

Downing THREE VCT plc

Report & Accounts
for the year ended
31 December 2014



SHAREHOLDER INFORMATION

Share prices

The Company's share prices can be found in various financial websites with the TIDM/EPIC codes shown below (pence per share):

	'C' Shares	'D' Shares	'F' Shares	'H' Shares
TIDM/EPIC code:	DP3C	DP3D	DP3F	DP3H
Latest share price (21 April 2015):	20.0p	57.0p	75.0p	95.0p
	'A' Shares	'E' Shares		
TIDM/EPIC code:	DP3A	DP3E		
Latest share price (28 April 2014):	7.5p	0.1p		

Dividends

Dividends will be 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. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's registrar, Capita Registrars, by calling 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. Mandate forms can be downloaded from Capita's website (see below).

Selling shares

The Company's shares can be bought and sold in the same way as any other company listed on the London Stock Exchange, using a stockbroker. Disposing of shares may have tax implications, so Shareholders are urged to contact their independent financial adviser before making a decision.

Share certificates

Share certificates issued in the Company's previous names, "Downing Protected VCT III plc" and "Downing Planned Exit VCT 3 plc", remain valid.

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.

Financial calendar

16 June 2015	Annual General Meeting
19 June 2015	Final dividends paid
August 2015	Announcement of half yearly financial results

Other information for Shareholders

Up to date Company information (including financial statements, share prices 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 THREE VCT plc, please contact the registrar on the above number or visit Capita's website at www.capitaassetservices.com and click on "Shareholders and employees".

Share scam warning

We have become aware that a significant number of shareholders of VCTs managed by both Downing and other VCT managers 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.

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COMPANY INFORMATION

Registered number	5334413
Directors	Michael Robinson (Chairman) Roger Jeynes Dennis Hale
Company secretary and registered office	Grant Whitehouse Ergon House Horseferry Road London SW1P 2AL
Investment and Administration Manager	Downing Managers 3 Limited Ergon House Horseferry Road London SW1P 2AL Tel: 020 7416 7780 www.downing.co.uk
Auditor	BDO LLP 55 Baker Street London W1U 7EU
VCT status advisers	Robertson Hare LLP Suite C – First Floor 4-6 Staple Inn London WC1V 7QH
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday) www.capitaassetservices.com
Bankers	Bank of Scotland 33 Old Broad Street London BX2 1LB Royal Bank of Scotland London Victoria Branch 119/121 Victoria Street London SW1E 6RA

INVESTMENT OBJECTIVES

Downing THREE VCT plc is a venture capital trust established under the legislation introduced in the Finance Act 1995. The Company's principal objectives are to:

- maintain VCT status to enable Shareholders to benefit from tax reliefs available on an investment in a VCT;
- reduce the risks normally associated with VCT investments;
- target a tax-free return to investors of at least 9% per annum (based on a cost of 70p per share net of income tax relief) over the life of the shares (expected to be approximately six years); and
- target an annual dividend of at least 5.0p per share.

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on page 37.

FINANCIAL HIGHLIGHTS

	31 Dec 2014 Pence	31 Dec 2013 Pence
'C' Share pool		
Net asset value per 'C' Share	98.2	90.7
Net asset value per 'A' Share	0.1	0.1
Cumulative distributions per 'C' Share	<u>25.0</u>	<u>22.5</u>
Total return per 'C' Share and 'A' Share	<u><u>123.3</u></u>	<u><u>113.3</u></u>
'D' Share pool		
Net asset value per 'D' Share	71.3	76.9
Net asset value per 'E' Share	0.1	0.1
Cumulative distributions per 'D' Share	<u>22.5</u>	<u>17.5</u>
Total return per 'D' Share and 'E' Share	<u><u>93.9</u></u>	<u><u>94.5</u></u>
'F' Share pool		
Net asset value per 'F' Share	75.5	79.9
Cumulative distributions per 'F' Share	<u>15.0</u>	<u>10.0</u>
Total return per 'F' Share	<u><u>90.5</u></u>	<u><u>89.9</u></u>
'H' Share pool		
Net asset value per 'H' Share	94.7	-
Cumulative distribution per 'H' Share	<u>5.0</u>	<u>-</u>
Total return per 'H' Share	<u><u>99.7</u></u>	<u><u>-</u></u>

Proposed dividends

'C' Shares – proposed Final period to Dec 2014	Paid 20 March 2015	50.0p
'F' Shares – proposed Final period to Dec 2014	Payable 19 June 2015	2.5p
'H' Shares – proposed Final period to Dec 2014	Payable 19 June 2015	2.5p

FINANCIAL HIGHLIGHTS (continued)

Dividend history

Year end	Date paid	'C' Shares Pence per share	'D' Shares Pence per share	'F' Shares Pence per share	'H' Shares Pence per share
Final 2010	30 July 2010	5.0	-	-	-
Interim 2011	26 November 2010	-	2.5	-	-
Final 2011	15 July 2011	5.0	2.5	-	-
Interim 2012	25 November 2011	2.5	2.5	-	-
Final 2012	27 July 2012	2.5	2.5	-	-
Interim Jan 2013	30 November 2012	2.5	2.5	5.0	-
Final Jan 2013	19 July 2013	2.5	2.5	2.5	-
Interim Dec 2013	27 November 2013	2.5	2.5	2.5	-
Final Jan 2014	23 June 2014	2.5	2.5	2.5	-
Interim Dec 2014	9 December 2014	-	2.5	2.5	5.0
		<u>25.0</u>	<u>22.5</u>	<u>15.0</u>	<u>5.0</u>

DIRECTORS

Michael Robinson (Chairman) has over 25 years' experience in the private equity industry. He spent 25 years at 3i plc, where he was latterly a director managing a large portfolio of equity investments. He qualified as a chartered accountant with Deloitte Haskins & Sells in 1979 and is non-executive chairman of Limbs and Things Limited.

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

Roger Jeynes is Chairman of AIM-listed Zoo Digital Group plc, Professor of Management Practice in the Lord Ashcroft International Business School of Anglia Ruskin University, and a Director of mxData Limited, Keycom plc and Charborough Capital Limited. He was formerly Chief Operating Officer of Interregnum plc and his early career included a number of senior technical, marketing and general management roles for IBM, EMC and Pyramid Technology.

All the Directors are non-executive and are considered to be independent of the Investment Manager.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the Annual Report for the year ended 31 December 2014. The Company now has five share pools each of which are in different phases of their expected life. The Manager has continued to invest funds for those pools that are still in their initial investment phase and has made good progress in working towards realisations in the pools which are nearing their target exit date.

I welcome new Shareholders to the Company who invested in the current 'J' Share fundraising. As the first 'J' Shares were allotted after the year end, there is limited coverage of the 'J' Share class in this report. The Half Yearly Report to 30 June 2015 will cover the initial investment activities of the 'J' Share class.

A brief summary of each of the other share pools is provided below. More detailed reviews are provided in the Investment Manager's Report and Review of Investments on pages 6 to 35.

'C' Share pool

The Company's 'C' Shares were originally issued in 2008 and 2009. The 'C' Share pool was fully invested at the year end and held a portfolio of 21 investments with a total value of £6.6 million.

At 31 December 2014, the Net Asset Value ("NAV") of a combined holding of one 'C' Share and one 'A' Share stood at 98.3p, which represents an increase of 11.0% over the year after adjusting for the dividends of 2.5p per share paid in the year. Dividends paid to date total 25.0p. Assuming that certain targets are met (as set out in more detail within the Strategic Report on page 38), it is estimated that a performance incentive fee will become payable equivalent to approximately 7.0p per 'C' Share. After providing for the estimated performance fee, Total Return (NAV plus cumulative dividends paid to date) is now estimated to be 116.3p, compared to the initial cost, net of income tax relief of 70.0p.

Since the year end, realisations from Atlantic Dogstar, East Dulwich Tavern and Westow House have been achieved, generating proceeds of £2.9 million. As 'C' Shareholders will be aware, the Company has used these funds to pay a special dividend of 50.0p per 'C' Share. Work is ongoing on further realisations and the Manager hopes to be in a position to distribute the remaining funds to 'C' Shareholders in the second half of this year.

'D' Share pool

The 'D' Shares were originally issued in 2010 and now hold a portfolio of 21 investments with a total value of £7.1 million.

At 31 December 2014, the Net Asset Value ("NAV") of a combined holding of one 'D' Share and one 'E' Share stood at 71.4p, which represents a decrease of 0.8% over the year after adjusting for the dividends of 5.0p per share paid in the year. Dividends paid to date total 22.5p such that Total Return (NAV plus cumulative dividends to date) is now 93.9p, compared to the initial NAV of 94.5p.

The fifth anniversary of the close of the 'D' Share fundraising occurred in April 2015 and so plans are now being advanced for the exit of a number of the share pool's investments. The Manager believes the share pool will be able to make its first major return of capital distribution later this year. In view of the fact that this is imminent, no usual final dividend will be paid this year.

'F' Share pool

The 'F' Share pool was launched in 2012 and completed its initial investment phase this year. At 31 December 2014, the pool held 17 VCT qualifying or partly qualifying investments and a further seven non-qualifying investments, most of which are in the form of secured loans.

At 31 December 2014, the 'F' Share NAV stood at 75.5p, which represents an increase of 0.8% over the year after adjusting for the dividends of 5.0p per share paid in the year. Dividends paid to date total 15.0p such that Total Return (NAV plus cumulative dividends to date) is now 90.5p, compared to the initial NAV of 94.5p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'F' Share on 19 June 2015 to Shareholders on the register at the close of business on 22 May 2015.

'H' Share pool

The 'H' Share pool was launched in 2014 and it is still in its initial investment phase. At 31 December 2014, the pool held seven non-qualifying investments, most of which are secured loans.

At 31 December 2014, the 'H' Share NAV stood at 94.7p. Total Return (NAV plus cumulative dividends to date) is now 99.7p, compared to the initial NAV of 100.0p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'H' Share on 19 June 2015 to Shareholders on the register at the close of business on 22 May 2015.

CHAIRMAN'S STATEMENT (continued)

Share buybacks

The Company operates a general policy of buying in its own shares that are within the initial five year period for cancellation when any become available in the market. The current policy is in respect of the 'F' Shares, 'H' Shares and 'J' Shares. In the initial years after issue any such purchases will be undertaken at a price equal to the latest published NAV (i.e. at nil discount). The Company is now unlikely to make any further purchases of 'C' Shares, 'A' Shares, 'D' Shares or 'E' Shares as the process of returning funds to those Shareholders has already started or is expected to start later this year. All buybacks are subject to regulatory restrictions and other factors such as the availability of liquid funds.

A resolution to renew the authority for the Company to purchase its own shares will be proposed at the forthcoming Annual General Meeting.

Fundraising

The 'H' Share pool fundraising closed during the year having raised a total of £13.6 million. The Company launched the fundraising for the new 'J' Share pool in December 2014 although did not allot any shares before the year end. As at the date of this report, £7.4m had been raised.

Annual General Meeting ("AGM")

The Company's eighth AGM will be held at Ergon House, Horseferry Road, London, SW1P 2AL at 3:05 p.m. on 16 June 2015.

One item of special business will be proposed at the AGM in connection with the authority for the Company to buy back shares as described above.

Outlook

Over the coming year we expect to see the completion of the return of funds to 'C' Shareholders to conclude a good outcome for 'C' Shareholders. We also expect to see a significant proportion of funds returned to 'D' Shareholders and believe that there are some prospects for uplifts in value to be achieved in the exit process.

Investment activity is expected to be limited over the coming year in the 'F' Share pool, which is now fully invested and working towards starting to exit in 2018. We expect to see a significant number of new qualifying investments added to the 'H' Share pool over the year as the process of building the initial investment portfolio is due to complete by the end of the year.

In summary, it is expected to be another busy year for the Manager. The Board remains satisfied generally with progress although there are some investments that require intensive monitoring to ensure that the Company is ultimately able to provide each group of Shareholders with a satisfactory outcome.



Michael Robinson
Chairman

21 April 2015

INVESTMENT MANAGER'S REPORT- 'C' SHARE POOL

Introduction

At the year end, the 'C' Share pool held investments in 21 companies and was fully invested. The process of exiting from the investments is now underway and the first return of capital dividend has now been paid to 'C' Shareholders, funded by the initial realisations.

Net asset value and results

At 31 December 2014, the 'C' Share NAV stood at 98.2p and the 'A' Share NAV at 0.1p, giving a combined NAV of 98.3p. Total Return (NAV plus cumulative dividends to date) was 123.3p for a combined holding of one 'C' and one 'A' Share. This represents a net increase of 10.0p over the period (after adjusting for dividends paid during the period of 2.5p per 'C' Share), equivalent to an increase of 11.0%.

The return on ordinary activities of the 'C' Share pool for the period was £711,000 (2013: £75,000), comprising a revenue profit of £182,000 (2013: £162,000) and a capital gain of £529,000 (2013: loss £87,000).

'C' Share pool - investment activity

In the year, the Company made no new investments and made further investments totalling £650,000 in to Atlantic Dogstar Limited, Westow House Limited and East Dulwich Tavern Limited prior to their exit. Proceeds of £2.9m were received for the three public houses in January 2015.

A repayment of non-qualifying loan was made on Hoole Hall Country Club of £371,000. No other disposals occurred during the period.

'C' Share pool – portfolio valuation

The majority of the investments within the 'C' Share pool performed satisfactorily throughout the year. An unrealised value increase was recognised on the cumulative values of Atlantic Dogstar Limited, Westow House Limited and East Dulwich Tavern Limited in anticipation of their sale. Unfortunately this gain was partially offset by value reductions on two investments resulting in an overall unrealised gain of £530,000.

Atlantic Dogstar Limited owned two pubs in London: The Dogstar in Brixton and The Clapton Hart in Clapton. Westow House Limited owned the Westow House, a pub in Crystal Palace, South London. East Dulwich Tavern Limited owned a London pub of the same name. Proceeds for the three companies of £2.9m were realised in the year against a cost of £1.7m, generating a total gain of £698,000 after the year end.

AEW Pubs No 1 Limited, East Dulwich Pub No 1 Limited and Westow House Pub No 1 were set up to purchase shares previously held by an investment partner who became insolvent. These shares were purchased for £1 and, at exit, these companies were valued at £261,000, £31,000 and £16,000 respectively.

Vermont Developments Limited is in a sales process and a valuation based on expected proceeds less an appropriate discount resulted in a £95,000 increase in value.

Future Biogas (Spring Farm) Limited, the owner and operator of a biogas plant in Norfolk, has not performed in line with initial expectations and while the issues have now been resolved, performance to date is notably below plan. This has resulted in a decrease in the valuation of £254,000.

A small decrease in value of £9,000 was made on Mosaic Spa and Health Clubs Limited in the period.

Outlook

Overall, we are very satisfied with the 'C' Share portfolio and optimistic that further investment realisations will be achieved in a timely manner and at full value. The exit from the three pub companies achieved in January 2015 is a good start and funded the dividend of 50p per 'C' Share paid on 20 March 2015. We hope to be in a position to complete the task of returning funds to 'C' Shareholders during the second half of this year.

Downing Managers 3 Limited

21 April 2015

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2014:

‘C’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying investments and partially qualifying investments				
Atlantic Dogstar Limited	663	1,260	307	17.8%
East Dulwich Tavern Limited	644	734	28	10.4%
Westow House Limited	429	606	54	8.5%
Domestic Solar Limited	500	560	-	7.9%
Future Biogas (Spring Farm) Limited*	697	476	(254)	6.7%
Redmed Limited	350	451	-	6.4%
Quadrate Spa Limited*	363	363	-	5.1%
Quadrate Catering Limited	330	359	-	5.1%
AEW Pubs No 1 Limited	-	261	261	3.7%
The 3D Pub Co Limited	267	227	-	3.2%
Ecossol Limited	250	213	-	3.0%
Mosaic Spa and Health Clubs Limited*	125	96	(9)	1.4%
East Dulwich Pub No 1 Limited	-	31	31	0.4%
Westow House Pub No 1 Limited	-	16	16	0.2%
Chapel Street Food and Beverage Limited	50	13	-	0.2%
Chapel Street Services Limited	50	13	-	0.2%
	<u>4,718</u>	<u>5,679</u>	<u>434</u>	<u>80.2%</u>
Non-qualifying investments				
The Thames Club Limited	500	500	-	7.1%
Hoole Hall Country Club Holdings Limited	210	210	-	3.0%
Vermont Developments Limited	25	120	95	1.7%
Honeycombe Pubs VCT Limited	188	66	-	0.9%
Chapel Street Hotel Limited	2	1	-	0.0%
	<u>925</u>	<u>897</u>	<u>95</u>	<u>12.7%</u>
	<u>5,643</u>	<u>6,576</u>	<u>529</u>	<u>92.9%</u>
Cash at bank and in hand		<u>503</u>		<u>7.1%</u>
Total investments		<u>7,079</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the year and the basis of valuation of the largest investments are set out on pages 8 to 12.

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL (continued)

Summary of investment movements

Additions

	Cost £'000
VCT qualifying investments and partially qualifying investments	
East Dulwich Tavern Limited	300
Atlantic Dogstar Limited	225
Westow House Limited	125
Total ‘C’ Share pool	<u>650</u>

Disposals

	Cost £'000	MV at 01/01/14 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the year £'000
Non-qualifying investments					
Hoole Hall Country Club Holdings Limited	371	371	371	-	-
	<u>371</u>	<u>371</u>	<u>371</u>	<u>-</u>	<u>-</u>

† Adjusted for additions in the year

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL (continued)

Further details of the main investments:

Atlantic Dogstar Limited

www.anticlondon.com



Cost at 31/12/14:	£663,000	Valuation at 31/12/14:	£1,260,242
Date of first investment:	Sep 09	Valuation at 31/12/13:	£728,055
		Valuation method:	Sales proceeds
Investment comprises:			
Ordinary shares:	£138,000	Proportion of equity held:	17%
Loan stock:	£525,000	Proportion of loan stock held:	26%

Summary financial information from statutory accounts to 31 December*

	2013	2012
Net assets:	£1,219,130	£942,321

Atlantic Dogstar Limited owns two pubs in London, The Dogstar in Brixton and The Clapton Hart in Clapton. The pubs are operated under the Antic London brand, the management team of which has also invested in the company.

East Dulwich Tavern Limited

www.anticlondon.com



Cost at 31/12/14:	£644,000	Valuation at 31/12/14:	734,335
Date of first investment:	Sep 09	Valuation at 31/12/13:	£406,215
		Valuation method:	Sales proceeds

Investment comprises:			
Ordinary shares:	£103,000	Proportion of equity held:	12%
Loan stock:	£541,000	Proportion of loan stock held:	17%

Summary financial information from statutory accounts to 31 December*

	2013	2012
Net assets:	749,367	£701,676

The East Dulwich Tavern is a public house in south London. The company purchased the freehold interest from Punch Taverns and the leasehold interest from the operator (who is the investment partner) in 2009.

Westow House Limited

www.anticlondon.com



Cost at 31/12/14:	£429,000	Valuation at 31/12/14:	£605,857
Date of first investment:	Sep 09	Valuation at 31/12/13:	£426,769
		Valuation method:	Sales proceeds

Investment comprises:			
Ordinary shares:	£91,000	Proportion of equity held:	12%
Loan stock:	£338,000	Proportion of loan stock held:	19%

Summary financial information from statutory accounts to 31 December*

	2013	2012
Net assets:	£895,726	£723,765

Westow House Limited is a public house in south London. The Company purchased the freehold interest from Punch Taverns and the leasehold interest from the operator (who is the investment partner) in 2009.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL (continued)

Further details of the main investments:

Domestic Solar Limited
www.isis-solar.com



Cost at 31/12/14:	£500,000	Valuation at 31/12/14:	£560,000
Date of first investment:	Mar 11	Valuation at 31/12/13:	£560,000
		Valuation method:	Discounted cash flow
Investment comprises:			
Ordinary shares:	£150,000	Proportion of equity held:	5%
Loan stock:	£350,000	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 March*

	2014	2013
Net assets:	£790,895	£767,596

Domestic Solar owns solar panels on residential rooftops throughout the south of England. The company has contracted with over 600 households who benefit from free electricity through an arrangement that allows Domestic Solar to receive the Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

The Thames Club Limited
www.thethamesclub.co.uk



Cost at 31/12/14:	£500,000	Valuation at 31/12/14:	£499,900
Date of first investment:	Jun 09	Valuation at 31/12/13:	£499,900
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£100	Proportion of equity held:	5%
Loan stock:	£499,900	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 31 December*

	2013	2012
Net assets:	£803,440	£880,557

The Thames Club is a 33,000 sqft health and fitness club located in Staines-upon-Thames. In 2010 the club underwent a £2m refurbishment followed by a subsequent re-launch. The club is now working to build membership.

Future Biogas (Spring Farm) Limited
www.futurebiogas.com



Cost at 31/12/14:	£697,000	Valuation at 31/12/14:	£476,000
Date of first investment:	Sep 09	Valuation at 31/12/13:	£730,673
		Valuation method:	Discounted cash flow
Investment comprises:			
‘B’ Shares	£221,000	Proportion of ‘B’ equity held:	11%
Loan stock:	£476,000	Proportion of loan stock held:	14%

Summary financial information from statutory accounts to 31 May*

	2013	2012
Net assets:	£414,596	£936,933

Future Biogas owns and operates a 1.4MW self-contained biogas plant in Norfolk. Through an anaerobic digestion process biogas is produced which is used to generate electricity. The company benefits from the receipt of Feed-in Tariffs and payments for electricity exported to the National Grid.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL (continued)

Further details of the main investments:

Redmed Limited
www.homelincoln.co.uk



Cost at 31/12/14:	£350,000	Valuation at 31/12/14:	£451,325
Date of first investment:	May 11	Valuation at 31/12/13:	£450,909
		Valuation method:	Multiples

Investment comprises:			
Ordinary shares:	£105,000	Proportion of equity held:	7%
Loan stock:	£245,000	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 30 April*

	2014	2013
Net assets:	£2,131,332	£1,152,240

Redmed Limited owns and operates Home, a large entertainment venue with a restaurant, roof terrace and nightclub with six themed rooms and the Craft bar, both in Lincoln city centre. Home is located close to the University of Lincoln and was completely refurbished and successfully re-launched in October 2011.

Quadrate Spa Limited
www.theclubandspabirmingham.co.uk



Cost at 31/12/14:	£363,000	Valuation at 31/12/14:	£363,174
Date of first investment:	Aug 10	Valuation at 31/12/13:	£363,174
		Valuation method:	Net assets

Investment comprises:			
Ordinary shares:	£105,000	Proportion of equity held:	4%
Loan stock:	£258,000	Proportion of loan stock held:	8%

Summary financial information from statutory accounts to 31 March

	2013	2012
Turnover:	£1,252,745	£224,365
Operating loss:	(£743,982)	(£577,040)
Net (liabilities)/assets:	(£905,264)	£130,560

Quadrate Spa Limited has developed a spa and health club in the lower floors of a canal-side mixed-use building in Birmingham known as “The Cube”. The health club and spa opened for trading in January 2012 and continues to build towards maturity.

Quadrate Catering Limited
www.mpwsteakhousebirmingham.co.uk



Cost at 31/12/14:	£330,000	Valuation at 31/12/14:	£359,264
Date of first investment:	Aug 10	Valuation at 31/12/13:	£359,264
		Valuation method:	Net assets

Investment comprises:			
Ordinary shares:	£99,000	Proportion of equity held:	4%
Loan stock:	£231,000	Proportion of loan stock held:	9%

Summary financial information from statutory accounts to 31 March

	2014	2013
Turnover:	4,620,292	£1,035,382
Operating loss:	(£230,821)	(£696,703)
Net (liabilities)/assets:	£228,489	(£459,310)

Quadrate Catering Limited has developed the top floor of a canal-side mixed-use building in Birmingham known as “The Cube” which opened as a Marco Pierre-White branded restaurant and bar in December 2011 and has traded well ever since.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL (continued)

Further details of the main investments:

Summary of loan stock interest income

Loan stock interest recognised in the year from the largest investments held by the ‘C’ Share pool	£’000
Atlantic Dogstar Limited	39
East Dulwich Tavern Limited	36
Westow House Limited	30
Domestic Solar Limited	44
The Thames Club Limited	-
Future Biogas (Spring Farm) Limited	27
Redmed Limited	30
Quadrate Spa Limited	18
Quadrate Catering Limited	29
	<hr/>
	253
Receivable from other investments	135
	<hr/>
	388

Analysis of investments by investment type

The following shows the split of the ‘C’ Share pool’s investment portfolio by type of instrument held at 31 December 2014:

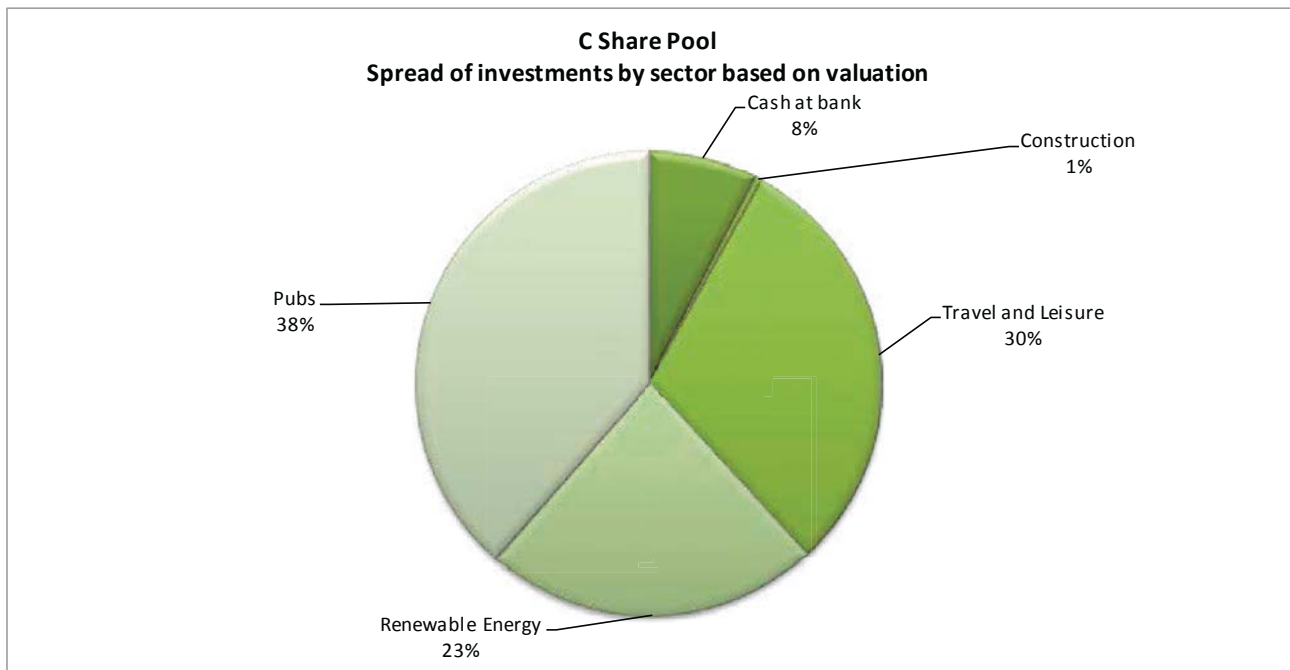
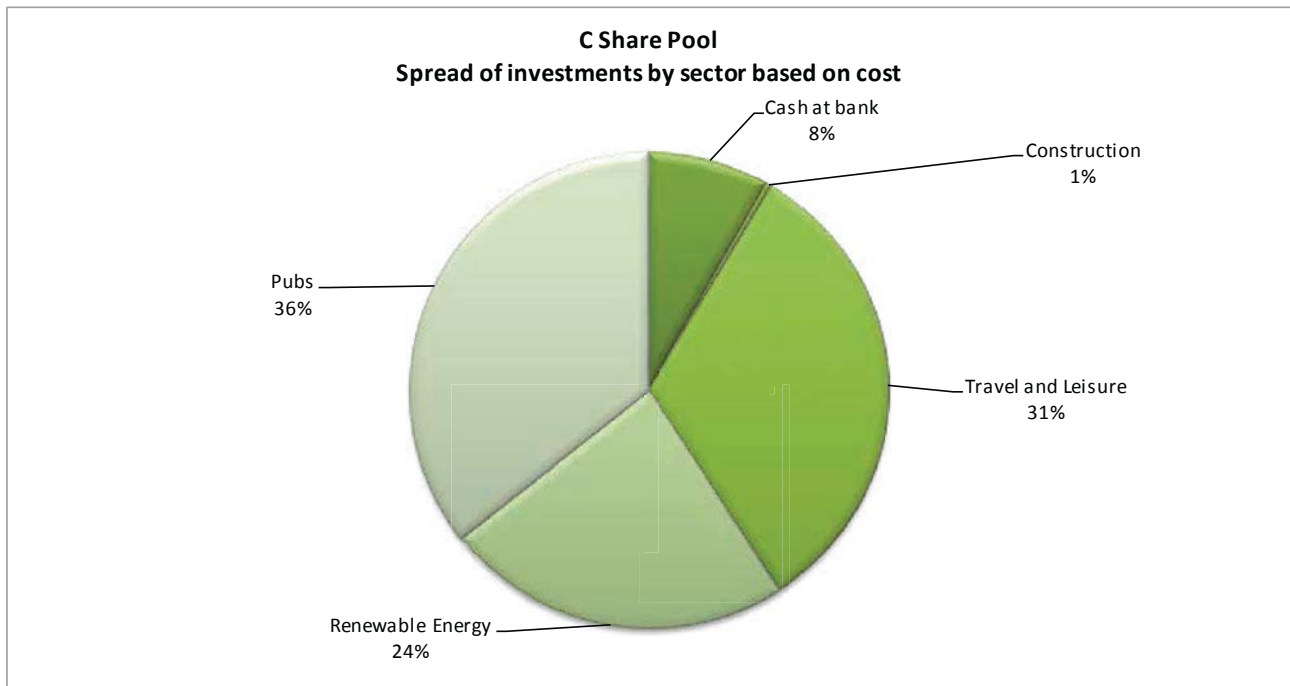
	Target portfolio split	Actual portfolio split 31 Dec 2014
Qualifying investments		
Loans to qualifying companies	50%	48%
Ordinary shares in qualifying companies	25%	32%
Non-qualifying investments (including cash at bank)	25%	20%
	<hr/>	<hr/>
	100%	100%

REVIEW OF INVESTMENTS – 'C' SHARE POOL (continued)

Further details of the main investments:

Analysis of investments by commercial sector

The split of the 'C' Share pool's venture capital investment portfolio by commercial sector (by cost and value at 31 December 2014) is as follows:



INVESTMENT MANAGER'S REPORT- 'D' SHARE POOL

Introduction

The 'D' Share pool holds investments in 21 companies and is now fully invested. The portfolio as a whole remains relatively stable although has had one setback that has hindered overall performance. We are now developing realisation plans for the portfolio for the unwinding process which will start shortly.

Net asset value and results

At 31 December 2014, the 'D' Share NAV stood at 71.3p and the 'E' Share NAV at 0.1p, giving a combined NAV of 71.4p. Total Return (NAV plus cumulative dividends to date) was 93.9p for a combined holding of one 'D' and one 'E' Share. This represents a net decrease of 0.6p over the period (after adjusting for dividends paid during the period of 5.0p per 'D' Share), equivalent to a decrease of 0.8%.

The return on ordinary activities for the 'D' Shares for the period was a loss of £59,000 (2013: gain £215,000) being a revenue profit of £233,000 (2013: £221,000) and a capital loss of £292,000 (2013: loss £6,000).

'D' Share pool - investment activity

No new investments or full exits were completed in the period, but one partial loan repayment of £143,000 was made on the non-qualifying loan in Aminghurst Limited.

'D' Share pool – portfolio valuation

The majority of the 'D' Share portfolio performed in line with expectations during the year. There were a small number of valuation movements and one notable valuation decrease which resulted in a net unrealised loss of £292,000.

Future Biogas (Reepham Road) Limited, the owner and operator of a biogas plant in Norfolk, has not performed in line with initial expectations and while the issues have now been resolved, performance to date is notably below plan. This has resulted in a decrease in the valuation of £320,000.

Mosaic Spa and Health Clubs Limited owns and manages two health clubs: The Shrewsbury Club, in Shrewsbury; and Holmer Park in Hereford. It also provides gym and spa management services to hotels, universities and corporate clients. Both Holmer Park and the Shrewsbury club have underperformed against expectations throughout the period and the value has been reduced by £41,000.

Small reductions in value were also made on three investments: £26,000 on Camandale Limited, the owner of The Riverbank pub in Kilmarnock, Scotland; £16,000 on Kilmarnock Monkey Bar Limited; and £14,000 on Liverpool Nurseries (Holdings) Limited.

On the positive side, a valuation increase of £39,000 was made on Kidspace Adventures Holdings Limited, the owner of three well established children's play areas in Croydon, Romford and Epsom. The company continues to perform well.

The profits of Alpha Schools Holdings Limited, the independent primary school operator, have also continued to increase and the value has been increased by £36,000 to reflect this.

Slopingtactic Limited, the owner of the Lamb and Lion freehold pub in York, has demonstrated good performance in the year and the value has been increased by £30,000.

Progressive Energies Limited, generate electricity from solar panels on domestic properties in the UK. The investment is performing beyond initial expectations and an increase in value of £20,000 has been recognised.

Outlook

The 'D' share pool investments are generally performing satisfactorily and steps have been taken to improve performance where necessary. Exit plans for a number of investments are progressing well and once the initial disposals are completed we expect the pool to declare its first return of capital dividend. We believe there are reasonable prospects for a substantial proportion of the investment portfolio to be exited at full value over the next year.

Downing Managers 3 Limited

21 April 2015

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2014:

‘D’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Future Biogas (Reepham Road) Limited	842	522	(320)	7.3%
Quadrate Spa Limited*	496	496	-	6.9%
Quadrate Catering Limited	441	481	-	6.7%
Kidspace Adventures Holdings Limited	375	448	39	6.3%
Domestic Solar Limited	400	448	-	6.3%
Alpha Schools Holdings Limited	367	438	36	6.1%
Liverpool Nurseries (Holdings) Limited	435	386	(14)	5.4%
Mosaic Spa and Health Clubs Limited*	475	347	(41)	4.8%
Green Electricity Generation Limited	250	303	-	4.2%
Westcountry Solar Solutions Limited	250	250	-	3.5%
West Tower Property Limited	250	250	-	3.5%
Slopingtactic Limited	196	225	30	3.2%
Ecosol Limited	250	213	-	3.0%
Avon Solar Energy Limited	210	210	-	2.9%
Progressive Energies Limited	170	190	20	2.7%
Ridgeway Pub Company Limited	137	126	-	1.8%
Camandale Limited*	516	31	(26)	0.4%
	<u>6,060</u>	<u>5,364</u>	<u>(276)</u>	<u>75.0%</u>
Non-qualifying investments				
Aminghurst Limited	1,507	1,507	-	21.1%
Fenkle Street LLP	122	122	-	1.7%
Commercial Street Hotel Limited	100	100	-	1.4%
Kilmarnock Monkey Bar Limited	42	26	(16)	0.4%
	<u>1,771</u>	<u>1,755</u>	<u>(16)</u>	<u>24.6%</u>
	<u>7,831</u>	<u>7,119</u>	<u>(292)</u>	<u>99.6%</u>
Cash at bank and in hand		<u>31</u>		<u>0.4%</u>
Total investments		<u>7,150</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out on pages 15 to 19.

Summary of investment movements

Disposals

	Cost £'000	MV at 01/01/14 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the year £'000
Non-qualifying investments					
Aminghurst Limited	143	143	143	-	-
Total ‘D’ Share pool	<u>143</u>	<u>143</u>	<u>143</u>	<u>-</u>	<u>-</u>

† Adjusted for additions in the year

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Further details of the main investments:

Aminghurst Limited

www.gararock.co.uk



Cost at 31/12/14:	£1,507,000	Valuation at 31/12/14:	£1,507,000
Date of first investment:	May 10	Valuation at 31/12/13:	£1,650,000
		Valuation method:	Net assets

Investment comprises:			
Loan stock:	£1,507,000	Proportion of loan stock held:	15%

Summary financial information from statutory accounts to 31 December*

	2013	2012
Net liabilities:	(£5,824,137)	(£9,759,026)

Aminghurst is a property development company which owns the Gara Rock site in East Portlemouth, South Devon. All of the apartments and cottages have been completed and are currently being marketed for sale. The leisure facilities and restaurant are operational, while the hotel is likely to be offered for sale to hotel operators as a shell ready for fit-out.

Future Biogas (Reepham Road) Limited

www.futurebiogas.com



Cost at 31/12/14:	£842,145	Valuation at 31/12/14:	£521,794
Date of first investment:	Mar 11	Valuation at 31/12/13:	£842,145
		Valuation method:	Cost reviewed for impairment

Investment comprises:			
Ordinary shares:	£521,794	Proportion of equity held:	9%
Loan stock:	£320,351	Proportion of loan stock held:	19%

Summary financial information from statutory accounts to 30 September*

	2013	2012
Net assets:	£473,943	£445,613

Future Biogas (Reepham Road) Limited is the second renewable energy investment with our partner Future Biogas. The site is located in Norfolk and the business is currently in the final stages of constructing the new anaerobic digestion plant.

Quadrate Spa Limited

www.theclubandspabirmingham.co.uk



Cost at 31/12/14:	£495,826	Valuation at 31/12/14:	£495,826
Date of first investment:	Aug 10	Valuation at 31/12/13:	£495,826
		Valuation method:	Net assets

Investment comprises:			
Ordinary shares:	£143,580	Proportion of equity held:	6%
Loan stock:	£352,246	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 31 March

	2013	2012
Turnover:	£1,252,745	£224,365
Operating loss:	(£743,982)	(£577,040)
Net (liabilities)/assets:	(£905,264)	£130,560

Quadrate Spa Limited has developed a spa and health club in the lower floors of a canal-side mixed-use building in Birmingham known as “The Cube”. The health club and spa opened for trading in January 2012 and continues to build towards maturity.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Further details of the main investments:

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk



Cost at 31/12/14:	£441,400	Valuation at 31/12/14:	£481,126
Date of first investment:	Aug 10	Valuation at 31/12/13:	£481,126
		Valuation method:	Net assets

Investment comprises:

Ordinary shares:	£132,420	Proportion of equity held:	6%
Loan stock:	£308,980	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 March

	2013	2012
Turnover:	£4,620,292	£1,035,382
Operating profit/(loss):	£307,199	(£696,703)
Net assets/(liabilities):	£228,489	(£459,310)

Quadrate Catering Limited has developed the top floor of a canal-side mixed-use building in Birmingham known as “The Cube” which opened as a Marco Pierre-White branded restaurant and bar in December 2011 and has traded well ever since.

Kidspace Adventures Holdings Limited

www.kidspaceadventures.com



Cost at 31/12/14:	£375,000	Valuation at 31/12/14:	£448,125
Date of first investment:	Jan 12	Valuation at 31/12/13:	£408,750
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£112,500	Proportion of equity held:	4%
Loan stock:	£262,500	Proportion of loan stock held:	8%

Summary financial information from statutory accounts to 31 January

	2014	2013
Turnover:	£5,493,353	£4,305,765
Operating profit:	£647,287	£144,245
Net assets:	£2,852,603	£1,968,284

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.

Domestic Solar Limited

www.isis-solar.com



Cost at 31/12/14:	£400,000	Valuation at 31/12/14:	£448,000
Date of first investment:	Mar 11	Valuation at 31/12/13:	£448,000
		Valuation method:	Discounted cash flow

Investment comprises:

Ordinary shares:	£120,000	Proportion of equity held:	5%
Loan stock:	£280,000	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 March*

	2014	2013
Net assets:	£790,895	£767,596

Domestic Solar owns solar panels on residential rooftops throughout the south of England. The company has contracted with over 600 households who benefit from free electricity through an arrangement that allows Domestic Solar to receive the Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Further details of the main investments:

Alpha Schools (Holdings) Limited



Cost at 31/12/14:	£366,667	Valuation at 31/12/14:	£438,167
Date of first investment:	May 11	Valuation at 31/12/13:	£402,417
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£110,000	Proportion of equity held:	4%
Loan stock:	£256,667	Proportion of loan stock held:	18%

Summary financial information from consolidated statutory accounts to 31 August

	2013	2012
Turnover:	£4,080,506	£3,614,379
Operating profit:	£909,783	£586,417
Net assets:	£1,226,105	£908,073

Alpha Schools is an independent primary school operator, which owns several sites and is run by an experienced head teacher. The company has recently purchased Ladymede School in Buckinghamshire.

Liverpool Nurseries (Holdings) Limited

www.thecottagedaynursery.com



Cost at 31/12/14:	£434,887	Valuation at 31/12/14:	£385,870
Date of first investment:	Feb 12	Valuation at 31/12/13:	£399,877
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£140,044	Proportion of equity held:	16%
Loan stock:	£294,843	Proportion of loan stock held:	19%

Summary financial information from consolidated statutory accounts to 31 December*

	2013	2012
Net assets:	£744,418	£599,998

Liverpool Nurseries operates three Children's Day Nurseries based in Liverpool; 'The Cottage Day Nursery' in Fazakerley, which is registered for 88 children, 'The House Day Nursery' in Crosby, which is registered for 154 children and 'Greenbank Park Day Nursery' in Greenbank which is registered for 116 children.

Mosaic Spa and Health Clubs Limited

www.mosaicspaandhealth.co.uk



Cost at 31/12/14:	£475,000	Valuation at 31/12/14:	£346,750
Date of first investment:	Feb 11	Valuation at 31/12/13:	£387,250
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£135,000	Proportion of equity held:	6%
Loan stock:	£340,000	Proportion of loan stock held:	6%

Summary financial information from consolidated statutory accounts to 31 December

	2013	2012
Turnover:	£7,086,539	£6,322,543
Operating profit:	£116,160	£15,330
Net assets:	£1,913,722	£2,390,291

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 Downing funds backed the existing experienced management team who started the business over 20 years ago. The company currently has 30 management contracts to provide gyms and spas to hotels, university and corporate clients. In December 2011, the business bought a health and tennis club known as The Shrewsbury Club and in October 2012 a second freehold health club was purchased known as Holmer Park.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Further details of the main investments:

Green Electricity Generation Limited

www.freesolarinstallations.net



Cost at 31/12/14:	£250,000	Valuation at 31/12/14:	£302,500
Date of first investment:	May 11	Valuation at 31/12/13:	£302,500
		Valuation method:	Discounted cash flow

Investment comprises:

Ordinary shares:	£75,000	Proportion of equity held:	8%
Loan stock:	£175,000	Proportion of loan stock held:	13%

Summary financial information from statutory accounts to 30 June*

	2013	2012
Net assets:	£412,194	£450,735

Green Electricity Generation owns solar panels on the rooftops of over 200 domestic properties in the UK. The households benefit from free electricity whilst Green Electricity receive Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the year from the ten largest investments held by the ‘D’ Share pool £’000

Aminghurst Limited	-
Future Biogas (Reepham Road) Limited	37
Quadrate Spa Limited	25
Quadrate Catering Limited	38
Kidspace Adventures Holdings Limited	32
Domestic Solar Limited	35
Alpha Schools (Holdings) Limited	27
Liverpool Nurseries (Holdings) Limited	25
Mosaic Spa and Health Clubs Limited	40
Green Electricity Generation Limited	28
	<u>287</u>
Receivable from other investments	<u>184</u>
	<u>471</u>

Analysis of investments by investment type

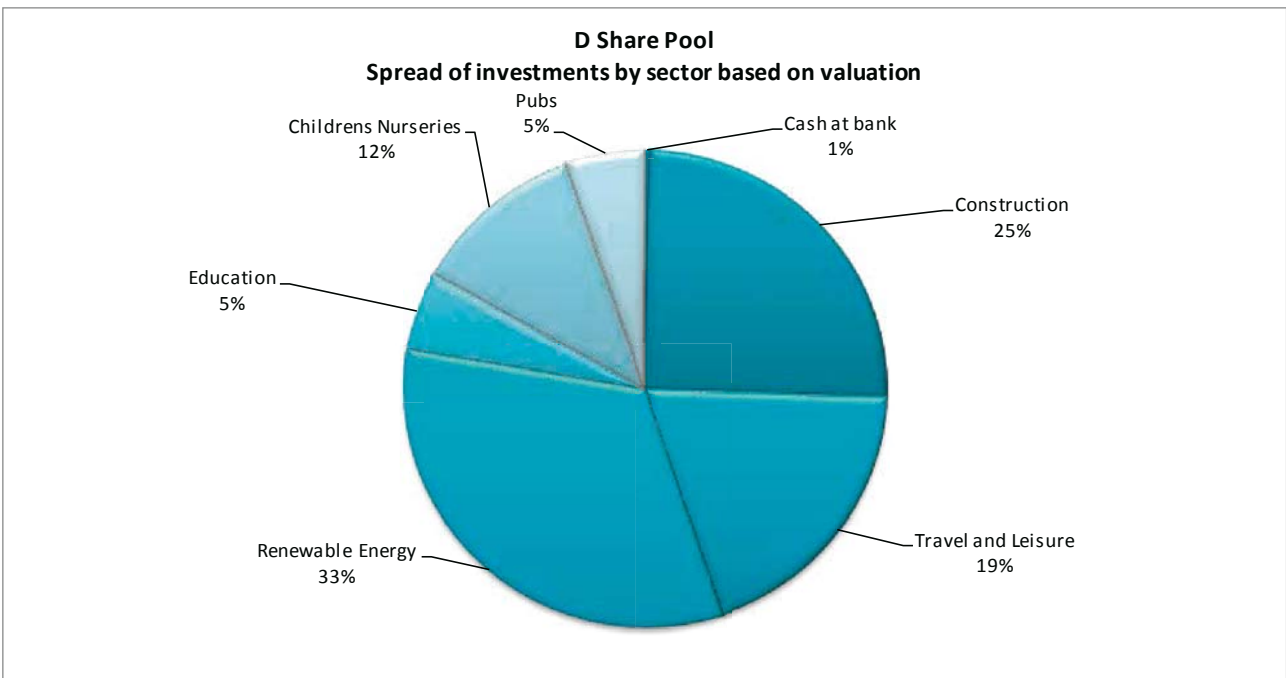
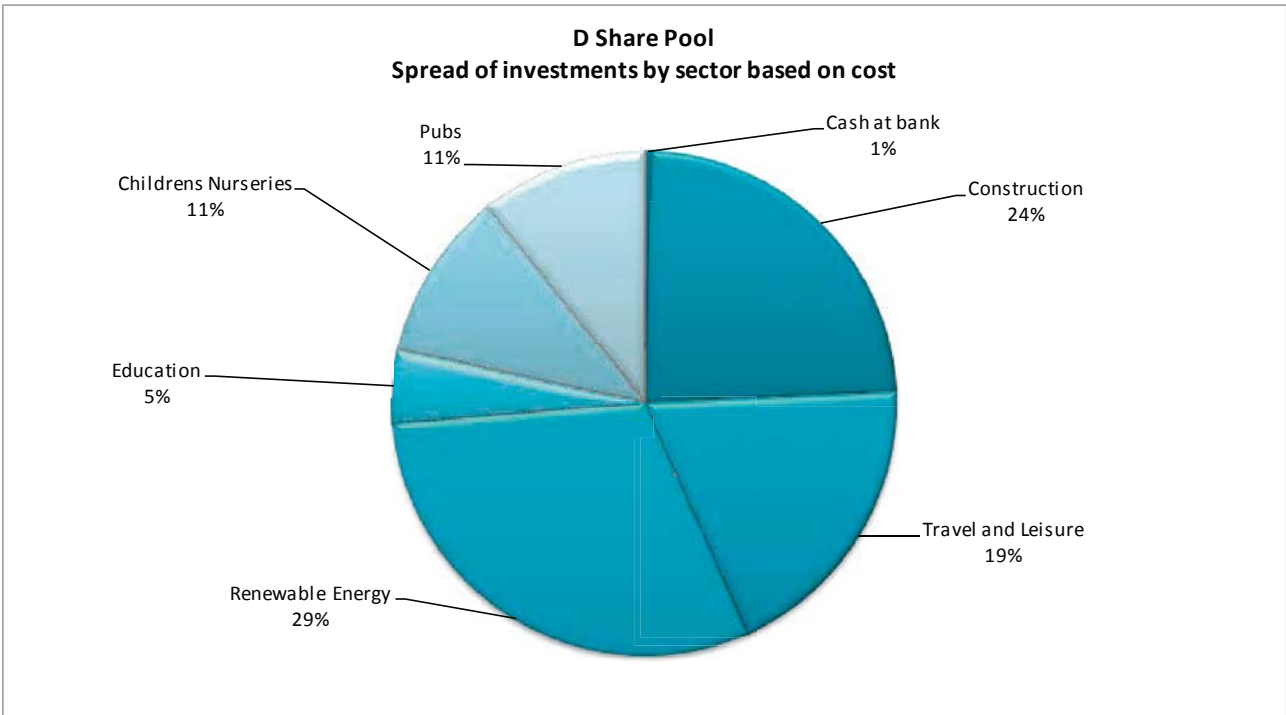
The following shows the split of the ‘D’ Share pool’s investment portfolio by type of instrument held at 31 December 2014:

	Target portfolio split	Actual portfolio split 31 Dec 2014
Qualifying investments		
Loans to qualifying companies	50%	53%
Ordinary shares in qualifying companies	25%	21%
Non-qualifying investments (including cash at bank)	25%	26%
	<u>100%</u>	<u>100%</u>

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Analysis of investments by commercial sector

The split of the ‘D’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2014) is as follows:



INVESTMENT MANAGER'S REPORT- 'F' SHARE POOL

Introduction

The 'F' Share pool has continued to build a qualifying investment portfolio with a focus on asset backed businesses and those with predictable revenue streams and the pool is now fully qualifying. In the period four new qualifying investments were made at a total cost of £2.1m. One follow on investment of £43,000 was also made.

Several non-qualifying investments were exited in the period: two full exits; and five partial exits, generating total proceeds of £998,000.

Net asset value and results

At 31 December 2014, the 'F' Share NAV stood at 75.5p. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 90.5p. This represents a net increase of 0.6p per share over the period (after adjusting for dividends paid during the period of 5.0p per Share), equivalent to an increase of 0.8%.

The return on ordinary activities for the 'F' Share pool for the period was a gain of £71,000 (2013: loss £389,000) being a revenue profit of £82,000 (2013: £15,000) and a capital loss of £11,000 (2013: £404,000).

'F' Share pool - investment activity

In January 2014, a new investment of £760,000 was made in Goonhilly Earth Station Limited. The company operates a large satellite communications site in Cornwall. The investment provided funding to allow the company to secure a long lease on its site and to develop additional facilities on the site.

The 'F' Share pool invested £378,000 in March 2014 in to Grasshopper 2007 Limited. The company operates the Grasshopper Inn, a public house near Westerham, Kent, which operates as a traditional pub, restaurant and wedding venue.

In July 2014, an investment of £500,000 was made in Lambridge Solar Limited. The company operates a ground mounted array of solar panels in Lincolnshire.

£500,000 was invested into Merlin Renewables Limited in October 2014. The company is developing an anaerobic digestion plant in Norfolk. The plant will qualify for government backed subsidies as it produces gas and supplies it to the National Gas Grid.

A further investment of £43,000 was made in to London City Shopping Centre Limited.

Two full exits of non-qualifying investments were completed in the period for the 'F' Share. Retalack SurfPods Limited generated exit proceeds of £98,000 in March 2014. The company owned holiday apartments in a Cornish holiday park.

In December 2014, the £500,000 non-qualifying loan in Pub People Limited was transferred to the Downing Three VCT plc 'H' Share.

Partial repayments of non-qualifying loans in the period included Hoole Hall Hotel Limited (£181,000); Aminghurst Limited (£143,000); Dominions House (£48,000); and Redmed Limited (£26,000).

£193,200 of qualifying loan notes in Pearce & Saunders Limited, the pub company which owns three South East London pubs, were transferred to the 'G' Share pool in the period.

'F' Share pool – portfolio valuation

The majority of the 'F' Share pool investments have performed in line with expectations over the period and continue to be valued at original cost. However, there have been two adjustments and a net unrealised loss of £11,000 has been made in the period.

Performance of the nightclub owned by City Falkirk Limited has continued to operate below expectations and a further reduction in value of £38,000 has been made. Whilst we continue to work closely with the club's management to bring trading back on track, it is clear that the depressed economic conditions are a major contributing factor to the weak performance.

On the positive side, Kidspace Adventures Holdings Limited, which owns three well established children's play areas in Croydon, Romford and Epsom, continues to perform well. As such the valuation has been increased by £26,000.

Outlook

The 'F' Share portfolio is now fully qualifying. The focus for the coming year is to continue to drive growth and build value from these investments in order to achieve good exits over the next three years when realisations are planned.

Downing Managers 3 Limited

21 April 2015

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2014:

‘F’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Goonhilly Earth Station Limited	760	760	-	9.3%
Tor Solar PV Limited	680	680	-	8.3%
Vulcan Renewables Limited	588	588	-	7.2%
Merlin Renewables Limited	500	500	-	6.1%
Lambridge Solar Limited	500	500	-	6.1%
Pearce and Saunders Limited*	451	451	-	5.6%
Grasshopper 2007 Limited	378	378	-	4.6%
Kidspace Adventures Holdings Limited	250	299	26	3.7%
Augusta Pub Company Limited	290	290	-	3.5%
Fubar Stirling Limited	268	268	-	3.3%
Redmed Limited*	250	251	1	3.1%
City Falkirk Limited	421	206	(38)	2.5%
Fresh Green Power Limited	200	200	-	2.5%
Pabulum Pubs Limited	200	200	-	2.5%
Green Energy Production UK Limited	100	100	-	1.2%
Cheers Dumbarton Limited	48	17	-	0.2%
Lochrise Limited	13	-	-	0.0%
	<u>5,897</u>	<u>5,688</u>	<u>(11)</u>	<u>69.7%</u>
Non-qualifying investments				
Aminghurst Limited	967	967	-	11.8%
Baron House Developments LLP	481	481	-	5.9%
Hoole Hall Hotel Limited	84	84	-	1.0%
Dominions House Limited	59	59	-	0.7%
The 3D Pub Co Limited	55	55	-	0.7%
London City Shopping Centre Limited	43	43	-	0.5%
Southampton Hotel Developments Limited	298	-	-	0.0%
	<u>1,987</u>	<u>1,689</u>	<u>(11)</u>	<u>20.6%</u>
	<u>7,884</u>	<u>7,377</u>	<u>(11)</u>	<u>90.3%</u>
Cash at bank and in hand		<u>792</u>		<u>9.7%</u>
Total investments		<u>8,169</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out above, and on pages 23 to 27.

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Summary of investment movements

Additions

	Cost £'000
VCT qualifying and partially qualifying investments	
Goonhilly Earth Station Limited	760
Merlin Renewables Limited	500
Lambridge Solar Limited	500
Grasshopper 2007 Limited	378
Non-qualifying investments	
London City Shopping Centre Limited	43
Total ‘F’ Share pool	<u><u>2,181</u></u>

Disposals

	Cost £'000	MV at 01/01/14 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised loss during the year £'000
VCT qualifying and partially qualifying investments					
Pearce and Saunders Limited	193	193	193	-	-
Non-qualifying investments					
Pub People Holdings Limited	500	500	500	-	-
Hoole Hall Hotel Limited	181	181	181	-	-
Aminghurst Limited	143	143	143	-	-
Retallack Surfpods Limited	98	98	98	-	-
Dominions House Limited	48	48	48	-	-
Redmed Limited	26	26	26	-	-
Southampton Hotel Developments Limited	2	2	-	-	(2)
	<u>1,191</u>	<u>1,191</u>	<u>1,189</u>	<u>-</u>	<u>(2)</u>

† Adjusted for additions in the year

REVIEW OF INVESTMENTS – 'F' SHARE POOL (continued)

Further details of the main investments:

Aminghurst Limited

www.gararock.co.uk



Cost at 31/12/14:	£967,000	Valuation at 31/12/14:	£967,000
Date of first investment:	Sep 12	Valuation at 31/12/13:	£1,110,000
		Valuation method:	Net Assets

Investment comprises:			
Loan stock:	£967,000	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 December*

	2013	2012
Net liabilities:	(£5,824,137)	(£9,759,026)

Aminghurst is a property development company which owns the Gara Rock site in East Portlemouth, South Devon. All of the apartments and cottages have been completed and are currently being marketed for sale. The leisure facilities and restaurant are operational, while the hotel is likely to be offered for sale to hotel operators as a shell ready for fit-out.

Goonhilly Earth Station Limited

www.goonhilly.org



Cost at 31/12/14:	£760,000	Valuation at 31/12/14:	£760,000
Date of first investment:	Jan 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£532,000	Proportion of equity held:	40%
Loan stock:	£228,000	Proportion of loan stock held:	20%

Summary financial information from statutory accounts to 31 May*

	2013	2012
Net assets:	£72,135	£65,886

Goonhilly Earth Station Limited operates a satellite earth station in Cornwall, where they undertake satellite telemetry and control on behalf of satellite owners, offer radio astronomy facilities to a consortium of universities, and are developing data centre services and a training centre for satellite engineers.

Tor Solar PV Limited

www.isis-solar.com



Cost at 31/12/14:	£680,000	Valuation at 31/12/14:	£680,000
Date of first investment:	Mar 12	Valuation at 31/12/13:	£680,000
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£34	Proportion of equity held:	17%
Preference shares:	£476,000	Proportion of preference shares held:	34%
Loan stock:	£203,966	Proportion of loan stock held:	34%

Summary financial information from statutory accounts to 31 March*

	2014	2013
Net assets:	£966,763	£1,136,307

Tor Solar PV owns a portfolio of ground mounted solar panels on farms in the South West of the UK. Tor Solar PV receives Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – 'F' SHARE POOL (continued)

Further details of the main investments:

Vulcan Renewables Limited



Cost at 31/12/14:	£588,000	Valuation at 31/12/14:	£588,000
Date of first investment:	Apr 12	Valuation at 31/12/13:	£588,000
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

Ordinary shares:	£420,000	Proportion of equity held:	4%
Loan stock:	£168,000	Proportion of loan stock held:	9%

Summary financial information from statutory accounts to 30 November*

	2013	2012
Net assets:	£3,241,700	£2,580,091

Vulcan Renewables is developing a 2.0MW maize fed biogas plant in 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.

Merlin Renewables Limited



Cost at 31/12/14:	£500,000	Valuation at 31/12/14:	£500,000
Date of first investment:	Oct 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

Ordinary shares:	£500,000	Proportion of equity held:	15%
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Summary financial information from statutory accounts to 31 December*

	2013	2012
Net assets:	£4,396,579	None due

Merlin Renewables Limited has developed a 2 MW gas injection anaerobic digestion plant in Norfolk with Future Biogas Limited. The plant completed construction in the final quarter of 2014. The plant is to be fed on maize which is being grown on nearby land and sold to the company for use in the plant. The anaerobic digestion qualifies to receive payments under the Renewable Heat Incentive for injecting bio-methane into the gas grid and electricity for Feed in Tariff income.

Lambridge Solar Limited



Cost at 31/12/14:	£500,000	Valuation at 31/12/14:	£500,000
Date of first investment:	Jul 14	Valuation at 31/12/13:	n/a
		Valuation method:	Discounted cash flow

Investment comprises:

Ordinary shares:	£500,000	Proportion of equity held:	6.3%
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Summary financial information from statutory accounts to 31 December*

	2013	2012
Net assets:	£4,318,962	None due

Lambridge Solar Limited owns a 9.0 MWp ground mounted photovoltaic system at Burton Pedwardine in Lincolnshire. The system was constructed by Lark Energy and was commissioned in February 2014. It qualifies for Renewable Obligations Certificates (ROCs) and receives 1.6 ROCs for every megawatt hour (MWh) of electricity generated. Provisional Acceptance Certificate (PAC) testing was undertaken in July 2014.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – 'F' SHARE POOL (continued)

Further details of the main investments:

Baron House Developments LLP



Cost at 31/12/14:	£481,000	Valuation at 31/12/14:	£481,000
Date of first investment:	Apr 12	Valuation at 31/12/13:	£481,000
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£481,000	Proportion of loan stock held:	10%

Summary financial information from statutory accounts to 31 March

	2014	2013
Turnover:	£882,877	-
Operating (loss)/profit:	(£114,216)	£181,649
Net assets:	£4,712,868	£4,743,191

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.

Pearce and Saunders Limited



Cost at 31/12/14:	£451,000	Valuation at 31/12/14:	£451,000
Date of first investment:	Sep 13	Valuation at 31/12/13:	£644,000
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£193,000	Proportion of equity held:	23%
Loan stock:	£258,800	Proportion of loan stock held:	23%

Summary financial information from statutory accounts to 31 December*

	2013	2012
Net assets:	£777,020	None due

Pearce and Saunders Limited is a new freehold pub company that will be managed by the Antic London team and funded by the Downing VCTs. It was incorporated to acquire the freehold pubs of three South East London sites.

Grasshopper 2007 Limited



Cost at 31/12/14:	£378,000	Valuation at 31/12/14:	£378,000
Date of first investment:	Mar 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£265,000	Proportion of equity held:	19%
Loan stock:	£113,000	Proportion of loan stock held:	18%

Summary financial information from statutory accounts to 26 January*

	2013	2012
Net liabilities:	(£1,674,127)	None due

The Grasshopper Inn is a public house near Westerham, Kent, operating as a traditional pub, restaurant, wedding venue and boutique hotel with 9 letting rooms. In March 2014 Downing VCTs invested £2.1m into the business to refinance existing bank debt. Since we made our investment the Manager, Faucet Inn, has secured planning permission for an additional 25 bedrooms on site.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Further details of the main investments:

Kidspace Adventures Holdings Limited

www.kidspaceadventures.com



Cost at 31/12/14:	£250,000	Valuation at 31/12/14:	£298,750
Date of first investment:	Jan 12	Valuation at 31/12/13:	£272,500
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£75,000	Proportion of equity held:	3%
Loan stock:	£175,000	Proportion of loan stock held:	5%

Summary financial information from statutory accounts to 31 January

	2014	2013
Turnover:	£5,493,353	£4,305,765
Operating profit:	£647,287	£144,245
Net assets:	£2,852,603	£1,968,284

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.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the year from the ten largest investments held by the 'F' Share pool	£'000
Aminghurst Limited	-
Goonhilly Earth Station Limited	42
Tor Solar PV Limited	90
Pearce and Saunders Limited	44
Vulcan Renewables Limited	47
Merlin Renewables Limited	-
Lambridge Solar Limited	-
Baron House Limited	-
Grasshopper 2007 Limited	11
Kidspace Adventures Holdings Limited	21
	<hr/>
	255
Receivable from other investments	144
	<hr/>
	399

Analysis of investments by investment type

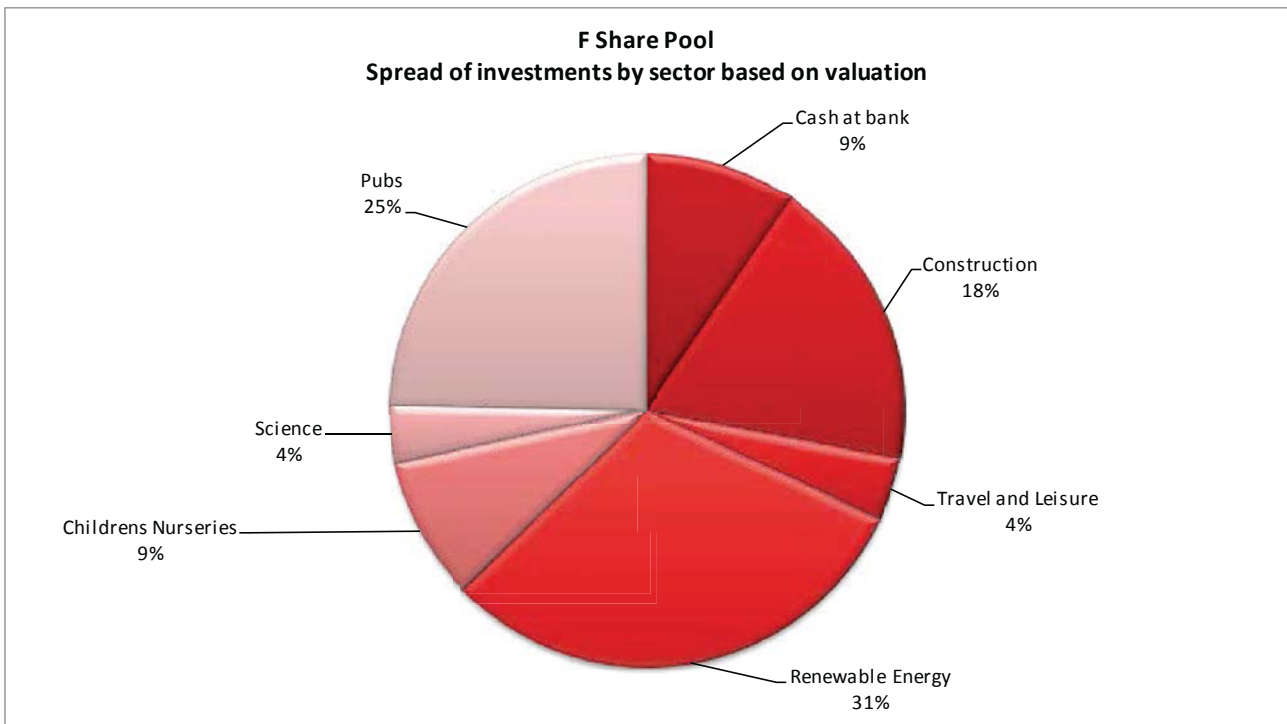
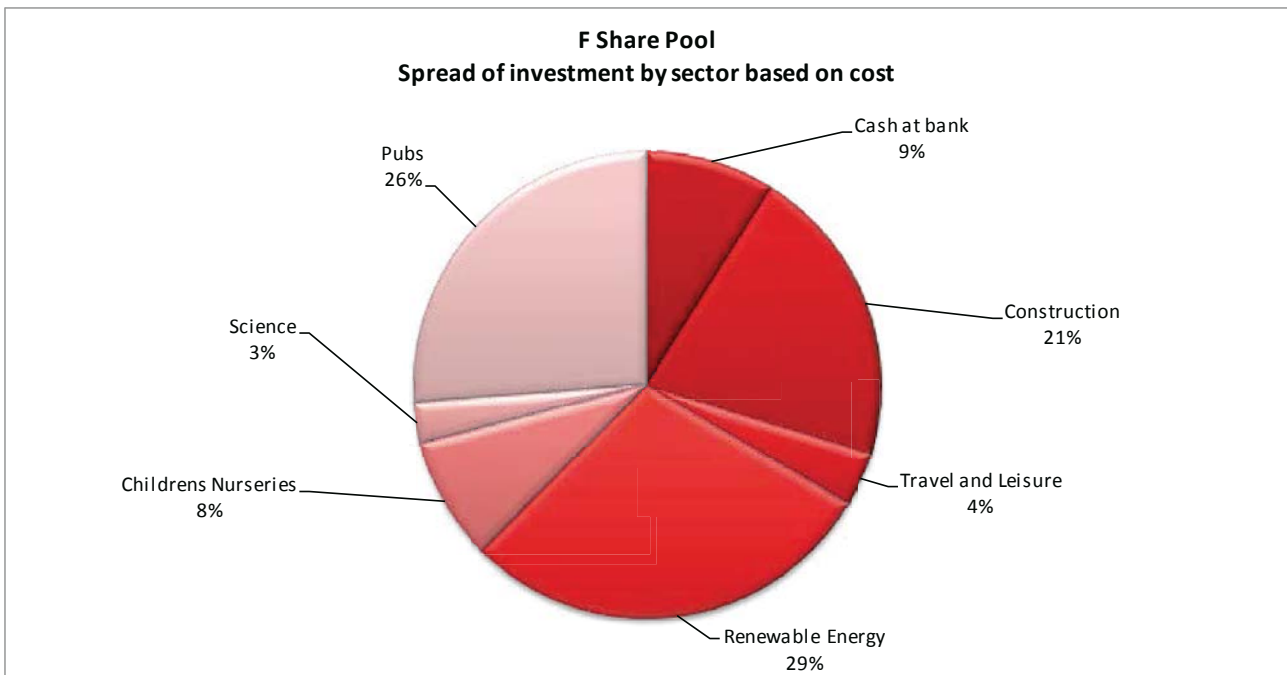
The following shows the split of the 'F' Share pool's investment portfolio by type of instrument held at 31 December 2014:

	Target portfolio split	Actual portfolio split 31 Dec 2014
Qualifying investments		
Loans to qualifying companies	50%	19%
Ordinary shares in qualifying companies	25%	45%
Non-qualifying investments (including cash at bank)	25%	36%
	<hr/>	<hr/>
	100%	100%

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Analysis of investments by commercial sector

The split of the ‘F’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2014) is as follows:



F Shares

INVESTMENT MANAGER'S REPORT- 'H' SHARE POOL

Fundraising

The 'H' Share fundraising launched in December 2013 and has raised £13.6 million. 13,446,972 'H' Shares were allotted in the period at an average price of 101.2p per share. The task of investing these new funds is now underway.

Investment activity

The first investment was a non-qualifying secured loan of £525,000 in April 2014 in Future Biogas (SF) Limited. The company owns and operates a 1.4MW self-contained biogas plant in Norfolk.

In July, the share pool made a second non-qualifying secured loan investment of £420,000 to Ludlow Taverns Springhill Limited, secured by a charge over The Springhill pub in Wolverhampton.

£1.4m was invested in Vulcan Renewables Limited. The company has built a 2.0MW anaerobic digestion plant near Doncaster. Some of the gas produced is used to create electricity and some is injected in to the National Gas Grid for which feed in tariffs are received.

£2.3m was invested in Deeside Solar Farm Limited, which generates electricity from an array of solar panels. During the period £450,000 of loan notes were repaid, leaving a residual cost of £1.8m.

£1.8m was invested into Woodbridge Solar Limited, another solar electricity generator.

Pub People Limited own and operate more than 50 pubs in the East Midlands. The 'H' Share pool invested £984,000 in the company.

£193,000 of non-qualifying loan notes in Pearce and Saunders Limited, the pub company which owns three South East London pubs, were transferred from the 'G' Share pool in the period.

Since the end of the period, the 'H' Share pool has invested £1.8m in four companies.

Net asset value and results

At 31 December 2014, the net asset value per 'H' Share was 94.7p, a decrease of 5.3p on the initial price resulting from the initial "cash drag" from holding uninvested funds.

Results and dividend

The loss on ordinary activities for the 'H' Shares, after taxation, for the period was £46,000, being wholly related to Revenue.

Outlook

The task of building the 'H' Share portfolio is now underway. We have a good pipeline of potential investment opportunities from which we expect to be able to build a solid qualifying portfolio with good potential for growth over the next five years. This will be complimented with non-qualifying investments that will provide additional yield before the new funds are utilised in qualifying investments. We expect to be very active to this end over the coming year.

Downing Managers 3 Limited

21 April 2015

REVIEW OF INVESTMENTS – ‘H’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2014:

‘H’ Share pool	Cost £’000	Valuation £’000	Valuation movement in period £’000	% of portfolio
Non-qualifying investments				
Deeside Solar Farm Limited	1,800	1,800	-	13.9%
Woodbridge Solar Limited	1,800	1,800	-	13.9%
Vulcan Renewables Limited	1,410	1,410	-	10.8%
Pub People Limited	984	984	-	7.6%
Future Biogas (Spring Farm) Limited	525	525	-	4.0%
Ludlow Taverns Springhill Limited	420	420	-	3.2%
Pearce and Saunders Limited	193	193	-	1.5%
	<u>7,132</u>	<u>7,132</u>		<u>54.9%</u>
	<u>7,132</u>	<u>7,132</u>	<u>-</u>	<u>54.9%</u>
Cash at bank and in hand		<u>5,856</u>		<u>45.1%</u>
Total investments		<u>12,988</u>		<u>100%</u>

* Part-qualifying investment

The movements in the portfolio during the period and the basis of valuation of the largest investments are set out on pages 31 to 34.

REVIEW OF INVESTMENTS – ‘H’ SHARE POOL (continued)

Summary of investment movements

Additions

	Cost £'000
Non-qualifying investments	
Deeside Solar Farm Limited	2,250
Woodbridge Solar Limited	1,800
Vulcan Renewables Limited	1,410
Pub People Limited	984
Future Biogas (Spring Farm) Limited	525
Ludlow Taverns Springhill Limited	420
Pearce and Saunders Limited	193
Total ‘H’ Share pool	<u><u>7,582</u></u>

Disposals

	Cost £'000	MV at 01/01/14 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the period £'000
Non-qualifying investments					
Deeside Solar Farm Limited	450	450	450	-	-
	<u>450</u>	<u>450</u>	<u>450</u>	<u>-</u>	<u>-</u>

† Adjusted for additions in the period

REVIEW OF INVESTMENTS – ‘H’ SHARE POOL (continued)

Further details of the main investments:

Deeside Solar Limited



Cost at 31/12/14:	£1,800,000	Valuation at 31/12/14:	£1,800,000
Date of first investment:	Nov 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

Loan stock:	£1,800,000	Proportion of loan stock held:	60%
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Summary financial information from statutory accounts to: None filed

Deeside Solar Limited owns and operates a 3.85MWp operation ground mounted solar array in Cheshire. The site benefits from the receipt of Feed-In Tariffs and exported power revenues.

Woodbridge Solar Limited



Cost at 31/12/14:	£1,800,000	Valuation at 31/12/14:	£1,800,000
Date of first investment:	Nov 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

Loan stock:	£1,800,000	Proportion of loan stock held:	60%
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Summary financial information from statutory accounts to 31 December*

	2013	2012
Net assets:	£4,640,419	None due

Woodbridge owns and operates a 9.0 MWp solar farm in Rutland. The site is located on a disused parcel of land at the Hanson cement works. The system qualifies for payments under the Renewables Obligation scheme and receives 1.6 Renewable Obligation Certificates (ROCs) for each MWh of electricity generated. The site was co-developed by Lark Energy and Armstrong Energy, with Lark Energy also undertaking construction under a standard EPC agreement. No rent is payable to Hanson; however, Hanson receives 20% of the generated power at no cost, in lieu of rent. All other power is sold to Total Gas and Power under a Power Purchase Agreement.

Vulcan Renewables Limited



Cost at 31/12/14:	£1,410,000	Valuation at 31/12/14:	£1,410,000
Date of first investment:	Nov 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

Loan stock:	£1,410,000	Proportion of loan stock held:	9%
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Summary financial information from statutory accounts to 30 November*

	2013	2012
Net assets	£3,241,700	£2,580,091

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.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘H’ SHARE POOL (continued)

Further details of the main investments:

Pub People Holdings Limited
www.pubpeople.com



Cost at 31/12/14:	£984,000	Valuation at 31/12/14:	£984,000
Date of first investment:	Dec 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£984,000	Proportion of loan stock held:	52%

Summary financial information from statutory accounts to 31 March

	2013	2012
Turnover:	£12,928,000	£9,759,364
Operating profit:	£65,000	£5,380,701
Net assets:	£2,828,000	£2,654,574

Pub People own and operate more than 50 pubs in the East Midlands and the loan is secured, with first charge, over the 5 freeholds in the estate valued at more than £2.5 million.

Future Biogas (Spring Farm) Limited
www.futurebiogas.com



Cost at 31/12/14:	£525,000	Valuation at 31/12/14:	£525,000
Date of first investment:	Apr 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£525,000	Proportion of loan stock held:	16%

Summary financial information from consolidated statutory accounts to 31 May*

	2013
Net assets:	£936,933

Future Biogas owns and operates a 1.4MW self-contained biogas plant in Norfolk. Through an anaerobic digestion process biogas is produced which is used to generate electricity. The company benefits from the receipt of Feed-in Tariffs and payments for electricity exported to the National Gas Grid.

Ludlow Taverns Springhill Limited



Cost at 31/12/14:	£420,000	Valuation at 31/12/14:	£420,000
Date of first investment:	Jul 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£420,000	Proportion of loan stock held:	50%

Summary financial information from statutory accounts to 30 September*

	2014	2013
Net assets:	£1,356,041	£1,259,155

Ludlow Taverns Springhill Limited owns and operates The Spring Hill in Penn, Wolverhampton. The company is owned by Ludlow Management Limited which is funded by a number of the Downing VCTs.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘H’ SHARE POOL (continued)

Further details of the main investments:

Pearce and Saunders Limited
www.anticlondon.com



Cost at 31/12/14:	£193,000	Valuation at 31/12/14:	£193,000
Date of first investment:	Dec 14	Valuation at 31/12/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£193,000	Proportion of loan stock held:	23%

Summary financial information from statutory accounts to 31 December*

	2013
Net assets	£777,020

Pearce and Saunders Ltd is a new freehold pub company that will be managed by the Antic London team and funded by the Downing VCTs. It was incorporated to acquire the freehold pubs of three South East London sites; Jam Circus in Brockley, The Old Post Office in Eltham and The John Jakson in Wallington.

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.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the period from the largest investments held by the ‘H’ Share pool	£’000
Deeside Solar Farm Limited	31
Woodbridge Solar Limited	23
Vulcan Renewables Limited	20
Pub People Limited	5
Future Biogas (Spring Farm) Limited	10
Ludlow Taverns Springhill Limited	15
Pearce and Saunders Limited	1
	<u>105</u>
Receivable from other investments	-
	<u><u>105</u></u>

Analysis of investments by investment type

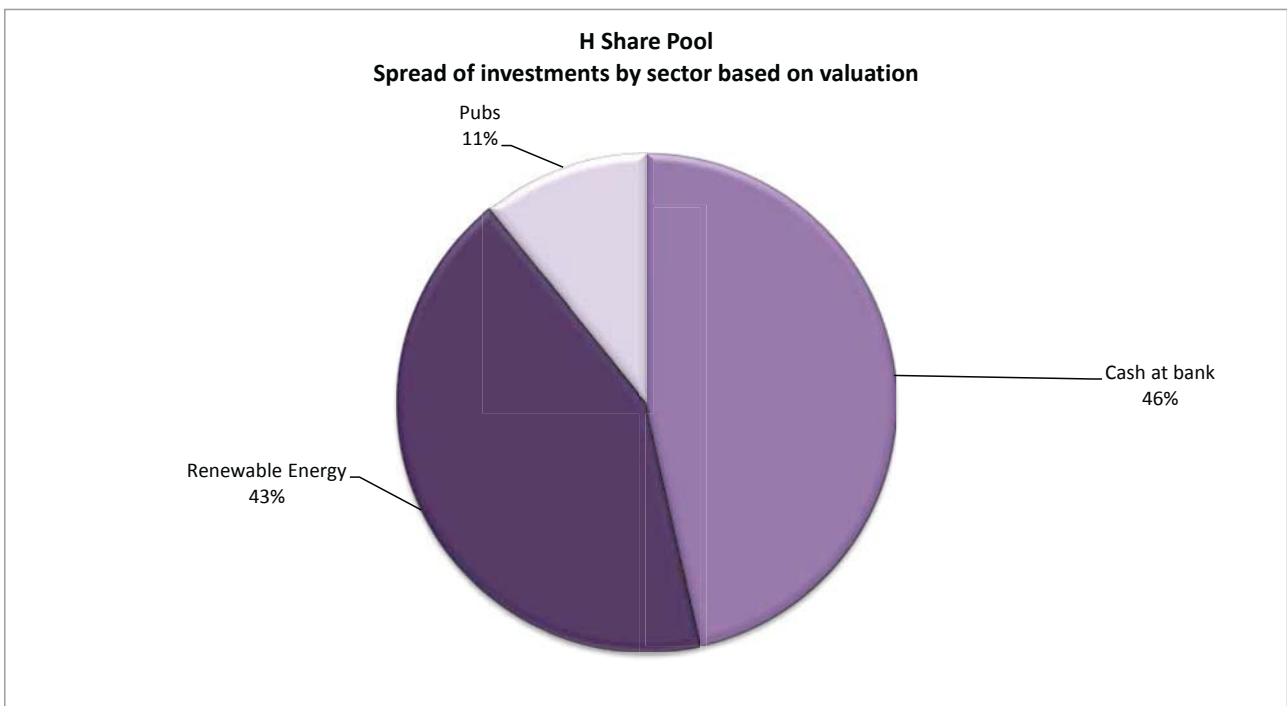
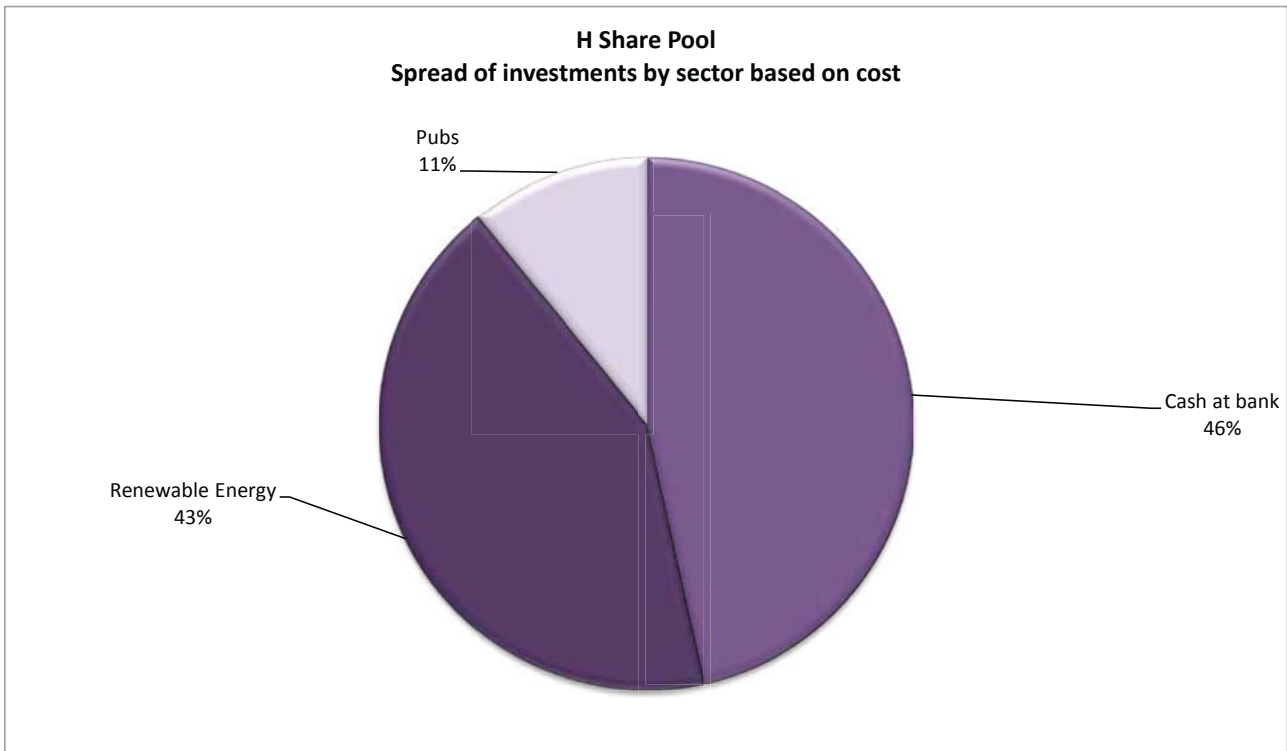
The following shows the split of the ‘H’ Share pool’s investment portfolio by type of instrument held at 31 December 2014:

	Target portfolio split	Actual portfolio split 31 Dec 2014
Qualifying investments		
Loans to qualifying companies	50%	0%
Ordinary shares in qualifying companies	25%	0%
Non-qualifying investments (including cash at bank)	25%	100%
	<u>100%</u>	<u>100%</u>

REVIEW OF INVESTMENTS – ‘H’ SHARE POOL (continued)

Analysis of investments by commercial sector

The split of the ‘H’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2014) is as follows:



STRATEGIC REPORT

The Directors present the Strategic Report for the period ended 31 December 2014. 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's principal objective is to provide Shareholders with an attractive level of tax-free capital gains and income generated from a portfolio of investments in a range of different sectors.

The Company's strategy for achieving this objective is to:

- invest in a portfolio of venture capital investments across a range of differing sectors, primarily in the UK and EU and;
- comply with the VCT regulations to enable Shareholders to retain the initial income tax relief and ongoing tax reliefs.

Business review and developments

'C' Share pool

The 'C' Share pool began the period with £5.8 million of investments and ended with £6.6 million spread across a portfolio of 21 companies. 16 of these investments, with a value of £5.7 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the period was £711,000, comprising a revenue profit of £182,000 and a capital gain of £529,000.

'D' Share pool

The 'D' Share pool began the period with £7.6 million of investments and ended with £7.1 million spread across a portfolio of 21 companies. 17 of these investments, with a value of £5.4 million, were VCT qualifying (or part qualifying).

The loss on ordinary activities after taxation for the period was £59,000, comprising a revenue profit of £233,000 and a capital loss of £292,000.

'F' Share pool

The 'F' Share pool began the period with £6.4 million of investments and ended with £7.4 million spread across a portfolio of 24 companies. 17 of these investments, with a value of £5.7 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the period was £71,000, comprising a revenue profit of £82,000 and a capital loss of £11,000.

'H' Share pool

The 'H' Share pool ended its initial period with £7.1 million of investments spread across a portfolio of seven companies, all of which are non-qualifying.

The loss on ordinary activities after taxation for the period was £46,000, being purely a revenue loss.

The Company's business and developments during the period are reviewed further within the Chairman's Statement, Investment Manager's Reports and the Review of Investments for each share pool.

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its objectives (as shown on page 2). The Board believes the Company's key performance indicators are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share (see Shareholder information page). In addition, the Board considers the Company's performance in relation to other VCTs.

Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, market price, credit and liquidity risks, are summarised within note 17 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 2006, 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. They receive quarterly reports from the Manager which monitors the compliance of these risks, and places reliance on the Manager to give updates in the intervening periods. These policies have remained unchanged since the beginning of the financial period.

STRATEGIC REPORT (continued)

Business model

The company operates as a Venture Capital Trust to ensure 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 below.

Investment policy

Qualifying investments

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

Non-qualifying investments

The funds not employed in qualifying investments will be predominantly invested in:

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

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

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

Qualifying investments	75%
Non-qualifying investments	25%
	<hr/>
	100%

Listing rules

In accordance with the Listing Rules:

- (i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds;

the Company must not conduct any trading activity which is significant in the context of the Company; and

- (ii) the Company must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the Income Tax Act 2007.

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007. How the main regulations apply to the Company is summarised as follows:

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

STRATEGIC REPORT (continued)

Performance incentive fees

'C' Share pool and 'D' Share pool

The investments, other assets and liabilities of each share class are managed as separate pools and, accordingly, performance incentive arrangements are specific to each pool. No performance incentive fee will be payable until Shareholders:

- i) receive proceeds, by way of dividends/distributions/ share buybacks ("Total Proceeds"), of at least 100.0p per £1 invested; and
- ii) achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

Subject to these conditions being met, Total Proceeds will be distributed as follows:

Shareholders	97% of the first 100.0p of proceeds per £1 invested and 80% thereafter
Management	3% of the first 100.0p of proceeds and 20% thereafter

If the above distribution would result in Shareholders receiving less than 100.0p per £1 invested or lower than a 7% compound return, the return to the Management Team will be reduced until Shareholders receive at least 100.0p per £1 invested and a 7% compound return. Management's share of the Total Proceeds will be subject to a cap at 1.25% of net assets per share pool per annum and will only be payable if the hurdle is achieved.

The maximum Performance Incentive is limited to an amount equivalent to 1.25% of net assets per annum per share pool (the "Cap"). If, in any accounting period, the performance incentive payable is less than the Cap then the shortfall shall be aggregated to the Cap in respect of the following accounting period and so on until fully utilised.

'F' Share pool

The Performance Incentive fee in respect of the 'F' Share pool will only become payable if 'F' Shareholders: (i) receive Shareholder Proceeds of at least 100.0p per 'F' Share (excluding initial income tax relief); and (ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 3.0p per 'F' Share plus 20% above 100.0p per 'F' Share of the funds available (for distribution to 'F' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of the 'F' Share pool equivalent to 7.0p per 'F' Share (based on the number of 'F' Shares in issue at the close

of the Offer).

For example, if the total funds available for distribution were 110.0p per 'F' Share, then the Performance Incentive would be 5p per 'F' Share (3.0p plus 20% x 10.0p), leaving Shareholder Proceeds of 105.0p per 'F' Share (assuming the Hurdles have been met and ignoring any benefit from corporation tax relief on the Performance Incentive). If the total funds available for distribution were instead 130.0p per 'F' Share, the Performance Incentive would be capped at 7.0p per 'F' Share, leaving Shareholder Proceeds of 123.0p per 'F' Share.

'H' Share pool

The Performance Incentive will only become payable if 'H' Shareholders:

- (i) have the opportunity to receive shareholder Proceeds of at least 105.82p per 'H' Share (excluding initial income tax relief); and
- (ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment)(together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 3p per H Share plus 20% of the funds available above 105.82p per 'H' Share (for distribution to 'H' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount (over the period to when an exit is provided in approximately six years) equivalent to 7.0p per 'H' Share (based on the number of 'H' Shares in issue at the close of the Offer). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

For example, if the total funds available for distribution over six years were 115.82p per 'H' Share, the Performance Incentive would be 5.0p per 'H' Share (3.0p plus 20% x 10.0p), leaving Shareholder Proceeds of 110.82p per 'H' Share (assuming the Hurdles have been met and ignoring any benefit from corporation tax relief on the Performance Incentive). If the total funds available for distribution were instead 135p per 'H' Share, the Performance Incentive would be capped at 7.0p per 'H' Share, leaving Shareholder Proceeds of 128p per 'H' Share.

Targets have not yet been met in respect of any share pool in the year ended 31 December 2014 and consequently no fees have been paid.

STRATEGIC REPORT (continued)

Borrowings

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a maximum amount equal to 50% of the funds raised under its offers for subscription, of the aggregate amount paid on any shares issued by the Company together with any share premium thereon, currently equal to £10 million. There are no plans to utilise this ability at the current time.

Environmental, social and human rights policy

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

Global greenhouse gas emissions

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

Directors and senior management

The Company does not have any employees, including senior management, other than the Board of three non-executive directors. All Directors are male.

Future prospects

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

By order of the Board



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

21 April 2015

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the period ended 31 December 2014.

Share capital

At the period end, the Company had in issue 7,158,326 'C' Shares of 0.1p each, 10,750,064 'A' Shares of 0.1p each, 9,979,109 'D' Shares of 0.1p each, 14,999,862 'E' Shares of 0.1p each, 10,821,660 'F' Shares of 0.1p each and 13,446,972 'H' Shares of 0.1p each.

Only the holders of the 'C' Shares, 'D' Shares, 'F' Shares and 'H' Shares have voting rights, except where there are issues in respect of the variation of rights of the 'A' Shares and 'E' Shares. There are no other share classes in issue.

Assets attributable to the 'C' Shares and 'A' Shares ("C' Share pool"), the 'D' Shares and 'E' Shares ("D' Share pool"), 'F' Shares ("F' Share pool") and 'H' Shares ("H' Share pool") are maintained as separate investment pools.

The Company has a general policy of buying in for cancellation its own shares that become available in the market.

During the year, the Company did not repurchase any of its Shares.

At the AGM that took place on 17 June 2014, the Company was authorised to make market purchases of its 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares and 'F' Shares up to a limit of 1,066,591 'C' Shares, 1,601,760 'A' Shares, 1,474,122 'D' Shares, 2,234,234 'E' Shares, 1,612,427 'F' Shares and 5,771,501 'H' Shares which represented approximately 14.9% of the issued share capital of each share class respectively at the date of the AGM.

At the current date, authority remains for 1,066,591 'C' Shares, 1,601,760 'A' Shares, 1,474,122 'D' Shares, 2,234,979 'E' Shares, 1,612,427 'F' Shares and 5,771,501 'H' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 16 June 2015.

The minimum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or a 'H' Share is 0.1p, exclusive of all expenses, and the maximum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or a 'H' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations.

Results and dividends

Return/(loss) on ordinary activities after tax for the year ended 31 December 2014 split as:

	£'000	Pence per share
'C' Shares	711	9.9p
'D' Shares	(59)	(0.6p)
'F' Shares	71	0.7p
'H' Shares	(46)	(0.5p)
Total	<u>677</u>	

Distributions paid in respect of current period

23 June 2014 ('C' Shares)	179	2.5
23 June 2014 ('D' Shares)	249	2.5
23 June 2014 ('F' Shares)	271	2.5
9 December 2014 ('D' Shares)	250	2.5
9 December 2014 ('F' Shares)	270	2.5
9 December 2014 ('H' Shares)	672	5.0
	<u>1,891</u>	

Your Board is proposing to pay a final dividend of 2.5p per 'F' Share and 2.5p per 'H' Share payable on 19 June 2015 to Shareholders on the register at 22 May 2015.

Directors

The Directors of the Company during the period and their beneficial interests in the issued shares of Downing THREE VCT plc at 31 December 2014 and 31 December 2013 were as follows:

Directors		No. of shares	
		31 Dec 2014	31 Dec 2013
Dennis Hale	'H' Shares	4,975	n/a
Roger Jeynes	'H' Shares	19,900	n/a
Michael Robinson	'F' Shares	18,630	18,630
	'H' Shares	9,950	n/a

Between the 31 December 2014 and the date of this report the Directors' shareholdings changed by the addition of the following:

Directors		No. of Shares
Dennis Hale	'J' Shares	5,970
Roger Jeynes	'J' Shares	9,950
Michael Robinson	'J' Shares	4,975

REPORT OF THE DIRECTORS (continued)

Directors (continued)

In accordance with developments in corporate governance practice, the Board has decided that it is best practice for all Directors to retire at each Annual General Meeting and being eligible offer themselves for re-election. The Board recommends that Shareholders take into consideration each Director's considerable experience in VCTs and other areas, as shown in their respective biographies on page 3 together with the results for the period to date, in order to support the resolutions to re-appoint all three Directors.

The terms of appointment each of the directors are detailed in a letters of appointment issued at the time of their appointment. These agreements are for a period of three years and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

Investment and administration manager

Downing Managers 3 Limited ("DM3") provides investment management services to the Company. DM3 is a wholly owned subsidiary of the Company and is paid 1.35% of the 'C' and 'D' Share net assets per annum, 1.8% of the 'F' Share net assets per annum and 2% of the 'H' Share net assets per annum. Additionally, DM3 provides administration services to the Company for a fee of £55,000 (plus RPI adjustment) per annum.

The Board is satisfied with DM3's approach and procedures in providing investment management services to the Company. The Director's have therefore concluded that the continuing appointment of DM3 as Investment Manager remains in the best interest of Shareholders.

The agreement is for a minimum term of three years with a twelve month notice period on either side at any time after two years following the commencement of the agreement.

The annual running costs of the Company, for the period, are also subject to a cap of 2.9% of net assets for the 'C' and 'D' Share pools, and 3.5% of net assets for the 'F' and 'H' Share pool of the Company. Any excess costs over this cap are met by DM3 through a reduction in fees.

Trail commission

The Company has an agreement to pay trail commission annually, to Downing LLP, in connection with the funds raised under the offer for subscription. This is calculated at 0.25% for the 'C' and 'D' Share pool and 0.5% for the 'F' share pool of the net assets of the Company at each year end.

Creditor payment policy

The Company's payment policy is to pay creditors within thirty days of receipt of an invoice except where other terms have been agreed. The Company did not have any trade creditors at the period end.

VCT status

The Company has appointed Robertson Hare LLP ("Robertson Hare") to advise it on compliance with VCT requirements, including evaluation of investment opportunities and regular review of the portfolio. Although Robertson Hare works closely with the Investment Manager, they report directly to the Board.

A summary of the VCT Regulations is included in the Company's Investment Policy shown on page 37. Compliance with the main VCT Regulations for the period ended 31 December 2014 is summarised as follows:

1. The Company holds at least 70% of its investments in qualifying companies; 72.7%
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011; 32.8%
- 2a. At least 70% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised on or after 6 April 2011; 70.9%
3. At least 10% of each investment held in "eligible shares"; Complied
4. No investment constitutes more than 15% of the Company's portfolio; Complied
5. Income is derived wholly or mainly from shares and securities; and 93.0%
6. No more than 15% of the income from shares and securities is retained. 14.7%

Substantial interests

As at 31 December 2014 and the date of this report, the Company had not been notified of any beneficial interest exceeding three per cent of any class of Share Capital.

Auditor

A resolution to reappoint BDO LLP as the Company's Auditor will be proposed at the forthcoming AGM.

REPORT OF THE DIRECTORS (continued)

Annual General Meeting

The Annual General Meeting will be held at Ergon House, Horseferry Road, London, SW1P 2AL 3:05p.m. on 16 June 2015.

The Notice of the Annual General Meeting 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 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). 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 or 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 judgements 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, to disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements 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 understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for 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 3, confirms that, to the best of each person's knowledge:

- that the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the management report included within the Strategic Report, Report of the Directors, Chairman's Statement, Investment Manager's Reports and Review of Investments includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

Website publication

The directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the website of the Administration Manager (www.downing.co.uk) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

REPORT OF THE DIRECTORS (continued)

Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code September 2012 (www.frc.org.uk) is shown on page 50 and 51.

Other matters

Information in respect of financial instruments, and future developments which were previously disclosed within the Directors Report has been disclosed within the Strategic Report on pages 36 to 39.

Statement as to disclosure of information to Auditor

The Directors in office at the date of the report have confirmed, as far as they are aware, that 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

21 April 2015

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Section 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to the Shareholders at the Annual General Meeting to be held on 16 June 2015.

Under the requirements of Section 497, the Company's Auditors are required to audit certain disclosures contained within the Report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 52 and 55.

Directors' remuneration policy

Below is the Company's remuneration policy. Shareholders approved this policy at the AGM in June 2014. In accordance with the regulations, Shareholders must vote on the remuneration policy, for the financial year commencing after the AGM, every three years or sooner if the Company wants to make changes to the policy. Therefore, the policy is expected to be put to Shareholders again at the AGM in 2017.

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 non-executive Directors are more closely involved with the investee companies than other similar VCTs.

Directors' remuneration is calculated in accordance with the Company's Articles of Association as follows:

- (i) The Directors shall be paid out of the funds of the Company by way of fees for their services an aggregate sum not exceeding £100,000 per annum (excluding any performance incentive fees to which the Directors may be entitled from time to time). The Directors shall also receive by way of additional fees such further sums (if any) as the Company in General Meeting may from time to time determine. Such fees and additional fees shall be divided among the Directors in such proportion and manner as they may determine and in default of the determination equally.

- (ii) The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors including any expenses incurred in attending meetings of the Board or of Committees of the Board or General Meetings and if in the opinion of the Directors it is desirable that any of their number should make any special journeys or perform any special services on behalf of the Company or its business, such Director or Directors may be paid reasonable additional remuneration and expenses as the Directors may from time to time determine.

Service contracts

Each of the Directors has entered into a consultancy agreement for a fixed term of three years from the date of their appointment and thereafter on a three month rolling notice.

Directors' remuneration (audited)

Directors' remuneration for the Company and its subsidiary for the period under review was as follows:

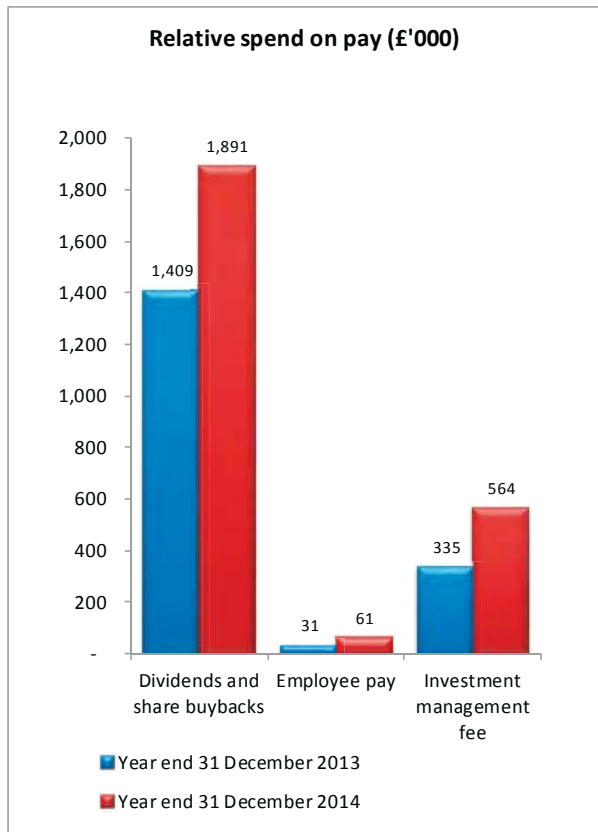
	Current annual fee £	Year ended 31/12/14 £	Period ended 31/12/13 £
Hugh Gillespie	n/a	500	11,000
Dennis Hale	12,500	12,500	9,000
Roger Jeynes	20,000	19,000	1,000
Michael Robinson	25,000	25,000	9,000
	<u>57,500</u>	<u>57,000</u>	<u>30,000</u>

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

DIRECTORS' REMUNERATION REPORT (continued)

Relative importance of spend on pay

The difference in actual spend between the period ended 31 December 2013 and the year ended 31 December 2014 on remunerations for all employees in comparison to distributions (dividends and share buy-back) and other significant spend 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 charts on the next page represents the 'C' Share pool, 'D' Share pool, 'F' Share pool and 'H' Share pool performance over the period since shares were first listed on the London Stock Exchange and compares the Total Return of the Company (Net Asset Value plus Index including dividends reinvested). The Numis Smaller Companies Index has been chosen as a comparison as the Board considers it is the publicly available index which most closely matches the spread of investments held by the Company. It has been rebased to 100 at the launch date of each respective pool.

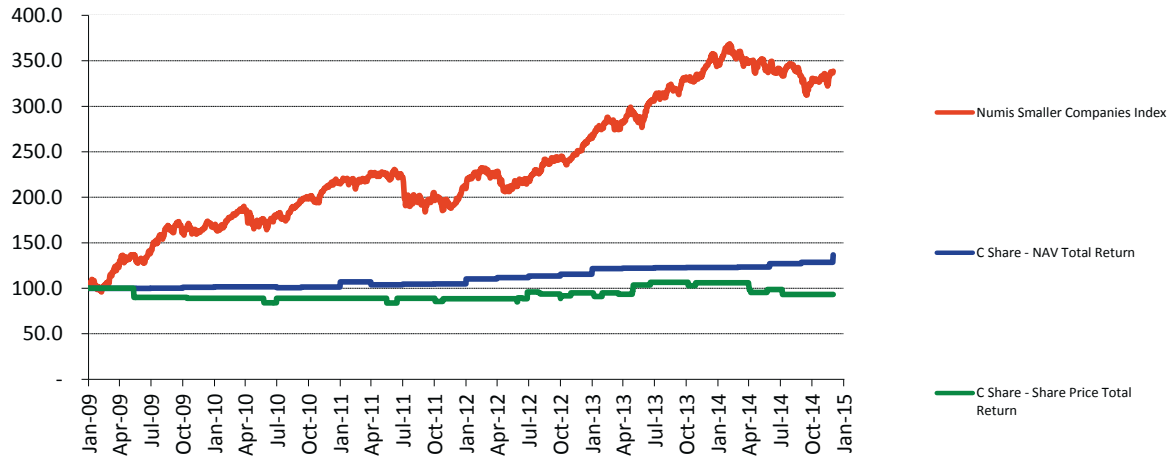
By order of the Board

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

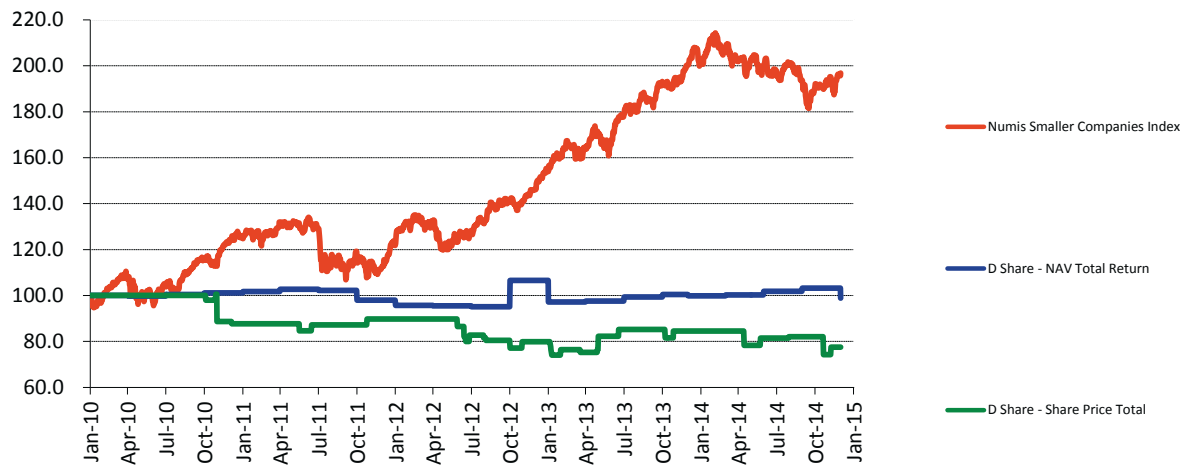
21 April 2015

DIRECTORS' REMUNERATION REPORT (continued)

**Downing THREE VCT plc
'C' Share performance chart**

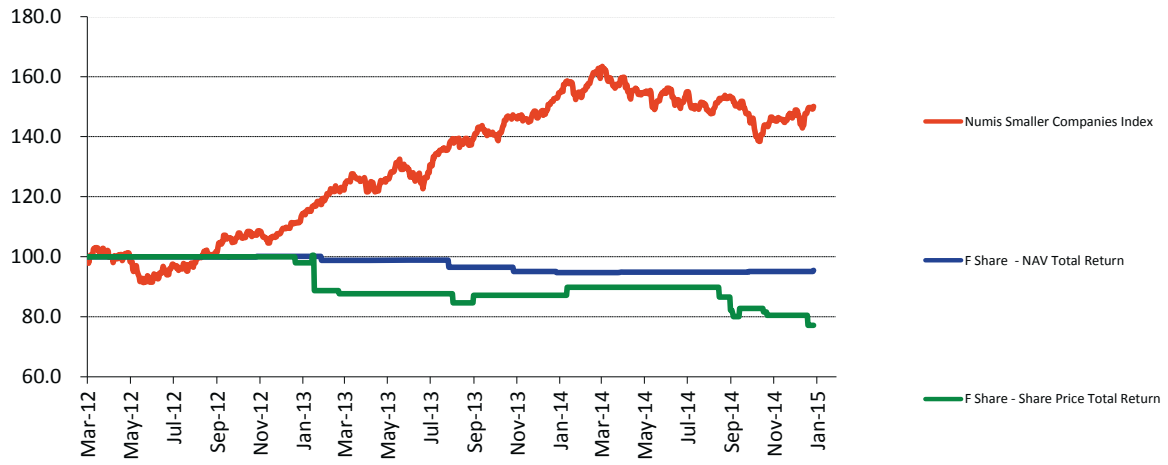


**Downing THREE VCT plc
'D' Share performance chart**

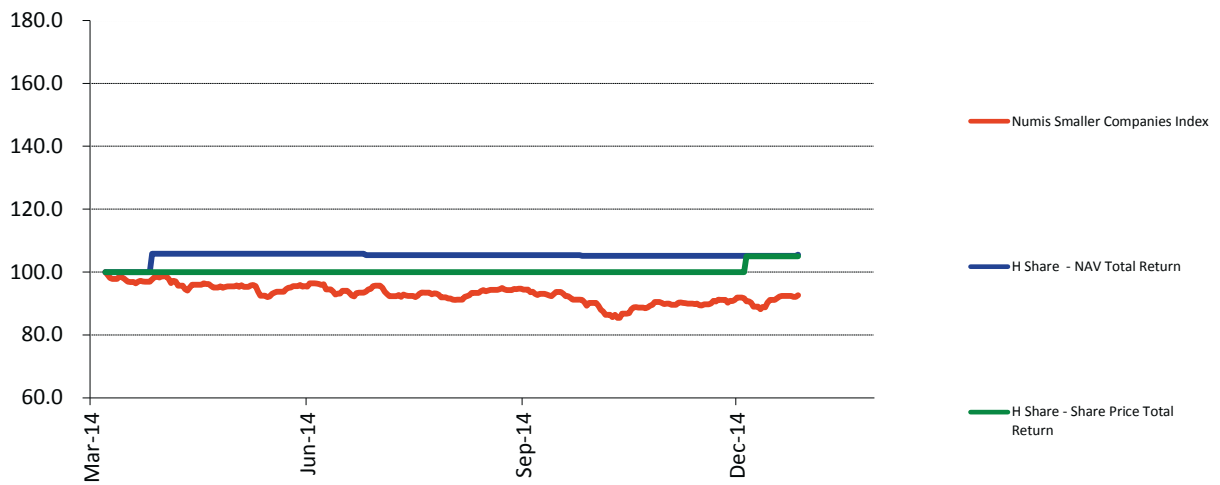


DIRECTORS' REMUNERATION REPORT (continued)

**Downing THREE VCT plc
'F' Share performance chart**



**Downing THREE VCT plc
'H' Share performance chart**



CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012, being the principles of good governance and the code of best practice, as set out in the annex to the Listing Rules of the UK Listing Authority.

The Board

The Company has a Board comprising three non-executive Directors. The Chairman and senior Director is Michael Robinson. Biographical details of all Board members (including significant other commitments of the Chairman) are shown on page 3.

In accordance with Company policy all of the Directors are offering themselves for re-election at the next AGM.

Full Board meetings take place quarterly and additional meetings are held as required to address specific issues including considering recommendations from the Investment Manager, making all decisions concerning the acquisition or disposal of investments, and reviewing, periodically, the terms of engagement and the performance of all third party advisers (including investment managers and administrators). The Board has a formal schedule of matters specifically reserved for its decision.

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.

As the Company has a small Board of non-executive Directors, all three Directors sit on all Committees. The Chairman of each Committee is Michael Robinson. The Audit Committee normally meets twice yearly, and the Remuneration and Nomination Committees meet as required. All Committees have defined terms of reference and duties.

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 40.

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 Manager, 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 Manager. This is covered more fully under 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 Manager 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 two main areas of risk for the year under review are the carrying value of investments and revenue recognition. The committees' consideration of these matters is set out in this report.

CORPORATE GOVERNANCE (continued)

Audit Committee (continued)

External auditor (continued)

The Committee, after taking into consideration comments from the Manager, 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.

Following assurances received from the Managers at the completion of the audit for the year to 31 December 2014, 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.

Board and Committee meetings

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

	Board meetings (5 held)	Audit Committee meetings (2 held)
Dennis Hale	5	2
Roger Jeynes	5	2
Michael Robinson	5	2

Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration due to each Director are set out in the Directors' Remuneration Report on page 44 and this is subject to Shareholder approval. The Committee did not meet during the period.

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 Board composition and balance. The Committee meets as and when appropriate.

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 period, or to meet with major Shareholders if so requested.

In addition to the formal business of the AGM, representatives of the Investment Manager 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. The Manager collates proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. 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. The notice of the next AGM and proxy form can be found at the end of these financial statements.

The terms of reference of the Committees and the conditions of appointment of non-executive Directors are available to Shareholders on request.

Financial reporting

The Directors' statement of responsibilities for preparing the accounts is set out in the Report of the Directors on page 42, and a statement by the Auditor about their reporting responsibilities is set out in the Auditor's Report on page 52.

Internal control

The Board has adopted an Internal Control Manual ("Manual") for which they are 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.

CORPORATE GOVERNANCE (continued)

Internal control (continued)

The Board reviews a Risk Register on an annual basis. The main aspects of internal control in relation to financial reporting by the Board are as follows:

- Review of quarterly reports from the Investment Manager on the portfolio of investments held, including additions and disposals;
- Quarterly reviews by the Board of the Company's investments, other assets and liabilities, and revenue and expenditure and detailed review of unquoted investment valuations;
- Quarterly reviews by the Board of compliance with the venture capital trust regulations to retain status, including a review of half yearly reports from Robertson Hare;
- A separate review of the Annual Report and Half Yearly report by the Audit Committee prior to Board approval; and
- A review by the Board of all financial information prior to publication.

The Board is responsible for ensuring that the procedures to be followed by the advisers and themselves 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 period.

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 to Downing Managers 3 Limited.

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 Manager at www.downing.co.uk.

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 4 and 5, the Investment Manager's Reports on pages 6, 14, 21 and 29, the Strategic Report on page 36 and the Report of the Directors on page 40. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Balance Sheet on page 59, the Cash Flow statement on page 61 and the Strategic Report on page 39. In addition, note 17 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.

Going concern (continued)

The Company has considerable financial resources at the period 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 despite the current uncertain economic outlook.

The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason they believe that the Company continues to be a going concern and that it is appropriate to continue 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 provisions throughout the accounting year. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 December 2014 with the provisions set out in the UK Corporate Governance Code issued in September 2012.

- a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. In addition, 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 Annual General Meeting. (B.4.1, B.4.2, E.1.1)
- b) Due to the size of the Board and nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)

CORPORATE GOVERNANCE (continued)

Compliance statement (continued)

c) Non-executive Directors have consultancy agreements, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion, this does not make a substantive difference to the circumstances of the Company. (B.2.3)

d) As the Company has had no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)



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

21 April 2015

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

Our opinion on the financial statements

In our opinion the Downing THREE VCT plc financial statements for the year ended 31 December 2014, which have been prepared by the Directors in accordance with applicable law and United Kingdom Accounting Standards:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; 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:

- Reconciliation of Movements in Shareholders' Funds;
- Income Statement;
- Balance Sheet;
- Cash Flow Statement; 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING THREE VCT PLC (continued)

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 Manager 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
<p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>For all investments sampled, we developed our own point estimate where alternative assumptions 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.</p>
<p>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.</p>	<ul style="list-style-type: none"> • 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 their key issues is set out on page 48.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING THREE VCT PLC (continued)

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. Importantly, misstatements below this level 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.	<ul style="list-style-type: none">• The value of invested assets• The level of judgement inherent in the valuation• The range of reasonable alternative valuation	600,000
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.	<ul style="list-style-type: none">• Level of gross expenditure	40,000

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 Directors' Report 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 49 and 50 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING THREE VCT PLC (continued)

Matters on which we are required to report by exception (continued)

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 50, in relation to going concern; 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.

Handwritten signature of Stuart Collins in black ink, appearing as 'BDO LLP'.

Stuart Collins (Senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

21 April 2015

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

INCOME STATEMENT

for the year ended 31 December 2014

	Year ended 31 December 2014			Period ended 31 December 2013			
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	1,466	-	1,466	1,066	-	1,066
Gain/(loss) on investments	9	-	226	226	-	(462)	(462)
		1,466	226	1,692	1,066	(462)	604
Investment management fees	3	(564)	-	(564)	(334)	-	(334)
Other expenses	4	(296)	-	(296)	(206)	(35)	(241)
Return/(loss) on ordinary activities before tax		606	226	832	526	(497)	29
Tax on ordinary activities	6	(155)	-	(155)	(128)	-	(128)
Return/(loss) attributable to equity shareholders		451	226	677	398	(497)	(99)
Basic and diluted return/(loss) per:							
'C' Share	8	2.5p	7.4p	9.9p	2.3p	(1.2p)	1.1p
'A' Share	8	-	-	-	-	-	-
'D' Share	8	2.3p	(2.9p)	(0.6p)	2.2p	(0.1p)	2.1p
'E' Share	8	-	-	-	-	-	-
'F' Share	8	0.8p	(0.1p)	0.7p	0.1p	(3.7p)	(3.6p)
'H' Share	8	(0.5p)	-	(0.5p)	-	-	-

All Revenue and Capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period. The total column within the Income Statement represents the profit and loss account of the Company.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement noted above.

Other than revaluation movements arising on investments held at fair value through the profit and loss, there were no differences between the return/loss as stated above and at historical cost.

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

INCOME STATEMENT (ANALYSED BY SHARE POOL)

for the year ended 31 December 2014

'C' Share pool

	Year ended 31 December 2014			Period ended 31 December 2013			
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		391	-	391	351	-	351
Gain/(loss) on investments		-	529	529	-	(52)	(52)
		391	529	920	351	(52)	299
Investment management fees		(89)	-	(89)	(82)	-	(82)
Other expenses		(64)	-	(64)	(58)	(35)	(93)
Return/(loss) on ordinary activities before tax		238	529	767	211	(87)	124
Tax on ordinary activities		(56)	-	(56)	(49)	-	(49)
Return/(loss) attributable to equity shareholders	§	182	529	711	162	(87)	75

'D' Share pool

	Year ended 31 December 2014			Period ended 31 December 2013			
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		473	-	473	458	-	458
Loss on investments		-	(292)	(292)	-	(6)	(6)
		473	(292)	181	458	(6)	452
Investment management fees		(103)	-	(103)	(98)	-	(98)
Other expenses		(67)	-	(67)	(68)	-	(68)
Return/(loss) on ordinary activities before tax		303	(292)	11	292	(6)	286
Tax on ordinary activities		(70)	-	(70)	(71)	-	(71)
Return/(loss) attributable to equity shareholders	§	233	(292)	(59)	221	(6)	215

INCOME STATEMENT (ANALYSED BY SHARE POOL) (continued)
for the year ended 31 December 2014

'F' Share pool

	Note	Year ended 31 December 2014			Period ended 31 December 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		424	-	424	257	-	257
Loss on investments		-	(11)	(11)	-	(404)	(404)
		424	(11)	413	257	(404)	(147)
Investment management fees		(184)	-	(184)	(154)	-	(154)
Other expenses		(117)	-	(117)	(80)	-	(80)
Return/(loss) on ordinary activities before tax		123	(11)	112	23	(404)	(381)
Tax on ordinary activities		(41)	-	(41)	(8)	-	(8)
Return/(loss) attributable to equity shareholders	8	82	(11)	71	15	(404)	(389)

'H' Share pool

	Note	Year ended 31 December 2014			Period ended 31 December 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		178	-	178	-	-	-
Loss on investments		-	-	-	-	-	-
		178	-	178	-	-	-
Investment management fees		(188)	-	(188)	-	-	-
Other expenses		(48)	-	(48)	-	-	-
(Loss)/return on ordinary activities before tax		(58)	-	(58)	-	-	-
Tax on ordinary activities		12	-	12	-	-	-
(Loss)/return attributable to equity shareholders	8	(46)	-	(46)	-	-	-

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

BALANCE SHEET
as at 31 December 2014

	Note	As at 31 December 2014					As at 31 December 2013			
		'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'H' Share pool £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	Total £'000
Fixed assets										
Investments	9	6,576	7,119	7,377	7,132	28,204	5,768	7,554	6,396	19,718
Current assets										
Debtors	10	67	152	139	59	417	23	93	53	169
Cash at bank and in hand	16	503	31	792	5,856	7,182	809	173	2,272	3,254
		570	183	931	5,915	7,599	832	266	2,325	3,423
Creditors: amounts falling due within one year	11	(109)	(172)	(134)	(319)	(734)	(95)	(132)	(77)	(304)
Net current assets		461	11	797	5,596	6,865	37	134	2,248	3,119
Net assets		7,037	7,130	8,174	12,728	35,069	6,505	7,688	8,644	22,837
Capital and reserves										
Called up share capital	12	18	25	11	13	67	18	25	11	54
Capital redemption reserve	13	106	-	-	-	106	106	-	-	106
Special reserve	13	5,761	7,562	9,617	(672)	22,268	5,940	8,061	-	14,001
Share premium reserve	13	-	-	-	13,608	13,608	-	-	10,160	10,160
Revaluation reserve	13	932	(713)	(508)	-	(289)	403	(421)	(499)	(517)
Capital reserve – realised	13	-	-	(1,033)	-	(1,033)	-	-	(1,033)	(1,033)
Revenue reserve	13	220	256	87	(221)	342	38	23	5	66
Total equity shareholders' funds	14	7,037	7,130	8,174	12,728	35,069	6,505	7,688	8,644	22,837
Basic and diluted net asset value per Share										
'C'/'D'/'F'/'H' Share	14	98.2p	71.3p	75.5p	94.7p		90.7p	76.9p	79.9p	
'A'/'E' Share	14	0.1p	0.1p	n/a	n/a		0.1p	0.1p	n/a	

The financial statements on pages 56 to 77 were approved and authorised for issue by the Board of Directors on 21 April 2015 and were signed on its behalf by



Michael Robinson
Chairman
Company number: 5334413

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2014

	Year ended 31 December 2014					Period ended 31 December 2013				
	Note	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'H' Share pool £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	Total £'000
Opening Shareholders' funds		6,505	7,688	8,644	-	22,837	6,789	7,984	9,574	24,347
Issue of shares		-	-	-	14,009	14,009	-	-	-	-
Share issue costs		-	-	-	(563)	(563)	-	-	-	-
Purchase of own shares		-	-	-	-	-	-	(11)	-	(11)
Total recognised return										
/(loss) for the period		711	(59)	71	(46)	677	75	215	(389)	(99)
Dividends paid	7	(179)	(499)	(541)	(672)	(1,891)	(359)	(500)	(541)	(1,400)
Closing Shareholders' funds		<u>7,037</u>	<u>7,130</u>	<u>8,174</u>	<u>12,728</u>	<u>35,069</u>	<u>6,505</u>	<u>7,688</u>	<u>8,644</u>	<u>22,837</u>

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

CASH FLOW STATEMENT

for the year ended 31 December 2014

	Note	Year ended 31 December 2014					Period ended 31 December 2013			
		'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'H' Share pool £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	Total £'000
Net cash inflow from operating activities	15	200	286	61	215	762	301	273	38	612
Taxation										
Corporation tax paid		(50)	(71)	(8)	-	(129)	(89)	(63)	(5)	(157)
Capital expenditure										
Purchase of investment	9	(650)	-	(2,181)	(7,582)	(10,413)	(83)	(136)	(2,157)	(2,376)
Sale of investments	9	371	143	1,189	450	2,153	1,004	604	1,197	2,805
Net cash (outflow)/inflow from capital expenditure		(279)	143	(992)	(7,132)	(8,260)	921	468	(960)	429
Equity dividends paid	7	(179)	(499)	(541)	(672)	(1,891)	(359)	(500)	(541)	(1,400)
Net cash (outflow)/inflow before financing		(308)	(141)	(1,480)	(7,589)	(9,518)	774	178	(1,468)	(516)
Financing										
Proceeds from share issue		-	-	-	13,621	13,621	-	-	-	-
Share issue costs		-	-	-	(175)	(175)	-	-	-	-
Purchase of own shares		-	-	-	-	-	-	(11)	-	(11)
Net cash inflow/(outflow) from financing		-	-	-	13,446	13,446	-	(11)	-	(11)
(Decrease)/increase in cash	16	(308)	(141)	(1,480)	5,857	3,928	774	167	(1,468)	(527)

There were no cash flow movements with respect to the Ordinary Share pool in either year.

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

NOTES TO THE ACCOUNTS

for the year ended 31 December 2014

1. Accounting policies

Basis of accounting

The Company has prepared its financial statements under UK Generally Accepted Accounting Practice (“UK GAAP”) and in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” revised January 2009 (“SORP”).

The financial statements are prepared under the historical cost convention except for certain financial instruments measured at fair value and on the basis that it is not necessary to prepare consolidated accounts as explained in note 9.

The Company implements new Financial Reporting Standards (“FRS”) 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 the SORP, 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. The fair value of an investment upon acquisition is deemed to be cost. Thereafter investments are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines (“IPEV”) together with FRS26.

For unquoted investments, fair value is established using the IPEV guidelines. The valuation methodologies for unquoted entities 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 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.

Gains and losses arising from changes in fair value are included in the Income Statement for the period as a capital item and transaction costs on acquisition or disposal of the investment are expensed. Where an investee company has gone into receivership, liquidation or administration (where there is little likelihood of recovery), the loss on the investment, although not physically disposed of, is treated as being realised.

It is not the Company’s policy to exercise significant influence 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 FRS9 that does not require portfolio investments to be accounted for using the equity method of accounting.

Income

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

Interest income is accrued on a time apportionment basis, by reference to the principal sum outstanding and at the effective rate applicable and only where there is reasonable certainty of collection in the foreseeable future.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2014

1. Accounting policies (continued)

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 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. The Company has adopted the policy of allocating Investment Manager's fees 100% as revenue.
- Expenses and liabilities not specific to a share class are generally allocated pro rata to the net assets.
- Performance incentive fees arising from the disposal of investments are deducted as a capital item.

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 which arise.

Deferred taxation which is not discounted 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 they crystallise based on current tax rates and law. 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 taxation is not discounted.

Other debtors and other creditors

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

Issue costs

Issue costs in relation to the shares issued for each share class have been deducted from the share premium account for the relevant share class.

2. Income

	Year ended 31 Dec 2014 £'000	Period ended 31 Dec 2013 £'000
Income from investments		
Loan stock interest	1,363	1,005
Dividend income	-	12
	<hr/> 1,363	<hr/> 1,017
Other income		
Bank interest	88	45
Fee income	15	4
	<hr/> 1,466	<hr/> 1,066

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2014

3. Investment management fees

The Company's subsidiary undertaking, Downing Managers 3 Limited ("DM3"), provides management services in respect of the portfolio of venture capital investments. The management fee, which is charged to the Company, is based on an annual amount of 1.35% of the 'C' and 'D' pool net assets, 1.8% of the 'F' pool net assets and 2% of the 'H' pool net assets. The Manager also provides administration services for a fee of £55,000 (plus RPI) per annum. Fees in relation to these services are shown within note 4.

	Year ended 31 Dec 2014 £'000	Period ended 31 Dec 2013 £'000
Investment management fees	<u>564</u>	<u>334</u>

4. Other expenses

	Year ended 31 Dec 2014 £'000	Period ended 31 Dec 2013 £'000
Administration services	55	49
Trail commission	102	53
Directors' remuneration (including employees NIC)	57	30
Social security costs	4	1
Auditor's remuneration for audit	15	16
Auditor's remuneration for non-audit services (taxation)	3	5
Other	<u>60</u>	<u>87</u>
	<u>296</u>	<u>241</u>

The 'C' and 'D' Share pool annual running costs of the Company, for the period, are subject to a cap of 2.9% of the net of each respective share pool. The 'F' and 'H' Share pool are subject to an annual running costs cap of 3.5% each.

5. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the Directors' Remuneration Report on page 44.

The Company had no employees (other than Directors) during the period. Costs in respect of these are referred to in note 4 above. No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2014

6. Tax on ordinary activities

	Year ended 31 Dec 2014 £'000	Period ended 31 Dec 2013 £'000
(a) Tax charge for period/year		
UK corporation tax	155	128
Charge for the period/year	<u>155</u>	<u>128</u>
(b) Factors affecting tax charge for the period/year		
Return on ordinary activities before taxation	<u>833</u>	<u>29</u>
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 21.4% (Period ended 31 Dec 2013: 23.2%)	179	7
Effects of:		
(Gain)/loss on investments	(49)	107
Marginal rate relief	-	(1)
Expenses disallowed for tax purposes	25	12
Adjustment in respect of prior period	-	5
Dividend income	<u>-</u>	<u>(2)</u>
	<u>155</u>	<u>128</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2014

7. Dividends

	Year ended 31 December 2014			Period ended 31 December 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by 'C' Share pool						
P/e Dec 2013 Final – 2.5p	-	179	179	-	-	-
P/e Dec 2013 Interim – 2.5p	-	-	-	144	36	180
Y/e Jan 2013 Final – 2.5p	-	-	-	50	129	179
	-	179	179	194	165	359
Proposed by 'C' Share pool						
P/e Dec 2013 Final – 2.5p	-	3,589	3,589	-	179	179
	-	3,589	3,589	-	179	179
Paid by 'D' Share pool						
Y/e Dec 2014 Interim – 2.5p	-	249	249	-	-	-
P/e Dec 2013 Final – 2.5p	-	250	250	-	-	-
P/e Dec 2013 Interim – 2.5p	-	-	-	200	50	250
Y/e Jan 2013 Final – 2.5p	-	-	-	-	250	250
	-	499	499	200	300	500
Proposed by 'D' Share pool						
P/e Dec 2013 Final – 2.5p	-	-	-	-	249	249
	-	-	-	-	249	249
Paid by 'F' Share pool						
Y/e Dec 2014 Interim – 2.5p	-	271	271	-	-	-
P/e Dec 2013 Final – 2.5p	-	270	270	-	-	-
P/e Dec 2013 Interim – 2.5p	-	-	-	-	271	271
Y/e Dec 2013 Final – 2.5p	-	-	-	-	270	270
	-	541	541	-	541	541
Proposed by 'F' Share pool						
Y/e Dec 2014 Final – 2.5p	-	271	271	-	-	-
P/e Dec 2013 Final – 2.5p	-	-	-	-	271	271
	-	271	271	-	271	271
Paid by 'H' Share pool						
Y/e Dec 2014 – Interim 2014	-	672	672	-	-	-
	-	672	672	-	-	-
Proposed by 'H' Share pool						
Y/e Dec 2014 Final – 2.5p	-	336	336	-	-	-
	-	336	336	-	-	-

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2014

8. Basic and diluted return per share

	'C' Shares	'A' Shares	'D' Shares	'E' Shares	'F' Shares	'H' Shares
Revenue return (£'000)	182	-	233	-	82	(46)
Weighted average number of shares in issue	7,158,326	10,750,064	9,979,109	14,994,862	10,821,660	9,139,447
Net capital gain/(loss) for the period (£'000)	529	-	(292)	-	(11)	-

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

9. Investments - "Fair value through profit or loss" assets

	Unquoted investments £'000
Cost at 1 January 2014	20,232
Unrealised gains/(losses)/(impairments) at 1 January 2014	(514)
Valuation at 1 January 2014	19,718
Movement in the period:	
Purchased at cost	10,413
Sale - proceeds	(2,153)
- realised gains on sales	-
Gain in the income statement	226
Valuation at 31 December 2014	28,204
Cost at 31 December 2014	28,490
Unrealised losses at 31 December 2014	(286)
Valuation at 31 December 2014	28,204

No costs incidental to the acquisitions of investments were incurred during the period.

The Company also owns 100% of the issued ordinary share capital of Downing Managers 3 Limited with an attributable cost of £2.

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

- Level 1 Reflects financial instruments quoted in an active market;
- Level 2 Reflects financial instruments that have prices that are observable either directly or indirectly; and
- Level 3 Reflects financial instruments that are not based on observable market data (unquoted equity investments and loan note investments).

	Level 1	Level 2	Level 3	31 Dec 2014	Level 1	Level 2	Level 3	31 Dec 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	-	-	20,511	20,511	-	-	14,032	14,032
Unquoted equity	-	-	7,693	7,693	-	-	5,686	5,686
	-	-	28,204	28,204	-	-	19,718	19,718

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2014

9. Investments (continued)

Reconciliation of fair value for Level 3 financial instruments held at the period end:

	Loan notes £'000	Unquoted equity £'000	Total £'000
Balance at 1 January 2014	14,032	5,686	19,718
<i>Movements in the Income Statement:</i>			
Unrealised gain in the Income statement	14	212	226
Realised gain in the Income statement	-	-	-
	14,046	5,898	19,944
Purchases at cost	8,618	1,795	10,413
Sales proceeds	(2,153)	-	(2,153)
	20,511	7,693	28,204

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 certain of the VCT's investments.

FRS29 requires disclosure to be made of the possible effect of changing one or more of the inputs to reasonable possible alternative valuation assumptions where this would result in a significant change in the fair value of the Level 3 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 basis of valuation of the investments was unchanged during the period.

The Board and the Investment Manager believe that the valuations as at 31 December 2014 reflect the most appropriate assumptions at the date, giving due regard to all information available from each investee company. Consequently, the variation in the spread of reasonable, possible, alternative valuations is likely to be in the range set out in note 17.

An analysis of venture capital investments between equity and non-equity elements is set out on pages 12, 19, 27 and 34 within the Review of Investments.

Results of the subsidiary undertaking for the year ended 31 December 2014

	Country of registration	Nature of Business	Turnover £'000	Profit before tax £'000	Net assets £'000
Downing Managers 3 Limited	England and Wales	Investment Manager	589	3	25

This subsidiary undertaking has not been consolidated as its exclusion does not materially alter the group's accounts. The financial statements therefore present information about the Company as an individual undertaking and not about its group.

Downing Corporate Finance Limited, a company in which Nicholas Lewis and Tony McGing (directors of DM3) are directors and shareholders, has been granted an option to acquire the entire share capital of DM3 at any time after 1 February 2009 for an amount equal to the net asset value of DM3 at the time of exercise.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2014

10. Debtors

	31 Dec 2014 £'000	31 Dec 2013 £'000
Prepayments and accrued income	380	116
Other debtors	37	53
	<u>417</u>	<u>169</u>

The other debtors balance relates entirely to loan stock interest proceeds of an investment which were paid in error to another VCT managed by Downing LLP. The monies were received by the company shortly after the period end.

11. Creditors: amounts falling due within one year

	31 Dec 2014 £'000	31 Dec 2013 £'000
Amounts due to subsidiary undertaking	193	67
Corporation tax	155	128
Other taxes and social security	3	3
Other creditors	366	100
Accruals and deferred income	17	6
	<u>734</u>	<u>304</u>

12. Called up share capital

	31 Dec 2014 £'000	31 Dec 2013 £'000
Issued, allotted, called up and fully-paid:		
7,158,326 (2013: 7,158,326) 'C' Shares of 0.1p each	7	7
10,750,064 (2013: 10,750,064) 'A' Shares of 0.1p each	11	11
9,979,109 (2013: 9,979,109) 'D' Shares of 0.1p each	10	10
14,994,862 (2013: 14,994,862) 'E' Shares of 0.1p each	15	15
10,821,660 (2013: 10,821,660) 'F' Shares of 0.1p each	11	11
13,446,972 (2013: n/a) 'H' Shares of 0.1p each	13	-
	<u>67</u>	<u>54</u>

During the period a total of 13,446,972 'H' Shares were issued for £1 per share pursuant to the Offer of Subscription. The aggregate consideration of the shares was £13.6 million which excludes costs £175,000.

There were no shares repurchased in any share class during the year.

The Company's capital is managed in accordance with its investment policy as shown in the Strategic Report on page 37, in pursuit of its principal investment objectives as stated on page 2.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2014

12. Called up share capital (continued)

Any distributions or returns of capital from the assets attributable to the 'C' Shares and 'A' Shares ("C' Share pool") shall be made on the following basis between the holders of the 'C' Shares and 'A' Shares:

- Provided that the performance hurdle is met (i.e. for a shareholding comprising of one 'C' Share and one 'A' Share a total of at least £1 is distributed and a 7% compound return), distributions are made as 91% to 'C' Shares and 9% to 'A' Shares until an amount equivalent to the 100.0p for a shareholding comprising of one 'C' Share and one 'A' Share has been distributed; thereafter
- All distributions will be allocated pro-rata to the number of shares held.

Before the 'C' Share pool performance hurdle is met, distributions and returns of capital from the 'C' Share pool will be made to the holders of 'C' Shares and the holders of 'A' Shares in proportion of 999 to 1 respectively being pro rata to the amount subscribed for the shares. Once the 'C' Share pool Hurdle is met, all distributions will be to the holders of the 'C' Shares until the above split of distributions is achieved.

Any distributions or returns of capital from the assets attributable to the 'D' and 'E' Shares ('D' Share pool) shall be made on the following basis between the holders of the 'D' and 'E' Shares:

- Provided that the performance hurdle is met (i.e. for a shareholding comprising of one 'D' Share and one 'E' Share a total of at least £1 is distributed and a 7% compound return), distributions are made as 97% to the 'D' Shares and 3% to the 'E' Shares until an amount equivalent to the 100.0p for a shareholding comprising one 'D' Share and one 'E' Share has been distributed; thereafter
- All distributions are made 80% to the 'D' Shares and 20% to the 'E' Shares.

Before the 'D' Share pool performance hurdle is met, distributions and returns of capital from the 'D' Share pool will be made to the holders of 'D' Shares and the holders of 'E' Shares in proportion of 999 to 1 respectively being pro rata to the amount subscribed for the shares. Once the 'D' Share pool Hurdle is met, all distributions will be to the holders of the 'D' Shares until the above split of distributions is achieved.

Any distributions or returns of capital from the assets attributable to the 'F' Share pool shall be made on the following basis between the holders of the 'F' Shares:

The Performance Incentive will only become payable if 'F' Shareholders:

- receive Shareholder Proceeds of at least 100.0p per 'F' Share (excluding initial income tax relief); and
- achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the 'F' Share pool Hurdles are met, the Performance Incentive will be 3.0p per 'F' Share plus 20% above 100.0p per 'F' Share of the funds available (for distribution to 'F' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of each Company equivalent to 7.0p per 'F' Share (based on the number of 'F' Shares in issue at the close of the Offers).

Any distributions or returns of capital from the assets attributable to the 'H' Share pool shall be made on the following basis between the holders of the 'H' Shares:

The Performance Incentive will only become payable if 'H' Shareholders:

- have the opportunity to receive shareholder Proceeds of at least 105.82p per 'H' Share (excluding initial income tax relief); and
- achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment)(together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 3p per 'H' Share plus 20% of the funds available above 105.82p per 'H' Share (for distribution to 'H' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount (over the period to when an exit is provided in approximately six years) equivalent to 7p per 'H' Share (based on the number of 'H' Shares in issue at the close of the Offers). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2014

13. Reserves

	Capital redemption reserve £'000	Special reserve £'000	Share premium reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000
At 1 January 2014	106	14,001	10,160	(517)	(1,033)	66
(Loss)/gain on investments	-	-	-	226	-	-
Retained revenue	-	-	-	-	-	451
Issue of new shares	-	-	13,608	-	-	-
Share issue costs	-	-	-	-	-	(175)
Share premium cancellation	-	10,160	(10,160)	-	-	-
Transfer between reserves	-	(1,893)	-	2	1,891	-
Dividend paid	-	-	-	-	(1,891)	-
At 31 December 2014	106	22,268	13,608	(289)	(1,033)	342

Split as:

'C' Share pool

At 1 January 2014	106	5,940	-	403	-	38
(Loss)/gain on investments	-	-	-	529	-	-
Retained revenue	-	-	-	-	-	182
Transfer between reserves	-	(179)	-	-	179	-
Dividend paid	-	-	-	-	(179)	-
At 31 December 2014	106	5,761	-	932	-	220

'D' Share pool

At 1 January 2014	-	8,061	-	(421)	-	23
Loss on investments	-	-	-	(292)	-	-
Retained revenue	-	-	-	-	-	233
Transfer between reserves	-	(499)	-	-	499	-
Dividend paid	-	-	-	-	(499)	-
At 31 December 2014	-	7,562	-	(713)	-	256

'F' Share pool

At 1 January 2014	-	-	10,160	(499)	(1,033)	5
Loss on investments	-	-	-	(11)	-	-
Retained revenue	-	-	-	-	-	82
Share premium cancellation	-	10,160	(10,160)	-	-	-
Transfer between reserves	-	(543)	-	2	541	-
Dividend paid	-	-	-	-	(541)	-
At 31 December 2014	-	9,617	-	(508)	(1,033)	87

'H' Share pool

At 1 January 2014	-	-	-	-	-	-
Retained revenue	-	-	-	-	-	(46)
Issue of new shares	-	-	13,608	-	-	-
Share issue costs	-	-	-	-	-	(175)
Transfer between reserves	-	(672)	-	-	672	-
Dividend paid	-	-	-	-	(672)	-
At 31 December 2014	-	(672)	13,608	-	-	(221)

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. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves. Revaluation reserve includes losses of £2,129,000 which are included in the calculation of distributable reserves. At 31 December 2014, total distributable reserves were £19,448,000 (2013: £11,588,000).

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2014

13. Basic and diluted net asset value per share

	Shares in issue		31 Dec 2014		31 Dec 2013	
	31 Dec 2014	31 Dec 2013	Net asset value		Net asset value	
			per share	£'000	per share	£'000
'C' Shares	7,158,326	7,158,326	98.2p	7,026	90.7p	6,494
'A' Shares	10,750,064	10,750,064	0.1p	11	0.1p	11
'D' Shares	9,979,109	9,979,109	71.3p	7,115	76.9p	7,673
'E' Shares	14,994,862	14,994,862	0.1p	15	0.1p	15
'F' Shares	10,821,660	10,821,660	75.5p	8,174	79.9p	8,644
'H' shares	13,446,972	-	94.7p	12,728	-	-
				<u>35,069</u>		<u>22,837</u>

The 'C' Share pool, 'D' Share pool, 'F' Share pool and 'H' Share pool are treated as separate investment pools. Within the 'C' Share pool the Directors allocate the assets and liabilities of the Company between the 'C' Shares and 'A' Shares such that each share class has sufficient net assets to represent its dividend and return of capital rights. Within the 'D' Share pool the Directors allocate the assets and liabilities of the Company between the 'D' Shares and 'E' Shares such that each share class has sufficient net assets to represent its dividend and return of capital rights.

14. Reconciliation of return on ordinary activities before taxation to net cash flow from operating activities

	Period ended 31 December 2014					Year ended 31 December 2013			
	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'H' Share pool £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	Total £'000
Return/(loss) on ordinary activities before taxation	768	11	112	(58)	833	124	286	(381)	29
(Gain)/loss on investments	(529)	292	11	-	(226)	52	6	404	462
(Increase)/decrease in prepayments and accrued income	(44)	(59)	(86)	(59)	(248)	134	(3)	19	150
(Decrease)/increase in accruals and deferred income	(2)	5	13	262	278	(1)	(5)	1	(5)
Increase/(decrease) in amounts due to subsidiary undertaking	7	37	11	70	125	(8)	(11)	(5)	(24)
Net cash inflow from operating activities	<u>200</u>	<u>286</u>	<u>61</u>	<u>215</u>	<u>762</u>	<u>301</u>	<u>273</u>	<u>38</u>	<u>612</u>

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2014

15. Analysis of changes in cash during the period

	31 Dec 2014 £'000	31 Dec 2013 £'000
Beginning of year	3,254	3,781
Net cash inflow/(outflow)	<u>3,928</u>	<u>(527)</u>
End of year	<u><u>7,182</u></u>	<u><u>3,254</u></u>

16. Financial instruments

The Company's financial instruments comprise investments held at fair value through profit and loss, being equity and loan stock investments in 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 cashflow and 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.

Loans and receivables and other financial liabilities are stated at amortised cost which the Directors consider is equivalent to fair value.

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
- 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 period and there have also been no significant changes to the policies for managing those risks during the period.

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 period end are provided below:

Investment 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 investment activities undertaken by the Investment Manager and overseen by the Board. The Manager 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 Manager 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
- Interest rate risk

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2014

17. Financial instruments (continued)

Investment price risk

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

At 31 December 2014, the unquoted portfolio was valued at £28,204,000 (2013: £19,718,000).

As the majority of the Company's investments are 'asset-backed', a fall in share prices generally would have a lesser impact on the valuation of the portfolio. A 10% movement in the valuations of all of the investments held by the Company would have an effect as follows:

10% movement in unquoted investment valuations

	31 Dec 2014		31 Dec 2013	
	Impact on net assets £'000	Impact on NAV per share Pence	Impact on net assets £'000	Impact on NAV per share Pence
'C' Shares	658	9.8p	577	9.1p
'D' Shares	712	7.1p	755	7.7p
'F' Shares	738	7.6p	640	8.0p
'H' Shares	713	9.5p	-	-

The sensitivity analysis for unquoted valuations above assumes that each of the sub-categories of financial instruments (ordinary shares and loan stocks) held by the Company produces an overall movement of 10%. Shareholders should note that equal correlation between these sub-categories is unlikely to be the case in reality, particularly in the case of loan stock instruments. Where share prices are falling, the equity instrument could fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to investment price risk in isolation.

Interest rate 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 attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

There are three categories in respect of interest which are attributable to the financial instruments held by the Company as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise certain loan note investments.
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate or LIBOR and comprise cash at bank and liquidity fund investments and certain loan note investments.
- "No interest rate" assets do not attract interest and comprise equity investments and debtors.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2014

17. Financial instruments (continued)
Interest rate risk (continued)

	Average interest rate	Average period until maturity	31 Dec 2014 £'000	31 Dec 2013 £'000
Fixed rate	11.6%	675 days	20,445	13,967
Floating rate	0.5%		7,246	3,317
No interest rate			7,378	5,553
			<u>35,069</u>	<u>22,837</u>

The Company monitors the level of income received from fixed and floating 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.

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the period by £5,000 for the 'C' Share pool, £nil for the 'D' Share pool, £8,000 for the 'F' Share pool and £59,000 for the 'H' Share pool. As the Bank of England base rate stood at 0.5% per annum throughout the period, it is not believed that a reduction from this level is likely.

Credit risk

Credit risk is the risk that a 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, cash deposits and debtors.

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

	31 Dec 2014 £'000	31 Dec 2013 £'000
Investments in loan stocks	20,511	14,072
Cash at bank	7,182	3,254
Interest, dividends and other receivables	413	187
	<u>28,106</u>	<u>17,513</u>

The Manager manages credit risk in respect of loan stock 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. Similarly the management of credit risk associated with interest, dividends and other receivables is covered within the investment management procedures.

Cash is mainly held by Bank of Scotland plc and Royal Bank of Scotland plc, both of which are A-rated financial institutions and both also 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 period that are directly attributable to changes in credit risk.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2014

17. Financial instruments (continued)

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. As the Company has a relatively low level of creditors, (£734,000, 2013: £304,000) and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. The Company always holds sufficient levels of funds as cash 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 Manager in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

Although the Company's investments are not held to meet the Company's liquidity requirements, the table below shows an analysis of the assets, highlighting the length of time that it could take the Company to realise its assets if it were required to do so.

The carrying value of loan stock investments held at fair value through the profit and loss account at 31 December 2014 as analysed by the expected maturity date is as follows:

As at 31 December 2014	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	2,012	4,296	3,648	2,441	-	12,397
Past due loan stock	6,354	522	1,168	70	-	8,114
	8,366	4,818	4,816	2,511	-	20,511

As at 31 December 2013	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	1,093	835	2,296	1,599	-	5,823
Past due loan stock	4,547	1,740	522	1,400	-	8,209
	5,640	2,575	2,818	2,999	-	14,032

Of the loan stock classified as "past due" above, £4,566,000 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 thus in arrears. As at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due comprised loan notes of £2,806,000 falling within the banding of less than one year, £522,000 falling within the banding of one to two years; £1,168,000 falling within the banding of two to three years; and £70,000 falling within the banding of three to five years. 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.

Of the loan stock classified as "past due" above, £3,548,000 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 giving rise to the classification of the loan notes as past due falls within the banding of nil to twelve months past due. Notwithstanding that the principal has passed its maturity date, the Directors do not consider that the loan note itself has been impaired. Of this amount, £nil has been redeemed since the period end.

NOTES TO THE ACCOUNTS (continued)

for the period ended 31 December 2014

17. Capital management

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 returns for Shareholders and 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 level of liabilities is 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 period.

19. Contingencies, guarantees and financial commitments

At 31 December 2014 and 31 December 2013, the Company had no contingencies, guarantees or financial commitments.

20. Related party transactions

Downing Managers 3 Limited ("DM3"), a wholly owned subsidiary, is the Company's Investment Manager. Details of the agreement with DM3 are included in Note 3.

During the period ended 31 December 2014, £564,000 (2013: £334,000) was payable to DM3 in respect of Investment management fees. Additionally, DM3 provides accounting, secretarial and administrative services for an annual fee of £55,000 (2013: £49,000). At the period end a balance of £193,000 (2013: £67,000) was due to DM3.

21. Controlling party

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

NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING THREE VCT PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Downing THREE VCT plc will be held at Ergon House, Horseferry Road London, SW1P 2AL at 3:05 p.m. on 16 June 2015 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 period ended 31 December 2014, together with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To approve a final dividend of 2.5p per 'F' Share and 2.5p per 'H' Share.
4. To reappoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine the Auditor's remuneration.
5. To re-elect as Director, Dennis Hale, who retires in accordance with company policy and, being eligible, offers himself for re-election.
6. To re-elect as Director, Roger Jeynes, who retires in accordance with company policy and, being eligible, offers himself for re-election.
7. To re-elect as Director, Michael Robinson, who retires in accordance with company policy and, being eligible, offers himself for re-election.

Special Resolution

8. THAT, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of 'C' shares of 0.1p each ("C' Shares"), 'A' shares of 0.1p each ("A' Shares"), 'D' shares of 0.1p each ("D' Shares"), 'E' shares of 0.1p each ("E' Shares"), 'F' Shares of 0.1p each ("F' Shares") and 'H' Shares of 0.1p each ("H' Shares) in the capital of the Company provided that:
 - (i) the maximum number of 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' Shares and 'H' Shares hereby authorised to be purchased is: 1,066,591, being 14.9 per cent. of the issued 'C' Shares; 1,601,760, being 14.9 per cent. of the issued 'A' Shares; 1,486,887, being 14.9 per cent. of the issued 'D' Shares; 2,234,234, being 14.9 per cent. of the issued 'E' Shares; 1,612,427, being 14.9% of the issued 'F' Shares and 2,003,599 being 14.9 per cent. of the issue 'H' Shares at such time.
 - (ii) the minimum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or an 'H' Share is its respective nominal value;
 - (iii) the maximum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or an 'H' Share, is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' Shares and 'H' Shares as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or 'H' Share is contracted to be purchased;
 - (iv) the Company may make a contract to purchase a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or an 'H' Share under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' Shares and 'H' Shares in pursuance of any such contract;

**NOTICE OF THE ANNUAL GENERAL MEETING
OF DOWNING THREE VCT PLC (continued)**

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.

By order of the Board



Grant Whitehouse
Company Secretary

Registered Office
Ergon House
Horseferry Road
London
SW1P 2AL

21 April 2015

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

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 appointor. 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 Act, 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 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 3.05 p.m. on 12 June 2015 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 3.05 p.m. on 12 June 2015 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 21 April 2015, the Company's issued share capital comprised 10,750,064 'A' Shares, 7,158,326 'C' Shares, 9,979,109 'D' Shares, 14,994,862 'E' Shares, 10,821,660 'F' Shares, 13,446,972 'H' Shares and 6,950,772 'J' Shares and the total number of voting rights in the Company was 48,356,839. The website referred to above will include information on the number of shares and voting rights.

Notes (continued)

- (h) If you are a person who has been nominated under section 146 of the Act 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; and
 - 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.

FORM OF PROXY

DOWNING THREE VCT PLC

For use at the Annual General Meeting of the above-named Company to be held on 16 June 2015, at Ergon House, Horseferry Road, London SW1P 2AL at 3:05p.m.

I/We*(in BLOCK CAPITALS please)

of
being the holder(s)* of 'C' Shares or 'D' Shares or 'F' Shares or 'H' Shares or 'J' Shares of 0.1p each in the capital of 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 16 June 2015 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 Directors' Report and Accounts.
- 2. To approve the Directors' Remuneration Report.
- 3. To approve a final dividend payment of 2.5p per 'F' Share and 2.5p per 'H' Share.
- 4. To reappoint the Auditor and authorise the Directors to determine their remuneration.
- 5. To re-elect Dennis Hale as a Director.
- 6. To re-elect Roger Jeynes as a Director.
- 7. To re-elect Michael Robinson as a Director.

SPECIAL BUSINESS

- 8. To authorise the Company to make market purchases of its shares

Signature(s) **Date:**.....2015

* Delete as appropriate

If you are unable to attend the AGM and wish to put any comments to the Board, please use the box below.

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 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 appointor. 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, this 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 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 this 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, and 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.



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