

DOWNING INCOME VCT 3 PLC

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SECURITIES NOTE (INCLUDING APPLICATION FORM)




Downing

Managed by Downing LLP

This document, the Registration Document and the Summary, which together comprise a prospectus relating to the Company, have been prepared in accordance with the Prospectus Rules made under Section 84 of the Financial Services and Markets Act 2000 ("FSMA"), and have been approved by, and filed with, the Financial Services Authority.

Application has been made to the UK Listing Authority for all the E Shares, issued and to be issued, to be listed on the premium segment of the Official List. Application will also be made to the London Stock Exchange for all the E Shares, issued and to be issued, to be admitted to trading on its main market for listed securities. Subject to the Minimum Subscription being received by then, it is expected that Admission of the first allotment of E Shares will become effective, and that dealings in these shares will commence, by 30 April 2012 and of subsequent allotments thereafter within 20 Business Days of allotment.

The Company and its Directors, whose names appear on pages 7 and 8 of this document, accept responsibility for the information contained in the Prospectus. To the best of the knowledge and belief of the Company and its Directors (who have taken all reasonable care to ensure that such is the case) the information contained in the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Howard Kennedy Corporate Services LLP is acting as sponsor and Downing LLP is acting as promoter of the Company in connection with the Offers, and neither of them is advising any other person or treating any other person as a customer or client in relation to the Offers or (subject to the responsibilities and liabilities imposed by the FSMA or other regulatory regime established thereunder) will be responsible to any such person for providing the protections afforded to their respective customers or clients, or for providing advice in connection with the Offers.

Downing Income VCT 3 plc **(formerly Downing Distribution VCT 2 plc)**

(Incorporated in England and Wales under the Companies Act 1985 with registered number 03137729)

Offers for Subscription **for the 2011/12 and 2012/13 tax years** of up to 20,000,000 E Shares in the capital of the Company*

Sponsor

Howard Kennedy Corporate Services LLP

Promoter

Downing LLP

Share capital of the Company immediately following the Offers, assuming Full Subscription under the Offers:

	Issued and to be issued fully paid	
	No. of shares	Nominal value
Ordinary Shares of 1p each (ISIN: GB00B55T8S03)	11,376,204	£113,762.04
D Shares of 10p each (ISIN: GB00B1KR1044)	2,793,269	£279,326.90
E Shares of 1p each (ISIN: GB00B7690L01)	20,000,000	£200,000.00

The subscription list for the Offers will open on 19 December 2011 and may close at any time thereafter but, in any event, not later than 3.00 p.m. on 5 April 2012 in the case of the 2011/12 Offer and not later than 5.00 p.m. on 30 April 2012 in the case of the 2012/13 Offer, unless previously extended by the Directors (but to no later than 31 August 2012). The terms and conditions of the Offers are set out on pages 19 to 20 of this document and are followed by an Application Form for use in connection with the Offers. If the Minimum Subscription is not received by 3.00 p.m. on 5 April 2012, the Offers will be withdrawn and application monies will be returned to applicants within seven days of such date, at their own risk, without interest. The Offers are not underwritten.

The Offers and associated costs are conditional upon Shareholder approval at the General Meeting.

* Assuming Full Subscription the total raised under the Offers will be £20 million before issue costs. If the Offers are over-subscribed, they may be increased by the allotment of up to a further 10,000,000 E Shares, at the discretion of the Board, to raise no more than £30 million in total.

Your attention is drawn to the Risk Factors set out on page 1 of this document. An investment in the Company is only suitable for Investors who are capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss which might arise.

This document should be read in conjunction with the Summary and Registration Document, which may be obtained from the promoter of the Offers:

Downing LLP
10 Lower Grosvenor Place
London SW1W 0EN

telephone: 020 7416 7780
download: www.downing.co.uk
email: vct@downing.co.uk

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Offer statistics

Offer Price per E Share	100.0p
Initial estimated Net Assets per E Share at the close of the Offers	94.5p
Maximum number of E Shares in issue, following the Offers, at Full Subscription	20,000,000
Estimated net proceeds of the Offers, at Full Subscription	£18,900,000

If the Minimum Subscription is not received by 3.00 p.m. on 5 April 2012, the Offers will be withdrawn. In the event that the Minimum Subscription is not received, subscription monies will be returned to Investors within seven days of 5 April 2012, at their own risk, without interest.

Special terms

Accepted valid applications received by 29 February 2012 will attract Additional Shares equivalent to 1.5% of the amount subscribed under the Offers.

The cost of these Additional Shares will be borne by Downing LLP.

Risk Factors

Your capital is at risk if you invest in the Company and you may lose some or all of your investment.

The Company's business, financial condition or results could be materially and adversely affected by any of the risks described below. In such cases, the market price of the E Shares may decline because of any of these risks and Investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Company. The Directors consider the following to be all the material risks for potential Investors in the Company, which are not set out in any particular order of priority:

- Although it is intended that the Company will be managed so as to continue qualifying as a VCT, there is no guarantee that such status will be maintained. Failure to do so could result in adverse tax consequences for Investors, including being required to repay the 30% income tax relief.
- The levels and bases of reliefs from taxation may change and could apply retrospectively. The tax reliefs referred to in this Prospectus are those currently available and their value depends on the individual circumstances of Investors. The Company's objectives have been set on the basis that all Investors obtain 30% income tax relief on their subscriptions. Therefore, this investment may not be suitable for Investors who do not qualify for the full 30% income tax relief.
- If any of the Company's investments do not perform to plan, then there could be a shortfall or delay in receipt of the Shareholder Proceeds and hence a reduction in the return to E Shareholders. In addition, if there is a change in VCT legislation, or the interpretation of existing VCT legislation, such that the payment of Shareholder Proceeds has an adverse effect on either the Company's VCT status or on E Shareholders, then such payments may not be made.
- Although the E Shares will be Listed, it is highly unlikely that a liquid market in the E Shares will develop as the initial income tax relief is only available to those subscribing for new shares and there may never be two competitive market makers. It may, therefore, prove difficult for E Shareholders to sell their E Shares. In addition, there is no guarantee that the market price of the E Shares will fully reflect their underlying Net Asset Value or the ability to buy and sell at that price. It should be noted that shares held in VCTs usually trade at a discount to the VCT's net asset value.
- There is no guarantee that the Company's objectives will be met or that suitable investment opportunities will be identified. In addition, the current uncertain economic environment may adversely affect the performance of investee companies and the Company.
- The Company's ability to obtain maximum value from its investments (for example, through their sale) may be limited by the requirements of the relevant VCT legislation in order to maintain the VCT status of the Company (such as the obligation to have at least 70% by value of the Company's investments in Qualifying Investments).
- The past performance of investments made by the Manager, the Downing VCTs or the Company should not be regarded as an indication of the performance of investments to be made by the Company.
- Changes in legislation in respect of VCTs in general, and Qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Company to meet its objectives and/or reduce the level of returns which would otherwise have been achievable.
- The value of E Shares is dependant on the performance of the E Share pool's underlying investments. The value of the investments and the dividend stream can rise and fall. In particular, the Board's objective of paying an annual dividend of at least 5p per E Share may not be achieved and any E Share dividend payments will reduce the Net Assets attributable to the E Shares, which may fall to below the Offer Price.
- E Shareholders should be aware that the sale of E Shares within five years of their subscription will require the repayment of some or all of the 30% income tax relief obtained upon investment. Accordingly, an investment in the Company is not suitable as a short or medium term investment.
- If there are insufficient funds in one of the Company's share class pools to meet the obligations of that share class, such obligations may fall to be discharged out of the assets of the other share classes.
- Many of the Company's investments are likely to be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise.
- Investments in unquoted, AIM-traded and PLUS market-traded companies, by their nature, involve a higher degree of risk than investments in companies listed on the Official List.
- In the event that the funds raised under the Offers are less than the Full Subscription, then the spread of investments may be less diverse than would otherwise be the case, which could increase risk for Investors.
- In order to comply with VCT legislation, the Qualifying Companies, in which the Company will invest at least 70% of its capital within three years, will generally be small companies with limited trading records that have a higher risk profile than larger companies and they may not produce the hoped for returns. Investors could get back less than they invested.

Forward-Looking Statements

You should not place undue reliance on forward-looking statements. This Securities Note includes statements that are (or may be deemed to be) "forward-looking statements", which can be identified by the use of forward-looking terminology including the terms "believes", "continues", "expects", "intends", "may", "will", "would", "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements contained in this Securities Note, based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future.

The information contained in this document will be updated as required by the Prospectus Rules, Listing Rules and the DTR, as appropriate.

Chairman's Letter

10 Lower Grosvenor Place
London SW1W 0EN

19 December 2011

Dear Investor

The Company is aiming to raise £20 million to invest in small UK businesses to help finance their expansion. The Company will seek to provide long-term tax-free income and a fair price on exit for its Investors. The key features of the Offers can be summarised as follows:

- 1. Investment strategy** – The Company is seeking to take advantage of the growth potential of attractive businesses currently available because of the lack of alternative sources of finance. It is intended that the majority of the investments will be made in investee companies that own substantial assets and the Company will seek to take a charge over these assets in order to reduce risk. It should be noted that, despite this strategy, an investment in any VCT should be considered as higher risk.
- 2. Tax-free target income of 7.1% p.a.** – The Board has a stated objective of paying annual tax-free dividends of 5p per E Share and set out below is a table illustrating the yields at this level of dividend. It should be noted that dividend levels are not guaranteed. The first half yearly dividend is expected to be paid by September 2012.

Illustrative yield per E Share (after 30% income tax relief)				
Net of tax offer price ¹	Target annual dividends	Tax-free yield	Gross equivalent yield	
			40% taxpayer ²	50% taxpayer ²
70.0p	5.0p	7.1% p.a.	9.5% p.a.	11.2% p.a.

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

² The gross equivalent yield is the yield on a non-VCT UK dividend that would result in a net yield of 7.1% (being a 5p dividend divided by 70p, the issue price of £1 per E Share less 30% to reflect initial income tax relief), assuming a 40% taxpayer and 50% taxpayer respectively.

- 3. Tax relief** – 30% income tax relief will be available on E Shares, provided they are held for at least five years, and dividends and gains from VCTs are tax-free. It should be noted that the tax reliefs are subject to change and withdrawal (in the event of a breach of the VCT rules) and the value to Investors will depend on their personal circumstances.
- 4. Sale of investment** – The Company has a policy of buying E Shares at nil discount to Net Asset Value for the first five years and from year eight onwards. Share buybacks in years six and seven will be undertaken at a 15% and 7.5% discount to NAV respectively. This policy is subject to the availability of sufficient financial resources within the E Share pool and regulations.

In order to invest please read the Prospectus and then complete the Application Form set out at the end of this document. If Investors have any questions regarding this investment they should contact their financial adviser. For questions relating to an application, please telephone Downing on 020 7416 7780. Investors should note that no investment advice can be given by Downing and their attention is drawn to the Risk Factors set out on page 1 of this document.

Yours sincerely



Andrew Griffiths
Chairman

Part I – The Offers

Introduction

VCTs were introduced to encourage individuals, by offering them substantial tax benefits, to invest in a portfolio of investments comprising at least 70% in unquoted UK trading companies. VCTs are investment companies whose shares are listed on the Official List and traded on the London Stock Exchange. To date, approximately £4.3 billion has been raised by over 100 VCTs (source: www.hmrc.gov.uk).

VCTs were created so that their investors could benefit from a spread of Qualifying Investments under the supervision of professional managers who can, in many cases, contribute valuable experience, contacts and advice to the businesses in which they invest. VCTs have to be approved by HM Revenue & Customs as required by the venture capital trust legislation. VCTs are entitled to exemption from corporation tax on any gains arising on the disposal of their investments and such gains may be distributed tax-free to investors.

Generally Downing's VCTs seek to reduce risks compared to typical private equity VCTs, by focusing on investing in businesses that either trade from freehold premises or have predictable revenue streams and usually have little, if any, bank loans. Downing's VCTs fall into two broad categories:

- (i) **Planned Exit VCTs** – which seek to sell their investments as soon as possible after the minimum VCT holding period (currently five years) and return funds to shareholders. A significant proportion of the returns to investors from planned exit VCTs will inevitably come from the initial income tax relief because growth from the investments may be restricted as a result of the short holding period.
- (ii) **Generalist VCTs** – which do not have a fixed wind-up date and seek to provide long-term tax-free income. Downing's Generalist VCTs seek to generate more growth from their investments compared to its planned exit VCTs by having greater flexibility to hold investments until the most opportune time to exit. In the Manager's opinion the best time to exit investments is often likely to be at the same point that the entrepreneur exits; the timing of which will depend upon a number of factors, such as the performance of the business, the general economy and the availability of finance.

The Company is a Generalist VCT, seeking to raise up to £20 million under the Offers in order to take advantage of the growth potential of attractive businesses currently available because of the lack of alternative sources of finance.

Background on the Company

The Company initially raised approximately £4.4 million (after issue costs) in 1996 and was managed by Rathbone Investment Management Limited. In June 2005, the Company acquired another VCT, Pennine AIM VCT II plc. In 2007, the Company raised a further £2.7 million (net of issue costs) under a D Share issue and in 2010 undertook a small fundraising which produced net proceeds of £196,000. In May 2010, the Company completed a merger with Pennine Downing AIM 2 VCT plc, changed its name from Pennine AIM VCT plc to Downing Distribution VCT 2 plc and underwent a share consolidation.

At the time of the Company's launch, it was an AIM-focused VCT, in that it sought to invest in VCT qualifying investments mostly comprising new ordinary shares issued by companies already quoted on AIM or being admitted to AIM. Changes were made to the VCT regulations in the Finance Act 2007, which subsequently made it more difficult for AIM-focused VCTs to be able to invest their funds in VCT qualifying investments. Consequently, AIM-focused VCTs became less attractive to VCT investors.

In May 2010, the Company adopted a broader investment policy permitting it to invest a significant proportion of its funds in unquoted investments and changed its investment manager from Rathbone Investment Management Limited to Downing. On 9 December 2011, the Company changed its name to Downing Income VCT 3 plc in order to better align itself with other Downing managed Generalist VCTs with similar investment strategies. It currently has unaudited net assets of £12.1 million (as at 30 November 2011). The Company is seeking to raise up to £20 million in a separate share class (E Shares) from the existing funds and the net proceeds will be invested in accordance with the Company's published investment policy.

Reasons for the Offers

The Offers have been designed for Investors seeking to invest in a portfolio of asset-backed unquoted investments, together with a smaller number (by value) of higher growth investments. This strategy is aimed at producing long-term tax-free income, while taking advantage of the VCT tax reliefs. The additional funds raised should provide increased flexibility for the Company in managing its investments and complying with VCT regulations and will also allow the running costs for all Shareholders to be spread over a larger asset base, thereby reducing the running costs per Share.

The E Shares

The existing investments and cash attributable to the Existing Shares will be kept separate from the proceeds of the issue of the E Shares, which will be administered as a separate investment pool. The holders of E Shares will have the right to participate (by way of dividends and return of capital) in those assets attributable to the E Shares but not in those assets attributable to the Existing Shares. Conversely, the holders of Existing Shares will have the right to participate (by way of dividends and return of capital) in the assets attributable to the Existing Shares but not in those assets attributable to the E Shares.

Objectives

The Company's principal objectives for Investors are to:

- i) invest in a diversified portfolio of Venture Capital Investments with a focus on asset-backed businesses;
- ii) maintain VCT status so that the Company and its Shareholders may benefit from the tax reliefs and exemptions available under the VCT legislation; and
- iii) target an annual dividend of at least 5p per E Share.

The Company will not vary these investment objectives, to any material extent, without the approval of E Shareholders.

Taxation Benefits to Investors (see Part II for further details)

The principal UK tax reliefs, which are available on a maximum investment of £200,000 per individual in each of the 2011/12 and 2012/13 tax years, are set out below:

- **Income tax relief at 30%** of the amount subscribed provided the VCT shares are held for at least five years. Relief is restricted to the amount which reduces the investor's income tax liability to nil.
- **Tax-free dividends and capital distributions** from a VCT.
- **Capital gains tax exemption** on any gains arising on the disposal of VCT shares.

The table below shows the effect of the initial 30% income tax relief:

Effect of initial 30% income tax relief	
Cost of investment	Per E Share
Gross subscription by Investor	100.0p
30% income tax relief	(30.0p)
Net of tax cost of investment	70.0p
Initial value of investment	
Gross subscription by Investor	100.0p
Issue costs	(5.5p)
Initial Net Asset Value	94.5p
Initial "uplift" (pence)	+24.5p
Initial "uplift" (%)	+35.0%
The above table shows that, assuming income tax relief is received at 30%, the Investor's net of tax cost of investment is 70p per E Share and the initial NAV is 94.5p, an "uplift" of 24.5p per E Share or +35%. Investors should note that they are required to hold the E Shares for at least five years in order to retain the income tax relief and, as such, this initial uplift cannot be immediately realised.	

Only a very brief summary of the UK tax position of investors in VCTs, based on the Company's understanding of current law and practice, is provided above. Further details are set out in Part II of this document. Potential Investors are recommended to consult their own appropriate professional advisers as to the taxation consequences of their investing in a VCT. In addition, the availability of tax reliefs depends on the Company maintaining its VCT qualifying status.

Investment Allocation – E Shares

The proportion of E Share assets held in Non-Qualifying Investments will progressively decline from 100% as Qualifying Investments are made. By 31 March 2015, it is anticipated that up to 80% of the E Share assets will be held in Qualifying Investments with the balance in Non-Qualifying Investments.

Target Asset Allocation		
	Initially	By 31 March 2015
Qualifying Investments		
Lower growth	-	60%
Higher growth	-	20%
	-	80%
Non-Qualifying Investments	100%	20%
	100%	100%

Qualifying Investments

Lower growth investments will be made in unquoted businesses, with a focus on companies that own substantial assets. These investments are likely to be structured such that they comprise significant levels of loan stock and/or preference shares in order to generate income for the Company. In order to reduce risk, the Company will restrict these businesses' ability to borrow from other parties.

The Company will target capital gains rather than high levels of income from its higher growth investments. These investments will be higher risk than the lower growth investments.

Some investments may exhibit features of both of the above categories.

Non-Qualifying Investments

The funds raised under the Offers will initially be held on deposit. The Company will, thereafter, seek to minimise its cash deposits by utilising its funds to make short-term loans to businesses, typically secured by a first charge on assets held by the borrower ("Secured Loans"). The borrowers may include the Company's Qualifying Companies or investee companies of other funds managed by Downing.

The Company may also make strategic Non-Qualifying Investments to support or enhance Qualifying Investments. An example could be providing a non-qualifying loan to an investee company in which the Company has made a Qualifying Investment. In this example, if the non-qualifying loan had not been made then the investee company may have borrowed from a bank and provided a charge, which might have weakened the Company's security.

Income

The Board has a stated objective of paying annual dividends of at least 5p per E Share comprising a minimum of 2.5p per E Share paid twice a year, subject to the availability of sufficient distributable profits and capital resources. Set out below is a table illustrating the yield to E Shareholders assuming annual dividends of 5p per E Share are paid. **Investors should note that the level of dividends is an objective and is not guaranteed.**

Illustrative yield per E Share (after 30% income tax relief)				
Net of tax offer price ¹	Target annual dividends	Tax-free yield	Gross equivalent yield	
			40% taxpayer ²	50% taxpayer ²
70.0p	5.0p	7.1% p.a.	9.5% p.a.	11.2% p.a.

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

² The gross equivalent yield is the yield on a non-VCT UK dividend that would result in a net yield of 7.1% (being a 5p dividend divided by 70p, the issue price of £1 per E Share less 30% to reflect initial income tax relief), assuming a 40% taxpayer and 50% taxpayer respectively.

Dividends are expected to be paid bi-annually around the end of January and September each year; the first dividend in respect of the E Shares is expected to be paid by September 2012.

Track Record

The table below sets out the track record of Downing Absolute Income VCT 1, which is a mature VCT with a similar strategy to that of the E Shares.

Track record of the Downing Absolute Income VCT 1				
	Tax year of launch	Net cost ¹	Total Return to date ²	Increase over net cost (%)
Downing Absolute Income VCT 1 (ordinary shares)	1996/97	80.0p	145.4p	+82%

¹ Net cost is the initial offer price of 100p per share less income tax relief of 20%, which was available to investors at that time.
² Total Return is cumulative dividends paid (including the tax credits where reclaimable) plus the most recently announced net asset value of Downing Absolute Income VCT 1 (as at 30 September 2011) in pence per share.
(Source: announcements made by Downing Absolute Income VCT 1 through a regulatory information service)

Downing also manages two other Generalist VCT share classes: Downing Absolute Income VCT 1 (C shares) and Downing Absolute Income VCT 2. They have only recently launched (both within the last two years) and consequently, it is too early to judge their performance.

In addition, Downing manages Downing Distribution VCT 1 plc, Downing Structured Opportunities VCT 1 plc and the other share classes of the Company. All these VCTs have different investment strategies to that of the E Shares.

It should be noted that past performance is not a reliable indicator of future performance.

VCTs to Assist in Retirement Planning

The Board believes that an investment in the Company could be used in conjunction with pensions for retirement planning for certain Investors for the following reasons:

- i) Income received from the Company will be tax-free.
- ii) The annual pension allowance has been restricted to £50,000 for all individuals. Full tax relief at an individual's marginal rate is allowable on the contribution paid up to this annual allowance.

The table below provides a comparison of the tax reliefs of VCTs and pensions for illustrative purposes only.

Comparison of VCTs and Pensions		
	VCT	Pension
Effective tax relief	30%	20%-50%
Income	Tax-free	25% of fund can be taken as a tax-free cash sum when benefits are taken (no requirement to retire). Balance of fund used to provide pension income, which is subject to tax as earned income
Capital gains	Tax-free	Tax-free within pension fund
Minimum holding period	Shares can be sold at any time; however, a 5 year holding period is required to retain the income tax relief obtained on subscription	Individuals cannot receive benefits (e.g. tax-free cash or taxed income) until at least age 55, as set out on the basis above
Access to capital	Yes	Not until benefits are taken
Maximum annual investment	£200,000	Up to £50,000 per tax year with the ability to carry forward any unused relief from the previous three years
Maximum total investment	No limit	£1,800,000 (reduces to £1,500,000 in April 2012)

The above figures assume that the shareholder and the VCT qualify for all applicable tax reliefs.

It should be noted that VCTs are higher risk investments and should not be considered as a replacement for pensions. Investors should take independent financial advice before making any investment decision.

Share Buyback Policy

The Company will make market purchases of its own E Shares, up to a maximum annual number equivalent to 14.9% of the total number of issued E Shares from time to time. The Board intends to operate a policy of purchasing E Shares that become available in the market at a price equivalent to the Company's most recently published Net Asset Value of the E Shares, less the discounts detailed below (subject to the availability of sufficient financial resources within the E Share pool and regulations). The proceeds received by E Shareholders on the sale of their E Shares to the Company will be reduced by costs such as the market-maker's margin and stockbroker's commission.

Share buyback policy	Discount to NAV
From launch to 31 December 2016	Nil
1 January 2017 to 31 December 2017	15.0%
1 January 2018 to 31 December 2018	7.5%
1 January 2019 onwards	Nil

The Board anticipates that there will be limited share buybacks of E Shares within five years because the only sellers are likely to be deceased E Shareholders' estates and those E Shareholders whose circumstances have changed (to such an extent they are willing to repay the 30% income tax relief in order to gain access to the funds). However, there will be no clawback of the 30% income tax relief following the death of an E Shareholder.

The Company's share buyback policy is subject to the Listing Rules, which include:

- the Company is usually prohibited from purchasing its own Shares during close periods, which are a minimum of two months prior to the announcement of its half-yearly and annual results;
- the minimum price the Company may pay for each Share will be its nominal value; and
- the maximum price the Company may pay for each Share is an amount not more than 5% above the average of the middle market values of the Shares taken from the Official List for the five business days immediately preceding the day on which the Shares are contracted to be purchased.

As a consequence of the Listing Rules, the Company may be restricted from buying back shares at a nil discount to Net Asset Value.

Manager

The Company is managed by Downing LLP. On 1 June 2011, Downing Corporate Finance Limited transferred all of its business and employees to Downing LLP, which is authorised and regulated by the Financial Services Authority. Downing Corporate Finance Limited owns 100% of the capital of Downing LLP. Downing Corporate Finance Limited was incorporated in 1986 and since 1991, it has specialised in structuring, promoting, managing and administering tax efficient products. Downing LLP is responsible for the management of approximately £200 million of VCT funds and its investment team comprises 14 executives. The total invested by the partners and employees of Downing in Downing VCTs is over £2 million.

Co-investment Policy

The Company has a co-investment agreement with the Downing VCTs, Downing's IHT and EIS funds (together "the Funds"). It has been agreed that allocations will be offered to each party in proportion to their respective funds available for investment, subject to: (i) a priority being given to any of the Funds in order to maintain their tax status; (ii) the time horizon of the investment opportunity being compatible with the exit strategy of each Fund; and (iii) the risk/reward profile of the investment opportunity being compatible with the target return for each Fund. In the event of any conflicts between the parties, the issues will be resolved at the discretion of the independent directors, designated members and committees.

Directors

The Board comprises four Directors, all of whom are non-executive.

Andrew Griffiths (Chairman) is the managing director and founder of Green Star Media Limited, an online publishing company. He was formerly the managing editor and publisher of The AIM & OFEX Newsletter, which he founded in 1995. The newsletter won the Best Research award at the AIM Awards in 1997 and 2002. Previously, he was a business correspondent of the Daily Telegraph. He was formerly the chairman of Pennine Downing AIM VCT plc and of Pennine Downing AIM VCT 2 plc.

Michael Cunningham was an investment director of Rathbones. He has worked in the investment management business for over 25 years and within Rathbones had responsibility for VCTs, Rathbones' EIS portfolios and the IHT service, which raised over £100 million in total. He is chairman of Hazel Renewable Energy VCT 1 plc and is also a non-executive director of Downing Distribution VCT 1 plc and Hampden Underwriting Limited. He is a consultant to Downing.

Andrew Davison is chairman of ProVen VCT plc and City of London Investment Group plc. He was formerly chairman and chief executive of Business Mortgages Trust plc and chairman of ProVen Growth and Income VCT plc and The Ethical AIM VCT plc. 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 BVCA.

Hugh Gillespie is the non-executive chairman of a number of the Downing Planned Exit VCTs and a non-executive director of Burgess Group plc. He was formerly a director of Hill Samuel Bank Limited and non-executive director or chairman of a number of public companies.

Costs

The costs relating to the Offers and the E Shares are set out below.

Launch costs

Downing has agreed to discharge all the costs of the Offers in return for an initial commission of 5.5% of the monies raised (i.e. 5.5p per E Share), together with an annual commission of 0.5% per annum of the Net Assets attributable to the E Shares for the first six years following the close of the Offers (capped at 4.5% of the gross proceeds of the Offers). Out of its capital raising fees, Downing will be responsible for paying all the costs of the Offers including initial and trail commission (as described under the paragraph headed "Commission" on page 10) to authorised financial intermediaries.

Annual fees

Downing will receive an annual investment management fee of 1.8% of the Net Assets attributable to the E Shares. Downing will also continue to receive an annual fee of £70,000 (plus VAT) for administration services, which will be shared across all share pools on a pro rata basis. This figure will be adjusted annually for RPI.

Until 12 November 2012, the Annual Running Costs will be capped at 3.0% (including irrecoverable VAT) of the Company's Net Assets and any excess will be paid by Downing, or refunded by way of a reduction in its fees. After 12 November 2012 the Annual Running Costs will be capped at 3.5% (including irrecoverable VAT) of the Company's Net Assets. Annual Running Costs include, *inter alia*, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders, annual commission and the annual fees payable to Downing, but not the Performance Incentive. General running costs not specific to either the Existing Share pool or E Share pool will be allocated based on the weighted average pro-rata net assets of each pool, subject to the discretion of the Board.

Other costs

Downing will receive fees from investee companies (not payable by the Company). These fees will comprise arrangement fees (capped at 1% of the sums invested by the Company, with any excess paid to the Company) and monitoring fees (capped at £10,000 (exclusive of VAT) per annum in respect of each of the Company's investments). Costs incurred on abortive investment proposals will be the responsibility of Downing and not the Company.

Performance Incentive

The Manager will receive a performance related incentive fee, subject to the E Shares achieving certain defined targets. The Performance Incentive in respect of the E Shares will first be calculated in approximately five years from the close of the Offers (on 31 March 2017). There are two hurdles (together "the Hurdles") to be met for any payment to be made under the Performance Incentive: (i) on average, annual dividends or other Shareholder Proceeds of at least 5p per E Share are required to be paid each year from the close of the Offers; and (ii) the Total Return to Investors (after the payment of the Performance Incentive) as at 31 March 2017 needs to be at least 115p per E Share, or at least 118p per E Share at 31 March 2018, or at least 121p per E Share at 31 March 2019 and so on (the Total Return hurdle will increase by 3p every subsequent year). It should be noted that this is a cumulative rather than annual hurdle and could potentially result in a payment to the Manager in a year when performance declines or no payment in a year when the Total Return increases by more than 3p per E Share.

If the Hurdles are achieved in any accounting period on or after 31 March 2017, the Performance Incentive will be 25% of dividends or other Shareholder Proceeds in excess of 3p per E Share subject to a cap of an amount equal to 1p per E Share per accounting period calculated on a cumulative basis ("Total Return Hurdle") i.e. the cap is applied to the relevant accounting period and previous accounting periods where the Performance Incentive has not been paid, such that there is the ability to "catch up" any previous unpaid Performance Incentive. Therefore, the maximum cumulative Performance Incentive is of an amount equal to 5p per E Share after five years, of an amount equal to 6p per E Share after six years and so on.

The table on the next page illustrates the allocation of the Total Return between Investors and the Manager at five different potential levels of Total Returns, assuming annual dividends of 5p per E Share have been paid. **No forecast or projection is implied or should be inferred.** It should be noted that the Performance Incentive payable in year five represents the cumulative payment in respect of the first five years.

Illustration of Performance Incentive						
Scenario	End of Year 5			End of Year 6		
	Total Return (before Performance Incentive)	Performance Incentive payable	Total Return to Investors	Total Return (after any Performance Incentive previously paid)	Performance Incentive payable	Total Return to Investors
1	110.0p	Nil	110.0p	118.0p	Nil	118.0p
2	115.0p	Nil	115.0p	120.0p	2.0p ¹	118.0p
3	117.0p	2.0p ¹	115.0p	123.0p	1.0p ²	122.0p
4	125.0p	2.5p	122.5p	116.0p	Nil	116.0p
5	130.0p	2.5p	127.5p	140.0p	0.5p	139.5p

¹ The Performance Incentive has been restricted to comply with the minimum Total Return Hurdle of 115p per E Share after five years and 118p per E Share after six years.

² Comprises 0.5p in respect of year 6 plus a "catch up" of 0.5p relating to unpaid Performance Incentive for the previous years.

If the Hurdles are met in full and annual dividends of 5p per E Share have been declared, the Manager will be entitled to the equivalent of 0.5p per E Share per year (25% of dividends over 3p), which totals 2.5p per E Share after five years (31 March 2017) and 3.0p per E Share after six years (31 March 2018).

Other Information

Taxation and HM Revenue & Customs approval

The Directors intend to conduct the affairs of the Company so that they continue to satisfy the conditions for approval as a VCT and that such approval will be maintained. HM Revenue & Customs has granted the Company provisional approval under the ITA. The Company intends to continue complying with the ITA and has retained PricewaterhouseCoopers LLP to advise it on VCT taxation matters.

The Offers and minimum and maximum subscription

Each E Share is being offered at an Offer Price of 100p. For each 100p subscribed by Investors and accepted by the Company, Applicants will be allocated one E Share.

Assuming Full Subscription a maximum of £20 million (£18.9 million net of issue costs of £1.1 million) will be raised under the Offers, comprising 20 million E Shares. If the Offers are over-subscribed, they may be increased at the discretion of the Board to no more than £30 million (£28.35 million net of issue costs of £1.65 million). This facility may be utilised whilst the Offers remain open. If applications are received in excess of the maximum subscription under the Offers, the Directors and the Sponsor reserve the right to use their absolute discretion in the allocation of successful applications, giving priority to the earliest Applicants. Applicants are encouraged to submit their Application Forms early in order to be confident that their applications will be successful and to benefit from Additional Shares as set out on the inside front cover of this document.

The minimum investment per Applicant is £5,000 (or such lower amount at the Board's discretion). The maximum investment, on which tax reliefs in VCTs are available, is £200,000 per Applicant in each of the 2011/12 and 2012/13 tax years. A husband and wife can each invest up to £200,000 in each of the 2011/12 and 2012/13 tax years. The subscription list for the Offers will open at 9.00 a.m. on 19 December 2011 and may close at any time thereafter, but in any event, not later than 3.00 p.m. on 5 April 2012 in the case of the 2011/12 Offer, and not later than 5.00 p.m. on 30 April 2012, unless previously extended by the Directors, in the case of the 2012/13 Offer (but to no later than 30 November 2012). If the Minimum Subscription is not received by 3.00 p.m. on 5 April 2012, the Offers will be withdrawn and application monies will be returned to applicants within seven days of such date, at their own risk, without interest. The Offers are not underwritten.

E Shares will be allotted and issued in respect of valid applications on 5 April 2012, on 30 April 2012 and on any other dates on which the Directors decide.

Application has been made to the UK Listing Authority on behalf of the Company for the Admission of all the E Shares. The E Shares will be issued in registered form and be transferable in both certificated and uncertificated form and will rank for all dividends and other distributions declared, paid or made by the Company in respect of the E Shares thereafter. It is anticipated that dealings in the first allotment of E Shares will commence by 30 April 2012 and subsequent allotments thereafter within 20 Business Days of allotment. Dealings may not begin before notification of allotments is made. Revocation of the Offers cannot occur after dealings in the E Shares have commenced. The Company has applied for its E Shares to be admitted to CREST and it is expected that the E Shares will be so admitted and, accordingly, enabled for settlement in CREST as soon as practicable after Admission has occurred.

Accordingly, settlement of transactions in the E Shares following Admission may take place within the CREST system if E Shareholders wish. CREST is a voluntary system and E Shareholders who wish to receive and retain share certificates will be able to do so. Share certificates (where applicable) and certificates to enable a claim for income tax relief to be made in respect of E Shares will be posted to E Shareholders within 30 days of each allotment. No notification will be made to successful applicants prior to despatch of definitive share certificates. Prior to despatch of definitive share certificates (where applicable), transfers (if any) will be certified against the register. No temporary documents of title will be issued. CREST accounts will first be credited on the same day on which dealings in the E Shares first commence. The Offers are not underwritten. The initial costs of the Offers are fixed at 5.5% of the gross proceeds; consequently the net proceeds of the Offers will be 94.5% of the amount subscribed per E Share. The result of the Offers will be announced through a regulatory information service provider authorised by the Financial Services Authority.

Commission

Authorised financial intermediaries will usually be entitled to receive an initial commission of 2.25% of the amount invested by their clients. Additionally, provided that the intermediary continues to act for the client and the client continues to be the beneficial owner of the E Shares, intermediaries will usually be paid an annual trail commission of 0.25% of the Net Asset Value of their clients' holdings for the first six years following investment (the cumulative trail commission is subject to a cap of 4.5% of the gross proceeds of the Offers). Trail commission will be paid annually in July (commencing July 2013) based on the audited Net Asset Value at the preceding 31 March. Both the initial and annual trail commission will be payable by Downing out of its fees.

Availability of the Prospectus

Copies of the Prospectus relating to the Offers and any related supplementary prospectus published by the Company are available for download at the National Storage Mechanism (www.hemscott.com/nsm.do) and may be obtained, free of charge, from the Company's registered office, where they are also on display, and from Downing LLP.

Downing LLP 10 Lower Grosvenor Place London SW1W 0EN	telephone: 020 7416 7780 download: www.downing.co.uk email: vct@downing.co.uk
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Financial calendar	
Financial year end	31 March
Final results announcement	July
Annual general meeting	September
First dividend in respect of the E Shares	September 2012
Dividends paid at the end of	January and September
Half yearly results announcement	November

Investment Portfolio – D Shares

	Cost £'000	Valuation ¹ £'000's	% of portfolio
Venture Capital Investments			
Animalcare Group plc *	83	245	11.9%
Ludorum plc *	184	210	10.2%
Cadbury House Holdings Limited	160	166	8.0%
Leytonstone Pub Limited	128	129	6.2%
Tristel plc *	113	104	5.1%
Hoole Hall Country Club Holdings Limited	96	96	4.7%
The 3D Pub Co Limited	83	83	4.1%
Tramps Nightclub Limited	80	83	4.1%
Future Biogas (SF) Limited	81	81	3.9%
EPI Services Limited	108	80	3.9%
Aminghurst Limited	75	75	3.7%
Plastics Capital plc *	100	66	3.2%
Sinclair IS Pharma plc *	60	38	1.9%
Hoole Hall Spa and Leisure Limited	38	38	1.8%
Ludlow Taverns Springhill Limited	25	25	1.2%
Camandale Limited	75	19	0.9%
The Thames Club Limited	100	-	0.0%
Other investments			
Barclays Bank FTSE 155% 16/03/2012	531	517	25.2%
	<u>2,120</u>	<u>2,055</u>	<u>100.0%</u>

All venture capital investment are unquoted unless otherwise stated.

* Quoted on AIM

The latest published NAV per D Share was 78.6p as at 30 November 2011.

¹ Valuation as at 30 November 2011 – extracted from the unaudited management accounts of the Company for the period ended 30 November 2011.

Investors should note that the net proceeds of the Offers will be invested in accordance with the Company's investment policy, as set out below. As general economic circumstances and prospects may vary over time there can be no guarantee that future investments will be made in the same types of securities as the present portfolios.

The Company's nine largest holdings

The nine largest investments as at 16 December 2011 (being the latest practicable date prior to publication of this document) represented in total 52% of the unaudited net assets of the Company. Details of the nine largest investments are given below:

Company	Sector	Location	Date of first investment	Cost			Valuation at 30 Nov 2011 £'000
				Total £'000	Equity £'000	Loan stock £'000	
Ludorum plc	Media	London	Nov 2007	1,311	836	475	1,113
Cadbury House Holdings Ltd	Travel & leisure	Bristol	Nov 2009	1,134	450	684	1,095
Leytonstone Pub Ltd	Travel & leisure	London	Oct 2010	582	156	466	582
Elektron Technology plc	Electronic & electrical equipment	Cambridge	May 2010	549	549	-	521
Barclays Bank 155% stock	Equity investment instruments	n/a	Apr 2007	531	-	531	517
Domestic Solar Ltd	Alternative energy	London	Mar 2011	500	150	350	500
Accumuli Group plc	Software & computer services	Basingstoke	Nov 2010	400	400	-	492
Hoole Hall Country Club Holdings Ltd	Travel & leisure	Chester	Dec 2008	480	168	312	480
Tracsis plc	Software & computer services	Leeds	Jun 2011	350	350	-	350

Part II – Taxation

VCTs: Summary of the applicable legislation in respect of investors

1. Taxation of a VCT

VCTs are exempt from corporation tax on chargeable gains. There is no restriction on the distribution of realised capital gains by a VCT, subject to the requirements of company law. The Company will be subject to corporation tax on its income (excluding dividends received from UK companies) after deduction of attributable expenses.

2. Tax reliefs for individual investors

Individuals who subscribe for E Shares must be aged 18 or over to qualify for the tax reliefs outlined below.

Relief from income tax

An investor subscribing up to £200,000 in the 2011/12 tax year for eligible shares in a VCT will be entitled to claim income tax relief, at the rate of 30%, although this relief will be withdrawn if either the shares are sold within five years or the investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the investor's income tax liability to nil. However, tax credits on dividends are notional and cannot be repaid and, therefore, investors should take this into account when calculating the value of the income tax relief.

Dividend relief

An investor who subscribes for or acquires eligible shares in a VCT (up to a maximum of £200,000 in the 2011/12 tax year) will not be liable for UK income tax on dividends paid by the VCT. The income received by the VCT will usually constitute either interest (on which the VCT may be subject to tax) or a dividend from a UK company (on which the VCT would not be subject to tax). The VCT's income, reduced by the payment of tax (if applicable), can then be distributed tax-free to investors who benefit from this dividend relief. There is no withholding tax on dividends paid by a UK company and consequently the Company does not assume responsibility for the withholding of tax at source. Dividends carry a tax credit at the rate of one-ninth of the net dividend which is not repayable and which cannot be utilised in any other way.

Capital gains tax relief

A disposal by an individual investor of his shares in a VCT will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is also limited to disposals of shares acquired within the £200,000 limit described above.

Loss of tax reliefs

- (i) If a company which has been granted approval or provisional approval as a VCT subsequently fails to comply with the conditions for approval, VCT status may be withdrawn or treated as never having been given. The exemptions from corporation tax on capital gains will not apply to any gain realised after VCT status is lost (and on any gain realised by the VCT if approval is deemed never to have been given).
- (ii) For investors, the withdrawal of VCT status may (depending upon the timing of such withdrawal) result in:
 - repayment of the 30% income tax relief on subscription for new VCT shares;
 - income tax becoming payable on subsequent payments of dividends by the company; and
 - a liability to tax on capital gains being suffered in the normal way on the disposal of shares in the company, except that any part of the gain attributable to the period for which the VCT was approved would be exempt.
- (iii) The consequences for investors in a company which never obtains full unconditional approval as a VCT are as follows:
 - repayment of the 30% income tax relief on subscriptions for new VCT shares and interest on overdue tax may arise;

- income tax becoming payable on all payments of dividends by the company; and
- any gain arising on a disposal of the shares would be liable to capital gains tax and losses on the shares would be allowable losses for capital gains tax purposes.

The E Shares are eligible VCT shares for the purposes of this section.

3. Consequences of an investor dying or a transfer of Shares between spouses

- (i) *Initial income tax*
If an investor dies at any time after making an investment in a VCT, the transfer of shares on death is not treated as a disposal and, therefore, the initial income tax relief is not withdrawn. However, the shares will become part of the deceased's estate for inheritance tax purposes.
- (ii) *Tax implications for the beneficiary*
Provided a number of conditions are met, the beneficiary of any VCT shares will be entitled to tax-free dividends and will not pay capital gains tax on any disposal, but will not be entitled to any initial income tax relief.
- (iii) *Transfer of shares between spouses*
Transfers of shares in a VCT between spouses is not deemed to be a disposal and therefore all tax reliefs will be retained.

4. General

- (i) *Investors who are not resident in the UK*
Non-resident investors, or investors who may become non-resident, should seek their own professional advice as to the consequences of making an investment in the Company, because they may be subject to tax in other jurisdictions.
- (ii) *Stamp duty and stamp duty reserve tax*
No stamp duty or (unless shares in a VCT are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax will be payable on the issue of such shares. The transfer on the sale of shares would normally be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months) stamp duty reserve tax generally, in each case at the rate of 50p for every £100 or part of £100 of the consideration paid where the total consideration exceeds £1,000 or if it forms part of a series of transactions where the total consideration exceeds £1,000. Such duties would be payable by a person who purchases such shares from the original subscriber.
- (iii) *Purchases in the market after listing*
Any subsequent purchaser of existing VCT shares, as opposed to a subscriber for new VCT shares, will not qualify for income tax relief on investment but may benefit from dividend relief and from capital gains tax relief on the disposal of his VCT shares.
- (iv) *The VCT Regulations 2004*
The VCT Regulations came into force on 17 October 2004. Under the VCT Regulations, monies raised by any further issue of shares by an existing VCT must be applied by that VCT for qualifying purposes. If any of the money raised (except for amounts which HM Revenue & Customs agrees are insignificant in the context of the whole issued ordinary share capital of the VCT) is used by the VCT to purchase its own shares then the funds may be deemed to not have been used for a qualifying purpose.

The above is only a summary of the tax position of individual investors in VCTs and is based on the Company's understanding of current law and practice. Investors are recommended to consult a professional adviser as to the taxation consequences of their investing in a VCT. All tax reliefs referred to in this document are UK tax reliefs and are dependent on the Company maintaining its VCT qualifying status.

Part III – Information on the Company

Financial Information

A summary of the Company's investment portfolio as at 16 December 2011 (being the latest practicable date prior to publication of this document) is set out below.

Investment Portfolio – Ordinary Shares

	Cost £'000	Valuation ¹ £'000	% of portfolio
Venture Capital Investments			
Cadbury House Holdings Limited	974	929	10.3%
Ludorum plc *	1,127	903	10.0%
Elektron plc *	549	521	5.8%
Domestic Solar Limited	500	500	5.6%
Accumuli plc *	400	492	5.5%
Leytonstone Pub Limited	453	453	5.0%
Tracsis plc *	351	444	4.9%
Pennant International plc *	212	413	4.6%
Helcim Group Limited	547	410	4.6%
Mears Group plc ***	551	405	4.5%
Hoole Hall Country Club Holdings Limited	384	384	4.3%
The 3D Pub Co Limited	300	300	3.3%
Aminghurst Limited	300	300	3.3%
EPI Services Limited	397	295	3.3%
Hoole Hall Spa and Leisure Limited	263	263	2.9%
Tristel plc *	362	260	2.9%
Tramps Nightclub Limited	239	250	2.8%
SPC International Limited	-	240	2.7%
Financial News Publishing Limited	210	210	2.3%
Synergy Health plc	136	194	2.2%
Kidspace Adventures Limited	150	150	1.7%
Future Biogas (SF) Limited	135	135	1.5%
Straight plc *	335	102	1.1%
DODs Group plc *	270	90	1.0%
Giving Limited	83	83	0.9%
Sinclair IS Pharma plc *	131	82	0.9%
Camandale Limited	300	76	0.8%
Ludlow Taverns Springhill Limited	75	75	0.8%
Keycom plc **	275	32	0.4%
Colliers CRE plc *	266	9	0.1%
Chariot (UK) plc	125	-	0.0%
Real Time Logistic Solutions Limited	32	-	0.0%
The Thames Club Limited	125	-	0.0%
	10,557	9,000	100.0%

All venture capital investment are unquoted unless otherwise stated.

* Quoted on AIM

** Quoted on the PLUS market

*** Quoted on London Stock Exchange full list

The latest published NAV per Ordinary Share was 86.7p as at 30 November 2011.

¹Valuation as at 30 November 2011 – extracted from the unaudited management accounts of the Company for the period ended 30 November 2011.

Investment Policy

Asset allocation

New funds raised will initially be held in Non-Qualifying Investments and will gradually be invested in VCT qualifying investments over a two to three year period. The Company will seek to have a minimum of 70% of its funds invested in VCT Qualifying Investments, with the balance held in Non-Qualifying Investments.

Qualifying Investments

The Company seeks to hold a portfolio of VCT qualifying investments as follows (% of Net Assets):

Investment type	Target	Maximum
Lower growth	40%-80%	100%
Higher growth	20%-60%	100%

Lower growth investments will be made in unquoted businesses, with a focus on companies that own substantial assets. These investments are likely to be structured such that they comprise significant levels of loan stock and/or preference shares in order to generate income for the Company.

The Company will target capital gains rather than high levels of income from its higher growth investments. These investments will be higher risk than the lower growth investments.

Some investments may exhibit features of both of the above categories.

Non-Qualifying Investments

The funds not employed in VCT qualifying investments (representing 20% to 30% of total funds within three years after the end of each fund raising) may be invested in a variety of investments which may include secured loans, fixed income securities (including cash deposits) and non-qualifying quoted investments.

The maximum exposure to any one counterparty will not exceed 15% of the fund at the time of investment.

The Company may also make a small number of investments in opportunities that would be Qualifying Investments but, as a result of the size of the business or the sector in which it operates, are non-qualifying. Such investments will usually be co-investing alongside other funds managed by Downing and will not in total exceed 5% of the value of the fund (at the time of investment).

The allocation between asset types in the VCT non-qualifying portfolio will vary depending upon opportunities that arise, with any one asset class having a maximum exposure of 100% of the VCT non-qualifying portfolio.

Risk diversification

The Directors will control the overall risk of the Company. The Manager will ensure the Company has exposure to a diversified range of VCT qualifying investments from different sectors and generally no more than 15% of the Company's funds in any one company or any one issue of fixed income securities (except UK Government gilts or deposit accounts with UK clearing banks).

Venture capital trust regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the ITA. How the main regulations apply to the Company is summarised as follows: (i) The Company holds at least 70% of its investments in Qualifying Companies; (ii) At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011; (iii) At least 10% of each investment in a Qualifying Company is held in "eligible shares" (by cost at time of investment); (iv) No investment constitutes more than 15% of the Company's portfolio (by value at time of investment); (v) The Company's income for each financial year is derived wholly or mainly from shares and securities; (vi) The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained; and (vii) A maximum unit size of £1 million in each VCT qualifying investment (per tax year).

Listing Rules

In accordance with the Listing Rules: (i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds; (ii) the Company must not conduct any trading activity which is significant in the context of its group as a whole; and (iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the ITA.

Borrowing policy

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a sum equal to 15% of the aggregate amount paid on any shares issued by the Company (together with any share premium thereon).

The above is the Company's proposed investment policy, which is subject to Shareholder approval at the meetings convened for 18 January 2012.

Part IV – Definitions

Where used in this document the following words and expressions will, unless the context otherwise requires, have the following meanings:

"2006 Act"	Companies Act 2006 (as amended)
"2011/12 Offer"	offer for subscription in respect of the 2011/12 tax year, being made by the Company on the terms set out in this document
"2012/13 Offer"	offer for subscription in respect of the 2012/13 tax year, being made by the Company on the terms set out in this document
"Acts"	Companies Acts as defined in s.2 of the 2006 Act and every other statute from time to time in force in the United Kingdom concerning companies insofar as the same applies to the Company, or any re-enactment thereof for the time being in force
"Additional Shares"	E Shares issued, at no additional cost to the Applicant, as explained in the Special Terms paragraph on the contents page of this document
"Admission"	listing of the E Shares to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities
"AIM"	AIM, a market operated by the London Stock Exchange
"Annual Running Costs"	annual costs incurred by the Company in the ordinary course of its business (including irrecoverable VAT but excluding any amount payable in respect of the Performance Incentive)
"Applicant"	Investor who subscribes for E Shares pursuant to the Prospectus
"Application Form"	form of application for E Shares under the Offers set out at the end of this document
"Articles"	Articles of Association of the Company as at the date of this document
"Business Day"	any day other than a Saturday or Sunday on which clearing banks in London are open for all normal banking business
"Company"	Downing Income VCT 3 plc
"CREST"	relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for the paperless settlement of transfers and the holding of shares in uncertificated form which is administered by Euroclear UK & Ireland Limited
"CREST Regulations"	Uncertificated Securities Regulations 2001 (SI 2001/3755) (as amended)
"D Shareholders"	holders of D Shares
"D Shares"	D Shares of 10p each in the capital of the Company (ISIN: GB00B1KR1044)
"Directors" or "Board"	Directors of the Company
"Downing" or "Manager"	Downing LLP, which is authorised and regulated by the Financial Services Authority, and/or its predecessor business
"Downing Absolute Income VCT *"	Downing Absolute Income VCT * plc, where * is any combination of 1 or 2, as applicable
"Downing Planned Exit VCT *"	Downing Planned Exit VCT * plc, where * is any combination of 2 – 9, as applicable
"Downing VCTs"	Downing Absolute Income VCT 1-2, Downing Distribution VCT 1 plc, Downing Planned Exit VCT 2 – 9, Downing Planned Exit VCT 2011 plc, Downing Structured Opportunities VCT 1 plc and the Company, as applicable
"DTR"	the Disclosure Rules and Transparency Rules, being the rules published by the FSA from time to time and relating to the disclosure of information in respect of financial instruments
"E Shareholders"	holders of E Shares
"E Shares"	E Shares of 1p each in the capital of the Company (ISIN: GB00B7690L01)
"Existing Shareholders"	holders of Existing Shares
"Existing Shares"	Ordinary Shares and/or D Shares
"FSA"	Financial Services Authority
"Full Subscription"	£20 million raised under the Offers assuming an Offer Price of £1 per E Share
"General Meeting"	general meeting of the Company to be held on 18 January 2012 (or any adjournment thereof) at which the resolutions described in paragraph 2(c) of Part IV of the Registration Document will be proposed
"Generalist VCTs"	VCTs which are focused on investing in unquoted companies, do not have a fixed wind-up date and do not specialise in investing in any one sector
"Hurdles"	achievement calculated on a per E Share basis, first calculated on 31 March 2017, of (i) on average, annual Shareholder Proceeds of 5p per E Share have been paid from the close of the Offers; and (ii) the Total Return to Investors is at least 115p per E Share (after allowing for any Performance Incentive) at 31 March 2017. The Total Return to Investors hurdle increases by 3p every year thereafter
"Investor"	subscriber for E Shares under the Offers
"ITA"	Income Tax Act 2007
"Listed"	listed on the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities
"Listing Rules"	Listing Rules of the UK Listing Authority
"London Stock Exchange"	London Stock Exchange plc
"Minimum Subscription"	minimum net proceeds required to be raised under the Offers, being £945,000
"ML Regulations"	Money Laundering Regulations 2007 (as amended)
"NAV" or "Net Asset Value"	net asset value per share
"Net Assets"	gross assets less all liabilities (excluding contingent liabilities) of the Company
"Non-Qualifying Investment"	an investment which is not a Qualifying Investment
"Offer Agreement"	agreement dated 19 December 2011 between the Company, the Directors, the Sponsor and Downing, a summary of which is set out in paragraph 5(a) of Part IV of the Registration Document

"Offer Price"	100p per E Share
"Offers"	together, the 2011/12 Offer and the 2012/13 Offer
"Official List"	Official List of the UK Listing Authority
"Ordinary Shareholders"	holders of Ordinary Shares
"Ordinary Shares"	Ordinary Shares of 1p each in the capital of the Company (ISIN: GB00B55T8S03)
"Performance Incentive"	performance-related incentive fee payable in the event that the Hurdles are achieved, as described in this document under the section headed "Costs"
"PLUS"	trading facility operated by PLUS Markets Group plc (formerly known as OFEX)
"Prospectus"	this document, the Registration Document and the Summary which together describe the Offers in full
"Prospectus Rules"	Prospectus Rules issued by the Financial Services Authority and made under Part IV of the Financial Services and Markets Act 2000
"Qualifying Companies"	unquoted companies carrying on qualifying trades wholly or mainly in the United Kingdom and which satisfy certain other conditions as defined in Chapter 4 Part 6 ITA
"Qualifying Investment"	investment in an unquoted trading company, which comprises a qualifying holding for a VCT as defined in Chapter 4 Part 6 ITA
"Registrar"	Capita Registrars Limited
"Registration Document"	document which has been prepared in accordance with the Prospectus Rules in connection with the Offers
"RPI"	Retail Prices Index
"Securities Note"	this document, which has been prepared in accordance with the Prospectus Rules in connection with the Offers
"Shareholder Proceeds"	amounts paid by way of dividends or other distributions, share buybacks, proceeds on a sale or liquidation of the Company and any other proceeds or value received, or deemed to be received, by E Shareholders in the Company, excluding any income tax relief on subscription
"Shareholders"	holders of Shares
"Share(s)"	Ordinary Share(s) and/or D Share(s) and/or E Share(s)
"Sponsor"	Howard Kennedy Corporate Services LLP
"Spouse"	spouse or civil partner
"Summary"	summary of the Offers prepared in accordance with the Prospectus Rules
"Total Return"	NAV together with cumulative dividends paid including tax credits where reclaimable
"UK Listing Authority"	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"	a company approved as a venture capital trust under Section 274 ITA
"VCT Regulations"	The Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004
"Venture Capital Investment"	investment in an unquoted or AIM quoted UK business

Part V – Additional Information

1. The Company

1.1 Incorporation

The Company was incorporated in England and Wales as a public company with limited liability on 8 December 1995 with registered number 03137729. The principal legislation under which the Company operates and under which the Ordinary Shares, D Shares and E Shares have been created is the Acts and regulations made thereunder.

1.2 Borrowing policy

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertakings, property and uncalled capital. The Directors shall restrict the borrowings of the Company so that the amount at any time outstanding in respect of money borrowed by the Company, shall not, without the previous sanction of an ordinary resolution of the Company, exceed a sum equal to 15% of the aggregate total amount received from time to time on the subscription of shares to the Company.

1.3 Cancellation of share premium account

The Directors are aware of the possibility that the Company's Shares may trade at a discount to their net asset value at some point. The Directors consider that the Company should have the ability to purchase its Shares in the market (such Shares to be automatically cancelled) with the aim of reducing any discount and increasing the net asset value per Share of the remaining Shares. In the view of the Directors, the awareness of Investors that the Company has such a capability may tend to moderate the scale of any discount which may emerge and the action of buying in Shares should enable any such discount to be narrowed.

The Acts provides that a public company may only purchase its own shares out of distributable profits or out of the proceeds of a fresh issue of shares made for the purpose of the purchase. Subject to confirmation from HM Revenue & Customs that such proposals will not adversely affect the Company's VCT status and Court approval, the Company may decide to reduce and/or cancel the share premium account and to transfer the balance of the special reserve, which was established by the cancellation of a previous share premium account, which may be treated as a distributable profit, out of which purchases of Shares can be made subject to regulations, VCT Regulations and company legislation.

1.4 Stamp duty and close company status

The Company has been advised that no stamp duty or stamp duty reserve tax will be payable on the issue of the E Shares issued under the Offers. On the issue of the E Shares pursuant to the Offers, the Company will not be a close company for tax purposes.

1.5 Material interests

Downing will be paid an annual investment management fee of 1.8% of the Net Assets attributable to the E Shares, plus an annual fee of 0.5% of the Net Assets attributable to the E Shares and will also continue to receive an annual administration fee of £70,000 (plus VAT) (which will be shared across all share pools) increasing annually in line with RPI. In line with normal VCT practice, Downing will also be entitled to receive a Performance Incentive. Further details of these arrangements are set out on page 8.

1.6 Investor profile

A typical Investor will be a retail client (not a corporate), who is aged 18 or over and pays UK income tax, who already has a portfolio of non-VCT investments such as unit trusts/OEICs, structured products, investment trusts and/or direct shareholdings in listed companies and has sufficient income and capital so that his investment in the Company can be held for over five years. The individual will be professionally advised and/or a sophisticated investor. The individual's income tax liability should be more than sufficient to utilise all the initial income tax relief available on the investment. The individual should be willing to invest over the medium to long term and be comfortable with higher risk investments.

1.7 Results of the Offers

The results of the Offers will be announced through a regulatory information service provider.

2. Taxation and HM Revenue & Customs approval

The Directors intend to conduct the affairs of the Company so that it continues to satisfy the conditions for approval as a VCT and that such approval will be maintained. HM Revenue & Customs has granted the Company provisional approval under Part 6 of the ITA as a VCT. The Company intends to comply with Section 274 of the ITA and has retained PricewaterhouseCoopers LLP to advise it on VCT taxation matters.

3. Working capital and capitalisation and indebtedness statements

3.1 Working capital

The Company is of the opinion that it has sufficient working capital for its present requirements, that is, for at least 12 months from the date of this document.

3.2 Statement of capitalisation and indebtedness

The table below shows the capitalisation of the Company as at 30 November 2011 (extracted from the unaudited management accounts of the Company for the period ended 30 November 2011) the most practicable date prior to the publication of this document.

Shareholders' Equity	£'000
Called up share capital	393
Capital redemption reserve	3,615
Share premium account	1,971
Special reserve	5,290
Capital reserve - realised	2,698
Revaluation reserve	(1,623)
Revenue reserve	(542)
Merger reserve	258
	<u>12,060</u>

There has been no material change in the capitalisation of the Company, total debt or Shareholder equity since 30 November 2011.

As at 16 December 2011 (the latest practicable date prior to the publication of this document), the Company has no indebtedness, whether guaranteed, unguaranteed, secured, unsecured, direct and/or Contingent and there is no current intention of incurring any such indebtedness for at least the twelve month period from the date of this document.

- (u) warrant that if you sign the Application Form on behalf of somebody else or yourself and another or others jointly or a corporation you have the requisite power to make such investments as well as the authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions of application and undertake (save in the case of signature by an authorised financial adviser on behalf of the Investor) to enclose a power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
 - (v) warrant that you are not subscribing for the E Shares using a loan which would not have been given to you or any associate, or not given to you on such favourable terms, if you had not been proposing to subscribe for the E Shares;
 - (w) warrant that the E Shares are being acquired by you for *bona fide* investment purposes and not as part of a scheme or arrangement, the main purpose of which, or one of the main purposes of which, is the avoidance of tax. Obtaining tax reliefs given under the applicable VCT legislation is not of itself tax avoidance;
 - (x) warrant that you are not a "US person" as defined in the United States Securities Act of 1933 (as amended) nor a resident of Canada and that you are not applying for any E Shares on behalf of or with a view to their offer, sale or delivery, directly or indirectly, to or for the benefit of any US person or resident of Canada;
 - (y) warrant that the information contained in the Application Form is accurate; and
 - (z) agree that if E Shares are not issued to you, or not issued to you on any particular date, the Company and Downing will have no liability to you.
6. No person receiving a copy of the Prospectus, or an Application Form, in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
 7. The E Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the "USA"). In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. The Manager will not be registered under the United States Investment Adviser Act of 1940 (as amended). No application will be accepted if it bears an address in the USA.
 8. This application is addressed to the Company and the Sponsor. The rights and remedies of the Company and the Sponsor under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to either of them, and the exercise or partial exercise of one will not prevent the exercise of others.
 9. The dates and times referred to in these Terms and Conditions of Application may be altered by the Company with the agreement of the Sponsor.
 10. Authorised financial advisers who, acting on behalf of their clients, return valid Application Forms bearing their stamp and FSA number will be entitled to commission on the amount payable in respect of the Shares allocated for each such Application Form at the rates specified in the paragraph headed "Commission" in Part I of this document. Authorised financial advisers may agree to waive part or all of their initial commission in respect of an application. If this is the case, then such application will be treated as an application to subscribe the amount stated in box number 2 of the Application Form together with an additional subscription equivalent to the amount of commission waived. Downing or the Registrar is authorised to amend such box number 2 to include any such additional Subscription. Financial advisers should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for their commission.
 11. The section headed Notes on Application Form forms part of these Terms and Conditions of Application.
 12. It is a condition of the Offers to ensure compliance with the ML Regulations. Downing is therefore entitled to require, in its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or bankers' draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to Downing to be acting on behalf of some other person. Pending the provision of evidence satisfactory to Downing as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, Downing may, in its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or the Registrar may not enter the Applicant on the register of members or issue any share certificates in respect of such application. If verification of identity is required, this may result in a delay in dealing with an application and in rejection of the application. The Company reserves the right, in its absolute discretion, for it or Downing to reject any application in respect of which Downing considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, the Company reserves the right in its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the E Shares in question (but in each case without prejudice to any rights the Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to Downing such information as may be specified by it as being required for the purpose of the ML Regulations.
 13. The right is also reserved to treat as valid and binding any application not complying fully with these Terms and Conditions of Application or not in all respects complying with the Notes on Application Form. In particular, but without limitation, the Company may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Company to apply in accordance with these Terms and Conditions of Application.
 14. The Company and/or Downing may use the information you give for administration, research and/or statistical purposes. Your details may be used by the Company and/or Downing (but will not be sold to third parties) to send you information on other potential investment opportunities (maximum six communications per annum). If you would prefer not to receive such information, please write to Downing.
 15. The minimum subscription is £5,000 subject to the Board's discretion.

4. Creation of the E Shares

The Company issued a circular dated 19 December 2011 to Ordinary Shareholders and D Shareholders convening a general meeting on 18 January 2012. The following resolutions will be proposed:

Ordinary Resolutions:

- 1) to create E Shares having the rights and being subject to the restrictions set out in the Articles, to be altered pursuant to resolution 7 described below;
- 2) to authorise the directors to allot shares up to an aggregate nominal amount of £300,000. The allotments referred to represent, in aggregate, approximately 76.3% of the issued share capital of the Company as at the date of this document. Such authority will expire on the later of 15 months from the date the resolution is passed and the end of the Company's next annual general meeting;
- 3) to approve the offer agreement between the Company (1), the directors of the Company (2), Howard Kennedy Corporate Services LLP (3) and Downing LLP (4);
- 4) to approve the deed of variation to the management agreement between the Company (1) and Downing LLP (2);
- 5) to approve the amendments to the investment policy;

Special Resolutions:

- 6) to authorise the directors to allot the shares referred to in the previous resolution as if section 561(1) of the 2006 Act did not apply. This dis-application represents approximately 76.3% of the Company's current issued share capital. This authority will expire on the later of 15 months from the date the resolution is passed and the end of the Company's next annual general meetings;
- 7) to alter the Articles to, *inter alia*, provide for the rights attaching to the E Shares;
- 8) to authorise the Board to make market purchases of E Shares; and
- 9) to authorise the cancellation of the amount standing in the share premium account at the close of the Offers.

5. Details of the E Shares

Subject to the adoption of the new articles of association at the General Meeting, the E Shares will have the following rights:

5.1 Distributions of income and capital

The holders of E Shares shall be entitled to receive, in that capacity, dividends and any other distributions or a return of capital (otherwise than on a market purchase by the Company of any of its shares) out of the assets attributable to the E Shares, pro-rata to their respective holdings of E Shares.

5.2 Distributions of assets on a winding-up

The capital and assets attributable to the E Shares shall on a winding-up be distributed on the same basis as set out under the heading "Distributions of income and capital".

5.3 Voting rights

E Shareholders will be entitled to receive notice of, attend, speak and vote at any general meeting, *pari passu*, in such respects with the holders of Ordinary Shares and D Shares. Every E Shareholder present in person or by proxy shall upon a show of hands, or upon a poll, have one vote for every E Share held by him.

6. Overseas Investors

- (a) No person receiving a copy of this document or an Application Form in any territory other than the UK may treat the same as constituting an offer or invitation to him to subscribe for or purchase E Shares unless, in such territory, such an offer or invitation could lawfully be made.
- (b) No action has been taken to permit the distribution of this document in any jurisdiction outside the UK where such action is required to be taken. All Applicants will be required to warrant that they are not a US person as defined in paragraph 5(x) of Part VI of this document or a resident of Canada.

7. Information sourced from third parties

Where information set out in this document has been sourced from third parties the source has been identified at the relevant place in the document and the Company confirms that this information has been accurately reproduced and, as far as the Company is aware and able to ascertain from information published, no facts have been omitted which would render the reproduced information inaccurate or misleading.

19 December 2011

Part VI – Terms and Conditions of Application

1. In these Terms and Conditions of Application, the expression "Prospectus" means this document, the Registration Document and the Summary, each dated 19 December 2011. The expression "Application Form" means the application form for use in accordance with these Terms and Conditions of Application. Save where the content requires otherwise, the terms used in the Application Form bear the same meaning as in the Prospectus.
2. The right is reserved to reject any application or to accept any application in part only. Multiple applications are permitted. If any application is not accepted, or if any contract created by acceptance does not become unconditional, or if any application is accepted for fewer E Shares than the number applied for, or if in any other circumstances there is an excess payment in relation to an application, the application monies or the balance of the amount paid or the excess paid on application will be returned without interest by post at the risk of the Applicant. In the meantime application monies will be retained in the Company's bank.
3. You may pay for your application for E Shares by cheque or bankers' draft submitted with the Application Form.
4. The contract created by the acceptance of applications in respect of the first allotment of E Shares under the Offers will be conditional on:
 - (a) the Minimum Subscription being received by 3.00 p.m. on 5 April 2012;
 - (b) all resolutions being passed at the Company's general and class meetings to be held on 18 January 2012; and
 - (c) Admission of the E Shares (in respect of such first allotment of Shares) being granted not later than 5:00 p.m. on 30 April 2012. If the Minimum Subscription is not received, the Offers will be withdrawn. In the event that the Minimum Subscription is not received by 3.00 p.m. on 5 April 2012, subscription monies will be returned to Investors within seven days of 5 April 2012, at their own risk, without interest. The Offers are not underwritten.
5. By completing and delivering an Application Form, you:
 - (a) offer to subscribe for the amount specified on your Application Form plus any commission waived for extra shares or any smaller sum for which such application is accepted at the Offer Price subject to the Prospectus, these Terms and Conditions of Application, the Memorandum of Association of the Company and its Articles;
 - (b) acknowledge that, subject to any adjustment in respect of Additional Shares and IFA commission waived as extra Shares, if your subscription is accepted, you will be allocated one E Share for each 100p invested;
 - (c) authorise your financial adviser, or whoever he or she may direct, the Registrar or the Company to send a document of title for, or credit your CREST account in respect of, the number of E Shares for which your application is accepted, and/or a crossed cheque for any monies returnable, by post at your risk to your address as set out on your Application Form;
 - (d) agree that your application may not be revoked and that this paragraph constitutes a collateral contract between you and the Company which will become binding upon despatch by post or delivery of your duly completed Application Form to the Company or to your financial adviser;
 - (e) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive share certificates for the E Shares applied for or to enjoy or receive any rights or distributions in respect of such E Shares unless and until you make payment in cleared funds for such E Shares and such payment is accepted by the Company (which acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Company of such late payment in respect of such E Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such E Shares as void and may allot such E Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such E Shares (other than return of such late payment at your risk and without interest);
 - (f) agree that all cheques and bankers' drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the verification of identity required by the ML Regulations and that such monies will not bear interest;
 - (g) undertake to provide satisfactory evidence of identity within such reasonable time (in each case to be determined in the absolute discretion of the Company and the Sponsor) to ensure compliance with the ML Regulations;
 - (h) agree that, in respect of those E Shares for which your application has been received and processed and not rejected, acceptance of your application shall be constituted by the Company instructing Downing or the Registrar to enter your name on the share register;
 - (i) agree that all documents in connection with the Offers and any returned monies will be sent at your risk and may be sent to you at your address as set out in the Application Form;
 - (j) agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations including the risk factors contained therein;
 - (k) confirm that (save for advice received from your financial adviser) in making such application you are not relying on any information and representation other than those contained in the Prospectus and you accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof or involved in the preparation thereof will have any liability for any such other information or representation;
 - (l) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offers shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
 - (m) irrevocably authorise the Company, the Registrar or Downing or any other person authorised by any of them, as your agent, to do all things necessary to effect registration of any E Shares subscribed by or issued to you into your name and authorise any representatives of the Company, the Registrar or Downing to execute any documents required and to enter your name on the register of members of the Company;
 - (n) agree to provide the Company with any information which it may request in connection with your application or to comply with the VCT Regulations or other relevant legislation (as the same may be amended from time to time) including without limitation satisfactory evidence of identity to ensure compliance with the ML Regulations;
 - (o) warrant that, in connection with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company, Downing or the Sponsor acting in breach of the regulatory or legal requirements of any territory in connection with the Offers or your application;
 - (p) confirm that you have read and complied with paragraph 6 below;
 - (q) confirm that you have reviewed the restrictions contained in paragraph 7 below;
 - (r) warrant that you are not under the age of 18 years;
 - (s) warrant that, if the laws of any territory or jurisdiction outside the United Kingdom are applicable to your application, you have complied with all such laws and none of the Company, Downing or the Sponsor or any of their respective agents will infringe any laws of any such territory or jurisdiction directly or indirectly as a result or in consequence of any acceptance of your application;
 - (t) agree that Downing and the Sponsor are acting for the Company in connection with the Offers and for no-one else and that they will not treat you as their customer by virtue of such application being accepted or owe you any duties or responsibilities concerning the price of E Shares or concerning the suitability of E Shares for you or be responsible to you for the protections afforded to their customers;

Notes on Application Form

Before making an application to acquire E Shares you are strongly recommended to consult an appropriate financial adviser authorised under the Financial Services and Markets Act 2000. It is essential that you complete all parts of the Application Form in accordance with the instructions in these notes. Please send the completed Application Form, together with your cheque or bankers' draft by post, or deliver it by hand, to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN. If you have any questions on how to complete the Application Form please contact Downing LLP on 020 7416 7780 or your financial adviser.

The following notes should be read in conjunction with the Application Form and the Terms and Conditions of Application.

1 Insert in Box 1 in BLOCK CAPITALS your full name, permanent address, daytime telephone number, date of birth, National Insurance number and, if you have one, your email address. Joint applications are not permitted.

2 Insert (in figures) in Box A the total amount you wish to invest under the Offers in respect of the 2011/12 tax year (state nil if appropriate). Insert (in figures) in Box B the amount you wish to invest under the Offers in respect of the 2012/13 tax year (state nil if appropriate). **You may post-date your cheque to 6 April 2012 in respect of the sum in Box B.** Insert (in figures) the total of Boxes A and B in Box C. This is the total amount you are applying for under the Offers. Share subscriptions will be adjusted to reflect any commission waived (by agents) as extra E Shares or Additional Shares issued for early subscriptions.

Please note that the minimum investment is £5,000 (or such lower amount at the Board's discretion). The maximum investment, on which tax reliefs on investments in VCTs are available, is £200,000 in each of the 2011/12 and 2012/13 tax years.

Attach your cheque or bankers' draft to the Application Form for the exact amount shown in Box C. Your cheque or bankers' draft must be made payable to "**Downing Income VCT 3 plc**" and crossed "A/C Payee only". Your payment must relate solely to this application.

Money Laundering Regulations 2007 – Important note for applications of £11,000 or more

If the value of the shares applied for is £11,000 or more (or is one of a series of linked applications, the value of which exceeds that amount) payment should be made by means of a cheque drawn on an account in the name of the Applicant. If this is not practicable and you use a cheque drawn by a third party or a building society cheque or bankers' draft, you should write the name, address and date of birth of the Applicant on the back of the cheque or bankers' draft and:

- (a) if a building society cheque or bankers' draft is used, the building society or bank must also endorse on the cheque or draft the name and account number of the person whose account is being debited; or
- (b) if a cheque is drawn by a third party, you must ensure that one item from each of List A and List B (see below) is enclosed with the form.

Alternatively, verification of the Applicant's identity may be provided by means of a "Letter of Introduction" in the prescribed form from a UK or European Economic Area financial institution (such as a bank or stockbroker) or other regulated person (such as a solicitor, accountant or appropriate financial adviser) who is required to comply with the ML Regulations. The relevant financial institution or regulated person will be familiar with the requirements and the relevant form.

For applications of £11,000 or more and subscription by way of a cheque drawn by a third party

(one item from List A AND one item from List B)

List A (Verification of Identity)

Current signed passport
Current UK Driving Licence
HM Revenue and Customs Tax Notification
Firearms Certificate

List B (Verification of Address)

Recent* utility bill (but not a mobile telephone bill)
Recent* local authority tax bill
Recent* bank or building society statement
Recent* mortgage statement from a recognised lender

Please send original (not passport or driving licence) or certified copies of the documents. Certified as a true copy of the original by a UK lawyer, banker, authorised financial intermediary (e.g. financial adviser or an FSA authorised mortgage broker), accountant, teacher, doctor, minister of religion, postmaster or sub-postmaster. The person certifying the document should state that the copy is a true copy of the original, print their name, address, telephone number and profession and sign and date the copy. *Recent means dated within the last three months.

No money laundering verification is required to be enclosed if the application is for less than £11,000 or if payment is by means of a cheque drawn on an account in the name of the Applicant (provided that (a) the cheque includes details of the Applicant's bank account or building society account (as applicable) and (b) the cheque is drawn on a UK or European Union authorised bank or credit institution). Please note, however, that Downing may, in its absolute discretion, require Money Laundering verification and that Money Laundering verification will be required by introducing financial advisers.

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

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

4 If you wish to have dividends paid into your nominated bank or building society account, please complete the mandate instruction form.

5 Leave blank if you wish to receive a share certificate in respect of your investment. If you require your shares to be issued electronically to a CREST account, please complete the boxes.

6 To be completed by authorised intermediaries only. If you would like commission to be paid by BACs, please complete the relevant boxes.

Investors and their advisers are required to provide an email address if they require the receipt of the Application Form to be acknowledged.

DOWNING INCOME VCT 3 PLC

Application Form

Make your cheque or bankers' draft out to "Downing Income VCT 3 plc" and crossed "A/C Payee only" and return this form as soon as possible to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN. The closing date for the 2011/12 Offer will be 3.00 p.m. on Thursday 5 April 2012 and, in respect of the 2012/13 Offer, 5.00 p.m. on Monday 30 April 2012 (unless extended or fully subscribed earlier).

1

Title and name in full		Existing Downing VCT shareholder? Y/N	
Permanent Address			
Postcode		Daytime tel	
Email address*			
Date of birth		National Insurance No	

2

I am applying for E Shares as follows:

2011/12 tax year	£	A
2012/13 tax year	£	B
Total (A + B)	£	C Min £5,000

Or such lesser sum for which this application may be accepted on the Terms and Conditions of Application set out in Part VI of this document. Please send me a certificate(s) confirming my entitlement to VCT tax reliefs.

BY SIGNING THIS FORM I HEREBY DECLARE THAT: (i) I have had an opportunity to receive the Prospectus dated 19 December 2011 and to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the E Shares in Downing Income VCT 3 plc issued to me pursuant to the Offers; (iii) to the best of my knowledge and belief, the particulars I have given to Downing Income VCT 3 plc are correct; (iv) my subscription comprises the amount set out in box 2C above plus any Additional Shares and commission waived or subscribed on my behalf for extra shares; and (v) I acknowledge that my application for Shares will be allocated in the manner described under the heading "The Offers and minimum and maximum subscription" in Part I of this document.

***Investors and their advisers are required to provide an email address if they require the receipt of the Application Form to be acknowledged.**

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

3

Signature

Date

 / /

Authorised intermediaries should stamp and complete this box	
Contact name	Address St James Hall, Moore Park Road, London
Firm name Chelsea Financial Services	
FSA No. 114493	Postcode SW6 2JS
Email address*	Tel.
Due completion of the agent's box indicates that the agent is duly authorised to transact investments of this type under the Financial Services and Markets Act 2000.	

For Official Use Only

Money laundering

CHAPS

4

DIVIDEND MANDATE

Dividends may be paid directly into Shareholders' bank and building society accounts. In order to facilitate this, please complete the mandate instruction form below. Please note that if you are an Existing Shareholder this instruction applies to all of your shareholdings in the Company and completing the form below will direct the Company to send all dividend payments due on all your shareholdings to this bank account.

Dividends paid directly to your account will be paid in cleared funds on the dividend payment dates. Your bank or building society statement will identify details of the dividend as well as the dates and amounts paid.

By completing the details below I am instructing the Company to forward until further notice all dividends that may from time to time become due on any Shares now standing, or which may hereafter stand, in my name in the register of members of Downing Income VCT 3 plc to the bank or building society account listed below.

Name of Bank or Building Society:		
Branch:		
Branch Address:		
Account Name:		
Sort Code:	<input type="text"/>	Account Number: (please quote all digits and zeros)
	<input type="text"/>	<input type="text"/>
Signed:		
The Company and Downing LLP do not accept responsibility if any details provided by you are incorrect.		

5

CREST

Complete this box only if you require shares to be issued electronically to a CREST account.

CREST Participant ID:	
CREST Member Account ID:	
Participant Name:	
Participant Address:	
Participant Postcode:	
Contact name for CREST queries:	
Contact Telephone	
Signed:	

6

TO BE COMPLETED BY AUTHORISED INTERMEDIARIES ONLY**Special instructions**

Please provide details of your bank account so that commission can be paid to you via BACS.

Name of Bank or Building Society:		
Branch:		
Account Name:		
Sort Code:	<input type="text"/>	Account Number: (please quote all digits and zeros)
	<input type="text"/>	<input type="text"/>
Email address for commission statements:		
The Company and Downing LLP do not accept responsibility if any details provided by you are incorrect.		



10 Lower Grosvenor Place
London SW1W 0EN

Tel: 020 7416 7780

Email: vct@downing.co.uk

Web: www.downing.co.uk

Downing LLP is authorised and regulated by the Financial Services Authority