THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about the action to be taken, you should immediately consult your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your shares in Pennine Downing AIM VCT plc ("the Company"), please send this document and accompanying documents, as soon as possible, to the purchaser or transferee or to the stockbroker, independent financial adviser or other person through whom the sale or transfer was effected for delivery to the purchaser and transferee.

Blomfield Corporate Finance Limited ("Blomfield") is acting as the independent corporate financial adviser and sponsor to the Company and is authorised and regulated by the Financial Services Authority. Persons receiving this document should note that, in relation to the Scheme, Blomfield is acting for the Company and no-one else and will not be responsible to any other person for providing the protections afforded to customers of Blomfield nor advising them on the contents of this and accompanying documents or any matters relating to the Scheme.

Pennine Downing AIM VCT plc

(Registered in England and Wales with registered number 03493973)

Recommended Merger by way of a Scheme for the Reconstruction of the Company

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Your attention is drawn to the letter from the Chairman of the Company set out on pages 9 to 13 of this document which contains a recommendation to vote in favour of the resolutions to be proposed at the meetings referred to below. Your attention is also drawn to the risk factors set out on pages 7 and 8.

You will find set out at the end of this document notices of the First Extraordinary General Meeting of the Company to be held on 8 January 2008 at 11.00 a.m. to approve the Scheme and of the Second Extraordinary General Meeting of the Company to be held on 16 January 2008 at 11.00 a.m. to place the Company in liquidation. Both of these meetings will be held at 19 Cavendish Square, London W1A 2AW. The appropriate forms of proxy, enclosed with this document, for the First Extraordinary General Meeting should be returned by 11.00 a.m. on 4 January 2008 and for the Second Extraordinary General Meeting by 11.00 a.m. on 14 January 2008, in each case either by post or by hand to the Downing Management Services Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU.

CONTENTS

EXPECTED TIMETABLE

Date from which it is advised that dealings in Shares should only be for cash settlement and immediate delivery of documents of title	on 3 January 2008
Latest time for receipt of forms of proxy for the First Extraordinary General Meeting	11.00 a.m. on 4 January 2008
First Extraordinary General Meeting	11.00 a.m. on 8 January 2008
Record date for shareholders' entitlements under the Scheme	5.00 p.m. on 8 January 2008
Dealings in Shares suspended	5.00 p.m. on 8 January 2008
Register of members closed	5.00 p.m. on 8 January 2008
Special Interim Dividend ex – dividend date	on 9 January 2008
Special Interim Dividend record date	on 11 January 2008
Latest time for receipt of forms of proxy for the Second Extraordinary General Meeting	11.00 a.m. on 14 January 2008
Second Extraordinary General Meeting	11.00 a.m. on 16 January 2008
Effective Date for transfer of assets and liabilities of the Company to PDA2 and the issue of PDA2 Shares	on 16 January 2008
Announcement of results of Extraordinary General Meeting and completion of Scheme (if applicable)	Noon on 17 January 2008
Cancellation of listing of Shares	on 17 January 2008
Dealings in PDA2 Shares to commence	on 23 January 2008
CREST accounts credited with PDA2 Shares	on 23 January 2008
Anticipated Special Interim Dividend payment date	on 23 January 2008
Anticipated dispatch of PDA2 Share certificates	on 23 January 2008

DIRECTORS AND ADVISERS

Directors	Andrew Thomas Griffiths James Anthony Leek Nicholas Peter Lewis Anthony Michael McGing
	All of:
Registered Office	Kings Scholars House 230 Vauxhall Bridge Road London SW1V 1AU
Company Secretary	Grant Whitehouse
Investment Manager	Rathbone Investment Management Limited Port of Liverpool Building Pier Head Liverpool L3 1NW
Corporate Finance Adviser and Sponsor	Blomfield Corporate Finance Limited 12 Pepper Street London E14 9RP
Solicitors	Martineau Johnson No 1 Colmore Square Birmingham B4 6AA
Liquidators	PKF (UK) LLP 2nd Floor, Fountain Precinct Balm Green Sheffield S1 2JA
VCT Tax Advisers	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6NN
Auditors	Baker Tilly UK Audit LLP 2 Bloomsbury Street London WC1B 3ST
Banker	Bank of Scotland plc West End Office 14-16 Cockspur Street London SW1V 5BL
Receiving Agent	Downing Management Services Limited Kings Scholars House 230 Vauxhall Bridge Road London SW1V 1AU
Registrars	Capita Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

DEFINITIONS

"AIM"	AIM, a market operated by the London Stock Exchange
"Blomfield"	Blomfield Corporate Finance Limited
"Board" or "Directors"	the board of directors of the Company
"CA 1985"	Companies Act 1985, as amended
"Capita"	a trading name of Capita Registrars Limited
"Company" or "PDA"	Pennine Downing AIM VCT plc
"Downing"	Downing Management Services Limited
"Effective Date"	16 January 2008
"Enlarged Company"	PDA2 following the implementation of the Schemes
"Ethical"	The Ethical AIM VCT plc
"Ethical Circular"	the Circular to Ethical shareholders dated 27 November 2007
"Ethical Meetings"	the extraordinary general meetings of Ethical to be held on 8 January 2008 and 16 January 2008
"Ethical Scheme"	the proposed scheme of reconstruction of Ethical pursuant to Section 110 of IA 1986 as set out in Part IV of the Ethical Circular, which is substantially the same as the Scheme
"First Extraordinary General Meeting"	the extraordinary general meeting of the Company to be held on 8 January 2008
"IA 1986"	Insolvency Act 1986, as amended
"ICTA 1988"	Income and Corporation Taxes Act 1988, as amended
"ITA 2007"	Income Tax Act 2007
"Liquidators"	William Duncan and Ian Schofield of PKF (UK) LLP, 2nd Floor, Fountain Precinct, Balm Green, Sheffield S1 2JA
"Meetings"	the First Extraordinary General Meeting and the Second Extraordinary General Meeting
"Merger Regulations"	Venture Capital Trusts (Winding-up and Mergers) (Tax) Regulations 2004
"Merger Values"	the respective values of the Company, PDA2 and Ethical shown in Part II of this document
"Official List"	the official list of the UKLA
"PDA2"	Pennine Downing AIM VCT 2 plc
"PDA2 Meeting"	the extraordinary general meeting of PDA2 to be held on 8 January 2008
"PDA2 Prospectus"	the prospectus of PDA2 dated 27 November 2007
"PDA2 Shares"	shares in the capital of PDA2
"PLUS Markets"	a trading facility operated by Plus Markets Group plc

"Proposals"	the proposals to (i) approve the Scheme and authorise its implementation by the Liquidators (ii) put the Company into liquidation and appoint the Liquidators for the purposes of such winding up and (iii) pass each of the resolutions set out in the notices of the Meetings
"Rathbones"	Rathbone Investment Management Limited, the investment manager to the Company
"Scheme"	the proposed scheme of reconstruction of the Company pursuant to Section 110 of IA 1986 as set out in Part IV of this document
"Schemes"	together the Scheme and the Ethical Scheme
"Scheme Record Date"	8 January 2008
"Second Extraordinary General Meeting"	the extraordinary general meeting of the Company to be held on 16 January 2008
"Shares"	shares in the capital of the Company
"Shareholder"	a holder of Shares
"Special Interim Dividend"	the special interim dividend of 10p per Share, conditional on the Schemes becoming unconditional, to be paid shortly after the Effective Date
"Special Interim Dividend Record Date"	11 January 2008
"TCGA 1992"	Taxation of Chargeable Gains Act 1992, as amended
"Transfer Agreement"	the agreement for the transfer of all of the assets and liabilities of the Company from the Liquidators to PDA2 pursuant to the Scheme
"UKLA"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"VCT" or "venture capital trust"	a company satisfying the requirements of Chapter 3 of Part 6 ITA 2007 for venture capital trusts

PART I

RISK FACTORS OF AN INVESTMENT IN PDA2

The attention of shareholders is drawn to the following risk factors that may affect the performance of PDA2 and/or the availability of tax reliefs.

The value of PDA2 Shares can fluctuate and shareholders may not get back the amount they invested. In addition, there is no certainty that the market price of PDA2 Shares will fully reflect the underlying net asset value or that any dividends will be paid, nor should shareholders expect that any share buyback policy will offer any certainty of selling their PDA2 Shares at a price that reflects the underlying net asset value.

An investment in PDA2 should be considered as a long-term investment.

The past performance of the Company or Rathbones is no indication of its future performance.

Investment in unquoted companies can offer good investment returns but by its nature is uncertain and consequently involves a higher degree of risk than investment in a quoted portfolio.

Although the existing PDA2 Shares have been (and it is anticipated that the PDA2 Shares to be issued pursuant to the Schemes will be) admitted to the Official List and are (and will be) traded on London Stock Exchange plc's market for listed securities, there is an illiquid market and shareholders are expected to find it difficult to realise their investment.

Although PDA2 may receive conventional venture capital rights in connection with some of its investments, as a minority investor it may not be in a position to fully protect its interests.

Realisation of investments in unquoted companies can be difficult and may take a considerable time. There may also be constraints imposed on the realisation of investments in order to maintain the tax status of PDA2.

Investment in unquoted and AIM-traded and PLUS Markets-traded companies, by its nature, involves a higher degree of risk than investment in the Official List. In particular, small companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing such stock. Proper information for determining their value or the risks to which they are exposed may also not be available.

Valuations of unquoted companies are determined in accordance with Financial Reporting Standard 26 'Financial Instruments: Measurements (IAS 39)' and using the International Private Equity and Venture Capital Valuation Guidelines, however these valuation policies take account of stock market price earning ratios for the relevant industry sectors and therefore may not be accurate reflections of the realisable value of the investments.

Whilst it will be the intention of the directors of PDA2 that it will continue to be managed so as to qualify as a venture capital trust, there can be no guarantee that such status will be maintained. A failure to continue to meet the qualifying requirements could result in PDA2 losing the tax reliefs previously obtained, resulting in adverse tax consequences for investors including a requirement to repay the tax reliefs obtained. Furthermore, should PDA2 lose its venture capital trust status, dividends and the disposal of PDA2 Shares would become subject to tax and PDA2 would also lose its exemption from corporation tax on capital gains. If at any time VCT status is lost for PDA2, dealings in its shares will normally be suspended until such time as proposals to continue as a VCT or to be wound up have been announced.

The tax rules or their interpretation in relation to an investment in PDA2 and/or the rates of tax may change during the life of PDA2.

If a shareholder disposes of his PDA2 Shares within three years of issue (five years if such shares were issued before 6 April 2000 or after 5 April 2006), he will be subject to clawback by HM Revenue and Customs of any tax reliefs originally claimed. For these purposes the date of issue of the PDA2 Shares in connection with the scheme shall be the original date of issue of the PDA Shares in respect of which such PDA2 Shares have been issued.

Any purchaser of PDA2 Shares, as opposed to a subscriber of PDA2 Shares, will not qualify for the then available tax reliefs afforded to subscribers of new VCT Shares on the amount invested.

Shareholders of the Company may be adversely affected by the performance of the investments in PDA2. Any underperformance of the existing investments in PDA2 or Ethical may restrict the ability of PDA2 following the merger to distribute capital and revenue gains achieved on the existing investments transferred from the Company or Ethical to PDA2. All gains made on the existing investments of the Company or Ethical will be shared amongst the holders of all shares within PDA2.

The shareholders of the Company may be adversely affected by the VCT status of PDA2 if a number of the existing investments in PDA2, or the aggregate investments of PDA2 following the merger, are or become unable to meet VCT requirements.

PART II

Pennine Downing AIM VCT plc

(Registered in England and Wales with registered number 03493973)

Directors	*Registered Office*
Andrew Griffiths (Chairman)	Kings Scholars House
James Leek	230 Vauxhall Bridge Road
Nicholas Lewis	London
Tony McGing	SW1V 1AU

27 November 2007

Dear Shareholder

RECOMMENDED MERGER BY WAY OF SCHEME FOR THE RECONSTRUCTION OF THE COMPANY

The purpose of this letter is to explain the background to, and the effects of, the Scheme and the resolutions to be proposed at the forthcoming Meetings.

The Company was launched in March 1998 with the objectives of maximising tax free capital and income returns to Shareholders by building a portfolio of mainly AIM-quoted investments. Since launch the Company has paid total cumulative dividends of 20p per share to Shareholders.

In line with common practice for VCTs, the Company has also operated a share buyback policy to provide liquidity for shareholders wishing to dispose of their holdings. Since launch the Company has bought back approximately 1.9 million Shares. This, along with the Company's dividend policy, has reduced the size of the Company such that as at 31 August 2007 the net assets of the Company were approximately £6.5 million, compared to £9.6 million immediately after launch.

In order to comply with the VCT regulations the Company is required to be listed on the main market of the London Stock Exchange, which involves a significant level of fixed costs in listing and related fees and in ensuring that the Company complies with all relevant regulations. As the Company's size decreases these costs become a proportionately greater burden and start to impact on the returns to Shareholders. This issue is faced by many VCTs when their size starts to reduce.

In September 2004, regulations were introduced to allow VCTs to be acquired or merged without prejudicing tax reliefs obtained by shareholders. Several VCTs have now taken advantage of these regulations to create larger VCTs where fixed running costs can be spread over a greater asset base.

I am pleased to advise you that, following detailed consideration of the portfolio and financial position of PDA2 and Ethical, which are VCTs also managed by Rathbones with very similar investment objectives and a number of common investments with the Company, we have reached an agreement to merge with those companies. We consider that this will bring significant benefits to shareholders of each of the companies.

The Board considers that a merger would provide a number of benefits:

- a significant reduction in management and administrative costs for the combined entity and a VCT of a more economically efficient size with a greater capital base over which to spread the fixed running costs;
- allow the Board to pay a Special Interim Dividend of 10 pence per share from historic gains without concerns that the Company would start to become too small to be economically efficient;
- participation in a larger VCT with a more diversified portfolio - this will disperse the portfolio risk across a broader range of investments, technologies, markets and industry sectors;
- merger with two other VCTs which have a very similar investment policy, structure and manager without prejudicing existing tax reliefs obtained;

- a larger pool of investment funds providing the opportunity for improved liquidity and flexibility to provide further support for those investments offering the highest potential rewards; and
- increased flexibility in meeting the various requirements for qualifying VCT status.

Consequently, the Board today announced proposals to be put before you, the Shareholders, to approve a merger with PDA2 and Ethical. The stages through which this merger will be effected is:

- the Company will be placed into members' voluntary liquidation pursuant to a scheme of reconstruction under Section 110 IA 1986;
- the assets and liabilities of the Company will then be transferred to PDA2 in exchange for new PDA2 Shares (which will be issued to Shareholders); and
- similarly, Ethical will also be placed into members' voluntary liquidation pursuant to a scheme of reconstruction under Section 110 IA 1986 and its assets and liabilities will also be transferred to PDA2 in consideration for which Ethical shareholders will also receive PDA2 Shares.

The consent of the Company's Shareholders is required, and being sought at the Meetings, to approve the Scheme and authorise its implementation by the Liquidators, to put the Company into liquidation and appoint the Liquidators for the purposes of such winding up, to cancel the Company's listing following the successful completion of the Scheme and to authorise the Liquidators to exercise certain powers, such as paying classes of creditors in full.

BACKGROUND

The Company was launched in March 1998 to offer investors a tax efficient method by which to gain exposure to the AIM market with a vehicle that would hold a portfolio of mainly AIM-quoted investments under the management of an experienced investment manager, Rathbones. The initial fundraising raised £9.6 million. At 31 August 2007, the Company owned investments in 34 companies with a valuation of £4.9 million. The net asset value of the Company at 31 August 2007 was 79.2p per Share and total return (net asset value per Share plus dividends paid since launch) was 99.2p per Share (as extracted from the unaudited half yearly financial report of the Company as at 31 August 2007).

The Board believes that, as the Company becomes smaller as a result of Share buybacks and a strong dividend policy, running costs (of which there is a significant element of fixed costs) are starting to become disproportionately high. In time, the burden of the fixed running costs may have a materially adverse on effect the return to Shareholders that the Company is able to produce.

Following the Merger Regulations, VCTs can now be merged without prejudicing the tax reliefs obtained by shareholders on their original investment. With this in mind, the Board has considered the positions of PDA2 and Ethical, which are VCTs managed by the same investment manager as this Company, with a view to merging the three companies and creating one VCT of a more economically efficient size.

The merger of the three companies will result in significant cost savings and enhanced administrative efficiency. Due to their common features, this is achievable without major additional costs in terms of re-arranging the existing board constitution, investment and administrative arrangements of the three companies.

Overall risk should be reduced as the portfolio is spread across a larger number of investments and industry sectors. The combined entity will have additional funds available to support further investment in both new and existing companies which require additional investment.

After receiving independent advice and giving the matter full consideration, the Board believes that the financial reconstruction of the Company by way of the proposed Scheme offers participation in a larger VCT together with a more acceptable level of costs. Any of the companies could have acquired the assets and liabilities of the other under such a scheme and no group of shareholders would be disadvantaged. However, PDA2 was selected as the acquirer as it is the largest of the three companies.

For the six months ended on 31 August 2007, total expenditure for the Company was £108,000 (1.7% per cent of the Company's net asset value as at that date) and for all three entities (using the six month period ended 31 March 2007 in respect of Ethical) was £372,000 (approximately 1.8 per cent of their combined net asset value). The Directors believe that significant savings will be achieved by combining the companies and removing certain identified fixed costs.

The anticipated cost of undertaking the Schemes is £490,000 including legal, professional and other fees including the winding up of the Company and Ethical. A breakdown of these costs is set out on page 24 of the PDA2 Prospectus. Following completion of the Schemes, it is expected that annual cost savings for the merged entity of at least £250,000 per annum, will be achieved for the first two years following the merger and at least £200,000 per annum in subsequent years. On this basis the Directors believe the transaction costs should be recovered within 2 years. In addition, the merger is expected to deliver important operational benefits, as outlined above.

THE SCHEME AND MERGER VALUES

The Scheme provides for the Company to be put into members' voluntary liquidation and for assets and liabilities of the Company to be transferred to PDA2 in consideration for new PDA2 Shares of an equivalent value. Following the transfer the Company will be wound up and the Shares in the Company cancelled.

The Scheme is conditional on, inter alia, the approval of the shareholders of the Company and PDA2, there being no material adverse change in the financial positions of the Company and PDA2 and the concurrent implementation of the Ethical Scheme. The conditions which the Scheme is subject to are set out in full on page 16 of this document.

Further information regarding the terms of the Scheme and the taxation consequences are set out in Part IV and Part VI of this document respectively.

The number of PDA2 Shares to be issued to the Company's Shareholders pursuant to the Scheme will be 8,110,155, such that for every 1,000 Shares held, Shareholders receive 982 PDA2 Shares.

The number of PDA2 Shares has been based on relative Merger Values. The Merger Values for PDA2, the Company and Ethical, have been calculated as the estimated net asset value of each company at the latest practical date prior to the publication of this document and subtracting the amount of the special interim dividend due to that company's shareholders and one third of the estimated total costs of the Schemes.

The consent of the Company's Shareholders is required, and being sought at the Meetings, to approve the Scheme and authorise its implementation by the Liquidators, to put the Company into liquidation and appoint the Liquidators for the purposes of such winding up, to cancel the Company's listing following the successful completion of the Scheme and to authorise the Liquidators to exercise certain powers, such as paying classes of creditors in full.

PDA2

PDA2 was launched in February 2001 with substantially similar objectives and investment policy to that of the Company. PDA2 receives investment advice from Rathbones, which also provides investment advice to the Company. PDA2 and the Company also have three Directors common to both boards and the same administration manager, Downing.

PDA2 raised £12.5 million and at 31 August 2007 held investments in 38 companies or unit trusts with a total valuation of invested £6.5 million. The audited net asset value of PDA2 as at 31 August 2007 was 82.2p per share and the total return (net asset value per share plus dividends paid since launch) was 95.7p per share.

Further information on PDA2 can be found in Part V of this document and Part II of the PDA2 Prospectus.

ETHICAL

Ethical was launched in October 1999 with the objectives of maximising tax-free capital and income returns to Shareholders by investing in an ethically screened and monitored portfolio consisting mainly of investments in smaller UK companies. Ethical adopted objectives similar to the Company in April 2004. Ethical receives investment advice from Rathbones, which also provides investment advice to the

Company. Ethical and the Company also have one Director common to both boards and the same administration manager, Downing.

Ethical raised £10.2 million and at 31 March 2007 held investments in 31 companies with a total valuation of £3.0 million. The unaudited net asset value of Ethical as at 31 August 2007 was 53.5 p per share and the total return (net asset value per share plus dividends paid since launch) was 61.25 p per share.

Further information on Ethical can be found in Part VI of the PDA2 Prospectus.

DIVIDEND POLICY AND PROPOSED PDA SPECIAL INTERIM DIVIDEND

Following the merger, PDA2 intends to continue its existing policy of seeking to pay regular dividends when practicable. The ability of the Enlarged Company to pay dividends should be improved as concerns about reducing the size of the company to an uneconomical size by having a strong dividend policy will be reduced. The proposed merger also gives the opportunity to each company involved to consider paying a special dividend to its Shareholders comprised of historic realised gains.

PDA has declared a Special Interim Dividend of 10.0 pence per Share, conditional on the Schemes becoming unconditional, to be paid shortly after the Effective Date, to all Shareholders as at the Special Interim Dividend Record Date. The dividend will be payable out of the available cash resources of PDA.

CANCELLATION OF LISTING

It is the Company's intention to apply for cancellation of the Company's listing upon the successful completion of the Scheme, which is anticipated to be on 17 January 2008.

TERMINATION AGREEMENTS

In view of the fact that Rathbones will continue to manage the Company's funds after the Scheme by virtue of the fact that they have an ongoing investment management agreement with PDA2, Rathbones have agreed to terminate the existing investment management agreement with the Company, without notice, with effect from the date of the completion of the Scheme. The management and performance incentive arrangements between PDA2, Rathbones, Downing and the directors of PDA2 have been revised to take into account the merger, subject to the consent of the PDA2 shareholders at the PDA2 Meeting, further details on which are set out on pages 21 and 22 of the PDA2 Prospectus.

In view of the fact that it provides administrative services to PDA2, Downing has also agreed to terminate its existing administration agreement with the Company, without notice, with effect from the date of the completion of the Scheme. The administrative arrangements between PDA2 and Downing have been revised to take into account the merger, further details on which are set out on pages 21 and 22 of the PDA2 Prospectus.

TAXATION

As is more fully explained in Part VI of this document, the receipt by Shareholders of PDA2 Shares should not constitute a disposal of their Shares for UK capital gains tax purposes. Shareholders should, for UK tax purposes, effectively be able to treat the PDA2 Shares received pursuant to the Scheme as if they had been acquired at the date of, and at the price of, the original Shares in the Company. Any capital gains tax deferral relief attaching to the original Shares in the Company will then attach to the PDA2 Shares. As PDA2 is also a venture capital trust the usual VCT tax reliefs should continue to apply.

Further details as to the taxation consequences for Shareholders are detailed in Part VI of this document. Shareholders should note that the Company has obtained certain tax clearances as more particularly described in Part VI.

If you are in any doubt about your position, or if you may be subject to a tax in a jurisdiction other than the UK, you should consult your independent financial adviser.

MEETINGS

Notices of the Meetings are set out at the end of this document. The First Extraordinary General Meeting will be held at 11.00 a.m. on 8 January 2008 and the Second Extraordinary General Meeting will be held at 11.00 a.m. on 16 January 2008, both at 19 Cavendish Square, London W1A 2AW.

First Extraordinary General Meeting

Resolution 1 will seek Shareholder approval for the Scheme and authorise its implementation by the Liquidators. This resolution will require the approval of at least 75 per cent of the votes cast on that resolution at the meeting.

If the resolution to be proposed at the First Extraordinary General Meeting is passed, the Scheme is expected to become effective on the passing of the resolutions at the Second Extraordinary General Meeting.

Second Extraordinary General Meeting

The Second Extraordinary General Meeting will seek approval of the Shareholders to wind up the Company and to appoint the Liquidators.

Resolution 1 will seek Shareholder approval to put the Company into liquidation and appoint the Liquidators for the purposes of such winding up.

Resolution 2 will approve the cancellation of the Company's listing following the successful completion of the Scheme.

Resolution 3 will authorise the Liquidators to exercise certain powers for which the express sanction of shareholders is required under the IA 1986, such as paying classes of creditors in full.

Each of the resolutions to be proposed at the Second Extraordinary General Meeting will require the approval of at least 75 per cent of the votes cast on that resolution at the meeting.

ACTION TO BE TAKEN

Before taking any action, you are recommended to read the further information set out in this document and in the PDA2 Prospectus.

Forms of Proxy for Shareholders

Shareholders will find enclosed forms of proxy for the First Extraordinary General Meeting and for the Second Extraordinary General Meeting. Whether or not you propose to attend the Meetings, you are requested to complete and return each appropriate form of proxy so as to be received in each case by Downing Management Services Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU, by 11.00 a.m. on 4 January 2008 in relation to the First Extraordinary General Meeting and by 11.00 a.m. on 14 January 2008 in relation to the Second Extraordinary General Meeting. Completion and return of the forms of proxy will not prevent you from attending and voting in person at the relevant Meeting should you wish to do so.

RECOMMENDATION

The Board considers that the Proposals are in the best interests of the Company and its Shareholders as a whole. In order to provide independent confirmation of their view, the Board have appointed Blomfield, acting as financial advisers for the Company alone, who have confirmed that they believe the Scheme is in the best interest of Shareholders as a whole. In providing this advice, Blomfield has taken into account the Directors' commercial assessment of the Scheme. A letter from Blomfield is set out in Part III of this document.

Accordingly, the Board unanimously recommends you to vote in favour of the resolutions to be proposed at the Meetings as they intend to do in respect of their own holdings of 50,000 Shares, representing approximately 0.61 per cent of the issued Share capital of the Company.

Yours sincerely

Andrew Griffiths
Chairman

PART III

LETTER FROM BLOMFIELD CORPORATE FINANCE LIMITED

The Directors (the "Directors" or the "Board")
Pennine Downing AIM VCT plc
Kings Scholars House
230 Vauxhall Bridge Road
London SW1V 1AU

27 November 2007

Dear Sirs

Recommended proposals ("Scheme") for a merger with Pennine Downing AIM VCT 2 plc ("PDA2") by way of a voluntary liquidation and transfer of assets and liabilities under section 110 of the Insolvency Act 1986

As a consequence of your interests as directors and shareholders of PDA2, you have appointed us as financial advisers to provide advice to the Board of PDA in connection with the Scheme, so that PDA shareholders may receive independent advice on the Scheme and on an appropriate course of action for them to take.

We advise the Board that the PDA shareholders, in reaching their decision as to whether or not to approve the Scheme, should take into account Parts I and II of this document, in particular the benefits of the Scheme set out in Part II of this document and the further information on PDA2 set out in Part V of this document.

It is our view that the terms of the Scheme are fair and reasonable, as far as PDA shareholders are concerned, that the Scheme is in the best interests of PDA shareholders as a whole and that PDA shareholders should approve it.

In giving its advice, Blomfield Corporate Finance is advising the Board of PDA in relation to the Scheme and is not acting for any member of the Board in their personal capacity, nor for any PDA shareholder in relation to the Scheme and will not be responsible to anyone other than PDA for providing the protections afforded to customers of Blomfield Corporate Finance, nor for providing advice in relation to the Scheme. In giving the advice, Blomfield Corporate Finance has also taken into account the Directors' commercial assessment of the Scheme.

Accordingly, when considering what action PDA shareholders should take, they are strongly recommended to seek their own personal financial advice from an independent financial adviser authorised under the Financial Services and Markets Act 2000.

Yours faithfully

For and on behalf of Blomfield Corporate Finance Limited
Alan Mackenzie
Director

PART IV

THE SCHEME

1. **Definitions and interpretation**

The definitions set out on pages 5 and 6 of this document shall have the same meanings when used in the context of the Scheme.

2. **Provision of information**

On the Effective Date the Liquidators shall receive all the cash, undertakings and other assets and liabilities of the Company and shall deliver to PDA2:

- particulars of all of the assets and liabilities comprised in the Company;
- a list certified by the Company's registrars of the names and addresses of, and the number of Shares held in the Company by, the Shareholders on the register at 5.00 p.m. on the Scheme Record Date;
- an estimate of the costs to wind-up the Company which will form part of the Scheme costs; and
- the amount estimated to purchase the holdings of dissenting Shareholders.

3. **Transfer Agreement**

On the Effective Date the Liquidators shall, and shall procure that the Company shall, enter into the Transfer Agreement (subject to such modifications as may be agreed between the parties thereto) under which the Liquidators shall procure the transfer of all the assets and liabilities of the Company to PDA2 in exchange for the issue of PDA2 Shares to the Shareholders of the Company on the basis set out in paragraph 4 below.

In consideration of such transfer of assets and liabilities of the Company to PDA2, PDA2 will, pursuant to the Transfer Agreement, undertake to pay all liabilities incurred by the Liquidators including but not limited to the implementation of the Scheme, the winding up of the Company and the purchase for cash of any holdings of dissenting Shareholders.

4. **Calculations of value/issue of PDA2 Shares**

The number of PDA2 Shares to be issued to Shareholders pursuant to the Scheme will be 8,110,155, such that for every 1,000 Shares held, Shareholders receive 982 PDA2 Shares.

The PDA2 Shares will be issued to the Shareholders of the Company pro rata to their holdings in the Company on the Scheme Record Date as though such Shares were on the register of members on the Scheme Record Date. Entitlements will be rounded down to the nearest whole number and any fractional entitlements will be sold in the market and if the net proceeds per share do not exceed £5 in value they will be retained for the benefit of PDA2.

Application will be made to the UK Listing Authority for all the PDA2 Shares to be admitted to the Official List and to the London Stock Exchange for the PDA2 Shares to be admitted to trading on its market for listed securities. The PDA2 Shares will rank *pari passu* with the existing shares of PDA2 following their issue and will be entitled to all dividends declared thereafter.

5. **Modifications**

The provisions of the Scheme shall have effect subject to such non-material modifications or additions as the parties to the Transfer Agreement may from time to time approve in writing.

6. **Reliance on information**

The Liquidators and PDA2 shall be entitled to act and rely, without enquiry, on any information furnished or made available to them or any of them, as the case may be, in connection with this Scheme and the Transfer Agreement, including, for the avoidance of doubt any certificate, opinion, advice, valuation, evidence or other information furnished or made available to them by the Company, the Directors (or any of them), the registrar, bankers or its or their other professional advisers and the Liquidators and PDA2 shall not be liable or responsible for any loss suffered as a result thereof.

7. **Liquidators' liability**

Nothing in this Scheme or in any document executed under or in connection with this Scheme shall impose any personal liability on the Liquidators or either of them save for any liability arising out of any negligence, breach of duty or wilful default by the Liquidators in the performance of their duties and this shall, for the avoidance of doubt, exclude any such liability for any action taken by the Liquidators in accordance with this Scheme or the Transfer Agreement.

8. **Conditions**

This Scheme is conditional upon:

- the passing of the resolutions to be proposed at the Meetings;
- dissent not having been received from shareholders holding more than 10 per cent in nominal value of the issued Share capital of the Company under Section 111 IA 1986 (this condition may be waived by the Board);
- between the date of this document and the Effective Date, there being no material adverse change or deterioration in the business, assets, financial or trading positions or profit or prospects of PDA and no contingent or other liability of PDA having arisen or become apparent or increased which is material in the context of PDA;
- between the date of this document and the Effective Date, there being no material adverse change or deterioration in the business, assets, financial or trading positions or profit or prospects of PDA2 and no contingent or other liability of PDA2 having arisen or become apparent or increased which is material in the context of PDA2; and
- the passing of the resolutions to be proposed at the PDA2 Meeting (as set out on pages 86 and 87 of the PDA2 Prospectus; and
- the passing of the resolutions to be proposed at the Ethical Meetings (which are substantially the same as those to be proposed at the Meetings) and the Ethical Scheme becoming unconditional.

Unless the conditions set out above have been satisfied by 28 February 2008, this Scheme shall never become effective. In the event that the Scheme does not become effective, the Board will review all options available to them regarding the future of the Company.

Subject to the above, this Scheme shall become effective immediately after the special resolution for winding-up the Company to be proposed at the Second Extraordinary General Meeting is passed. If it shall become effective, this Scheme shall, subject to the rights of any dissenting members, be binding on all Shareholders and all persons claiming through or under them.

9. **Dissenting Shareholders**

Provided that a Shareholder does not vote in favour of the resolutions to be proposed at the First Extraordinary General Meeting, such Shareholder may within 7 days of the First Extraordinary General Meeting express his dissent to the Liquidators in writing at the registered office of the Company and require the Liquidators to purchase that Shareholder's holdings in the Company.

The Liquidators will offer to purchase such holdings at the break value price per Share of 50.7 pence, this being an estimate of the amount a Shareholder would receive per Share in an ordinary winding up of the Company if all of the assets of the Company had to be realised. This break value is 17.0 pence (25.1 per cent.) lower than the Merger Value. Shareholders should also be aware that such purchases will constitute a disposal and will trigger payment of any capital gains tax deferred on subscription. Further details as to the taxation consequences for Shareholders are detailed in Part VI of this document.

10. **Effect of the Scheme**

The Merger Value is based on the estimated relative net asset value of PDA2 and the Company at the latest practicable date before the publication of this document. The net asset value per PDA2 Share is estimated to be 68.8 pence per share following implementation of the Schemes (on the basis of the estimated costs of the Schemes and there being no dissenting shareholders in the Company and/or Ethical).

Further information on the expected financial position of PDA2 following implementation of the Schemes is set out in Part VII of the PDA2 Prospectus.

11. **Governing Law**

The Scheme shall, in all respects, be governed by and construed in accordance with the laws of England and Wales.

PART V

FURTHER INFORMATION ON PDA2

1. **Constitution and Status**

PDA2 was launched in February 2001 as a public company listed on the Official List. PDA2 has met the requirement for venture capital trusts pursuant to Chapter 3 of Part 6 ITA 2007 and intends to carry on its activities so as to continue qualifying as a venture capital trust.

Investment Objective and Policy

The objective of PDA2, which is very similar to that of the Company and Ethical, is to hold a portfolio of VCT qualifying investments, which mostly comprise new issues by companies quoted on AIM or being admitted to AIM and that these companies will have or are expected to have:

- good opportunities for growth in shareholder value;
- an experienced and incentivised management team;
- a healthy balance sheet with low gearing; and
- proven operational and financial controls.

Additionally PDA2 has a small portfolio of non-VCT qualifying investments, including unit trusts and AIM stocks, which it actively trades.

The PDA2 directors have and intend to continue to follow policies which maintain PDA2's qualifying status as a venture capital trust. To do so PDA2 must adhere to certain rules governing the nature, structure and quantum of investments in addition to maintaining such investment ratios and un-invested reserves necessary to protect this status.

2. **Dividend Policy**

Following the merger, PDA2 expects to continue its existing policy of seeking to pay regular dividends when practicable. The ability of PDA2 to pay dividends should be improved by having a larger, more diverse portfolio from which income and capital gains can be generated. It is intended that realised capital gains should be distributed to eligible shareholders in the form of tax free dividends.

3. **Shares**

PDA2 has one class of share, ordinary shares of 5 pence each, which are entitled to dividends and assets pari passu and which have voting rights. The PDA2 Shares to be issued to the Shareholders of the Company and Ethical pursuant to the Schemes will rank pari passu with the existing PDA2 Shares from the date of issue. The PDA2 Shares can be held in certificated or uncertificated form.

4. **Investment Manager**

PDA2's investment manager is Rathbones, the same investment manager as to PDA and Ethical, who will continue to provide investment management services to PDA2. Rathbones was appointed as investment manager to PDA2 for an initial period of five years in 2001. The agreement is terminable on not less than twelve months written notice. Rathbones has substantial experience in managing AIM VCTs.

Further details of the investment management and administration arrangements following the merger are set out at Part II of the PDA2 Prospectus.

5. **Directors**

The current directors of PDA2 are James Leek, Andrew Griffiths, Nicholas Lewis and Brian Beverley, who are also directors of the Company, with the exception of Brian Beverley.

Following implementation of the Schemes, James Leek will resign as a director and chairman of PDA2 and Andrew Griffiths will become chairman in his place. In addition, Andrew Davison (the existing chairman of Ethical) and Tony McGing (an existing director of the Company) will be appointed as additional directors of PDA2.

Brief biographies for Brian Beverley and Andrew Davison are as follows:

Brian Beverley (61) founded Mentor Systems Plc, a specialist software applications company for the construction industry, in 1978. Mentor Systems Plc was acquired by Misys plc in 1989, when, until 1991, he became executive chairman of the Misys Open Systems Division. He remained non-executive chairman of Mentor Systems Plc until 1993. In 1995, he acquired CSL International Limited, a technology systems integration business, which was subsequently acquired by Xavier Group Plc in 1997. In 1999, he founded the Revenue Assurance Services plc (formerly known as XKO Group plc), which inter alia acquired Xavier Group Plc, and was executive chairman from 1999 until 2005.

Andrew Davison (65) is currently on the boards of a number of quoted and unquoted companies and is chairman of Ethical, ProVen VCT plc, ProVen Growth and Income VCT plc and City of London Investment Group PLC. He was formerly chairman and chief executive of Business Mortgages Trust plc from 1987 to 1991. He joined County Bank Limited in 1972 and by 1984 had become managing director of NatWest Ventures Limited, which specialised in unquoted investments. He is a former council member of the British Venture Capital Association.

6. **Accounts and Auditors**

The accounting reference date of PDA2 is 28 February and annual accounts are usually despatched in June in each year with half yearly financial reports for the 6 month period to 31 August being despatched in October. The auditors of PDA2 are Baker Tilly UK Audit LLP.

7. **Annual Expenses**

It is expected that the annual operating costs of PDA2 following the transfer will be approximately £460,000 (2.6 per cent of the combined unaudited net asset value as at 28 February 2007) for the two years immediately following the merger and approximately £515,000 (2.9 per cent of the combined unaudited net asset value as at 31 August 2007) thereafter. This compares to current estimated annual costs of £233,000 (3.5 per cent of the Company's unaudited net asset value as at 31 August 2007) and £321,000 for PDA2 (3.5 per cent of its unaudited net asset value as at 31 August 2007). The costs of the Scheme are excluded from these calculations.

Currently, Rathbones and Downing are responsible for the annual operating cost of PDA2 to the extent that such costs exceed 3.5 per cent of the funds raised by PDA2. This agreement will continue.

8. **Taxation**

As a venture capital trust, PDA2 is not subject to UK taxation on capital gains on the disposals of its investments. PDA2 will, however, be subject to UK taxation on income at the usual rates.

Qualifying shareholders of PDA2 will not be liable to UK taxation on dividends paid on PDA2 Shares or capital gains on the disposals of such shares.

PART VI

UNITED KINGDOM TAXATION

The following paragraphs apply to the Company and to persons holding Shares as an investment in the Company who are the absolute beneficial owners of such Shares and are resident in the UK. They may not apply to certain classes of persons, such as dealers in securities. The following information is based on current UK law and practice and is subject to changes therein, is given by way of general summary and does not constitute legal or tax advice.

If you are in any doubt about your position, or if you may be subject to tax in a jurisdiction other than the UK, you should consult your independent financial adviser.

1. **The Company**

   The Company has obtained approval as a venture capital trust under Chapter 3 of Part 6 ITA 2007.

   The Directors consider that the Company has to date conducted its affairs and will continue to do so, to enable it to qualify as a venture capital trust for the period ending with the date on which the proposed liquidation is completed. Furthermore, the proposed method of winding up the Company is such that benefit of venture capital trust status will be available to the Liquidators, to the extent that the Liquidators effect disposals of chargeable assets for the purpose of UK taxation of capital gains to implement the Scheme.

2. **Receipt by Shareholders of PDA2 Shares**

   The exchange of existing Shares in the Company for PDA2 Shares will not constitute a disposal of the existing Shares for the purposes of UK taxation. Instead, the new holding of PDA2 Shares will be treated as having been acquired at the same time and at the same cost as the existing Shares in the Company from which they are derived. The payment of capital gains tax deferral relief obtained on subscription of the existing Shares in the Company will not, therefore, be triggered but will be transferred to the new PDA2 Shares.

   For shareholders holding (together with their associates) more than 5 per cent of the Shares in the Company, clearance has been obtained from the HM Revenue & Customs, in terms of Section 138 of TCGA 1992, that the treatment described, above for persons who (together with their associates) own less than 5 per cent of the Shares in the Company will also apply to them.

   Shareholders in PDA2, as a venture capital trust, will be afforded the usual tax reliefs available to shareholders in VCTs. Qualifying shareholders will continue to receive tax free dividends and will not be subject to UK taxation on any capital gains on the disposal of PDA2 Shares.

3. **Dissenting Shareholders**

   Dissenting Shareholders whose holdings are purchased for cash shall be treated as having disposed of their existing Shares in the Company. The Company will still be able to claim the benefit of venture capital trust status and the dissenting Shareholder will not be subject to any UK taxation in respect of any capital gains arising on disposal. However, the purchase will constitute a disposal of the existing holding in the Company and dissenting Shareholder will be liable to pay any deferred capital gains tax for which such dissenting Shareholder obtained relief on subscription.

4. **Clearances**

   Clearance has been obtained from the HM Revenue & Customs in respect of the Scheme under Section 707 ICTA 1988 and Section 138 TCGA 1992. With regard to the former, the receipt of PDA2 Shares will not, except in the case of dealers, fall to be regarded as an income receipt for the purposes of UK taxation.

Clearance has been received from the HM Revenue & Customs that the Scheme meets the requirements of the Merger Regulations and as such the receipt by Shareholders of PDA2 Shares will not prejudice tax reliefs obtained by Shareholders on existing Shares in the Company.

5. **Stamp duty and stamp duty reserve tax**

No UK stamp duty or stamp duty reserve tax will be payable by shareholders as a result of the implementation of the Scheme.

PART VII

ADDITIONAL INFORMATION

1. **Responsibility**

The Directors, whose names appear in paragraph 3.1 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. **Share capital**

2.1 As at 26 November 2007 (being the latest practicable date prior to the publication of this document), the authorised and issued Share capital of the Company was as follows:

	Authorised		*Issued and fully paid*	
	Number	*£*	*Number*	*£*
Shares of 5p each	11,000,000	550,000	8,258,814	412,941

2.2 As at 26 November 2007 (being the latest practicable date prior to the publication of this document), no share or loan capital of the Company was under option or had been agreed, conditionally or unconditionally, to be put under option.

3. **Directors and their interests**

3.1 The names and business address of the Directors, all of whom are non-executive, are as follows:

- Andrew Griffiths
- James Leek
- Nicholas Lewis
- Tony McGing

all of Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU (Tel: 020 7416 7780) (the registered office of the Company).

3.2 As at 26 November 2007 (being the latest practicable date prior to publication of this document), the interests of the Directors and their immediate families in the issued Share capital of the Company were as follows:

Director	*Number of Shares*	*Per cent. of issued Shares (%)*
Andrew Griffiths	5,000	0.06
James Leek	20,000	0.25
Nicholas Lewis	20,000	0.25
Tony McGing	5,000	0.06

3.3 There are no service agreements in existence between the Company and any of the Directors, nor are any such contracts proposed. The Directors entered into consultancy agreements with the Company on 3 March 1998, further details of which are set out at paragraph 5.4 below.

Directors' fees paid to each of the Directors in respect of the year ended 28 February 2007 was £10,000 (save for the Chairman who was paid £12,500). Aggregate emoluments are not expected to exceed £65,000 for the current year. No compensation is or will be payable by the Company in connection with the loss of office of any of the Directors in connection with the Scheme.

3.4 Save as disclosed in paragraph 3.5 below, no Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company in the financial year ended 28 February 2007 or in the current financial year or which was effected in an earlier financial year and remains in any respect outstanding or unperformed.

3.5 Nicholas Lewis and Tony McGing are directors of Downing and DCF which are parties to certain of the agreements referred to at paragraph 5 below. Each Director is also a director, or proposed director, of PDA2, which will be party to the Transfer Agreement.

4. Substantial and other Share interests

As at close of business on 26 November 2007 (being the latest practicable date prior to publication of this document), the Company was not aware of any holdings of 3 per cent or more of its issued Share capital or of any person who, directly or indirectly, jointly or severally, exercises control over the Company.

5. Material contracts

Save as disclosed in this paragraph 5, the Company has not entered, other than in the ordinary course of business, into any contract which is or may be material to the Company within the two years immediately preceding the publication of this document or into any contract entered into by the Company which contains any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document:

5.1 An agreement dated 3 March 1998 between the Company and Pennine Fund Managers Limited (the "Investment Management Agreement") whereby it provided investment management services to the Company in respect of its portfolio of all its investments for a fee of 0.9% per annum of the Net Assets of the Company, payable quarterly in advance (plus VAT), together with 48% of the Performance Incentive Fees.

Following a reorganisation within the Rathbone Brothers Group, the Investment Management Agreement was transferred to Rathbone Neilson Cobbold Limited on 30 September 1998 and to Rathbones in 2000, but remained unchanged in all other aspects.

The Investment Management Agreement was for a minimum period of five years and is now terminable on twelve months notice by either party. In addition the Investment Management Agreement may be terminated in the event of, *inter alia*, a party having a receiver, administrator or liquidator appointed or committing a material breach of the agreement and, by the Company, if Rathbones is unable to fulfil its obligations under the Investment Management Agreement to any material extent, or if Rathbones carries on or purports to carry on investment business in breach of section 3 of the FSA, or if it is necessary in order to preserve the VCT status of the Company. The Investment Management Agreement will also terminate automatically without compensation upon the passing of the resolution for the voluntary liquidation. reconstruction or reorganisation of the Company pursuant to Regulation 175 of its Articles of Association. The Company may also terminate the agreement if Rathbones commits an act of fraud, wilful misconduct, bad faith or negligence. The Investment Management Agreement contains provisions indemnifying Rathbones against any liability, not due to its default, in respect of any negligence or fraud.

The Investment Management Agreement will be automatically terminated under the termination agreement referred to at paragraph 5.8 below, conditional upon the Schemes being implemented.

5.2 An agreement dated 3 March 1998 between the Company and Downing Corporate Finance Limited ("DCF") (the "Administration Agreement") whereby DCF provides or procures the provision of certain administration services to the Company for a fee of 0.8% of the Net Assets of the Company, payable quarterly in advance (plus VAT), together with 17% of the Performance Incentive Fees (plus VAT).

Following a reorganisation within DCF, the Administration Agreement was transferred to Downing, a wholly owned subsidiary of DCF, in 2000, but remained unchanged in all other aspects.

The Company agreed to indemnify and hold harmless Downing against any loss, damages or expenses that it may suffer or incur as a result of any negligence, fraud or breach of any law or regulation on the part of the Company which is not due to its own acts(s) of negligence.

The Administration Agreement was for an initial five year period and is now terminable on twelve months notice by either party. In addition the Administration Agreement may be terminated in the event of, inter alia, a party having a receiver, administrator or liquidator appointed or committing a material breach of the Administration Agreement and, by the Company, if it fails to become or ceases to be a VCT for tax purposes, or if Downing shall cease to be lawfully able to carry out its obligations under the agreement. The Administration Agreement will also terminate automatically without compensation upon the passing of the resolution for the voluntary liquidation, reconstruction or reorganisation of the Company. The Company may also terminate the Administration Agreement if Downing commits an act of fraud, wilful misconduct, bad faith or negligence.

The Administration Agreement will be automatically terminated under the termination agreement referred to at paragraph 5.6 below, conditional upon the Schemes being implemented.

5.3 An agreement dated 3 March 1998 between the Company and Rathbone Neilson Cobbold Limited ("RNC") whereby RNC is paid a fee of 0.1% per annum (plus VAT) of the value of the Company's fixed income and listed securities (the "Fixed Income Agreement"). The Fixed Income Agreement is terminable on three months notice by either party.

Following a reorganisation within the Rathbone Brothers Group, the Fixed Income Agreement was transferred to Rathbones in 2000, but remained unchanged in all other aspects.

The Fixed Income Agreement will be automatically terminated under the termination agreement referred to at paragraph 5.7 below, conditional upon the Schemes being implemented.

5.4 Each of the Directors has entered into a consultancy agreement with the Company dated 3 March 1998, for an initial period of three years whereby he is required to devote such time to the affairs of the Company as the Board reasonably requires consistent with his role as a non-executive Director. The Chairman is entitled to an annual fee of £12,500 and the other Directors' are entitled to an annual fee of £10,000. Each Director is also entitled to be reimbursed for expenses properly incurred.

Each consultancy agreement is now terminable on three months notice by either party. There are no specific provisions for compensation in the event of early termination of the consultancy agreements. In such event, the Director will be entitled to remuneration pro-rata to the proportion of the accounting period for which he has served.

5.5 A deed of termination dated 27 November 2007 between the Company and Capita, pursuant to which the agreement dated on or about 3 March 1998 under which the Company appointed Capita as its registrars will be terminated, effective, conditional upon the Schemes being implemented.

5.6 A deed of termination dated 27 November 2007 between the Company, Downing Corporate Finance Limited and Downing, pursuant to which the Administration Agreement will be terminated, conditional upon the Schemes being implemented.

5.7 A deed of termination dated 27 November 2007 between the Company, RNC and Rathbones, pursuant to which the parties to it acknowledged that the rights and obligations under the Fixed Income Agreement were novated from RNC to Rathbones pursuant to arrangements entered into in 2000 and agreed that the Fixed Income Agreement will be terminated, conditional upon the Schemes being implemented.

5.8 A deed of termination dated 27 November 2007 between the Company and Rathbones, pursuant to which the parties to it acknowledged that the rights and obligations under the Investment Management Agreement were novated from RNC to Rathbones pursuant to arrangements entered into in 2000 and agreed that the Investment Management Agreement will be terminated, conditional upon the Schemes being implemented.

6. Overseas Shareholders

The issue of PDA2 Shares to persons resident in or citizens of jurisdictions outside the UK may be affected by the laws of the relevant jurisdiction. Such Shareholders should inform themselves about and observe any legal requirements, in particular:

(a) none of the PDA2 Shares has been or will be registered under the United States Securities Act 1933, as amended, or qualify under applicable United States state statute and the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada, Australia or Japan;

(b) PDA2 is not registered under the United States Investment Company Act of 1940, as amended, and investors are not entitled to the benefits of that Act;

(c) no offer is being made, directly or indirectly, under the Scheme, in or into or by the use of mails, or by means of instrumentality (including, without limitation, facsimile, transmission, telex or telephone) of interstate or foreign commerce, or of any facility in a national securities exchange, of the United States, Canada, or Japan.

It is the responsibility of Shareholders with registered addresses outside the UK to satisfy themselves as to the observance of the laws of the relevant jurisdiction in connection with the issue of PDA2 Shares, including the obtaining of any governmental or exchange control or other consents which may be required, the compliance with any other necessary formalities which need to be observed and the payment of any issue, transfer or other taxes or duties due in such jurisdiction.

7. General

7.1 The Company was incorporated in England and Wales as a public company with limited liability. The principal legislation under which the Company operates is the CA 1985 and the Companies Act 2006.

7.2 Statutory accounts of the Company for the three financial years ended 28 February 2007, in respect of which the Company's auditors, Baker Tilly UK Audit LLP (in respect of the accounts for the year ended 28 February 2007) or former auditors, Baker Tilly, in respect of the accounts for the years ended 28 February 2005 and 28 February 2006) have made unqualified reports under Section 235 CA 1985, have been delivered to the Registrar of Companies and such reports did not contain any statements under section 237(2) or (3) CA 1985.

7.3 There has been no significant change in the financial or trading position of the Company since 31 August 2007, the date to which the last interim half yearly financial report has been published.

7.4 The Company is not and has not been involved in any governmental legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) since incorporation which may have, or have had, in the recent past significant effects on the Company and/or its financial position or profitability.

7.5 Blomfield has given and not withdrawn its written consent to the issue of this document and the inclusion of its name and the references to it in this document in the form and context in which they appear.

7.6 Each of the Liquidators has given and not withdrawn his written consent to the issue of this document with the inclusion of his name and the references to him in the form and context in which they appear.

7.7 If the Scheme becomes effective in accordance with the timetable on page 3 it is anticipated that the listing of the Company's Shares will be cancelled on 17 January 2008.

7.8 PDA2 Shares issued to Shareholders under the Scheme will rank pari passu with the existing PDA2 Shares (including in respect of dividends), be held in registered form and will be admitted for trading on the main market of the London Stock Exchange. Fractions of PDA2 Shares not exceeding £5 in value will be rounded down and sold in the market for the benefit of PDA2.

7.9 Details of related party transactions entered into by the Company during the financial years ended 28 February 2005, 28 February 2006 and 28 February 2007 and up to the date of this document, are incorporated by reference, and are set out in paragraph 8.19 of Part XI of the PDA2 Prospectus.

7.10 The basis and assumptions on which the information extracted from the audited financial statements of the Company referred to in this document have been prepared are set out in the audited financial statements of the Company which are incorporated by reference. The audited financial statements are available from the Document Viewing Facility of the Financial Services Authority at 25 The North Colonnade, London E14 5HS, free of charge.

8. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of this document until the Effective Date at the offices of Howard Kennedy, 19 Cavendish Square, London W1A 2AW and also at the registered office of the Company:

(a) the memorandum and articles of association of the Company;

(b) the audited report and accounts of the Company for the three financial years ended 28 February 2007 and the unaudited half yearly financial report for the six months ended 31 August 2007;

(c) the material contracts referred to in paragraph 5 above;

(d) a draft (subject to non-material updating and amendment) of the Transfer Agreement;

(e) the consents referred to in paragraph 7.5 and 7.6 above;

(f) the PDA2 Prospectus and the Ethical Circular; and

(g) this document.

27 November 2007

Pennine Downing AIM VCT plc

(Registered in England and Wales with registered number 03493973)

NOTICE OF FIRST EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Pennine Downing AIM VCT plc ("the Company") will be held at 11.00 a.m. on 8 January 2008 at 19 Cavendish Square, London W1A 2AW for the purposes of considering and, if thought fit, passing the following resolution as a special resolution:

1 That, subject to:

(i) the conditions (other than the passing of this resolution) set out in paragraph 8 of the Scheme as set out in Part IV of the Circular to the Shareholders of the Company dated 27 November 2007 (a copy of which is produced to the meeting and initialled for the purpose of identification by the chairman of the meeting ("Circular")) having been fulfilled; and

(ii) the passing of the special resolutions set out in the notice convening an extraordinary general meeting of the Company to be held on 16 January 2008,

and notwithstanding anything in the Articles of Association of the Company to the contrary, the Scheme, as set out in Part IV of the Circular, be and hereby is approved and the Directors and William Duncan and Ian Schofield of PKF, 2nd Floor, Fountain Precinct, Balm Green, Sheffield S1 2JA (the "Liquidators") be and they are hereby authorised (insofar as they are not already authorised by the Articles of Association of the Company) to implement the Scheme and to execute any document and do any act or thing for the purpose of carrying the Scheme into effect and, in particular (but without prejudice to the foregoing generality):

(a) the Company (acting by the Liquidators) be and is hereby authorised and directed to enter into, and the Liquidators be and they are hereby authorised and directed, pursuant to section 110 of the Insolvency Act 1986, to give effect to, a transfer agreement in the form of the draft which is produced to the meeting and signed for the purpose of identification by the chairman of the meeting with such non-material modifications thereto as the parties to such agreement may agree ("Transfer Agreement");

(b) the Liquidators be and they hereby are authorised and directed to request Pennine Downing AIM VCT plc ("PDA2") to arrange for the creation and issue of ordinary shares of 5p each in the capital of PDA2 on the basis described in the Transfer Agreement for distribution among the holders of the ordinary shares of 5p each in the capital of the Company by way of satisfaction and discharge of their respective interests in so much of all the assets and liabilities of the Company as shall be transferred to PDA2 in accordance therewith and with the Scheme,

and for the purposes of this resolution, words and expressions defined in the Circular shall have the same meanings in this resolution, save where the context requires otherwise.

Dated 27 November 2007

By order of the Board
G Whitehouse
Secretary

Registered Office
Kings Scholars House
230 Vauxhall Bridge Road
London
SW1V 1AU

Notes:

(1) A Shareholder entitled to attend and to speak and vote at the meeting referred to above is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a shareholder in the Company.

(2) A form of proxy is enclosed. To be valid, the form of proxy should be completed and sent, together with the power of attorney or other authority, if any, (or a duly certified copy of such power or authority) under which it is signed, so as to reach Downing Management Services Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU by 11.00 a.m. on 4 January 2008.

(3) You may appoint more than one proxy, provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy please contact Downing on 020 7416 7780.

(4) In accordance with Regulation 41 of the Uncertified Securities Regulation 2001 Shareholders entered on the Company's register of members not later than 11.00 a.m. on 6 January 2008 or, if the meeting is adjourned, Shareholders entered on the Company's register not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting. Changes in the entries in the register after that time shall be disregarded in determining the rights of any shareholder to attend and vote at such meeting.

(5) Completing and returning a form of proxy will not prevent a Shareholder from attending and voting at the meeting in person.

(6) The register of Directors interests will be available for inspection at the meeting.

Pennine Downing AIM VCT plc

(Registered in England and Wales with registered number 03493973)

NOTICE OF SECOND EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Pennine Downing AIM VCT plc (the "Company") will be held at 11.00 a.m. on 16 January 2008 at 19 Cavendish Square, London W1A 2AW for the purposes of considering and, if thought fit, passing the following resolutions, which will be proposed as special resolutions:

1. THAT, subject to the passing of resolution 3 set out in this notice of extraordinary general meeting and the conditions (other than the passing of this resolution) as set out in paragraph 8 of the Scheme contained in Part IV of the Circular to Shareholders of the Company dated 27 November 2007 (a copy of which is produced to the meeting and initialled for the purpose of identification by the chairman of the meeting ("the Circular")) having been fulfilled, in each case prior to the passing of this resolution:

    (i) the Company be wound up voluntarily under the provisions of the Insolvency Act 1986 and William Duncan and Ian Schofield of PKF, 2nd Floor, Fountain Precinct, Balm Green, Sheffield S1 2JA ("the Liquidators") be and they are hereby appointed liquidators for the purposes of such winding up and any power conferred on them by law or by this resolution may be exercised, and any act required or authorised under any enactment to be done by them may be done, by them jointly or by each of them alone;

    (ii) the Liquidators be remunerated on a time costs basis as agreed with the board of directors of the Company from time to time plus VAT, disbursements and expenses.

2. That, subject to the passing of resolution 1 set out in this notice, the cancellation of the listing of the Company's shares on the Official List following the implementation of the Scheme, details of which are set out in Part IV of the Circular, be and hereby is approved.

3. THAT, subject to the passing of resolution 1 set out in this notice, the Liquidators be and hereby are authorised under Section 165 of the Insolvency Act 1986 to exercise the powers specified in Part I of Schedule 4 of the Insolvency Act 1986.

Dated 27 November 2007

By order of the Board
G Whitehouse
Secretary

Kings Scholars House
230 Vauxhall Bridge Road
London
SW1V 1AU

Notes:

(1) A Shareholder entitled to attend and to speak and vote at the meeting referred to above is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a shareholder in the Company.

(2) A form of proxy is enclosed. To be valid, the form of proxy should be completed and sent, together with the power of attorney or other authority, if any, (or a duly certified copy of such power or authority) under which it is signed, so as to reach Downing Management Services Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU by 11.15 a.m. on 14 January 2008.

(3) You may appoint more than one proxy, provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy please contact Downing on 020 7416 7780.

(4) In accordance with Regulation 41 of the Uncertified Securities Regulation 2001 Shareholders entered on the Company's register of members not later than 11.00 a.m. on 14 January 2008 or, if the meeting is adjourned, Shareholders entered on the Company's register not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting. Changes in the entries in the register after that time shall be disregarded in determining the rights of any shareholder to attend and vote at such meeting.

(5) Completing and returning a form of proxy will not prevent a Shareholder from attending and voting at the meeting in person.

(6) The register of Directors interests will be available for inspection at the meeting.

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FORM OF PROXY – FIRST EGM

Pennine Downing AIM VCT plc

For use at the First Extraordinary General Meeting of the above-named Company to be held on 8 January 2008 at 19 Cavendish Square, London W1A 2AW.

I/We* ....

(in BLOCK CAPITALS please)

of ....

being the holder(s)* of ordinary shares of 5p each in the above-named Company, hereby appoint the Chairman of the meeting (see note 1)

or ....

of ....

as my/our* proxy to attend for me/us* on my/our* behalf at the Extraordinary General Meeting of the Company to be held at 19 Cavendish Square, London W1A 2AW on 8 January 2008 or at any adjournment thereof.

I/We* desire to vote on the resolution as indicated in the appropriate column below. (Please indicate with an "X" how you wish your vote to be cast).

Details of the resolution are set out in the Notice of the Extraordinary General Meeting.

SPECIAL RESOLUTION	**FOR**	**AGAINST**	**WITHHELD**
1. Approval of the Scheme and authority to the Liquidators to implement the Scheme.	☐	☐	☐

Dated this .... day of ....

Signature(s)* .... / ....

Notes:

1. If you wish to appoint a proxy of your own choice, delete the words "the Chairman of the meeting" and insert the name and address of the person whom you wish to appoint in the space provided. A proxy need not be a member of the Company.
2. In the case of a corporation, this form must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
3. You may appoint more than one proxy, provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy please contact Downing on 020 7416 7780.
4. In the case of joint shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
5. If you do not indicate the way you desire your proxy to vote, you will be deemed to have authorised your proxy to vote or abstain from voting at his/her discretion.
6. To be valid this form of proxy must be completed and deposited (together with any power of attorney, or other authority under which it is signed) at Downing Management Services Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU by 11.00 a.m. on 4 January 2008.
7. Completion of this form will not preclude you from attending and voting at the meeting if you so wish.
8. Any alteration made to the form of proxy must be initialled.

* Delete as appropriate

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Business Reply
Licence Number
RRJU-YLYH-CTJK

1

Pennine Downing AIM VCT plc
c/o Downing Management Services Limited
Kings Scholars House
230 Vauxhall Bridge Road
London
SW1V 1AU

First Fold

Second Fold

FORM OF PROXY – SECOND EGM

Pennine Downing AIM VCT plc

For use at the Second Extraordinary General Meeting of the above-named Company to be held on 16 January 2008 at 19 Cavendish Square, London W1A 2AW.

I/We* ....

(in BLOCK CAPITALS please)

of ....

being the holder(s)* of ordinary shares of 5p each in the above-named Company, hereby appoint the Chairman of the meeting (see note 1)

or ....

of ....

as my/our* proxy to attend for me/us* on my/our* behalf at the Extraordinary General Meeting of the Company to be held at 19 Cavendish Square, London W1A 2AW on 16 January 2008 or at any adjournment thereof.

I/We* desire to vote on the resolutions as indicated in the appropriate column below. (Please indicate with an "X" how you wish your vote to be cast).

Details of the resolutions are set out in the Notice of the Extraordinary General Meeting.

SPECIAL RESOLUTION		**FOR**	**AGAINST**	**WITHHELD**
1.	To place the Company into members voluntary liquidation	☐	☐	☐
2.	Approval of the cancellation of the listing of the Company's Shares.	☐	☐	☐
3.	Authority to Liquidators to exercise powers under the Insolvency Act 1986	☐	☐	☐

Dated this .... day of ....

Signature(s)* .... / ....

Notes:

1. If you wish to appoint a proxy of your own choice, delete the words "the Chairman of the meeting" and insert the name and address of the person whom you wish to appoint in the space provided. A proxy need not be a member of the Company.
2. In the case of a corporation, this form must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
3. You may appoint more than one proxy, provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy please contact Downing on 020 7416 7780.
4. In the case of joint shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
5. If you do not indicate the way you desire your proxy to vote, you will be deemed to have authorised your proxy to vote or abstain from voting at his/her discretion.
6. To be valid this form of proxy must be completed and deposited (together with any power of attorney, or other authority under which it is signed) at Downing Management Services(Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU) by 11.00 a.m. on 14 January 2008.
7. Completion of this form will not preclude you from attending and voting at the meeting if you so wish.
8. Any alteration made to the form of proxy must be initialled.

* Delete as appropriate

Third fold and tuck in edge

Business Reply
Licence Number
RRJU-YLYH-CTJK

Pennine Downing AIM VCT plc
c/o Downing Management Services Limited
Kings Scholars House
230 Vauxhall Bridge Road
London
SW1V 1AU

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