



# DOWNING PLANNED EXIT VCT 2 PLC DOWNING PLANNED EXIT VCT 3 PLC

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SECURITIES NOTE (INCLUDING APPLICATION FORM)



  
**Downing**

Managed by Downing LLP

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## Offer Statistics for each Company

Offer Price per F Share	100.0p
Initial estimated Net Assets per F Share at the close of the Offers	94.5p
Maximum number of F Shares in issue, following the Offers, at Full Subscription	10,000,000
Estimated net proceeds of the Offers, at Full Subscription	£9,450,000

If the Minimum Subscription is not received by 3.00 p.m. on 5 April 2012, the Offers will be withdrawn.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.

The subscription proceeds will, so far as possible, be divided equally between the Companies. The application of the subscription proceeds is subject to the absolute discretion of the Directors.

## Special Terms

### *Applications from Downing VCT shareholders (including Spouses)*

Accepted applications received by 21 December 2011 will attract Additional Shares equivalent to 2% of the amount validly subscribed under the Offers. Accepted valid applications received between 22 December 2011 and 17 February 2012 will attract Additional Shares equivalent to 1% of the amount subscribed under the Offers.

### *Applications from all other Investors*

Accepted valid applications received by 21 December 2011 will attract Additional Shares equivalent to 1% of the amount subscribed under the Offers.

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

This document, the Registration Document and the Summary, which together comprise the prospectus ("the Prospectus") relating to the Companies, 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 F Shares, issued and to be issued, in each Company, to be admitted to the premium segment of the Official List. Application will also be made to the London Stock Exchange for all the F Shares, issued and to be issued, in each Company, 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 F 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.

Each Company and its Directors, whose names appear on page 8 of this document, accept responsibility for the information contained in the Prospectus. To the best of the knowledge of each 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 Companies 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 FSMA or the 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 Planned Exit VCT 2 plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 5334418)

## Downing Planned Exit VCT 3 plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 5334413)

### Offers for Subscription for the 2011/12 and 2012/13 tax years

of up to, in aggregate, 20,000,000 F Shares  
comprising up to 10,000,000 F Shares in the capital of each Company

#### Sponsor

Howard Kennedy Corporate Services LLP

#### Promoter

Downing LLP

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

Downing Planned Exit VCT 2 plc			Downing Planned Exit VCT 3 plc		
Share class	No. of shares	Nominal value	Share class	No. of shares	Nominal value
Ordinary Shares (ISIN: GB00B0697094)	9,994,968	£99,949.68	Ordinary Shares (ISIN: GB00B078VQ91)	10,064,617	£100,646.17
A Shares (ISIN: GB00B3D74M80)	10,754,329	£10,754.29	A Shares (ISIN: GB00B3D74T59)	10,760,064	£10,760.06
C Shares (ISIN: GB00B3D74S43)	7,166,806	£7,166.81	C Shares (ISIN: GB00B3D75146)	7,173,376	£7,173.38
D Shares (ISIN: GB00B4VR3D16)	10,000,000	£10,000.00	D Shares (ISIN: GB00B4V7FP75)	9,994,109	£9,994.11
E Shares (ISIN: GB00B4TLF407)	15,000,000	£15,000.00	E Shares (ISIN: GB00B4VZ1D11)	14,994,862	£14,994.86
F Shares (ISIN: GB00B6ZS0J90)	10,000,000	£10,000.00	F Shares (ISIN: GB00B6ZS1P26)	10,000,000	£10,000.00

The subscription list for the Offers will open on 12 October 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 9 October 2012). The terms and conditions of the Offers are set out on pages 17 to 18 of this document and are followed by Application Forms 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.

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 at the discretion of the Boards to no more than £30 million (£15 million per Company).

**Your attention is drawn to the Risk Factors set out on page 1 of this document. An investment in either 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](http://www.downing.co.uk)  
email: [vct@downing.co.uk](mailto:vct@downing.co.uk)

## Risk Factors

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

Each 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 F Shares may decline as a result 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 Companies. The Directors consider the following to be all the material risks for potential Investors in the Companies, which are not set out in any particular order of priority:

- Although it is intended that each 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 document are those currently available and their value depends on the individual circumstances of Investors. The Companies' 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 Companies' 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 F 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 Company's VCT status or F Shareholders' VCT status, then such payments may not be made.
- Although the F Shares will be Listed, it is highly unlikely that a liquid market in the F 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 F Shareholders to sell their F Shares. In addition, there is no guarantee that the market price of the F 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.
- F Shareholders should be aware that the sale of F 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 Companies is not suitable as a short or medium term investment.
- Most of the Companies' investments are likely to be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise.
- In order to comply with VCT legislation, the Qualifying Companies, in which the Companies' will invest at least 70% of their capital within three years, will generally be small companies that have a higher risk profile than larger companies and may not produce the hoped for returns. Investors could get back less than they invested. Additionally, the Qualifying Companies may also have limited trading records and therefore may not produce the anticipated returns.
- There is no guarantee that the Companies' objectives will be met or that suitable investment opportunities will be identified.
- Each 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 relevant Company (such as the obligation to have at least 70% by value of each VCT's investments in Qualifying Investments).
- The past performance of investments made by the Downing VCTs or Management should not be regarded as an indication of the performance of investments to be made by the Companies.
- 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 relevant Company to meet its objectives and/or reduce the level of returns which would otherwise have been achievable. In particular, on 6 July 2011 HM Treasury issued a consultation paper, which is likely to result in changes to legislation in the Finance Bill 2012. These changes could restrict the types of businesses that would represent Qualifying Investments and may affect investments made after 5 April 2012.
- The value of F Shares is dependant on the performance of the relevant Company'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 F Share may not be achieved and any dividend payments will reduce the Net Assets attributable to the F Shares.
- 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 another share class.

## 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, the Listing Rules and the DTR, as appropriate.

## Letter from the Chairman of each Company

10 Lower Grosvenor Place  
London SW1W 0EN

12 October 2011

Dear Investor

Subscriptions to VCTs currently attract income tax relief at the rate of 30%. This means that, for every £1 invested, the net cost to VCT Investors should be 70p. Set out below is a table illustrating the hypothetical returns to Investors at four different levels of Shareholder Proceeds, paid out during the period approximately six years from investment.

Illustrative returns based on an Offer Price of £1 per F Share				
Shareholder Proceeds	90p	100p	110p	120p
Less: net cost of investment (assuming 30% income tax relief)	(70p)	(70p)	(70p)	(70p)
Tax-free cash profit	20p	30p	40p	50p
Tax-free profit (as a % of net cost of investment)	+29%	+43%	+57%	+71%
Net Return <sup>1</sup>	5.2% p.a.	7.4% p.a.	9.3% p.a.	11.1% p.a.
Gross equivalent return <sup>2</sup> to:				
• 40% taxpayers	8.7% p.a.	12.3% p.a.	15.5% p.a.	18.5% p.a.
• 50% taxpayers	10.4% p.a.	14.8% p.a.	18.6% p.a.	22.2% p.a.

The returns set out above are for illustrative purposes only and no forecast or projection is implied or should be inferred. <sup>1</sup> The Net Return is the internal rate of return based on an investment of 100p deemed to be made on 5 April 2012, 30p income tax relief deemed to be received six months later on 5 October 2012 and either 90p, 100p, 110p or 120p of Shareholder Proceeds, comprising dividends of 5.0p payable on 30 November 2012 and dividends of 2.5p payable on 31 July 2013 and 30 November 2013 and on the same dates each year until 30 November 2016, 50% of the balance of the Shareholder Proceeds on 31 July 2017 and the remaining funds on 30 April 2018. <sup>2</sup> The gross equivalent return is compared to a source of income that is subject to income tax at an investor's marginal tax rate. It has been calculated by dividing the Net Return by 0.6 for 40% taxpayers and by 0.5 for 50% taxpayers.

The Companies will continue to target capital preservation. The Directors will accept lower returns on their investments in return for lower risk. The key points for Investors are:

- 1. Capital preservation strategy** – It is intended that the focus will be on investee companies that own substantial assets (over which the Companies will seek to take a charge in order to reduce the risk on their investments) or have predictable revenue streams.
- 2. Clear exit plans** – The Directors are targeting a minimum Net Return (inclusive of 30% income tax relief) to F Shareholders of 9% p.a. (15% p.a. gross equivalent to a 40% taxpayer) over the life of the F Shares (expected to be approximately six years). **This is only a target, not a projection or forecast, and there is no guarantee that it will be achieved.**
- 3. Key tax benefits**
  - **30% income tax relief** – is available on the amount subscribed up to £200,000 per tax year, provided the shares are held for at least five years. Tax reliefs are subject to change and their value depends on individual circumstances.
  - **Tax free distributions and capital gains.**
- 4. A VCT for income** – The Boards have a stated objective of paying annual dividends of at least 5p per F Share.

In order to invest please read the Prospectus and then complete one of the Application Forms 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



Hugh Gillespie  
Chairman

# Part I – The Offers

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## Introduction

VCTs were introduced to encourage individuals, by offering them substantial tax benefits, to invest in a portfolio of investments comprising at least 70% 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.

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.

The Companies' initial public share offers raised gross aggregate proceeds of £20.3 million (£10.15 million in each Company) during 2005. Ordinary Shareholders who invested in 2005 had a net cost of 60p per share following the receipt of income tax relief of 40p per Ordinary Share. All material investments held by the Ordinary Share pool have been sold and Ordinary Shareholders have received total dividends of 90.4p per Ordinary Share, equating to a tax-free return, calculated as an IRR, of 11.2% per annum, 18.7% gross equivalent to a 40% taxpayer.

Two further share offers have been undertaken. The 2008 Share Offer was launched in September 2008, raising aggregate proceeds of £14.3 million (£7.15 million in each Company). The initial offer price of the 2008 Shares (after issue costs) was 94.5p. As at 30 September 2011, the unaudited Net Asset Value per 2008 Share was 89.0p. With dividends of 10.0p per 2008 Share paid to date, the unaudited Total Return is 99.0p per 2008 Share.

The 2009 Share Offer was launched in November 2009, raising aggregate proceeds of £20 million (£10 million in each Company). The initial offer price of the 2009 Shares (after issue costs) was 94.5p. As at 30 September 2011, the unaudited Net Asset Value per 2009 Share was 92.0p. With dividends of 5.0p per 2009 Share paid to date, the unaudited Total Return is 97.0p per 2009 Share.

As at 30 September 2011, the 2008 and 2009 Share pools of each Company held investments in 38 companies with a total unaudited value of £28 million (£14 million in each Company).

## Reasons for the Offers

The Offers have been designed for Investors seeking to focus on investing in a portfolio of asset-backed unquoted investments, whilst taking advantage of the VCT tax reliefs. The Offers will also allow the running costs for all Shareholders to be spread over a larger asset base, reducing the running costs per Share.

Each Company is seeking to raise an additional £10 million (a total of £20 million) under the Offers. The subscription proceeds will be allocated, as far as possible, equally between the Companies. The application of the subscription proceeds is subject to the absolute discretion of the Directors. The Companies operate as parallel VCTs (i.e. they have identical Boards) and it is intended that they continue to be approximately equally capitalised, will continue to co-invest equally on the same terms in every investment and their running costs will be shared equally. Each application for F Shares under the Offers will be allocated to one of the Companies by the Boards (i.e. not split between the two Companies). The benefit of issuing shares in two VCTs (rather than one VCT) is that, together, they can continue investing in larger single transactions of up to £2 million per tax year.

### The F Shares

The existing investments and cash attributable to the Existing Shares will be kept separate from the proceeds of the issue of the F Shares, which will be administered as a separate investment pool. The holders of F Shares will have the right to participate (by way of dividends and return of capital) in those assets attributable to the F 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 F Shares.

## Objectives

The Companies' principal objectives are to:

- (i) maintain VCT status to enable Investors to benefit from 30% income tax relief on investment;
- (ii) reduce the risks normally associated with VCT investments;
- (iii) target a tax-free return to Investors of at least 9% per annum (15% per annum gross equivalent to a 40% taxpayer) over the life of the F Shares (expected to be approximately six years). This target Net Return is calculated on the net investment of 70p per F Share (being £1.00 less 30p income tax relief); and
- (iv) target an annual dividend of at least 5p per F Share.

**The targets above are not to be construed as forecasts.** The Companies will not vary these objectives, to any material extent, without the approval of Shareholders.

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

The principal UK VCT 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.

Effect of initial 30% income tax relief	
<b>Cost of investment</b>	<b>Per F Share</b>
Gross subscription by Investor	100.0p
30% income tax relief	(30.0p)
<b>Net of tax cost of investment</b>	<b>70.0p</b>
<b>Initial value of investment</b>	
Gross subscription by Investor	100.0p
Issue costs	(5.5p)
<b>Initial Net Asset Value</b>	<b>94.5p</b>
<b>Initial "uplift" (pence)</b>	<b>+24.5p</b>
<b>Initial "uplift" (%)</b>	<b>+35.0%</b>

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 F Share and the initial NAV is 94.5p, an "uplift" of 24.5p per F Share or +35%. **Investors should note that they are required to hold the F Shares for at least five years in order to retain the full amount of 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 Companies' 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 Companies maintaining their qualifying status.

## Income

The Boards have a stated objective of paying an annual dividend of 5p per F Share, comprising a minimum of 2.5p per F Share paid twice a year, subject to the availability of sufficient distributable profits and capital resources. Set out below is a table illustrating the returns to F Shareholders assuming annual dividends of 5p per F Share are paid. **Investors should note that the target annual dividend of 5p per F Share is an objective and is not guaranteed.**

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

<sup>1</sup> The returns listed after 30% income tax relief are based on an Offer Price of 100p multiplied by 70%, to reflect the 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.

<sup>2</sup> 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 Share less 30% to reflect initial income tax relief), assuming a 40% taxpayer and 50% taxpayer respectively.

The first dividend in respect of the F Shares is expected to be 5p per Share payable in November 2012. Thereafter, dividends of 2.5p per Share are expected to be paid bi-annually around the end of July and November each year.

# Investment Policy

The investment policy for each Company is as follows:

## Qualifying Investments

Qualifying Investments comprise investments in UK trading companies that own substantial assets (over which a charge will be taken by each Company) or have predictable revenue streams from financially sound customers.

## Non-Qualifying Investments

The funds not employed in Qualifying Investments will be predominantly invested in:

- Secured loans; and/or
- Fixed income securities.

Secured loans will be secured on property or other assets. Fixed Income Securities will consist of bonds issued by the UK Government, major companies and institutions and will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated). Both Standard & Poor's and Moody's are independent rating agencies, not registered in the EU.

## Borrowing Policy

It is not either Company's intention to have any borrowings. Under its Articles each Company does, however, have the ability to borrow a maximum amount equal to 50% of the aggregate amount paid on any shares issued by the relevant Company (together with any share premium thereon).

As a condition of each of its investments, it is intended that the Companies will have the ability to restrict the investee company's ability to borrow. Typically, the Downing VCTs' investee companies have no external borrowings ranking ahead (for security purposes) of the VCTs' investments. However, certain investee companies may be permitted to borrow limited sums (up to 25% of the value of their assets) where the Manager believes it is prudent to do so.

In accordance with the Listing Rules, the Boards will not make a material change to the Companies' investment policy without Shareholder approval.

## Target Allocation

Initially, the majority of funds will be invested in non-qualifying investments. The level of funds invested in non-qualifying investments will be reduced to provide funds for Qualifying Investments such that within three years of the close of the Offers the approximate allocation will be:

Investment Split	
	Portfolio Split
Qualifying investments	75%
Non-qualifying investments	25%
<b>Total</b>	<b>100%</b>

Note: The above table represents the approximate split of each Company's portfolio. The Board may increase the proportion of Qualifying Investments above 75% to allow for the possibility of early realisations without breaching the VCT regulations.

## Venture Capital Trust Regulations

In continuing to maintain its VCT status, each Company complies with a number of regulations as set out in Part 6 of the ITA. How the main regulations apply to each Company is summarised as follows: (i) each Company holds at least 70% of its investments in Qualifying Companies; (ii) at least 30% of each 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 each Company's portfolio (by value at time of investment); (v) each Company's income for each financial year is derived wholly or mainly from shares and securities; (vi) each 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 amount of £1 million in each VCT qualifying investment (per tax year).

## Listing Rules

In accordance with the Listing Rules: (i) each Company may not invest more than 10%, in aggregate, of the value of its total assets 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) each Company must not conduct any trading activity which is significant in the context of its group as a whole; and (iii) each Company must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy as set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the ITA.

## Share Buyback Policy

Each Company will make market purchases of its own F Shares, up to a maximum annual number equivalent to 14.9% of the total number of issued F Shares from time to time. The Boards intend to operate a policy of purchasing F Shares that become available as detailed below (subject to liquidity and regulations). The proceeds received by F Shareholders on the sale of their F 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 October 2016	Nil
1 November 2016 onwards	Board discretion

### From launch to 31 October 2016

Each Company will buy back F Shares in the first five years from launch (to 31 October 2016), at nil discount to Net Asset Value, subject to regulations and having sufficient liquidity within the relevant Company. Investors should note that income tax relief of 30% will be repayable if the F Shares are not held for the minimum holding period of five years; however, there is no clawback of the 30% income tax relief following the death of a Shareholder. The Boards anticipate that there will be limited share buybacks of F Shares within five years because the only sellers are likely to be deceased Shareholders' estates and those 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 net proceeds of sale).

### From 1 November 2016 onwards

As stated below in the section headed "Realisation Plans", after five years each Company will seek to exit from its investments and return funds to Shareholders. Therefore, to help achieve this objective, during this period the Boards will reserve the right as to whether it will undertake F Share buybacks and the level of discount to Net Asset Value it will undertake any such F Share buybacks.

## Realisation Plans

It is intended that the assets held in the F Share pool will be sold and that the proceeds will be distributed to F Shareholders within approximately six years from the close of the Offers. It is intended that any proceeds received from the sale of investments after five years, attributable to the F Shares, will not be re-invested by the Companies, but instead used to fund payments to F Shareholders by way of dividends or share buybacks.

### Exit mechanism

It is intended that tax-free cash proceeds will be paid to F Shareholders (net of the Performance Incentive, if applicable) by way of tax-free revenue and capital dividends and share buybacks. Set out below is a table showing the anticipated timing of Investor cashflows based on hypothetical Shareholder Proceeds of 110p per F Share and an initial investment of £10,000.

	Date	Total investment	Per share
Cost of investment	2011/12	£10,000	100.0p
30% income tax relief	2012	(£3,000)	(30.0p)
<b>Net of tax cost of investment</b>		<b>£7,000</b>	<b>70.0p</b>
<b>Returns from investment</b>			
Annual dividends of 5p per F Share (£500 p.a.)	2012-2016	£2,500	25.0p
Sale of investments	2017/18	£8,500	85.0p
<b>Total distributions</b>		<b>£11,000</b>	<b>110.0p</b>
<b>Total return on net cost</b>		<b>+57.1%</b>	
<b>Net Return</b>		<b>9.3% p.a.</b>	

The distributions set out above are for illustrative purposes only and no forecast or projection is implied or should be inferred. Investors should note that the level of dividends is not guaranteed.

## Management

### Manager

Each Company is managed by the Managers, whose executives are provided by Downing LLP.

### 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. 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 LLP is responsible for the management of over £200 million across 14 VCTs and its investment team comprises 14 executives.

## Track Record of the Companies

### Track record of the Ordinary Shares

Downing Planned Exit VCTs 2 and 3 Ordinary Shares (launched in the 2004/05 tax year) have sold all their material investments and returned the proceeds to their investors, which totalled 90.4p per Share and represented an increase over the net of tax cost of 51%. The compound return (calculated as an IRR after tax reliefs) was 11.2% per annum tax-free, which is equivalent to 18.7% per annum to a 40% taxpayer.

### Track record of the 2008 Shares and 2009 Shares

The track record of the Companies' share issues in 2008 and 2009 are set out below.

Track record of the 2008 Shares and 2009 Shares					
	Tax year of launch	Net cost <sup>1</sup>	Total Return to date <sup>2</sup>	Increase over net cost (%)	Position in peer group <sup>3</sup>
Downing Planned Exit VCT 2 – 2008 Shares	08/09	70.0p	99.0p	+41%	Joint 2 <sup>nd</sup> out of 14
Downing Planned Exit VCT 3 – 2008 Shares	08/09	70.0p	99.0p	+41%	Joint 2 <sup>nd</sup> out of 14
Downing Planned Exit VCT 2 – 2009 Shares	09/10	70.0p	97.0p	+39%	Joint 3 <sup>rd</sup> out of 17
Downing Planned Exit VCT 3 – 2009 Shares	09/10	70.0p	97.0p	+39%	Joint 3 <sup>rd</sup> out of 17

<sup>1</sup> Net cost is the initial offer price of 100p per share less the income tax relief available to investors in each of the Company's share classes.  
<sup>2</sup> Total Return is cumulative dividends paid to date plus the most recently announced net asset value for each VCT in pence per share.  
<sup>3</sup> This ranking is based on total return (net asset value plus cumulative dividends paid) out of all new VCTs or new VCT share classes launched in the relevant tax year. The total return for each VCT has been sourced by Downing from announcements made through a regulatory information service.

Investors should note that they are required to hold shares for a minimum period (currently five years) to retain the income tax relief and that the VCT share classes listed above have only recently launched; consequently, it is too early to judge their performance. In any case, past performance is no guide to future performance.

## Co-investment Policy

It is intended that the Companies will co-invest and divest with each other on identical terms in all material respects and investments will be made in proportion to their respective issued share capital following the completion of the Offers.

The Companies' only other formal co-investment relationships are with the other 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 Companies have identical Boards, comprising three Directors, all of whom are non-executive and independent of the Managers.

**Hugh Gillespie** (Chairman) is non-executive chairman of Downing Planned Exit VCTs 4 – 9 and a non-executive director of Downing Distribution VCT 2 and 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.

**Dennis Hale** was previously an investment director of Financial Management Bureau Limited ("FMB"), a firm of independent financial advisers based in Cumbria. He was responsible for VCT research within FMB, whose clients have invested in VCTs since 1997. Prior to founding FMB in 1987, he worked for several life assurance companies. He was an Associate of the Institute of Actuaries and holds The Investment Management Certificate. He graduated from the University of Hull with a degree in Mathematics in 1974. He is also a director of a number of Downing VCTs.

**Michael Robinson** has over 25 years' experience in the private equity industry. He spent 25 years at 3i plc, where he was latterly a director managing a large portfolio of equity investments. He qualified as a chartered accountant with Deloitte Haskins & Sells in 1979 and is also a non-executive director of Hedgelane Limited and a pension trustee of its defined benefit pension plan, The Consortium CARE Pension Scheme.

The Directors will be investing at least £28,000 under the Offers on the same terms as Investors. The total invested by the partners and employees of Downing in Downing VCTs is over £2 million.

## Costs

### 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 F Share), together with an annual commission of 0.5% per annum of the Net Assets attributable to the F Shares (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

The Managers will receive annual investment management fees of 1.8% of the Net Assets attributable to the F Shares. They will also continue to receive an annual fee of £47,500 (plus VAT, if applicable, and RPI) per Company for administration services, which will be allocated across all share pools. The Annual Running Costs of the F Share pool of each Company are capped at 3.5% (including irrecoverable VAT) of that Company's Net Assets attributable to the F Shares and any excess will be paid by the relevant Manager, or refunded by way of a reduction in its fees. 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 the Managers and Downing, but not the Performance Incentive. General running costs not specific to either the Existing Share pool or F 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 may receive fees payable by the investee companies. In particular Downing will receive arrangement fees (capped at 1% of the sums invested by the Companies, with any excess paid to the Companies) and monitoring fees (capped at £10,000 per annum in respect of each of the Companies' investments) from investee companies. Costs incurred on abortive investment proposals will be the responsibility of Downing.

### Performance Incentive

As is customary in the venture capital industry, the Managers will be entitled to receive a performance-related incentive based upon returns to Shareholders. The calculation of the Performance Incentive is based wholly on the payment of cash proceeds to Shareholders.

The Performance Incentive in respect of the F Shares will have no impact on Existing Shareholders. The Performance Incentive is designed to encourage significant and timely distributions to F Shareholders, both in terms of annual dividends and repayment of capital after five years. The Performance Incentive will only become payable if F Shareholders: (i) receive Shareholder Proceeds of at least 100p per F Share (excluding initial income tax relief); and (ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 3p per F Share plus 20% above 100p per F Share of the funds available (for distribution to F Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of each Company equivalent to 7p per F Share (based on the number of F Shares in issue at the close of the Offers).

For example, if the total funds available for distribution were 110p per F Share, then the Performance Incentive would be 5p per F Share (3p plus 20% x 10p), leaving Shareholder Proceeds of 105p per F Share (assuming the Hurdles have been met and ignoring any benefit from corporation tax relief on the Performance Incentive). If the total funds available for distribution were instead 130p per F Share, the Performance Incentive would be capped at 7p per F Share, leaving Shareholder Proceeds of 123p per F Share.

## Other Information

### Taxation and HM Revenue & Customs Approval

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

### The Offers and Minimum and Maximum Subscription

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

Assuming Full Subscription a maximum of £20 million (£18.9 million net of issue costs) will be raised under the Offers, comprising 10 million F Shares in each Company. If the Offers are over-subscribed, they may be increased at the discretion of the Boards 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. In the event that 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 12 October 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 fully subscribed earlier or previously extended by the Directors, in the case of the 2012/13 Offer (but no later than 9 October 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.

The subscription proceeds will, so far as possible, be divided equally between the Companies. The application of the subscription proceeds between the Companies is subject to the absolute discretion of the Directors.

F 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 each Company for the Admission of all of the F Shares. The F 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 relevant Company in respect of the F Shares thereafter. It is anticipated that dealings in the first allotment of F 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 F Shares have commenced. Each Company has applied for its F Shares to be admitted to CREST and it is expected that the F 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 F Shares following Admission may take place within the CREST system if F Shareholders wish. CREST is a voluntary system and F 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 F Shares will be posted to F 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. 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 F 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 F Shares, intermediaries will usually be paid an annual trail commission of 0.25% of the Net Asset Value of their clients' holdings for the life of this 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 June (commencing June 2013) based on the audited Net Asset Value at the preceding 31 January. 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 Companies are available for download at the National Storage Mechanism ([www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do)) and may be obtained, free of charge, from each Company's registered office, where they are also on display, and from Downing LLP.

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## Financial calendar

Financial year end	31 January
Final results announcement	May
Annual general meeting	July
Anticipated first dividend in respect of the F Shares	November 2012
Dividend paid at the end of	July & November
Half yearly results announcement	September
Target year for the payment of the final distribution	2018

## 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 Companies will be subject to corporation tax on their income (excluding dividends received from UK companies) after deduction of attributable expenses.

#### 2. Tax reliefs for individual investors

Individuals who subscribe for F 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 neither Company assumes 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 F 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 Companies, 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 Companies' 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 Companies maintaining their VCT qualifying status.**

## Part III – Financial Information

A summary of each Company's investment portfolio as at 11 October 2011 (being the latest practicable date prior to publication of this document) is set out below.

	Downing Planned Exit VCT 2			Downing Planned Exit VCT 3		
<b>2008 SHARE POOL</b>	<b>Cost</b>	<b>Valuation*</b>	<b>% of</b>	<b>Cost</b>	<b>Valuation*</b>	<b>% of</b>
	<b>£'000</b>	<b>£'000</b>	<b>portfolio</b>	<b>£'000</b>	<b>£'000</b>	<b>portfolio</b>
Bijou Wedding Venues Ltd	815	815	12.8%	815	815	12.9%
Future Biogas (SF) Ltd	627	627	9.8%	627	627	10.0%
Hoole Hall Country Club Holdings Ltd	581	581	9.2%	581	581	9.3%
Domestic Solar (ISIS) Ltd	500	500	7.9%	500	500	8.0%
The Thames Club Ltd	500	500	7.9%	500	500	8.0%
Atlantic Dogstar Ltd	429	429	6.8%	429	429	6.8%
Redmed Ltd	350	350	5.5%	350	350	5.6%
East Dulwich Tavern Ltd	344	344	5.4%	344	344	5.5%
Westow House Ltd	304	304	4.8%	304	304	4.8%
Quadrate Catering Ltd	290	290	4.6%	290	290	4.6%
The 3D Pub Co Ltd	267	267	4.2%	267	267	4.3%
Quadrate Spa Ltd	258	258	4.1%	258	258	4.1%
Ecosol Ltd	250	250	3.9%	250	250	4.0%
Honeycombe Pubs VCT Ltd	175	175	2.8%	175	175	2.8%
Mosaic Spa and Health Club Ltd	125	125	2.0%	125	125	2.0%
Chapel Street Food and Beverage Ltd	50	50	0.8%	50	50	0.8%
Chapel Street Services Ltd	50	50	0.8%	50	50	0.8%
Vermont Developments Ltd	25	25	0.4%	25	25	0.4%
Commercial Street Hotel Ltd	12	12	0.2%	12	12	0.2%
Chapel Street Hotel Ltd	2	2	0.0%	2	2	0.0%
	<u>5,954</u>	<u>5,954</u>	<u>93.9%</u>	<u>5,954</u>	<u>5,954</u>	<u>94.9%</u>
Cash at bank and in hand		387	6.1%		320	5.1%
		<u>6,341</u>	<u>100.0%</u>		<u>6,274</u>	<u>100.0%</u>
<b>2009 SHARE POOL</b>						
	<b>Cost</b>	<b>Valuation*</b>	<b>% of</b>	<b>Cost</b>	<b>Valuation*</b>	<b>% of</b>
	<b>£'000</b>	<b>£'000</b>	<b>portfolio</b>	<b>£'000</b>	<b>£'000</b>	<b>portfolio</b>
Aminghurst Ltd	2,000	2,000	21.8%	2,000	2,000	21.8%
Future Biogas (Reepham Road) Ltd	748	748	8.1%	748	748	8.1%
Lullingstone Ltd	618	618	6.7%	618	618	6.7%
Gingerbread Pre-School Ltd	551	551	6.0%	551	551	6.0%
Quadrate Catering Ltd	436	436	4.7%	436	436	4.7%
Domestic Solar (ISIS) Ltd	400	400	4.4%	400	400	4.4%
Camandale Ltd	531	398	4.3%	531	398	4.3%
Quadrate Spa Ltd	386	386	4.2%	386	386	4.2%
Alpha Schools Holdings Ltd	367	367	4.0%	367	367	4.0%
Westcountry Solar Solutions Ltd	297	297	3.2%	297	297	3.2%
Avon Solar Energy Ltd	250	250	2.7%	250	250	2.7%
Ecosol Ltd	250	250	2.7%	250	250	2.7%
Green Electricity Generation Ltd	250	250	2.7%	250	250	2.7%
Retallack Surfpods Ltd	250	250	2.7%	250	250	2.7%
Slopingtactic Ltd	195	195	2.1%	195	195	2.1%
Kirkhouse Ltd	175	175	1.9%	175	175	1.9%
Progressive Energies Ltd	170	170	1.9%	170	170	1.9%
Fenkle Street LLP	147	147	1.6%	147	147	1.6%
Ridgeway Pub Company Ltd	137	137	1.5%	137	137	1.5%
Kidspace Adventures Ltd	135	135	1.5%	135	135	1.5%
Mosaic Spa and Health Club Ltd	125	125	1.4%	125	125	1.4%
Hoi Polloi Pub Co Ltd	70	70	0.8%	70	70	0.8%
Commercial Street Hotel Ltd	18	18	0.2%	18	18	0.2%
	<u>8,506</u>	<u>8,373</u>	<u>91.1%</u>	<u>8,506</u>	<u>8,373</u>	<u>91.1%</u>
Cash at bank and in hand		817	8.9%		821	8.9%
		<u>9,190</u>	<u>100.0%</u>		<u>9,194</u>	<u>100.0%</u>

\*Valuation as at 30 September 2011 – extracted from the unaudited management accounts for each Company for the period ended 30 September 2011.

Investors should note that the net proceeds of the Offers will be invested in accordance with each Company's investment policy, as set out on page 5 of this document. As general economic circumstances and prospects may vary over time there can be no guarantee that future investments will be made in the same sectors or types of companies as the present portfolio. The above information is unaudited.

## 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)
"2008 Offer"	offers for subscription of up to 15,000,000 C Shares and 15,000,000 A Shares of each Company on the terms set out in the securities note issued by the Companies on 25 September 2008
"2008 Shares"	one or more A Shares and one or more C Shares, as the context so permits
"2009 Offer"	offers for subscription of up to 10,000,000 D Shares and 10,000,000 E Shares of each Company on the terms set out in the securities note issued by the Companies on 6 November 2009
"2009 Shares"	one or more D Shares and one or more E Shares, as the context so permits
"A Shares"	A Shares of 0.1p each in the capital of either or both of Downing Planned Exit VCT 2 (ISIN: GB00B3D74M80) and Downing Planned Exit VCT 3 (ISIN: GB00B3D74T59) (as applicable)
"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"	F Shares issued, at no cost to the Applicant, as explained in the Special Terms paragraph on the inside cover of this document
"Admission"	admission of the F Shares to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities
"Annual Running Costs"	annual running costs incurred by the relevant 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 F Shares pursuant to the Prospectus
"Application Form"	form of application for F Shares under the Offers set out at the end of this document
"Articles"	Articles of Association of either or both of the Companies (as applicable) as at the date of this document
"Business Days"	any day, other than a Saturday or Sunday, on which clearing banks in London are open for all normal banking business
"C Shares"	C Shares of 0.1p each in the capital of either or both of Downing Planned Exit VCT 2 (ISIN: GB00B3D74S43) and Downing Planned Exit VCT 3 (ISIN: GB00B3D75146) (as applicable)
"Company(ies)"	Downing Planned Exit VCT 2 plc and/or Downing Planned Exit VCT 3 plc (as applicable)
"CREST"	the 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 1995 (SI 1995/3272)
"D Shares"	D Shares of 0.1p each in the capital of either or both of Downing Planned Exit VCT 2 (ISIN: GB00B4VR3D16) and Downing Planned Exit VCT 3 (ISIN: GB00B4V7FP75) (as applicable)
"Directors" or "Board"	directors of the relevant Company
"Downing"	Downing LLP, which is authorised and regulated by the Financial Services Authority
"Downing Absolute Income VCT *"	Downing Absolute Income VCT * plc, where * is any combination of 1 or 2, as applicable
"Downing Distribution VCT *"	Downing Distribution 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 Planned Exit VCT 2 Group"	Downing Planned Exit VCT 2 and its wholly owned subsidiary Downing Managers 2 Limited
"Downing Planned Exit VCT 3 Group"	Downing Planned Exit VCT 3 and its wholly owned subsidiary Downing Managers 3 Limited
"Downing Structured Opportunities VCT"	Downing Structured Opportunities VCT 1 plc
"Downing VCTs"	Downing Absolute Income VCT 1-2, Downing Distribution VCT 1, Downing Distribution VCT 2, Downing Planned Exit VCT 4 – 9, Downing Planned Exit VCT 2011 plc, Downing Structured Opportunities VCT and the Companies, as applicable
"DTR"	Disclosure 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 Shares"	E shares of 0.1p each in the capital of either or both of Downing Planned Exit VCT 2 (ISIN: GB00B4TLF407) and Downing Planned Exit VCT 3 (ISIN: GB00B4VZ1D11) (as applicable)
"Existing Shares"	A Shares and/or C Shares and/or D Shares and/or E Shares and/or Ordinary Shares
"Existing Shareholders"	holders of A Shares and/or C Shares and/or D Shares and/or E Shares and/or Ordinary Shares
"F Shareholder"	holder of F Shares
"F Shares"	F shares of 0.1p each in the capital of either or both of Downing Planned Exit VCT 2 (ISIN: GB00B6ZSOJ90) and Downing Planned Exit VCT 3 (ISIN: GB00B6ZS1P26) (as applicable)
"Fixed Income Securities"	investments made by the Companies which do not comprise Qualifying Investments, such as bank deposits, loan stock, bonds, preference shares and other debt instruments
"FSA"	Financial Services Authority
"FSMA"	Financial Services and Markets Act 2000 (as amended)
"Full Subscription"	£20 million raised under the Offers
"General Meeting"	general meeting of each Company to be held on 16 November 2011 at which the resolutions described in paragraph 4.5 of Part IV of the Registration Document will be proposed
"Group"	Downing Planned Exit VCT 2 Group and/or Downing Planned Exit VCT 3 Group as applicable
"Hurdle"	achievement calculated on a per F Share basis of (a) a Compound Return of at least 7% per annum and (b) the payment of Shareholder Proceeds of at least 100% of the gross amount subscribed on that F Share under the Offers
"Investor"	subscriber for F Shares under the Offers
"IRR"	the internal rate of return, which applied to the relevant cash flows, produces a net present value of zero (expressed as a percentage)
"ITA"	Income Tax Act 2007
"Listed"	admitted to 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
"Management"	individuals engaged in the business of the Companies, the Managers and/or Downing
"Management A Shares"	3,587,523 A Shares in Downing Planned Exit VCT 2 and 3,568,688 A Shares in Downing Planned Exit VCT 3, issued to Management in connection with the 2008 Offer
"Management E Shares"	5,000,000 E Shares in Downing Planned Exit VCT 2 and 5,000,000 E Shares in Downing Planned Exit VCT 3, issued to Management in connection with the 2009 Offer
"Manager"	in the case of Downing Planned Exit VCT 2, Downing Managers 2 Limited, a wholly owned subsidiary of Downing Planned VCT 2 and, in the case of Downing Planned Exit VCT 3, Downing Managers 3 Limited, a wholly owned subsidiary of Downing Planned Exit VCT 3
"Minimum Subscription"	minimum net proceeds required to be raised under the Offers, being £1,890,000
"ML Regulations"	Money Laundering Regulations 2007
"NAV" or "Net Asset Value"	net asset value per Share
"Net Assets"	gross assets less all liabilities (excluding contingent liabilities) of the relevant Company
"Net Return" or	internal rate of return, calculated from the date of the last allotment of F Shares under the Offers, on
"Compound Return"	the cash flows arising in respect of the gross amount subscribed for F Shares based on an Offer Price of £1 per F Share, the deemed receipt of 30% of such amounts (representing income tax relief thereon) six months later and the receipt of any Shareholder Proceeds. These cash flows will be calculated on a daily basis and annualised and are in respect of F Shares issued in the Companies
"Notice"	notice of the General Meeting of each Company as set out in the circular to holders of Ordinary Shares and/or C Shares and/or D Shares dated 12 October 2011
"Offer Agreement"	agreement dated 12 October 2011 between the Companies (1), the Directors (2), the Sponsor (3) and Downing (4), a summary of which is set out in paragraph 7(a) of Part IV of the Registration Document
"Offer Price"	100p per F Share
"Offers"	together, the 2011/12 Offer and the 2012/13 Offer being offers for subscription of up to, in aggregate, 20,000,000 F Shares
"2011/12 Offer"	offer for subscription in respect of the 2011/12 tax year, being made by each 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 each Company on the terms set out in this document
"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 either or both of Downing Planned Exit VCT 2 (ISIN: GB00B0697094) and Downing Planned Exit VCT 3 (ISIN: GB00B078VQ91) (as applicable)
"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"
"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 of the ITA
"Qualifying Investment"	investment in an unquoted trading company, which comprises a qualifying holding for a VCT as defined in Chapter 4 Part 6 of the 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 buy-backs, proceeds on a sale or liquidation of the relevant Company and any other proceeds or value received, or deemed to be received, by F Shareholders in the relevant Company, excluding any income tax relief on subscription holders of Shares
"Shareholders"	holders of Shares
"Share(s)"	Ordinary Share(s) and/or A Share(s) and/or C Share(s) and/or D Share(s) and/or E Share(s) and/or F Shares (excluding Management A Shares and Management E Shares), as applicable
"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 or proposed 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"	company approved as a venture capital trust under Section 274 ITA
"VCT Regulations"	The Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004

## Part V – Additional Information

### 1. The Companies

#### 1.1 Incorporation

Downing Planned Exit VCT 2 and Downing Planned Exit VCT 3 were each incorporated in England and Wales as public companies with limited liability on 17 January 2005 with registered numbers 5334418 and 5334413 respectively. The principle legislation under which the Companies operate and under which the Ordinary Shares, A Shares, C Shares, D Shares, E Shares and F Shares have been created is the Acts and regulations made thereunder.

#### 1.2 Borrowing policy

The Directors may exercise all the powers of each Company to borrow money and to mortgage or charge its undertakings, property and uncalled capital. The Directors shall restrict the borrowings of each Company and, by the exercise of each Company's voting and other rights or powers of control over its subsidiary undertakings (if any), secure that they restrict their borrowings, so that the aggregate amount at any time outstanding in respect of money borrowed by the group, being each Company and its subsidiary undertakings for the time being (excluding intra-group borrowings), shall not, without the previous sanction of an ordinary resolution of the relevant Company, exceed a sum equal to 50% of the aggregate total amount received from time to time on the subscription of shares to the relevant Company.

#### 1.3 Cancellation of the share premium account

The Directors are aware of the possibility that the Companies' Shares may trade at a discount to their net asset value at some point. The Directors consider that each 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 each 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 each Company's VCT status and Court approval, the Companies may decide to reduce and/or cancel the share premium account (created on the issue of the F Shares pursuant to the Offers) and to transfer the balance of the special reserve, which is 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 Rules and company legislation.

#### 1.4 Stamp duty and close company status

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

#### 1.5 Material interests

The Managers will each be paid an annual investment management fee of 1.8% of the Net Assets attributable to the F Shares of the relevant Company. In line with normal VCT practice, the Managers will be entitled to receive a Performance Incentive. Further details of these arrangements are set out in Part I of this document.

#### 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, investment trusts and direct shareholdings in listed companies, and has sufficient income and capital so that his investment in the relevant 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.

#### 1.8 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 each 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 each Company provisional approval under Part 6 of the ITA as a VCT. Each 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

In the opinion of Downing Planned Exit VCT 2, the working capital available to the Downing Planned Exit VCT 2 Group is sufficient for its present requirements, that is, for at least 12 months from the date of this document.

In the opinion of Downing Planned Exit VCT 3, the working capital available to the Downing Planned Exit VCT 3 Group is sufficient 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 each Company as at 30 September 2011 (extracted from the unaudited management accounts of the relevant Company for the period ended 30 September 2011).

	Downing Planned Exit VCT 2 £'000	Downing Planned Exit VCT 3 £'000
<b>Total current debt</b>		
Guaranteed	-	-
Secured	-	-
Unguaranteed/secured	-	-
<b>Total non-current debt</b>		
Guaranteed	-	-
Secured	-	-
Unguaranteed/secured	-	-
<b>Shareholders' equity</b>		
Share capital	143	144
Other reserves	15,444	15,447
	<u>15,587</u>	<u>15,591</u>

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

The following table shows each Company's net indebtedness as at 30 September 2011 (extracted from the unaudited management accounts of the relevant Company for the period ended 30 September 2011).

	Downing Planned Exit VCT 2	Downing Planned Exit VCT 3
	£'000	£'000
A Cash	1,204	1,141
B Cash equivalent	-	-
C Trading Securities	-	-
<b>D Liquidity (A+B+C)</b>	<b>1,204</b>	<b>1,141</b>
E Current financial receivables	684	717
F Current bank debt	-	-
G Current position of non current debt	-	-
H Other current financial debt	-	-
<b>I Current financial debt (F+G+H)</b>	<b>-</b>	<b>-</b>
<b>J Net current financial indebtedness (I-E-D)</b>	<b>(1,888)</b>	<b>(1,858)</b>
K Non-current bank loans	-	-
L Bonds issued	-	-
M Other non-current loans	-	-
<b>N Non-current financial indebtedness (K+L+M)</b>	<b>-</b>	<b>-</b>
<b>O Net financial indebtedness (J+N)</b>	<b>(1,888)</b>	<b>(1,858)</b>

Neither Company has any contingent or indirect indebtedness.

#### 4. Creation of the F Shares

The Companies have issued a circular dated 12 October 2011 to holders of Ordinary Shares and/or C Shares and/or D Shares convening a general meeting on 16 November 2011. The following resolutions will be proposed and, are all conditional upon the passing of the other resolutions contained in the Notice:

Ordinary Resolutions:

- 1) to create F Shares having the rights and being subject to the restrictions set out in the Articles, to be altered pursuant to resolution 5 described below;
- 2) to authorise the directors to allot up to an aggregate nominal amount of £15,000. The allotments referred to represent, in aggregate, approximately 10.5% of the issued share capital of the Companies 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 Companies' next annual general meetings;
- 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);

Special Resolutions:

- 4) to authorise the directors to allot the shares referred to in resolution 2 as if section 561(1) of the 2006 Act did not apply. This dis-application represents approximately 10.5% of each 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 Companies' next annual general meetings;
- 5) to alter the Articles of Association to, *inter alia*, provide for the rights attaching to the F Shares;
- 6) to authorise the Boards to make market purchases of F Shares; and
- 7) to authorise the cancellation of the share premium account arising on the issue of the F Shares.

#### 5. Details of the F Shares

##### 5.1 Distributions of income and capital

The holders of F 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 F Shares, pro-rata to their respective holdings of F Shares.

##### 5.2 Distributions of assets on a winding-up

The capital and assets attributable to the F 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

F Shareholders will be entitled to receive notice of, to attend, speak and vote at any general meeting, *pari passu* in such respects with the holders of Ordinary Shares, C Shares and D Shares. Every F Shareholder present in person or by proxy shall upon a show of hands or upon a poll, have one vote for every F 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 New Shares unless, in such territory, such 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 each Company confirms that this information has been accurately reproduced and, as far as each Company is aware and able to ascertain from information published, no facts have been omitted which would render the reproduced information inaccurate or misleading.

12 October 2011

## Part VI – Terms and Conditions of Application

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1. In these Terms and Conditions of Application, the expression "Prospectus" means this document, the Registration Document and the Summary, each dated 12 October 2011. The expression "Application Form" means the application form for use in accordance with these Terms and Conditions of Application. The expression "the Company" when used in this Part VI means the relevant Company to which your Application Form is deemed to relate. 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 F 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 account.
3. You may pay for your application for F 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 F Shares under the Offers will be conditional on:
  - (a) the Minimum Subscription being received by 3.00 p.m. on 5 April 2012; and
  - (b) all resolutions being passed at the Company's General Meeting to be held on 16 November 2011; and
  - (c) Admission of the F 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 and Additional Shares or any smaller sum for which such application is accepted at the Offer Price, 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 for Additional Shares and IFA commission waived as extra Shares, if your subscription is accepted, you will be allocated one F 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 F 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 F Shares applied for or to enjoy or receive any rights or distributions in respect of such F Shares unless and until you make payment in cleared funds for such F 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 F Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such F Shares as void and may allot such F Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such F 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 F 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 F 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 therefore 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 each 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 F Shares or concerning the suitability of F Shares for you or be responsible to you for the protections afforded to their customers;

- (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 F 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 F Shares;
- (w) warrant that the F 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 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 you request that F Shares are issued to you on dates other than 5 April 2012 or 30 April 2012 and such F Shares are not issued on such date that the relevant Company and its agents and Directors will have no liability to you arising from the issue of such F Shares on a different date.
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 F 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 Financial Services Authority number will be entitled to commission on the amount payable in respect of the F 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 apply for the amount stated in box number 2 of the Application Form together with an additional amount equivalent to the commission waived or subscribed on an Investors behalf for extra shares, which waived commission will be applied in subscription for such F Shares. Downing or the Registrar is authorised to amend such box number 2 to include any such additional amount. 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, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or 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 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 F 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.
16. The application of the subscription proceeds is subject to the absolute discretion of the Directors.

## Notes on Application Form

Before making an application to acquire F 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 subscribing under the Offers. Share subscriptions will be adjusted to reflect any commission waived (by agents) as extra F 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 Planned Exit VCT 2 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. In order for commission to be paid by BACs, please complete the relevant boxes.

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

# DOWNING PLANNED EXIT VCT 2 & 3 PLC

## Application Form

**Make your cheque or bankers' draft out to "Downing Planned Exit VCT 2 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 F 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 12 October 2011 and to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the F Shares in Downing Planned Exit VCT 2 plc and/or Downing Planned Exit 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 Planned Exit VCT 2 plc and Downing Planned Exit 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 (iv) 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 and Customs may inspect this application form. It is a serious offence to make a false declaration.

3

Signature		Date	/ /
-----------	--	------	-----

<b>Authorised intermediaries should stamp and complete this box</b>	
Contact name  Firm name: Chelsea Financial Services  FSA No.: 114493  Email address*	Address: St James Hall, Moore Park Road, London   Postcode: SW6 2JS  Tel.:
<small>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.</small>	

<b>For Official Use Only</b>	
Money laundering <input style="width: 80px;" type="text"/>	TT <input style="width: 80px;" type="text"/>



**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 Companies and completing the form below will direct the Companies to send all dividend payments due on all your shareholdings in the Companies 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 Companies 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 Planned Exit VCT 2 plc or Downing Planned Exit 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"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	Account Number: (please quote all digits and zeros)
	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	
Signed:		
<b>The Companies and Downing LLP do not accept responsibility if any details provided by you are incorrect.</b>		

**5****CREST**

Complete this box only if you require your 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"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	Account Number: (please quote all digits and zeros)
	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	
Email address for commission statements:		
<b>The Companies and Downing LLP do not accept responsibility if any details provided by you are incorrect.</b>		



# DOWNING PLANNED EXIT VCT 2 & 3 PLC

## Application Form

**Make your cheque or bankers' draft out to "Downing Planned Exit VCT 2 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 F 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 12 October 2011 and to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the F Shares in Downing Planned Exit VCT 2 plc and/or Downing Planned Exit 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 Planned Exit VCT 2 plc and Downing Planned Exit 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 (iv) 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 and Customs may inspect this application form. It is a serious offence to make a false declaration.

3

<b>Signature</b>		<b>Date</b>	/ /
------------------	--	-------------	-----

<b>Authorised intermediaries should stamp and complete this box</b>	
Contact name  Firm name: Chelsea Financial Services  FSA No.: 114493  Email address*	Address: St James Hall, Moore Park Road, London   Postcode: SW6 2JS  Tel.:
<small>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.</small>	

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Money laundering <input style="width: 80px;" type="text"/>	TT <input style="width: 80px;" type="text"/>



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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 Companies 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 Planned Exit VCT 2 plc or Downing Planned Exit 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"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	Account Number:	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
							(please quote all digits and zeros)										
Signed:																	
<b>The Companies and Downing LLP do not accept responsibility if any details provided by you are incorrect.</b>																	

**5****CREST**

Complete this box only if you require your 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"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	Account Number:	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
							(please quote all digits and zeros)										
Email address for commission statements:																	
<b>The Companies and Downing LLP do not accept responsibility if any details provided by you are incorrect.</b>																	







10 Lower Grosvenor Place  
London SW1W 0EN

**Tel:** 020 7416 7780

**Email:** [vct@downing.co.uk](mailto:vct@downing.co.uk)

**Web:** [www.downing.co.uk](http://www.downing.co.uk)

Downing LLP is authorised and regulated by the Financial Services Authority