



Downing TWO VCT plc

Prospectus

Offers for Subscription
2015/16 & 2016/17 tax years

Downing



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This document, which comprises a Prospectus dated 15 December 2015 relating to the Company, has been prepared in accordance with the Prospectus Rules made under section 73A and in accordance with section 84 of FSMA and has been approved by, and filed with, the FCA.

Application has been made to the UK Listing Authority for all the K Shares, issued and to be issued in the capital of the 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 K Shares, issued and to be issued in the capital of the Company, to be admitted to trading on its main market for listed securities. Subject to the Minimum Subscription being received by 3.00 p.m. on 5 April 2016, it is expected that Admission of the first allotment of K Shares will become effective, and that dealings in these shares will commence, by 12 April 2016 and, in respect of subsequent allotments thereafter, within 20 Business Days of allotment.

The Company and its Directors, whose names appear on page 26 of this document, accept responsibility for the information contained in the Prospectus. To the best of the knowledge of the Company and its Directors (who have taken all reasonable care to ensure that such is the case) the information contained in the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Howard Kennedy Corporate Services LLP is acting as sponsor and Downing LLP is acting as promoter of the Company in connection with the Offers, and neither of them is advising any other person or treating any other person as a customer or client in relation to the Offers or (subject to the responsibilities and liabilities imposed by the FSMA or 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.

The Company and the Directors consent to the use of the Prospectus and accept responsibility for the content of the Prospectus, with respect to subsequent resale or final placement of securities by financial intermediaries, from the date of the Prospectus until the close of the Offers. The Offers are expected to close on 29 April 2016, unless previously extended by the Directors, but may not extend beyond 30 November 2016. There are no conditions attaching to this consent. Financial intermediaries may only use the Prospectus in the UK.

Information on the terms and conditions of the Offers will be given to Investors by financial intermediaries at the time that the Offers are introduced to Investors. Any financial intermediary using the Prospectus must state on its website that it is using the Prospectus in accordance with this consent.

Downing TWO VCT plc (Incorporated in England and Wales under the Companies Act 1985 with registered number 05334418)		
Offers for Subscription for K Shares for the 2015/16 and 2016/17 tax years of up to 15,000,000 K Shares in the capital of the Company		
Sponsor Howard Kennedy Corporate Services LLP		Promoter Downing LLP

Share capital of the Company immediately following the Offers, assuming Full Subscription and an Offer Price of £1 and ignoring the over-allotment facility:

Share class	Issued and to be issued fully paid	
	No. of Shares	Nominal value
A Shares (ISIN: GB00B3D74M80)	10,724,029	£10,724.03
C Shares (ISIN: GB00B3D74S43)	7,126,194	£7,126.19
D Shares (ISIN: GB00B4VR3D16)	10,000,000	£10,000.00
E Shares (ISIN: GB00B4TLF407)	14,950,000	£14,950.00
F Shares (ISIN: GB00B6ZSOJ90)	10,822,154	£10,822.15
G Shares (ISIN: GB00B8Y7CS47)	25,386,546	£25,386.55
K Shares (ISIN: GB00BZ6CSD3)	15,000,000	£15,000.00

The subscription list for the Offers will open on 15 December 2015 and may close at any time thereafter but, in any event, not later than 3.00 p.m. on 5 April 2016 in the case of the 2015/16 Offer and not later than 3.00 p.m. on 29 April 2016 in the case of the 2016/17 Offer, unless previously extended by the Directors (but to no later than 30 November 2016). The terms and conditions of the Offers are set out on pages 63 to 66 of this document. If the Minimum Subscription is not received by 3.00 p.m. on 5 April 2016, the Offers will be withdrawn and application monies will be returned to applicants within seven business days of such date, at their own risk, without interest. The Offers are not underwritten.

Assuming Full Subscription, the net proceeds of the Offers will be £15 million. If the Offers are over-subscribed, they may be increased at the discretion of the Board to no more than £30 million in total (30,000,000 K Shares in total).

Your attention is drawn to the risk factors set out on page 15 of this document. An investment in the Company is only suitable for Investors who are capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss which might arise. The Promoter of the Offers is:

Downing LLP
 Ergon House, Horseferry Road
 London SW1P 2AL

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

Offer Statistics for the Company

Initial NAV per K Share at the close of the Offers	100.00p
Net proceeds of the Offers, at Full Subscription, ignoring the over-allotment facility	£15,000,000
Number of K Shares in issue, following the Offers, at Full Subscription, ignoring the over-allotment facility	15,000,000

If the Minimum Subscription is not received by 3.00 p.m. on 5 April 2016, the Offers will be withdrawn. In the event that the Minimum Subscription is not received, subscription monies will be returned to Investors within seven business days of 5 April 2016, at their own risk, without interest.

Financial Calendar

Financial year end	31 December
Final results announcement	April
Annual general meeting	June
Half yearly results announcement	August
Target years for the payment of the exit proceeds	2021 - 2023

Early Applications

Accepted valid applications which are received by certain dates will benefit from the offer costs (as a percentage of the amount subscribed) being reduced by the amounts set out below:

Applications received	Reduction in offer costs
by 29 January 2016	1.0%
30 January 2015 – 26 February 2016	0.5%
on or after 27 February 2016	nil

These reduced offer costs will be met by Downing through an equivalent reduction in its Promoter's Fee.

SUMMARY

Summaries are made up of disclosure requirements known as ‘Elements’. The Elements are numbered in Sections A—E (A.1—E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted into the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of ‘not applicable’.

Section A: Introduction and Warnings

Element	Disclosure requirement	Disclosure
A. 1	Warning	<p>This summary should be read as an introduction to the Prospectus published by Downing TWO VCT plc (the “Company”) and dated 15 December 2015 (the “Prospectus”). Any decision to invest in the securities of the Company should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled this summary, including any translation thereof, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the securities of the Company.</p>
A. 2	Use of Prospectus by financial intermediaries	<p>The Company and the Directors consent to the use of the Prospectus and accept responsibility for the content of the Prospectus for subsequent resale or final placement of the securities in the Company by financial intermediaries. The period in which such consent to use the Prospectus is given begins with the date of the Prospectus and ends on the close of the Offers, for the purpose of introducing subscribers for K Shares. The Offers are expected to close on or before 29 April 2016, unless previously extended by the Directors to a date not being later than 30 November 2016.</p> <p>Financial intermediaries must give Investors information on the terms and conditions of the offer by the financial intermediary at the time the offer is made to them by the financial intermediary.</p>

Section B – Issuers

Element	Disclosure requirement	Disclosure																																																	
B.1	Legal and commercial name.	Downing TWO VCT plc																																																	
B.2	Domicile and legal form	<p>The Company was incorporated and registered in England and Wales on 17 January 2005 as a public company limited by shares under the Companies Act 1985 with registered number 05334418.</p> <p>The Company operates under the Companies Act 2006 (the “Act”) and regulations made under the Act.</p>																																																	
B.5	Group description	The Company is a member of a Group consisting of itself and its wholly owned subsidiary, Downing Managers 2 Limited (registered number 05330621).																																																	
B.6	Major shareholders	<p>The Company is not aware of any person who has, as at the date of this document, or who immediately following the issue of the K Shares under the Offers (assuming Full Subscription, a Promoter’s fee of 2% paid by all Investors, and no Adviser Charges), will or could have, directly or indirectly, voting rights representing 3% or more of the issued share capital of the Company or who can, or could following the Offers, directly or indirectly, exercise control over the Company.</p> <p>There are no different voting rights for any Shareholders.</p>																																																	
B.7	Selected financial information and statement of any significant changes	<p>Certain selected financial information of the Company, which has been extracted without material adjustment from its audited and unaudited financial statements, is set out below:</p> <table><tr><th></th><th>Report and Accounts (audited) for Year Ended 31 Jan 2012</th><th>Report and Accounts (audited) for Year Ended 31 Jan 2013</th><th>Report and Accounts (audited) for Period Ended 31 Dec 2013</th><th>Half Yearly Report (unaudited) for Six Months ended 30 June 2014</th><th>Report and Accounts (audited) for Year Ended 31 Dec 2014</th><th>Half Yearly Report (unaudited) for Six Months ended 30 June 2015</th></tr><tr><td>C Shares</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Net Asset Value per C Share (p)</td><td>91.5</td><td>94.8</td><td>90.9</td><td>91.6</td><td>98.6</td><td>50.0</td></tr><tr><td>Cumulative dividend paid per C Share (p)</td><td>12.5</td><td>17.5</td><td>22.5</td><td>25.0</td><td>25.0</td><td>75.0</td></tr><tr><td>A Shares</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Net Asset Value per A Share (p)</td><td>0.1</td><td>0.1</td><td>0.1</td><td>0.1</td><td>0.1</td><td>0.1</td></tr><tr><td>Cumulative dividend paid per A Share (p)</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr></table>		Report and Accounts (audited) for Year Ended 31 Jan 2012	Report and Accounts (audited) for Year Ended 31 Jan 2013	Report and Accounts (audited) for Period Ended 31 Dec 2013	Half Yearly Report (unaudited) for Six Months ended 30 June 2014	Report and Accounts (audited) for Year Ended 31 Dec 2014	Half Yearly Report (unaudited) for Six Months ended 30 June 2015	C Shares							Net Asset Value per C Share (p)	91.5	94.8	90.9	91.6	98.6	50.0	Cumulative dividend paid per C Share (p)	12.5	17.5	22.5	25.0	25.0	75.0	A Shares							Net Asset Value per A Share (p)	0.1	0.1	0.1	0.1	0.1	0.1	Cumulative dividend paid per A Share (p)	-	-	-	-	-	-
	Report and Accounts (audited) for Year Ended 31 Jan 2012	Report and Accounts (audited) for Year Ended 31 Jan 2013	Report and Accounts (audited) for Period Ended 31 Dec 2013	Half Yearly Report (unaudited) for Six Months ended 30 June 2014	Report and Accounts (audited) for Year Ended 31 Dec 2014	Half Yearly Report (unaudited) for Six Months ended 30 June 2015																																													
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Cumulative dividend paid per A Share (p)	-	-	-	-	-	-																																													

	Report and Accounts (audited) for Year Ended 31 Jan 2012	Report and Accounts (audited) for Year Ended 31 Jan 2013	Report and Accounts (audited) for Period Ended 31 Dec 2013	Half Yearly Report (unaudited) for Six Months ended 30 June 2014	Report and Accounts (audited) for Year Ended 31 Dec 2014	Half Yearly Report (unaudited) for Six Months ended 30 June 2015
D Shares						
Net Asset Value per D Share (p)	83.2	79.7	77.0	76.0	71.5	73.1
Cumulative dividend paid per D Share (p)	7.5	12.5	17.5	20.0	22.5	22.5
E Shares						
Net Asset Value per E Share (p)	0.1	0.1	0.1	0.1	0.1	0.1
Cumulative dividend paid per E Share (p)	-	-	-	-	-	-
F Shares						
Net Asset Value per F Share (p)	n/a	88.5	80.0	77.8	75.8	72.0
Cumulative dividend paid per F Share (p)	n/a	5.0	10.0	12.5	15.0	17.5
G Shares						
Net Asset Value per G Share (p)	n/a	n/a	95.1	92.4	90.2	88.5
Cumulative dividend paid per G Share (p)	n/a	n/a	5.0	7.5	10.0	12.5

There have been no significant changes in the financial condition or operating results of the Company during or subsequent to the periods covered by the historical information set out above.

The most recently published Net Asset Values of the Shares (unaudited) as at 31 October 2015 of the Company were:

C Shares	53.2 p
A Shares	0.1 p
D Shares	77.1 p
E Shares	0.1 p
F Shares	73.4 p
G Shares	89.2 p

B.8	Selected key pro forma financial information	Not Applicable. There is no pro forma financial information in the Prospectus.
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B.9	Profit forecast	Not applicable. No profit forecast or estimate is made in the Prospectus.	
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. There is no historical financial information contained within the Prospectus which is subject to any such qualification.	
B.11	Insufficient Working capital	Not applicable. The Company is of the opinion that the working capital available to the Group is sufficient for the Group's present requirements (that is, for at least the next twelve months from the date of the Prospectus).	
B.34	Investment policy	<p>The investment objective of the Company is to invest in UK trading companies with a view to profitable realisations.</p> <p>The current investment policy of the Company is as follows.</p> <p>Qualifying Investments</p> <p>Qualifying Investments comprise investments in UK trading companies that own substantial assets (over which a charge will be taken by the Company) or have predictable revenue streams from financially sound customers.</p> <p>Non-Qualifying Investments</p> <p>The funds not employed in Qualifying Investments will be predominantly invested in:</p> <ul style="list-style-type: none"> • Secured Loans; and/or • Fixed Income Securities. <p>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.</p> <p>Borrowing policy</p> <p>It is not the Company's intention to have any borrowings. Under its Articles, the 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 Company (together with any share premium thereon).</p> <p>As a condition of each of its investments, it is intended that the Company 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.</p> <p>Listing rules</p> <p>In accordance with the Listing Rules:</p> <p>(i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other</p>	XV: 1.1

listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds; (ii) the Company must not conduct any trading activity which is significant in the context of the Company; and (iii) the 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 set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the Income Tax Act 2007.

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007. How the main regulations apply to the Company is summarised as follows: 1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007); 2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011; 3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment); 4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment); 5. The Company's income for each financial year is derived wholly or mainly from shares and securities; and 6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained.

Proposed Investment Policy to be Adopted at the General Meeting

The Company's proposed investment policy to be adopted at the General Meeting is set out below.

Qualifying Investments

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

Non-Qualifying Investments

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

- Secured Loans;
- Fixed Income Securities;
- Pooled funds;
- Listed investments;
- Non-qualifying unquoted investments; and/or
- Cash deposits

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. Pooled funds include OEICS, Unit Trusts and Investment Trusts. Listed Investments will be in companies listed on a recognised stock exchange and that can be traded. Non-qualifying unquoted investments may include loans to existing portfolio companies.

Borrowing policy

It is not the Company's intention to have any borrowings. Under its Articles, the 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 Company (together with any share premium thereon).

As a condition of each of its investments, it is intended that the Company 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.

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the ITA. How the main regulations apply to the Company is summarised as follows: (i) the Company holds at least 70% by value of its investments in Qualifying Companies; (ii) at least 30% of the Company's Qualifying Investments (by value) are held in "eligible shares" for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011; (iii) at least 10% of each investment in a Qualifying Company is held in "eligible shares" (by cost at time of investment); (iv) no investment constitutes more than 15% of the Company's portfolio (by value at the time of investment); (v) the Company's income for each financial year is derived wholly or mainly from shares and securities; (vi) the Company distributes sufficient revenue dividends to ensure that not more than 15% of its income from shares and securities in any one year is retained; (vii) no investment made by the Company causes an investee company to receive more than £5 million of state aided investments (including from VCTs) in the year ending on the date of the investment; and (viii) for shares issued after 5 April 2014, the Company may not return the capital raised by that issue to its investors for a period of three years from the end of the accounting period in which the shares were issued.

Listing Rules

In accordance with the Listing Rules: (i) the 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 that have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds; (ii) the Company must not conduct any trading activity which is significant in the context of its group as a whole; and (iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its 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.

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

B.35	Borrowing limits	<p>It is not the Company's intention to have any borrowings. Under its Articles the Company does, however, have the ability to borrow a maximum amount equal to 50% of the funds raised under its offers for subscription or the aggregate amount paid on any shares issued by the Company (together with any share premium thereon).</p> <p>As a condition of each of its investments, it is intended that the Company will have the ability to restrict the investee company's ability to borrow. Typically, investee companies have no external borrowings ranking ahead (for security purposes) of the VCTs' investments.</p>
B.36	Regulatory status	The Company is not regulated by the Financial Conduct Authority or any other regulatory body. The Company was registered with the FCA as a Small Registered UK AIFM with effect from 9 July 2014.
B.37	Typical investor	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 Company can be held for over five years. The individual will be professionally advised and/or a sophisticated investor.
B.38	Investment of 20% or more in a single underlying asset or investment undertaking	Not applicable. The Company will not invest more than 20% of its gross assets in a single underlying asset or investment undertaking.
B.39	Investment of 40% or more in a single underlying asset or investment undertaking	Not applicable. The Company will not invest more than 40% of its gross assets in a single underlying asset or investment undertaking.
B.40	Applicant's service providers	<p>(a) Downing has undertaken to use its reasonable endeavours to procure subscribers under the Offers for up to 15,000,000 K Shares for the Company for a fee of between 2% to 4% of the gross funds raised dependant on whether commission is payable on the share applications or not.</p> <p>(b) The Manager provides investment management services to the Company in respect of its portfolio of investments for an annual fee (inclusive of VAT if applicable) of 1.35% in respect of the Net Assets attributable to the A, C, D and E Shares, 1.8% in respect of the F Shares, and 2% in respect of the G and K Shares.</p>

In addition, the Manager agreed to provide or procure the provision of certain administration services to the Company for an annual fee of £60,000 plus VAT (if applicable), increasing annually in line with RPI.

(c) The Manager is also entitled to receive a performance – related management fee from the Company, calculated as follows: 3p per Share plus 20% of the funds available above 100p per F Share, 105.82p per G Share and 20% of the aggregate excess on any amounts realised by the Company in excess of 100p per K Share (before distribution to the respective class of Shareholders and the payment of the performance incentive), to the extent the performance hurdles are met and subject to a maximum amount equivalent to 7p per class of Share (6p per K Share). The hurdles are based on the relevant class of Shareholders receiving Shareholder Proceeds over a minimum level (excluding initial income tax relief) and achieving a minimum annual tax-free compound return (after allowing for income tax relief on investment).

B.41	Regulatory status of the Manager	The Manager is authorised and regulated by the Financial Conduct Authority (registration number 545025).
B.42	Calculation of Net Asset Value	<p>The Net Asset Value of the Company will be calculated by the Company in accordance with the Company's accounting policies and will be published at least quarterly through a Regulatory Information Service.</p> <p>The Board does not envisage any circumstances in which such calculations would be suspended but, were this to occur, such suspension would be communicated to shareholders in a similar manner.</p>
B.43	Cross liability	Not Applicable. The Company is not an umbrella collective investment undertaking and as such there is no cross liability between classes or investment in another collective investment undertaking.
B.44	No financial statements have been made up	Not applicable. The Company has commenced operations and historical financial information is included within the Prospectus.
B.45	Portfolio	The Company's Qualifying Investment portfolio comprises unquoted UK trading companies focussed on business that own substantial assets or have predictable revenue streams. Funds not employed in Qualifying Investments are predominately invested in secured loans and fixed income securities.
B.46	Net Asset Value	As at 31 October 2015, the unaudited NAV was 53.2p per C Share, 0.1p per A Share, 77.1p per D Share, 0.1p per E Share, 73.4p per F Share and 89.2p per G Share.

Section C — Securities

Element	Disclosure requirement	Disclosure
C.1	Types and class of securities	The Company will issue K Shares under the Offers. The ISIN and SEDOL of the K Shares are GB00BZ6CSD33 and BZ6CSD33 respectively.
C.2	Currency	Sterling.
C.3	Number of securities to be issued	Under the Offers, up to a maximum of 30,000,000 Shares in the Company will be issued.
C.4	Description of the rights attaching to the securities	<p>As Regards Income:</p> <p>The holders of the K Shares shall be entitled to receive such dividends as the Directors resolve to pay out of the net assets attributable to the K Shares held by them and from income received and accrued from the portfolio attributable to the K Shares held by them, in accordance with the Company's Articles. Following changes in the Finance Act 2014 for shares issued after 5 April 2014, the Company may not return the capital raised by a share issue to its investors for a period of three years from the end of the accounting period in which the shares were issued. There is no restriction on dividends funded out of income attributable to the K Shares.</p> <p>As Regards Capital:</p> <p>On a return of capital on a winding up the surplus capital and assets attributable to the K Shares shall be divided amongst the holders of K Shares pro rata according to the nominal capital paid up on their respective holdings of K Shares, in accordance with the Company's Articles.</p> <p>As Regards Voting and General Meetings:</p> <p>Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure as to beneficial ownership, each holder of K Shares present in person or by proxy shall on a poll have one vote for each such K Share of which he is the holder.</p> <p>As Regards Redemption:</p> <p>The K Shares are not redeemable.</p>
C.5	Restrictions on the free transferability of the securities	There are no restrictions on the free transferability of the K Shares.
C.6	Admission	Application will be made to the UK Listing Authority for the K Shares to be admitted to the premium segment of the Official List and to the London Stock Exchange for the K Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that such admissions will become effective, and that dealings in the K Shares will commence from 12 April 2016.

C.7	Dividend policy	Generally, a VCT must distribute by way of dividend such amount as to ensure that it retains not more than 15% of its income from shares and securities. The Directors do not intend to set an annual dividend target for the K Shares.
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Section D — Risks

Element	Disclosure requirement	Disclosure
D.2	Key information on the risks specific to the issuer	<ul style="list-style-type: none"> • The past performance of the Manager or of the Company is no indication of their future performance. • Investments made in unquoted companies carry a higher degree of risk than those made in quoted companies. Similarly, investments in small and immature businesses are typically more risky than investments in large, developed businesses. There can be no guarantees that the Company will meet its objectives or that suitable investment opportunities will be identified. Although the Company may agree conventional venture capital rights in connection with some of its investments, as minority investors they may not be in a position fully to protect their interests. • Whilst it is the intention that the Company will be managed so as to continue to qualify as a VCT, there can be no guarantee that such status, and the associated tax relief, will be maintained. It is possible for Investors to lose their tax reliefs by taking or not taking certain steps. Levels and bases of, and relief from, taxation are subject to change. • Changes in legislation concerning VCTs, Qualifying Investments and qualifying trades may restrict or adversely affect the Company's ability to meet its objectives and reduce the level of returns.
D.3	Key information on the risks specific to the securities	<ul style="list-style-type: none"> • The value of K Shares may fall below the original amount invested, its market price may not fully reflect the underlying Net Asset Value and dividends may not be paid. Investment in the Company should be viewed as a long-term investment. • Although it is anticipated that the K Shares will be admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, there is likely to be an illiquid market. In addition, the market value of the Shares may not fully reflect the underlying Net Asset Value of the Shares.

Section E — Offer

Element	Disclosure requirement	Disclosure
E.1	Net proceeds and costs of the issue	The maximum costs and expenses relating to the offers, assuming full subscription are 4% or £600,000. The total net proceeds of the Offers, on the above assumptions and after all fees, are expected to be £15,000,000. The maximum total charge to Investors relating to the Offers, assuming full subscription and all applications received through execution-only brokers or intermediaries not offering financial advice would be 4% or £600,000.
E.2a	Reason for the Offers and use of proceeds	<p>The Board believes that the current economic climate will continue to create opportunities for those investors able to take a medium to long term view to invest in well managed UK businesses that need capital to expand but are facing a shortage of finance, resulting in higher portfolio returns. The additional funds raised under the Offers will enable the Company to increase the pace of its investment activity and both the number and size of its investments in the future and will finance running costs. By raising more capital the running costs per Share in the Company will be reduced as the fixed costs are spread over a larger asset base.</p> <p>The Company will use the net proceeds of the Offers, expected to be £15,000,000 on the above assumptions, to invest predominantly in unquoted companies, in line with the Company's investment policy.</p>
E.3	Terms and conditions of the Offer	Up to 15,000,000 K Shares in the Company are offered at the Offer Price under the Offers, payable in full upon application. If the Offers are oversubscribed, they may be increased at the discretion of the Board up to a maximum of 30 million K Shares, in aggregate.

Adviser Charges, Pricing of the Offers and Commission

Commission is not permitted to be paid to Intermediaries who provide a personal recommendation to UK retail clients on investments in VCTs after 30 December 2012. Instead of commission being paid by the VCT, a fee will usually be agreed between the Intermediaries and Investor for the advice ("Adviser Charge"). This fee can either be paid directly by the Investor to the Intermediaries or, if it is an initial one-off fee, the payment of such fee may be facilitated by the Company. Ongoing fees will not be facilitated by the Company. If the payment of the Adviser Charge is to be facilitated by the Company, then the Investor is required to specify the amount of the charge on the Application Form (see Box 3). The Investor will be issued fewer K Shares (to the equivalent value of the Adviser Charge) through the Pricing Formula set out below.

Commission is permitted to be paid to Intermediaries in certain limited situations, such as in respect of execution only clients (where no advice or personal recommendation has been provided). The level of the Promoter's Fee reflects whether or not commission is payable.

Promoter's Fee (no Adviser commission payable)

Downing will charge a Promoter's Fee of 2% of the monies subscribed, where it is not required to pay commission to an Intermediary.

Promoter's Fee (Adviser commission payable)

Downing will charge a Promoter's Fee of 4% of the monies subscribed, where it is required to pay commission to an Intermediary.

Out of its Promoter's Fees, Downing (not the Investor) will be responsible for paying all the costs of the Offers, including initial and trail commission to Intermediaries (where applicable).

Pricing of the Offers

The number of K Shares to be issued to each Applicant will be calculated based on the following Pricing Formula (rounded down to the nearest whole K Share):

$$\text{Number of K Shares} = \frac{\text{Amount subscribed less (i) Promoter's Fee and (ii) Adviser Charge}}{\text{Latest NAV per K Share}}$$

E.4	Material interests	Not applicable. No interest is material to the Offers.
E.5	Name of person selling securities	Not applicable. No person or entity is offering to sell security in the Company as part of the Offers. There are no lock up agreements.
E.6	Dilution	Not Applicable. New share class.
E.7	Expenses charged to the investor	<p>Applications received through execution only brokers and intermediaries</p> <p>The expenses charged to the Investor under the Offers are 4% of gross funds raised for the Company in respect of applications received through execution only brokers or intermediaries not offering financial advice.</p>

Applications received directly from Applicants and through intermediaries offering financial advice

The expenses charged to the Investor under the Offers are 2% of gross funds raised for the Company in respect of applications received directly from Applicants and through intermediaries offering financial advice.

Copies of the Prospectus are available for download at the National Storage Mechanism (www.morningstar.co.uk/uk/NSM) and may be obtained free of charge from the Company's registered office.

Dated: 15 December 2015

Risk Factors

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

The Company's business, financial condition or results could be materially and adversely affected by any of the risks described below, which are set out in no particular order of priority. In such cases, the market price of the K 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 Company. The Directors consider the following to be all the material risks for potential Investors in the Company:

I:4
III:2

- Although it is intended that the Company will be managed so as to continue to qualify 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% VCT income tax relief.
- The levels and bases of reliefs from taxation may change and changes 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 Company's objectives have been set on the basis that all Investors obtain 30% VCT income tax relief on their subscriptions. Therefore, this investment may not be suitable for Investors who do not qualify for the full 30% VCT income tax relief.
- If any of the Company's investments do not perform to plan, then there could be a shortfall or delay in receipt of the Shareholder Proceeds and hence a reduction in the return to K 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 the Company's VCT status or Shareholders' tax reliefs, then such payments may not be made.
- Although the K Shares will be Listed, it is highly unlikely that a liquid market in the K Shares will develop as the initial VCT 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 K Shareholders to sell their K Shares. In addition, there is no guarantee that the market price of the K Shares will fully reflect their underlying NAV 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.
- The ability of the Company to dispose of its investments after five years may be limited at that time in the event of poor prevailing economic conditions and, in particular, where there is limited availability of finance to potential purchasers. In such circumstances, the payment of Shareholder Proceeds could be delayed and the amount reduced.
- K Shareholders should be aware that the sale of K Shares within five years of their subscription will require the repayment of some or all of the 30% VCT income tax relief obtained upon investment. Accordingly, an investment in the Company is not suitable as a short or medium term investment.
- Shareholders should note that if they have sold, or if they sell, any shares in the Company within 6 months either side of the subscription for the K Shares, then for the purposes of calculating the tax relief on the K Shares the subscribed amount must be reduced by the amount received from the sale.
- Most of the Company's investments are likely to be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise. This may affect the availability of Shareholder Proceeds.

- In order to comply with VCT legislation, the Qualifying Companies, in which the Company will invest at least 70% of its capital within three years, will generally be small and immature companies that have a higher risk profile than larger companies and may not produce the hoped for returns. Accordingly, Investors could get back less than the full amount they invested. Additionally, these Qualifying Companies may also have limited trading records, and therefore, may not produce the anticipated returns.
- The Finance (No.2) Act 2015 introduced changes to the VCT Rules which have placed greater restrictions on the range of investments into which the Company can deploy funds. As a result the Company is required to invest in businesses which are less than seven years old and VCT funds cannot be used to finance acquisitions by investee companies. The penalty for breaching these new rules is the loss of VCT status, so the Company and its investors may face a higher risk of the loss of tax benefits than under the previous rules.
- There is no guarantee that the Company's objectives will be met or that suitable investment opportunities will be identified.
- The Company's ability to obtain maximum value from its investments (for example, through their sale) may be limited by the requirements of the relevant VCT legislation in order to maintain the VCT status of the Company (such as the obligation to have at least 70% by value of each VCT's investments in Qualifying Investments).
- The past performance of investments made by the Company, the Downing VCTs or the Manager should not be regarded as an indication of the performance of investments to be made by the Company.
- Changes in legislation in respect of VCTs and Qualifying Investments in general and qualifying trades in particular, may restrict or adversely affect the ability of the Company to meet its objectives and/or reduce the level of returns which would otherwise have been achievable.
- The value of the K Shares is dependent on the performance of the Company's underlying investments. The value of the investments and the dividend stream from them can rise and fall.
- Where the European Commission believes that State Aid has been provided which is not in accordance with the Risk Finance Guidelines, it may require the UK government to recover that State Aid. There is currently no mechanism in place for this, but recovery may be from the investee company, the VCT or the VCT's investors.

Forward-Looking Statements

You should not place undue reliance on forward-looking statements. This document 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 document, based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future. Any such statements do not, nor are intended to, qualify the Company's working capital statement.

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 the Company

Downing TWO VCT plc
Ergon House, Horseferry Road
London SW1P 2AL
15 December 2015

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 Investors should be 70p. The strategy for the K Share pool is to seek to exit from its investments and return funds to investors over a period of between five and a half and eight and a half years after the close of the Offers. Set out below is a table illustrating the hypothetical return to Investors of this strategy, assuming a total return of £1.10 per £1 invested.

Illustrative returns based on an investment of £10,000 ¹					
	Initial £	5.5 Years £	6.5 Years £	7.5 Years £	Total Distributions £
Cost of investment	10,000				
30% income tax relief	(3,000)				
Net cost of investment /Tax free distributions	7,000	6,500	3,500	1,000	11,000
Tax-free profit (as a % of net cost of investment)	57.1%				
Net Return (tax-free) ²	7.6% pa	Gross equivalent return ³		12.6% pa	

The returns set out above are for illustrative purposes only and no forecast or projection is implied or should be inferred.

¹ The calculations above are based on an investment of £10,000

² The Net Return is the internal rate of return ("IRR") based on an investment of £10,000 deemed to be made on 29 April 2016, 30% VCT income tax relief deemed to be received six months later on 31 October 2016, and distributions of £6,500 received on 31 October 2021, £3,500 received on 31 October 2022 and £1,000 on 31 October 2023 (net of any performance fees payable).

³ The gross equivalent return is compared to a source of income that is subject to income tax at an Investor's marginal tax rate of 40%. It has been calculated by dividing the Net Return by 0.6.

The key points for Investors are:

- Investment strategy** – It is intended that the focus will be on investee companies that: (i) trade from freehold premises because these types of businesses provide a level of protection compared to companies with no tangible assets; and those that (ii) have predictable revenue streams. Although new rules introduced in the July 2015 summer budget place new restrictions on the range of investments that the Company can undertake, the Manager is confident that a suitable investment portfolio can be built that can deliver the targeted returns.
- Exit opportunities** – The Company is a "planned exit" VCT, with a strategy designed to pay exit proceeds at full value (no discount to NAV), in contrast to most "generalist" VCTs. The Directors are targeting a minimum Net Return (inclusive of 30% income tax relief) to K Shareholders of at least 7.6% p.a. (12.6% p.a. gross equivalent to a 40% taxpayer) over the life of the K Shares, equivalent to £1.10 per £1 invested (net of all charges). It should be noted that the returns and exit dates are only targets, not projections nor forecasts, and there is no guarantee that they will be achieved.
- Key tax benefits**
 - 30% VCT income tax relief** is available on the amount subscribed up to £200,000 per tax year, provided the K Shares are held for at least five years and the company maintains its VCT status.
 - Tax-free distributions and capital gains.**
The levels and bases of tax reliefs are subject to change and their value depends on individual circumstances.

In order to invest please read this Prospectus in full and complete the separate Application Form. 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 provided by Downing and their attention is drawn to the risk factors set out on page 15 and 16 of this document.**

Yours sincerely



Hugh Gillespie
Chairman

The Company

Directors and advisers

Directors (all non-executive)

Hugh Gillespie (Chairman)
Dennis Hale
Christopher McCann
all of
Ergon House, Horseferry Road
London SW1P 2AL

**Company Secretary and
Registered Office**

Grant Leslie Whitehouse
Ergon House, Horseferry Road
London SW1P 2AL

**Manager and Administrator of
Downing TWO VCT plc**

Downing LLP
Ergon House, Horseferry Road
London SW1P 2AL

**Sponsor and Solicitors to the Offer
and the Company**

Howard Kennedy Corporate Services LLP (Sponsor)
Howard Kennedy LLP (Solicitors)
1 London Bridge
London SE1 9BG

Promoter and Receiving Agent

Downing LLP
Ergon House, Horseferry Road
London SW1P 2AL

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Bankers

Bank of Scotland
33 Old Broad Street
London EC2N 1HZ

Royal Bank of Scotland
London Victoria Branch
119/121 Victoria Street
London SW1E 6RA

Registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

VCT Taxation Advisers

Philip Hare & Associates LLP
4 – 6 Staple Inn
London
WC1V 7QH

There is no family relationship between any of the Directors, the Company Secretary or any member of Management.

Part I - The Offers

Introduction

VCTs were introduced in 1995 to encourage individuals to invest indirectly in a range of small higher risk UK trading companies. VCTs are investment companies whose shares are listed on the Official List and traded on the London Stock Exchange. To date, over £5 billion has been raised by over 100 VCTs (*source: HM Revenue & Customs*).

VCTs were created so that their investors could benefit from a spread of Qualifying Investments under the supervision of professional managers who contribute valuable experience, contacts and advice to the businesses in which they invest. For the tax benefits to be available, VCTs are required to be approved by HM Revenue & Customs for the purposes of 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. Dividends and capital distributions from VCTs are currently tax-free, subject to a maximum investment of £200,000 per individual per tax year and no change in VCT regulations.

The Company's initial public share offer raised gross aggregate proceeds of £10.15 million 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. The investments in the Ordinary Share pool were all sold and the net proceeds distributed to Ordinary Shareholders, with the majority of funds returned during 2008 and 2009. Ordinary Shareholders received total distributions of 90.4p per Ordinary Share, equating to a tax-free return, calculated as an IRR, of 11.2% per annum (18.7% per annum gross equivalent to a 40% taxpayer).

Four further share offers have since been undertaken, with the C Share pool beginning to realise its investments and return funds to investors. As at 31 October 2015, the C, D, F and G Share pools of the Company held investments in 44 companies with a total unaudited value of £31.0 million.

The Company's objectives are to continue investing in VCT Qualifying Investments and maintain VCT status. The Directors are targeting a tax free return (inclusive of 30% income tax relief) to K Share Investors of at least 7.6% per annum (12.6% per annum gross equivalent to a 40% taxpayer) over the life of the K Shares (expected to be up to approximately eight years). These targets should not be construed as forecasts or predictions and there is no guarantee that they will be achieved.

Reasons for the Offers

The Offers have been designed for Investors seeking a portfolio of 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. The Company is seeking to raise additional net proceeds of £15 million under the Offers, together with an over-allotment facility of up to a further net £15 million.

The K Shares

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

Dividends

The Board does not intend to set an annual dividend target for the K Shares. Dividends may be paid during the lifetime of the shares (if required to maintain VCT status for example), but will be subject to the VCT regulations introduced in 2014 which place restrictions on dividends payable by VCTs in the three year period beginning at the end of the accounting period in which the shares are issued. The level of any dividends will be dependent on the performance of the investments in the K Share pool, as it is the policy of the Board not to declare any dividends that would be taxable. In practice, it is unlikely that any dividends will be paid in respect of the K Share in the first three to four years of their life.

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

The principal VCT tax reliefs, which are available on a maximum investment of £200,000 per individual in each of the 2015/16 and 2016/17 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. Shareholders should note that if they have sold, or if they sell, any shares in the Company within 6 months either side of their subscription for K Shares, then for the purposes of calculating tax relief on the K Shares, the subscribed amount must be reduced by the amount received from the sale.
- **Tax-free dividends and capital distributions** from a VCT.
- **Capital gains tax exemption** on any gains arising on the disposal of VCT shares.

The table below shows the effect of the initial income tax relief using an assumed investment of £10,000.

Effect of initial 30% income tax relief	
Cost of investment	£
Gross subscription by Investor	10,000
30% income tax relief	£3,000
Net of tax cost of investment	£7,000
Initial value of investment	
Gross subscription by Investor	10,000
Assumed issue costs of 2%	200
Initial valuation based on Net Asset Value ("NAV")	£9,800
Initial "uplift" (£)	+£2,800
Initial "uplift" (%)	+40.00%

The above table shows that, assuming income tax relief is received at 30%, the Investor's net of tax cost of investment is £7,000 per £10,000 investment and the initial valuation based on NAV is £9,800, an "uplift" of £2,800 or +40.00%. **Investors should note that they are required to hold the K 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.**

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

Investment Policy

The current investment policy of the 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 the 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 the Company's intention to have any borrowings. Under its Articles, the 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 Company (together with any share premium thereon).

As a condition of each of its investments, it is intended that the Company 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.

Listing rules

In accordance with the Listing Rules:

(i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds; (ii) the Company must not conduct any trading activity which is significant in the context of the Company; and (iii) the 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 set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the Income Tax Act 2007.

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007. How the main regulations apply to the Company is summarised as follows: 1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007); 2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011; 3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment); 4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment); 5. The Company's income for each financial year is derived wholly or mainly from shares and securities; and 6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained.

Subject to approval at a General Meeting to be held on 28 January 2016, it is proposed that a new investment policy for the Company is adopted in the form set out below. In the event that the proposed investment policy set out below is not approved at the General Meeting the Company will retain its current investment policy, as set out above.

Qualifying Investments

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

Non-qualifying investments

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

- Secured loans;
- Fixed Income Securities;
- Pooled funds;
- Listed investments;
- Non-qualifying unquoted investments; and/or
- Cash deposits

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. Pooled funds include OEICS, Unit Trusts and Investment Trusts. Listed Investments will be in companies listed on a recognised stock exchange and that can be traded. Non-qualifying unquoted investments may include loans to existing portfolio companies.

Target allocation

The target allocation of the Company's funds is summarised as follows:

Investment split	
	Portfolio split
Qualifying Investments	75%
Non-Qualifying Investments	25%
Total	100%

Borrowing policy

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

As a condition of each of its investments, it is intended that the Company will have the ability to restrict the investee company's ability to borrow. Typically, the investee companies will 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.

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the ITA. How the main regulations apply to the Company is summarised as follows: (i) the Company holds at least 70% by value of its investments in Qualifying Companies; (ii) at least 30% of the Company's Qualifying Investments (by value) are held in "eligible shares" for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011; (iii) at least 10% of each investment in a Qualifying Company is held in "eligible shares" (by cost at time of investment); (iv) no investment constitutes more than 15% of the Company's portfolio (by value at the time of investment); (v) the Company's income for each financial year is derived wholly or mainly from shares and securities; (vi) the Company distributes sufficient revenue dividends to ensure that not more than 15% of its income from shares and securities in any one year is retained; (vii) no investment made by the Company causes an investee company to receive more than £5 million of state aided investments (including from VCTs) in the year ending on the date of the investment; and (viii) for shares issued after 5 April 2014, the Company may not return the capital raised by that issue to its investors for a period of three years from the end of the accounting period in which the shares were issued.

Listing Rules

In accordance with the Listing Rules: (i) the 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 that have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds; (ii) the Company must not conduct any trading activity which is significant in the context of its group as a whole; and (iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its 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.

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

The Investment Policy only includes a brief synopsis of the main VCT Regulations with which the Company complies. Greater detail of the VCT Regulations is included in Part II of this document.

Target Allocation

Initially, the majority of funds will be invested in non-Qualifying Investments. The level of funds invested in non-Qualifying Investments will then be reduced to provide funds for Qualifying Investments such that within three years of the close of the Offer the approximate allocation will be 75% in Qualifying Investments and 25% in Non-Qualifying Investments. This represents the approximate split of the 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.

Share Buyback Policy

Subject to no change in VCT regulations the Company intends to make market purchases of its own K Shares, up to a maximum annual number of K Shares equivalent to 14.9% of the total number of issued K Shares from time to time. The Board intends to operate a policy of purchasing K Shares that become available at the price detailed below (subject to liquidity and regulations). The proceeds received by K Shareholders on the sale of their K Shares to the Company will be reduced by costs such as the market-maker's margin and stockbroker's commission.

Share buyback policy		Share Buyback Price - Discount to NAV	
From launch to 31 December 2020		Nil	
1 January 2021 onwards		Board discretion	

From launch to 31 December 2020

The Company intends to buy back K Shares in the first five years from launch (to 31 December 2020), at nil discount to Net Asset Value, subject to regulations and having sufficient liquidity within the Company. Investors should note that income tax relief of 30% will be repayable if the K 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 Board anticipates that there will be limited share buybacks of K Shares within five years because the only sellers are likely to be deceased K Shareholders' estates and those K Shareholders whose circumstances have changed (to such an extent that they are willing to repay the 30% income tax relief in order to gain access to the net proceeds of sale).

From 1 January 2021 onwards

As stated below, in the section headed "Realisation Plans", after five years the Company will seek to exit from sufficient investments in the K Share pool in order to return funds to K Shareholders. During this period the Board will reserve the right as to whether it will undertake any K Share buybacks and the level of discount to Net Asset Value at which they are undertaken should any take place. It is however likely that the Board will not support any share buybacks during this period.

Realisation Plans

It is intended that K Shareholders will be given the option to exit their investments in the Company within approximately five and a half to seven and a half years from the close of the Offers. The funds will be provided primarily from the sale of investments and it is intended that Shareholders will exit at full value (no discount to NAV).

Exit mechanism

It is intended that tax-free cash proceeds will be paid to K Shareholders who wish to exit (net of the Performance Incentive, if applicable) by way of tax-free dividends. Possibly an exit may also be facilitated by tender offer and/or market purchases of shares. Investors may then have the opportunity to reinvest these proceeds into another VCT offer to benefit from further income tax relief. This is a distinct difference to 'generalist' VCTs which are often held over the longer term for the continued dividend flow, and can usually only be exited at a discount to NAV.

Management

Downing LLP

The Manager is Downing LLP who is authorised and regulated by the Financial Conduct Authority and specialises in structuring, promoting, managing and administering tax efficient products. Downing LLP took over the business and employees of Downing Corporate Finance Limited (which was incorporated in 1986) on 1 June 2011. Downing LLP is responsible for the management of over £230 million across its VCTs.

Track Record of the Company

Track record of the Ordinary Shares

All investments held in the Ordinary Share pool (share offers launched in the 2004/05 tax year) were sold and the proceeds paid to Ordinary Shareholders, mainly in 2008 and 2009, which totalled 90.4p per Ordinary Share and represented an increase of 51% on the net of tax cost of 60p per Ordinary Share. 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. The Ordinary Shares' listing on the London Stock Exchange was cancelled in August 2012.

Track record of subsequent share issues

The track record of the Company's share issues in 2008/09, 2009/10, 2011/12 and 2012/13 are set out below.

Track record of the C Shares, D Shares, F Shares and G Shares				
	Tax year of launch	Net cost ¹	Total Return to date ²	Increase over net cost (%)
C Shares	08/09	70.00p	121.2p ³	+73%
D Shares	09/10	70.00p	99.7p	+42%
F Shares	11/12	70.00p	90.9p	+30%
G Shares	12/13	74.07p	101.7p	+37%

¹ Net cost is the initial offer price of 100p per share (105.82p per G Share) less income tax relief of 30% available to investors in each of the Company's share classes.

² Total Return is cumulative dividends paid to date plus the most recently announced (unaudited) net asset value (being at 31 October 2015) for each share class in pence per share.

³ Adjusted for estimated performance incentive that may become payable of 7p per C Share.

Investors should note that they are required to hold shares for a minimum period (currently five years) to retain the initial income tax relief of 30%. In any case, past performance is not a guide to future performance.

Co-Investment Policy

The Company's only 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 of the relevant Funds.

Directors

The Company has a Board, comprising three Directors, all of whom are non-executive and independent of the Manager.

Hugh Gillespie (Chairman) is non-executive chairman of a number of Downing VCTs and a non-executive director of the 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 is also a director of a number of other Downing VCTs.

Christopher McCann has been a non-executive director of a number of Downing VCTs. He is a Chartered Accountant and was vice chairman of the private equity manager, Bridgepoint Capital Limited, where he worked from 1987 to 2002. Prior to this he worked for the Barclays Bank Group. He has been a director or chairman of numerous private companies and the chairman of an AIM quoted company.

The total invested by the partners and employees of Downing LLP in the Downing VCTs is over £2 million.

Charges

Initial Costs

The initial costs to Investors are made up of the Promoter's Fee plus Adviser Charges (where applicable).

Downing will charge the Company a Promoter's Fee of 4% of the monies subscribed, where it is required to pay commission to an Intermediary (2% where no commission is payable). Out of its Promoter's Fees, Downing will be responsible for paying all the costs of the Offers. Adviser Charges are the fees agreed between Intermediaries and Investors for advice and related services.

The number of K Shares issued under the Offers will be determined by the "blended" issue cost. Applicants will have a different issue cost attributable to their application for K Shares under the Offers depending on the level of Promoter's Fee and Adviser Charges agreed with their Intermediary, adjusted for any early discount. Further details are provided in Part VIII.

Annual management and administration fees

The Manager will receive annual investment management fees of 2% of the Net Assets attributable to the K Shares. It also receives an annual fee of £60,000 (plus VAT, if applicable, and RPI) for administration services, which will be allocated across all share pools. The Annual Running Costs of the K Share pool are capped at 3.0% (including irrecoverable VAT) of the Company's Net Assets attributable to the K Shares and any excess will be paid by the 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 and investment management fees, but not the Performance Incentive. General running costs not specific to either the Existing Share or K Share pools will be allocated based on the weighted average pro-rata net assets of each pool, subject to the discretion of the Board. It is anticipated that the Annual Running Costs (assuming Full Subscription) will be approximately 2.5% per annum of the Company's Net Assets attributable to the K Shares.

Costs payable by investee companies

Downing will receive arrangement fees (capped at 2% of the sums invested by the Company, with any excess paid to the Company) and monitoring fees (capped at the higher of £10,000 pa or 0.5% pa of the cost of the investment) 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 Manager will be entitled to receive a performance-related management fee based upon returns to Shareholders.

The Performance Incentive in respect of the K Shares will have no impact on Existing Shareholders. The Performance Incentive is designed to encourage the timely repayment of capital after five years. The Performance Incentive will only become payable if K Shareholders: (i) have the opportunity to receive Shareholder Proceeds of at least 100p per K Share (excluding initial income tax relief); and (ii) achieve a tax-free Compound Return of at least 6% per annum (after allowing for income tax relief on the investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 20% of the aggregate excess on any amounts distributed by the Company in excess of 100p per K Share (calculated before 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 period to when an exit is provided) equivalent to 6p per K Share (based on the number of K Shares in issue at the close of the Offers). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

For example, if the total funds available for distribution over the life of the K Shares was 112.5p per K Share, the Performance Incentive would be 2.5p per K Share (20% x 12.5p), leaving Shareholder Proceeds of 110p per K 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 135p per K Share, the Performance Incentive would be capped at 6p per K Share, leaving Shareholder Proceeds of 129p per K Share.

Other Information

Taxation and HM Revenue & Customs approval

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

The Offers and minimum and maximum subscription

Assuming Full Subscription, maximum net proceeds (after costs of the Offers) of £15 million will be raised under the Offers. The maximum amount payable by the Company in respect of the costs of the Offers will be 4% (assuming a commission is payable on all applications). If the Offers are over-subscribed, they may be increased at the discretion of the Board to no more than net proceeds of £30 million. This facility may be utilised whilst the Offers remain open. In the event that applications are received in excess of the full subscription, the Directors and the Sponsor reserve the right to use their absolute discretion in the allocation of successful applications. Applicants are encouraged to submit their Application Form early in order to be confident that their applications will be successful. The Minimum Subscription is £700,000.

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 2015/16 and 2016/17 tax years. Spouses can each invest up to £200,000 in each tax year. The subscription list for the Offers will open at 9.00 a.m. on 15 December 2015 and may close at any time thereafter, but in any event, not later than 3.00 p.m. on 5 April 2016 in respect of the 2015/16 Offer and 3.00 p.m. on 29 April 2016 in respect of the 2016/17 Offer, unless fully subscribed earlier or previously extended by the Directors (but to no later than 30 November 2016).

If the Minimum Subscription is not received by 3.00 p.m. on 5 April 2016, 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.

K Shares will be allotted and issued in respect of valid applications on 5 April 2016, 29 April 2016 and on any other dates on which the Directors decide. Application has been made to the UK Listing Authority on behalf of the Company for the Admission of all of the K Shares. The K Shares will be issued in registered form and be transferable in both certificated and uncertificated form and will rank for all dividends and other distributions declared, paid or made by the Company in respect of the K Shares thereafter. Subject to the Minimum Subscription being received by then, it is anticipated that dealings in the first allotment of K Shares will commence by 12 April 2016 and in respect of subsequent allotments within 20 Business Days of allotment. Dealings may begin before notification of allotments is made. Revocation of the Offers cannot occur after dealings in the K Shares have commenced. The Company has applied for its K Shares to be admitted to CREST and it is expected that the K 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 K Shares following Admission may take place within the CREST system if K Shareholders wish. CREST is a voluntary system and K 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 K Shares will be posted to K 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 result of the Offers will be announced through a regulatory information service provider authorised by the FCA.

Availability of the Prospectus

Copies of the Prospectus and any related supplementary prospectus published by the Company are available for download at the National Storage Mechanism (www.morningstar.co.uk/uk/NSM) and may be obtained, free of charge, from the Company's registered office, where they are also on display, and from Downing LLP.

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Operation of the Company and Board Practices

(a) Board of Directors

The Company complies with the provisions of the UK Corporate Governance Code, with the exception of the following, for the reasons set out below:

- (i) new Directors do not receive a full, formal and tailored induction on joining the Board and such matters are addressed on an individual basis as they arise. In addition, as the Company does not have any major shareholders, shareholders are not given an opportunity to meet any new non-executive directors at specific meetings other than at the Annual General Meetings;
- (ii) the Board consider that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the UK Corporate Governance Code;
- (iii) as the Company has no staff, other than Directors, there are no procedures in place relating to whistleblowing;
- (iv) due to the size of the Board, there are no formal performance evaluations of the Board, their committees, the individual Directors or the Chairman. Specific performance issues are dealt with as they arise; and
- (v) the Directors do not have service contracts but do have letters of engagement, further details of which are set out in paragraph 6(c) of Part V of this document, whereas the recommendation in the UK Corporate Governance Code is for fixed term renewable contracts.

The Board comprises three members, all of whom are non-executive directors and considered to be independent of the Manager.

The Board meets regularly throughout the year (normally at least quarterly) and all necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. Additionally, special meetings take place or other arrangements are made when Board decisions are required in advance of regular meetings. The Board is responsible for controlling the Company. The Board is responsible for the determination and calculation of the Company's Net Asset Value, which will be undertaken in accordance with the Company's accounting policies and published on an appropriate regulatory information service provider (including in the announcement of annual and half yearly results of the Company). The Board does not envisage any circumstances in which such calculations would be suspended but, were this to occur, such suspension would be communicated to shareholders in a similar manner.

The Board delegates specific responsibilities to the committees described below.

(b) Audit Committee

The audit committee is chaired by Hugh Gillespie and its other members are Dennis Hale and Christopher McCann. The audit committee meets not less than once a year. The Company's auditors and the senior executives of the Manager may attend and speak at audit committee meetings.

A summary of the terms of reference of the audit committee is as follows: the committee has responsibility for, among other things, the planning and reviewing of the Company's annual and half yearly reports and the supervision of its auditors in the review of such financial statements. The audit committee focuses particularly on the Company's compliance with legal requirements, accounting standards, financial and regulatory reporting requirements, the Listing Rules and the Prospectus Rules and ensuring that effective systems for internal financial control and for reporting non-financial operating data are maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and half yearly financial reports remain with the Board.

(c) Remuneration Committee

The remuneration committee, which meets as and when required, is chaired by Hugh Gillespie and its other members are Dennis Hale and Christopher McCann.

A summary of the terms of reference of the remuneration committee is as follows: this committee has responsibility for determining the Company's policy on the remuneration of the Directors, and the committee refers to standard industry practice as well as comparative remuneration levels and structures prevalent in companies of a similar profile and size, and in similar industry sectors, to the Company, taking account of any special circumstances that may be relevant in terms of the Directors' responsibilities and duties. The maximum Directors' remuneration will also be determined by reference to the Company's Articles and/or ordinary resolutions of shareholders from time to time.

(d) **Nomination Committee**

The nomination committee, which meets as and when required, is chaired by Hugh Gillespie and its other members are Dennis Hale and Christopher McCann. The committee has responsibility for considering the size, structure and composition of the Board, the retirement and appointment of Directors, and will make appropriate recommendations to the Board in relation to these matters.

As at the date of this document, the Company currently complies with the UK Corporate Governance Code in all respects other than those mentioned above.

Part II – Taxation

VCTs: Summary of the applicable legislation in respect of Investors

1. Taxation of a VCT

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

2. Tax reliefs for individual investors

Individuals who subscribe for K 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 2015/16 and/or 2016/17 tax years 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. Shareholders should note that if they have sold, or if they sell, any shares in the Company within 6 months either side of the subscription for the Offer Shares, then for the purposes of calculating tax relief on the Offer Shares the subscribed amount must be reduced by the amount received from the sale.

Dividend relief

An investor who subscribes for or acquires eligible shares in a VCT (up to a maximum of £200,000 in each of the 2015/16 and 2016/17 tax years) will not be liable for UK income tax on dividends paid by the VCT. The income received by the VCT will usually constitute either interest (on which the VCT may be subject to tax) or a dividend from a UK company (on which the VCT would not be subject to tax). The VCT's income, reduced by the payment of tax (if applicable), can then be distributed tax-free to investors who benefit from this dividend relief. There is no withholding tax on dividends paid by a UK company and, consequently, the Company does not assume responsibility for the withholding of tax at source. Until 5 April 2016, 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/her shares in a VCT will neither give rise to 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 K Shares are eligible VCT shares for the purposes of this section.

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

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

4. General

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

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

VCT approval

To obtain VCT status a company must be approved by HM Revenue & Customs as a VCT. HM Revenue & Customs has granted the Company approval under Section 274 ITA as a VCT and the Company intends to continue complying with the requirements of such section.

For a VCT to obtain full unconditional approval, the conditions summarised below must be satisfied in relation to the accounting period of the company which is current when the application for approval is made, or in any event must be satisfied by no later than the beginning of the VCT's next accounting period and must continue to be satisfied throughout the life of the VCT:

- (i) the VCT's income must have been derived wholly or mainly from shares and securities (in the case of securities issued by a company, meaning loans with a five-year or greater maturity period);
- (ii) no holding in a company (other than a VCT or a company which would, if its shares were listed, qualify as a VCT) by the VCT may represent more than 15% by value of the VCT's total investments at the time of investment; and

- (iii) the VCT must not have retained more than 15% of the income derived from shares or securities in any accounting period.

From the time of provisional approval, the VCT must not be a close company. Its ordinary share capital must be quoted on any regulated market in the EU or European Economic Area. The VCT must not return capital to shareholders before the third anniversary of the end of the accounting period during which the subscription occurs. No investments can be made by the VCT into a company which causes that company to receive more than £5 million of State Aided risk finance investment in the 12 months ending on the date of investment, nor can a VCT investment cause a company to receive a total of more than £12 million (£20 million if the company is a “knowledge intensive company”) of State Aided risk finance investment. A VCT is not permitted to invest in a company whose first commercial sale was more than 7 years before the date of investment (10 years for a “knowledge intensive company”) unless the company previously received State Aided risk finance in that 7 or 10 year period, or a turnover test is satisfied. No funds received by a company from VCT investment can be used to acquire shares, or another business or trade.

The following conditions also have to be satisfied by no later than the beginning of the VCT’s accounting period which commences no later than three years after provisional approval takes effect and must continue to be satisfied throughout the life of the VCT:

- (i) at least 70% by value of its investments is represented by shares or securities comprising qualifying investments; and
- (ii) for funds raised before 6 April 2011, at least 30% by value of its qualifying investments is represented by holdings of ordinary shares which carry no present or future preferential rights to dividends, return or capital on a winding up or any redemption rights. For funds raised on or after 6 April 2011, at least 70% by value of its qualifying investments is represented by “eligible shares” which are ordinary shares which carry no present or future preferential rights to a return or capital on a winding up or any redemption rights, but may have certain preferential rights to dividends.

Disposals of Qualifying Companies which have been a qualifying holding throughout the six months prior to disposal, are disregarded for the purposes of the 70% test for a period of six months.

“Qualifying investments” comprise shares or securities (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) issued by unquoted trading companies which exist wholly or mainly for the purpose of carrying on one or more qualifying trades. The trade must be carried on by, or be intended to be carried on by, the investee company or a 90% held qualifying subsidiary (directly held or in the third tier within the group) at the time of the issue of the shares or securities to the VCT and at all times thereafter). The Qualifying Company must have a permanent establishment in the UK.

A company intending to carry on a qualifying trade must begin to trade within two years of the issue of shares or securities to the VCT and continue it thereafter. The definition of a qualifying trade excludes certain activities, including dealing in property, shares, securities, commodities or futures. It also excludes banking, insurance, receiving royalties or licence fees in certain circumstances, leasing, the provision of legal and accounting services, farming and market gardening, forestry and timber production, property development and operating or managing hotels, guest houses, nursing and residential care homes, coal production, steel production, ship building or the generation or export of electricity from certain renewable sources from which feed-in tariffs are derived. The funds raised by the investment must be used for the purposes of the qualifying trade within certain time limits.

A qualifying investment can be made in a company which is a parent company of a trading group where the activities of the group, taken as a whole, consist of carrying on one or more qualifying trades. The subsidiary carrying on the qualifying trade in question must be at least 90% owned by the parent company. The investee company's gross assets, or those of the group if it is a parent company, must not exceed £15 million immediately prior to the investment. Neither the VCT nor any other company may control the investee company. At least 10% of the VCT’s total investment in the investee company must be in “eligible shares” as defined above. Qualifying Companies or groups must have fewer than 250 employees. Companies are permitted to receive a maximum of £5 million from investments made under the European Commission’s Risk Finance Guidelines in the 12 months ending on the date of the VCT’s investment, and a total maximum of £12 million of such investment (£20 million for a “knowledge intensive company”). The company’s first commercial sale must be no more than 7 years before the date of the VCT’s investment (10 years for a “knowledge

intensive company”), except where previous State Aided risk finance investment was received by the company in that 7 or 10 year period, or where a turnover test is satisfied. There is also a disqualifying purpose test designed to exclude companies set up for the purpose of accessing the tax reliefs. There is an exclusion on the use of VCT funds for the acquisition of a trade, business, or of shares in another company.

Companies whose shares are traded on AIM, are PLUS quoted or PLUS traded are treated as unquoted companies for the purposes of calculating qualifying investments. Shares in an unquoted company which subsequently become listed may still be regarded as a qualifying investment for a further five years following listing, provided all other conditions are met.

The Company will notify through a Regulatory Information Service provider any action that the Manager will take in the event of a breach of any of the conditions to remaining a VCT.

Part III – Financial Information

1. Introduction

The Company's former auditors PKF (UK) LLP (now BDO LLP of 55 Baker Street, London, W1U 7EU) reported on the annual statutory accounts for the years ended 31 January 2012 and 31 January 2013 without qualification and without statements under sections 495 to 497 of the 2006 Act and the Company's current auditors BDO LLP reported on the annual statutory accounts for the period ended 31 December 2013 and year ended 31 December 2014 without qualification and without statements under sections 495 to 497 of the 2006 Act. These accounts have been delivered to Companies House and are available at Ergon House, Horseferry Road, London SW1P 2AL.

The audited statutory accounts of the Company are drawn up under UK Generally Accepted Accounting Practice (UK GAAP). The Company and the Directors confirm that the Company's most recent two years' financial information (prepared under UK GAAP) has been presented and prepared in a form which is consistent with that which will be adopted in the Company's next published annual financial statements (which will be prepared under Financial Reporting Standard 102) having regard to accounting standards, policies and legislation applicable to such annual financial statements in so far as there are no material differences between the financial statements for these years prepared under these two accounting frameworks.

These financial statements also contain a description of the Company's financial condition, changes in financial condition and results of operations for each financial period.

The most recent announced unaudited NAV was 0.1 per A Share, 53.2p per C Share, 77.1p per D Share, 0.1p per E Share, 73.4p per F Share and 89.2p per G share as at 31 October 2015. Whilst the Offers may result in the net assets of the Company being increased by up to £15,000,000 (being the maximum proceeds of the Offers net of issue costs and ignoring the over allotment facility), as the K Shares will form a separate pool there will be no impact as a result of the Offers on the net asset value and earnings attributable to the holders of the Existing Shares.

2. Historical Financial Information

Historical financial information relating to the Company on the matters referred to below is included in the published annual report and audited statutory accounts and published unaudited half yearly accounts of the Company for the periods stated (which are hereby incorporated by reference) as follows:

	Report and Accounts (Audited) for Year Ended 31 Jan 2012	Report and Accounts (Audited) for Year Ended 31 Jan 2013	Report and Accounts (Audited) for Period Ended 31 Dec 2013	Half Yearly Report (Unaudited) for Six Months Ended 30 Jun 2014	Report and Accounts (Audited) for Year Ended 31 Dec 2014	Half yearly Report (Unaudited) for Six Months Ended 30 Jun 2015
<i>Nature of information</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>
Income statement	33	42	56	15	58	18
Dividend per share	40	50	65	21	68	24
Balance sheet	35	44	59	13	61	16
Cash flow statement	37	46	61	18	63	21
Notes to the financial statements	38	47	62	20	64	23
Accounting policies	38	47	62	n/a	64	n/a
Independent auditors' report	32	40	53	n/a	54	n/a

3. Operating and Financial Review

A description of the changes in the performance of the Company, both capital and revenue, and changes to the Company's portfolio of investments is set out in the sections headed "Chairman's Statement", "Investment Manager's Report" and "Investment Portfolio" in the published audited statutory accounts of the Company for the periods stated and in the published unaudited half yearly accounts for the periods stated.

	Report and Accounts (Audited) for Year Ended 31 Jan 2012	Report and Accounts (Audited) for Year Ended 31 Jan 2013	Report and Accounts (Audited) for Period Ended 31 Dec 2013	Half Yearly Report (Unaudited) for Six Months Ended 30 Jun 2014	Report and Accounts (Audited) for Year Ended 31 Dec 2014	Half Yearly Report (Unaudited) for Six Months Ended 30 Jun 2015
<i>Nature of Information</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>
Chairman's statement	3	4	4	1	4	1
Investment Manager's report	5, 13	6, 14, 22	6, 14, 22, 30	n/a	6, 14, 22, 30	n/a
Investment portfolio	6, 15	7, 15, 24	7, 15, 23, 31	4,6,8,11	7, 15, 23, 31	4,7,11,14

4. Significant Change

Other than the matter noted below, since 30 June 2015, being the date of the last published unaudited half yearly report of the Group, there has been no significant changes in the financial or trading position of the Group.

- The Company has declared a dividend of 27p per D Share to be paid on 18 December 2015.

5. Historical Financial Information Incorporated by Reference

The audited statutory accounts for the Company for the periods ended 31 January 2012, 31 January 2013, 31 December 2013 and 31 December 2014 and the unaudited half yearly report for the six months ended 30 June 2014 and 30 June 2015 are being incorporated by reference in this Prospectus and are available at the address set out in paragraph 11 of Part V. Where these documents make reference to other documents, such other documents are not incorporated into and do not form part of this Prospectus. Those parts of the annual statutory accounts referred to above which are not being incorporated into this document by reference are either not relevant for investors or are covered elsewhere in this Prospectus.

6. A summary of the Company's investment portfolio as at the date of this document is set out below:

C SHARE POOL

	Debt (D)/ Equity (E)	Cost £'000	Valuation* £'000	% of portfolio	Sector
Quadrate Spa Limited	D/E	363	363	9.8%	Leisure, Entertainment & Hotels
Quadrate Catering Limited	D/E	330	359	9.7%	Leisure, Entertainment & Hotels
		<u>693</u>	<u>722</u>	<u>19.5%</u>	
Cash at bank and in hand			<u>2,988</u>	<u>80.5%</u>	
			<u>3,710</u>	<u>100.0%</u>	

D SHARE POOL

	Debt (D)/ Equity (E)	Cost £'000	Valuation* £'000	% of Portfolio	Sector
Aminghurst Limited	D	1,322	1,322	17.5%	Development and Construction
Quadrate Spa Limited	D/E	496	496	6.6%	Leisure, Entertainment & Hotels
Quadrate Catering Limited	D/E	442	481	6.4%	Leisure, Entertainment & Hotels
Kidspace Adventures Holdings Limited	D/E	375	454	6.0%	Leisure, Entertainment & Hotels
Mosaic Spa and Health Clubs Limited	D/E	521	393	5.2%	Leisure, Entertainment & Hotels
Green Electricity Generation Limited	D/E	250	303	4.0%	Renewable Energy
Future Biogas (Reepham Road) Limited	D	581	261	3.4%	Renewable Energy
Westcountry Solar Solutions Limited	D/E	250	250	3.3%	Renewable Energy
Avon Solar Energy Limited	D/E	210	210	2.8%	Renewable Energy
Redmed Limited	D/E	194	194	2.6%	Leisure, Entertainment & Hotels
Progressive Energies Limited	D/E	170	191	2.5%	Renewable Energy
Future Biogas (SF) Limited	D	169	169	2.2%	Renewable Energy
Fenkle Street LLP	D	122	122	1.6%	Development and Construction
Commercial Street Hotel Limited	D/E	100	100	1.3%	Leisure, Entertainment & Hotels
Kilmarnock Monkey Bar Limited	D	42	25	0.3%	Pubs
Camandale Limited	D	421	2	0.0%	Pubs
		<u>5,665</u>	<u>4,973</u>	<u>65.7%</u>	
Cash at bank and in hand			<u>2,596</u>	<u>34.3%</u>	
			<u>7,569</u>	<u>100.0%</u>	

F SHARE POOL

	Debt (D)/ Equity (E)	Cost £'000	Valuation* £'000	% of portfolio	Sector
Aminghurst Limited	D	839	839	10.7%	Development and Construction
Vulcan Renewables Limited	D/E	652	778	9.9%	Renewable Energy
Goonhilly Earth Station Limited	D/E	760	760	9.6%	Telecommunications
Tor Solar PV Limited	D/E	680	595	7.6%	Renewable Energy
Merlin Renewables Limited	E	500	500	6.3%	Renewable Energy
Lambridge Solar Limited	E	500	500	6.3%	Renewable Energy
Baron House Developments LLP	D	481	481	6.1%	Development and Construction
Grasshopper 2007 Limited	D/E	378	378	4.8%	Pubs
Augusta Pub Company Limited	E	290	308	3.9%	Pubs
Kidspace Adventures Holdings Limited	D/E	250	303	3.8%	Leisure, Entertainment & Hotels
Fubar Stirling Limited	D/E	268	256	3.3%	Leisure, Entertainment & Hotels
Pearce and Saunders Limited	D/E	497	248	3.1%	Pubs
Pabulum Pub Limited	E	200	229	2.9%	Pubs
City Falkirk Limited	D/E	422	207	2.6%	Leisure, Entertainment & Hotels
Atlantic Dogstar Limited	D/E	200	200	2.5%	Pubs
Fresh Green Power Limited	D/E	200	200	2.5%	Renewable Energy
Green Energy Production UK Limited	D/E	100	100	1.3%	Renewable Energy
Redmed Limited	D/E	136	99	1.3%	Leisure, Entertainment & Hotels
London City Shopping Centre Limited	D/E	66	66	0.9%	Development and Construction
Pearce and Saunders DevCo Limited	D/E	46	46	0.6%	Development and Construction
Dominions House Limited	D/E	36	36	0.5%	Development and Construction
Cheers Dumbarton Limited	D/E	48	17	0.2%	Leisure, Entertainment & Hotels
Lochrise Limited	D/E	13	-	0.0%	Pubs
Southampton Hotel Developments Limited	D/E	298	-	0.0%	Development and Construction
		<u>7,860</u>	<u>7,146</u>	<u>90.7%</u>	
Cash at bank and in hand			<u>730</u>	<u>9.3%</u>	
			<u>7,876</u>	<u>100.0%</u>	

G SHARE POOL

	Debt (D)/ Equity (E)	Cost £'000	Valuation* £'000	% of Portfolio	Sector	
Atlantic Dogstar Limited	D/E	3,500	3,500	15.7%		Pubs
Antelope Pub Limited	D/E	2,060	2,060	9.2%		Pubs
Kidspace Adventures Holdings Limited	D/E	1,977	1,977	8.9%	Leisure, Entertainment & Hotels	
Goonhilly Earth Station Limited	D/E	1,710	1,710	7.7%	Telecommunications	
Hobblers Heath Limited	D	1,325	1,325	5.9%	Leisure, Entertainment & Hotels	
Hedderwick Limited	D/E	1,250	1,250	5.6%		Pubs
Baron House Developments LLP	D	1,093	1,093	4.9%	Development and Construction	
Grasshopper 2007 Limited	D/E	1,050	1,050	4.7%		Pubs
Pub People Limited	D	873	873	3.9%		Pubs
Aminghurst Limited	D	801	801	3.6%	Development and Construction	
Augusta Pub Company Limited	E	580	617	2.8%		Pubs
Pabulum Pubs Limited	E	400	458	2.1%		Pubs
Oak Grove Renewables Limited	E	420	420	1.9%	Renewable Energy	
Ludlow Taverns Limited	D	388	388	1.7%		Pubs
Redmed Limited	D/E	273	198	0.9%	Leisure, Entertainment & Hotels	
Pearce and Saunders Limited	D	193	193	0.9%		Pubs
London City Shopping Centre Limited	D/E	110	110	0.5%	Development and Construction	
Craft Beer Pub Co Limited	D	92	92	0.4%		Pubs
Dominions House Limited	D/E	60	60	0.3%	Development and Construction	
		<u>18,155</u>	<u>18,175</u>	<u>81.6%</u>		
Cash at bank and in hand			<u>4,103</u>	<u>18.4%</u>		
			<u>22,278</u>	<u>100.0%</u>		

* Unaudited valuation as at 31 October 2015 – extracted from the unaudited management accounts of the Company for the period ended 31 October 2015.

All valuations are denominated in UK Sterling. All portfolio companies are UK based businesses. Investors should note that the net proceeds of the Offers will be invested in accordance with the Company's investment policy, as set out on pages 21 to 23 of this document. Since 31 October 2015, being the date of the valuation of the Company's investment portfolio, there has been no material change in the valuation of the Company's investment portfolio.

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 company as the present portfolio.

The Company's Ten Largest Holdings

As at the date of this document, the ten largest investments, representing in total approximately 48.5% of the net assets of the Company, are as follows:

Company	Sector	Location	Date of first investment	Cost			Valuation at 31 Oct 2015
				Equity £'000	Loan Stock £'000	Total £'000	
Atlantic Dogstar Limited	Pubs	London	Sep-09	2,590	1,110	3,700	3,700
Aminghurst Limited	Construction	Devon	Nov-07	-	2,962	2,962	2,962
Kidspace Adventures Holdings Limited	Leisure, Entertainment & Hotels	South East	Jan-12	1,571	1,030	2,601	2,733
Goonhilly Earth Station Limited	Telecommunications	Cornwall	Jan-14	1,730	740	2,470	2,470
Antelope Pub Limited	Pubs	London	Mar-13	1,232	828	2,060	2,060
Baron House Developments LLP	Construction	Newcastle	Apr-12	-	1,574	1,574	1,574
Grasshopper 2007 Limited	Pubs	Kent	Mar-14	1,000	428	1,428	1,428
Hobblers Heath Limited	Leisure, Entertainment & Hotels	London	Oct-15	-	1,325	1,325	1,325
Hedderwick Limited	Pubs	London	Oct-15	875	375	1,250	1,250
Augusta Pub Company Limited	Pubs	London	May-13	870	-	870	926

All investments are unquoted, UK based businesses and denominated in UK Sterling. The above information is unaudited and has been extracted from the unaudited management accounts for the Company for the period ended 31 October 2015.

Part IV – Definitions

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

“1985 Act”	Companies Act 1985, as amended from time to time
“2006 Act”	Companies Act 2006, as amended from time to time
“2015/16 K Offer”	offer for subscription of K Shares in respect of the 2015/16 tax year, being made on the terms set out in the Prospectus
“2016/17 K Offer”	offer for subscription of K Shares in respect of the 2016/17 tax year, being made on the terms set out in the Prospectus
“A Shares”	A shares of 0.1p each in the capital of the Company (ISIN: GB00B3D74M80)
“Admission”	admission of the K Shares to the premium segment of the Official List and to trading on the London Stock Exchange
“Advisers”	financial advisers and Intermediaries
“Adviser Charge”	fee, payable to an Intermediary, agreed with the Investor for the provision of a personal recommendation and/or related services in relation to an investment in K Shares, and detailed on the Application Form
“Annual Running Costs”	annual running costs incurred by the Company in the ordinary course of its business (including irrecoverable VAT but excluding any amount payable in respect of the Performance Incentive)
“Applicant”	Investor who subscribes for K Shares pursuant to the Prospectus
“Application Form(s)”	form of application for K Shares under the Offers
“Articles”	articles of association of the Company as at the date of this document
“Business Days”	any day, other than a Saturday, Sunday or public holiday, 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 the Company (ISIN: GB00B3D74543)
“C Share Offer”	offer for subscription of up to 15,000,000 C Shares and 15,000,000 A Shares on the terms set out in the securities note issued by the Company on 25 September 2008
“C Share Pool”	assets and liabilities attributable to the C Shares and A Shares
“Closing Date”	5 April 2016 for the 2015/16 Offer and 29 April 2016 for the 2016/17 Offer, unless previously extended by the Directors (but to no later than 30 November 2016)
“Company”	Downing TWO VCT plc (registered number 05334418, formerly Downing Planned Exit VCT 2 plc)
“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 (registered number 02878738)
“CREST Regulations”	Uncertificated Securities Regulations 1995 (SI 1995/3272)
“D Shares”	D shares of 0.1p each in the capital of the Company (ISIN: GB00B4VR3D16)
“D Share Offer”	offer for subscription of up to 10,000,000 D Shares and 15,000,000 E Shares on the terms set out in the securities note issued by the Company on 6 November 2009
“D Share Pool”	assets and liabilities attributable to the D Shares and E Shares
“Directors” or “Board”	directors of the Company
“DM2”	Downing Managers 2 Limited (registered number 05330621) being the manager of the C Share, D Share, F Share and G share offers
“Downing”	Downing LLP, which is authorised and regulated by the Financial Conduct Authority (registered number OC341575; FCA number 545025)
“Downing VCTs”	all VCTs managed or advised by Downing LLP or its executives
“DTR”	the Disclosure and Transparency Rules, made by the FCA under part VI of FSMA and relating to the disclosure of information in respect of financial instruments
“E Shares”	E shares of 0.1p each in the capital of the Company (ISIN: GB00 B4TLF407)
“Execution-only Transaction”	transaction executed by an FCA authorised firm upon the specific instructions of a client where the firm does not give advice or make a personal recommendation

“Existing Shareholders”	holders of Existing Shares
“Existing Shares”	A Shares and/or C Shares and/or D Shares and/or E Shares and/or F Shares and/or G Shares
“F Shares”	F shares of 0.1p each in the capital of the Company (ISIN: GB00B6ZS0J90)
“F Share Offer”	offer for subscription of up to 10,000,000 F Shares on the terms set out in the securities note issued by the Company on 12 October 2011
“FCA”	Financial Conduct Authority
“Fixed Income Securities”	investments made by the Company which do not comprise Qualifying Investments, such as bank deposits, loan stock, bonds, preference shares and other debt instruments
“FSMA”	Financial Services and Markets Act 2000, as amended from time to time
“Full Subscription”	£15 million raised under the Offers, ignoring the over-allotment facility
“G Shares”	G Shares of 0.1p each in the capital of the Company (ISIN: GB00B8Y7CS47)
“G Share Offer”	offer for subscription of up to 25,000,000 G Shares on the terms set out in the securities note issued by the Company on 10 January 2013
“General Meeting”	general meeting of the Company to be held on 28 January 2016 (or at any adjournment thereof) at which the resolutions described in paragraph 4.1 of Part V of the Prospectus will be proposed
“Group”	Downing TWO VCT plc and its wholly owned subsidiary Downing Managers 2 Limited
“Hurdle”	achievement calculated on a per K Share basis of (a) a Compound Return of at least 6% per annum and (b) the payment or deemed payment of Shareholder Proceeds of at least 100p per K Share
“Intermediary”	firm who signs the Application Form and whose details are set out in Box 7 of the Application Form
“Investor”	subscriber for K Shares under the Offers
“IRR”	internal rate of return, which, when applied to the relevant cash flows, produces a net present value of zero (expressed as a percentage)
“ITA”	Income Tax Act 2007, as amended from time to time
“K Shareholders”	holders of K Shares
“K Shares”	K shares of 0.1p each in the capital of the Company (ISIN: GB00BZ6CSD33)
“Listed”	admitted to the premium segment of the Official List and to trading on the London Stock Exchange
“Listing Rules”	listing rules issued by the FCA, acting as the UK Listing Authority, pursuant to Part VI of the FSMA
“London Stock Exchange”	main market for listed securities of the London Stock Exchange plc (registered number 02075721)
“Management”	individuals engaged in the business of the Company, the Manager and/or Downing
“Management A Shares”	3,587,523 A Shares in the Company issued to Management in connection with the C Share Offer
“Management E Shares”	5,000,000 E Shares in the Company issued to Management in connection with the D Share Offer
“Manager”	Downing LLP is registered in England and Wales as a limited liability partnership with registered number OC341575. Downing LLP is authorised and regulated by the Financial Conduct Authority, with registration number 545025
“Minimum Subscription”	minimum net proceeds required to be raised under the Offers, being £700,000 or such other higher amount as the Directors determine
“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 Company
“Net Return” or	internal rate of return, calculated from the date of the last allotment of K Shares under the Offers, on the cash flows arising in respect of the gross amount subscribed for K Shares based on an net Offer Price of 100.0p per K 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 K Shares issued in the Company
“Compound Return”	

"Notice"	notice of the General Meeting of the Company as set out in the circular to holders of C Shares and/or D Shares and/or F Shares and/or G Shares to be dated 15 December 2015
"Offer Agreement"	agreement dated 15 December 2015 between the Company (1), the Directors (2), the Sponsor (3) and Downing (4), a summary of which is set out in paragraph 7(a) of Part V of the Prospectus
"Offer Price"	price per K Share under the Offers as determined by the Pricing Formula from time to time
"Offer Shares"	K Shares subscribed for under the Offer
"Offers"	together, the 2015/16 Offer and the 2016/17 Offer, being offers for subscription of up to 30,000,000 K Shares
"Official List"	official list of the UK Listing Authority
"Ordinary Shareholders"	holders of Ordinary Shares
"Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"Performance Incentive"	performance-related management fee payable in the event that the Hurdles are achieved, as described in this document under the section headed "Charges"
"Pricing Formula"	mechanism by which the pricing of the Offers may be adjusted according to the latest published NAV, the level of the Promoter's Fee and Adviser Charge, as described on page 67 of this document
"Promoter"	Downing
"Promoter's Fee"	fee payable by the Company to Downing, calculated as a percentage of each Applicant's gross subscription in the Offers in return for which Downing will pay the launch costs of the Offers
"Prospectus"	this document which describes the Offers in full
"Prospectus Rules"	prospectus rules issued by the FCA pursuant to Part VI of the FSMA
"Qualifying Company/ies"	unquoted company 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 (registered number 02605568)
"RPI"	inflation measured by the Retail Price Index
"Shareholder Proceeds"	amounts paid by way of dividends or other distributions, share buybacks, proceeds on a sale or liquidation of the Company and any other proceeds or value received, or deemed to be received, by K Shareholders in the Company, excluding any income tax relief on subscription
"Shareholders"	holders of Shares
"Share(s)"	A Shares and/or C Shares and/or D Shares and/or E Shares and/or F Shares and/or G Shares and/or K Shares (excluding Management A Shares and Management E Shares), as applicable
"Sponsor"	Howard Kennedy Corporate Services LLP
"Spouse"	spouse or civil partner
"Summer Finance Act"	The Finance (No.2) Act 2015 which received Royal Assent on 18 November 2015
"Total Return"	NAV, together with cumulative dividends paid or proposed, including tax credits where reclaimable
"UK Listing Authority"	FCA acting in its capacity as the competent authority for the purposes of Part VI of the FSMA
"VCT" or "Venture Capital Trust"	venture capital trust as defined in Section 259 of the ITA
"VCT Regulations"	the Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004, as amended from time to time

Part V – General Information on the Company

1. LISTING

This document comprises a prospectus relating to the Company and has been prepared in accordance with the Prospectus Rules made under section 73A and in accordance with section 84 of FSMA. Copies of the Prospectus are available from Downing LLP at Ergon House, Horseferry Road, London SW1P 2AL.

2. INCORPORATION AND ADMINISTRATION

The Company was incorporated as Downing Protected VCT II plc in England and Wales as a public company with limited liability on 17 January 2005 and with registered number 05334418. The Company changed its name to Downing Planned Exit VCT 2 plc on 8 December 2009 and Downing TWO VCT plc on 16 December 2013. The principal legislation under which the Company operates is the 2006 Act. The Registrar of Companies issued the Company with a certificate under Section 117 of the 1985 Act entitling it to commence business on 18 January 2005. The principal activity of the Company since that date has been to operate as a VCT. The Company gave notice to the Registrar of Companies pursuant to section 266 of the 1985 Act of its intention to carry on business as an investment company on 19 January 2005 and revoked such status on 21 October 2008. The Company is domiciled in the UK.

3. SHARE CAPITAL

- 3.1 As at 14 December 2015, being the date of the most recent practicable date prior to publication of this document, the issued fully paid share capital of the Company was as follows:

Share Class	Issued	
	No. of Shares	Nominal Value
A Shares	10,724,029	£10,724.03
C Shares	7,126,194	£7,126.19
D Shares	10,000,000	£10,000.00
E Shares	14,950,000	£14,950.00
F Shares	10,822,154	£10,822.15
G Shares	25,386,546	£25,386.55

- 3.2 (i) Between 21 November 2008 and 11 September 2009 7,175,046 C Shares of 0.1p each and 10,762,569 A Shares of 0.1p each were allotted and fully paid as to 99.9p and 0.1p each respectively pursuant to the C Share Offer.
- (ii) In accordance with its Articles on 11 September 2009, following the closing of the C Share Offer, 3,912,477 A Shares were converted and re-designated into 3,912,477 Deferred Shares. These Deferred Shares were redeemed on 3 November 2009.
- (iii) At a general meeting on 8 December 2009 the authorised share capital was increased to £550,000 by the creation of 30,000,000 D Shares and 45,000,000 E Shares.
- (iv) Between 6 January 2010 and 12 April 2010 10,000,000 D Shares of 0.1p each and 15,000,000 E Shares of 0.1p each were allotted and fully paid as to 99.9p and 0.1p each respectively pursuant to the D Share Offer.
- (v) By Order of the High Court the Company's share premium account attributable to the C Shares was cancelled on 3 February 2010.
- (vi) By Order of the High Court the Company's share premium account attributable to the D Shares was cancelled on 14 July 2010.
- (vii) Between 6 February 2012 and 3 October 2012 9,839,536 F Shares of 0.1p each were allotted and fully paid as to 100p each pursuant to the F Share Offer.
- (viii) On 7 January 2013 982,618 F Shares were allotted and fully paid as to 94p each respectively pursuant to a top-up offer.
- (ix) Between 15 March 2013 and 6 November 2013 25,436,996 G Shares of 0.1p each were allotted and fully paid as to 100p each pursuant to the G Share Offer.
- 3.3 On 24 August 2012 the Ordinary Shares were converted into deferred shares of 0.1p each in the capital of the Company and purchased by the Company on the same day and the listing for the Ordinary Shares cancelled.

4. THE COMPANY

- 4.1 The Company issued a circular dated 15 December 2015 to holders of C Shares, D Shares, F Shares and G Shares convening a General Meeting on 28 January 2016. The following resolutions will be proposed at the General Meeting:

Ordinary Resolutions:

- 1) to create K Shares having the rights and being subject to the restrictions set out in the Articles, to be altered pursuant to resolution (4) described below;
- 2) to authorise the directors to allot up to an aggregate nominal amount of £33,000. The allotments referred to represent, in aggregate, approximately 41.8% of the issued share capital of the Company as at the date of this document. Such authority will expire on the later of 15 months from the date the resolution is passed and the end of the Company's next annual general meeting;

Special Resolutions:

- 3) 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 36.4% of the Company's current issued share capital after the new K Share allotment. This authority will expire on the later of 15 months from the date the resolution is passed and the end of the Company's next annual general meeting;
- 4) to alter the Articles to, inter alia, provide for the rights attaching to the K Shares;
- 5) to authorise the Board to make market purchases of K Shares; and
- 6) to authorise the cancellation of the share premium account arising on the issue of the K Shares.

Ordinary Resolution:

- 7) to amend the Company's Investment Policy.

- 4.2 Share buybacks by the Company for the period from 1 February 2012 to the date of publication of this document, are summarised below.

Date	Purchase	Share Class	Number of Shares	Price per Share
01/11/2012	Purchase	C Shares	5,150	81.5p
13/11/2012	Purchase	A Shares	30,300	0.1p
13/11/2012	Purchase	C Shares	30,300	79.5p
26/06/2013	Purchase	C Shares	5,162	85.5p
01/08/2013	Purchase	E Shares	50,000	0.1p
15/05/2015	Purchase	G Shares	12,250	90.0p
15/09/2015	Purchase	G Shares	38,200	88.4p

- (a) The Company has one wholly owned subsidiary, Downing Managers 2 Limited, which was incorporated in England and Wales on 12 January 2005.
- (b) There has not been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) in the 12 months prior to the date of this Prospectus which may have or have had in the recent past significant effects on the Company's or the Group's financial position or profitability.
- (c) The Company is not regulated to conduct investment business under the Financial Services and Markets Act 2000.
- (d) Downing TWO VCT plc was registered with the FCA as a Small Registered UK AIFM with effect from 9 July 2014.
- (e) Save as disclosed in paragraph 3.2 above, since 1 February 2012 no share or loan capital of the Company has been issued or (except pursuant to or in connection with the Offers) agreed to be issued or is now proposed to be issued for cash or any other consideration, and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital. The Company has no contingent liabilities.
- (f) No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the Offers and the authorities referred to in sub-paragraph 4.1 above, no material issue of shares (other than where offered to Shareholders pro rata to existing holdings) will be made within one year without the prior approval of Shareholders in general meeting.
- (g) The K Shares will be in registered form. The Company's share register will be kept by Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Evidence of title to Shares will be through possession of a share certificate in the Shareholder's name; alternatively, Shares may be held in an account through the CREST system.

- (h) The Company is subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of section 561 of the 2006 Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) will apply to the balance of the authorised but unissued share capital of the Company which is not subject to the disapplication referred to in sub-paragraph 4.1 above.

5. MEMORANDUM OF ASSOCIATION AND ARTICLES

The Company's principal object is to carry on the business of an investment company and a VCT. The Memorandum of Association and the Articles of Association (existing and proposed) are available for inspection at the address specified in paragraph 11 below.

Subject to the passing of the resolutions set out in the notice of the General Meeting, the Company's Articles will contain provisions, inter alia, to the following effect:

(a) *Voting rights*

Subject to any disenfranchisement and subject to any special terms as to voting on which any shares may be issued as set out below, on a show of hands every member present in person (or, being a corporation present by a duly authorised representative) shall have one vote and, on a poll, every member present in person or by proxy shall have one vote for every share of which he is the holder.

The holders of:

- (i) the C Shares, D Shares, F Shares, G Shares and K Shares are entitled to receive notice of, to attend, speak and vote at any general meeting, *pari passu* with each other. Every such member shall have one vote on a show of hands or one vote for each share held on a poll;
- (ii) the A Shares and E Shares are not entitled to receive notice of, to attend or vote at any general meeting, except where the resolution to be considered by a meeting of Shareholders is in respect of a variation to the rights of the A Shares or E Shares or where an offer (as defined in the City Code on Takeovers and Mergers published by the Panel on Takeovers and Mergers) remains open for acceptance at the time of the relevant meeting, in which event the holders of A Shares and E Shares shall be entitled to receive notice of and vote at and attend such meetings and their voting rights shall be *pari passu* with those of the C Shares, D Shares, F Shares, G Shares and K Shares; and
- (iii) the Deferred Shares are not entitled to receive notice of, to attend or vote at any general meeting.

(b) *Transfer of shares*

The shares are in registered form. All transfers of shares must be effected by a transfer in writing in any usual form or any other form approved by the Directors. The instrument of transfer of a share shall be executed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The Directors may refuse to register any transfer of a partly paid share, provided that such refusal does not prevent dealings taking place on an open and proper basis, and may also refuse to register any instrument of transfer unless:

- (i) it is duly stamped (if so required), is lodged with the Company's registrars or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (ii) it is in respect of only one class of share; and
- (iii) the transferees do not exceed four in number.

(c) *Distributions of income and capital*

- (i) As regards dividends, any other distributions or a return of capital on its winding up (otherwise than on a market purchase by the Company of any of its shares) the assets attributable to the C Shares and A Shares ("C Shareholder Proceeds") shall be applied on the following basis:

- (A) provided that the C Share Hurdle (as defined in the Articles) is met, subject to (i)(C) below, C Shareholder Proceeds will be distributed:

- (i) as to 91% to C Shareholders pro rata to the nominal capital paid up on their holdings of C Shares and 9% amongst A Shareholders pro rata according to the nominal capital paid up on their A Shares, until all such holdings have received, in aggregate, an amount equivalent to the aggregate amount subscribed on those shares under the C Share Offer; and
 - (ii) thereafter, the balance of any such surplus shall be applied amongst the C Shareholders and A Shareholders pro rata to their respective holding of such Shares.
- (B) if any C Shareholder Proceeds distributed to C Shareholders and A Shareholders at any given time do not result in the C Share Hurdle being met then such C Shareholder Proceeds will be distributed amongst C Shareholders and A Shareholders pro rata according to the amount subscribed for such shares, until the C Share Hurdle is met. Once the C Share Hurdle is met all C Shareholder Proceeds will, thereafter, be made to A Shareholders until the holders of A Shares have received the same as they would have received under (A) if the C Share Hurdle had always been met.
- (C) the aggregate of C Shareholder Proceeds paid to all A Shareholders shall not exceed the C Share Cap (as defined in the Articles). Once C Shareholder Proceeds paid to A Shareholders is equal to the C Share Cap in any year, all C Shareholder Proceeds distributed thereafter in that year will be made to C Shareholders pro rata to their respective holding of C Shares. If, in any year, the distributions payable to A Shareholders is less than the C Share Cap then the shortfall will be aggregated to the C Share Cap in respect of the following year and so on until fully utilised.
- (ii) As regards dividends, any other distributions or a return of capital on its winding up (otherwise than on a market purchase by the Company of any of its Shares) the assets attributable to the D Shares and E Shares ("D Shareholder Proceeds") shall be applied on the following basis:
 - (A) provided that the D Share Hurdle (as defined in the Articles) is met, subject to (iii)(C) below, D Shareholder Proceeds will be distributed:
 - (i) as to 91% to D Shareholders pro rata to the nominal capital paid up on their holdings of D Shares and 9% amongst E Shareholders pro rata according to the nominal capital paid up on their E Shares, until all such holdings have received, in aggregate, an amount equivalent to the aggregate amount subscribed on those shares under the D Share Offer; and
 - (ii) thereafter, the balance of any such surplus shall be applied amongst the D Shareholders and E Shareholders pro rata to their respective holding of such Shares.
 - (B) if any D Shareholder Proceeds distributed to D Shareholders and E Shareholders at any given time do not result in the D Share Hurdle being met then such D Shareholder Proceeds will be distributed amongst D Shareholders and E Shareholders pro rata according to the amount subscribed for such shares, until the D Share Hurdle is met. Once the D Share Hurdle is met all D Shareholder Proceeds will, thereafter, be made to E Shareholders until the holders of E Shares have received the same as they would have received under (A) if the D Share Hurdle had always been met.
 - (C) the aggregate of D Shareholder Proceeds paid to all E Shareholders shall not exceed the D Share Cap (as defined in the Articles). Once D Shareholder Proceeds paid to E Shareholders is equal to the D Share Cap in any year, all D Shareholder Proceeds distributed thereafter in that year will be made to D Shareholders pro rata to their respective holding of D Shares. If, in any year, the distributions payable to E Shareholders is less than the D Share Cap then the shortfall will be aggregated to the D Share Cap in respect of the following year and so on until fully utilised.
- (iii) As regards distributions, the holders of F Shares shall be entitled to receive in that capacity dividends and any other distributions or a return of capital or winding up (otherwise than on a market purchase by the Company of any of its shares) the assets attributable to the F Shares shall be distributed to the F Shareholders pro rata to their respective holdings of F Shares.

- (iv) As regards distributions, the holders of G Shares shall be entitled to receive in that capacity dividends and any other distributions or a return of capital or winding up (otherwise than on a market purchase by the Company of any of its shares) the assets attributable to the G Shares shall be distributed to the G Shareholders pro rata to their respective holdings of G Shares.
- (v) As regards distributions, the holders of K Shares shall be entitled to receive in that capacity dividends and any other distributions or a return of capital or winding up (otherwise than on a market purchase by the Company of any of its shares) the assets attributable to the K Shares shall be distributed to the K Shareholders pro rata to their respective holdings of K Shares.
- (vi) The holders of the Deferred Shares shall not be entitled to any dividend or any other distribution in respect of the holding of Deferred Shares.

Save as set out above the Company may in general meeting by ordinary resolution declare dividends in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors and no dividend or interim dividend shall be payable except in accordance with the provisions of the 2006 Act. No dividend or other monies payable in respect of a share shall bear interest as against the Company. There are no fixed dates on which entitlement to a dividend arises. All dividends unclaimed for a period of twelve years after being declared or becoming due for payment shall be forfeited and shall revert to the Company.

(d) Disclosure of interests in shares

If any member or other person appearing to be interested in shares of the Company is in default in supplying within 14 days after the date of service of a notice requiring such member or other person to supply to the Company in writing all or any such information as is referred to in section 793 of the 2006 Act, the Directors may, for such period as the default shall continue, impose restrictions upon the relevant shares. The restrictions available are the suspension of voting and rights of attendance at meetings of the Company in respect of the relevant shares and, additionally, in the case of a Shareholder representing at least 0.25% by nominal value of any class of shares of the Company then in issue the withholding of payment of any dividends on and the restriction of transfer of, the relevant shares.

(e) Winding up or return of capital

On any winding up or on any return of capital, the capital and assets of the Company shall be applied as follows:

- (i) the C Share Surplus (as defined in the Articles) shall be divided amongst the holders of the C Shares and the A Shares in accordance with (c)(i) (distributions of income and capital) above;
- (ii) the D Share Surplus (as defined in the Articles) shall be divided amongst the holders of the D Shares and the E Shares in accordance with (c)(ii) (distributions of income and capital) above;
- (iii) the F Share Surplus (being the F Share Net Assets (as defined in the Articles) less the proportion of the fees and expenses attributable to the F Shares) shall be divided amongst the holders of the F Shares and in accordance with (c)(iii) (distributions of income and capital) above;
- (iv) the G Share Surplus (being the G Share Net Assets (as defined in the Articles) less the proportion of the fees and expenses attributable to the G Shares) shall be divided amongst the holders of the G Shares and in accordance with (c)(iv) (distributions of income and capital) above;
- (v) the K Share Surplus (being the K Share Net Assets (as defined in the Articles) less the proportion of the fees and expenses attributable to the K Shares) shall be divided amongst the holders of the K Shares and in accordance with (c)(v) (distributions of income and capital) above; and
- (vi) the holders of the Deferred Shares shall be entitled to the nominal value in respect of such shares after the holders of the A Shares, C Shares, D Shares, E Shares, F Shares, G Shares and K Shares shall have received £1 million in respect of each such share held by them.

Subject to these provisions, the Articles provide that the liquidator may, with the sanction of a special resolution and any other sanction required by the Acts, divide amongst the members *in specie* the whole or any part of the assets of the Company in such manner as he may determine.

(f) *Changes in share capital*

- (i) Without prejudice to any rights attached to any existing shares, any share may be issued with such rights or conditions as the Company may by ordinary resolution determine or, in the absence of such determination, as the Directors may determine. Subject to the Acts, the Company may issue shares which are, or at the option of the Company or the holder are, liable to be redeemed.
- (ii) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount, sub-divide its shares or any of them into shares of smaller amounts, cancel or reduce the nominal value of any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount so cancelled or the amount of the reduction.
- (iii) Subject to the Acts, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account and may also, subject to the Acts, purchase its own shares.

(g) *Class consents and variation of rights*

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of that class) be varied or abrogated either with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of such holders.

The Company shall not without the previous sanction of a special resolution passed at a separate general meeting, convened and held in accordance with the provisions of the Articles, by the holders of:

- (i) the A Shares, the C Shares, the D Shares, the E Shares, the F Shares, the G Shares and the K Shares in the case of (B), (C), (D) and (F) below; or
 - (ii) the shares of a particular class where further shares of that class, or securities or rights relating to that class, are to be created or issued, in the case of (A); or
 - (iii) the shares of a particular class to which any proposed reduction of capital or share premium account, change in investment policy or variation, abrogation or modification of rights relates, in the case of (C) and (E) respectively,
- (A) create or issue any further shares or securities, or rights to subscribe for or convert or exchange any securities into shares, in the Company where such shares or securities carry an entitlement or would on issue or conversion or exchange carry an entitlement to share in the assets attributable to the relevant class of shares save that the Company may issue further:
- (a) C Shares and A Shares together or further shares, securities or rights carrying an entitlement to, or convertible into, or exchangeable for, C Shares and A Shares at prices above the value of a C Share and an A Share calculated by dividing the C Share Surplus by the number of C Shares and A Shares in issue at such date as may reasonably be selected by the Directors for the purpose (“C NAV per Share”); and
 - (b) D Shares and E Shares together or further shares, securities or rights carrying an entitlement to, or convertible into, or exchangeable for, D Shares and E Shares at prices above the value of a D Share and an E Share calculated by dividing the D Share Surplus by the number of D Shares and E Shares in issue at such date as may reasonably be selected by the Directors for the purpose (“D NAV per Share”); and

- (c) F Shares or further shares, securities or rights carrying an entitlement to, or convertible into, or exchangeable for, F Shares at prices above the value of a F Share calculated by dividing the F Share Surplus by the number of F Shares in issue at such date as may reasonably be selected by the Directors for the purpose ("F NAV per Share"); and
- (d) G Shares or further shares, securities or rights carrying an entitlement to, or convertible into, or exchangeable for, G Shares at prices above the value of a G Share calculated by dividing the G Share Surplus by the number of G Shares in issue at such date as may reasonably be selected by the Directors for the purpose ("G NAV per Share"); and
- (e) K Shares or further shares, securities or rights carrying an entitlement to, or convertible into, or exchangeable for, K Shares at prices above the value of a K Share calculated by dividing the K Share Surplus by the number of K Shares in issue at such date as may reasonably be selected by the Directors for the purpose ("K NAV per Share"); or
- (B) pass a resolution amending or replacing (e), winding up or return of capital; or
- (C) pass a resolution to reduce the capital or share premium account of the Company; or
- (D) alter any objects set out in the Articles of Association of the Company; or
- (E) make any material change in the investment policy of the Company; or
- (F) increase the borrowing limit stated in the Articles or permit such limit to be exceeded.

Subject to the terms on which any shares may be issued, the rights or privileges attached to any class of shares in the capital of the Company shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by any share buyback by the Company.

The provisions shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if such group of shares of the class differently treated formed a separate class of shares.

(h) Directors' interests

- (i) Subject to the provisions of the Acts and save as set out in the Articles no such contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any Director or person connected with him is in any way interested, whether directly or indirectly, shall be avoided, nor shall any Director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any profit realised by any such contract, arrangement, transaction or proposal by reason of such Director holding that office or of the fiduciary relationship thereby established subject to the nature and extent of the Director's direct or indirect interest having been disclosed by him to the other Directors and authorisation being obtained from the Directors for the above in accordance with the provisions of the Acts.
- (ii) Save as set out in the Articles, a Director shall not vote in respect of any contract, arrangement, transaction or any other proposal whatsoever in which he has any direct or indirect interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company unless the Director has made a declaration disclosing the nature and extent of such interests and has obtained from the other Directors their authorisation for the above in accordance with the provisions of the Acts. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (iii) A Director shall (in the absence of some other material interest than is as indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:-

- (a) the giving of any security or indemnity to him in respect of monies lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
 - (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
 - (d) any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he is not the holder of or beneficially interested in 1% or more of any class of the equity share capital of such company (or of a third company through which his interest is derived) or of the voting rights available to members of the company;
 - (e) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which the relevant relates to both employees and Directors of the Company or has been approved by or is subject to and conditional upon approval by the Board of HM Revenue & Customs for taxation purposes;
 - (f) any contract, arrangement, transaction or proposal concerning the adoption modification or operation of any scheme for enabling employees including full time executive directors of the Company and/or any subsidiary to acquire shares of the Company or any arrangement for the benefit of employees of the Company or any of its subsidiaries under which the Director benefits in a similar manner to employees and which does not accord to any Director as such any privilege not accorded to the employees to whom the scheme relates; and
 - (g) any arrangement for purchasing or maintaining for any officer or auditor of the Company or any of its subsidiaries insurance against any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, breach of duty or breach of trust for which he may be guilty in relation to the Company or any of its subsidiaries of which he is a director, officer or auditor.
- (iv) A Director shall not vote or be counted in the quorum on any resolution concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested including fixing or varying the terms of his appointment or the termination thereof.
- (v) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any company in which the Company is interested, such proposals shall be divided and considered in relation to each Director separately and in such cases each of the Directors concerned (if not otherwise debarred from voting) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- (i) *Remuneration of Directors*
- (i) The ordinary remuneration of the Directors (other than an executive director appointed under the Articles) shall be such amount as the Directors shall from time to time determine (provided that unless otherwise approved by the Company in general meeting, the aggregate of the ordinary remuneration of the Directors of the Company shall not exceed £100,000 per year (excluding any performance incentive fees), to be divided among them in such proportion and manner as the Directors may determine). The Directors shall also be paid by the Company all travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.
 - (ii) Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purpose may be paid such extra remuneration as the Directors may determine.

- (iii) The emoluments and benefits of any executive director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants or, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependant on or after retirement or death.
- (j) *Retirement of Directors*
At the annual general meeting of the Company next following the appointment of a Director he shall retire from office. A Director shall also retire from office at or before the third annual general meeting following the annual general meeting at which he last retired and was re-elected. A retiring Director shall be eligible for re-election.
- (k) *Borrowing powers*
The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertakings, property and uncalled capital. The Directors shall restrict the borrowings of the Company and, by the exercise of the 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 the 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 Company, exceed a sum equal to 50% of the aggregate total amount received from time to time on the subscription of shares to the Company.
- (l) *Distribution of realised capital profits*
At any time when the Company has given notice in the prescribed form (which has not been revoked) to the Registrar of Company of its intention to carry on business as an investment company (a Relevant Period), distribution of the Company's capital profits (within the meaning of section 833 of the 2006 Act) shall be prohibited. The Board shall establish a reserve to be called the capital reserve. During a Relevant Period, all surpluses arising from the realisation or revaluation of investments and all other monies realised on or derived from the realisation, payment or other dealing with any capital asset in excess of the book value thereof and all other monies which are considered by the Board to be in the nature of accretion to capital shall be credited to the capital reserve. Subject to the Acts, the Board may determine whether any amount received by the Company is to be dealt with as income or capital or partly one way and partly the other. During a Relevant Period, any loss realised on the realisation or payment or other dealing with any investments or other capital assets and, subject to the Acts, any expenses, loss or liability (or provision therefor) which the Board considers to relate to capital or which the Board otherwise considers appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. During a Relevant Period, all sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable except and provided that during a Relevant Period no part of the capital reserve or any other money in the nature of accretion to capital shall be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution (as defined by section 829 of the 2006 Act) or applied in paying dividends on any shares in the Company. Capital profits can be applied in the redemption or purchase of shares whilst the Company remains an investment company in accordance with sections 160 and 162 of the 2006 Act.
- (n) *Uncertificated Shares*
CREST, a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument, was introduced in July 1996. The Articles are consistent with CREST membership and allow for the holding and transfer of shares in uncertificated form pursuant to the Regulations.
- (o) *Calling of general meetings*
- (i) An annual general meeting shall be held at such time and place as may be determined by the Directors and within a period of six months beginning on the day following the Company's accounting reference date.
 - (ii) The Directors may, whenever they think fit, convene a general meeting, and general meetings shall also be convened on such requisition or in default may be convened by such requisitionists as are provided by the Acts.

- (iii) An annual general meeting called for the passing of a special resolution and/or ordinary resolution shall be called by not less than twenty-one days' notice in writing, and all other general meetings of the Company shall be called by not less than fourteen days' notice in writing, unless it is proposed to pass a resolution of which special notice is required by the Acts in which case 28 days is required. The notice shall be exclusive of the day on which it is given and of the day of the meeting and shall specify the place, the day and hour of meeting, and in case of special business the general nature of such business. The notice shall be given to the Shareholders, other than those who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive notice from the Company, to the Directors and to the Auditors. A notice calling an annual general meeting shall specify the meeting as such and the notice convening a meeting to pass a special resolution and/or an ordinary resolution as the case may be shall specify the intention to propose the resolution as such.
- (iv) A general meeting shall, notwithstanding that it is called by shorter notice, be deemed to have been duly called if it is so agreed by such Shareholders as are prescribed in that behalf by the Acts.
- (v) In every notice calling a meeting of the Company or any class of the Shareholders of the Company there shall appear with reasonable prominence a statement that a Shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him, and that a proxy need not also be a Shareholder.
- (vi) The business of an annual general meeting shall be to receive and consider the profit and loss account, the balance sheet and reports of the Directors and of the auditors, and the documents required by law to be annexed to the balance sheet, to elect Directors and officers in the place of those retiring or ceasing to hold office pursuant to the Articles and to fix their remuneration if required, to declare dividends, to appoint the auditors (when special notice of the resolution for such appointment is not required by the Acts) and to fix, or determine the manner of the fixing of, their remuneration. All other business transacted at an annual general meeting and all business transacted at a general meeting shall be deemed special.

6. DIRECTORS' AND OTHERS' INTERESTS IN THE COMPANY

- (a) The Company is not aware of any person, not being a member of its administrative, management or supervisory bodies, who, as at the date of this document, is directly or indirectly interested in 3% or more of the issued share capital of the Company and is required to notify such interest in accordance with the DTR.
- (b) As at 14 December 2015 (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial) of the Directors and their immediate families in the share capital of the Company which: (i) have been notified by each Director to the Company; (ii) are required pursuant to section 809 of the 2006 Act to be entered in the register referred to therein; or (iii) are interests of a connected person of the Director which would, if the connected person, within the meaning of section 252 of the 2006 Act, were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director, were as follows:

Director	Number of Shares					
	A	C	D	E	F	G
	Shares	Shares	Shares	Shares	Shares	Shares
Hugh Gillespie	5,250	5,250	-	-	-	4,900
Dennis Hale	7,835	7,835	13,600	13,600	5,175	5,820
Christopher McCann	-	-	-	-	-	-

Director	Percentage of issued share capital					
	A	C	D	E	F	G
	Shares	Shares	Shares	Shares	Shares	Shares
Hugh Gillespie	0.05%	0.07%	-	-	-	0.02%
Dennis Hale	0.07%	0.11%	0.14%	0.09%	0.05%	0.02%
Christopher McCann	-	-	-	-	-	-

The interests (all of which are beneficial) of the Directors and their immediate families in the share capital of the Company and (so far as is known or could with reasonable diligence be ascertained by the relevant Director) the interests of a person connected (within the meaning of section 252 of the 2006 Act) with a Director and which would be disclosed if they were interests of that Director following the close of the Offers (assuming full subscription under the Offers) are expected to be as follows:

Director	Number of Shares						
	A	C	D	E	F	G	K
	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Hugh Gillespie	5,250	5,250	-	-	-	4,900	-
Dennis Hale	7,835	7,835	13,600	13,600	5,175	5,820	-
Christopher McCann	-	-	-	-	-	-	-

Director	Percentage of issued share capital						
	A	C	D	E	F	G	K
	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Hugh Gillespie	0.05%	0.07%	-	-	-	0.02%	-
Dennis Hale	0.07%	0.11%	0.14%	0.09%	0.05%	0.02%	-
Christopher McCann	-	-	-	-	-	-	-

Save as disclosed in this paragraph, no Director nor any person (to the extent the same is known to, or could with reasonable diligence be ascertained by, that Director) connected with any Director (within the meaning of the DTR) has any interest in the share capital of the Company which is required to be notified pursuant to the DTR or which is required to be entered in the register maintained under section 809 of the 2006 Act.

- (c) Hugh Gillespie and Dennis Hale entered into an agreement with the Company on 19 January 2005 and Christopher McCann entered into an agreement with the Company on 28 August 2015, whereby they are required to devote such time to the Company as the Board reasonably requires consistent with their respective roles as non-executive directors. The agreements are terminable on three months' notice by either party. Each Director is currently entitled to receive and, during the period 31 December 2014, was paid, the fees listed below.

Name	Annual remuneration (excluding VAT, if applicable)		
	Annual remuneration	Year ended Dec 2014	Year ended Dec 2013
	£	£	£
Hugh Gillespie	25,000	24,150	13,750
Dennis Hale	12,500	11,458	11,458
Christopher McCann	20,000	n/a	n/a

No benefits are payable on termination of these agreements. None of the Directors has entered into any service contract with the Company.

- (d) No loan or guarantee has been granted or provided by the Company to any Director.

Save as disclosed in paragraph (c) above, this paragraph and paragraph (i) below, no Director has an interest in any transaction effected by the Company since its incorporation which is or was unusual in its nature or conditions or significant to the business of the Company.

The Company has taken out directors' and officers' liability insurance for the benefit of its Directors and the Company Secretary.

The following are directorships (unless otherwise stated) and partnerships held by the Directors in the five years prior to the date of this document and the principal activities of the Directors outside the Company where these are significant with respect to the Company (* denotes no longer held, ** denotes company in members' voluntary liquidation):

DIRECTORSHIPS

Hugh Gillespie - BD Veterinary Holdings Limited, BDVH Number Two Limited*, Burgess Diagnostics Limited*, Burgess Group plc, Downing Income VCT 3 plc*, Downing THREE VCT plc*, Downing Planned Exit VCT 6 plc**, Downing Planned Exit VCT 7 plc**, Downing Planned Exit VCT 8 plc**, Downing Planned Exit VCT 9 plc**, Practice Plan for Vets Limited*, Yorkset Managers 1 Limited, Yorkset Managers 2 Limited.

Dennis Hale - Downing THREE VCT plc, Downing Planned Exit VCT 6 plc**, Downing Planned Exit VCT 7 plc**, Downing Planned Exit VCT 8 plc** Downing Planned Exit VCT 9 plc**.

Christopher McCann – Bridgepoint Europe I Fund LP, Bridgepoint Europe IV E LP, Brighttalk Limited*, Coombe House Limited*, CSP Charles VI LP, Downing Planned Exit VCT 6 plc**, Downing Planned Exit VCT 7 plc**, Downing Planned Exit 8 plc**, Downing Planned Exit VCT 9 plc**, Hotbed Ground Rents 2010 Limited Partnership, Hotbed Ground Rents (2009) Limited Partnership, Ingenious Film Partners 2 LLP*, Inside Track 2 LLP, Inside Track 3 LLP, Lumejet Holdings Limited, Sustainable Technology Partnership Founder Partner LLP.

Save as disclosed in this paragraph none of the Directors nor any member of the Manager has for at least the previous five years:

- (i) had any convictions in relation to fraudulent offences; or
- (ii) been associated with bankruptcies, receiverships or liquidations in relation to an entity for which they have been acting as members of the administrative, management or supervisory bodies or senior management who was relevant to establishing that the entity had the appropriate expertise and experience for the management of its business; or
- (iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including designated professional bodies) or been disqualified by a Court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any issuer.

Christopher McCann is a director of Lumejet Holdings Limited. The Company was placed into Administration on 28 August 2015. The Administration is ongoing but the Administrator estimates that the deficit for creditors is £138,000.

- (e) The Company is not aware of any persons who, directly or indirectly, exercises or could exercise control over the Company and the Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.
- (f) There are no conflicts of interest between any Director or any member of the Company's administrative, management or supervisory bodies and his duties to the Company and the private interests and/or duties he may also have. All of the Company's Directors will be independent of the Manager throughout its life.
- (g) None of the Company's major holders of Shares have voting rights different from other holders of Shares.
- (h) No amounts have been set aside by the Company or Manager for pensions, retirement or similar benefits.
- (i) Other than with respect to the shareholdings in the Company held by the Directors as set out in paragraph 6(b) of this Part V and subscriptions in the Company by the Directors under the F Share and G Share Offers, and the Offer Agreements referred to in paragraph 7 below the Company has not entered into any related party transactions since the date of its respective incorporation and up to the date of this document.
- (j) There are no service contracts with the Company or the Company's subsidiary providing for benefits upon termination of employment.

- (k) DTR5 requires a Shareholder to notify the Company of the percentage of its Shares he holds if such percentage reaches, exceeds or falls below 3% or subsequent 1% thresholds.

7. MATERIAL CONTRACTS

The following are the only contracts, not being contracts entered into in the ordinary course of business, that have been entered into by the Group within the two years immediately preceding publication of this document and which are or may be material to the Group which contains any provision under which the Group has any obligation or entitlement which is material to the Group as at the date of this document:

- (a) Under the Offer Agreement dated 15 December 2015 between the Company (1), the Directors (2), the Sponsor (3) and Downing (4), the Sponsor has agreed to act as sponsor to the Offer and Downing has undertaken as agent of the Company to use its reasonable endeavours to procure subscribers under the Offer for up to 30,000,000 K Shares for the Company. Neither the Sponsor nor Downing is obliged to subscribe for Shares.

Under the Offer Agreement the Company will pay Downing a fee of 4% of the monies subscribed under the Offers where Adviser commission is payable or 2% of the monies subscribed under the Offers where no Adviser commission is payable. Advisers will be paid commission, where permissible, by Downing out of its capital raising fees, in respect of all applications accepted which bear their stamp. Downing will also pay all other costs and expenses of, or incidental to, the Offers and the application for Admission of the Shares to the Official List.

Under the Offer Agreement, which may be terminated by the Sponsor and Downing in certain circumstances, certain warranties have been given by the Company and the Directors to the Sponsor and Downing. The Company has also agreed to indemnify the Sponsor in respect of its role as Sponsor and under the Offer Agreement. The warranties and indemnity are in usual form for a contract of this type. The Offer Agreement may be terminated by the Sponsor if any statement in the Prospectus is untrue, any material omission from the Prospectus arises or any breach of warranty occurs.

- (b) Under an offer agreement dated 10 January 2013 between the Company (1), the Directors (2), the Sponsor (3) and Downing (4), the Sponsor agreed to act as sponsor to the G Share Offers and Downing undertook as agent of the Company to use its reasonable endeavours to procure subscribers under the Offer for up to 35,000,000 G Shares for the Company. Neither the Sponsor nor Downing were obliged to subscribe for G Shares.

Under the offer agreement the Company paid Downing a fee of 5.5% of the monies subscribed under the G Share Offers where Adviser commission is payable or 3.5% of the monies subscribed under the G Share Offers where no Adviser commission is payable. Advisers were paid commission, where permissible, by Downing out of its capital raising fees, in respect of all applications accepted which bear their stamp. Downing paid all other costs and expenses of, or incidental to, the G Share Offers and the application for Admission of the G Shares to the Official List.

Under the offer agreement, which may be terminated by the Sponsor and Downing in certain circumstances, certain warranties were given by the Company and the Directors to the Sponsor and Downing. The Company also agreed to indemnify the Sponsor in respect of its role as Sponsor and under the Offer Agreement. The warranties and indemnity were in usual form for a contract of this type. The Offer Agreement may be terminated by the Sponsor if any statement in the Prospectus was untrue, any material omission from the Prospectus arises or any breach of warranty occurs.

- (c) Management and Administration Deed ("Management Agreement") dated 19 January 2005 between the Company, DM2 and Downing Corporate Finance Limited ("DCF") whereby DM2 agreed to provide investment management services to the Company in respect of its portfolio of all its investments for a fee (inclusive of VAT if applicable) of 1% per annum of the Net Assets attributable to the Ordinary Shares of the Company, payable quarterly in arrears. The Manager has agreed to indemnify (without limitation in time or amount) the Company against the Annual Running Costs (including irrecoverable VAT) exceeding 2.5% of their Net Assets.

In addition, DM2 agreed to provide or procure the provision of certain administration services to the Company for an initial annual fee of up to £40,000 plus VAT (if applicable), increasing annually in line with

RPI (this fee has been superseded by the Deeds of Variation described in paragraphs 7(h), 7(i), 7(j), 7(k) and 7(l) below).

The Management Agreement (as amended by the Deeds of Variation described in paragraphs 7(h), 7(i), 7(j), 7(k), 7(l) and 7(m) below) is terminable by either party by one year's written notice and subject to earlier termination in the event of, inter alia, a party having a receiver, administrator or liquidator appointed or committing a material breach of the Management Agreement and, by the Company, if it fails to become or ceases to be a VCT for tax purposes, or if DM2 shall cease to be lawfully able to carry out their obligations under the Management Agreement or if, in the Board's reasonable opinion, it is desirable in order to preserve the status of the Company as a VCT. The Company may also terminate its Management Agreement if DM2 commits an act of fraud, wilful misconduct, bad faith or gross negligence. The Management Agreement contains provisions indemnifying (without limitation in time or amount) DM2 against any liability, not due to its fault, in respect of any negligence or fraud by the Company.

- (d) Hugh Gillespie and Dennis Hale entered into an agreement with the Company on 19 January 2005 and Christopher McCann entered into an agreement with the Company on 28 August 2015, terminable on three months' notice on either side, whereby he is required to devote such time to the affairs of the Company as the Board reasonably requires consistent with his role as a non-executive Director. Each Director is entitled to receive the fees set out in paragraph 6(c) above. Each Director is entitled to be reimbursed for expenses properly incurred. There are no specific provisions for compensation in the event of early termination of the consultancy agreements. Save as disclosed in this paragraph, none of the Directors has entered into any service contract with the Company.
- (e) Agreements ("Option Agreements") dated 19 January 2005 between Downing and the Company whereby the Company has granted an option for a 10 year period from the date of the Option Agreement to Downing to purchase for cash the entire issued share capital of DM2 at a price equivalent to DM2 net asset value on the date of exercise after 1 February 2007. Each option is renewable with the agreement of both parties. Supplemental Agreement pursuant to the Option Agreement dated 10 January 2008 between Downing and the Company provided that the Option Agreement would not commence until 1 February 2010. The exercise of the options will be conditional on the prior approval of the FCA and upon Downing being regulated at such time to conduct investment management business. On 15 December 2015 the Option was exercised by Downing pursuant to which Downing acquired the entire issued share capital of DM2 in consideration of the payment to the Company of £1,000.
- (f) Co-investment Agreement dated 8 December 2010 between the Company and the other funds where Downing or Downing's executives are involved in the management, namely, Downing Distribution VCT 1 plc, Downing Income VCT plc, Downing Income VCT 3 plc, Downing Income VCT 4 plc, Downing Fund Management LP, Downing Absolute Income VCT 1 plc, Downing Absolute Income VCT 2 plc, Downing Planned Exit VCT 3 plc, Downing Planned Exit VCT 4 plc, Downing Planned Exit VCT 5 plc, Downing Planned Exit VCT 6 plc, Downing Planned Exit VCT 7 plc, Downing Planned Exit VCT 8 plc, Downing Planned Exit VCT 9 plc, Downing Planned Exit VCT 2011 plc, Downing Structured Opportunities VCT 1 plc, Downing IHT Income Fund LLP, Downing IHT Income Fund 2 LLP, Downing IHT Income Fund 3 LLP, Downing IHT Income Fund 4 LLP, Downing (in its role as manager of other funds) and Downing bespoke funds, whereby it was agreed that allocations will be offered to all of the parties to the agreement in proportion to their respective funds available for investment, subject to the time horizon of the investment opportunity being compatible with the exit strategy of each party, the risk/reward profile of the investment being compatible with the target return of each Fund and to priority being given to Funds in order to maintain their tax status. 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 of the relevant Fund.
- (g) Deed of variation to the Management Agreement (the "C Share Deed of Variation") dated 25 September 2008 whereby the Management Agreement was varied so as to extend the rights and obligations of the Manager to the assets attributable to the C Shares and the A Shares.

Under the C Share Deed of Variation, DM2 receives an annual investment management fee of 1.35% of the net assets attributable to the C Shares and A Shares of the Company. DM2 receives an annual fee of £44,425 (plus VAT, if applicable, and RPI) for administration services to the Company.

- (h) Deed of variation to the Management Agreement (the “D Share Deed of Variation”) dated 6 November 2009 whereby the Management Agreement was varied so as to extend the rights and obligations of the Manager to the assets attributable to the D Shares and the E Shares.

Under the D Share Deed of Variation, DM2 receives an annual investment management fee of 1.35% of the net assets attributable to the D Shares and E Shares of the Company. The Manager receives an annual fee of £47,500 (plus VAT, if applicable, and RPI) for administration services to the Company.

- (i) Deeds of variation to the Management Agreement (the “F Share Deed of Variation”) dated 12 October 2011 whereby the Management Agreement was varied so as to extend the rights and obligations of DM2 to the assets attributable to the F Shares.

Under the F Share Deed of Variation, DM2 receives an annual investment management fee of 1.8% of the net assets attributable to the F Shares of the Company. DM2 receives an annual fee of £47,500 (plus VAT, if applicable, and RPI) for administration services to the Company. DM2 is also entitled to a performance incentive fee in respect of the F Shares. The Performance Incentive fee in respect of the F Share pool will only become payable if F Shareholders: (i) receive Shareholder Proceeds of at least 100.0p 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 3.0p per F Share plus 20% above 100.0p 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 the F Share pool equivalent to 7.0p per F Share (based on the number of F Shares in issue at the close of the Offer).

For example, if the total funds available for distribution were 110.0p per F Share, then the Performance Incentive would be 5p per F Share (3.0p plus 20% x 10.0p), leaving Shareholder Proceeds of 105.0p 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 130.0p per F Share, the Performance Incentive would be capped at 7.0p per F Share, leaving Shareholder Proceeds of 123.0p per F Share.

- (j) Deed of variation to the Management Agreement (the “G Share Deed of Variation”) dated 7 January 2013 whereby the Management Agreement was varied so as to extend the rights and obligations of DM2 to the assets attributable to the G Shares.

Under the G Share Deed of Variation, DM2 receives an annual investment management fee of 2.0% of the net assets attributable to the G Shares of the Company. DM2 receives an annual fee of £55,000 (plus VAT, if applicable, and RPI) for administration services to the Company. DM2 is also entitled to a performance incentive fee in respect of the G Shares. The Performance Incentive in respect of the G Share pool will only become payable if G Shareholders: (i) have the opportunity to receive shareholder Proceeds of at least 105.82p per G 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 G Share plus 20% of the funds available above 105.82p per G Share (for distribution to G 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 period to when an exit is provided in approximately six years) equivalent to 7.0p per G Share (based on the number of G Shares in issue at the close of the Offer). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

For example, if the total funds available for distribution over six years were 115.82p per ‘G’ Share, the Performance Incentive would be 5.0p per ‘G’ Share (3.0p plus 20% x 10.0p), leaving Shareholder Proceeds of 110.82p per G 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 135p per

G Share, the Performance Incentive would be capped at 7.0p per G Share, leaving Shareholder Proceeds of 128p per G Share.

- (k) A deed of novation of the Management Agreement dated 15 December 2015 such that Downing LLP agreed to provide the investment management and administration services to the Company under the Management Agreement in place of DM2 with effect from 1 October 2015. The consideration payable to DM2 under this deed of assignment was £1,000, being the same value as the consideration payable under the Option.
- (l) Deed of variation to the Management Agreement (the “K Share Deed of Variation”) dated 15 December 2015 whereby, the Management Agreement was varied so as to extend the rights and obligations of the Manager to the assets attributable to the K Shares.

Under the K Share Deed of Variation, the Manager will receive an annual investment management fee of 2.0% of the net assets attributable to the K Shares of the Company. The Manager will receive an annual fee of £60,000 (plus VAT, if applicable, and RPI) for administration services to the Company. The Manager is also entitled to a performance incentive fee in respect of the K Shares. The Performance Incentive will only become payable if K Shareholders: (i) have the opportunity to receive Shareholder Proceeds of at least 100p per K Share (excluding initial income tax relief) and (ii) achieve a tax-free Compound Return of at least 6% per annum (after allowing for income tax relief on investment) (together the “Hurdles”).

If the Hurdles are met, the Performance Incentive will be 20% of the aggregate excess on any amounts distributed by the Company in excess of 100p per K Share (calculated before 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 period to when an exit is provided in approximately eight years) equivalent to 6p per K Share (based on the number of K Shares in issue at the close of the Offers). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

For example, if the total funds available for distribution over the life of the K Shares was 112.5p per K Share, the Performance Incentive would be 2.5p per K Share (20% x 12.5p), leaving Shareholder Proceeds of 110p per K 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 135p per K Share, the Performance Incentive would be capped at 6p per K Share, leaving Shareholder Proceeds of 129p per K Share.

- (m) Under the Offer Agreement dated 12 October 2011 (“F Share Offer Agreement”) between the Company (1), Downing Planned Exit VCT 2 plc (2), the Directors (3), the Sponsor (4) and Downing (5), the Sponsor agreed to act as sponsor to the F Share Offer and Downing undertook, as agent of the Company, to use its reasonable endeavours to procure subscribers under the F Share Offer for up to 15,000,000 F Shares for the Company.

Under the F Share Offer Agreement the Company paid Downing a fee of 5.5% of the gross proceeds of the F Share Offer together with an annual commission of 0.25% of the Net Assets attributable to the F Shares of the Company until such time as the annual commission is equal to 4.5% of the gross proceeds of the F Share Offer. Authorised financial advisers were paid commission, by Downing out of its capital raising fees, in respect of all applications accepted which bore their stamp. Downing also paid all other costs and expenses of or incidental to the F Share Offer and the application for Admission of the F Shares to the Official List. Total initial costs payable by the Company to Downing under the Offer Agreement were limited to 5.5% of the gross proceeds of the F Share Offer.

Under the Offer Agreement, certain warranties were given by the Company and the Directors to the Sponsor and Downing. The Company also agreed to indemnify the Sponsor in respect of its role as Sponsor and under the Offer Agreement. The warranties and indemnity are in usual form for a contract of this type.

8. GENERAL

- (a) The principal place of business and registered office of the Company is at Ergon House, Horseferry Road, London SW1P 2AL (telephone no: 020 7416 7780). The Company has not, nor has had since incorporation, any employees other than its Directors. The Company does not have any subsidiaries or associated companies other than the Manager. The Company is not authorised or regulated by the FCA. The Company is domiciled in the United Kingdom.
- (b) The principal place of business and registered office of the Manager is at Ergon House, Horseferry Road, London SW1P 2AL (telephone no: 020 7416 7780). Downing LLP has 87 employees. The Manager is UK domiciled and was incorporated in England and Wales under the 2000 Limited Liability Partnerships Act on 20 November 2008 with registered number OC341575. The Manager is authorised and regulated by the Financial Conduct Authority with registered number 545025.
- (c) PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP were the registered auditors of the Company since its incorporation and were replaced by BDO LLP of 55 Baker Street, London, W1U 7EU. Both are members of the Institute of Chartered Accountants in England and Wales.
- (d) The Board is responsible for the determination and calculation of the Company's net asset value and announces it at least half yearly, through a regulatory information service.
- (e) The Company does not intend to appoint an external custodian. The Company's assets will be held by the Company in certificated form.
- (f) Valuation of investments
All investments are designated as "fair value through profit or loss" assets and are measured at fair value.

Listed fixed income investments are measured using bid prices in accordance with the IPEV Guidelines.

In respect of unquoted instruments, fair value is established by using the IPEV Guidelines. The valuation methodologies used by the Company to ascertain the fair value of an investment in an unquoted entity are as follows: Price of recent investment; Earnings multiple; Net assets; Discounted cash flows or earnings (of underlying business); and Discounted cash flows (from the investment).

Gains and losses arising from changes in fair value are included in the Income Statement for the year as a capital item and transaction costs on acquisition or disposal of the investment expensed.

- (g) Reporting to Shareholders - the Company's annual report and accounts are made up to 31 December in each year and are normally sent to Shareholders in April. The Company's next accounting period will end on 31 December 2015. The Company's unaudited half yearly reports are made up to 30 June each year and are normally sent to Shareholders in August.
- (h) All material contracts of the Company will be in English and the Company and/or its Manager will communicate with Investors and/or Shareholders in English.
- (i) Complaints about the Company or the Manager should be referred to the chairman of the Board of Directors of the Company at Ergon House, Horseferry Road, London SW1P 2AL or the chairman of the Manager at Ergon House, Horseferry Road, London SW1P 2AL. Any such complaint may subsequently be referred to the Financial Ombudsman Service. Compensation will not be available from the Financial Services Compensation Scheme in the event of default by the Manager.
- (j) A typical investor will be a retail client (not a corporate) who is aged 18 or over, and pays UK income tax and who already owns a portfolio of non-VCT investments such as unit trusts/OEICs, investment trusts and/or direct shareholdings in listed companies and has sufficient income and capital so that his investment in the Company can be held for over five years. The individual will be professionally advised and/or a sophisticated investor.

- (k) As at the date of this document, there are no governmental, economic, monetary, political or fiscal policies and factors which have or could affect the Company's operations.
- (l) The Company has to satisfy a number of tests to qualify as a VCT and will be subject to various rules and regulations in order to continue to qualify as a VCT, as set out under in Part II of this document ("Taxation"). In addition, under the rules relating to Admission, the Company must manage and invest its assets in accordance with the investment policy set out in the section headed "Investment Policy" on pages 21 to 23, which contains information about the policies which it will follow relating to asset allocation, risk diversification and gearing and which includes a maximum exposure. Investors will be informed through a regulatory information service of the action that the Board proposes to take in the event that any of these investment restrictions is breached. The Company was registered with the FCA as a Small Registered UK AIFM with effect from 9 July 2014.
- (m) All third party information in this document has been identified as such by reference to its source and has been accurately reproduced and, so far as the Company is aware, and is able to ascertain from information published by the relevant party, no facts have been omitted which would render such information inaccurate or misleading.
- (n) The Company has no employees other than the directors of the Company and the directors of the Manager.

9. STAMP DUTY, STAMPY DUTY RESERVE TAX AND CLOSE COMPANY STATUS

The Company has been advised that no stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of the Shares issued under the Offers.

The transfer on sale of any Shares will be liable to ad valorem stamp duty normally at the rate of 0.5% of the amount or value of the consideration (rounded up to the nearest £5). An unconditional agreement to transfer Shares also gives rise to an obligation to account for SDRT, which is payable within seven days of the start of the month following that in which the agreement was entered into. The payment of stamp duty gives rise to a right to repayment of any SDRT paid. There will be no stamp duty or SDRT on the transfer of the Shares into CREST unless such a transfer is made for consideration in money or money's worth, in which case a liability to SDRT will arise usually at a rate of 0.5%. A transfer of Shares effected on a paperless basis through CREST will generally be subject to SDRT at a rate of 0.5% of the value of the consideration. Following the issue of the Shares pursuant to the Offers, the Company is not likely to be a close company for tax purposes.

10. CONSENTS

The Sponsor, Downing and the Manager has given and have not withdrawn their written consents to the issue of this document with the references to them in the form and context in which they appear.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Howard Kennedy LLP at No 1 London Bridge, London SE1 9BG and at the registered office of the Company at Ergon House, Horseferry Road, London SW1P 2AL during normal business hours on any weekday (public holidays excepted) from the date of this document until the closing date of the Offers:

- (a) the Memorandum of Association and Articles of the Company;
- (b) the consent letters referred to in paragraph 10 above;
- (c) the Prospectus; and
- (d) the Company's audited annual accounts for the periods ended 31 January 2012, 31 January 2013, 31 December 2013 and 31 December 2014 and half yearly reports for the six months ended 30 June 2014 and 30 June 2015.

15 December 2015

Part VI – Additional Information

1. The Company

1.1 Cancellation of the share premium account

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

The 2006 Act provides that a public company may only purchase its own shares out of distributable profits or out of the proceeds of a fresh issue of Shares made for the purpose of the purchase. Subject to confirmation from HM Revenue & Customs that such proposals will not adversely affect the Company's VCT status and Court approval, the Company may decide to reduce and/or cancel the share premium account (created on the issue of the K 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.

Following changes in Finance Act 2014 for shares issued after 5 April 2014, the Company may not return the capital raised by a share issue to its investors for a period of three years from the end of the accounting period in which the shares were issued. There is no restriction on dividends funded out of income received attributable to the K Shares.

1.2 Material interests

The Manager will be paid an annual investment management fee of 2.0% of the Net Assets attributable to the K Shares. In line with normal VCT practice, the Manager will be entitled to receive a Performance Incentive. Further details of these arrangements are set out in Part I of this document.

1.3 Results of the Offers

The results of the Offers will be announced through a Regulatory Information Service provider.

2. Working capital and capitalisation and indebtedness statements

2.1 Working capital

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

2.2 Statement of capitalisation and indebtedness

The table below shows the capitalisation of the Company as at 31 October 2015 (extracted from the unaudited management accounts of the Company for the period ended 31 October 2015).

	£'000
Total current debt	
Guaranteed	-
Secured	-
Unguaranteed/secured	-
Total non-current debt	
Guaranteed	-
Secured	-
Unguaranteed/secured	-
Shareholders' equity	
Share capital	79
Other reserves	42,030
	<u>42,109</u>

There has been no material change in the capitalisation of the Company, total debt or shareholder equity since 31 October 2015.

The following table shows the Company's net indebtedness as at 31 October 2015 (extracted from the unaudited management accounts of the Company for the period ended 31 October 2015).

	£'000
A Cash	10,417
B Cash equivalent	-
C Trading Securities	-
D Liquidity (A+B+C)	10,417
E Current financial receivables	1,055
F Current bank debt	-
G Current position of non-current debt	-
H Other current financial debt	-
I Current financial debt (F+G+H)	-
J Net current financial indebtedness (I-E-D)	(11,472)
K Non-current bank loans	-
L Bonds issued	-
M Other non-current loans	-
N Non-current financial indebtedness (K+L+M)	-
O Net financial indebtedness (J+N)	(11,472)

The Company does not have any contingent or indirect indebtedness.

3. Issued Share Capital and dilution

The issued share capital of the Company as at the date of this document is 79,008,923. If the Offers are fully subscribed (assuming costs of the Offers of 2%), the existing 79,008,923 Shares would represent 84.3% of the enlarged issued share capital of the Company.

4. 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/her to subscribe for or purchase K 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.

5. Information sourced from third parties

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

6. General Information

The Company and its Shareholders are subject to the provisions of the Takeover Code and 2006 Act, which require shares to be acquired/transferred in certain circumstances.

7. Maximum number of K Shares to be issued

The maximum number of K Shares that may be issued under this Prospectus pursuant to the Offers is 30,000,000 K Shares.

15 December 2015

Part VII – Terms and Conditions of the Application

1. In these Terms and Conditions of Application, the expression “Prospectus” means this document, each dated 15 December 2015. The expression “Application Form” means the application form for use in accordance with these Terms and Conditions of Application. Save where the content otherwise requires, 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 K 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 K Shares by cheque or banker's draft submitted with the Application Form.
4. The contract created by the acceptance of applications in respect of the first allotment of K Shares under the Offers will be conditional on:
 - (a) the Minimum Subscription being received by 3.00 p.m. on 5 April 2016;
 - (b) resolutions 1-5 being passed at the Company's General Meeting to be held on 28 January 2016 or at a subsequent meeting, if adjourned; and
 - (c) admission of the K Shares (in respect of such first allotment of Shares) being granted not later than 3:00 p.m. on 12 April 2016. If the conditions are not met, the Offers will be withdrawn and subscription monies will be returned to Investors within seven days of 12 April 2016, at their own risk, without interest. The Offers are not underwritten.
5. By completing and delivering an Application Form, you:
 - (a) offer to subscribe for the amount specified on your Application Form plus any commission waived for extra shares or any smaller sum for which such application is accepted at the Offer Price, the Prospectus, these Terms and Conditions of Application, the memorandum of association of the Company and its Articles;
 - (b) acknowledge that, if your subscription is accepted, you will be allocated such number of K Shares as determined by the Pricing Formula;
 - (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 K 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 K Shares applied for or to enjoy or receive any rights or distributions in respect of such K Shares unless and until you make payment in cleared funds for such K Shares and such payment is accepted by the Company (such 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 K Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such K Shares as void and may allot such K Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such K Shares (other than return of such late payment at your risk and without interest);
 - (f) agree that all cheques and banker's 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 K 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 K 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 Offer or your application;
 - (p) confirm that you have read and complied with paragraph 6 below;
 - (q) confirm that you have reviewed the restrictions contained in paragraph 7 below;
 - (r) warrant that you are not under the age of 18 years;
 - (s) warrant that, if the laws of any territory or jurisdiction outside the United Kingdom are applicable to your application, you have complied with all such laws and none of the Company, Downing or the Sponsor or any of their respective agents will infringe any laws of any such territory or jurisdiction directly or indirectly as a result or in consequence of any acceptance of your application;
 - (t) agree that Downing and the Sponsor are acting for the Company in connection with the Offer 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 K Shares or concerning the suitability of K 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 K 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 K Shares;
 - (w) warrant that the K 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 K 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; and
 - (y) warrant that the information contained in the Application Form is accurate.
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 K 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. The Company has taken advantage of the provisions of the Companies Act 2006 to allow annual reports and other statutory shareholder communications to be made available in electronic form on its website as the default means of publication. This will have a positive environmental impact and save the Company some costs compared to providing all communications in hard copy form by post. By default, applicants who provide an email address on the application form and do not complete select any alternative notification methods, will receive notification of shareholder communications by email. Investors can elect to receive notifications by post to receive all shareholder communications in paper form by ticking the appropriate box on the Application Form. Should you subsequently wish to change your election, you can do so at any time by contacting the Registrar, Capita Asset Services, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Notwithstanding any election, the Company may in its sole discretion send any notification or information to Shareholders in paper form.
11. Intermediaries who have not provided personal recommendations or advice to UK retail clients on the Offer Shares and who, acting on behalf of their clients, return valid Application Forms bearing their stamp and FCA number may be entitled to commission on the amount payable in respect of the Offer Shares allocated for each such Application Form at the rates specified in the paragraph headed "Commission" in Part VIII of this document. Intermediaries may agree to waive part or all of their initial commission in respect of an application for Shares under the Offers. If this is the case, then the offer charges will be adjusted, in accordance with the Pricing Formula. Intermediaries should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for their commission.
12. The section headed "Notes on Application Form" forms part of these Terms and Conditions of Application.
13. 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 banker's 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 K 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.

14. 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.
15. 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.
16. The minimum subscription is £5,000 subject to the Board's discretion.
17. The application of the subscription proceeds is subject to the absolute discretion of the Directors.

Part VIII – Pricing of the Offers, Adviser Charges and Commission

Pricing of the Offers

The number of K Shares to be issued to each Applicant will be calculated based on the following Pricing Formula (rounded down to the nearest whole K Share):

$$\text{Number of Offer Shares} = \left[\begin{array}{l} \text{Amount subscribed, less:} \\ \text{(i) initial Promoter's Fee}^1 \text{ and} \\ \text{(ii) Adviser Charge (if any)} \end{array} \right] \div \left[\begin{array}{l} \text{Latest published} \\ \text{NAV} \\ \text{per K Share}^2 \end{array} \right]$$

¹ less any reduction for early applications and/or commission waived by Intermediaries (where applicable)

² adjusted for any dividends declared that are ex-dividend but not yet paid, as appropriate.

Illustrative examples (based on a subscription under the Offers of £10,000 and a NAV per K Share of £1)

- (i) Promoter's Fee (Execution-only Transaction: 4% less 2% Intermediary commission waived) of 2% = £200
Number of K Shares = $(10,000 - 200 - 0) \div 1 = \mathbf{9,800}$ Offer Price = 102.0p
- (ii) Promoter's Fee (advised) of 2% = £200
Example Adviser Charge = £225
Number of K Shares = $(10,000 - 200 - 225) \div 1 = \mathbf{9,575}$ Offer Price = 104.4p
- (iii) Promoter's Fee (advised) of 2% = £200
Example Adviser Charge = £400
Number of K Shares = $(10,000 - 200 - 400) \div 1 = \mathbf{9,400}$ Offer Price = 106.4p
- (iv) Promoter's Fee (advised or direct investment and application received by 29 January 2016*) of 1.0% = £100
Example Adviser Charge = nil (fee being paid directly by client to Intermediary or direct application)
Number of K Shares = $(10,000 - 100 - 0) \div 1 = \mathbf{9,900}$ Offer Price = 101.0p

*Applications received and accepted by 29 January 2016 will benefit from a reduction in the Promoter's Fee of 1.0% of the amount subscribed (0.5% reduction if received and accepted between 30 January 2016 and 26 February 2016, and 0% otherwise).

It should be noted that the example Adviser Charges set out above have been provided to illustrate the pricing of the Offers and should not be considered as a recommendation as to the appropriate levels of Adviser Charges.

Income tax relief should be available on the total amount subscribed, subject to VCT regulations and personal circumstances, which in each of the above examples would be £3,000 (£10,000 at 30%).

Adviser Charges

Commission is not permitted to be paid to Intermediaries who provide a personal recommendation to UK retail clients on investments in VCTs after 30 December 2012. Instead of commission being paid by the Company, a fee will usually be agreed between the Intermediary and Investor for the advice and related services ("Adviser Charge"). This fee can either be paid directly by the Investor to the Intermediary or, if it is an initial one-off fee, the payment of such fee may be facilitated from the Investor's funds received by the Company. Ongoing fees to Intermediaries will not be facilitated by the Company. If the payment of the Adviser Charge is to be facilitated by the Company, then the Investor is required to specify the amount of the charge on the Application Form (see Box 3). The Investor will be issued fewer K Shares (to the equivalent value of the Adviser Charge) through the Pricing Formula set out above. The Adviser Charge is inclusive of VAT, if applicable.

Commission

Commission may be payable where there is an Execution-only Transaction and no advice has been provided by the Intermediary to the Investor or where the Intermediary has demonstrated to Downing that the Investor is a professional client of the Intermediary. Commission is payable by Downing out of its Promoter's Fee. Those Intermediaries who are permitted to receive commission will usually receive an initial commission of 2% of the amount invested by their clients under the Offers. Additionally, provided that the Intermediary continues to act for the Investor and the Investor continues to be the beneficial owner of the K Shares, and subject to applicable laws, regulations and FCA rules, the Intermediary will usually be paid an annual trail commission of 0.25% of the Net Asset Value of their clients' holdings for five years from the date of allotment. Trail commission may be waived, at Downing's discretion, in favour of an additional upfront commission of 0.75%. Trail commission will be paid by Downing annually in June (commencing June 2017 based on the audited Net Asset Value at the preceding 31 December). Both the initial and annual trail commission will be payable by Downing out of its fees.



Ergon House
Horseferry Road
London SW1P 2AL

020 7416 7780
contact@downing.co.uk
www.downing.co.uk



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Downing TWO VCT plc Application Form



How to complete

Investors should complete sections 1-4 on pages 2-3 and sign the investor declaration in section 4.

Advisers/Intermediaries should complete section 5 on page 4 and sign the Adviser/Intermediary declaration.

Submitting your application

Send this completed original application form to:

Downing LLP
Ergon House
Horseferry Road
London SW1P 2AL

What happens next?

We will send you and your adviser by email:

- ▶ An acknowledgement within two business days that we have received your application form.
- ▶ Notification of the allotment of your shares in due course.

When you have completed the form, tick the following to confirm:

You have answered all the required sections that apply to you

You have signed the declaration in section 4 on page 3

If your application is for more than £10,000, or payment is not being made using a personal cheque, please provide anti-money laundering verification:

Your adviser/intermediary has verified your identity and confirmed by signing section 5;

OR

Please enclose verification of identity (a certified copy of your current passport or UK driving licence) and verification of address (an original utility bill (not mobile phone), bank account statement or council tax statement, dated within the last three months, or a certified copy of your driving licence if it hasn't been used for verification of identity)

If neither box is ticked and you have not provided anti-money laundering verification, Downing will seek to verify your details by undertaking an electronic search against a public or private database. Please note that a record of this search will be retained and your details may be used in the future to assist other clients of the database supplier for other verification requests.

If you are paying by cheque you have enclosed your cheque, made payable to '**Downing TWO VCT plc**'

If you are paying by bank transfer, please transfer your investment monies to the following account, using your surname and initials as the payment reference (to help us identify your payment):

Account Name:	Downing TWO VCT plc
Account number:	00264688
Sort code:	16-01-09

1. About the investor

Title:

First name(s):

Surname:

Date of birth:

/

/

Telephone:

National Insurance Number:

Permanent residential address:

Postcode:

Country(ies) of tax residency(ies):

Email address:

Are you an existing Downing VCT shareholder?

Yes

No

How would you like us to communicate with you? Please choose one of the three options below.

Notifications by email

If you wish to receive notifications by email when accounts and other shareholder communications are available for download from the Company's website.
NB. You must supply your email address above.

or

Notifications by post

If you wish to receive notifications by post when accounts and other shareholder communications are available for download from the Company's website.

or

Hard copy by post

If you wish to receive hard copies of accounts and other shareholder communications (i.e. in paper form).

2. About the investment

How much are you investing per tax year? *(the minimum overall investment is £5,000)*

2015/16 tax year

£

+

2016/17 tax year

£

=

TOTAL

£

Investor bank account details

Please provide details of the bank or building society account to which you would like any dividends from the Company credited.

Completing the form below will direct the Company to send all dividend payments due on all your shareholdings in the Company 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 you are instructing the Company to forward, until further notice, all dividends that may from time to time become due on any Shares now standing, or which may hereafter stand, in your name in the register of members of Downing TWO VCT plc to the bank or building society account listed below.

Account name:

Account number:

Sort code:

Branch:

Bank or building
society name and
address:

Signature of
investor:

The Company and Downing LLP do not accept responsibility if any details provided by you are incorrect.

3. About Adviser/Intermediary charges

If you have agreed an initial adviser charge with your Intermediary and request that the Company pays that fee, please insert the fee in this box. Please note that the Adviser Charge will effectively be deducted from the sum in the box 'Total' in section 2, and the number of K Shares issued to you will be reduced accordingly. This payment is inclusive of VAT, if applicable.

Initial Adviser Charge

£

4. Investor confirmations

I confirm that

- ▶ I have had an opportunity to receive the Prospectus dated 15 December 2015 and to read the terms and conditions of application therein;
- ▶ I will be the beneficial owner of the K Shares in Downing TWO VCT plc issued to me pursuant to the Offers.

Investor declaration

I confirm by signing below that the information provided on this form is, to the best of my knowledge and belief, accurate and complete. I agree to notify Downing LLP immediately in the event the information provided in this form changes.

Signature
of investor:

Date

/ /

Print name:

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

5. About the Adviser/Intermediary

TO BE COMPLETED BY THE ADVISER/INTERMEDIARY

Company:

Contact name:

(Admin)

Contact email
address:

Adviser name:

Adviser email
address:

Address:

Postcode:

Telephone:

Please note that we will send copies of your client's correspondence to you by email to the above email address. If instead you would like to receive these by post, please tick this box.

FCA number:

Firm reference
number: (if applicable)

Please tick this box if you are permitted to receive commission in respect of this application in compliance with COBS 6.1A of the FCA Handbook.

Reason:

Please tick this box if the Adviser Charges stated in Section 3 have been agreed with your client and complies with COBS 6.1A of the FCA Handbook.

Payment of adviser charge or commission

If an adviser charge or commission payment is due, please provide details of the bank account to which you would like the payment credited.

Account name:

Account number:

Sort code:

Bank name:

Adviser/Intermediary declaration

We confirm by signing below that the investor is a customer of our company and that the information provided on this form is, to the best of our knowledge and belief, accurate and complete.

We also confirm we have verified the identity of the applicant in accordance with the Money Laundering Regulations 2007 and confirm that documentary evidence has been obtained and identity checks have been undertaken to confirm that the applicant's name and address as shown on this application form are correct. We agree to provide to Downing LLP, if requested upon reasonable notice, copies of such documentary evidence we hold for the applicant.

Signature
of Adviser/
Intermediary:

Date

/ /

Print name: