Downing ONE VCT plc

Report & Accounts
for the year ended
31 March 2016

Downing

SHAREHOLDER INFORMATION

Share prices
The Company's share price can be found on various financial websites with the TIDM/EPIC code **DDV1**. The share price is also available on Downing's website (www.downing.co.uk).

Latest share price at 8 July 2016: 88.5p per share

Financial calendar

9 August 2016	Annual General Meeting ("AGM")
12 August 2016	Payment of final dividend
November 2016	Announcement of half year results

Dividends
Dividends are paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose (forms can be downloaded from www.capitassetservices.com). Queries relating to dividends, shareholdings, and requests for mandate forms should be directed to the Company's registrar, Capita Asset Services, on 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday), or by writing to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Selling shares
If you wish to sell your shares either you or your adviser should contact Downing on **020 7416 7780.**

Shareholders are advised to seek advice from their tax adviser before selling shares, particularly if they deferred the payment of capital gains tax in respect of shares acquired prior to 6 April 2004, took part in the Share Realisation and Reinvestment Programme or purchased Ordinary Shares within the last five years.

The Company is, however, unable to buy back shares direct from Shareholders, so you will need to use a stockbroker to sell your shares. If you are considering selling your shares or wish to buy shares in the secondary market, please contact the Company's Corporate Broker, Panmure Gordon (UK) Limited ("Panmure"). Panmure can be contacted as follows:

Chris Lloyd
0207 886 2716
chris.lloyd@panmure.com

Paul Nolan
0207 8862717
paul.nolan@panmure.com

Share scam warning
We have become aware that a significant number of shareholders of VCTs managed by both Downing and other VCT managers/advisers have recently received unsolicited telephone calls from a company purporting to be acting on behalf of a client who is looking to acquire their VCT shares at an attractive price. We believe these calls to be part of a "Boiler Room Scam". **Shareholders are warned to be very suspicious if they receive any similar type of telephone call.**

Further information can be found on Downing's website. If you have any concerns, please contact Downing on 020 7416 7780.

Notification of change of address
Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address, or other amendment, this should be notified to the Company's registrar, Capita Asset Services, under the signature of the registered holder.

Other information for Shareholders
Up-to-date Company information (including financial statements, share price, and dividend history) may be obtained from Downing's website at:

www.downing.co.uk

If you have any queries regarding your shareholding in Downing ONE VCT plc, please contact the registrar on the above number or visit Capita's website at www.capitaassetservices.com and click on "Share Portal".

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FINANCIAL HIGHLIGHTS

Total Return Increase

Total Return (Net Asset Value plus dividends) increased by 3.2 pence per share (3.1%) from 102.9 pence per share on 31 March 2015 to 106.1 pence per share at this year end.

Dividend Growth

The proposed final dividend of 3.0 pence per share will result in total dividends for the financial year of 6.0 pence per share (2015: 5.0 pence per share)

Successful Fundraising

£16.5 million of new funds raised to date which provide the Company with additional liquidity to pursue new investment opportunities.

Successful realisations

The year has seen a continued steady level of portfolio activity, 44 realisations giving rise to total proceeds of £27.4 million and net realised gains of £3.3 million.

FINANCIAL SUMMARY

	31 Mar 2016 pence	31 Mar 2015 pence
Net asset value per share ("NAV")	94.1	96.9
Cumulative dividends paid since 12 November 2013	12.0	6.0
Total return (net asset value plus cumulative dividends paid per share)	106.1	102.9
Dividends in respect of financial year		
Interim dividend per share	3.0	2.0
Proposed final dividend per share	3.0	3.0
	6.0	5.0

DIVIDEND POLICY

The Directors are targeting an annual dividend of at least 4% of net assets per annum, subject to sufficient distributable reserves and capital resources.

A full dividend history for the Company can be found at www.downing.co.uk.

INVESTMENT OBJECTIVES

The Company's principal investment objectives are:

- To provide private investors with attractive returns for a portfolio of investments focused on unquoted and AIM quoted companies; and

- to maintain VCT status so that the Company and its shareholders may benefit from the tax reliefs and exemptions available under the VCT legislation.

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on pages 19 to 20.

DIRECTORS

Chris Kay (Chairman) has over 30 years' experience in the venture capital industry. He spent nine years with 3i Group plc, where he was an investment director, and a further eight years at Elderstreet Investments Limited, where he headed the VCT team. He is a chief executive of Chrysalis VCT Management Limited. He is a Cambridge University graduate and gained an MBA at Manchester Business School. He was formerly chairman of Downing Absolute Income VCT 1 plc and a non-executive director of Downing Income VCT plc and Downing Income VCT 4 plc.

Barry Dean is a chartered accountant and has over 30 years' experience in the private equity industry including 14 years as managing director of Dresdner Kleinwort Benson Private Equity Limited. He is currently a non-executive director of Elderstreet VCT plc and ProVen VCT plc. He was formerly a non-executive director of Downing Absolute Income VCT 2 plc.

Stuart Goldsmith is chairman of Ketton Securities Limited, a firm that advises a range of companies on corporate strategy, mergers and acquisitions, which he founded in 1989. Previously, he was chairman and chief executive of two groups of the financial services companies - Fredericks Place Group, which offered private client investment management and financial planning services and the Britannia Group of Investment Companies, which managed £4bn of funds in London and the USA for institutions and private clients. He has been a non-executive director of a number of companies, including Savoy Asset Management and the Hallwood Group.

Andrew Griffiths is the founder and managing director of Green Star Media Limited and was formerly the managing editor and publisher of The AIM & OFEX Newsletter, which he founded in 1995. The newsletter won the Best Research award at the AIM Awards in 1997 and 2002. Previously, he was a business correspondent of the Daily Telegraph. He was formerly the chairman of Pennine Downing AIM VCT plc, Pennine Downing AIM VCT 2 plc and Downing Income VCT 3 plc.

Helen Sinclair started her career in investment banking and spent nearly eight years at 3i Group plc focusing on management buyouts and growth capital investments. She later co-founded Matrix Private Equity raising a successful technology fund, Matrix Venture Fund VCT plc. She then became managing director of Matrix Private Equity before moving to take on a portfolio of non-executive director roles in 2005. She is currently chairman of British Smaller Companies VCT plc, a non-executive director of The Income & Growth VCT plc and Mobeus Income & Growth 4 VCT plc and a director of Gresham House Strategic plc and OFT2 Limited. She has an MA from Cambridge and an MBA from INSEAD Business School. She was formerly a non-executive director of Downing Income VCT 4 plc.

All the Directors are non-executive and independent of the Investment Adviser.

CHAIRMAN'S STATEMENT

I am pleased to present the Company's Annual Report for the year ended 31 March 2016. The year has again seen a significant level of investment activity and the Company has achieved further growth in total return.

Net asset value and results

As at 31 March 2016, the net asset value per share ("NAV") stood at 94.1p, an increase of 3.2p (3.1%) after adding back dividends of 6.0p per share which were paid during the year.

The Income Statement shows a return attributable to equity shareholders for the year of £2.6 million comprising a revenue return of £0.9 million and a capital return of £1.7 million.

Dividends

The Company has a policy of seeking to pay annual dividends of at least 4% of net assets per annum.

In view of the fact that the Company has achieved a number of significant realisations, the Board is proposing a final dividend of 3.0p per share to be paid on 12 August 2016, subject to Shareholder approval at the forthcoming AGM, to Shareholders on the register at 22 July 2016. This will bring total dividends in respect of the year ended 31 March 2016 to 6.0p per share, which represents a yield based on current NAV of 6.3%.

Shareholders are reminded that the Company operates a Dividend Reinvestment Scheme for those investors that wish to reinvest their dividends and obtain further income tax relief on the reinvested dividend. A Dividend Reinvestment Form is available on Downing's website.

Investment activity and performance

At the year end, the Company held a portfolio of 85 investments. Of these, 30 are either quoted on AIM or the ISDX Growth Market and have a value of £23.7 million (36.4% of the portfolio). The 55 unquoted investments have a value of £41.7 million and represent 63.6% of the portfolio.

There was a significant level of portfolio activity during the year, with approximately one third of the portfolio realised and £21 million being invested. In the quoted portfolio, full or partial disposals of eight investments were achieved, giving rise to total proceeds of £9.3 million and realised gains of £664,000. The most significant realisation was that of Accumuli plc which was acquired in a cash and shares transaction by NCC Group plc. The shares in NCC were then subsequently sold. The combined transactions netted total proceeds of £7.5 million which represented a realised gain in the year of £584,000.

Five new quoted investments and eight follow-on investments were also made at a total cost of £6.5 million.

In the unquoted portfolio, there were 36 realisations, producing proceeds of £18.2 million and realised gains of £2.7 million. Seven follow-on investments were made at a total cost of £8.0 million and nine new investments at £6.9 million.

In respect of the existing portfolio, the quoted portfolio showed net gains of £333,000 over the year. At the year end, the Board reviewed the valuations of the unquoted investments and made a number of adjustments. Overall the unquoted portfolio showed total unrealised losses of £1.4 million for the year. Net unrealised losses for the full portfolio were therefore £1.1 million.

Further details on the investment activity are included in the Investment Adviser's Report on pages 5 to 8.

Fundraising

In December 2015, the Company launched an offer for subscription seeking to raise new funds. The offer has raised £16.5 million to date and is now scheduled to close on 31 August 2016. The new funds provide the Company with additional liquid resources to pursue new investment opportunities.

Share buybacks

The Company operates a policy of buying in its own shares that become available in the market at a 5% discount to NAV (subject to liquidity and any regulatory restrictions).

During the year, the Company purchased 2.5 million shares at an average price of 91.1p per share.

The Company retains Panmure Gordon as its corporate broker to assist in operating the share buyback process and ensuring that the quoted spread on the Company's shares remains at a reasonable level. Contact details for Panmure Gordon are on page 52.

New VCT Rules

As Shareholders are probably aware there have been some significant changes to the VCT rules over the last year. The new rules introduce greater restrictions on investments that VCTs can make, in particular in respect of the age of businesses into which the Company can invest, and have been brought in to bring the VCT scheme into line with the European Union's Risk Capital Guidelines.

New VCT Rules (continued)
The changes will clearly reduce the scope of investments that the Company can make in the future and potentially over time may increase the risk profile of the portfolio. New investments may have to be of a slightly higher risk profile than previously, whilst new AIM-quoted investments may be very limited and there will be some restrictions on follow on investments in existing portfolio companies. However, due to the current fully invested nature of the Company the Board considers that the effect on the Company as a whole is not likely to be substantial in the medium term.

Revision to Investment Policy
As a result of the changes to the VCT rules, the Board has reviewed the Company's Investment Policy and is proposing some minor changes to ensure that the Policy is consistent with the new rules.

The main proposed changes are that new qualifying investments will mainly be in businesses that are less than seven years old, funds will not be used by investee companies to make acquisitions and new non-qualifying investments will generally be limited to investments in entities such as investment trusts, OEICs or companies listed on the London Stock Exchange.

The proposed amendments to the Investment Policy are shown in the appendix to the AGM notice on pages 55 to 56. Resolution 11 to be proposed at the AGM seeks Shareholder approval for these changes. The Board believes these changes are necessary to ensure that the Company's funds continue to be invested in a manner that maintains the Company's VCT status.

Annual General Meeting
The Company's next Annual General Meeting ("AGM") will be held at Downing LLP, Fifth Floor, Ergon House, Horseferry Road, London, SW1P 2AL at 10:30 a.m. on 9 August 2016.

Four items of special business are proposed at the AGM:
- two in respect of the allotment of shares;
- one in respect of the authority to buy back shares as noted above; and
- one in respect of the revision to the Investment Policy as described above.

The resolutions in respect of the allotment of shares would allow the Board to consider launching a new offer for subscription for up to approximately £30 million without the Company having to incur the costs of an additional shareholder circular. The Board will, of course, assess any such plan in detail before deciding to proceed and will consider a number of factors including the deal flow which the Manager can provide.

Outlook
The result of the EU referendum has clearly triggered a period of uncertainty and volatility in financial markets. The Company's AIM-quoted investments have experienced some falls in the immediate aftermath of the decision. The unaudited NAV at 30 June 2016 stood at 92.0p per share.

The exit from the EU will certainly bring about changes to the UK economy and in the short term we could see some falls in investment valuations and reduced realisation opportunities, however in these circumstances we may also see a stronger flow of attractively priced new investment opportunities.

The new VCT rules will require the Company to refine its investment focus going forward. Future new investment activity is likely to include younger businesses with a higher risk profile than typical investments in the past. The overall impact of the new VCT rules on the risk profile of the portfolio is however expected to be limited until such time as a significant proportion of the portfolio has been recycled into investments made under the new rules.

The Company continues to hold a large and relatively diverse portfolio which is reasonably stable and has prospects for further growth. The majority of our portfolio companies do not have any significant levels of trading with other EU countries and a number of the businesses in the leisure sector may benefit from a weaker pound. Overall, we believe that the existing portfolio is reasonably well-positioned.

The Company is expecting to be an active investor over the next 12 months as it seeks to employ the funds raised under the current fundraising. We expect the Investment Adviser will continue to source investments in unquoted businesses where there is asset backing or a predictable revenue stream but we also expect to see a number of smaller investments in younger companies with growth prospects.

I look forward to meeting Shareholders at the AGM and in reporting developments in my statement with the Half Year Report to 30 September 2016.

Chris Kay
Chairman

11 July 2016

INVESTMENT ADVISER'S REPORT

Introduction

The following is a review of the performance of the combined investment portfolio.

At 31 March 2016, the Company held a portfolio of investments in 85 quoted and unquoted companies, valued in total at £65.4 million.

Net asset value and results

The NAV per Share at 31 March 2016 stood at 94.1p, compared to the NAV at 31 March 2015 of 96.9p. Total Return (NAV plus cumulative dividends paid since the merger) is 106.1p.

The return on ordinary activities after taxation for the year was £2.6 million, comprising a revenue return of £0.9 million and a capital profit of £1.7 million.

Unquoted Venture Capital investments

Investment activity

At 31 March 2016, the unquoted portfolio was valued at £41.7 million, comprising 55 investments, spread across a number of sectors.

There were seven new investments totalling £6.9 million and seven follow-on investments totalling £8.0 million during the period. The new investments were as follows:

Non-qualifying loans were made to Harrogate Street Limited, a hotel developer (£1.4m) and Nomansland Biogas Limited, an anaerobic digestion plant in Devon (£1.3m). A non-qualifying secured loan investment of £820,000 was also made to UK Solar Lower Newton LLP to fund the final stage of development of an 11.8MWp ground mounted solar plant in Staffordshire. The loan was fully repaid in the period. These loans generate interest income for the fund producing better returns than holding cash. Following the recent changes in VCT rules, these type of loans are no longer permissible.

£1.0 million was invested in each of Pilgrim Trading Limited and Cedarville Trading Limited. These two companies will begin trading shortly and we will provide an update in due course.

An investment of £912,000 was made in Hobblers Heath Limited. The company is seeking planning consent to build a high ropes adventure playground in West London. Disappointingly, planning consent for a proposed venue in Hounslow was rejected and management are considering further options.

Two smaller investments were made - £228,000 in FCT No.1 Limited and £88,000 in Pearce and Saunders DevCo Limited.

Follow on investments were as follows:

During the period, £1.5 million was invested in Quadrate Catering Limited which has successfully developed the top floor of a canal-side mixed-use building in Birmingham which operates as a Marco Pierre White steakhouse Bar and Grill. This was part of a refinancing in which the Company also received proceeds of £852,000.

£1.5 million was invested in Quadrate Spa Limited which owns and operates a health club business in the Cube development in Birmingham. The investment will enable the business to continue its next stage of development. This was part of a refinancing in which the Company also received proceeds of £1.1 million.

An investment of £2.4 million in loan stock in Vulcan Renewables Limited was invested in the period. The company owns a 2MW maize fed biogas plant near Doncaster.

An investment was made in Pearce and Saunders Limited, a small pub group with a portfolio of three pubs in the London area. £1.1 million was invested, increasing the Company's investment to £1.3m.

A further £1.4 million was invested in Kidspace Adventure Holdings Limited, the owner and operator of three well established and profitable children's play centres.

Three smaller follow on investments were also made in to Redmed Limited (£203,000); Curo Compensation Limited (£163,000); and London City Shopping Limited (£30,000).

Following the year end, the Company has also established several businesses with management teams to develop activities in renewable energy, leisure, hospitality and infrastructure. Working with these management teams, with funds specifically allocated, to originate growth opportunities is viewed as the best way of attracting good quality deal flow.

The Company also invested £5 million in Doneloans Limited as a non-qualifying activity. This company has to date invested in two loans in Asgard Renewables Limited and Egmere Energy Limited, both are operating anaerobic digestion plants.

Unquoted Venture Capital investments

***Investment activity* (continued)**

Realisations of investments in the year generated proceeds of £18.2 million and total profits over holding value of £2.7 million from 19 full exits and 13 partial exits. A summary of the most significant realisations is shown below:

A portfolio of solar investments was sold during the period to a large solar developer. This sale generated total proceeds to the VCT of £3.3m: Residential PV Limited (£1.5m); Domestic Solar Limited (£1.2m); and Angel Solar Limited (£615,000), in aggregate realising £730,000 over book cost.

First Care Limited, an absence management service for businesses was partially exited and generated proceeds of £1.4 million and a significant profit of £811,000 over its holding value (£536,000 over cost). The VCT now owns £228,000 of shares as a non-qualifying holding in the company that bought First Care Limited, FCT No.1 Limited.

The £2 million non-qualifying loan to UK Solar (Hartwell) LLP was repaid in full in the period as was the £820,000 loan to UK Solar (Lower Newton) LLP.

Antelope Pub Company Limited owns and operates a pub of the same name in Tooting, South London. The company was sold in the year and generated proceeds of £1.0 milllion, a profit over its holding value of £125,000 and £170,000 over its cost.

Alpha Schools Holdings Limited, the independent primary school operator was sold in the period and generated proceeds of £747,000, a profit over its holding value of £110,000 and £162,000 over its cost.

The 3D Pub Co Limited, the owner and operator of two Surrey pubs was sold in the period for £867,000.

Following the sale of the Craft nightclub in Lincoln, proceeds of £761,000 were generated for Redmed Limited. A small amount of additional proceeds are expected in the coming year to fully exit this investment.

In June 2015 Liverpool Nurseries (Holdings) Limited was sold to Kids Planet, a regional nursery operator, generating proceeds of £507,000 and a profit of £29,000.

Future Biogas (Reepham Road) Limited and Future Biogas (SF) Limited, both anaerobic digestion plants in Norfolk, had the majority of their loans repaid at cost in the period for combined proceeds of £1.0m.

Portfolio valuation

There have been a number of valuation movements in the year with an overall value reduction of £1.4m. Whilst disappointing in isolation, this is more than offset by the realised profits on unquoted disposals of £2.7m. The most significant value movements are shown below.

Cadbury House Holdings Limited owns and operates a health club, restaurant and conference centre near Bristol. The company is performing well and set to achieve its budget for 2016. As such the valuation has been increased by £549,000.

Fenkle Street LLP, is a property development company that purchased a building in Newcastle and converted it in to a hotel. The hotel is trading well and the valuation has been uplifted by £277,000 to reflect this.

The valuation of Downing Care Homes Holdings Limited has been increased by £220,000 to reflect the improved performance of one of the care homes owned by the business.

Leytonstone Pub Limited owns and operates The Red Lion pub in North East London. The pub continues to trade well and the valuation has been increased by £210,000.

The most significant of these losses was on loan notes held in Ludorum plc, the company that owns the intellectual property rights to various children's entertainment brands. The value has been reduced by £991,000 due to concerns over the future performance of the business. Downing is actively engaged in working with management, including a new Chairman, to improve performance.

Mosaic Spa and Health Club Limited was reduced by £384,000 in the period, reflecting continued performance issues at the Shrewsbury site.

Oak Grove Renewables Limited, an anaerobic digestion plant in Norfolk has been reduced in value by £300,000 due to ongoing performance issues at the facility.

As a result of the refinancing on Quadrate Spa Limited a value reduction of £286,000 was made on the company valuation. This was more than offset by the realised profit over its holding value of £334,000.

Unquoted Venture Capital investments

Portfolio valuation (continued)

Tramps Night Club Limited, the owner of a night club in the West Midlands, has been written down by £146,000 due to an ongoing downward trajectory of trading at the venue.

Kimbolton Lodge Limited, the elderly care home in Bedford, was valued down by £140,000 due to disappointing performance in the year.

Other valuation reductions totalling £600,000 were also made in the period.

Quoted investments

Investment activity

As at 31 March 2016, the quoted portfolio was valued at £23.7 million comprising of 30 holdings. As per the investment strategy to concentrate on a more focused portfolio of investments, three investments were fully disposed of in the period. Over 37% of the quoted portfolio is accounted for in the top 10 holdings and represents 36% of the overall fund.

Over the period since 31 March 2015, the valuation of the quoted portfolio (taking into account realised and unrealised movements) has risen by over 4%, ahead of the main AIM indices over the same period which were largely flat.

Three full realisations were made, one being subject to a takeover and the balance being in companies where we believed the valuations were not reflective of the prospects of the company. These included InterQuest plc and Northbridge Industrial Services plc. Separately, profits were taken in five portfolio holdings (PHSC plc, Inland Homes plc, Wheelsure Holdings plc, Concha plc and Tracsis plc). Overall the realised gains (versus cost) on quoted investments since 31 March 2015 equated to £2.6 million.

New non-qualifying positions were taken in four new investments; Pittards plc, Amino Technologies plc, Hornby plc and Redhall Group plc. Significant follow on investments were made in Flowgroup plc and Norman Broadbent plc.

The largest of the new holdings is Pittards plc, where the Company invested £1.35m. Pittards plc is an international producer of high grade leather and leather products. The Company took a position in Pittards plc on the back of a fundraising by existing shareholders for the purpose of buying back its Yeovil tannery – this enhanced the balance sheet and provides greater security for the investment. Downing client funds now own over 20% of the share capital of Pittards plc.

As well as the buy-back of the tannery, the Adviser was also attracted by the expansion into finished goods which provides a tangible uplift in margins versus those on general leather sales. The share purchase was made at a significant discount to the net asset value of the company.

In the period the valuation of Pittards plc was down £574,000 reflecting the impact of trading in China and Russia. Whilst the Group's most recent results were disappointing on the back of these macro headwinds, we believe that they are well positioned going forward with a restructured board which now has ownership and control of the Yeovil facility which should deliver significant ongoing operational advantages.

Portfolio Movements

The most significant portfolio movement was Tracsis plc which demonstrated an unrealised gain of £1.0 million in the year to 31 March 2016. In addition realised gains of £0.2 million were made in this company. At the year end, this holding is valued at £3.9 million and is the third largest holding within the Company. Tracsis plc is a developer and supplier of resource optimisation technologies to the transport industry, supplying a range of products and services to transport operators and infrastructure owners. The company is well known to us having been a holding since 2011. Continued positive news flow allowed us to revisit the target valuation for the company and we believe that the current valuation underestimates the value of future cash flows that the company can generate.

During the year Accumuli plc was sold to NCC Group plc, a larger competitor. As a result the Company received shares in NCC plc. During the year the holding in NCC plc has been sold down. The transactions realised a total of just under £2 million of gains for the Company.

Universe Group plc, the provider of payment and loyalty management solutions, saw its value within the portfolio increase by £496,000 reflecting strong earnings progression and a significant new contract win.

Science in Sport plc, the manufacturer of sports nutritional products, saw its value fall by £411,000 in the Company, reflecting a lack of news flow and small sellers in the market. Post year end, the company has announced encouraging top line growth, ahead of our expectations.

Outlook

We remain positive on the key drivers within the quoted portfolio on the basis of the fundamentals and the valuations on which they trade. The coming 12 months will be a period for the Adviser to focus on the portfolio after a period when a number of new strategic holdings were added to the portfolio.

New unquoted investment activity has adjusted to reflect the recent changes in eligible investments made by HMRC to the VCT scheme. In particular, we are seeking to find opportunities to make investments to fund growth in companies that have been trading for less than 7 years. A core focus will continue to be on activities within the leisure, healthcare and education sectors, where Downing has significant sector experience, and where there are a number of exciting opportunities to back the development of businesses such as leisure clubs, licenced trade operators and children's nurseries. In addition the Adviser will consider other sectors that offer good growth prospects and where there are strong management teams.

Your Company is currently well spread across a large number of investments, in a relatively stable portfolio, and is therefore well placed to make smaller, potentially higher risk earlier stage investments, where the potential return may be higher.

Downing LLP

11 July 2016

REVIEW OF INVESTMENTS

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 March 2016:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio by value	Total invested by Funds also managed by Downing LLP [1] £'000
Top ten venture capital investments					
Vulcan Renewables Limited	5,030	5,548	-	6.0%	5,839
Downing Care Homes Holdings Limited	3,881	4,250	220	4.6%	-
Tracsis plc *	1,443	3,853	1,001	4.2%	2,645
Cadbury House Holdings Limited	3,081	2,875	549	3.1%	1,613
Kidspace Adventure Holdings Limited	2,577	2,773	51	3.0%	7,850
Baron House Developments LLP	2,695	2,695	-	2.9%	2,055
Universe Group plc *	1,586	2,561	496	2.8%	2,582
Inland Homes plc*	1,526	2,465	481	2.7%	2,491
Leytonstone Pub Limited	1,061	1,900	210	2.1%	-
Mosaic Spa and Health Club Limited	2,747	1,830	(384)	2.0%	2,748
	25,627	30,750	2,624	33.4%	27,823
Other venture capital investments					
Anpario plc*	1,448	1,546	(340)	1.7%	1,862
Quadrate Catering Limited	1,534	1,534	-	1.7%	2,301
Quadrate Spa Limited	1,872	1,500	(286)	1.6%	2,300
Harrogate Street LLP	1,400	1,400	-	1.5%	-
Science in Sport plc*	1,685	1,370	(411)	1.5%	2,219
Craneware plc*	850	1,334	365	1.4%	1,484
Nomansland Biogas Limited	1,300	1,300	-	1.4%	1,300
Finsbury Food Group plc*	655	1,265	388	1.4%	2,911
Plastics Capital plc*	849	1,218	(37)	1.3%	2,227
Oak Grove Renewables Limited	1,365	1,065	(300)	1.2%	8,160
Cedarville Trading Limited	1,000	1,000	-	1.1%	1,000
Pilgrim Trading Limited	1,000	1,000	-	1.1%	1,000
Vianet Group plc*	952	977	122	1.1%	-
Sprue Aegis plc*	545	929	(379)	1.0%	1,921
Hobblers Heath Limited	912	912	-	1.0%	2,439
Aminghurst Limited	869	869	-	0.9%	5,122
Pearce & Saunders Limited	1,320	845	(106)	0.9%	1,076
Pabulum Pubs Limited	807	836	29	0.9%	915
Pittards plc*	1,350	776	(574)	0.8%	1,223
Ludorum plc	3,573	750	(991)	0.8%	-
Cohort plc*	394	736	239	0.8%	-
Data Centre Response Limited	557	702	27	0.8%	-
Angle plc*	678	694	(48)	0.8%	-
Curo Compensation Limited	688	688	-	0.7%	-
Redhall Group plc*	500	675	175	0.7%	1,215
Fenkle Street LLP	346	623	277	0.7%	1,236
Amino Technologies plc*	700	592	(108)	0.6%	2,157
Tramps Night Club Limited	1,192	558	(146)	0.6%	-
Wickham Solar Limited	472	550	-	0.6%	1,100
Kimbolton Lodge Limited	664	463	(140)	0.5%	-
Norman Broadbent plc*	1,052	447	(301)	0.5%	126
Sanderson Group plc*	336	406	83	0.4%	1,642
Fresh Green Power Limited	400	400	-	0.4%	600
Augusta Pub Company Limited	290	324	34	0.4%	1,451
Avacta Group plc*	247	314	76	0.3%	-
Brooks Macdonald Group plc*	257	309	52	0.3%	1,137
Dillistone Group plc*	411	301	(53)	0.3%	-

Continued over

REVIEW OF INVESTMENTS (continued)

	Cost	Valuation	Valuation movement in year	% of portfolio by value	Total invested by Funds also managed by Downing LLP [1]
	£'000	£'000	£'000		£'000
Flowgroup plc*	385	289	(196)	0.3%	-
Kidspace Adventures Limited	261	261	-	0.3%	539
Hoole Hall Country Club Holdings Limited	2,316	250	(179)	0.3%	-
City Falkirk Limited	326	236	(39)	0.3%	1,062
FCT No.1 Limited	228	228	-	0.2%	-
Fubar Stirling Limited	357	225	(116)	0.2%	1,013
Brady Public Limited Company	272	213	(181)	0.2%	-
Green Energy Production UK Limited	200	200	-	0.2%	300
Hornby plc*	500	168	(332)	0.2%	766
Gatewales Limited	112	151	39	0.2%	849
Pennant International Group plc*	335	138	(184)	0.1%	-
Future Biogas (SF) Limited	451	131	-	0.1%	291
Future Biogas (Reepham Rd) Limited	601	130	(43)	0.1%	389
London City Shopping Centre Limited	110	110	-	0.1%	429
Pressure Technologies plc*	249	106	(40)	0.1%	4
Pro-Global Insurance Solutions plc (Tawa)	61	100	38	0.1%	-
Pearce & Saunders DevCo Limited	88	88	-	0.1%	112
Giving Limited	83	83	-	0.1%	-
Leytonstone Pub no1 Limited	81	81	-	0.1%	-
Mi-Pay Group plc (Aimshell)*	136	67	-	0.1%	-
Redmed Limited	144	64	8	0.1%	144
Frontier IP Group plc	30	56	9	0.1%	-
PHSC plc*	52	42	(10)	0.1%	-
Wheelsure Holdings plc*	48	30	-	0.1%	-
Cheers Dumbarton Limited	64	22	-	0.1%	101
VCA Capital Limited	-	11	11	0.0%	-
Camandale Limited	75	7	(12)	0.0%	-
Commercial Street Hotel Limited	-	-	-	0.0%	-
Antelope Pub No 1 Limited	-	-	-	0.0%	-
China Food Company plc	149	-	-	0.0%	-
Hoole Hall Spa and Leisure Club Limited	297	-	-	0.0%	-
Resource Reserve Recovery Ltd (VSA Capital plc)	6	-	(6)	0.0%	-
Rostima Limited	1,043	-	-	0.0%	-
Southampton Hotel Developments Limited	395	-	-	0.0%	-
Southampton Spa Limited	-	-	-	0.0%	-
The 3D Pub Co Limited	-	-	(135)	0.0%	-
The Thames Club Limited	175	-	-	0.0%	-
Top Ten Holdings plc	399	-	-	0.0%	-
	44,499	34,695	(3,721)	37.6%	56,123
Total investments	70,126	65,445	(1,097)	71.0%	83,946
Cash at bank and in hand		26,713		29.0%	
		92,158		100.0%	

REVIEW OF INVESTMENTS (continued)

The Company also invested into Heyford Homes VCT Limited, Imagelinx plc, Invocas Group plc, Lochrise Limited, The New Swan Holding Company Limited, Southampton Spa Limited and Antelope Pub no 1 Limited. These investments were acquired at negligible value and continued to be valued at the same level.

All venture capital investments are unquoted unless otherwise stated.

* Quoted on AIM
** Quoted on the ISDX Growth Market

[1] Other funds also managed by Downing LLP as Investment Manager or Adviser as at 31 March 2016:

- Downing TWO VCT plc
- Downing THREE VCT plc
- Downing FOUR VCT plc
- PFS Downing UK Micro-Cap Growth Fund
- Downing AIM Estate Planning Service and Downing AIM NISA

REVIEW OF INVESTMENTS (continued)

Investment movements for the year ended 31 March 2016

Additions

	£'000
Quoted	
NCC Group plc	3,148
Pittards plc	1,350
Amino Technologies plc	700
Hornby plc	500
Redhall Group plc	500
Flowgroup plc	178
Norman Broadbent plc	146
Tracsis plc	2
Anpario plc	1
Cohort plc	1
Craneware plc	1
	6,527
Unquoted	
Vulcan Renewables Limited	2,350
Quadrate Catering Limited	1,500
Quadrate Spa Limited	1,500
Harrogate Street LLP	1,400
Kidspace Adventures Holding Limited	1,361
Nomansland Biogas Limited	1,300
Pearce & Saunders Limited	1,074
Cedarville Trading Limited	1,000
Pilgrim Trading Limited	1,000
Hobblers Heath Limited	912
UK (Lower Newton) Solar LLP	820
FCT No.1 Limited	228
Redmed Limited	203
Curo Compensation Limited	163
Pearce and Saunders DevCo Limited	88
London City Shopping Centre Limited	30
	14,929
	21,456

REVIEW OF INVESTMENTS (continued)

Disposals

	Cost £'000	Value at 01/04/15* £'000	Proceeds £'000	Profit/ (loss) vs cost £'000	Realised gain/ (loss) £'000
Quoted					
Accumuli plc	2,395	3,796	4,296	1,901	500
NCC Group plc	3,148	3,148	3,232	84	84
Tracsis plc	331	655	857	526	202
Inland Homes plc	212	334	361	149	27
Interquest plc	229	254	230	1	(24)
Northbridge Industrial Services plc	254	228	106	(148)	(122)
PHSC plc	104	104	113	9	9
Concha plc	3	65	49	46	(16)
Wheelsure Holdings plc	23	14	18	(5)	4
	6,699	8,598	9,262	2,563	664
Unquoted (including loan note redemptions)					
UK Solar (Hartwell) LLP	2,000	2,000	2,000	-	-
Residential PV Limited	1,060	1,270	1,487	427	217
Domestic Solar Limited	1,008	1,008	1,196	188	188
Quadrate Catering Limited	932	932	852	(80)	(80)
Antelope Pub Company Limited	840	885	1,010	170	125
UK Solar (Lower Newton) LLP	820	820	820	-	-
The 3D Pub Co Limited	710	710	867	157	157
Quadrate Spa Limited	702	702	1,036	334	334
Redmed Limited	638	699	761	123	62
Alpha Schools (Holdings) Limited	585	637	747	162	110
First Care Limited	843	568	1,379	536	811
Future Biogas (Reepham Road) Limited	522	522	522	-	-
Angel Solar Limited	500	500	615	115	115
Pearce and Saunders Limited	493	493	493	-	-
Future Biogas (SF) Limited	491	491	491	-	-
Slopingtactic Limited	379	481	481	102	-
Liverpool Nurseries (Holdings) Limited	478	461	507	29	46
Progressive Energies Limited	320	358	382	62	24
SPC International Limited	180	355	405	225	50
Hoole Hall Spa and Leisure Club Limited	1,170	321	321	(849)	-
Chapel Street Food and Beverage Limited	97	193	336	239	143
Chapel Street Services Limited	97	193	316	219	123
Camandale Limited	222	169	169	(53)	-
Universe Group plc	120	120	120	-	-
Aminghurst Limited	119	119	119	-	-
Commercial Street Hotel Limited	115	115	115	-	-
Tramps Night Club Limited	140	104	200	60	96
Keycom plc	817	90	106	(711)	16
Dominions House Limited	78	78	78	-	-
Kilmarnock Monkey Bar Limited	113	68	68	(45)	-
Gatewales Limited	41	41	151	110	110
Chapel Street Hotel Limited	4	8	-	(4)	(8)
Imagelinx plc	-	-	14	14	14
VSA Limited	-	-	1	1	1
Tawa Associates Limited	-	-	21	21	21
	16,634	15,511	18,186	1,552	2,675
Total disposals	23,333	24,109	27,448	4,115	3,339

* Adjusted for purchases in the year where applicable

REVIEW OF INVESTMENTS (continued)

Further details of the top ten investments held (by value) are as follows:

Vulcan Renewables Limited
www.futurebiogas.com

Cost at 31/03/2016:		£5,030,000	Valuation at 31/03/2016:	£5,548,000
Cost at 31/03/2015:		£2,680,000	Valuation at 31/03/2015:	£3,197,000
Investment comprises:				
Equity shares:		£1,990,000	Valuation method:	Multiples
Loan note:		£3,040,000		
Audited accounts:	30/11/14	30/11/13	Dividend income:	£Nil
Turnover:	£3.6m	£0.3m	Loan note income:	£Nil
Loss before tax:	(£0.2m)	(£1.2m)	Proportion of capital held:	18.7%
Net assets:	£3.7m	£3.2m	Diluted equity:	18.7%

Vulcan Renewables is developing a 2.0MW maize fed biogas plant near Doncaster. Through an Anaerobic Digestion process biogas is produced which is used to generate gas. The company benefits from the receipt of Feed-in Tariffs and payments for gas exported to the National Gas Grid.

Downing Care Homes Holdings Limited
www.downingcare.co.uk

Cost at 31/03/2016:		£3,881,000	Valuation at 31/03/2016:	£4,250,000
Cost at 31/03/2015:		£3,881,000	Valuation at 31/03/2015:	£4,030,000
Investment comprises:				
Equity shares:		£1,958,000	Valuation method:	Multiples
Loan note:		£1,923,000		
Unaudited accounts:*	30/06/14	30/06/13	Dividend income:	£Nil
Turnover:	£0.5m	£0.5m	Loan note income	£152,000
Loss before tax:	(£0.1m)	(£0.1m)	Proportion of capital held:	50.0%
Net liabilities:	(£0.4m)	(£0.2m)	Diluted equity:	50.0%

*****_Data taken from the Blue Cedars Holdings Limited annual accounts_

The company operates four residential care homes providing specialist services for adults with learning and physical disabilities. They are located in Hampshire and Surrey and are managed by an experienced team who have many years of experience in the sector. The homes were either developed from scratch or acquired from other operators.

Tracsis plc
www.tracsis.com

Cost at 31/03/2016:		£1,443,000	Valuation at 31/03/2016:	£3,853,000
Cost at 31/03/2015:		£1,771,000	Valuation at 31/03/2015:	£3,505,000
Investment comprises:				
Equity shares:		£1,443,000	Valuation method:	Bid price
Audited accounts:	31/07/15	31/07/14	Dividend income:	£8,000
Turnover:	£25.4m	£22.4m		
Profit before tax:	£4.5m	£4.2m	Proportion of capital held:	2.9%
Net assets:	£22.4m	£17.9m	Diluted equity:	2.9%

The Group specialises in solving a variety of data capture, reporting and resource optimisation problems along with the provision of a range of associated professional services. Tracsis' products and services are used to increase efficiency, reduce cost and improve the operational performance and decision making capabilities for clients and customers.

REVIEW OF INVESTMENTS (continued)

Cadbury House Holdings Limited
www.cadburyhotelbristol.co.uk

Cost at 31/03/2016:		£3,081,000	Valuation at 31/03/2016:	£2,875,000
Cost at 31/03/2015:		£3,081,000	Valuation at 31/03/2015:	£2,326,000
Investment comprises:				
Equity shares:		£847,000	Valuation method:	Multiples
Convertible loan note*:		£2,170,000		
A Loan note:		£64,000		
Audited accounts:	31/03/15	31/03/14	Dividend income:	£Nil
Turnover:	£8.6m	£8.0m	Loan note income:	£14,000
Profit before tax:	£2.3m	£0.1m	Proportion of capital held:	21.5%
Net assets:	£8.1m	£6.1m	Diluted equity*:	48.5%

Cadbury House Holdings Limited owns and operates a health club, restaurant and conference centre at Cadbury House, near Bristol. The restaurant trades as a Marco Pierre-White Steakhouse Bar and Grill.
*Proportion of capital after conversion of loan notes

Kidspace Adventures Holdings Limited
www.kidspaceadventures.com

Cost at 31/03/2016:		£2,577,000	Valuation at 31/03/2016:	£2,773,000
Cost at 31/03/2015:		£1,216,000	Valuation at 31/03/2015:	£1,362,000
Investment comprises:				
Equity shares:		£1,371,000	Valuation method:	Multiples
Loan Notes:		£1,206,000		
Audited accounts:	31/01/15	31/01/14	Dividend income:	£Nil
Turnover:	£6.0m	£5.5m	Loan note income:	£96,000
Profit before tax:	£0.8m	£0.6m	Proportion of capital held:	17.9%
Net assets:	£3.1m	£2.9m	Diluted equity:	17.9%

Kidspace Adventures Holdings Limited is the holding company of Kidspace Adventures Limited which owns two well established and profitable indoor children's play centres in Croydon and Romford. The company has developed an adventure farm park called Hobbledown, located in Epsom, Surrey, which opened in July 2012.

Baron House Developments LLP

Cost at 31/03/2016:		£2,695,000	Valuation at 31/03/2016:	£2,695,000
Cost at 31/03/2015:		£2,695,000	Valuation at 31/03/2015:	£2,695,000
Investment comprises:				
Loan note:		£2,695,000	Valuation method:	Cost – reviewed for impairment
Unaudited accounts:	31/03/15	31/03/14		
Turnover:	£7.9m	£0.9m	Loan note income:	£Nil
Loss before tax:	(£0.5m)	(£0.1m)	Proportion of capital held:	-%
Net assets:	£4.8m	£4.7m	Diluted equity:	-%

Baron House Developments was created to fund the purchase of a property opposite Newcastle station, which qualifies under the Business Premises Renovation Allowance (BPRA) scheme.

REVIEW OF INVESTMENTS (continued)

Universe Group
www.universe-group.co.uk

Cost at 31/03/2016:		£1,586,000	Valuation at 31/03/2016:	£2,561,000
Cost at 31/03/2015:		£1,706,000	Valuation at 31/03/2015:	£2,185,000
Investment comprises:				
Equity shares:		£1,386,000	Valuation method:	Bid price
Loan note:		£200,000		
Audited accounts:	31/12/14	31/12/13	Dividend income:	£Nil
Turnover:	£20.8m	£15.9m	Loan note income:	£16,000
Profit before tax:	£1.8m	£1.2m	Proportion of capital held:	12.9%
Net assets:	£18.4m	£16.5m	Diluted equity:	12.9%

Universe Group plc is a specialist retail solution and managed services company that sells to UK petrol station forecourts providing them with pump to EPOS systems and loyalty solutions.

Inland Homes plc
www.inlandhomes.co.uk

Cost at 31/03/2016:		£1,526,000	Valuation at 31/03/2016:	£2,465,000
Cost at 31/03/2015:		£1,738,000	Valuation at 31/03/2015:	£2,318,000
Investment comprises:				
Equity shares:		£1,526,000	Valuation method:	Bid price
Audited accounts:	30/06/15	30/06/14	Dividend income:	£32,000
Turnover:	£114.2m	£59.0m		
Profit before tax:	£34.0m	£9.6m	Proportion of capital held:	1.5%
Net assets:	£89.0m	£64.0m	Diluted equity:	1.5%

Inland Homes acquires brownfield land in the South and South-East of England principally for residentially led development schemes. The business then enhances the land value by obtaining planning permission, before building open market and affordable homes or selling surplus consented land to other developers to generate cash to reinvest in new brownfield opportunities.

Leytonstone Pub Limited
www.theredlionleytonstone.com

Cost at 31/03/2016:		£1,061,000	Valuation at 31/03/2016:	£1,900,000
Cost at 31/03/2015:		£1,061,000	Valuation at 31/03/2015:	£1,690,000
Investment comprises:				
Equity shares:		£361,000	Valuation method:	Multiples
Loan note:		£700,000		
Abbreviated accounts:	31/12/14	31/12/13	Dividend income:	£Nil
Turnover:	n/a	n/a	Loan note income:	£84,000
Profit before tax:	n/a	n/a	Proportion of capital held:	-%
Net assets:	£0.5m	£0.4m	Diluted equity:	-%

Leytonstone Pub owns a 12,000 sqft pub called The Red Lion located in Leytonstone, London. The downstairs of the pub was refurbished and since reopening has been building trade satisfactorily. The pub provides both a food and beverage offering.

REVIEW OF INVESTMENTS (continued)

Mosaic Spa and Health Clubs Limited
www.mosaicspaandhealth.co.uk

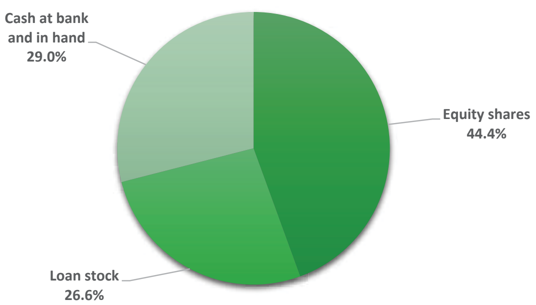
Cost at 31/03/2016:		£2,747,000	Valuation at 31/03/2016:	£1,830,000
Cost at 31/03/2015:		£2,747,000	Valuation at 31/03/2015:	£2,214,000
Investment comprises:				
Equity shares:		£570,000	Valuation method:	Multiples
Loan note:		£2,177,000		
Audited accounts:	31/12/14	31/12/13	Dividend income:	£Nil
Turnover:	£7.6m	£7.1m	Loan note income:	£92,000
Loss before tax:	(£0.3m)	(£0.5m)	Proportion of capital held:	23.2%
Net assets:	£1.6m	£1.9m	Diluted equity:	23.2%

Mosaic Spa and Health Clubs Limited owns two spas and operates a spa and health club management company which trades under the name of Fitness Express. The company currently has 30 management contracts to provide gyms and spas to hotels, university and corporate clients.

Note:
The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

Analysis of investments by commercial sector
The split of the venture capital investment portfolio by commercial sector (by cost and by value at 31 March 2016) is as follows:

Analysis of investments by nature of instrument
The following chart summarises the Company's investment portfolio by the nature of instrument held (by value at 31 March 2016):



Portfolio balance
At 31 March 2016, the Company assets employed were broadly in line with the targets within the investment policy. These are summarised as follows:

Type of Investment (by HMRC valuation rules)	**Actual**	**Target**
VCT qualifying investments	80.2%	>70%
Non-qualifying investments (including cash at bank)	19.8%	<30%
Total	100.0%	100%

Investment category (by value)	**Actual**	**Target**
Growth	31%	25% -50%
Income producing	49%	50% -75%
Non-qualifying	20%	max 30%
Total	100%	

STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 31 March 2016. The Board have prepared this report in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Principal objectives and strategy

The Company is a Venture Capital Trust ("VCT") whose principal investment objectives are to:

- provide private investors with attractive returns from a portfolio of investments focused on unquoted and AIM quoted companies; and
- maintain VCT status so that the Company and its shareholders may benefit from the tax reliefs and exemptions available under the VCT legislation.

As a Venture Capital Trust, Investors are required to hold their shares for a minimum period of five years in order to retain their income tax relief.

Business review and developments

During the year to 31 March 2016, the investments held decreased in value by £1.1 million and gains arising on investment realisations totalled £3.3 million.

Income over expenditure for the year resulted in a net gain, after accounting for capital expenses, of £350,000 (2015: £592,000)

The total return for the year was £2.6 million (2015: £2.0 million). Net assets at the year-end were £92.1 million (2015: £79.9 million). Dividends paid during the year totalled £5.2 million (2015: £3.0 million).

The Company's business and developments during the year are reviewed further in the Chairman's Statement, the Investment Adviser's Report and the Review of Investments on pages 3 to 17.

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's level of success in meeting its objectives (as shown on page 2). The Board believes the Company's key performance indicators, for comparison against similar VCTs, are Total Return (NAV plus cumulative dividends paid to date) and dividends per share (as disclosed within the financial summary).

Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, investment, credit and liquidity risks, are summarised within note 15 to the financial statements.

In addition to these risks, the Company, as a fully listed Company on the London Stock Exchange and as a Venture Capital Trust, operates in a complex regulatory environment and therefore faces a number of related risks. A breach of the VCT Regulations could result in the loss of VCT status and consequent loss of tax reliefs currently available to Shareholders and the Company being subject to capital gains tax. Serious breaches of other regulations, such as the Listing Rules of the Financial Conduct Authority and the Companies Act, could lead to suspension from the Stock Exchange and damage to the Company's reputation.

The Board reviews and agrees policies for managing each of these risks. It receives quarterly reports from the Adviser, which monitor the compliance of these risks, and places reliance on the Adviser to give updates in the intervening periods. These policies have remained unchanged since the beginning of the financial year.

Viability statement

In accordance with C.2.1 and C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has conducted this review for a period of three years from the balance sheet date as developments are considered to be reasonably foreseeable over this period.

The three year review considers the principal risks facing the Company which are summarised within note 15 as well as the Company's cash flows, dividend cover and VCT monitoring compliance over the period. The three year review makes assumptions about the normal level of capital recycling likely to occur, expenses, dividends and share buybacks.

The Directors believe that the Company is well placed to manage its business risks successfully. Based on the results, the Board believes that, taking into account the Company's current position, and subject to the principal risks faced by the business, the Company will be able to continue in operation and meet its liabilities as they fall due for a period of at least three years from the balance sheet date.

Business model

The Company operates as a Venture Capital Trust to ensure that its Shareholders can benefit from tax reliefs available.

The Business of the Company is to act as an investment company, investing in a portfolio which meets the conditions set within its Investment Policy, as shown on the next page.

Investment policy

Quantitative analyses of how the Company has operated in accordance with its investment policy are shown in the Review of Investments on pages 9 to 17 and in the VCT compliance section of this report on page 22.

The Company's investment policy is as follows:

Asset allocation

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

VCT qualifying investments

The Company seeks to hold a portfolio of VCT qualifying investments as follows:

Investment type	Target	Maximum	Target IRR
Growth	25%-50%	100%	15%
Income focused	50%-75%	100%	10%

Growth investments will be in companies with prospects for high capital growth, reflecting higher risk, predominantly focusing on:

- investments in unquoted companies where there are reasonable prospects of a trade sale or clear exit strategy over a five to seven year time horizon and the prospects of a reasonable level of capital growth. Start-ups will not generally be considered although the fund may consider investments in early stage companies (up to a maximum, in aggregate, of 5% of the fund) offering higher risk and higher potential returns.

- companies already quoted on AIM, or the ISDX Growth market, or being admitted to AIM or the ISDX Growth market; and

Income focused investments will generally be in unquoted businesses (although this may include some quoted businesses), with a preference for companies which own substantial assets or have predictable revenue streams. These investments are likely to be structured such that they comprise significant levels of secured loan stock and/or preference shares, equating to no more than 70%-95% of the value of each business's assets. New investments will usually have limited or no external third party debt.

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

Non-qualifying investments

The funds not employed in VCT qualifying investments (20% to 30% of total funds) may be invested in a variety of investments which may include:

- **Fixed income securities** consisting of bonds issued by the UK Government, major companies and institutions, liquidity funds, fixed deposits, structured products with some level of capital protection and/or designed to deliver a fixed return or similar securities and will have counterparty credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated)

- **Non-qualifying listed investments** which will typically be in quoted companies where the holdings can be traded and in companies in which the Investment Adviser has detailed knowledge as a result of VCT qualifying investments made previously

- **Pooled funds** including those typically invested in equities, bonds and property

- **Secured loans** which will be secured on assets held by the borrower and which, for investments made on or after 18 November 2015, the borrower will be subject to size and age restrictions in accordance with the VCT regulations

- **Non-qualifying unquoted investments** which will generally not exceed 5% of the overall fund and, for investments made on or after 18 November 2015, the investee will be subject to size and age restrictions in accordance with the VCT regulations

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

Risk diversification

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

VCT Rules

The Company will be managed so as to maintain its VCT status by satisfying a number of tests set out in Part 6 of the Income Tax Act 2007.

Investment policy (continued)

Borrowing Limits

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a sum equal to no more than 10% of the aggregate of the nominal capital of the Company (being issued and paid up) plus the amounts standing to the credit of the consolidated reserves of the Company.

At 31 March 2016, the maximum amount of borrowings allowed, without the previous sanction at a General Meeting, stood at £9.2 million. There are no plans to utilise this ability at the current time.

Proposed changes to the Investment Policy

A resolution will be put to Shareholders seeking approval for a number of amendments to the Investment Policy to ensure that it remains in line with the current VCT rules. A mark-up of the proposed amendments to the policy is shown in the appendix to the notice of the AGM on pages 55 to 56.

Environmental, social and human rights policy

The Company seeks to conduct its affairs responsibly. Where appropriate, the Board and the Advisers take environmental, social and human rights factors into consideration when making investment decisions.

Global greenhouse gas emissions

The Company has no greenhouse emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Director's Reports) Regulations 2013.

Directors and senior management

The Company does not have any employees, including senior management, other than the Board of the five non-executive directors. The Board comprises four male and one female director.

Whilst the Board have delegated the day to day operation of the Company to its advisers, details of which are contained within the Report of the Directors, they retain the responsibility of planning, directing and controlling the activities of the Company.

Future prospects

The Company's future prospects are set out in the Chairman's Statement and Investment Adviser's Report.

By order of the Board

G Whitehouse

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

11 July 2016

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2016.

Share capital
At the beginning of the year, the Company had 79,798,496 Ordinary Shares of 1p each in issue.

The Company allotted 15,892,696 Ordinary shares at a price of approximately 96.1p per Ordinary Share under the terms of the Offers for Subscription.

At the AGM held on 211 July 2015, Shareholders unconditionally authorised the Company to make market purchases of its own Ordinary shares of 1p each up to a maximum of 12,575,000 Ordinary Shares, representing 14.9% of the share capital in issue at the date of the last annual report. At the date of this report authority remains in place for 10,104,030 Ordinary Shares. A resolution to renew the authority to buy back up to approximately 14.9% of the share capital at the date of this report will be put to Shareholders at the AGM taking place on 9 August 2016.

During the year, the Company repurchased 2,470,970 Ordinary Shares of 1p each for average consideration of 91.1p per share, representing 3.3% of shares in issue at the last annual report. These shares were subsequently cancelled.

At the year end, the Company had 93,220,222 Ordinary Shares in issue. There were no other share classes in issue at the year end.

The Company allotted 6,697,868 shares in April 2016. At the date of this report the Company had 99,578,619 shares in issue.

Results and dividends

	£'000	Per share
Return on ordinary activities after tax for the year ended 31 March 2016	2,592	3.0p
Distributions paid in the year		
7 August 2015	2,711	3.0p
26 February 2016	2,520	3.0p
	5,231	6.0p

The Company has stated that it intends to target an annual dividend yield at 4% of net assets. In respect of the year under review this is equivalent to 3.8p, therefore in line with this intention.

The Board is proposing a final dividend of 3.0p per share to be paid, subject to Shareholder approval at the AGM, on 12 August to Shareholders on the register at 22 July 2016.

Investment adviser and administration manager
Downing LLP was appointed on 1 April 2010, as Investment Adviser, for a fee payable quarterly in advance in respect of each quarter, such quarterly fee being equal to one quarter of 1.8% of the Net Asset Value of the Company as at the opening of business on the first business day of that quarter. The agreement is not for a fixed term, and may be terminated by either side giving not less than 12 months' notice in writing. During the year the investment management fees amounted to £1.5 million (2015: £1.4 million).

Downing LLP also receives arrangement and monitoring (non-executive directorship) fees from the investee companies. During the year, Downing LLP received arrangement fees of £231,000 (2015: £101,000) and monitoring fees of £765,000 (2015: £648,000). These fees also relate to investments made by other funds managed by Downing LLP.

The Board is satisfied with the performance of Downing LLP as Investment Adviser and with its strategy, approach and procedures in providing investment management services to the Company. The Board has concluded that the continuing appointment of Downing LLP, as Investment Adviser, remains in the best interest of Shareholders.

In addition, Downing LLP also provides administration services to the Company for an annual fee which is from 12 November 2013 calculated as follows:

- £40,000 (which is subject to an RPI annual increase, if positive); plus
- 0.125% of the Net Asset Value of the Company in excess of £10 million; plus
- £10,000 per additional share class of the Company (excluding the Ordinary Share class).

During the year fees for administration services amounted to £131,000 (2015: £121,000).

If the Company undertakes any significant corporate actions (including the raising of additional capital) Downing LLP shall be entitled to negotiate an additional fee or increased fee to take account of any significant additional work occasioned for the company secretary and bookkeeper by that corporate action.

Trail commission
The Company has an agreement to pay trail commission, annually, to Downing LLP, in connection with funds raised under original offers for subscription. Trail commission is calculated between 0.15% and 0.50% of the respective net assets, attributable to the original shareholdings, at each year end.

Annual running costs cap
From 12 November 2013, the annual running costs of the Company are capped at 2.75% (including irrecoverable VAT) of the average net asset value of the Company as at the end of the relevant financial period. Any excess running costs above the cap are met by Downing LLP. The Ongoing Charges ratio was 2.50%.

Annual Running Costs are costs incurred by the Company in the ordinary course of its business and include, *inter alia,* Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders, annual trail commission and all the annual fees payable to the Company's investment adviser and administrators. Costs incurred on abortive investment proposals are the responsibility of the Investment Adviser. The fees payable by the Company to the Investment Adviser are allocated 50% to revenue and 50% to capital. This allocation may be reviewed in the future as the focus of the portfolio changes.

Directors
The Directors of the Company during the year were as follows:

Chris Kay
Barry Dean
Andrew Griffiths
Stuart Goldsmith
Helen Sinclair

Directors generally retire at every third AGM in accordance with the requirement of the Articles of Association. At the forthcoming AGM Chris Kay, Barry Dean and Stuart Goldsmith will retire and offer themselves for re-election. Stuart Goldsmith retires by virtue of having served on the Board for more than 9 years. Each of the Directors has considerable experience in the VCT sector and has continued to perform well, the Board recommends that Shareholders vote in favour of the resolutions to re-appoint each of the Directors at the AGM.

Each of the Directors has entered into an agreement for services whereby they are required to devote such time to the affairs of the Company as the Board reasonably requires consistent with their role as a non-executive Director, and is subject to a three month termination notice on either side. Appointments of new Directors to the Board are considered by the Nomination Committee as, and when, required.

The Company provides Directors' and Officers' liability insurance, giving appropriate cover for legal action brought against its Directors, and has also agreed to indemnify Directors in circumstances where they are not considered to be culpable. The indemnity, which is a qualifying third party indemnity provision for the purpose of the Companies Act, is for the benefit of all of the Company's current Directors.

VCT compliance
The Company has appointed Philip Hare & Associates LLP ("Philip Hare") to advise it on compliance with VCT requirements, reporting directly to the Board. Philip Hare works closely with the Investment Adviser; undertaking reviews of the VCT compliance status of new investment opportunities; providing regular compliance updates on the Company's existing portfolio of investments and providing advice on VCT compliance issues as and when they arise.

A summary of the VCT Regulations is included in the Company's Investment Policy as shown on page 19. Compliance with the main VCT regulations at 31 March 2016, and for the year then ended is summarised as follows:

1.	70.0% of its investments in qualifying companies (Company as a whole);	80.2%
2.	At least 30.0% of the Company's qualifying investments in "eligible shares" for funds raised before 5 April 2011, and 70% thereafter;	71.7%
3.	At least 10.0% of each investment in a qualifying company held in "eligible shares";	Complied
4.	No investment constitutes more than 15.0% of the Company's portfolio;	Complied
5.	Income for the year ended 31 March 2016 is derived wholly or mainly from shares and securities; and	94.7%
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.	Complied

Substantial interests
As at 31 March 2016, and at the date of this report, the Company was not aware of any beneficial interests exceeding three per cent of the issued share capital.

Auditor
A resolution to re-appoint BDO LLP as the Company's auditor will be proposed at the forthcoming AGM.

Annual General Meeting
The AGM will be held at Ergon House, Horseferry Road, London, SW1P 2AL at 10:30 a.m. on 9 August 2016. The Notice of the AGM and Form of Proxy are at the end of this document.

Directors' responsibilities statement
The Directors are responsible for preparing the Strategic Report, the Report of the Directors, the Directors' Remuneration Report, the separate Corporate Governance Statement and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Conduct Authority.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS102). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements and the Directors Remuneration Report comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and undertakes and provides the information necessary to assess the Company's performance, business model and strategy.

The Directors are responsible for the oversight of the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules
Each of the Directors, whose names and functions are listed on page 2, confirms that, to the best of each person's knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

- the management report, comprising the Chairman's Statement, the Strategic Report, the Investment Adviser's Report, the Review of Investments and the Report of the Directors, includes a fair review of the development and performance of the business and the position of the Company, together with the principal risks and uncertainties that it faces.

Electronic publication
The financial statements are published on www.downing.co.uk, a website maintained by the Investment Adviser. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Corporate governance
The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code (www.frc.org.uk), is shown on pages 27 to 29.

Other matters
Information in respect of financial instruments and future developments have been disclosed within the Strategic Report on pages 18 to 20.

Statement as to disclosure of information to Auditor
The Directors in office at the date of the report have confirmed that, as far as they are aware, there is no relevant audit information of which the Auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

By order of the Board

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

11 July 2016

DIRECTORS' REMUNERATION REPORT

Annual statement from the Remuneration Committee
The Committee comprises Chris Kay, Barry Dean, Stuart Goldsmith, Andrew Griffiths and Helen Sinclair. The current remuneration levels were part of the proposals that were agreed by the participant companies in preparing for the merger and were adopted on its completion.

Remuneration policy
Below is the Company's current remuneration policy which is effective for the three years commencing 1 April 2015.

The Company's policy on Directors' remuneration is to seek to remunerate board members at a level appropriate for the time commitment required and degree of responsibility involved for a self-managed Venture Capital Trust, where all investment decisions are made by the Board and where the non-executive Directors are more closely involved with the investee companies than other similar VCTs.

Non-executive Directors are not entitled to any performance related pay or incentive.

Directors' remuneration is guided by the Company's Articles of Association as follows:

(i) The ordinary remuneration of the Directors shall not in aggregate exceed £150,000 per annum (or such higher sum as may from time to time be determined by an Ordinary Resolution) and shall be divided between the Directors as they may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which they held office. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with the business of the Company, or in attending and returning from meetings of the Directors or of committees of the Directors or General Meetings or separate meetings of the holders of any class of shares or debentures of the Company or otherwise in connection with the discharge of their duties.

(ii) Any Director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, lump sum, percentage of profits or otherwise as the Directors may determine.

The Company's policy is that fees payable to Directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of remuneration, market equivalents are considered in comparison to the overall activities and size of the Company. There is no performance related pay criteria applicable to Directors.

Letters of appointment
Each of the Directors on the current Board has a letter of appointment whereby they are required to devote such time to the affairs of the Company as the Board reasonably requires consistent with their role as a non-executive Director. A three month rolling notice period applies.

Annual report on remuneration (audited)
The following disclosure is required to be audited under the requirements of section 497. The audit opinion thereon is contained within the Auditor's Report on pages 30 to 33.

Directors' remuneration for the year under review was as follows:

	2016 fee £	**2015 fee £**
Chris Kay	35,000	35,000
Barry Dean	20,000	20,000
Stuart Goldsmith	20,000	20,000
Andrew Griffiths	20,000	20,000
Helen Sinclair	20,000	20,000
	115,000	115,000

No other emoluments, pension contributions or life assurance contributions were paid by the Company to, or on behalf of, any Director. The Company does not have any share options in place.

Statement of implementation of remuneration policy in the current financial year
The remuneration levels for the forthcoming year have been agreed, at the following levels:

	Annual fee £
Chris Kay	35,000
Barry Dean	20,000
Stuart Goldsmith	20,000
Andrew Griffiths	20,000
Helen Sinclair	20,000
	115,000

Directors share interests

The beneficial interests of the Directors in the issued Ordinary Shares in the Company at each year end were as follows:

	31 March 2016	31 March 2015
Chris Kay	62,270	62,270
Barry Dean	7,129	7,129
Stuart Goldsmith	7,881	7,881
Andrew Griffiths	2,864	2,864
Helen Sinclair	5,398	5,398

At the date of this report Chris Kay held 83,300 shares. There have been no other changes in Directors' shareholdings since the year end.

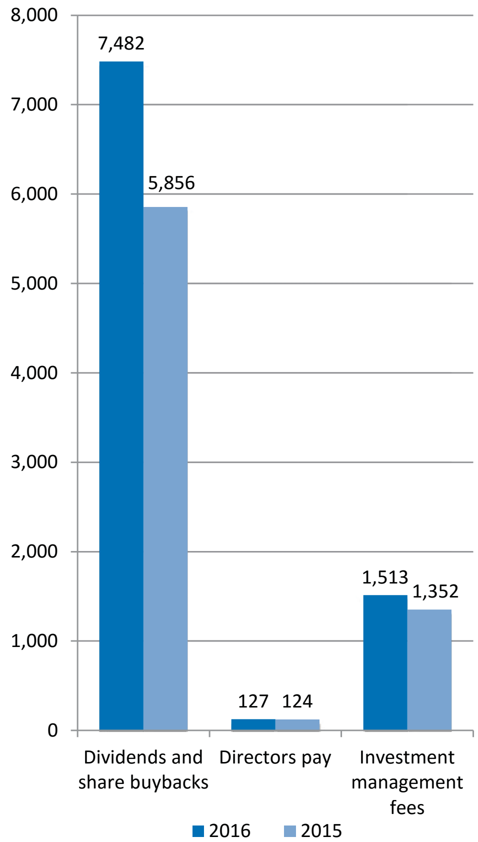
Statement of voting at AGM

At the AGM on 211 July 2015, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

In favour	88.8%
Against	11.2%
Withheld	66,040 votes

Relative importance of spend on pay

The difference in actual spend between 31 March 2016 and 31 March 2015 on remuneration for all employees in comparison to distributions (dividends and share buybacks) and other significant spending are set out in the tabular graph below.



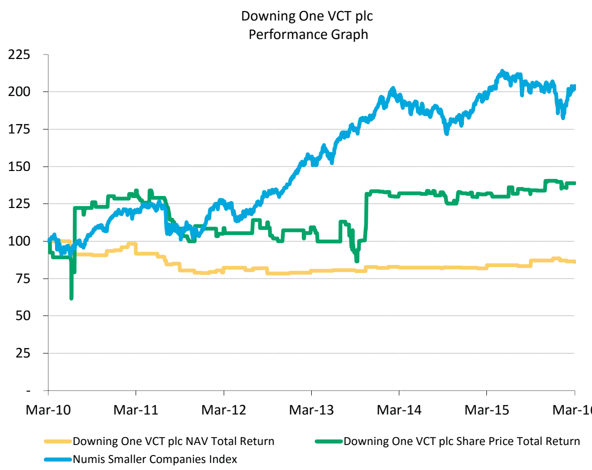
Insurance cover

Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors.

Performance graph

The graph below charts the total cumulative Shareholder return of the Company (assuming all dividends are re-invested) ("NAV Total Return") and total return of the Company's Share Price ("Share Price Total Return") over the past six years, compared to Numis Smaller Companies Index (Total Return, excluding investment companies), each of which has been rebased to 100 pence. Shareholders should note that the Company has undergone some substantial changes over that period.

The Board believes that NAV Total Return provides Shareholders with a fairer reflection of the Company's long term value than the Company's share price, due to the long term nature of an investment in Venture Capital Trust shares. Although it is not a benchmark for the Company, the Numis Smaller Companies Index is considered to be an appropriate broad equity market index against which Investors can assess the relative performance of the Company.



By order of the Board

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

11 July 2016

CORPORATE GOVERNANCE STATEMENT

The Directors support the relevant principles of the UK Corporate Governance Code, maintained by the Financial Reporting Council being the principles of good governance and the code of best practice.

The Board
At the date of this report, the Company has a Board comprising of five non-executive Directors. The Chairman is Chris Kay. The Company does not have a Senior Independent Director. Biographical details of all current Board members (including the significant commitments of the Chairman) are shown on page 2.

In accordance with Company policy Chris Kay, Barry Dean and Stuart Goldsmith are offering themselves for re-election at the next AGM.

Full Board meetings take place quarterly and the Board meets or communicates more regularly to address specific issues. The Board has a formal schedule of matters specifically reserved for its decision which includes, but is not limited to: considering recommendations from the Investment Adviser; and reviewing, annually, the terms of engagement of all third party advisers (including the Investment Adviser).

The Board has also established procedures whereby Directors wishing to do so in the furtherance of their duties may take independent professional advice at the Company's expense.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary provides the Board with full information on the Company's assets and liabilities and other relevant information requested by the Chairman in advance of each Board meeting.

Share capital
The Board has authority to make market purchases of the Company's own shares. This authority for up to 14.9% of the Company's issued share capital was granted at the last AGM. A resolution will be put to Shareholders to renew this authority at the forthcoming AGM.

The capital structure of the Company is disclosed on page 21.

Committees to the Board
As the Company has a small Board comprising wholly of non-executive Directors, all Directors sit on the Nomination Committee, Remuneration Committee and Audit Committee.

The Chairman of the Nomination Committee is Andrew Griffiths. The Chairman of the Remuneration Committee is Helen Sinclair and the Chairman of the Audit Committee is Stuart Goldsmith.

Committee meetings are held in conjunction with the Board meetings. All committees have defined terms of reference and duties, which are available from www.downing.co.uk.

Board and Committee meetings
The following table sets out the Directors' attendance at the Board and Committee meetings held during the year.

	Board meetings attended	**Audit Committee meetings attended**
Chris Kay	5	2
Barry Dean	5	2
Stuart Goldsmith	4	2
Andrew Griffiths	5	2
Helen Sinclair	5	2

Neither of the Nomination or Remuneration Committees met during the year. The Board also meets as and when required during the year to discuss other matters arising.

Audit Committee
The Audit Committee is responsible for:
- monitoring the Company's financial reporting;
- reviewing internal controls and risk management systems; and
- matters regarding audit and external auditors.

Financial Reporting
The Committee is responsible for reviewing, and agreeing the half-yearly and annual accounts (including those figures presented within) before they are presented to the Board for final approval.

In particular, the Committee reviews, challenges (where appropriate) and agrees the basis for the carrying value of the unquoted investments, as prepared by the Investment Adviser, for presentation within the half-yearly and annual accounts.

The Committee also takes into careful consideration, comments on matters regarding valuation, revenue recognition and disclosures arising from the Report to the Audit Committee as part of the finalisation process for the Annual Accounts.

Internal audit and control
The Committee has considered the need for an internal audit function and has concluded that at the present time this would not be appropriate for a company of this size and structure. The Committee seeks to satisfy themselves that there is a proper system and allocation of the responsibilities for the day-to-day monitoring of financial controls by receiving representations and information (either upon request or voluntarily) from the Investment Adviser. This is covered more fully under Risk Management and Internal Control.

Whistleblowing procedures
As the Company has no staff, other than directors, there are no procedures in place in respect of C.3.5 of the UK Corporate Governance Code, relating to whistleblowing. The Audit Committee understands that the Investment Adviser has whistleblowing procedures in place.

External auditor
The Committee reviews and agrees the audit strategy paper, presented by the Auditor in advance of the audit, which sets out the key risk areas to be covered during the audit, confirms their status of independence and includes the proposed audit fee. The Committee confirms that the main area of risk for the year under review is valuation of unquoted investments.

The Committee, after taking into consideration comments from the Investment Adviser, Downing LLP, regarding the effectiveness of the audit process; immediately before the conclusion of the annual audit, will recommend to the Board either re-appointment or removal of the auditors.

BDO LLP has been appointed as the Auditor to the Company since March 2015.

Following assurances received from the Investment Adviser at the completion of the audit for the year to 31 March 2016, and taking discussions held with the engagement Partner at BDO LLP into consideration, the Committee has recommended they be re-appointed at the forthcoming AGM.

Non audit services
The Committee will approve the provision of ad-hoc work and maximum expected fee before being undertaken; to ensure the Auditor objectivity and independence are safeguarded.

Nomination Committee
The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to the Board composition and balance. The Committee did not meet during the year. The composition of the new Board was considered during detailed merger discussions.

Diversity policy
When considering a new appointment to the Board, the committee's responsibility is to ensure that Shareholders are safeguarded by appointing the most appropriate person for the position, (irrespective of gender) giving due regard to past and present experience in the sectors in which the Company invests. The Company therefore does not have a specific diversity policy in place.

Remuneration Committee
The Remuneration Committee meets as required, to discuss the existing levels of remuneration for the non-executive Directors, and whether they reflect the time commitment and responsibilities of the positions and are comparable with industry standards. Where deemed necessary, they will recommend adjustments to the remuneration levels. The Committee did not meet during the year.

Board performance evaluation
The Company has introduced an annual process for the evaluation of the performance of the Board, each of its Committees and of the non-executive Directors. The evaluation is undertaken using a questionnaire which covers a broad range of topics, including how the Board conducts its business and how it discharges its responsibilities. Further questions address the evaluation of the Chairman's performance.

The responses to the questionnaire were summarised by the Company Secretary and passed to the Chair of the Remuneration Committee. Any matters arising were then discussed with the non-executive directors as appropriate.

The outcome of the 2016 Board review has confirmed that the Directors consider the Board and the Committees to be working effectively and to have a good balance of skills and that each non-executive director continues to perform satisfactorily.

Anti-bribery policy
The Company operates an anti-bribery policy to ensure that it meets its responsibilities arising from the Bribery Act 2010. This policy can be found on the website maintained by the Investment Adviser at www.downing.co.uk.

Relations with Shareholders
Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by Shareholders during the course of the year, or to meet with Shareholders if so requested. As disclosed in the Report of the Directors, there were no Shareholders with a substantial interest in the Company at the year-end or at the date of this report.

In addition to the formal business of the AGM, representatives of the management team and the Board are available to answer any questions a Shareholder may have.

Separate resolutions are proposed at the AGM on each substantially separate issue. Downing LLP collates proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM.

Relations with Shareholders (continued)

In order to comply with the UK Corporate Governance Code, proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called, and are published immediately following the AGM. The notice of the next AGM and proxy form can be found at the end of these financial statements.

The conditions of appointment of non-executive Directors are available to Shareholders upon request.

Financial reporting

The Directors' Statement of Responsibilities for preparing the accounts is set out in the Report of the Directors on page 23, and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's Report on page 30.

Risk Management and Internal control

The Board has adopted an Internal Control Manual ("Manual") for which it is responsible, which has been compiled in order to comply with the UK Corporate Governance Code. The Manual is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, which it achieves by detailing the perceived risks and controls to mitigate them. The Board reviews the perceived risks in line with relevant guidance on an annual basis and implements additional controls as appropriate.

The Board is responsible for ensuring that the procedures to be followed by the Company's advisers and Directors are in place, and they review the effectiveness of the Manual, based on the report from the Audit Committee, on an annual basis to ensure that the controls remain relevant and were in operation throughout the year.

Although the Board is ultimately responsible for safeguarding the assets of the Company, the Board has delegated, through written agreements, the day-to-day operation of the Company (including the financial reporting process) to Downing LLP.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's Statement on pages 3 to 4, the Investment Adviser's Report on pages 5 to 8 and the Strategic Report on page 18 to 20. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 37 and the Strategic Report on page 20. In addition, notes 12 and 15 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources at the year end, and holds a diversified portfolio of investments. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they believe the Company continues to be a going concern and that it is appropriate to apply the going concern basis in preparing the financial statements.

Compliance statement

The Listing Rules require the Board to report on compliance with the UK Corporate Governance Code throughout the accounting period. The preamble to the UK Corporate Governance Code does, however, acknowledge that some provisions may have less relevance for investment companies. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 March 2016 with the provisions set out in the UK Corporate Governance Code.

a) New Directors do not receive a full, formal and tailored induction on joining the Board, nor does the Chairman review and agree training and development needs. Such matters are addressed on an individual basis as they arise. Also the Company has no major Shareholders so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the AGM. (B.4.1, B.4.2, E.1.1)

b) The non-executive Directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts. (B.2.3) The Directors do have letters of appointment in place which the Company considers to be sufficient. In the Directors' opinion, this does not make a substantive difference to the circumstances of the Company.

By order of the Board

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

11 July 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING ONE VCT PLC

Our opinion on the financial statements

In our opinion the Downing One VCT plc financial statements for the year ended 31 March 2016, which have been prepared by the directors in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

What our opinion covers

Our audit opinion covers the:

- Income Statement;
- Statement of Changes in Equity;
- Balance Sheet;
- Statement of Cash Flows; and
- related notes

Respective responsibilities of directors and auditor

As explained more fully in the report of the directors, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the FRC's Ethical Standards for Auditors.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's (FRC) website at www.frc.org.uk/auditscopeukprivate.

Our approach

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the Investment Adviser and Administration Manager and, the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement. Below are those risks which we considered to have the greatest impact on our audit strategy and our audit response.

Risk area	Audit response
Valuation of investments: Valuation of investments is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the Company.	The valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines. The investments are held in a diverse range of entities and are valued using various valuation models as appropriate in each circumstance. For a sample of investments held, our audit procedures included: • considering the appropriateness of the valuation methodology ensuring that it is in accordance with the International Private Equity and Venture Capital Valuation Guidelines; • reviewing and challenging the assumptions inherent in the valuation models by comparison to appropriate benchmark data; • Carefully examining the Investment Manager's assessment of maintainable earnings with reference to the investee's historic performance and current prospects; • assessing the appropriateness of discount rates and marketability discounts where applied in the model with reference to market data for comparable assets; and • assessing the impact of estimation uncertainty concerning these assumptions and the completeness of associated disclosures in the financial statements. Where such investments were held in loans, we also considered wider economic and commercial factors that, in our judgement, could impact on the recoverability and valuation of those loans. Quoted investments and fixed income securities are valued using published bid prices and a sample of these were verified to market data. Consideration was given to the possible impact on realisable values arising from low trading volumes or any other restrictions on sale. Where appropriate we developed our own point estimate using alternative assumptions that could reasonably be applied. We considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.
Revenue recognition: Revenue consists of loan stock interest, dividends receivable from investee companies and interest earned on cash balances. Revenue recognition is considered to be a significant audit risk as it is the key driver of dividend returns to investors and there is judgement required in determining whether accrued income should be regarded as recoverable.	• We assessed the design and the implementation of the controls relating to revenue recognition and we developed expectations for interest income receivable based on loan instruments and investigated any variations in amounts recognised to ensure they were valid; • We considered whether the accounting policy had been applied correctly by management in determining provisions against income where recovery is considered doubtful, considering management information relevant to the ability of the investee company to service the loan and the reasons for any arrears of loan interest; • We also reviewed the recognition and classification of any accrued income, considering the appropriateness of the classification of income between revenue and capital in the Income Statement; and • We also tested dividends receivable to cash received, as well as to supporting documentation and management accounts of the investee companies.

The Audit Committee's consideration of these key issues is set out on pages 27 to 28.

Materiality in context

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated below.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality	Assessing whether the financial statements as a whole present a true and fair view.	• The value of net assets • The level of judgement inherent in the valuation • The range of reasonable alternative valuations	1,000,000
Specific materiality – classes of transactions and balances which impact on net realised returns	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	• Level of gross expenditure	100,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 27 to 29 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the Company

We have nothing material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or

Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the Company (continued)

- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 29, in relation to going concern; and
- the Directors' statements, set out on page 18, in relation to longer-term viability; and
- the part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

BDO LLP

Stuart Collins *(senior statutory auditor)*
For and on behalf of BDO LLP
Statutory auditor
London, UK
11 July 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INCOME STATEMENT
for the year ended 31 March 2016

				2016			2015
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	2,790	-	2,790	2,659	-	2,659
Gains on investments	9	-	2,242	2,242	-	1,410	1,410
		2,790	2,242	5,032	2,659	1,410	4,069
Investment management fees	3	(756)	(756)	(1,512)	(676)	(676)	(1,352)
Other expenses	4	(928)	-	(928)	(715)	-	(715)
Return on ordinary activities before tax		1,106	1,486	2,592	1,268	734	2,002
Tax on total comprehensive income and ordinary activities	6	(227)	227	-	(213)	213	-
Return attributable to equity shareholders	8	879	1,713	2,592	1,055	947	2,002
Basic and diluted return per share	8	1.0p	2.0p	3.0p	1.4p	1.2p	2.6p

The total column within the Income Statement represents the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS102"). There are no other items of comprehensive income. The supplementary revenue and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 by the Association of Investment Companies ("AIC SORP").

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2016

	Called up Share Capital £'000	Capital redemption reserve £'000	Share premium account £'000	Funds held in respect of shares not yet allotted £'000	Special reserve £'000	Capital reserve -realised £'000	Revaluation reserve £'000	Revenue reserve £'000	Total £'000
For the year ended 31 March 2016									
At 1 April 2015	798	1,500	69,714	2,593	7,523	-	(2,805)	594	79,917
Total comprehensive income	-	-	-	-	-	2,809	(1,096)	879	2,592
Cancellation of Share Premium account	-	-	(82,321)	-	82,321	-	-	-	-
Realisation of revaluations from previous years	-	-	-	-	-	779	(779)	-	-
Transfer between reserves*	-	-	-	-	(803)	803	-	-	-
Transactions with owners									
Dividends paid	-	-	-	-	-	(4,391)	-	(840)	(5,231)
Utilised in share issue	-	-	-	(2,593)	-	-	-	-	(2,593)
Unallotted shares	-	-	-	4,423	-	-	-	-	4,423
Issue of new shares	159	-	15,399	-	-	-	-	-	15,558
Share issue costs	-	-	-	-	(296)	-	-	-	(296)
Purchase of own shares	(25)	25	-	-	(2,262)	-	-	-	(2,262)
At 31 March 2016	932	1,525	2,792	4,423	86,483	-	(4,680)	633	92,108
For the year ended 31 March 2015									
At 1 April 2014	750	1,470	62,114	921	11,458	-	(2,438)	302	74,577
Total comprehensive income	-	-	-	-	-	158	789	1,055	2,002
Realisation of revaluations from previous years	-	-	-	-	-	1,156	(1,156)	-	-
Transfer between reserves*	-	-	-	-	(977)	977	-	-	-
Transactions with owners									
Dividends paid	-	-	-	-	-	(2,291)	-	(763)	(3,054)
Utilised in share issue	-	-	-	(921)	-	-	-	-	(921)
Unallotted shares	-	-	-	2,593	-	-	-	-	2,593
Issue of new shares	78	-	7,600	-	-	-	-	-	7,678
Share issue costs	-	-	-	-	(156)	-	-	-	(156)
Purchase of own shares	(30)	30	-	-	(2,802)	-	-	-	(2,802)
At 31 March 2015	798	1,500	69,714	2,593	7,523	-	(2,805)	594	79,917

* A transfer of £779,000 representing previously recognised unrealised gains on disposal of investments during the year ended 31 March 2016 (2015: £1.2 million) has been made from the Capital Reserve realised to the Special reserve. A transfer of £1.6 million representing realised gains on disposal of investments, less capital expenses and capital dividends in the year (2015: £2.1 million) has been made from Capital Reserves – realised to Special reserve.

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET
as at 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Investments	9	65,445	69,195
Current assets			
Debtors	10	292	592
Cash at bank and in hand		26,713	10,857
		27,005	11,449
Creditors: amounts falling due within one year	11	(342)	(727)
Net current assets		26,663	10,722
Net assets		92,108	79,917
Capital and reserves			
Called up share capital	12	932	798
Capital redemption reserve	13	1,525	1,500
Share premium account	13	2,792	69,714
Funds held in respect of shares not yet allotted	13	4,423	2,593
Special reserve	13	86,483	7,523
Capital reserve – realised	13	-	-
Revaluation reserve	13	(4,680)	(2,805)
Revenue reserve	13	633	594
Total equity shareholders' funds	14	92,108	79,917
Basic and diluted net asset value per share	14	94.1p	96.9p

The financial statements on pages 34 to 50 were approved and authorised for issue by the Board of Directors on 11 July 2016 and were signed on its behalf by

Chris Kay
Chairman
Company number: 3150868

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT
for the year ended 31 March 2016

	2016 £'000	2015 £'000
Cash flow from operating activities		
Profit on ordinary activities before taxation	2,592	2,002
Gains on investments	(2,242)	(1,410)
Decrease/(Increase) in debtors	300	(185)
Decrease in creditors	(385)	(29)
Cash from operations		
Corporation tax paid	-	(199)
Net cash generated from operating activities	265	179
Cash flow from investing activities		
Purchase of investments	(21,456)	(5,620)
Proceeds from disposal of investments	27,448	5,660
Acquisition costs	-	(244)
Net cash inflow/(outflow) from investing activities	5,992	(204)
Cash flows from financing activities		
Proceeds from share issue	15,352	6,757
Funds held in respect of shares not yet allotted	1,831	2,593
Share issue costs	(296)	(156)
Purchase of own shares	(2,262)	(3,241)
Equity dividends paid	(5,026)	(3,054)
Net cash inflow from financing activities	9,599	2,899
Increase in cash	15,856	2,874

	2016 £'000	2015 £'000
Net increase in cash		
Beginning of year	10,857	7,983
Net cash inflow	15,856	2,874
End of year	26,713	10,857

The accompanying notes form an integral part of these financial statements.

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

1. Accounting policies

Basis of accounting
The Company has prepared its financial statements in accordance with the Financial Reporting Standard 102 ("FRS102") and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" revised November 2014 ("SORP").

This is the first period in which the financial statements have been prepared under FRS102, however, it has not been necessary to restate comparatives as the treatment previously applied is consistent with the requirements of FRS102. As a result, there are no reconciling differences between the previous financial reporting framework and the current financial reporting framework and the comparative figures represent the position under both current and previous financial reporting frameworks.

The Company implements new Financial Reporting Standards issued by the Financial Reporting Council when required.

Presentation of income statement
In order to better reflect the activities of a Venture Capital Trust and in accordance with guidance issued by the Association of Investment Companies ("AIC"), supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. The net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Part 6 of the Income Tax Act 2007.

Investments
Venture capital investments are designated as "fair value through profit or loss" assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, with a view to selling after a period of time, in accordance with the Company's documented investment policy.

Judgements in applying accounting policies and key sources of estimation uncertainty
Of the Company's assets measured at fair value, it is possible to determine their fair values within a reasonable range of estimates. The fair value of an investment upon acquisition is deemed to be cost. Thereafter, investments are measured at fair value in accordance with FRS 102 sections 11 and 12 together with the International Private Equity and Venture Capital Valuation Guidelines ("IPEV").

Investments quoted on recognised stock markets are measured using bid prices.

The valuation methodologies for unlisted instruments (comprising equity and loan notes) used by the IPEV to ascertain the fair value of an investment are as follows:
- Price of recent investment;
- Multiples;
- Net assets;
- Discounted cash flows or earnings (of the underlying business);
- Discounted cash flows (from the investment); and
- Industry valuation benchmarks.

The methodology applied takes account of the nature, facts and circumstances of the individual investment and uses reasonable data, market inputs, assumptions and estimates in order to ascertain fair value.

Where an investee company has gone into receivership, liquidation, or administration where there is little likelihood of a recovery, the loss on the investment, although not physically disposed of, is treated as being realised.

Gains and losses arising from changes in fair value are included in the income statement as a capital item.

It is not the Company's policy to exercise significant influence or joint control over investee companies. Therefore the results of these companies are not incorporated into the Income Statement except to the extent of any income accrued. This is in accordance with the SORP and FRS102 sections 14 and 15 that do not require portfolio investments to be accounted for using the equity method of accounting.

1. **Accounting policies (continued)**

Judgements in applying accounting policies and key sources of estimation uncertainty (continued)
In respect of disclosures required by the SORP for the 10 largest investments held by the Company, the most recent publicly available accounts information, either as filed at Companies House, or announced to the London Stock Exchange, is disclosed. In the case of unlisted investments, this may be abbreviated information only.

Income
Dividend income from investments is recognised when the Shareholders' right to receive payment has been established, normally the ex-dividend date.

Loan stock interest is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable and only where there is reasonable certainty of collection.

Expenses
All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the income statement, all expenses have been presented as revenue items except as follows:

- Expenses which are incidental to the acquisition of an investment are deducted from the Capital Account.
- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Investment management fees are allocated 50% to revenue and 50% to capital, in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company.

Taxation
The tax effects on different items in the Income Statement are allocated between capital and revenue on the same basis as the particular item to which they relate using the Company's effective rate of tax for the accounting period.

Due to the Company's status as a Venture Capital Trust and the continued intention to meet the conditions required to comply with Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments.

Deferred taxation is not discounted and is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when the obligations or rights crystallise based on tax rates and law enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. Deferred tax assets are only recognised if it is expected that future taxable profits will be available to utilise such assets and are recognised on a non-discounted basis.

Cash and cash equivalents
Cash and cash equivalents include cash in hand and deposits held at call with banks with an original maturity of three months or less.

Other debtors and other creditors
Other debtors (including accrued income) and other creditors are included within the accounts at amortised cost.

Share issue costs
Share issue costs have been deducted from the special reserve account.

Funds held in respect of shares not yet allotted
Cash received in respect of applications for new shares that have not yet been allotted is shown as "Funds held in respect of shares not yet allotted" and recorded on the Balance Sheet.

Segmental reporting
The Company only has one class of business and one market.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 2016

2. Income

	2016 £'000	2015 £'000
Income from investments		
Loan stock interest	2,125	2,117
Dividend income	495	426
	2,620	2,543
Other income		
Other income	53	48
Deposit interest	117	68
	2,790	2,659

3. Investment management fees

	2016 £'000	2015 £'000
Investment management fees	1,512	1,352

The annual running costs of the Company for the year were subject to a cap of 2.75% of the Company's net assets. The expense cap has not been breached for the year under review (2015: £nil).

4. Other expenses

	2016 £'000	2015 £'000
Administration services	131	121
Directors' remuneration	115	115
Social security costs	12	9
Trail commission	159	164
Auditor's remuneration for statutory audit	30	28
Auditor's remuneration for non-audit services (taxation)	3	3
Legal and professional fees	14	1
Custodian charges	113	114
Registrars fees	56	45
Provision for doubtful income	208	22
Other expenses	87	93
	928	715

5. Directors' remuneration

Key management includes the Directors. Details of remuneration (excluding VAT and employer's NIC) are given in the Directors' Remuneration Report on page 25. The Company had no employees (other than Directors) during the year (2015: none). No other emoluments and pension contributions were paid by the Company to, or on behalf of, any Directors. There were no amounts outstanding at the year end.

6. Tax on ordinary activities

	2016 £'000	2015 £'000
a) Tax charge for the year		
Current year:		
UK Corporation tax (charged to the Revenue Account)	227	213
Tax credited to Capital Account	(227)	(213)
	-	-
b) Factors affecting tax charge for the year		
Profit on ordinary activities before taxation	2,592	2,002
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 20.0% (2015: 21.0%)	518	420
Effects of:		
Gains on investments	(448)	(296)
UK dividend income	(99)	(89)
Disallowable expenses	3	35
Excess management fees carried forward/(utilised) on which deferred tax asset not recognised	26	(70)
	-	-

c) Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £4.4 million (2015: £4.0 million). The associated deferred tax asset has not been recognised due to the fact that it is unlikely that the excess management fees will be set off against future taxable profits in the foreseeable future.

Due to the Company's status as a Venture Capital Trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

7. Dividends

				2016			2015
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Dividends paid in year							
2016 Interim:	3.0p	-	2,711	2,711	-	-	-
2015 Final:	3.0p	840	1,680	2,520	-	-	-
2015 Interim:	2.0p	-	-	-	385	1,157	1,542
2014 Final:	2.0p	-	-	-	378	1,134	1,512
		840	4,391	5,231	763	2,291	3,054
Dividends proposed							
2016 Final:	3.0p (2015: 3.0p)	932	1,865	2,797	798	1,596	2,394

8. Basic and diluted return per share

Return per share based on:	2016 £'000	2015 £'000
Net revenue return for the financial year	879	1,055
Net capital gain for the financial year	1,713	947
Total return for the financial year	2,592	2,002
Weighted average number of shares in issue	85,175,415	76,191,863

As the Company has not issued any convertible securities or share options, there is no dilutive effect on return per share. The return per share disclosed therefore represents both basic and diluted return per share.

9. Investments

	Unquoted investments £'000	Quoted on ISDX Growth Market £'000	Quoted on AIM £'000	Total £'000
Opening cost at 1 April 2015	52,378	71	19,551	72,000
Unrealised (losses)/gains at 1 April 2015	(8,816)	(27)	6,038	(2,805)
Opening fair value at 1 April 2015	43,562	44	25,589	69,195
Movement in the year:				
Purchased at cost	15,073	-	6,383	21,456
Disposal proceeds	(18,185)	(18)	(9,245)	(27,448)
Realised gains in the income statement	2,674	4	661	3,339
Unrealised gains/(losses) in the income statement	(1,430)	-	333	(1,097)
Closing fair value at 31 March 2016	41,694	30	23,721	65,445
Closing cost at 31 March 2016	50,819	48	19,259	70,126
Unrealised (losses)/gains at 31 March 2016	(9,125)	(18)	4,462	(4,681)
Closing fair value at 31 March 2016	41,694	30	23,721	65,445

A schedule disclosing the additions and disposals during the year and other information on investments can be found within the Review of Investments on pages 12 to 13.

The Company has categorised its financial instruments using the fair value hierarchy as follows:

Level a — Reflects financial instruments quoted in an active market (quoted companies and fixed interest bonds);
Level b — Reflects financial instruments that have prices that are observable either directly or indirectly; and
Level c — i) Reflects financial instruments that use valuation techniques that are based on observable market data.
ii) Reflects financial instruments that use valuation techniques that are not based on observable market data (investments in unquoted shares and loan note investments).

9. Investments (continued)

	Level a £'000	Level b £'000	Level c(ii) £'000	2016 £'000	Level a £'000	Level b £'000	Level c(ii) £'000	2015 £'000
Quoted on AIM	23,721	-	-	23,721	25,589	-	-	25,589
Quoted on ISDX	30	-	-	30	44	-	-	44
Loan notes	-	-	24,489	24,489	-	-	27,870	27,870
Unquoted	-	-	17,205	17,205	-	-	15,692	15,692
	23,751	-	41,694	65,445	25,633	-	43,562	69,195

Reconciliation of fair value for Level c financial instruments held at the year-end:

	Unquoted shares £'000	Loan notes £'000	Total £'000
Balance at 31 March 2015	15,692	27,870	43,562
Movements in the income statement:			
Unrealised losses in the income statement	(204)	(1,226)	(1,430)
Realised gains/(losses) in the income statement	1,684	990	2,674
	1,480	(236)	1,244
Purchases at cost	5,507	9,566	15,073
Disposal proceeds	(5,474)	(12,711)	(18,185)
Balance at 31 March 2016	17,205	24,489	41,694

Changing one or more of the inputs to reasonable possible alternative valuation assumptions could result in a significant change in the fair value of the Level c (ii) investments. There is an element of judgement in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the Company's investments.

The Board and the Investment Manager believe that the valuations as at 31 March 2016 reflect the most appropriate assumptions at that date, giving due regard to all information available from each investee company. Valuations are subject to fluctuations in market conditions and the sensitivity of the Company to such changes is shown within note 15.

10. Debtors

	2016 £'000	2015 £'000
Other debtors	14	-
Income tax recoverable	3	3
Prepayments and accrued income	275	589
	292	592

11. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Taxation and social security	17	14
Trade creditors	-	1
Other creditors	69	58
Accruals and deferred income	256	654
	342	727

12. Called up share capital

	2016 £'000	2015 £'000
Issued, allotted, called up and fully paid:		
93,220,222 (2015: 79,798,496) Ordinary Shares of 1p each	932	798

The Company allotted 6,565,068 Ordinary Shares of 1p each at an average price of 96.6p per Ordinary Share under the terms of the Offers for Subscription, dated 12 December 2014.

The Company allotted 9,110,851 Ordinary Shares of 1p each at an average price of 98.9p per Ordinary Share under the terms of the offers up for subscription dated 14 December 2015.

Under the terms of the Company's Dividend Reinvestment option, the Company allotted 216,777 Ordinary Shares of 1p each at an average price of 94.7p, to subscribing shareholders in respect of the dividends paid on the 7 August 2015 and 26 February 2016 respectively.

During the year, the Company repurchased 2,470,970 Ordinary Shares of 1p each for average consideration of 91.1p per share, representing 2.7% of those shares authorised to be repurchased. These shares were subsequently cancelled.

Management of capital
The Company's capital is managed in accordance with its investment policy, as shown in the Strategic Report on pages 19 to 20, in pursuit of its principal investment objectives as stated on page 2. The Company has the authority to buy back shares as described in the Corporate Governance Statement on page 27.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide an adequate return to Shareholders by allocating its capital to assets commensurately with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (as measured under the tax legislation) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed. The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

Although, as the Investment Policy implies, the Board would consider levels of gearing, there are no current plans to do so. It regards the net assets of the Company as the Company's capital, as the levels of liabilities are small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous year.

There is a single class of Ordinary Shares. There are no restrictions on the distribution of dividends and the repayment of capital.

13. Reserves

	2016 £'000	2015 £'000
Capital redemption reserve	1,525	1,500
Share premium account	2,792	69,714
Funds held in respect of shares not yet allotted	4,423	2,593
Special reserve	86,483	7,523
Capital reserve – realised	-	-
Revaluation reserve	(4,680)	(2,805)
Revenue reserve	633	594
	91,108	79,119

Distributable reserves are calculated as follows:

	2016 £'000	2015 £'000
Special reserve	86,483	7,523
Revenue reserve	633	594
Unrealised losses (excluding unrealised unquoted gains)	(7,214)	(5,396)
	79,902	2,721

Capital redemption reserve
This reserve accounts for amounts by which the issued share capital is diminished through the repurchase and cancellation of the Company's own shares.

Share premium account
This reserve accounts for the difference between the price paid for shares and the nominal value of the shares, less issue costs and transfers to the other distributable reserves.

Special reserve
The Special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay capital distributions.

Capital reserve - realised
The following are disclosed in this reserve:
• gains and losses compared to cost on the realisation of investments;
• expenses, together with the related taxation effect, charged in accordance with the above accounting policies; and
• dividends paid to equity holders.

Revaluation reserve
Increases and decreases in the valuation of investments held at the year end against cost are included in this reserve.

Revenue reserve
This reserve accounts for movements from the revenue column of the Income statement, the payment of dividends and other non-capital realised movements.

14. Basic and diluted net asset value per share

	Shares in issue	Net assets £'000	NAV per share pence
As at 31 March 2016			
Ordinary Shares	93,220,222	87,685	94.1
Funds held in respect of shares not yet allotted		4,423	
		92,108	
As at 31 March 2015			
Ordinary Shares	79,798,496	77,324	96.9
Funds held in respect of shares not yet allotted		2,593	
		79,917	

As the Company has not issued any convertible securities or share options, there is no dilutive effect on net asset value per class of share in issue. The net asset value per share disclosed therefore represents both basic and diluted net asset value per class of share in issue.

15. Financial instruments

The Company's financial instruments comprise investments held at fair value through profit and loss, being equity and loan stock investments in quoted companies and unquoted companies, loans and receivables, being cash deposits and short term debtors, and financial liabilities, being creditors arising from its operations. The main purpose of these financial instruments is to generate cashflows, revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors and does not use any derivatives.

The fair value of investments is determined using the detailed accounting policy as shown in note 1. The composition of the investments is set out in note 9. The fair value of cash deposits and short-term debtors and creditors equates to their carrying value in the balance sheet.

The Company's investment activities expose the Company to a number of risks associated with financial instruments and the sectors in which the Company invests. The principal financial risks arising from the Company's operations are:

- Investment risks;
- Credit risk; and
- Liquidity risk.

The Board regularly reviews these risks and the policies in place for managing them. There have been no significant changes to the nature of the risks that the Company is exposed to over the year and there have also been no significant changes to the policies for managing those risks during the year.

The risk management policies used by the Company in respect of the principal financial risks and a review of the financial instruments held at the year-end are provided below:

15. Financial instruments (continued)

Market risks

As a VCT, the Company is exposed to investment risks in the form of potential losses and gains that may arise on the investments it holds in accordance with its investment policy. The management of these investment risks is a fundamental part of the investment activities undertaken by the Investment Adviser and overseen by the Board. The Investment Adviser monitors investments through regular contact with management of investee companies, regular review of management accounts and other financial information and attendance at investee company board meetings. This enables the Investment Adviser to manage the investment risk in respect of individual investments. Investment risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

The key investment risks to which the Company is exposed are:

- Investment price risk; and
- Interest rate risk.

The Company has undertaken sensitivity analysis on its financial instruments, split into the relevant component parts, taking into consideration the economic climate at the time of review in order to ascertain the appropriate risk allocation.

Investment price risk

Investment price risk arises from uncertainty about the future prices and valuations of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through investment price movements in respect of quoted investments and also changes in the fair value of unquoted investments that it holds.

Quoted investments

The Company's sensitivity to fluctuations in the share prices of its quoted investments, excluding fixed interest bonds, is summarised below. A 25% movement in the share price in each of the quoted stocks held by the Company which is considered to be a reasonable maximum movement in a year would have an effect as follows:

Sensitivity			**2016** 25% movement			**2015** 25% movement
	Risk exposure £'000	**Impact on net assets/ return £'000**	**Impact on NAV per share Pence**	**Risk exposure £'000**	**Impact on net assets/ return £'000**	**Impact on NAV per share Pence**
Quoted shares	23,751	5,938	6.4	25,633	6,408	8.0

Unquoted investments

As many of the Company's unquoted investments are valued using revenue or earnings multiples of comparable companies or sectors, a change in the relevant market sectors could impact on the valuation of the equity investments held in the unquoted portfolio. As unquoted investments are typically structured as partly equity and partly loan notes, investment price risk of the unquoted investments is considered as a whole. A 10% movement in the price of these investments is considered to be a reasonable maximum level in a year and would have an effect as follows:

Sensitivity			**2016** 10% movement			**2015** 10% movement
	Risk exposure £'000	**Impact on net assets/ return £'000**	**Impact on NAV per share Pence**	**Risk exposure £'000**	**Impact on net assets/ return £'000**	**Impact on NAV per share Pence**
Unquoted investments	41,694	4,169	4.5	43,562	4,356	5.5

15. Financial instruments (continued)

Interest risk

The Company accepts exposure to interest rate risk on floating-rate financial assets through the effect of changes in prevailing interest rates. The Company receives interest on its cash deposits at a rate agreed with its bankers. Investments in loan stock and fixed interest securities attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

Interest rate profile of financial assets and financial liabilities

There are three levels of interest which are attributable to the financial instruments as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise fixed interest and loan note investments.
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate and comprise cash at bank.
- "No interest rate" assets do not attract interest and comprise equity investments, non-interest bearing convertible loan notes, loans and receivables (excluding cash at bank) and other financial liabilities.

Interest rate risk profile of financial assets and financial liabilities

	Weighted average interest rate	**Weighted average period until maturity**	**2016 £'000**	**2015 £'000**
Fixed rate	4.7%	772 days	22,123	25,804
Floating rate	0.5%		26,713	10,857
No interest rate		348 days*	43,883	43,226
			92,719	79,887

* In respect of non-interest bearing loan notes only

The Company monitors the level of income received from fixed, floating and non interest rate assets and, if appropriate, may make adjustments to the allocation between the categories, in particular, should this be required to ensure compliance with the VCT regulations.

The Bank of England base rate stood at 0.5% per annum throughout the year. Any potential change in the base rate, at the current level, would have an immaterial impact on the net assets and total return of the Company.

Credit risk

Credit risk is the risk that counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan stock in investee companies, investments in fixed interest securities, cash deposits and debtors.

The Company's financial assets that are exposed to credit risk are summarised as follows:

	2016 £'000	**2015 £'000**
Fair value through profit or loss assets:		
Investments in loan stocks	24,489	27,870
Loans and receivables:		
Cash and cash equivalents	26,713	10,857
Interest, dividends and other receivables	275	586
	51,477	39,313

15. Financial instruments (continued)

The Investment Adviser manages credit risk in respect of loan notes with a similar approach as described under investment risks above. In addition the credit risk is partially mitigated by registering floating charges over the assets of certain investee companies. The strength of this security in each case is dependent on the nature of the investee company's business and its identifiable assets. The level of security is a key means of managing credit risk. Similarly, the management of credit risk associated with interest, dividends and other receivables is covered within the investment management procedures referred to on page 46.

Cash is mainly held at Royal Bank of Scotland plc, with a balance also maintained at Bank of Scotland plc, both of which are A-rated financial institutions and ultimately part-owned by the UK Government. Consequently, the Directors consider that the credit risk associated with cash deposits is low.

There have been no changes in fair value during the year that can be directly attributable to changes in credit risk.

As at 31 March 2016 of the loan stock classified as "past due" below, £7,585,000 relates to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is in arrears. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

As at 31 March 2016 of the loan stock classified as "past due" below, £2,605,000 relates to the principal of loan notes where the principal has passed its maturity date. As at the balance sheet date, the extent to which the principal is past its maturity date, £2.1 million falls within the banding of nil to 2 years past due and £0.5 million is 3 to 4 years past due. Notwithstanding this information, the Directors do not consider the loan notes to be impaired at the current time or that maturity dates of the principals have altered.

As at 31 March 2015 of the loan stock classified as "past due" below, £10,629,000 relates to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is in arrears. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

As at 31 March 2015 of the loan stock classified as "past due" below, £2,398,000 relates to the principal of loan notes where the principal has passed its maturity date. As at the balance sheet date, the extent to which the principal is past its maturity date, falls within the banding of nil to 3 years past due. Notwithstanding this information, the Directors do not consider the loan notes to be impaired at the current time or that maturity dates of the principals have altered.

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. The Company only normally ever has a relatively low level of creditors (2016: £342,000, 2015: £727,000) and has no borrowings. Also most quoted investments held by the Company are considered to be readily realisable. The Company always holds sufficient levels of funds as cash and readily realisable investments in order to meet expenses and other cash outflows as they arise. For these reasons the Board believes that the Company's exposure to liquidity risk is minimal.

The Company's liquidity risk is managed by the Investment Adviser in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

15. Financial instruments (continued)

The carrying value of loan stock investments held at fair value through the profit and loss account at 31 March 2016, as analysed by expected maturity date, is as follows:

As at 31 March 2016	**Not later than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 3 years £'000**	**Between 3 and 5 years £'000**	**Over 5 Years £'000**	**Passed maturity date £'000**	**Total £'000**
Fully performing loan stock	961	5,229	40	4,090	1,400	5,184	16,904
Past due loan stock	880	1,035	370	2,695	-	2,605	7,585
	1,841	6,264	410	6,785	1,400	7,789	24,489

As at 31 March 2015	**Not later than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 3 years £'000**	**Between 3 and 5 years £'000**	**Over 5 Years £'000**	**Passed maturity date £'000**	**Total £'000**
Fully performing loan stock	4,591	6,618	1,851	1,277	-	2,904	17,241
Past due loan stock	3,113	696	1,358	3,064	-	2,398	10,629
	7,704	7,314	3,209	4,341	-	5,302	27,870

16. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments of the Company at the year-end (2015: nil).

17. Controlling party

In the opinion of the Directors, there is no ultimate controlling party.

UNAUDITED PERFORMANCE SUMMARY FOR VARIOUS INVESTOR GROUPS

The Company undertook a merger with five other VCTs followed by a share reorganisation on 12 November 2013. Full details, including share conversion ratios, can be found on Downing's website, www.downing.co.uk.

The figures in the table below show the performance of the various groups of investors who make up the Company's current shareholder base and grouped by the VCTs that participated in the merger in November 2013.

Share issue	Year of launch	Initial income tax relief	Equivalent dividends received	Equivalent NAV	Gain/(loss) (ignoring income tax relief)	Gain/(loss) (after initial income tax relief) (note 1)	Gain/(loss) (after initial and SRRP tax relief) (note 2)
	(pence)	(%)	(pence)	(pence)	(%)	(%)	(%)
Downing ONE VCT plc ("DDV1")							
AIM Distribution Trust plc	1996	20%	66.7	23.5	-9.9%	12.6%	22.4%
AIM Distribution Trust plc - top up	2005	40%	16.9	23.5	-45.2%	-8.7%	9.0%
Pennine AIM VCT 5 plc	2005	40%	38.9	20.4	-40.6%	-1.1%	10.3%
Pennine AIM VCT 6 plc	2006	40%	40.6	27.2	-32.2%	13.0%	28.1%
Downing Distribution VCT 1 plc - top up	2010	30%	26.1	67.1	-11.1%	26.9%	n/a
Downing Distribution VCT 1 plc - top up	2012	30%	16.1	67.1	6.7%	52.9%	n/a
Downing ONE VCT plc	Feb 2014	30%	12.0	94.1	5.2%	50.7%	n/a
Downing ONE VCT plc	Mar-Jul 2014	30%	10.0	94.1	5.7%	50.9%	n/a
Downing ONE VCT plc	Sep 2014	30%	8.0	94.1	4.9%	49.9%	n/a
Downing ONE VCT plc	Jan 2015	30%	8.0	94.1	5.8%	51.0%	n/a
Downing ONE VCT plc	Mar-May 2015	30%	8.0	94.1	8.0%	54.2%	n/a
Downing ONE VCT plc	Jul-2015	30%	8.0	94.1	5.4%	50.6%	n/a
Downing ONE VCT plc	Sep-Nov-2015	30%	6.0	94.1	6.6%	52.4%	n/a
Downing ONE VCT plc	Feb-2016	30%	3.0	94.1	-1.0%	41.3%	n/a
Downing ONE VCT plc	Mar-Apr 2016	30%	-	94.1	-1.1%	41.3%	n/a
Downing Income VCT 3 plc ("DI3")							
Pennine AIM VCT plc	1996	20%	98.7	30.3	29.1%	61.3%	71.6%
Pennine AIM VCT II plc	1997	20%	59.6	20.2	-20.2%	-0.3%	6.6%
Pennine Downing AIM VCT plc	1998	20%	43.0	26.7	-30.3%	-12.9%	-3.9%
The Ethical AIM VCT plc	1999	20%	26.1	17.2	-56.7%	-45.9%	-40.0%
Pennine Downing AIM VCT 2 plc	2001	20%	36.7	27.2	-36.1%	-20.1%	-10.9%
Pennine AIM VCT plc (C share)	2002	20%	33.1	42.5	-24.3%	-5.4%	9.0%
Pennine AIM VCT plc (D share)	2006	30%	39.3	50.1	-10.6%	27.8%	47.2%
Downing Distribution VCT 2 plc - top up	2010	30%	26.0	86.2	3.5%	47.9%	n/a
Downing Income VCT 3 plc - top up	2013	30%	13.5	86.2	10.0%	57.1%	n/a
Downing Income VCT 3 plc (E share)	2011	30%	17.9	81.9	-0.2%	42.6%	n/a
Downing Income VCT plc ("DI")							
Framlington AIM VCT 2 plc	2005	40%	32.2	33.2	-34.5%	9.1%	24.0%
Downing Income VCT plc	2013	30%	4.2	33.2	8.4%	54.9%	n/a
Downing Income VCT 4 plc ("DI4")							
Framlington AIM VCT plc	2006	40%	38.1	36.4	-25.4%	24.3%	39.7%
Downing Income VCT 4 plc	2013	30%	4.6	36.4	13.7%	62.5%	n/a
Downing Absolute Income VCT 1 plc ("DAI1")							
Downing Healthcare Protected VCT plc	1996	20%	78.5	79.2	57.7%	97.2%	127.2%
Downing Protected VCT 1 plc - top up	2010	30%	21.1	79.2	10.0%	57.2%	n/a
Downing Absolute Income VCT 1 plc - top up	2010	30%	21.1	79.2	9.8%	56.8%	n/a
Downing Absolute Income VCT 1 plc - top up	2012	30%	15.1	79.2	2.1%	45.9%	n/a
Downing Absolute Income VCT 1 plc (C share)	2010	30%	21.0	66.3	-12.7%	24.7%	n/a
Downing Absolute Income VCT 2 plc ("DAI2")							
Downing Absolute Income VCT 2 plc	2010	30%	25.8	64.7	-9.5%	29.3%	n/a

Note 1

Initial income tax relief has been netted off against original cost for the purpose of calculating percentage net gain/loss.

Note 2

Between April 2012 and 2013, a number of VCTs which subsequently merged to form Downing ONE VCT plc offered a Share Realisation and Reinvestment Programme ("SRRP") which allowed Shareholders who had held their shares for more than five years to sell their shares and reinvest the proceeds, receiving additional income tax relief at the rate of 30% on the new issue. The income tax relief obtained on the SRRPs has been treated as additional income for the purpose of calculating percentage net gain/loss.

COMPANY INFORMATION

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Stuart Goldsmith
Andrew Griffiths
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NOTICE OF ANNUAL GENERAL MEETING
OF DOWNING ONE VCT PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Downing ONE VCT plc will be held at **Ergon House, Horseferry Road, London SW1P 2AL** at 10:30 a.m. on 9 August 2016 for the transaction of the following business:

As **Ordinary Business**, to consider and, if thought fit, pass the following resolutions which will be proposed as ***Ordinary Resolutions***:

1. To receive and adopt the Report of the Directors and Accounts of the Company for the year ended 31 March 2016 together with the Independent Auditors' Report thereon.
2. To approve the Directors' Remuneration Report.
3. To approve a final dividend of 3.0p per Ordinary Share.
4. To re-appoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which the accounts of the Company are presented and to authorise the Directors to determine their remuneration.
5. To re-elect as Director, Chris Kay, who retires and, being eligible, offers himself for re-election.
6. To re-elect as Director, Barry Dean, who retires and, being eligible, offers himself for re-election.
7. To re-elect as Director, Stuart Goldsmith, who retires and, being eligible, offers himself for re-election.

As **Special Business**, to consider and, if thought fit, pass the following resolutions:

Ordinary Resolution

8. That, in addition to existing authorities, the Directors of the Company be and hereby are generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 ("CA 2006") to exercise all the powers of the Company to allot and issue shares in the capital of the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £350,000 (representing approximately 37% of the share capital in issue at today's date, provided that the authority conferred by this resolution shall expire on the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution (unless renewed, varied or revoked by the Company in a general meeting) but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted or rights to be granted after such expiry.

Special Resolutions

9. That, the Directors of the Company be and hereby are empowered pursuant to Sections 570(1) of the CA 2006 to allot or make offers to or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 560(1) of the CA 2006) for cash pursuant to the authority given pursuant to resolution 8 above, as if Section 561(1) of the CA 2006 (pre-emption rights) did not apply to such allotment, provided that the power provided by this resolution shall expire on the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution (unless renewed, varied or revoked by the Company in general meeting) but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require equity securities to be allotted after such expiry.

NOTICE OF ANNUAL GENERAL MEETING OF DOWNING ONE VCT PLC (continued)

10. That, the Company be and is hereby generally and unconditionally authorised for the purpose of section 701 of the CA2006 to make one or more market purchases (as defined in section 693(4) of the Act) of shares provided that:
    (a) the maximum number of shares hereby authorised to be purchased is 13,889,813 representing approximately 14.9% of the present issued share capital of the Company;
    (b) the minimum price (exclusive of expenses) which may be paid for such shares is 1p the nominal amount thereof;
    (c) the maximum price (exclusive of expenses) which may be paid for such shares shall be an amount equal to 5 per cent. above the average of the middle market quotations for such class of the Company's shares, as derived from the Daily Official List of the London Stock Exchange, for the five business days immediately preceding the day on which the purchase was made;
    (d) the Company may make a contract to purchase its own shares under this authority prior to the expiry of this authority, and such contract will or may be executed wholly or partly after the expiry of this authority, and the Company may make a purchase of its own shares in pursuance of any such contract;

    and this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution or, if earlier, on the expiry of 15 months from the passing of this resolution.

Ordinary Resolution

11. That, the Company's Investment Policy be amended as set out in the appendix to this notice to be consistent with the new VCT rules.

By order of the Board

GWhitehouse

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

11 July 2016

Note:
Information regarding the Annual General Meeting, including the information required by section 311A of the CA2006, is available from www.downing.co.uk.

Appendix

Resolution 11

The amendments to the Company's Investment Policy proposed as Resolution 11 are as shown on the following mark-up from the existing policy to the proposed policy:

Asset allocation
The Company will seek to maintain a minimum of 70% of its funds invested in VCT qualifying investments, with the balance held in non-qualifying investments. New funds raised will initially be held in non-qualifying investments and cash and will gradually be invested in VCT qualifying investments over a two to three year period.

VCT qualifying investments
The Company seeks to hold a portfolio of VCT qualifying investments as follows:

Investment type	Target	Maximum	Target IRR
Growth	25%-50%	100%	15%
Income focused	50%-75%	100%	10%

Growth investments will be in companies with prospects for high capital growth companies and may include companies quoted on AIM or the ISDX Growth market as well as unquoted companies.

~~**Growth investments** will be in companies with prospects for high capital growth, reflecting higher risk, predominantly focusing on:~~

- ~~investments in unquoted companies where there are reasonable prospects of a trade sale or clear exit strategy over a five to seven year time horizon and the prospects of a reasonable level of capital growth. Start-ups will not generally be considered although the fund may consider investments in early stage companies (up to a maximum, in aggregate, of 5% of the fund) offering higher risk and higher potential returns.~~
- ~~companies already quoted on AIM, or the ISDX Growth market, or being admitted to AIM or the ISDX Growth market.~~

Income focused investments will generally be in unquoted businesses (although this may include some quoted businesses), with a preference for companies which own substantial assets ~~or have predictable revenue streams~~. These investments are likely to be structured such that they comprise significant levels of secured loan stock and/or preference shares, ~~equating to no more than 70%-95% of the value of each business's assets. New investments will usually have limited or no external third party debt~~ subject to the applicable VCT rules.

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

VCT Qualifying investments made after November 2015 will comply with new VCT regulations which introduced new restrictions including that such investments will, in most cases, be in businesses that are less than 7 years old and funds invested will not be used by the business to make an acquisition.

Non-qualifying investments
The funds not employed in VCT qualifying investments (20% to 30% of total funds) may be invested in a variety of investments which may include:

Non qualifying investments invested after 5 April 2016 will only be made in the following categories:

- Shares or units in an AIF (alternative investment fund) e.g. an investment trust or in a UCITS (undertakings for the collective investment in transferable securities) e.g. an OEIC which may be repurchased or redeemed by the investor on no more than 7 days' notice.
- Ordinary shares or securities in a company which are acquired on a European regulated market e.g. in companies with shares listed on the main market of the London Stock Exchange.

Appendix (continued)

The existing non-qualifying portfolio includes investments made before 5 April 2016 within the following categories:

- ~~**Fixed income securities** consisting of bonds issued by the UK Government, major companies and institutions, liquidity funds, fixed deposits, structured products with some level of capital protection and/or designed to deliver a fixed return or similar securities and will have counterparty credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated)~~
- Non-qualifying listed which are ~~will typically be~~ in quoted companies where the holdings can be traded and in companies in which the Investment Adviser has detailed knowledge as a result of VCT qualifying investments made previously;
- ~~**Pooled funds** including those typically invested in equities, bonds and property~~
- Secured loans which are ~~will be~~ secured on assets held by the borrower ~~and which, for investments made on or after 18 November 2015, the borrower will be subject to size and age restrictions in accordance with.~~
- Non qualifying unquoted investments which will generally not exceed 5% of the overall fund ~~and, for investments made on or after 18 November 2015, the investee will be subject to size and age restrictions in accordance with the VCT regulations~~.

In addition to the above, the Company may hold non-qualifying funds in cash or bank deposits, which fall within the VCT rules ~~regulations~~.

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

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

Further investment restrictions:

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.

~~The Company will be managed so as to maintain its VCT status by satisfying a number of tests set out in Part 6 of the Income Tax Act 2007.~~

Borrowing limits
It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a sum equal to no more than 10% of the aggregate of the nominal capital of the Company (being issued and paid up) plus the amounts standing to the credit of the consolidated reserves of the Company.

Notes

(a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the CA2006, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:

- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

(b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, Ergon House, Horseferry Road, London SW1P 2AL or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.

(c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:

- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, Ergon House, Horseferry Road, London SW1P 2AL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
- by sending an e-mail to proxy@downing.co.uk.

In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.

(d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.

(e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Ordinary Shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

(f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 10:30 a.m. on 5 August 2016 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 10:30 a.m. on 5 August 2016 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

(g) As at 9:00 a.m. on 11 July 2016, the Company's issued share capital comprised 99,578,619 Ordinary Shares and the total number of voting rights in the Company was 99,578,619. The Company website, www.downing.co.uk will include information on the number of shares and voting rights.

(h) If you are a person who has been nominated under section 146 of the CA2006 to enjoy information rights ("Nominated Person"):

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

(i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

(j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

(k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.

(l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

DOWNING ONE VCT PLC
FORM OF PROXY

For use at the Annual General Meeting of the above named Company to be held on 9 August 2016 at Ergon House, Horseferry Road, London SW1P 2AL at 10:30 a.m.

I/We*…… (in BLOCK CAPITALS please)

of ……
being the holder(s)* of Ordinary Shares of 1p each in the above-named Company, hereby appoint the Chairman of the meeting (see note 1)

or ……

of ……
as my/our* proxy to attend for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held at Ergon House, Horseferry Road, London SW1P 2AL on 9 August 2016 or at any adjournment thereof.

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

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

ORDINARY BUSINESS	**FOR**	**AGAINST**	**WITHHELD**
1. To receive and adopt the Report of the Directors and Accounts.			
2. To approve the Directors' Remuneration Report.			
3. To approve the payment of a final dividend of 3.0p per Ordinary Share.			
4. To re-appoint the Auditor and authorise the Directors to determine their remuneration.			
5. To re-elect Chris Kay as a Director.			
6. To re-elect Barry Dean as a Director.			
7. To re-elect Stuart Goldsmith as a Director.			
SPECIAL BUSINESS			
8. To authorise the Directors to allot shares.			
9. To authorise the Directors to disapply pre-emption rights.			
10. To authorise the Company to make market purchases of its shares.			
11. To amend the Company's Investment Policy			

Signature(s)*…………………………………………………………………………… Date……………………………2016
* Delete as appropriate

PLEASE RETURN TO DOWNING LLP IN THE PRE-PAID ENVELOPE PROVIDED

NOTES AND INSTRUCTIONS:

1. Any member of the Company entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Meeting in order to represent his appointer. A member entitled to attend and vote at the Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.

2. Delete “the Chairman of the meeting” if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.

3. Any alterations to the Form of Proxy should be initialled.

4. To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, Ergon House, Horseferry Road, London SW1P 2AL or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.

5. In the case of a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised on that behalf.

6. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.

7. The completion and return of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting should you subsequently decide to do so. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.

8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

Downing

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