Shares. This treatment will only apply where, and to the extent that, the holding of Ordinary Shares from which the return of capital is derived has a positive base cost against which to offset the capital receipt. Where this is not the case, the receipt of a return of capital may fall to be treated as a part disposal. A return of capital treated as "small" is not required to be included on any self-assessment tax return. An individual Ordinary Shareholder's annual exempt amount for capital gains tax purposes will not be affected by this treatment.

No tax credit will be available for individual Ordinary Shareholders on the receipt of a return of capital.

Any amounts paid out by a liquidator in the course of winding up the Company will be taxable as returns of capital in accordance with the provisions for the taxation of chargeable gains contained in TCGA 1992.

### 7.2.2 *Sums Taxable as Income*

In relation to individual and corporate Ordinary Shareholders who are UK resident, other than dealers in securities, the income returns will be treated as dividend distributions and taxable as income from their holding of Ordinary Shares.

A tax credit of 10 per cent. will be available for individual Ordinary Shareholders on the receipt of a dividend distribution.

## 7.3 *Stamp Duty*

There are no stamp duty implications of returns of capital as envisaged by the Proposals.

## 8. **General**

- 8.1 There has been no significant change in the financial or trading position of the Company which has occurred since 31 May 2009, being the end of the last financial period for which audited financial information of the Company has been published.
- 8.2 Intelli Corporate Finance has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.

## 9. **Documents Available for Inspection**

Copies of the following documents will be available for inspection during normal business hours on weekdays (Saturdays, Sundays and public holidays excepted) from the date of this document until the close of business on Thursday, 27 August 2009 at the offices of Maclay Murray & Spens LLP, One London Wall, London EC2Y 5AB, and at the Company's registered office:

- (i) the existing memorandum and articles of association of the Company;
- (ii) the proposed new Articles of Association;
- (iii) the agreements referred to in paragraphs 5, 6.1 and 6.2 of this Part 4;
- (iv) drafts of the purchase contracts referred to in resolution 8 in the AGM Notice;
- (v) the annual report and accounts of the Company for the two years ended 31 May 2009; and
- (vi) the consent letter referred to in paragraph 8.2 of this Part 4.

In addition, copies of the documents referred to in sub-paragraphs (i) to (iv) above will be available for inspection for at least 15 minutes prior to, and during, the AGM at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY, where the AGM will be held.

## PART 5

### DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

<b>"2009 Annual Report and Accounts"</b>	the Directors' report and the financial statements of the Company for the year ended 31 May 2009, including the auditors' report on such statements
<b>"AGM" or "Annual General Meeting"</b>	the annual general meeting of the Company to be held on Thursday, 27 August 2009 at 4.00 p.m. (or any adjournment thereof)
<b>"AGM Notice"</b>	the notice convening the AGM set out in Part 6 of this document
<b>"Articles" or "Articles of Association"</b>	the articles of association of the Company from time to time
<b>"Board" or "Directors"</b>	the directors of the Company
<b>"Company"</b>	Active Capital Trust plc
<b>"F&amp;C"</b>	F&C Asset Management plc
<b>"Form of Directions"</b>	the form of directions issued by the Savings Scheme Manager for use by Savings Scheme Participants in connection with the AGM
<b>"Form of Proxy"</b>	the form of proxy issued by the Company for use by Ordinary Shareholders in connection with the AGM
<b>"Founder Shareholders"</b>	holders of Founder Shares
<b>"Founder Shares"</b>	founder shares of 0.5p each in the capital of the Company
<b>"FSA"</b>	Financial Services Authority
<b>"HMRC"</b>	HM Revenue & Customs
<b>"ICTA 1988"</b>	the Income and Corporation Taxes Act 1988
<b>"Independent Ordinary Shareholders"</b>	Ordinary Shareholders other than the Investment Manager and F&C and their respective associates
<b>"Intelli Corporate Finance"</b>	Intelli Corporate Finance Limited
<b>"Investment Management Agreement"</b>	the existing investment management agreement between the Company and Bluehone dated 10 May 2005 (as amended by supplemental agreements dated 19 January 2006 and 9 June 2006)
<b>"Investment Manager" or "Bluehone"</b>	Bluehone Investors LLP
<b>"Listing Rules"</b>	the listing rules made by the FSA under section 73A of the Financial Services and Markets Act 2000
<b>"London Stock Exchange"</b>	London Stock Exchange plc or, where the context so requires, its market for larger and established companies
<b>"New IMA"</b>	the new investment management agreement to be entered into between the Company and Bluehone if resolution 7 in the AGM Notice is passed and becomes unconditional, details of which are set out under the heading "Amending the Company's investment management arrangements with Bluehone" in Part 1 and in paragraph 5.2 of Part 4 of this document

<b>“Ordinary Shareholders”</b>	holders of Ordinary Shares
<b>“Ordinary Shares”</b>	ordinary shares of 0.1p each in the capital of the Company
<b>“Proposals”</b>	the proposals for the future of the Company described under the heading “Details of the Proposals” in Part 1 of this document
<b>“Regulatory Information Service”</b>	a regulatory information service that is on the list of regulatory information services maintained by the FSA
<b>“Savings Scheme Manager”</b>	(i) in the case of the F&C Private Investor Plan, the F&C Children’s Investment Plan, the F&C Individual Savings Account, and the F&C Child Trust Fund, F&C Asset Management Limited, (ii) in the case of the ISIS Investment Trusts Share Plan, the ISIS Investment Trusts Individual Savings Account, the Twenty 20 Share Plan and the Twenty 20 ISA, ISIS Investment Trusts Business Limited and (iii) in the case of the Zerocharge Investment Plan and the Zerocharge Individual Savings Account, ISIS Investment Manager plc
<b>“Savings Scheme Participants”</b>	persons who beneficially own Ordinary Shares through one or more of the Savings Schemes
<b>“Savings Schemes”</b>	the F&C Private Investor Plan, the F&C Children’s Investment Plan, the F&C Individual Savings Account, the F&C Child Trust Fund, the ISIS Investment Trusts Share Plan, the ISIS Investment Trusts Individual Savings Account, the Twenty 20 Share Plan, the Twenty 20 ISA, the Zerocharge Investment Plan and the Zerocharge Individual Savings Account or any of them
<b>“Shareholders”</b>	Ordinary Shareholders and/or Founder Shareholders, as the context may require
<b>“TCGA 1992”</b>	the Taxation of Chargeable Gains Act 1992

## PART 6

### NOTICE OF ANNUAL GENERAL MEETING

#### ACTIVE CAPITAL TRUST PLC

*(Incorporated in England & Wales under the Companies Act 1985 with registered number 4182363)  
(An investment company under section 833 of the Companies Act 2006)*

Notice is hereby given that the eighth annual general meeting of Active Capital Trust plc (the "**Company**") will be held on Thursday, 27 August 2009 at 4.00 p.m. at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY, for the purposes of considering and, if thought fit, passing the following resolutions:

#### Ordinary Business

*Resolution 1, which will be proposed as an ordinary resolution*

That the Directors' report and the financial statements of the Company for the year ended 31 May 2009, together with the auditors' report thereon, be received.

*Resolution 2, which will be proposed as an ordinary resolution*

That the 2009 Directors' remuneration report be approved.

*Resolution 3, which will be proposed as an ordinary resolution*

That Mrs E Thom, who retires by rotation, be re-elected as a Director.

*Resolution 4, which will be proposed as an ordinary resolution*

That Ernst & Young LLP be re-appointed as auditors and that the Directors be authorised to determine their remuneration.

#### Special Business

*Resolution 5, which will be proposed as an ordinary resolution*

That the changes in the Company's investment objective and policy as described under the sub-heading "Changing the Company's investment objective and policy" in Part 1, and the amended and restated investment policy set out in Part 2, of the circular to shareholders of the Company dated 4 August 2009, a copy of which is produced to the meeting and signed for the purpose of identification by the chairman of the meeting, be and are hereby approved.

*Resolution 6, which will be proposed as a special resolution*

That the Company be generally and is hereby unconditionally authorised, in accordance with section 166 of the Companies Act 1985 (the "**Act**"), to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 0.1p each in the capital of the Company ("**Ordinary Shares**"), provided that:

- (i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99 per cent. of the issued Ordinary Shares on the date on which this resolution is passed;
- (ii) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share shall be 0.1p;
- (iii) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be not more than the higher of (a) 5 per cent. above the average of the middle market quotations for an Ordinary Share on the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase and (b) the higher of the last independent trade and the highest current bid on the London Stock Exchange; and

- (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 27 November 2010 or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2010, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares under such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

***Resolution 7, which will be proposed as an ordinary resolution***

That, subject to the passing of resolution 5 set out in the notice convening this meeting, the new investment management agreement between the Company and Bluehone Investors LLP, in the form produced to the meeting and signed for the purpose of identification by the chairman of the meeting (together with any non-material amendments thereto that the Directors may consider to be necessary or desirable), the purpose of which is to effect the amendments to the Investment Management Agreement described under the sub-heading "Amending the Company's investment management arrangements with Bluehone" in Part 1 of the circular to shareholders of the Company dated 4 August 2009, a copy of which is produced to the meeting and signed for the purpose of identification by the chairman of the meeting (the "**Circular**"), be and is hereby approved (and words and expressions defined in the Circular shall have the same meanings when used in this resolution).

***Resolution 8, which will be proposed as a special resolution***

That, subject to the passing of resolution 7 set out in the notice convening this meeting, the following purchase contracts, in the respective forms produced to the meeting and each signed for the purpose of identification by the chairman of the meeting (together with any non-material amendments thereto that the Directors may consider to be necessary or desirable), each be and is hereby approved in accordance with section 164 of the Companies Act 1985 and that the Company be and is hereby authorised to make off-market purchases of founder shares of 0.5p each in the capital of the Company ("**Founder Shares**") pursuant to each such contract for a period of 28 days from the date on which this resolution is passed:

- (i) contract between the Company and F&C Asset Management plc pursuant to which the Company may make an off-market purchase from F&C Asset Management plc of 1,920,000 Founder Shares for an aggregate consideration of 1p;
- (ii) contract between the Company and Bill Brown pursuant to which the Company may make an off-market purchase from Bill Brown of 1,277,575 Founder Shares for an aggregate consideration of 1p;
- (iii) contract between the Company and Robert Mitchell pursuant to which the Company may make an off-market purchase from Robert Mitchell of 1,071,515 Founder Shares for an aggregate consideration of 1p;
- (iv) contract between the Company and Bluehone Investors LLP pursuant to which the Company may make an off-market purchase from Bluehone Investors LLP of 865,455 Founder Shares for an aggregate consideration of 1p; and
- (v) contract between the Company and Stuart Rollason pursuant to which the Company may make an off-market purchase from Stuart Rollason of 865,455 Founder Shares for an aggregate consideration of 1p.

***Resolution 9, which will be proposed as an ordinary resolution***

That, subject to the passing of resolution 8 set out in the notice convening this meeting and the cancellation of the founder shares of 0.5p each in the capital of the Company bought back pursuant to that resolution, each unissued founder share of 0.5p forming part of the authorised but unissued share capital of the Company shall be sub-divided, converted into and reclassified as five ordinary shares of 0.1p each, each subject to the rights, regulations and restrictions set out in the Company's articles of association from time to time.

***Resolution 10, which will be proposed as a special resolution***

That, subject to the sub-division, conversion and reclassification of founder shares of 0.5p each in the capital of the Company pursuant to resolution 9 set out in the notice convening this meeting having been completed, the articles of association, in the form produced to the meeting and signed for the purpose of

identification by the chairman of the meeting, be and are hereby adopted as the new articles of association of the Company in substitution for and to the exclusion of the existing articles of association of the Company.

By order of the Board  
For F&C Asset Management plc  
Secretary

Registered Office  
Exchange House  
Primrose Street  
London EC2A 2NY

4 August 2009

**Notes:**

1. Information about this meeting is available from the Company's website [www.activecapitaltrust.co.uk](http://www.activecapitaltrust.co.uk).
2. A member entitled to attend and vote at the AGM may appoint one or more persons as their proxy to attend, speak and vote on their behalf at the AGM. A proxy need not be a member of the Company. If multiple proxies are appointed, they must not be appointed in respect of the same Ordinary Shares. To be effective, the enclosed Form of Proxy duly executed, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the postal address or email address shown on the Form of Proxy not later than 48 hours before the time of the Annual General Meeting. The appointment of a proxy will not prevent an Ordinary Shareholder from attending the AGM and voting in person if they so wish. Subject to notes 14 and 15 below, an Ordinary Shareholder present in person or by proxy shall have one vote on a show of hands and on a poll every Ordinary Shareholder present in person or by proxy shall have one vote for every Ordinary Share of which they are the holder.
3. A member has the right to put questions at the AGM relating to the business being dealt with at the AGM.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the AGM by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID RA19) by the latest time for receipt of proxy appointments specified in note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. A person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between them and the Ordinary Shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the Ordinary Shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in notes 2 and 4 above do not apply to a Nominated Person. The rights described in those notes can only be exercised by registered members of the Company.
8. The right to vote at the Annual General Meeting is determined by reference to the Company's register of members as at 6.00 p.m. on Tuesday, 25 August 2009. Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the Annual General Meeting.
9. As at 3 August 2009 (being the last business day prior to the publication of this notice) the Company's issued share capital amounted to 51,437,364 Ordinary Shares and 6,000,000 Founder Shares. The total voting rights in the Company as at 3 August 2009 was 51,437,364.
10. The articles of association of the Company together with the circular to shareholders of the Company dated 4 August 2009, the New IMA referred to in resolution 7 above, drafts of the contingent purchase contracts referred to in resolution 8 above and a draft of the new articles of association referred to in resolution 10 above will be available for inspection at the Company's registered office from 4 August 2009 to (and including) the date of the Annual General Meeting during normal business hours on weekdays (Saturdays, Sunday and public holidays excepted) and will also be available for at least 15 minutes before the AGM until its conclusion.
11. No Director has a contract of service with the Company. The Directors' letters of appointment will be available for inspection 15 minutes prior to, and during, the Annual General Meeting.
12. It is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528

*of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.*

- 13. Holders of Founder Shares are not entitled to attend or vote at the AGM.*
- 14. Only Independent Ordinary Shareholders shall be entitled to vote on resolution 7 at the AGM.*
- 15. Holders of Ordinary Shares who also hold Founder Shares are not entitled to vote on resolution 8 at the AGM.*

