

Downing THREE VCT PLC

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Report & Accounts
for the year ended
31 January 2012

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	'A' Shares	'D' Shares	'E' Shares	'F' Shares
TIDM/EPIC Code:	DP2C	DP2A	DP2D	DP2E	DP2F
Latest share price (23 May 2012):	76.0p	5.025p	82.5p	0.1p	100.0p

The Ordinary Shares are currently still listed but now have negligible value and are expected to be delisted in due course.

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 name, "Downing Protected VCT III 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 Registrars, under the signature of the registered holder.

Financial calendar

24 July 2012	Annual General Meeting
September 2012	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 Planned Exit VCT 3 plc, please contact the registrar on the above number or visit Capita's website at www.capitaregistrars.com and click on "Shareholders".

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 under "Existing Investments". If you have any concerns, please contact Downing on 020 7416 7780.

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COMPANY INFORMATION

Registered number	5334413
Directors	Hugh Gillespie (Chairman) Dennis Hale Michael Robinson
Secretary and registered office	Grant Whitehouse 10 Lower Grosvenor Place London SW1W 0EN
Investment and Administration Manager	Downing Managers 3 Limited 10 Lower Grosvenor Place London SW1W 0EN Tel: 020 7416 7780 www.downing.co.uk
Auditor	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
VCT status advisers	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
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.capitaregistrars.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 Planned Exit VCT 3 plc is a venture capital trust established under the legislation introduced in the Finance Act 1995. The Company's principal objectives (in respect of the 'C', 'D' and 'F' Shares) 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 5p per share.

The detailed investment policy adopted to achieve the investment objectives is set out in the Report of the Directors on page 24.

FINANCIAL HIGHLIGHTS

	31 Jan 2012 Pence	31 Jan 2011 Pence
'C' Shares		
Net asset value per 'C' Share	91.5	92.8
Net asset value per 'A' Share	0.1	0.1
Cumulative distributions per 'C' Share	12.5	5.0
Total return per 'C' Share and 'A' Share	<u>104.1</u>	<u>97.9</u>
'D' Shares		
Net asset value per 'D' Share	83.3	93.5
Net asset value per 'E' Share	0.1	0.1
Cumulative distributions per 'D' Share	7.5	2.5
Total return per 'D' Share and 'E' Share	<u>90.9</u>	<u>96.1</u>

The Ordinary Shares now have negligible remaining value.

Proposed dividends

'C' Shares – Proposed Final 2012	Payable 27 July 2012	2.5p
'D' Shares – Proposed Final 2012	Payable 27 July 2012	2.5p

Dividend history

'C' Shares			'D' Shares		
Year end	Date paid	Pence per share	Year end	Date paid	Pence per share
Final 2010	30 July 2010	5.0	Interim 2011	26 November 2010	2.5
Final 2011	15 July 2011	5.0	Final 2011	15 July 2011	2.5
Interim 2012	25 November 2011	2.5	Interim 2012	25 November 2011	2.5
		<u>12.5</u>			<u>7.5</u>

The Ordinary Shares have paid total dividends of 90.4p per share.

DIRECTORS

Hugh Gillespie (Chairman) is non-executive chairman of a number of Downing VCTs and a non-executive director of Downing Income 3 VCT plc and Burgess Group plc. He was formerly a director of Hill Samuel Bank Limited and non-executive director or chairman of a number of public companies.

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

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

All the Directors are non-executive.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present my report of the year ended 31 January 2012. During the year, the Company had two active share pools, being the 'C' Share pool, launched in 2008/9, and the 'D' Share pool, launched in 2009/10. The Board is preparing proposals to cancel the Ordinary Share class, all funds of which have been paid out to Shareholders.

Since the 31 January year end, the Company has issued shares in a new share class, the 'F' Shares. As no 'F' Shares were in issue at the year end this report has very limited coverage of this new share class, but I would like to welcome all 'F' Shareholders to the Company and look forward to reporting developments in respect of this new share pool in future reports.

'C' Share pool

Portfolio activity

The 'C' Share pool made nine VCT qualifying or partially qualifying investments during the year at a cost of £2.1 million. At the year end, approximately 72% of the pool's funds were invested in VCT qualifying investments. A further £705,000 was invested in non-qualifying investments.

The investment valuations have been reviewed by the Board at the year end. The Board concluded that most had not shown any significant deviation from plan and it was appropriate to hold them at values equivalent to original cost. There were, however, a number of small valuation adjustments. In four cases, the underlying businesses have been performing ahead of expectations and have been uplifted by a total of £347,000. One pub investment has produced disappointing results and has been reduced in value by £80,000. Net valuation movement on the portfolio was a gain of £267,000.

Net asset value, results and dividends

At 31 January 2012, the 'C' Share NAV stood at 91.5p per share and the 'A' Share NAV was 0.1p making 91.6p for a combined holding of one 'C' Share and one 'A' Share. This is an increase of 6.2p (6.7%) over the year, after adjusting for the dividend of 7.5p paid in the year. Total Return (Total NAV plus cumulative dividends paid) is now 104.1p

In accordance with its policy, the Board is proposing to pay a dividend of 2.5p per 'C' Share on 27 July 2012 to Shareholders on the register at the close of business on 29 June 2012.

'D' Share pool

Portfolio activity

The 'D' Share pool made 15 VCT qualifying or partially qualifying investments during the year at a cost of £4.6 million. At the year end, the pool had approximately 50% of its funds invested in VCT qualifying investments and has made good progress towards the target of having 75% invested in qualifying investments by 31 January 2013. A further £1 million was invested in non-qualifying investments.

It is disappointing to report that two investments in the 'D' Share pool have faced some significant difficulties. Camandale, which owns two pubs in Scotland, experienced extremely poor trading which ultimately uncovered further problems. Although a new management team has now been put in place, the current value of the pubs is believed to be significantly below the original cost and, as a result, a provision of £403,000 has been made against the investment.

Gingerbread Pre-Schools (UK) owns and operates a number of children's nurseries. The Company ran significantly over budget in setting up a new nursery which along with other issues led to the removal of the manager and investment partner. Since the year end, Gingerbread has gone into administration, although the Company has reacquired the nurseries from the administrator and, with a new management team in place, believes that there is a viable business. The investment in Gingerbread has been written down by £181,000 at the year end, such that the carrying value is equal to the value recovered from the administrator since the period end. The Manager is hopeful that some of the lost value can be recovered by the new business, Liverpool Nurseries (Holdings), over time.

All other investments have performed more or less to plan and have been held at values equal to original cost.

Net asset value, results and dividends

At 31 January 2012, the 'D' Share NAV stood at 83.3p per share and the 'E' Share NAV was 0.1p making 83.4p for a combined holding of one 'D' Share and one 'E' Share. This is a decrease of 5.2p (5.6%) over the year, after adjusting for the dividend of 5p paid in the year. Total Return (Total NAV plus cumulative dividends paid) is now 90.9p

In accordance with its stated policy, the Board is proposing to pay a dividend of 2.5p per 'D' Share on 27 July 2012 to Shareholders on the register at the close of business on 29 June 2012.

CHAIRMAN'S STATEMENT (continued)

'F' Share pool fundraising

During the year the Company launched a new fundraising along with its sister company, Downing Planned Exit VCT 2 plc. The Company allotted no 'F' Shares during the year ended 31 January 2012, but between 1 February 2012 and 19 April 2012, 8.5 million 'F' Shares have been issued, generating net proceeds of £8 million after share issue costs. The task of investing these new funds is now underway.

Ordinary Share pool

The Ordinary Shares were originally issued by the Company in 2004/05 and still remain in issue despite the fact that all funds having been returned to Shareholders. No further dividends will be paid to Ordinary Shareholders. The Company will shortly put proposals to Shareholders to formally wind up this share class.

Share buybacks

The Company has a general policy of buying in for cancellation its own shares that become available in the market. No shares were purchased in the year for cancellation.

The Board has a current policy that it will buy in any 'C' Shares, 'A' Shares, 'D' Shares or 'E' Shares at approximately a 10% discount to the latest published NAV of those share classes. In respect of the new 'F' Shares, any such purchases will be undertaken at a price equal to the latest published NAV (i.e. at nil discount) until 1 October 2016. Buybacks are subject to regulatory restrictions and other factors such as availability of liquid funds. No buybacks in respect of the Ordinary Shares will be undertaken.

Annual General Meeting and Share Class Meetings

The Company's seventh Annual General Meeting will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10.40 a.m. on 24 July 2012. No items of special business will be proposed at the AGM.

As stated above, the Company operates a share buyback policy where it intends to buy in any of its own shares that become available in the market for cancellation. The Company's Articles of Association require that approval for the Company to purchase its own shares is given at a meeting of all Shareholders and also meetings of each separate share class.

As also stated above, the Company is preparing proposals to cancel the Ordinary Share class, which will also require approval by each separate share class.

The Company is currently preparing a circular covering the matters described above. The circular will include details of a general meeting and share class meetings. It is anticipated that this will be sent to Shareholders shortly.

Outlook

The Board is satisfied with the performance of the 'C' Shares to date. With the pool essentially fully invested, there is likely to be a relatively low level of investment activity now until plans to start realising the portfolio investments commence in 2014.

Two troublesome investments have pulled down the performance of the 'D' Share pool. The Board believes that appropriate action has been taken by the Investment Manager in respect of these two investments and, with the job of building the 'D' Share portfolio still continuing, there is sufficient time for the performance to recover before the Company starts to seek to realisations from the 'D' Share portfolio in 2015.

The new 'F' Share pool has raised net proceeds of in excess of £8 million to date. As the task of investing the 'D' Share pool nears completion, the task of investing the 'F' Share funds will become one of the Investment Manager's main tasks. Although the climate for investing remains challenging, these conditions also provide opportunities which we believe the Manager is well placed to exploit.



Hugh Gillespie
Chairman

24 May 2012

INVESTMENT MANAGER'S REPORT- 'C' SHARE POOL

Introduction

The 'C' Share pool holds investments in 20 companies and is now fully invested, with further investment activity limited to reinvesting proceeds from divestments when short term investment opportunities arise. The 'C' Share pool investments are currently performing well, despite the challenging economic environment, and this is reflected in a net increase in valuations at the year end.

Net asset value and results

At 31 January 2012, the 'C' Share NAV stood at 91.5p and the 'A' Share NAV at 0.1p, giving a combined NAV of 91.6p. Total Return (NAV plus cumulative dividends to date) was 104.1p for one combined 'C' and one 'A' Share. This represents a net increase of 6.2p per share against the NAV on 31 January 2011 (after adjusting for dividends paid during the year of 7.5p per 'C' Share), equivalent to an increase of 6.7%.

The Total Return on ordinary activities for the 'C' Shares for the year was £444,000 (2011: 137,000) relating to a revenue profit of £124,000 (2011: £137,000) and a capital gain of £320,000 (2011: £nil).

'C' Share pool - Investment activity

The 'C' Share pool began the year with £5.9 million of investments and ended with £6.4 million spread across a portfolio of 20 companies. During the year, the Company made further investments totalling £2.8 million, and divestments of £2.6 million.

Eleven investments were made during the year including four new VCT qualifying investments. An overview of the largest investments made during the year is detailed below.

In March 2011, a £500,000 investment was made in Domestic Solar Limited which installs, owns and manages solar panels on domestic rooftops. In August 2011, a £250,000 investment was made in Ecosol Limited which owns a portfolio of commercial solar installations. Both solar investments benefit from the receipt of Feed-in Tariffs from solar energy generation.

In May 2011, the 'C' Share pool made a £437,000 investment into Redmed Limited which bought and refurbished a nightclub in Lincoln city centre. The club 'Home' reopened in October 2011 and is performing to plan.

In February 2011, the 'C' Share pool invested £125,000 in Mosaic Spa and Health Clubs Limited. Mosaic is a spa and health club management company which trades under the name 'Fitness Express'. Fitness Express has management contracts to provide and operate gyms and spas in hotels, universities and on behalf of corporate clients.

A further qualifying investment of £267,000 was made in Atlantic Dogstar Limited during the year to allow the business to purchase a second pub in Clapton, London.

Further qualifying investments in Bijou Wedding Venues Limited, Future Biogas (SF) Limited, Quadrate Catering Limited and Quadrate Spa Limited were also made during the year following the disposal of non-qualifying loan stock in each of the respective companies.

'C' Share pool – Portfolio valuation

The majority of the 'C' Share portfolio performed well during the year with a net valuation uplift of £267,000 recognised at the year end. Valuation increases arose on four investments: £176,000 in Atlantic Dogstar Limited; £75,000 in Future Biogas (SF) Limited; £69,000 in Bijou Wedding Venues Limited; and £27,000 in Westow House Limited. These increases were partially offset by a £80,000 reduction in the value of The 3D Pub Co Limited.

The investment in Atlantic Dogstar Limited was written up by £176,000 at the year end to reflect the excellent performance of The Dogstar pub in Brixton, which is significantly surpassing its original business plan.

A £75,000 increase in value of Future Biogas (SF) Limited was recognised to reflect that the biogas plant is now complete and operating at the target levels. Further increases in value were recognised in Bijou Wedding Venues Limited, £69,000, and Westow House Limited, £27,000, to reflect that both businesses are performing well and in line with expectations.

An £80,000 reduction in value of The 3D Pub Co Limited was made at the year end to reflect that the business, which operates two pubs in Surrey, is operating behind plan at the year end. The business has, however, had a good start to 2012 and it is hoped that the value will recover in due course.

Outlook

The general economic conditions in the UK are expected to continue throughout 2012 with consumer confidence likely to remain subdued. The 'C' Share pool is fully invested and, therefore, further investment will be limited to the reinvestment of non-qualifying loan stock disposals where good quality investment opportunities exist. The Company is focused on achieving its target returns through these challenging economic times and will seek to return funds to 'C' Share investors in 2013-2014.

Downing Managers 3 Limited

24 May 2012

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 January 2012:

‘C’ Share pool	Cost £’000	Valuation £’000	Valuation movement in year £’000	% of portfolio
VCT qualifying investments and partially qualifying investments				
Bijou Wedding Venues Limited*	815	884	69	13.5%
Future Biogas (SF) Limited*	627	703	75	10.7%
Atlantic Dogstar Limited	429	605	176	9.2%
Domestic Solar Limited*	500	500	-	7.6%
Redmed Limited*	437	437	-	6.7%
East Dulwich Tavern Limited	344	344	-	5.2%
Westow House Limited	304	331	27	5.0%
Quadrate Catering Limited*	330	330	-	5.0%
Quadrate Spa Limited*	310	310	-	4.7%
Ecosol Limited	250	250	-	3.8%
The 3D Pub Co Limited	267	187	(80)	2.8%
Mosaic Spa and Health Clubs Limited*	125	125	-	1.9%
Chapel Street Food and Beverage Limited	50	50	-	0.8%
Chapel Street Services Limited	50	50	-	0.8%
Non-qualifying investments				
Hoole Hall Country Club Holdings Limited	581	581	-	8.9%
The Thames Club Limited	500	500	-	7.6%
Honeycombe Pubs VCT plc	175	175	-	2.7%
Vermont Developments Limited	25	25	-	0.4%
Chapel Street Hotel Limited	2	2	-	0.0%
Commercial Street Hotel Limited	-	-	-	0.0%
	<u>6,121</u>	<u>6,389</u>	<u>267</u>	<u>97.3%</u>
Cash at bank and in hand		<u>179</u>		<u>2.7%</u>
Total investments		<u>6,568</u>		<u>100.0%</u>

*Part-qualifying investment

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

Summary of investment movements

Additions	Cost £'000
VCT qualifying investments and partially qualifying investments	
Domestic Solar Limited*	500
Redmed Limited*	437
Atlantic Dogstar Limited	267
Ecosol Limited	250
Quadrate Catering Limited*	181
Quadrate Spa Limited*	179
Bijou Wedding Venues Limited*	150
Mosaic Spa and Health Clubs Limited*	125
Future Biogas (SF) Limited*	48
Non-qualifying investments	
Hoole Hall Country Club Holdings Limited	625
Commercial Street Hotel Limited	80
Total ‘C’ Share pool	<u>2,842</u>

Disposals	Cost £'000	MV at 01/02/11 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the year £'000
‘C’ Share pool					
VCT qualifying investments and partially qualifying investments					
Bijou Wedding Venues Limited*	550	550	550	-	-
Future Biogas (SF) Limited*	350	350	350	-	-
Quadrate Catering Limited*	142	142	142	-	-
Quadrate Spa Limited*	126	126	126	-	-
Non-qualifying investments					
Hoole Hall Country Club Holdings Limited	1,250	1,250	1,250	-	-
Commercial Street Hotel Limited	92	92	92	-	-
Chapel Street Hotel (2008) LLP	63	63	98	35	35
Chapel Street Hotel Limited	1	1	1	-	-
Sanguine Hospitality Limited	-	-	18	18	18
	<u>2,574</u>	<u>2,574</u>	<u>2,627</u>	<u>53</u>	<u>53</u>

*Part-qualifying investments

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

Further details of the main investments:

Bijou Wedding Venues Limited

www.bijouweddingvenues.co.uk



Cost:	£815,000	Valuation at 31/01/12:	£883,600
Date of first investment:	Sept 2009	Valuation at 31/01/11:	£1,215,000
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£245,000	Proportion of equity held:	10.3%
Loan stock:	£570,000	Proportion of loan stock held:	33.3%
Summary financial information from statutory accounts to 31 December 2010		Turnover:	n/a
		Operating profit:	n/a
		Net assets:	£865,770

Bijou Wedding Venues Limited purchased Botleys Mansion in Chertsey, Surrey, from the administrator for £3.55m in September 2009. It is a Grade 2 listed building which was refurbished in 2010. The company operates as a dedicated exclusive wedding venue.

Future Biogas (SF) Limited

www.futurebiogas.com



Cost:	£627,455	Valuation at 31/01/12:	£702,689
Date of first investment:	May 2010	Valuation at 31/01/11:	£930,000
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£221,455	Proportion of equity held:	10.5%
Loan stock:	£406,000	Proportion of loan stock held:	13.6%
Summary financial information from statutory accounts to 31 May 2011		Turnover:	n/a
		Operating profit:	n/a
		Net assets:	£406,757

Future Biogas (SF) Limited is developing a 1.4MWh self-contained biogas plant in Norfolk. The company farms its own maize on nearby land. Through an Anaerobic Digestion process, biogas is produced which is used to generate electricity which is then sold on. Under the Feed-in Tariffs introduced in April 2010 by the UK Government for small scale renewable energy operations, the minimum payment for electricity produced from renewable sources is fixed for 20 years with an annual increase in line with the Retail Prices Index.

Atlantic Dogstar Limited

www.antic-ltd.com



Cost:	£429,000	Valuation at 31/01/12:	£604,666
Date of first investment:	Sept 2009	Valuation at 31/01/11:	£162,000
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£128,700	Proportion of equity held:	19.2%
Loan stock:	£300,300	Proportion of loan stock held:	23.5%
Summary financial information from statutory accounts to 31 December 2010		Turnover:	n/a
		Operating profit:	n/a
		Net assets:	£351,511

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

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

Further details of the main investments:

Hoole Hall Country Club Holdings Limited

www.theclubandspachester.co.uk



Cost:	£581,250	Valuation at 31/01/12:	£581,250
Date of first investment:	Dec 2008	Valuation at 31/01/11:	£1,206,250
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£nil	Proportion of equity held:	nil%
Loan stock:	£581,250	Proportion of loan stock held:	10.5%
Summary financial information from statutory accounts to 31 March 2011		Turnover:	n/a
		Operating profit:	n/a
		Net liabilities:	£1,579,000

Hoole Hall Country Club is set on a ten acre site on the edge of Hoole, near Chester. It comprises a Victorian Mansion, a large conservatory and a modern extension. The property has undergone an extensive refurbishment and consists of a conference and banqueting centre and a Marco Pierre White bar and grill.

Domestic Solar Limited

www.isis-solar.com



Cost:	£500,000	Valuation at 31/01/12:	£500,000
Date of first investment:	Mar 2011	Valuation at 31/01/11:	£n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£75,000	Proportion of equity held:	5.0%
Loan stock:	£425,000	Proportion of loan stock held:	11.3%
Summary financial information from statutory accounts:			None filed

Domestic Solar Limited installs 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:	£500,000	Valuation at 31/01/12:	£499,900
Date of first investment:	June 2009	Valuation at 31/01/11:	£499,900
		Valuation method:	Net assets

Investment comprises:			
Ordinary shares:	£100	Proportion of equity held:	5.3%
Loan stock:	£499,900	Proportion of loan stock held:	12.8%
Summary financial information from statutory accounts to 31 December 2010		Turnover:	n/a
		Operating profit:	n/a
		Net assets:	£988,680

The Thames Club is a 33,000 sq ft health and fitness club located in Staines. In 2010 the club underwent a £2m refurbishment followed by a subsequent re-launch. The club now has over 2,500 members.

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

Further details of the main investments:

Redmed Limited

www.homelincoln.co.uk



Cost:	£437,500	Valuation at 31/01/12:	£437,500
Date of first investment:	May 2011	Valuation at 31/01/11:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary shares:	£105,000	Proportion of equity held:	5.3%
Loan stock:	£332,500	Proportion of loan stock held:	17.5%
Summary financial information from statutory accounts to 30 April 2011		Turnover:	n/a
		Operating profit:	n/a
		Net assets:	£69,095

Redmed Limited owns and operates Home, a nightclub in Lincoln city centre. The club was refurbished and reopened in October 2011 and has been performing to plan.

East Dulwich Tavern Limited

www.antic-ltd.com



Cost:	£344,250	Valuation at 31/01/12:	£344,250
Date of first investment:	Sept 2009	Valuation at 31/01/11:	£344,250
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£103,275	Proportion of equity held:	12.0%
Loan stock:	£240,975	Proportion of loan stock held:	30.0%
Summary financial information from statutory accounts to 31 December 2010		Turnover:	n/a
		Operating profit:	n/a
		Net assets:	£468,954

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. The pub recently upgraded their kitchen in order to provide a greater food offering.

Westow House Limited

www.antic-ltd.com



Cost:	£303,750	Valuation at 31/01/12:	£331,088
Date of first investment:	Sept 2009	Valuation at 31/01/11:	£303,750
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£91,125	Proportion of equity held:	12.0%
Loan stock:	£212,625	Proportion of loan stock held:	30.0%
Summary financial information from statutory accounts to 31 December 2010		Turnover:	n/a
		Operating profit:	n/a
		Net assets:	£468,954

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. The company is in the process of moving the kitchen from the basement to the ground floor which will allow an improved food offering to be provided.

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

Further details of the main investments:

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk



Cost:	£329,600	Valuation at 31/01/12:	£329,600
Date of first investment:	Aug 2010	Valuation at 31/01/11:	£290,440
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£98,880	Proportion of equity held:	4.3%
Loan stock:	£230,720	Proportion of loan stock held:	8.5%
Summary financial information from statutory accounts to 31 March 2011		Turnover:	£nil
		Operating profit:	£181,566
		Net assets:	£525,463

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 in December 2011.

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.

Summary of loan stock interest income

Loan stock interest recognised in year from the ten largest investments held by the ‘C’ Share pool	£’000
Bijou Wedding Venues Limited	87
Future Biogas (SF) Limited	34
Atlantic Dogstar Limited	31
Hoole Hall Country Club Holdings Limited	59
Domestic Solar Limited	-
The Thames Club Limited	-
Redmed Limited	24
East Dulwich Tavern Limited	29
Westow House Limited	26
Quadrate Catering Limited	-
	290
Receivable from other investments	41
	331

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 January 2012:

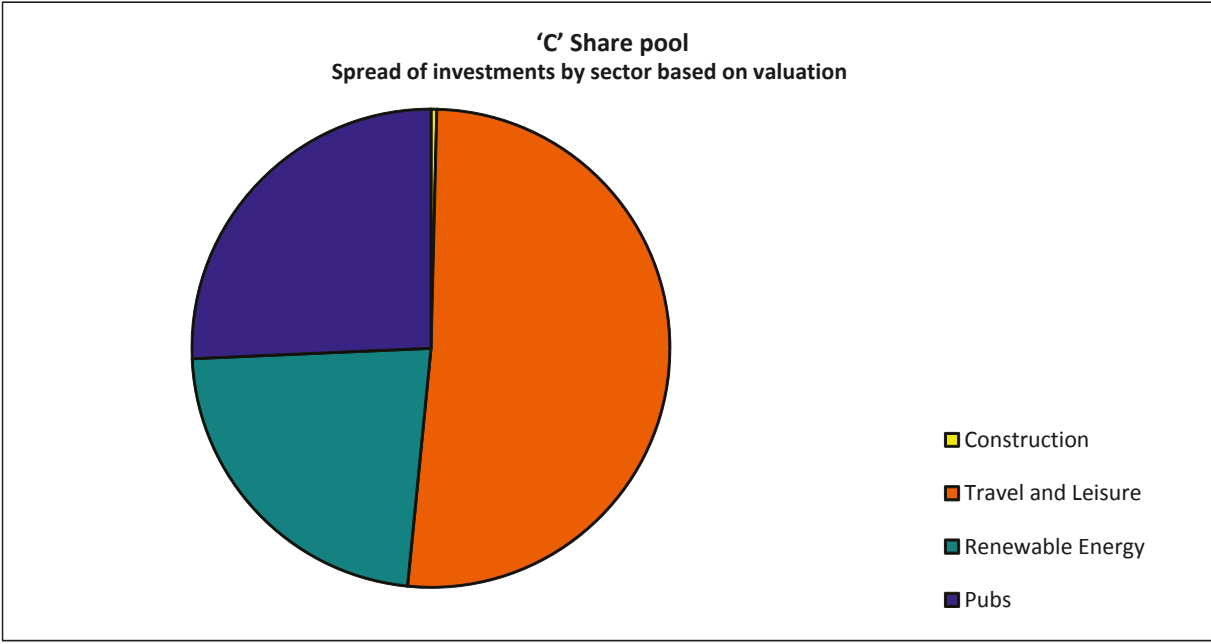
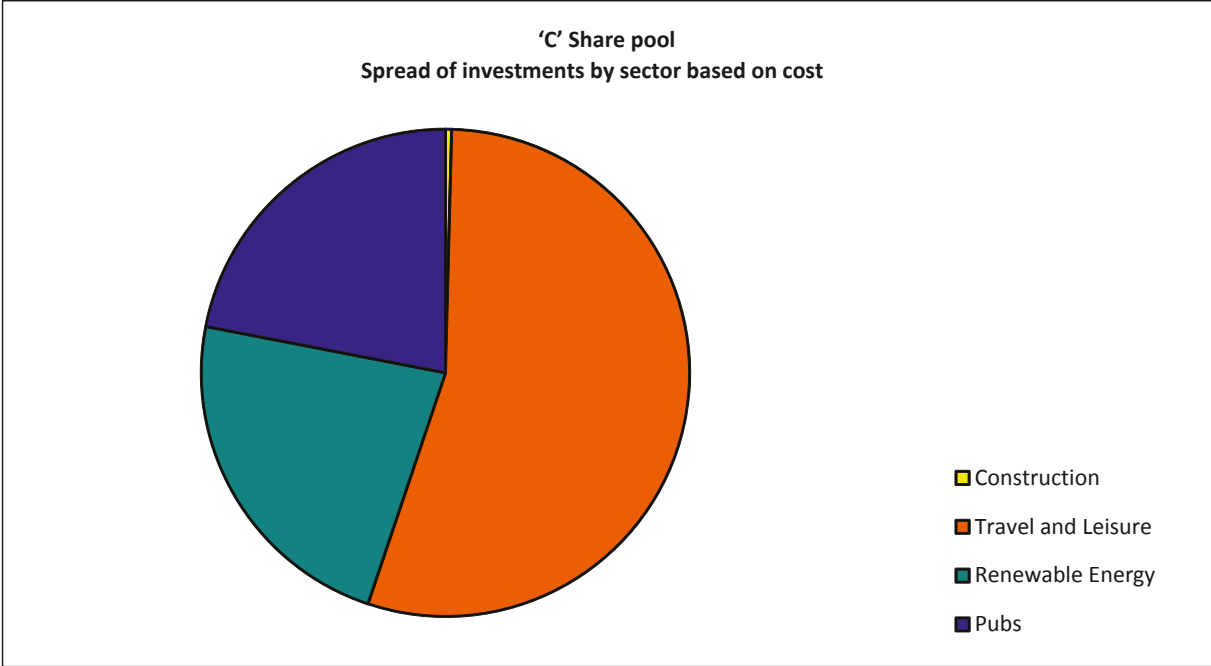
	Target Portfolio split	Actual Portfolio split 31 Jan 2012
Qualifying investments		
Loans to qualifying companies	50%	46%
Ordinary shares in qualifying companies	25%	26%
Non-qualifying investments (including cash at bank)	25%	28%
	100%	100%

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 January 2012) is as follows:



INVESTMENT MANAGER'S REPORT- 'D' SHARE POOL

Introduction

The 'D' Share pool currently holds investments in 23 companies and is expected to become fully invested over the course of 2012. Whilst most of the 'D' Share pool's investments are performing more or less to plan, two investments have faced significant difficulties which have resulted in reductions in their valuations at the year end.

Net asset value and results

At 31 January 2012, the 'D' Share NAV stood at 83.3p and the 'E' Share NAV at 0.1p, giving a combined NAV of 83.4p. Total Return (NAV plus cumulative dividends to date) was 90.9p for one combined 'D' and one 'E' Share. This represents a net decrease of 5.2p per combined share against the NAV on 31 January 2011 (after adjusting for dividends paid during the year of 5p per 'D' Share), equivalent to a decrease of 5.6%.

The Total Return on ordinary activities for the 'D' Shares for the year was a loss of £527,000 (2011 gain: £160,000) being a revenue gain of £57,000 (2011: £160,000) and a capital loss of £584,000 (2011: £nil).

'D' Share pool - Investment activity

The 'D' Share pool began the year with £7.4 million of investments and ended with £7.8 million spread across a portfolio of 23 companies. During the year, the Company made further investments totalling £5.6 million, which was offset by divestments of £4.6 million.

The 'D' Share pool made 22 investments during the year, 12 of which were new qualifying investments. An overview of the largest new qualifying, or partially qualifying, investments made during the period are detailed below:

In April 2011, the 'D' Share pool invested £748,000 in Future Biogas (Reepham Road) Limited which is developing a 1.5MWh self-contained biogas plant in Norfolk. This is the second anaerobic digestion plant with our investment partner Future Biogas.

In June 2011, a £576,000 investment was made in Gingerbread Pre-Schools (UK) Limited to purchase two operating children's day nurseries in Liverpool and provide funding to purchase and renovate a third nursery. All three nurseries were open and operating at the year end.

In June 2011, a £367,000 investment was made in Alpha Schools (Holdings) Limited to purchase a school in Buckinghamshire and provide working capital to the existing business. The business is performing well and further investment in additional school sites is expected in due course.

In December 2011, the 'D' Share pool invested £350,000 in Mosaic Spa and Health Club (Shrewsbury) Limited to purchase the freehold, of an operating health club known as Welti. The purchase was made out of administration for £2.1 million.

In January 2012, a £250,000 investment was made in Kidspace Adventures Holdings Limited to purchase a site in Epsom, Surrey, which will be redeveloped into an indoor and outdoor children's play centre. This business also owns Kidspace Adventures Limited, which owns two indoor play centres in Croydon and Romford.

During the year, the 'D' Share pool invested £1.6 million in six qualifying solar investments. Four investments were made in companies which install, own and manage solar panels on domestic rooftops. These include: £400,000 in Domestic Solar Limited, £250,000 in Avon Solar Energy Limited, £250,000 in Green Electricity Generation Limited and £170,000 in Progressive Energies Limited. Two investments were made in solar companies which invest in commercial solar installations. These include: £297,000 investment in Westcountry Solar Solutions Limited and £250,000 investment in Ecosol Limited.

All six of the qualifying solar investments made during the year benefit from the receipt of Feed-in Tariffs from solar energy generation.

'D' Share pool – Portfolio valuation

The majority of the investments were all made during the year and, accordingly, were held at cost as reviewed for impairment at the year end. The £584,000 net valuation reduction at the year end arose on two investments: £403,000 in Camandale Limited and £181,000 in Gingerbread Pre-Schools (UK) Limited.

Camandale Limited owns two pubs, The Riverbank and the Monkey Bar, located in Kilmarnock, Scotland. The pubs performed very poorly and, in November 2011, the investment partner was removed as the manager and the management contracts were terminated. A new management team was put in place to manage the Riverbank and the decision was made to close the Monkey Bar and market it for sale in January 2012. A reduction in value of £403,000 was made at the 'D' Share pool's year end to reflect the closed value of the Monkey Bar and the revised view of the value of the Riverbank.

INVESTMENT MANAGER'S REPORT- 'D' SHARE POOL

'D' Share pool – Portfolio valuation (continued)

Gingerbread Pre-Schools (UK) Limited experienced significant cost overruns on the refurbishment of a new nursery, together with poor performance of one of the existing sites. The investment partner, who was also the Chief Executive, was suspended and later dismissed. In the interim, further liabilities came to light, and the business entered into administration in February 2012. The trading assets were purchased from the Administrator into a new company, Liverpool Nurseries (Holdings) Limited in February 2012 and a new manager was appointed. The valuation of Gingerbread Pre-Schools (UK) Limited as at 31 January 2012 was reduced to reflect the cost incurred by the new company of purchasing the assets from the administrator at the year end.

Outlook

The difficult general economic conditions in the UK are expected to continue throughout 2012. However, the continued lack of traditional funding is likely to mean that the Manager will continue to see a steady flow of potential investment opportunities for the Company. Identifying the strongest of these opportunities which fit the Company's investment criteria will be key to the overall success of the Share pool. The Manager will continue to focus on securing qualifying investments for the 'D' Share pool as the Share pool continues to exit from some of the non-qualifying investments. There may then be a period of reduced investment activity before the pool starts to seek to return funds to 'D' Share investors in 2014-2015.

Downing Managers 3 Limited

24 May 2012

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 January 2012:

‘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*	748	748	-	9.0%
Quadrate Catering Limited*	441	441	-	5.3%
Quadrate Spa Limited*	419	419	-	5.0%
Domestic Solar Limited*	400	400	-	4.8%
Gingerbread Pre-Schools (UK) Limited*	576	395	(181)	4.7%
Alpha Schools (Holdings) Limited	367	367	-	4.4%
Mosaic Spa and Health Club (Shrewsbury) Limited	350	350	-	4.2%
Avon Solar Energy Limited	250	250	-	3.0%
Ecosol Limited	250	250	-	3.0%
Green Electricity Generation Limited	250	250	-	3.0%
Kidspace Adventures Holdings Limited	250	250	-	3.0%
Westcountry Solar Solutions Limited*	250	250	-	3.0%
Slopingtactic Limited	195	195	-	2.3%
Progressive Energies Limited	170	170	-	2.0%
Camandale Limited*	561	158	(403)	1.9%
Ridgeway Pub Company Limited	136	136	-	1.6%
Mosaic Spa and Health Clubs Limited*	125	125	-	1.5%
Non-qualifying investments				
Aminghurst Limited	2,000	2,000	-	24.0%
Retallack SurfPods Limited	250	250	-	3.0%
Fenkle Street LLP	147	147	-	1.8%
Kidspace Adventures Limited	135	135	-	1.6%
Commercial Street Hotel Limited	100	100	-	1.2%
Hoi Polloi Pub Co Limited	60	60	-	0.7%
	<u>8,430</u>	<u>7,846</u>	<u>(584)</u>	<u>94.0%</u>
Cash at bank and in hand		<u>493</u>		<u>6.0%</u>
Total investments		<u>8,339</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 16 to 21.

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

Summary of investment movements

Additions		Cost £'000			
VCT qualifying and partially qualifying investments					
Future Biogas (Reepham Road) Limited*		748			
Gingerbread Pre-Schools (UK) Limited*		576			
Domestic Solar Limited*		400			
Alpha Schools (Holdings) Limited		367			
Mosaic Spa and Health Club (Shrewsbury) Limited		350			
Westcountry Solar Solutions Limited*		297			
Avon Solar Energy Limited		250			
Ecosol Limited		250			
Green Electricity Generation Limited		250			
Kidspace Adventures Holdings Limited		250			
Quadrate Spa Limited*		221			
Quadrate Catering Limited*		219			
Progressive Energies Limited		170			
Camandale Limited*		136			
Mosaic Spa and Health Clubs Limited*		125			
Non-qualifying investments					
Manor Capital LLP		375			
Lullingstone Limited		173			
Kidspace Adventures Limited		135			
Commercial Street Hotel Limited		120			
Woolmer Properties Limited		93			
Edison House Limited		73			
Looe Road Student Accommodation Limited		49			
Total ‘D’ Share pool		5,627			
Disposals					
	Cost	MV at	Disposal	Gain	Total realised
	£'000	01/02/11	proceeds	against	gain during
		£'000	£'000	cost	the year
				£'000	£'000
VCT qualifying and partially qualifying investments					
Quadrate Catering Limited*	213	213	213	-	-
Quadrate Spa Limited*	189	189	189	-	-
Westcountry Solar Solutions Limited*	47	47	47	-	-
Non-qualifying investments					
Woolmer Properties Limited	1,088	1,088	1,088	-	-
Lullingstone Limited	750	750	750	-	-
Edison House Limited	669	669	669	-	-
Fenkle Street LLP	488	488	488	-	-
Manor Capital LLP	375	375	375	-	-
Looe Road Student Accommodation Limited	350	350	350	-	-
The Kirkhouse Limited	175	175	175	-	-
Camandale Limited	106	106	106	-	-
Hoi Polloi Pub Co Limited	40	40	40	-	-
Commercial Street Hotel Limited	38	38	38	-	-
Fenkle Street Developments LLP	32	32	32	-	-
	4,560	4,560	4,560	-	-

*Part-qualifying investments

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

Further details of the main investments:

Aminghurst Limited
www.gararock.co.uk



Cost:	£2,000,000	Valuation at 31/01/12:	£2,000,000
Date of first investment:	May 2010	Valuation at 30/01/11:	£2,000,000
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£nil	Proportion of equity held:	nil%
Loan stock:	£2,000,000	Proportion of loan stock held:	28.2%
Summary financial information from statutory accounts to 30 November 2010		Turnover:	n/a
		Operating profit:	n/a
		Net liabilities:	£4,433,221

Aminghurst is a property development company owning a site in East Portlemouth in South Devon. The company is working with Coast Constructors Limited (formerly Richstone Contracting) to build a hotel/apartment project. This is a non-qualifying investment for this share pool.

Future Biogas (Reepham Road) Limited
www.futurebiogas.com



Cost:	£747,927	Valuation at 31/01/12:	£747,927
Date of first investment:	Mar 2011	Valuation at 30/01/11:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary shares:	£37,481	Proportion of equity held:	9.4%
Loan stock:	£710,446	Proportion of loan stock held:	18.8%
Summary financial information from statutory accounts:			None filed

Future Biogas (Reepham Road) 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 Catering Limited
www.mpwsteakhousebirmingham.co.uk



Cost:	£441,400	Valuation at 31/01/12:	£441,400
Date of first investment:	Aug 2010	Valuation at 30/01/11:	£435,660
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£132,420	Proportion of equity held:	5.7%
Loan stock:	£308,980	Proportion of loan stock held:	8.5%
Summary financial information from statutory accounts to 31 March 2011		Turnover:	-
		Operating loss:	£181,566
		Net assets:	£525,463

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 in December 2011.

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

Further details of the main investments:

Quadrate Spa Limited

www.theclubandspabirmingham.co.uk



Cost:	£418,600	Valuation at 31/01/12:	£418,600
Date of first investment:	Aug 2010	Valuation at 30/01/11:	£386,340
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£125,580	Proportion of equity held:	5.7%
Loan stock:	£293,020	Proportion of loan stock held:	11.5%
Summary financial information from statutory accounts to 31 March 2011			None filed

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.

Domestic Solar Limited

www.isis-solar.com



Cost:	£400,000	Valuation at 31/01/12:	£400,000
Date of first investment:	Mar 2011	Valuation at 30/01/11:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary shares:	£60,000	Proportion of equity held:	4.0%
Loan stock:	£340,000	Proportion of loan stock held:	9.1%
Summary financial information from statutory accounts:			None filed

Domestic Solar Limited installs 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.

Gingerbread Pre-Schools (UK) Limited

www.gingerbreadpreschools.com



Cost:	£576,030	Valuation at 31/01/12:	£394,626
Date of first investment:	May 2011	Valuation at 30/01/11:	n/a
		Valuation method:	Impaired cost
Investment comprises:			
Ordinary shares:	£115,500	Proportion of equity held:	9.6%
Loan stock:	£460,530	Proportion of loan stock held:	19.3%
Summary financial information from statutory accounts:			None filed

Gingerbread Pre-School operates three Children’s Day Nurseries based in Liverpool: ‘Gingerbread Cottage’ in Fazakerley, which is registered for 88 children; ‘Gingerbread House’ in Crosby, which is registered for 154 children and ‘Greenbank Park’ in Greenbank which is registered for 116 children.

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

Further details of the main investments:

Alpha Schools (Holdings) Limited



Cost:	£366,667	Valuation at 31/01/12:	£366,667
Date of first investment:	May 2011	Valuation at 30/01/11:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary shares:	£110,000	Proportion of equity held:	4.0%
Loan stock:	£256,667	Proportion of loan stock held:	18.3%
Summary financial information from statutory accounts:			None filed

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, which has now been renamed Griffin House School.

Mosaic Spa and Health Club (Shrewsbury) Limited

www.mosaicspaandhealth.co.uk



Cost:	£350,000	Valuation at 31/01/12:	£350,000
Date of first investment:	Dec 2011	Valuation at 30/01/11:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary shares:	£105,000	Proportion of equity held:	8.8%
Loan stock:	£245,000	Proportion of loan stock held:	14.8%
Summary financial information from statutory accounts:			None filed

Mosaic Spa and Health Clubs Limited is 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.

Avon Solar Energy Limited

www.britanniasolar.co.uk



Cost:	£250,000	Valuation at 31/01/12:	£250,000
Date of first investment:	Sept 2011	Valuation at 30/01/11:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary shares:	£75,000	Proportion of equity held:	6.3%
Loan stock:	£175,000	Proportion of loan stock held:	12.5%
Summary financial information from statutory accounts:			None filed

Avon Solar is a newly formed company that will install PV systems on the roofs of domestic properties in the South West of the UK. Britannia Solar, the investment partner, will be responsible for sourcing qualifying homes, installing the PV Systems and providing operational and maintenance services. Avon Solar will receive all Feed-in Tariff payments for the electricity generated, whilst the homeowners will benefit from free electricity when the PV systems are generating electricity. Electricity not used will be exported to the national grid, payment for which will go to Avon Solar.

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

Further details of the main investments:

Ecosol Limited

www.isis-solar.com



Cost:	£250,000	Valuation at 31/01/12:	£250,000
Date of first investment:	Aug 2011	Valuation at 30/01/11:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

Ordinary shares:	£75,000	Proportion of equity held:	6.3%
Loan stock:	£175,000	Proportion of loan stock held:	12.5%

Summary financial information from statutory accounts: None filed

Ecosol owns and manages a portfolio of commercial solar photovoltaic installations in Herefordshire, Hertfordshire and the Borders. Ecosol is entitled to all Feed-in Tariff income produced by the sites and all installations were completed before 3 March 2012, when the tariffs were reduced. ISIS solar is the investment partner.

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.

Summary of loan stock interest income

Loan stock interest recognised in year from the ten largest investments held by the ‘D’ Share pool	£’000
Aminghurst Limited	52
Future Biogas (Reepham Road) Limited	-
Quadrate Catering Limited	-
Quadrate Spa Limited	-
Domestic Solar Limited	-
Gingerbread Pre-Schools (UK) Limited	-
Alpha Schools (Holdings) Limited	-
Mosaic Spa and Health Club (Shrewsbury) Limited	3
Avon Solar Limited	-
Ecosol Limited	-
	<hr/> 55
Receivable from other investments	<hr/> 255
	<hr/> <hr/> 310

Analysis of investments by investment type

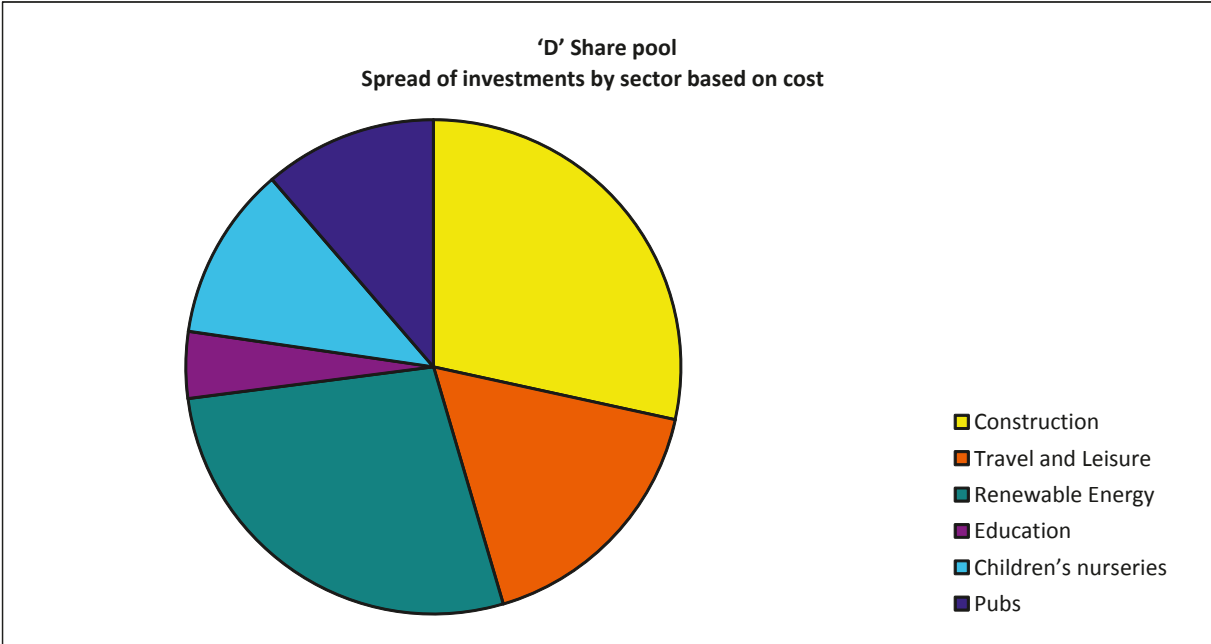
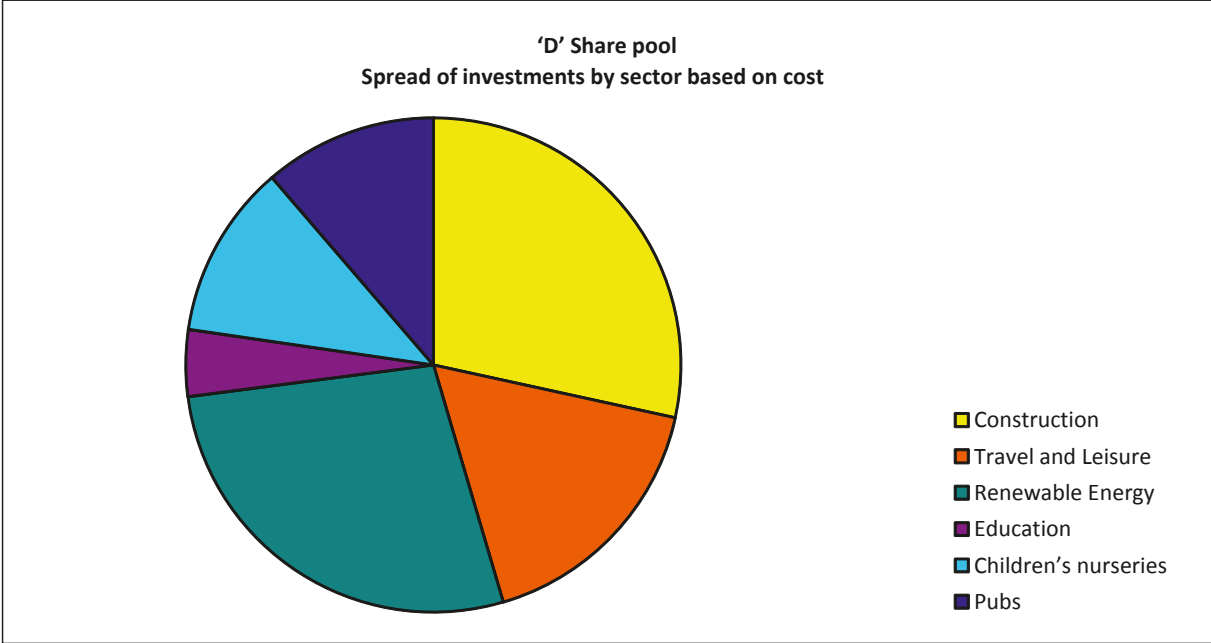
The following shows the split of the ‘D’ Share pool’s investment portfolio by type of instrument held at 31 January 2012:

	Target Portfolio split at 31 Jan 2013	Actual Portfolio split 31 Jan 2012
Qualifying investments		
Loans to qualifying companies	50%	37%
Ordinary shares in qualifying companies	25%	13%
Non-qualifying investments (including cash at bank)	25%	50%
	<hr/> 100%	<hr/> 100%

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL

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 January 2012) is as follows:



REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 January 2012.

Principal activity and status

The Directors have received provisional approval to act as a Venture Capital Trust from HM Revenue and Customs and have continued to meet the standards set out by the Revenue.

The Company revoked its status as an investment company on 21 October 2008 in order to pay a capital dividend, but the Directors consider that the Company has conducted its affairs in a manner to enable it to comply with Part 6 of the Income Tax Act 2007.

The Company has no employees (other than the Directors). Downing Managers 3 Limited, the wholly owned subsidiary, has two executive directors and one employee.

Business review

The Company's business and developments during the year are reviewed in the Chairman's Statement, Investment Manager's Report and Review of Investments.

Share capital

The Company has six classes of shares, being Ordinary Shares of 1p each, 'C' Shares of 0.1p each, 'A' Shares of 0.1p each, 'D' Shares of 0.1p each, 'E' Shares of 0.1p each and 'F' Shares of 0.1p each. Only the holders of the Ordinary Shares, 'C' Shares, 'D' Shares and 'F' 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 Ordinary Shares ('Ordinary Share pool'), the 'C' Shares and 'A' Shares ('C' Share pool'), the 'D' Shares and 'E' Shares ('D' Share pool') and 'F' Shares ('F' 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. No shares were purchased in the year for cancellation.

At the AGM that took place on 7 July 2011, the Company was authorised to make market purchases of its Ordinary Shares, 'C' Shares, 'A' Shares, 'D' Shares and 'E' Shares up to a limit of 1,499,628 Ordinary Shares, 1,068,833 'C' Shares, 1,603,250 'A' Shares, 1,489,122 'D' Shares and 2,234,234 'E' 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 1,499,628 Ordinary Shares, 1,068,833 'C' Shares, 1,603,250 'A' Shares, 1,489,122 'D' Shares and 2,234,234 'E' Shares.

A resolution to renew this authority will be put to Shareholders shortly along with the proposals to cancel the Ordinary Share class.

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

Results and dividends

	£'000	Pence per share
Return/(loss) on ordinary activities after tax for the year ended 31 January 2012 split as:		
Ordinary shares	-	-
'C' Shares	444	6.2
'D' Shares	(527)	(5.3)
	<u>(83)</u>	

Distributions paid in respect of current year		
15 July 2011 ('C' Shares)	359	5.0
15 July 2011 ('D' Shares)	250	2.5
25 November 2011 ('C' Shares)	179	2.5
25 November 2011 ('D' Shares)	250	2.5
	<u>1,038</u>	

Your Board is proposing to pay a final revenue dividend of 2.5p per 'C' Share payable on 27 July 2012 and 2.5p per 'D' Share payable on 27 July 2012 to Shareholders on the register at 29 June 2012.

Performance incentive fees

Ordinary Share pool

Following the completion of the return of funds to Ordinary Shareholders, there is now no performance incentive scheme in place in respect of the Ordinary pool.

'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:

- receive proceeds, by way of dividends/distributions/ share buybacks ("Total Proceeds"), of at least 100p per £1 invested; and
- achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

REPORT OF THE DIRECTORS (continued)

Performance incentive fees (continued)

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

Shareholders	97% of the first 100p of proceeds per £1 invested and 80% thereafter
Management	3% of the first 100p of proceeds and 20% thereafter

If the above distribution would result in Shareholders receiving less than 100p per £1 invested or lower than a 7% compound return, the return to the Management Team will be reduced until Shareholders receive at least 100p 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 100p per 'F' Share (excluding initial income tax relief); and (ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

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

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

As the targets have not been met for any share pool, no fee is due to be paid for the year ended 31 January 2012. It will be recalculated for the year ended 31 January 2013, and annually thereafter, following approval of the audited accounts by the Shareholders.

Directors

The Directors of the Company during the year and their beneficial interests in the issued shares of Downing Planned Exit VCT 2 plc or Downing Planned Exit VCT 3 plc at 31 January 2011 and 31 January 2012 and at the date of this report were as follows:

Directors		No. of shares		
		At the date of this report	31 Jan 2012	31 Jan 2011
Downing Planned Exit VCT 2 plc				
Hugh Gillespie	'C' Shares	5,250	5,250	5,250
	'A' Shares	5,250	5,250	5,250
Dennis Hale	Ords	10,450	10,450	10,450
	'C' Shares	7,385	7,385	7,385
	'A' Shares	7,385	7,385	7,385
	'D' Shares	8,400	8,400	8,400
	'E' Shares	8,400	8,400	8,400
	'F' Shares	-	-	-
Downing Planned Exit VCT 3 plc				
Hugh Gillespie	Ords	5,000	5,000	5,000
	'D' Shares	5,237	5,237	5,237
	'E' Shares	5,237	5,237	5,237
	'F' Shares	5,175	-	-
Michael Robinson	'F' Shares	18,630	-	-

Downing Planned Exit VCT 2 plc and Downing Planned Exit VCT 3 plc were launched under one prospectus with investors being allotted shares in one Company or the other. The Directors, therefore, feel it is appropriate to present their holdings in both companies.

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 2 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 of Hugh Gillespie and Dennis Hale are detailed in a letter of appointment dated 19 January 2005. The terms of appointment of Michael Robinson are detailed in a letter of appointment dated 30 September 2010. These agreements are for a period of three years and thereafter are terminable on 3 months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

REPORT OF THE DIRECTORS (continued)

Insurance cover

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

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 and 1.8% of the 'F' Share net assets per annum. Additionally, DM3 provides administration services to the Company for a fee of £47,500 (plus RPI adjustment) per annum.

The Board is satisfied with DM3's approach and procedures in providing investment management services to the Company. The Directors 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 year, 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' Share pool of the Company plus cumulative distributions. Any excess costs over this cap are met by DM3 through a reduction in fees.

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%
	<hr/>

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;
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; and
7. A maximum unit size of £1 million in each VCT-qualifying investment per tax year (for funds raised before 6 April 2012).

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.

VCT status

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

REPORT OF THE DIRECTORS (continued)

VCT status (continued)

A summary of the VCT Regulations is included in the Company's Investment Policy shown above. Compliance with the main VCT Regulations for the year ended 31 January 2012 is summarised as follows:

- | | |
|--|----------|
| 1. The Company holds at least 70% of its investments in qualifying companies | 71% |
| 2. At least 30% of the Company's qualifying investments in "eligible shares" | 32% |
| 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 | 95% |
| 6. No more than 15% of the income from shares and securities is retained | 10% |
| 7. A maximum unit size of £1 million in each VCT-qualifying investment (per tax year). | Complied |

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 had trade creditors of £nil at the year end (2011: £nil).

Environmental and social policy

As a VCT with all of its executive and administrative activities delegated to third parties, the Company does not have a policy on either environmental or social and community issues.

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, liquidity and marketability 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 Services Authority and the Companies Act, could lead to suspension from the Stock Exchange and damage to the Company's reputation.

The Board reviews and agrees policies for managing each of these risks. They receive quarterly reports from the Managers which monitor the compliance of these risks, and place reliance on the Managers to give updates in the intervening periods. These policies have remained unchanged since the beginning of the financial period.

Substantial interests

As at 31 January 2012 and the date of this report, the Company had not been notified of any beneficial interest exceeding 3 per cent of the issued Ordinary Share capital, 'C' Share capital, 'D' Share capital or 'F' Share capital.

Auditor

A resolution to re-appoint PKF (UK) LLP as Auditor to the Company will be proposed at the forthcoming AGM.

Annual General Meeting

The Annual General Meeting will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10.40 a.m. on 24 July 2012. 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 Directors' report, 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 Services 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.

REPORT OF THE DIRECTORS (continued)

Directors' responsibilities statement (continued)

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

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

The Directors confirm, to the best of their 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 Report of the Directors, Chairman's Statement, Investment Manager's Report 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.

The names and functions of all the Directors are stated on page 2.

Electronic publication

The financial statements are published on www.downing.co.uk.


Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code June 2010 (www.frc.org.uk) is shown on page 31.

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

Secretary
10 Lower Grosvenor Place
London
SW1W 0EN

24 May 2012

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Section 420 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 24 July 2012.

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 page 32.

Directors' remuneration policy

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.

Performance incentive fees

No performance incentive fees were due in respect of the year ended 31 January 2012.

Directors' remuneration (audited)

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

	Current annual fee £	Year ended 31/01/12 £	Year ended 31/01/11 £
Hugh Gillespie	12,500	10,167	9,000
Dennis Hale	10,000	8,333	7,500
Chris Kay	n/a	n/a	5,000
Michael Robinson	10,000	8,333	2,500
	<u>32,500</u>	<u>26,833</u>	<u>24,000</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.

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 and 'D' 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 dividends) to a rebased FTSE All-Share Index (source: FTSE International Limited) including dividends reinvested. The FTSE All-Share 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 February 2005, the launch date.

No chart is presented for the Ordinary Share pool which has effectively been dormant for the year and the 'F' Share pool as no 'F' Shares had been issued before the year end.

By order of the Board

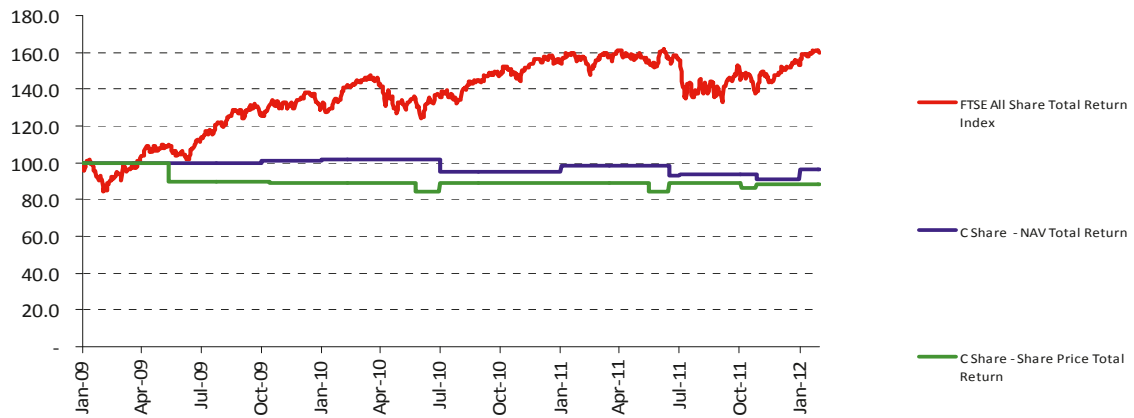


Grant Whitehouse
Secretary
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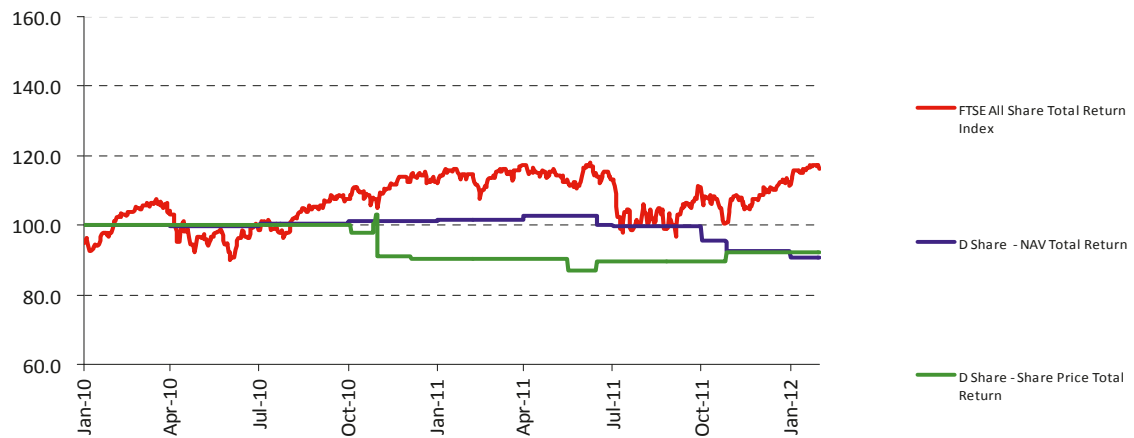
24 May 2012

DIRECTORS' REMUNERATION REPORT (continued)

**Downing Planned Exit VCT 3 plc
C Share performance chart**



**Downing Planned Exit VCT 3 plc
D Share performance chart**



CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued in June 2010, being the principles of good governance and the code of best practice, as set out in Section 1 of the UK Corporate Governance Code annexed to the Listing Rules of the FSA.

The Board

The Company has a Board comprising three non-executive Directors. The Chairman and senior Director is Hugh Gillespie. Biographical details of all Board members (including significant other commitments of the Chairman) are shown on page 2.

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 Hugh Gillespie. 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 22 of the Report of the Directors.

Audit Committee

The Audit Committee is responsible for reviewing the half yearly and annual accounts before they are presented to the Board, the terms of appointment of the auditor, together with their remuneration, as well as a full review of the effectiveness of the Company's internal control and risk management systems.

Any non-audit services provided by the auditors are reviewed and approved by the Committee prior to being undertaken, to ensure that auditor objectivity and independence is safeguarded.

The Audit Committee met once during the year. The Committee reviewed the internal financial controls and concluded that they remained appropriate. They also considered the need for an internal audit function and concluded that due to the size of the Company this would not be an appropriate function.

As part of its annual review procedures, the Committee has obtained sufficient assurance from their own evaluation, the audit feedback documentation and from correspondence and discussions with the engagement partner of PKF (UK) LLP. Based on the assurance obtained the Committee has recommended to Shareholders that PKF (UK) LLP be re-appointed as Auditor for the forthcoming year.

During the year, in addition to the audit, PKF (UK) LLP provided corporation tax compliance services on behalf of the Company. The Committee considers that PKF (UK) LLP is well placed to provide this service given the knowledge gained from the work undertaken during the audit of the Company.

As the Company has no staff, other than the Directors, there are no procedures in place in respect of C3.4 of the UK Corporate Governance Code, relating to whistle blowing. The Audit Committee understands that the Investment and Administration Manager have whistle blowing procedures in place.

Board and Committee meetings

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

	Board meetings attended	Audit Committee meetings attended	Remuneration Committee meetings attended
	(4 held)	(1 held)	(1 held)
Hugh Gillespie	4	1	1
Dennis Hale	4	1	1
Michael Robinson	4	1	1

CORPORATE GOVERNANCE (continued)

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 27 and this is subject to Shareholder approval.

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 year, 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 pages 25 and 26, and a statement by the Auditor about their reporting responsibilities is set out in the Auditor's Report on page 32.

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.

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 year.

Although the Board is ultimately responsible for safeguarding the assets of the Company, the Board has delegated, through written agreements, the day-to-day operation of the Company 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 3 and 4, the Investment Manager's Reports on pages 5 and 13 and the Report of the Directors on page 25. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow statement on page 37 and the Directors' Report on page 24. 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.

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

Share capital

The company has six classes of authorised share capital; Ordinary Shares, 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares and 'F' Shares. The rights and obligations attaching to those shares, including the power of the Company to buy back shares and details of any significant shareholdings, are set out on page 23 of the Report of the Directors.

CORPORATE GOVERNANCE (continued)

Compliance statement

The Listing Rules require the Board to report on compliance with the fifty-two 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 January 2012 with the provisions set out in the UK Corporate Governance Code issued in June 2010.

- 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)
- c) The Company does not have any independent Directors as defined by the UK Corporate Governance Code as a result of other directorships of companies managed by the same investment management team. The Board considers that all Directors have sufficient experience to be able to exercise proper judgment within the meaning of the UK Corporate Governance Code. (B.1.2) (Consequently the composition of the Audit Committee does not comply with C.3.1)
- d) 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)
- e) As the Company has had no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)



Grant Whitehouse
Secretary
10 Lower Grosvenor Place
London
SW1W 0EN

24 May 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING PLANNED EXIT VCT 3 PLC

We have audited the financial statements of Downing Planned Exit VCT 3 plc for the year ended 31 January 2012 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' responsibilities statement, 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 Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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 29 to 31 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about 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

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, 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 30, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on Directors' remuneration.



Stuart Collins (Senior statutory auditor)

for and on behalf of PKF (UK) LLP, Statutory auditor

London, UK
24 May 2012

INCOME STATEMENT

for the year ended 31 January 2012

	Year ended 31 January 2012			Year ended 31 January 2011			
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	676	-	676	843	-	843
Losses on investments	9	-	(264)	(264)	-	-	-
		676	(264)	412	843	-	843
Investment management fees	3	(211)	-	(211)	(212)	-	(212)
Other expenses	4	(199)	-	(199)	(214)	-	(214)
Return/(loss) on ordinary activities before tax		266	(264)	2	417	-	417
Tax on ordinary activities	6	(85)	-	(85)	(120)	-	(120)
Return/(loss) attributable to equity shareholders		<u>181</u>	<u>(264)</u>	<u>(83)</u>	<u>297</u>	<u>-</u>	<u>297</u>
Basic and diluted return/(loss) per:							
Ordinary Share	8	-	-	-	-	-	-
'C' Share	8	1.7p	4.5p	6.2p	1.9p	-	1.9p
'A' Share	8	-	-	-	-	-	-
'D' Share	8	0.5p	(5.8p)	(5.3p)	1.7p	-	1.7p
'E' Share	8	-	-	-	-	-	-

All Revenue and Capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. 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 January 2012

'C' Share pool

	Year ended 31 January 2012			Year ended 31 January 2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	337	-	337	367	-	367
Gain on investments	-	320	320	-	-	-
	<u>337</u>	<u>320</u>	<u>657</u>	<u>367</u>	<u>-</u>	<u>367</u>
Investment management fees	(88)	-	(88)	(90)	-	(90)
Other expenses	(74)	-	(74)	(140)	-	(140)
Return on ordinary activities before tax	<u>175</u>	<u>320</u>	<u>495</u>	<u>137</u>	<u>-</u>	<u>137</u>
Tax on ordinary activities	(51)	-	(51)	-	-	-
Return attributable to equity shareholders	<u>124</u>	<u>320</u>	<u>444</u>	<u>137</u>	<u>-</u>	<u>137</u>

'D' Share pool

	Year ended 31 January 2012			Year ended 31 January 2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	339	-	339	476	-	476
Loss on investments	-	(584)	(584)	-	-	-
	<u>339</u>	<u>(584)</u>	<u>(245)</u>	<u>476</u>	<u>-</u>	<u>476</u>
Investment management fees	(123)	-	(123)	(122)	-	(122)
Other expenses	(125)	-	(125)	(74)	-	(74)
Return/(loss) on ordinary activities before tax	<u>91</u>	<u>(584)</u>	<u>(493)</u>	<u>280</u>	<u>-</u>	<u>280</u>
Tax on ordinary activities	(34)	-	(34)	(120)	-	(120)
Return/(loss) attributable to equity shareholders	<u>57</u>	<u>(584)</u>	<u>(527)</u>	<u>160</u>	<u>-</u>	<u>160</u>

BALANCE SHEET

as at 31 January 2012

		2012				2011		
	Note	'C' Share pool £'000	'D' Share pool £'000	Other share pools £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	Total (incl. Ord Shares) £'000
Fixed assets								
Investments	9	6,389	7,846	5	14,240	5,854	7,363	13,222
Current assets								
Debtors	10	114	99	1,178	1,391	201	250	451
Cash at bank and in hand		179	493	-	672	673	1,920	2,593
		293	592	1,178	2,063	874	2,170	3,044
Creditors: amounts falling due within one year	11	(108)	(105)	-	(213)	(60)	(173)	(233)
Net current assets		185	487	1,178	1,850	814	1,997	2,811
Net assets		6,574	8,333	1,183	16,090	6,668	9,360	16,033
Capital and reserves								
Called up share capital	12	18	25	101	144	18	25	144
Share capital to be issued		-	-	1,178	1,178	-	-	-
Capital redemption reserve	13	4	-	1	5	4	-	5
Special reserve	13	6,173	8,975	-	15,148	6,495	9,300	15,795
Revaluation reserve	13	267	(584)	-	(317)	-	-	-
Capital reserve – realised	13	53	-	-	53	-	-	-
Revenue reserve	13	59	(83)	(97)	(121)	151	35	89
Total equity shareholders' funds		6,574	8,333	1,183	16,090	6,668	9,360	16,033
Basic and diluted net asset value per								
Ordinary Share	14	-	-	-	0.1p	-	-	0.1p
'C'/'D' Share	14	91.5p	83.3p	-	-	92.8p	93.5p	-
'A'/'E' Share	14	0.1p	0.1p	-	-	0.1p	0.1p	-

Other share pools comprise the Ordinary Share pool and the 'F' Share pool. The Ordinary Share pool is now so small as to be immaterial and as such is not analysed separately above. No 'F' Shares were issued in the year to 31 January 2012, however, subscription monies in respect of 'F' Shares had been received.

The financial statements on pages 33 to 49 were approved and authorised for issue by the Board of Directors on 24 May 2012 and were signed on its behalf by



Hugh Gillespie
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 January 2012

	Year ended 31 January 2012				Year ended 31 January 2011			
	Note	'C' Share pool £'000	'D' Share pool £'000	Other share pools £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	Total (incl. Ord Shares) £'000
Opening Shareholders' funds		6,668	9,360	5	16,033	6,890	3,583	10,478
Issue of shares		-	-	-	-	-	6,213	6,219
Share issue costs		-	-	-	-	-	(341)	(347)
Purchase of own shares		-	-	-	-	-	(5)	(5)
Share capital to be issued		-	-	1,178	1,178	-	-	-
Total recognised return/(loss) for the year		444	(527)	-	(83)	137	160	297
Distributions	7	(538)	(500)	-	(1,038)	(359)	(250)	(609)
Closing Shareholders' funds		6,574	8,333	1,183	16,090	6,668	9,360	16,033

Other share pools comprise the Ordinary Share pool and the 'F' Share pool as detailed in the balance sheet on page 35.

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

CASH FLOW STATEMENT

for the year ended 31 January 2012

	Note	Year ended 31 January 2012				Year ended 31 January 2011		
		'C' Share pool £'000	'D' Share pool £'000	Other share pools £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	Total (incl. Ord Shares) £'000
Net cash inflow/(outflow) from operating activities	15	<u>259</u>	<u>260</u>	<u>-</u>	<u>519</u>	<u>45</u>	<u>(12)</u>	<u>33</u>
Taxation								
Corporation tax paid		-	(120)	-	(120)	(21)	-	(21)
Capital expenditure								
Purchase of investments	9	(2,842)	(5,627)	-	(8,469)	(2,457)	(7,499)	(9,956)
Sale of investments	9	<u>2,627</u>	<u>4,560</u>	<u>-</u>	<u>7,187</u>	<u>906</u>	<u>136</u>	<u>1,042</u>
Net cash outflow from capital expenditure		<u>(215)</u>	<u>(1,067)</u>	<u>-</u>	<u>(1,282)</u>	<u>(1,551)</u>	<u>(7,363)</u>	<u>(8,914)</u>
Equity dividends paid	7	<u>(538)</u>	<u>(500)</u>	<u>-</u>	<u>(1,038)</u>	<u>(359)</u>	<u>(250)</u>	<u>(609)</u>
Net cash outflow before financing		<u>(494)</u>	<u>(1,427)</u>	<u>-</u>	<u>(1,921)</u>	<u>(1,886)</u>	<u>(7,625)</u>	<u>(9,511)</u>
Financing								
Proceeds from share issue		-	-	-	-	-	8,696	8,696
Share issue costs		-	-	-	-	-	(342)	(342)
Purchase of own shares		-	-	-	-	-	(5)	(5)
Share capital to be issued		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash inflow from financing		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,349</u>	<u>8,349</u>
(Decrease)/increase in cash	16	<u>(494)</u>	<u>(1,427)</u>	<u>-</u>	<u>(1,921)</u>	<u>(1,886)</u>	<u>724</u>	<u>(1,162)</u>

Other Share pools comprise the Ordinary and 'F' Share pools. There were no cash flow movements with respect to the Ordinary Share pool in the current year. No allotments of share capital have been made by the 'F' Share pool at the year end.

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

NOTES TO THE ACCOUNTS

for the year ended 31 January 2012

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 Accounting Standards Board 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 year 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 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 January 2012

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.

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, other creditors and loan notes

Other debtors (including accrued income), other creditors and loan notes 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

	2012 £'000	2011 £'000
Income from investments		
Loan stock interest	641	798
	<u>641</u>	<u>798</u>
Other income		
Bank interest	14	45
Fee income	21	-
	<u>676</u>	<u>843</u>

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 respectively. The Manager also provides administration services for a fee of £47,500 (plus RPI) per annum. Fees in relation to these services are shown within note 4.

	2012 £'000	2011 £'000
Investment management fees	<u>211</u>	<u>212</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2012

4. Other expenses

	2012	2011
	£'000	£'000
Administration services	49	48
Trail commission	63	16
Directors' remuneration	27	23
Social security costs	1	1
Auditor's remuneration for audit	14	14
Auditor's remuneration for non-audit services (taxation)	2	2
Other	43	110
	<u>199</u>	<u>214</u>

The 'C' and 'D' Share pool annual running costs of the Company, for the year, are subject to a cap of 2.9% of the net assets plus cumulative distributions of each respective share pool.

5. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the Directors' Remuneration Report on page 27.

The Company had no employees (other than Directors) during the year. 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.

6. Tax on ordinary activities

	2012	2011
	£'000	£'000
(a) Tax charge for year		
UK corporation tax	85	120
Charge for the year	<u>85</u>	<u>120</u>
(b) Factors affecting tax charge for the year		
Return on ordinary activities before taxation	2	417
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 28% (2011: 28%)	-	116
Effects of:		
Losses on investments	73	-
Marginal rate relief	(6)	(5)
Expenses disallowed for tax purposes	18	9
	<u>85</u>	<u>120</u>

7. Dividends

	Year ended 31 January 2012			Year ended 31 January 2011		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Paid by 'C' Share pool						
2012 Interim – 2.5p	72	107	179	-	-	-
2011 Final – 5.0p	144	215	359	-	-	-
2010 Final – 5.0p	-	-	-	90	269	359
	<u>216</u>	<u>322</u>	<u>538</u>	<u>90</u>	<u>269</u>	<u>359</u>
Paid by 'D' Share pool						
2012 Interim – 2.5p	25	225	250	-	-	-
2011 Final – 2.5p	150	100	250	-	-	-
2011 Interim- 2.5p	-	-	-	125	125	250
	<u>175</u>	<u>325</u>	<u>500</u>	<u>125</u>	<u>125</u>	<u>250</u>

The 'C' Share pool has proposed a final dividend for the year ended 31 January 2012 of 2.5p per share.

The 'D' Share pool has proposed a final dividend for the year ended 31 January 2012 of 2.5p per share.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2012

8. Basic and diluted return per share

	Ordinary Shares	'C' Shares	'A' Shares	'D' Shares	'E' Shares
Revenue return (£'000)	-	124	-	57	-
Weighted average number of shares in issue	10,064,617	7,173,376	10,760,064	9,994,109	14,994,862
Net capital gain/(loss) for the financial year (£'000)	-	320	-	(584)	-
Weighted average number of shares in issue	10,064,617	7,173,376	10,760,064	9,994,109	14,994,862

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

9. Investments

"Fair value through profit or loss" assets

	Unquoted investments £'000
Cost at 31 January 2011	13,222
Unrealised gains/(losses)/(impairments) at 31 January 2011	-
Valuation at 31 January 2011	13,222
Movement in the year:	
Purchased at cost	8,469
Sale - proceeds	(7,187)
- realised gains on sales	53
(Loss)/gain in the income statement	(317)
Valuation at 31 January 2012	14,240
Cost at 31 January 2012	14,557
Unrealised gains/(losses)/(impairments) at 31 January 2012	(317)
Valuation at 31 January 2012	14,240

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

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 £'000	Level 2 £'000	Level 3 £'000	2012 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2011 £'000
Loan notes	-	-	11,242	11,242	-	-	11,855	11,855
Unquoted equity	-	-	2,998	2,998	-	-	1,367	1,367
	-	-	14,240	14,240	-	-	13,222	13,222

NOTES TO THE ACCOUNTS (continued) for the year ended 31 January 2012

9. Investments (continued)

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

	Loan notes £'000	Unquoted equity £'000	Total £'000
Balance at 1 February 2011	11,855	1,367	13,222
Movements in the Income Statement: (Loss)/gain in the Income Statement	(313)	49	(264)
	11,542	1,416	12,958
Purchases at cost	6,914	1,555	8,469
Loan stock converted to shares	(45)	45	-
Sales proceeds	(7,169)	(18)	(7,187)
Balance at 31 January 2012	11,242	2,998	14,240

There is an element of judgment 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.

FRS 29 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 judgment 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 year.

The Board and the Investment Manager believe that the valuations as at 31 January 2012 reflect the most appropriate assumptions at the date, giving due regard to all information available from each investee company. Valuations are subject to fluctuations in market conditions and the sensitivity of the Company to such changes is shown within note 17.

Results of the subsidiary undertaking for the year ended 31 January 2012

	Country of registration	Nature of Business	Turnover £'000	Profit before tax £'000	Net assets £'000
Downing Managers 3 Limited	England and Wales	Investment Manager	261	11	18

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.

An analysis of venture capital investments between equity and non-equity elements is set out on pages 11 and 20 within the Review of Investments.

Analysis by class of shares is set out on pages 6 and 15 within the review of investments.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2012

10. Debtors

	2012 £'000	2011 £'000
Prepayments and accrued income	213	451
Other debtors	1,178	-
	<u>1,391</u>	<u>451</u>

Other debtors comprise amounts due from Downing Planned Exit VCT 2 plc in respect of monies raised in the 'F' Share fundraising.

11. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Amounts due to subsidiary undertaking	61	67
Corporation tax	85	120
Other taxes and social security	4	3
Other creditors	24	27
Accruals and deferred income	39	16
	<u>213</u>	<u>233</u>

12. Called up share capital

	2012 £'000	2011 £'000
Issued, allotted, called up and fully-paid:		
10,064,617 (2011: 10,064,617) Ordinary Shares of 1p each	101	101
7,173,376 (2011: 7,173,376) 'C' Shares of 0.1p each	7	7
10,760,064 (2011: 10,760,064) 'A' Shares of 0.1p each	11	11
9,994,109 (2011: 9,994,109) 'D' Shares of 0.1p each	10	10
14,994,862 (2011: 14,994,862) 'E' Shares of 0.1p each	15	15
	<u>144</u>	<u>144</u>

No shares were repurchased or issued during the year.

The Company's capital is managed in accordance with its investment policy as shown in the Directors' Report on page 24, in pursuit of its principal investment objectives as stated on page 2.

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 100p 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 100p 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.

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 January 2012

12. Called up share capital (continued)

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.

13. Reserves

	Capital redemption reserve £'000	Special reserve £'000	Capital reserve - realised £'000	Revaluation reserve £'000	Revenue reserve £'000	Total £'000
At 1 February 2011	5	15,795	-	-	89	15,889
Gain/(loss) on investments	-	-	53	(317)	-	(264)
Retained revenue	-	-	-	-	181	181
Transfer between reserves	-	(647)	647	-	-	-
Distributions paid	-	-	(647)	-	(391)	(1,038)
At 31 January 2012	5	15,148	53	(317)	(121)	14,768

Split between:

'C' Share pool

At 1 February 2011	4	6,495	-	-	151	6,650
Gain on investments	-	-	53	267	-	320
Retained revenue	-	-	-	-	124	124
Transfer between reserves	-	(322)	322	-	-	-
Distributions paid	-	-	(322)	-	(216)	(538)
At 31 January 2012	4	6,173	53	267	59	6,556

'D' Share pool

At 1 February 2011	-	9,300	-	-	35	9,335
Loss on investments	-	-	-	(584)	-	(584)
Retained revenue	-	-	-	-	57	57
Transfer between reserves	-	(325)	325	-	-	-
Distributions paid	-	-	(325)	-	(175)	(500)
At 31 January 2012	-	8,975	-	(584)	(83)	8,308

Ordinary Share pool

At 1 February 2011	1	-	-	-	(97)	(96)
At 31 January 2012	1	-	-	-	(97)	(96)

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 £664,000 which are included in the calculation of distributable reserves. At 31 January 2012, total distributable reserves were £14,416,000.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2012

14. Basic and diluted net asset value per share

	Shares in issue		per share	2012	per share	2011
	2012	2011		Net asset value £'000		Net asset value £'000
Ordinary Shares	10,064,617	10,064,617	0.1p	5	0.1p	5
'C' Shares	7,173,376	7,173,376	91.5p	6,563	92.8p	6,657
'A' Shares	10,760,064	10,760,064	0.1p	11	0.1p	11
'D' Shares	9,994,109	9,994,109	83.3p	8,318	93.5p	9,345
'E' Shares	14,994,862	14,994,862	0.1p	15	0.1p	15
Share capital to be issued				1,178		-
				<u>16,090</u>		<u>16,033</u>

The Ordinary Share pool, 'C' Share pool and 'D' 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.

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

	'C' Share pool	'D' Share pool	Other Share pools	2012	'C' Share pool	'D' Share pool	2011
				Total (incl. Ord Shares) £'000			Total (incl. Ord Shares) £'000
Return/(loss) on ordinary activities before taxation	495	(493)	-	2	137	280	417
(Gain)/loss on investments	(320)	584	-	264	-	-	-
Decrease/(increase) in prepayments and accrued income	86	152	-	238	(91)	(250)	(341)
(Decrease)/increase in accruals and deferred income	(4)	24	-	20	(13)	(81)	(94)
Increase/(decrease) in amounts due to subsidiary undertaking	2	(7)	-	(5)	12	39	51
Net cash inflow/(outflow) from operating activities	<u>259</u>	<u>260</u>	<u>-</u>	<u>519</u>	<u>45</u>	<u>(12)</u>	<u>33</u>

16. Analysis of changes in cash during the year

	2012 £'000	2011 £'000
Beginning of year	2,593	3,755
Net cash outflow	<u>(1,921)</u>	<u>(1,162)</u>
End of year	<u>672</u>	<u>2,593</u>

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 January 2012

17. 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 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:

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

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

Market risks

As a VCT, the Company is exposed to market 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 market 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. Market risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

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

- Market price risk
- Interest rate risk

Market price risk

Market 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.

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 January 2012

17. Financial instruments (continued)

At 31 January 2012, the unquoted portfolio was valued at £14,240,000 (2011: £13,222,000).

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

10% movement in unquoted investment valuations	2012		2011	
	Impact on net assets £'000	Impact on NAV per share Pence	Impact on net assets £'000	Impact on NAV per share Pence
'C' Shares				
Unquoted investments	639	8.9p	585	8.2p
'D' Shares				
Unquoted investments	785	7.9p	736	7.4p

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 market 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.

	Average interest rate	Average period until maturity	2012 £'000	2011 £'000
Fixed rate	5.9%	1,173 days	11,067	11,680
Floating rate	1.0%		847	2,768
No interest rate			4,389	1,818
			<u>16,303</u>	<u>16,266</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.

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 January 2012

17. Financial instruments (continued)

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the year by £4,000 for the 'C' Share pool and £4,000 for the 'D' Share pool. As the Bank of England base rate stood at 0.5% per annum throughout the year, 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:

	2012	2011
	£'000	£'000
Investments in loan stocks	11,242	11,855
Cash and cash equivalents	672	2,593
Interest, dividends and other receivables	213	392
	<u>12,127</u>	<u>14,840</u>

The Manager manages credit risk in respect of loan stock with a similar approach as described under "Market risks" above. Similarly the management of credit risk associated with interest, dividends and other receivables is covered within the investment management procedures. The level of security is a key means of managing credit risk.

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 year that are directly attributable to changes in credit risk.

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, (£213,000) 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.

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 January 2012

17. Financial instruments (continued)

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 January 2012 as analysed by the expected maturity date is as follows:

As at 31 January 2012	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	1,450	581	842	3,026	-	5,899
Past due loan stock	2,696	350	570	1,727	-	5,343
	<u>4,146</u>	<u>931</u>	<u>1,412</u>	<u>4,753</u>	<u>-</u>	<u>11,242</u>

As at 31 January 2011	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	4,562	677	175	3,055	-	8,469
Past due loan stock	1,715	-	1,206	465	-	3,386
	<u>6,277</u>	<u>677</u>	<u>1,381</u>	<u>3,520</u>	<u>-</u>	<u>11,855</u>

Of the loan stock classified as "past due" above, £2,646,793 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 £350,000, falling within the banding of one to two years; £570,000 falling within the banding of two to three years; and £1,726,793 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, £2,696,594 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 six 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 or the maturity of the principal has altered. Of this amount, £395,000 has been redeemed since the year end.

18. Contingencies, guarantees and financial commitments

At 31 January 2012, the Company had no contingencies, guarantees or financial commitments.

19. 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 year ended 31 January 2012, £211,000 (2011: £212,000) was payable to DM3. Additionally, DM3 provides accounting, secretarial and administrative services for an annual fee of £47,500 (plus VAT and RPI) per annum. During the year ended 31 January 2012, £49,900 (2011: £47,500) was due in respect of administration fees. At the year end a balance of £61,000 (2011: £67,000) was due to DM3.

20. Controlling party

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

21. Post balance sheet events

Between 6 February 2012 and 19 April 2012 the company issued 8,490,780 'F' Shares for an aggregate consideration of £8,370,173. Share issue costs thereon amounted to £474,000.

NOTICE OF THE SEVENTH ANNUAL GENERAL MEETING OF DOWNING PLANNED EXIT VCT 3 PLC

NOTICE IS HEREBY GIVEN that the seventh Annual General Meeting of Downing Planned Exit VCT 3 plc will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10.40 a.m. on 24 July 2012 for the transaction of the following business:

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

1. To receive and adopt the Report of the Directors and Accounts of the Company for the year ended 31 January 2012, 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 'C' Share and 2.5p per 'D' Share.
4. To re-appoint PKF (UK) 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, Hugh Gillespie, who retires in accordance with company policy and, being eligible, offers himself for re-election.
6. To re-elect as Director, Dennis Hale, 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.

By order of the Board



Grant Whitehouse
Secretary

Registered Office
10 Lower Grosvenor Place
London
SW1W 0EN

24 May 2012

NOTICE OF THE SEVENTH 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, 10 Lower Grosvenor Place, London SW1W 0EN 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, 10 Lower Grosvenor Place, London SW1W 0EN. 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 10.40 a.m. on 22 July 2012 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 10.40 a.m. on 22 July 2012 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 24 May 2012, the Company's issued share capital comprised 10,064,617 Ordinary Shares, 10,760,064 'A' Shares, 7,173,376 'C' Shares, 9,994,109 'D' Shares and 14,994,862 'E' Shares, 8,490,780 'F' Shares and the total number of voting rights in the Company was 35,722,822. The website referred to above will include information on the number of shares and voting rights.
- (h) If you are a person who has been nominated under section 146 of the 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;
 - 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 PLANNED EXIT VCT 3 PLC

For use at the Annual General Meeting of the above-named Company to be held on 24 July 2012, at 10 Lower Grosvenor Place, London SW1W 0EN at 10.40 a.m.

I/We*(in BLOCK CAPITALS please)

of
being the holder(s)* of ordinary shares of 1p each or 'C' Shares or 'D' Shares or 'F' 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 10 Lower Grosvenor Place, London SW1W 0EN on 24 July 2012 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve a final dividend payment of 2.5p per 'C' Share and 2.5p per 'D' Share.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint the Auditor and authorise the Directors to determine the Auditor's remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Hugh Gillespie as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Dennis Hale as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Michael Robinson as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature(s) Date:.....

* 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 in the pre-paid envelope provided to: Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN



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, 10 Lower Grosvenor Place, London SW1W 0EN 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.



10 Lower Grosvenor Place
London SW1W 0EN

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Email: vct@downing.co.uk

Web: www.downing.co.uk

Downing LLP is authorised and regulated by the Financial Services Authority