



# Downing ONE VCT plc

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Investment Memorandum  
Offer for Subscription  
2021/22 & 2022/23 tax years



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## **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the action you should take, you are recommended to seek advice from your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 ("FSMA").

The Company and its Directors, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best knowledge of the Company and its Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application will be made to the UK Listing Authority for all the Ordinary Shares, issued and to be issued in the capital of the Company, to be admitted to the premium segment of the Official List. Application will also be made to the London Stock Exchange for all the Ordinary Shares, issued and to be issued in the capital of the Company, to be admitted to trading on its main market for listed securities. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the Ordinary Shares will commence 10 Business Days following allotment. No application is currently intended to be made for the Ordinary Shares to be admitted to listing or dealt with on any other exchange. The existing Ordinary Shares are already admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities.

## **DOWNING ONE VCT PLC**

(registered in England and Wales with registered number 03150868)

Top Up Offer for Subscription  
for the 2021/21 and 2022/23 tax years  
of up to 10,510,628 Ordinary Shares  
**Investment Adviser and Promoter**  
Downing LLP

The subscription list for the Offer will open on 26 November 2021 and may close at any time thereafter but, in any event, not later than 3.00 p.m. on 5 April 2022 in respect of the 2021/22 tax year and 31 October 2022 in respect of the 2022/23 tax year, unless previously extended or closed at an earlier date by the Directors. The terms and conditions of the Top Up Offer are set out on pages 22 to 25 of this document. The Offer is not underwritten. There is no minimum subscription.

This document, which is a financial promotion and not a prospectus, is issued by the Company and has been approved for the purposes of section 21 of FSMA by Downing LLP ("Downing"), which is authorised and regulated by the Financial Conduct Authority, on behalf of the Company.

In connection with the Top Up Offer, Downing LLP ("Downing"), the promoter of the Offer and investment adviser and administration manager to the Company, is acting for the Company and no-one else and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Downing or for providing advice in relation to the Offer (subject to those responsibilities and liabilities arising under FSMA and the regulatory regime established thereunder).

Downing is authorised and regulated in the UK by the Financial Conduct Authority (Firm Reference No. 545025).

**Your attention is drawn to the risk factors set out on page 2 and 3 of this document. An investment in the Company is only suitable for investors who are capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss which might arise. If you are in doubt as to the action you should take, you should consult an independent financial intermediary authorised under FSMA.**

# Summary

## Offer Statistics

NAV per Ordinary Share (as at 31 July 2021)	61.0p
Gross proceeds of the Offer*	£6,700,000
Net proceeds of the Offer*	£6,400,000

Minimum investment for one-off investments (or such lower amount at the Board's discretion)	£5,000
Maximum investment on which tax reliefs are available (per tax year)	£200,000
Maximum number of Ordinary Shares in issue following the Offer*	approximately 189,521,629

Offer opens	26 November 2021
Offer closes for 2021/22 tax year**	3.00 p.m. on 5 April 2022
Offer closes for 2022/23 tax year**	3.00 p.m. on 31 October 2022

\* assuming the Offer becomes fully subscribed with all subscriptions having a gross Promoter's Fee of 4.5%.

\*\* unless fully subscribed earlier or extended (to no later than 31 October 2022).

## Financial calendar

Financial year end	31 March
Final results announcement	June/July
Annual general meeting	August/September
Bi-annual dividends paid	February and August/September
Half-yearly results announcement	November/December

## Offer costs

Promoter's Fee – Advisor commission payable	2.5%
Promoter's Fee – No advisor commission payable	4.5%

## Link to Application Form

<https://downing-one.cityora.uk.com/>



## Risk Factors

Investors should consider carefully the following risk factors in addition to the other information presented in the Prospectus. If any of the risks described below were to occur, it could have a material effect on the Company's businesses, financial condition or results of operations. The risks and uncertainties described below are not the only ones the Company, the Board or current and prospective Shareholders will face. Additional risks not currently known to the Company or the Board, or that the Company or the Board currently believe are not material, may also adversely affect the Company's businesses, financial condition and results of operations. The value of Shares could decline due to any of these risk factors, and Investors could lose part or all of their investment. Investors who are in any doubt about what to do should consult their independent financial adviser. The attention of prospective Investors is drawn to the following risks:

### **Valuation and sale of Shares**

The value of the Shares and the income from them can fluctuate and Investors may not get back the amount invested. In addition, there is no certainty that the market price of the Shares will fully reflect the underlying Net Asset Value or that Shareholders will be able to realise their shareholding or that dividends will be paid. Existing and prospective Shareholders should be aware that the sale of Shares within five years of their subscription will require the repayment of some or all of the 30% VCT income tax relief obtained upon investment. Accordingly, an investment in the Company is not suitable as a short- or medium-term investment. The past performance of the Company or of other funds managed or advised by Downing, the investment adviser to the Company, is not necessarily an indication of the future performance of the Company.

### **Six-month rule**

Shareholders should note that if they have sold, or if they sell, any Shares in the Company within six months either side of the subscription for new Shares, then for the purposes of calculating the tax relief on the newly subscribed Shares, the subscribed amount must be reduced by the amount received from the sale.

### **Value of underlying assets**

The Net Asset Value of the Shares will reflect the values and performance of the underlying assets in the respective portfolios. The value of the investments and income derived from them can rise and fall. Realisation of investments in small unquoted companies can be difficult and may take considerable time.

### **VCT Rules and the impact on the portfolio**

There may also be constraints imposed on the realisation of investments in order to maintain the VCT status of Investee Companies which may restrict the Company's ability to obtain maximum value from its investments or to achieve the intended timing of distributions. For example, the Company must maintain at least 80% of its portfolio in VCT Qualifying Investments.

### **Investment opportunities**

There can be no guarantee that suitable investment opportunities will be identified in order to meet the Company's objectives.

### **Minority interest**

Although the Company may receive conventional venture capital rights in connection with its investments, as a minority investor it may not be in a position to fully protect its interests.

### **Nature of smaller companies**

Investment in smaller and unquoted companies involves a higher degree of risk than investment in larger companies and those traded on the main market of the London Stock Exchange. To be qualifying holdings, VCT funds must be invested in smaller companies with gross assets of not more than £15 million prior to the investment and £16 million post investment. In addition, to be qualifying holdings, VCT funds must be invested in companies which have fewer than 250 full time (equivalent) employees and do not, in most cases, receive more than £5 million of investment from state aided risk capital sources in the 12 months ending on the date of the VCT's investment. Smaller companies who meet these criteria generally have limited product lines, markets or financial resources and may be more dependent on their management or key individuals than larger companies.

Markets for smaller companies' securities may be less regulated and are often less liquid, and this may cause difficulties in valuing and disposing of equity investments in such companies.

## Liquidity

Although the Offer Shares, like the Existing Shares, will be Listed, it is highly unlikely that a liquid market in these Shares will develop as the initial VCT income tax relief is only available to those subscribing for new shares and there may never be two competitive market makers. It may, therefore, prove difficult for Shareholders to sell their Shares. In addition, there is no guarantee that the market price of the Shares will fully reflect their underlying NAV or the ability to buy and sell at that price. It should be noted that shares held in VCTs usually trade at a discount to their net asset value. If the Company lacks sufficient cash reserves to purchase its own Shares and during prohibited periods when the Company is unable to purchase its own Shares. The Board intends to buyback Shares in the Company at a 5% discount to NAV, subject to liquidity and cash resources, which should help to reduce the share discount price.

## VCT legislation

The information, including tax rules, contained in this document is based on existing legislation. The tax rules or their interpretation in relation to an investment in the Company and/or the rates of tax, or other statutory provisions to which the Company is subject, may change during the life of the Company and such changes could be retrospective.

Whilst it is the intention of the Directors that the Company will be managed so as to continue to qualify as a VCT, there can be no guarantee that this status will be maintained. A failure to meet the qualifying requirements could result in the loss of tax reliefs previously obtained, resulting in adverse tax consequences for Investors, including a requirement to repay the income tax relief obtained, and could also cause the Company to lose its exemption from corporation tax on capital gains and its ability to pay tax-free dividends to Investors.

VCTs such as the Company may only invest in companies which pass a “risk to capital” gateway test requiring the investee company to have long term growth and development objectives and for the investment to carry a significant risk that invested capital will be lost over and above the net return to the Company irrespective of whether the return takes the form of income, capital growth, fees, other payments or anything else. This prevents the making of VCT Qualifying investments which focus on capital preservation and ensures that VCTs may only invest in order to fuel the growth of genuine trading companies with the attendant higher risk to investor capital that that entails.

VCTs are also subject to other restrictions on the range of investments into which they can deploy funds and which have the effect of increasing investment risk. The Company is required to invest in businesses which are less than seven years old (less than 10 years for ‘knowledge intensive’ companies) and VCT funds cannot be used to finance acquisitions by investee companies. The penalty for breaching these rules is the loss of VCT status, so the Company and its investors may face a higher risk of the loss of tax benefits than under the previous rules. Qualifying investee companies are also subject to a lifetime risk finance investment limit of £12 million (£20 million for ‘knowledge intensive’ companies), which may restrict the Company’s ability to make follow on investments. Further, more recent, changes to the VCT Rules have also prohibited the making of secured loans by VCTs. Loan capital held by the Company will therefore be unsecured and will rank behind secured creditors of the Investee Company in question. As loan capital investments by a VCT are separately restricted by the requirement that at least 70% of any new investments must be in eligible shares, and as Investee Companies which meet the above noted “risk to capital” test tend not to be able to provide significant assets against which to secure loans in any case, the Board do not consider that this restriction materially increases the risk profile of new investments made by the Company.

## Forward-Looking Statements

You should not place undue reliance on forward-looking statements. This document includes statements that are (or may be deemed to be) “forward-looking statements”, which can be identified by the use of forward-looking terminology including the terms “believes”, “continues”, “expects”, “intends”, “may”, “will”, “would”, “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements contained in this document or based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future. Any such statements do not, nor are intended to qualify the Company’s working capital statement.

## The Company

### **Directors (all non-executive)**

Chris Kay (Chairman)  
Chris Allner  
Barry Dean  
Stuart Goldsmith  
all of  
St. Magnus House,  
3 Lower Thames Street  
London EC3R 6HD

### **Company Secretary and Registered Office**

Grant Whitehouse  
St. Magnus House,  
3 Lower Thames Street  
London EC3R 6HD

### **Investment Adviser and Administrator of Downing ONE VCT plc**

Downing LLP  
St. Magnus House,  
3 Lower Thames Street  
London EC3R 6HD

### **Promoter**

Downing LLP  
St. Magnus House,  
3 Lower Thames Street  
London EC3R 6HD

### **Auditors**

BDO LLP  
55 Baker Street  
London W1U 7EU

### **Bankers**

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

Bank of Scotland  
33 Old Broad Street  
London EC2N 1HZ

### **Registrar and Receiving Agent**

The City Partnership (UK) Limited  
The Mending Rooms  
Park Valley Mills  
Meltham Road  
Huddersfield  
HD4 7BH

### **VCT Taxation Advisers**

Philip Hare & Associates LLP  
Hamilton House  
1 Temple Avenue  
London EC4Y 0AH

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

## Part I – The Offer

### The Investment Opportunity

Downing ONE was created by the merger of six VCTs managed by Downing in November 2013 and now has net assets of approximately £109 million and an existing portfolio of approximately 90 investments. The Company has a Board comprising four Directors who between them have substantial number of years' experience in the VCT, private equity and venture capital sectors.

The Directors believe that the availability of further funds will allow the Company to take advantage of new investment opportunities and provide support for existing portfolio companies.

The Company has a number of features which differentiate it from some VCTs:

**1. Low running costs**

The annual running costs for the shareholders of a larger VCT are usually lower as the VCT's fixed costs are spread over a larger asset base. Additionally, the Company's annual running costs are capped at 2.6% of Net Assets, above which Downing LLP bears any further costs. This is one of the lowest caps in the VCT sector.

**2. Significant diversification**

As a result of its history with six VCTs merging together in 2013 and its past strategy, the Company's portfolio includes a wide range of sectors and over 90 companies, including a combination of unquoted and quoted investments. Currently, no single investment accounts for more than 7% of the portfolio (by value), including cash. Individual investments or sectors which underperform will therefore have a less detrimental effect on the net asset position of the Company than would be the case in a smaller and less diversified VCT.

**3. Clear buyback policy**

Shareholders may, from time to time, wish to sell some of their shares to assist with personal financial and estate planning. It is the Company's intention to offer regular share buybacks at a discount of 5% to the most recently announced net asset value.

### Reasons for the Offer and Use of Proceeds

The Offer has been designed for Investors seeking to invest in a diversified existing portfolio of unquoted and quoted investments, whilst taking advantage of the VCT tax reliefs. The Offer will also allow the Company to take advantage of new investment opportunities and have funds available to support existing portfolio companies. The Company is seeking to raise additional gross proceeds of £6.7 million under the Offer. The additional funds raised under the Offer will be invested in accordance with the Company's investment policy. Downing is continuing to generate a steady pipeline of suitable investment opportunities and expects to continue to do so despite the disruption caused by the coronavirus pandemic.

### Dividend Policy and Dividend Reinvestment Scheme

The Board has a stated objective of paying an annual dividend of at least 4.0% per annum based on its NAV, subject to the availability of sufficient distributable profits, capital resources and compliance with the VCT regulations. There is no guarantee that this objective will be met. This return equates to a tax-free yield of 5.7% p. a. on the current offer price net of 30% income tax relief. In respect of the last financial year, the Company has declared dividends of 2.5p per share (equal to 4.3% based on the opening net asset value). In the previous two financial years, dividends of 4.0p per share and 5.0p per share were paid (equal to 5.1% and 5.7% based on the opening net asset value).

Dividends are usually paid twice each year in February/March and August/September. The next dividend is expected to be paid in February/March 2022. Any dividends declared which are ex-dividend since the last NAV date but remain unpaid will be factored into the Offer Price.

The Company operates a Dividend Reinvestment Scheme under which Shareholders are given the opportunity to reinvest future dividend payments by way of subscription for new shares.

Subject to a Shareholder's personal circumstances, Shares subscribed for under the Dividend Reinvestment Scheme should obtain the usual VCT tax advantages as set out below.



Investors under the Offer may elect to participate in the Dividend Reinvestment Scheme by completing the dividend reinvestment section of the Application Form and should be aware that it will apply to their entire holding of new Shares and any Existing Shares. Participation in the Dividend Reinvestment Scheme by a Shareholder can be cancelled at any time with written authority from the Shareholder.

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

The principal VCT tax reliefs, which are available on a maximum investment of £200,000 per individual in each of the 2021/22 and 2022/23 tax years, are set out below:

- **Income tax relief at 30%** of the amount subscribed provided the VCT shares are held for at least five years and provided the Investor has not sold any shares in the Company six months either side of the issue of the new Shares. Relief is restricted to the amount which reduces the Investor's income tax liability to nil.
- **Tax-free dividends and capital distributions** from a VCT.
- **Capital gains tax exemption** on any gains arising on the disposal of VCT shares.

The table below shows the effect of the initial 30% income tax relief (based on a notional investment of £10,000):

Effect of initial 30% VCT income tax relief	
<b>Cost of investment</b>	<b>£</b>
Gross subscription by Investor	10,000
30% VCT income tax relief	(3,000)
<b>Net of tax cost of investment</b>	<b>7,000</b>
<b>Initial value of investment</b>	
Gross subscription by Investor	10,000
Assumed issue costs of 2.5%	(250)
<b>Initial Net Asset Value</b>	<b>9,750</b>
<b>Initial "uplift" (pounds)</b>	<b>+2,750</b>
<b>Initial "uplift" (%)</b>	<b>+39.3%</b>

The above table shows that, based on an illustrative investment of £10,000 and income tax relief at 30%, an Investor's net of tax cost of investment is £7,000 and the net assets initially attributable to the investment are £9,750, an "uplift" of £2,750 or +39.3%. The table ignores the effect of Adviser Charges paid or early application discounts received. **Investors should note that they are required to hold the Shares for at least five years in order to retain the full amount of income tax relief and, as such, this initial uplift cannot be immediately realised.**

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

# Investment Objective and Policy

The current investment objective and policy are shown below.

## Investment Objective

The investment objective of the Company is to provide private investors with attractive returns from a portfolio of investments including unquoted companies as well as AIM and AQSE Growth Market quoted companies. It is the intention to maximise tax-free income available to investors from a combination of dividends and interest received on investments and the distribution of capital gains arising from trade sales or flotation.

## Investment Policy

### Asset allocation

The Company will seek to maintain a minimum of 80% of its funds invested in VCT qualifying investments, with the balance held in non-qualifying investments. New funds raised will initially be held in non-qualifying investments and cash and will gradually be invested in VCT qualifying investments over a two to three year period.

### VCT qualifying investments

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

Investment type	Target	Maximum	Target IRR
Growth	40%-100%	100%	15% and above
Yield focused	0%-60%	100%	10%

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

- investments in unquoted companies where there are reasonable prospects of a trade sale or clear exit strategy over a five to seven year time horizon and the prospects of a reasonable level of capital growth. Start-ups will not generally be considered although the fund may consider investments in early stage companies offering higher risk and higher potential returns; and
- companies already quoted on AIM, the AQSE Growth Market or the Main Market of the London Stock Exchange, or being admitted to AIM, the AQSE Growth Market or the Main Market of the London Stock Exchange.

**Yield focused investments** are generally in unquoted businesses (although this may include some quoted businesses), with a preference for companies which, subject to prevailing VCT rules, own substantial assets or have predictable revenue streams. These investments may be structured such that they comprise of loan stock and/or preference shares. Under the current VCT regulations, it is unlikely that any new Yield focused investments will be added to the portfolio or further funds invested into such existing portfolio companies.

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

### Non Qualifying Investments

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

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

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

- Non-qualifying listed investments which are in quoted companies where the holdings can be traded and in companies in which the Investment Adviser has detailed knowledge as a result of VCT qualifying investments made previously;
- Secured loans which are secured on assets held by the borrower; and
- Non-qualifying unquoted investments which will generally not exceed 5% of the overall fund.

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

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

### *Risk diversification*

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

### 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 VCT Rules.

### *Borrowing policy*

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a sum equal to no more than 10% of the aggregate amount paid up on the issued share capital of the Company plus the amounts standing to the credit of the consolidated reserves of the Company. There are no plans to utilise this ability at the current time.

### **Variation of Investment Policy**

Any material change to the investment policy of the Company will require the approval of Shareholders pursuant to the Listing Rules. Any material change to the investment policy is also subject to the FCA's approval.

### **Listing Rules**

In accordance with the Listing Rules: (i) the Company may not invest more than 10%, in aggregate, of the value of its total assets at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds that have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds; (ii) the Company must not conduct any trading activity which is significant in the context of its group as a whole; and (iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy as set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the ITA.

### **Responsible Investing**

The Investment Adviser is a signatory to the United Nations Principles of Responsible Investment and is actively integrating environmental, social and governance matters into its approach to both selection and ongoing management of investments. The Board believes that ESG integration will contribute to protecting and enhancing returns for investors in the long term.

## Share Buyback Policy

The Company's policy is to ensure that there is liquidity in its Shares and, accordingly, it intends to pursue an active Share buyback policy. The Company will seek to buy back in the market those Shares which Shareholders wish to sell, at a discount of 5% to the latest published Net Asset Value, subject to applicable regulations, market conditions at the time and the Company having both the necessary funds and distributable reserves available for the purpose. This buyback policy aims to provide some liquidity and limit the discount to Net Asset Value at which Shares trade. The making and timing of any share buybacks will remain at the absolute discretion of the Board.

Under the current Listing Rules, the price paid for the Shares cannot be more than the higher of: (i) the amount equal to 105% of the average of the middle market quotations for the five Business Days immediately preceding the date on which the Shares are purchased; (ii) the price of the last independent trade; and (iii) the highest then current independent bid on the London Stock Exchange.

## The Investment Adviser

The Company's investment adviser is Downing LLP, which is authorised and regulated by the Financial Conduct Authority and specialises in structuring, promoting, managing and administering tax efficient products. Downing LLP took over the business and employees of Downing Corporate Finance Limited on 1 June 2011. Downing Corporate Finance was incorporated in 1986 and, since 1991, carried out the business taken over by Downing LLP. Downing LLP advises VCTs with in excess of £180 million of net assets and approximately £1.5 billion of assets under management across its entire operations.

### **AIFM**

The Company is registered with the FCA as a Small Registered Alternative Investment Fund Manager.

## Directors

**Chris Kay** (Chairman) has over 35 years of experience in the venture capital industry. He spent nine years with 3i Group plc, where he was an investment director, and a further eight years at Elderstreet Investments Limited, where he headed the VCT team. He is the chief executive of Chrysalis VCT Management Limited. He is a Cambridge University graduate and gained an MBA at Manchester Business School.

**Chris Allner** has over 35 years of venture capital and private equity experience and is currently a partner of the Investment Adviser, Downing LLP and chairs their investment committee. Prior to joining Downing, he was the head of private equity at Octopus Investments as well as a director at Beringea and Bridgepoint with previous experience at 3i and Charterhouse. He has previously sat on the boards of a number of unquoted and quoted companies across a variety of commercial sectors.

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

**Stuart Goldsmith** has worked within financial services throughout his career, originally within investment management where he was Managing Director of the Britannia Group of Investment Companies, which managed £4 billion of funds in the UK and the USA for institutions and private clients. More recently he was the owner and Chairman of Ketton Securities Limited, a firm advising a range of companies on corporate strategy, mergers and acquisitions. In addition, he has been a non-executive director for a number of companies in the UK and overseas.

## Co-Investment Policy

The Company's only formal co-investment relationships are with the other Downing VCTs, Downing's IHT, EIS and funds (together the "Funds"). It has been agreed that allocations will be offered to each party in proportion to their respective funds available for investment, subject to: (i) a priority being given to any of the Funds in order to maintain their tax status; (ii) the time horizon of the investment opportunity being compatible with the exit strategy of each Fund; and (iii) the risk/reward profile of the investment opportunity being compatible with the target return for each Fund. In the event of any conflicts between the parties, the issues will be resolved at the discretion of the independent directors, designated members and committees of the relevant Funds.

## Charges

### Initial costs

The initial costs to Investors are made up of the Promoter's Fee plus Initial Adviser Charges (where applicable). Downing will charge a Promoter's Fee of 4.5% of the monies subscribed or 2.5% on applications where an investor has been advised by a financial adviser. Out of its Promoter's Fee, Downing will be responsible for paying all of the costs of the Offer (excluding trail commission). Adviser Charges are the fees agreed between Intermediaries and Investors for advice and related services. Downing will also receive an annual trail fee of 0.25% of the net asset value of the New Shares. Downing will be responsible for paying trail commission to intermediaries, where applicable, out of this fee. The total initial expenses of the Offer (assuming full subscription by Investors in respect of whom intermediary commission is payable) will be a maximum of 4.5% of the gross proceeds and the maximum total net proceeds are therefore estimated to be £6.4 million.

**Running costs** – Annual running costs are capped by the Investment Adviser at 2.6% of net assets. Any excess costs above the cap will be paid by Downing LLP or refunded by way of a reduction in its fees. Annual Running Costs include, *inter alia*, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders and investment advisory fees but exclude performance incentive fees.

### Annual fees

Downing charges certain fees under the Investment Services Agreement, which are set out below.

**Investment advisory fee** – Downing LLP's annual management charge is 2.0% per annum.

### Arrangement and monitoring fees

Arrangement and monitoring fees may be payable to investee companies as set out in the table below under the heading "Costs payable by investee companies".

### Administration fees

Downing also provides company secretarial and administration services to the Company for an annual fee made up of (i) a basic fee of £40,000 (plus RPI adjustment) plus (ii) a fee of 0.125% of Net Assets in excess of £10 million (iii) an additional fee of £10,000 per additional share pool (if applicable).

Where the Company invests in other Downing managed funds, the Adviser will arrange for one of the fees to be rebated to the Company to ensure that there is no "double charging".

### Performance Incentive

Downing is entitled to receive a performance incentive fee equal to 20% of the realised gains on any exit from new investments made since 1 April 2019 ("**New Investments**"). The fee will be payable to the Investment Adviser if the following conditions are met:

- (a) The Internal Rate of Return ("**IRR**") of the group of all New Investments at the year-end exceeds the hurdle rate of 5% p.a. (based on audited valuations and including realised and unrealised gains and losses and all investment income, measured from 1 April 2019) ("**IRR Hurdle**"); and
- (b) Total Return per share at the year end exceeds the Base Value per share ("**Base Value Hurdle**"). The Base Value per Share is set at the Total Return per share (NAV plus dividends paid since the date of the merger) as at 31 March 2019, being 109.8p per Share.

If any amount is not paid in a year when an investment is realised because the IRR Hurdle and/or Base Value Hurdle are not met, such amounts are deferred and can be paid in a future year if and when the IRR Hurdle and Base Value are both met again. Additionally, the amounts payable under this proposed scheme are only paid to the extent that the IRR Hurdle and Base Level are exceeded.

The Total Return per share stood at 99.7p per share at 31 July 2021, 10.1p per share below the Base Value Hurdle.

### Costs payable by investee companies

Downing is entitled to charge arrangement and monitoring fees to investee companies, expressed as a percentage of the investment cost, on the following basis:

<i>Arrangement Fee</i>	Between 0% and 3.0% per company (subject to an overall annual cap of 2.0%)
<i>Basic Monitoring Fee</i>	0.5%
<i>Additional Monitoring Fee</i>	Up to 0.5%

To the extent an arrangement fee of less than 2.0% is charged to a particular investee company, Downing will be entitled to an additional monitoring fee equal to 50% of the shortfall

Costs incurred on abortive investment proposals will be the responsibility of Downing.

## Other Information

### Taxation and HMRC approval

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

### The Offer and minimum and maximum subscription

Assuming the Offer is fully subscribed, maximum net proceeds of approximately £6.4 will be raised under the Offer. In the event that applications are received in excess of the prescribed maximum of £6.4 million, the Directors reserve the right to use their absolute discretion in the allocation of successful applications. Applicants are encouraged to submit their Application Form early in order to be confident that their applications will be successful.



The minimum investment per Applicant is £5,000 for one-off applications (or such lower amount at the Board's discretion) and the Board may in its discretion permit monthly subscriptions by standing order or direct debit. The maximum investment, on which tax reliefs in VCTs are available, is £200,000 per Applicant in each of the 2021/22 and 2022/23 tax years. Spouses can each invest up to £200,000 in each tax year. The subscription list for the Offer will open at 9.00 a.m. on 26 November 2021 and may close at any time thereafter, but in any event, not later than 3.00 p.m. on 5 April 2022 in respect of the tax year 2021/22 and 3.00 p.m. on 31 October 2022 in respect of the tax year 2022/23, unless fully subscribed earlier or previously extended by the Directors (but to no later than 31 October 2022). The Offer is not underwritten.

Shares are expected to be allotted and issued in respect of valid applications on dates on which the Directors decide, but at least quarterly.

Application will be made to the FCA on behalf of the Company for the Admission of all of the Offer Shares. The Offer Shares will be issued in registered form and be transferable in both certificated and uncertificated form and will rank for all dividends and other distributions declared, paid or made by the Company in respect of the Offer Shares thereafter. It is anticipated that dealings in the Offer Shares will commence within 20 Business Days of allotment. Dealings may not begin before notification of allotments is made.

Settlement of transactions in the Offer Shares may take place within the CREST system if Shareholders wish. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so. Share certificates (where applicable) and certificates to enable a claim for income tax relief to be made in respect of Offer Shares will be posted to Shareholders within 30 days of each allotment. No notification will be made to successful applicants prior to dispatch of definitive share certificates.

Prior to dispatch of definitive share certificates (where applicable), transfers (if any) will be certified against the register. No temporary documents of title will be issued.

The result of the Offer will be announced through a regulatory information service provider authorised by the FCA.

No convertible securities, exchangeable securities or securities with warrants will be issued with the Offer.

#### **Availability of this document**

Copies of this document are available free of charge, from the Company's registered office, where they are also on display, and from Downing LLP and their website shown below.

Downing LLP  
St. Magnus House, 3 Lower Thames Street  
London EC3R 6HD

telephone: 020 7416 7780  
download: [www.downing.co.uk](http://www.downing.co.uk)  
email: [customer@downing.co.uk](mailto:customer@downing.co.uk)

## Operation of the Company and Board Practices

### (a) Board of Directors

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

- a) 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. (5.2.3)
- b) Due to the size of the Board and nature of the VCT's business, the Board considers it appropriate for the entire Board, including the chair, to fulfil the role of the nomination, audit and the remuneration committee. (7.2.22, 9.2.37, 8.2.29)
- c) Due to the size of the Board, a Senior Independent Director has not been appointed. (6.2.14)

The Board comprises four members, all of whom are non-executive directors and, with the exception of Chris Allner, are considered to be independent of the Investment Adviser.

The Board meets regularly throughout the year (normally at least quarterly) and all necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. Additionally, special meetings take place or other arrangements are made when Board decisions are required in advance of regular meetings. The Board is responsible for controlling the Company. The Board is responsible for the determination and calculation of the Company's Net Asset Value, which will be undertaken in accordance with the Company's accounting policies (the Company's current accounting policies are set out on pages 56 to 58 of its report and accounts for the year ended 31 March 2021) and published on an appropriate regulatory information service (including in the announcement of annual and half yearly results of the Company). The Board does not envisage any circumstances in which such calculations would be suspended but, were this to occur, such suspension would be communicated to shareholders in a similar manner.

The Board delegates specific responsibilities to the committees described below.

### (b) Audit Committee

All Directors sit on the audit committee which is chaired by Stuart Goldsmith. The audit committee meets not less than once a year. The Company's auditors and the senior executives of the Investment Adviser may attend and speak at audit committee meetings.

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

### (c) Remuneration Committee

The remuneration committee, which meets as and when required, is chaired by Barry Dean. All Directors sit on the Remuneration Committee.

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

### (d) Nomination Committee

All directors sit on the nomination committee, which meets as and when required, and is chaired by Barry Dean. The committee has responsibility for considering the size, structure and composition of the Board, the retirement and appointment of Directors, and will make appropriate recommendations to the Board in relation to these matters.

## Part II – Taxation

### VCTs: Summary of the applicable legislation in respect of Investors

#### 1. Taxation of a VCT

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

#### 2. Tax reliefs for individual Investors

Individuals who subscribe for Offer Shares must be aged 18 or over to qualify for the tax reliefs outlined below.

##### *Relief from income tax*

A qualifying investor subscribing up to £200,000 in the 2021/22 and/or 2022/23 tax years for eligible shares in a VCT will be entitled to claim income tax relief, at the rate of 30%, although this relief will be withdrawn if either the shares are sold within five years or the investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the investor's income tax liability to nil. Shareholders should note that if they have sold, or if they sell, any shares in the Company within six months either side of the subscription for the Offer Shares, then for the purposes of calculating tax relief on the Offer Shares the subscribed amount must be reduced by the amount received from the sale.

##### *Dividend relief*

An investor who subscribes for or acquires eligible shares in a VCT (up to a maximum of £200,000 in each of the 2021/22 and 2022/23 tax years) will not be liable for UK income tax on dividends paid by the VCT. The income received by the VCT will usually constitute either interest (on which the VCT may be subject to tax) or a dividend from a UK company (on which the VCT would not be subject to tax). The VCT's income, reduced by the payment of tax (if applicable), can then be distributed tax-free to investors who benefit from this dividend relief. There is no withholding tax on dividends paid by a UK company and, consequently, the Company does not assume responsibility for the withholding of tax at source.

##### *Capital gains tax relief*

A disposal by an individual investor of his/her shares in a VCT will neither give rise to a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is also limited to disposals of shares acquired within the £200,000 limit described above.

##### *Loss of tax reliefs*

- (i) If a company which has been granted approval or provisional approval as a VCT subsequently fails to comply with the conditions for approval, VCT status may be withdrawn or treated as never having been given. The exemptions from corporation tax on capital gains will not apply to any gain realised after VCT status is lost (and on any gain realised by the VCT if approval is deemed never to have been given).
- (ii) For investors, the withdrawal of VCT status may (depending upon the timing of such withdrawal) result in:
  - repayment of the 30% income tax relief on subscription for new VCT shares;
  - income tax becoming payable on subsequent payments of dividends by the VCT; and
  - a liability to tax on capital gains being suffered in the normal way on the disposal of shares in the VCT, except that any part of the gain attributable to the period for which the VCT was approved would remain exempt.

- (iii) The consequences for investors in a company which never obtains full unconditional approval as a VCT are as follows:
- repayment of the 30% income tax relief on subscriptions for new VCT shares and interest on overdue tax may arise;
  - income tax becoming payable on all payments of dividends by the company; and
  - any gain arising on a disposal of the shares would be liable to capital gains tax and losses on the shares would be allowable losses for capital gains tax purposes.

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

(i) *Initial income tax*

If an investor dies at any time after making an investment in a VCT, the transfer of shares on death is not treated as a disposal and, therefore, the initial income tax relief is not withdrawn. However, the shares will become part of the deceased's estate for inheritance tax purposes.

(ii) *Tax implications for the beneficiary*

Provided a number of conditions are met, the beneficiary of any VCT shares will be entitled to tax-free dividends and will not pay capital gains tax on any disposal but will not be entitled to any initial income tax relief.

(iii) *Transfer of shares between spouses*

Transfers of shares in a VCT between spouses is not deemed to be a disposal and, therefore, all tax reliefs will be retained.

### 4. General

(i) *Investors who are not resident in the UK*

Non-resident investors, or investors who may become non-resident, should seek their own professional advice as to the consequences of making an investment in a VCT, because they may be subject to tax in other jurisdictions.

(ii) *Stamp duty and stamp duty reserve tax*

No stamp duty or (unless shares in a VCT are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax will be payable on the issue of VCT shares. The transfer on the sale of shares would normally be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within four months) stamp duty reserve tax generally, in each case at the rate of 50p for every £100 or part of £100 of the consideration paid where the total consideration exceeds £1,000 or if it forms part of a series of transactions where the total consideration exceeds £1,000. Such duties would be payable by a person who purchases such shares from the original subscriber.

(iii) *Purchases in the market after listing*

Any subsequent purchaser of existing VCT shares, as opposed to a subscriber for new VCT shares, will not qualify for income tax relief on investment but may benefit from dividend relief and from capital gains tax relief on the disposal of his/her VCT shares.

(iv) *The VCT Regulations 2004*

Under the VCT Regulations 2004, monies raised by any further issue of shares by an existing VCT must be applied by that VCT for qualifying purposes. If any of the money raised (except for amounts which HM Revenue & Customs agrees are insignificant in the context of the whole issued ordinary share capital of the VCT) is used by the VCT to purchase its own shares, then the funds may be deemed to not have been used for a qualifying purpose.

**The above is only a summary of the tax position of individual investors in VCTs and is based on the Company's understanding of current law and practice. Investors are recommended to consult a professional adviser as to the taxation consequences of their investing in a VCT. The tax legislation of the investor's home country and of the Company's country of incorporation may have an impact on the income received from the securities. All tax reliefs referred to in this document are UK tax reliefs and are dependent on the Company maintaining its VCT qualifying status.**

## 5. VCT approval

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

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

- (i) the VCT's income must have been derived wholly or mainly from shares and securities (in the case of securities issued by a company, meaning loans with a five-year or greater maturity period);
- (ii) no holding in a company (other than a VCT or a company which would, if its shares were listed, qualify as a VCT) by the VCT may represent more than 15% by value of the VCT's total investments at the time of investment; and
- (iii) the VCT must not have retained more than 15% of the income derived from shares or securities in any accounting period; and
- (iv) the VCT must not make an investment into a company which causes that company to have received more than £5 million of state aided risk finance in a rolling 12 month period (£10 million for a 'knowledge intensive' company), or more than £12 million in total (£20 million for a 'knowledge intensive' company);
- (v) no investment can be made by the VCT in a company whose first commercial sale was more than 7 years prior to the date of investment, except where previous State aid Risk Finance was received by the company within 7 years (10 years for a 'knowledge intensive' company) or where a turnover test is satisfied and the investment is used to enter a new product or geographical market;
- (vi) no funds received from an investment by the VCT into a company can be used to acquire another existing business or trade; and
- (vii) the VCT must not make any investments other than qualifying investments or certain non-qualifying investment specified in section 274 Income Tax Act 2007.

Additionally, the VCT must not be a close company and its ordinary share capital must be quoted on a regulated market in the EU or European Economic Area.

The VCT must not, in respect of any share capital created on or after 6 April 2014, and any reserves created from the cancellation thereof, make any payment or distribution out of such share capital and reserves to shareholders within three years from the end of the accounting period in which that share capital was created.

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

- (i) at least 80% by value of its investments is represented by shares or securities comprising qualifying investments; and
- (ii) for funds raised on or after 6 April 2011, and for investments made on or after 6 April 2018 from funds raised prior to 6 April 2011, at least 70% by value of its qualifying investments is represented by "eligible shares" which are ordinary shares which carry no present or future preferential rights to a return or capital on a winding up or any redemption rights but may have certain preferential rights to dividends.

Furthermore, VCTs are required to invest 30% of funds raised in an accounting period in qualifying investments within 12 months from the end of that accounting period.

Disposals of qualifying holdings (which have been so qualifying throughout the six months prior to disposal) are disregarded for the purposes of the 80% test for a period of twelve months.



“Qualifying investments” comprise shares or securities (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) issued by unquoted trading companies which exist wholly or mainly for the purpose of carrying on one or more qualifying trades and which meet a principles based ‘risk to capital’ gateway test. This test requires the company to have genuine plans to grow and develop in the long term and that there be a significant risk that the capital invested could be lost as to an amount greater than the net investment return. The trade must be carried on by, or be intended to be carried on by, the investee company or a 90% held qualifying subsidiary (directly held or in the third tier within the group) at the time of the issue of the shares or securities to the VCT and at all times thereafter. The Qualifying Company must have a permanent establishment in the UK.

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

A qualifying investment can be made in a company which is a parent company of a trading group where the activities of the group, taken as a whole, consist of carrying on one or more qualifying trades. The subsidiary carrying on the qualifying trade in question must be at least 90% owned by the parent company. The investee company's gross assets, or those of the group if it is a parent company, must not exceed £15 million immediately prior to the investment and £16 million thereafter. Neither the VCT nor any other company may control the investee company. At least 10% of the VCT's total investment in the investee company must be in “eligible shares” as defined above. Qualifying Companies or groups must have fewer than 250 employees. Companies are permitted to receive a maximum of £5 million from investments made under the European Commission's Risk Finance Guidelines in the 12 months ending on the date of the VCT's investment, and a total maximum of £12 million of such investment (£10 million and £20 million respectively for a “knowledge intensive company”). The company's first commercial sale must be no more than seven years before the date of the VCT's investment (10 years for a “knowledge intensive company”), except where previous State Aided risk finance investment was received by the company in that seven or 10 year period, or where a turnover test is satisfied and the money is used to enter a new product or geographic market. There is also a disqualifying purpose test designed to exclude companies set up for the purpose of accessing the tax reliefs. There is an exclusion on the use of VCT funds for the acquisition of a trade, business, or of shares in another company.

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

VCTs may only use the non-qualifying portion of their portfolio to make a limited range of investments for the purposes of liquidity management, specifically in listed shares, shares or units in alternative investments funds and UCITS (each of which must be redeemable on seven days' notice by the investor) and short-term cash deposits.

The Company will notify through a Regulatory Information Service provider any action that will be taken in the event of a breach of any of the VCT conditions.

## Part III – Financial Information

The unaudited NAV at 31 July 2021 was 61.0p per share.

The following information is a summary of the main investments of the Company as at the date of this document. Information, including as to valuation, has been sourced from the Company's unaudited management accounts prepared to 31 July 2021.

Investment Portfolio		
	Valuation	% of net
	£'000	assets
<b>18 largest investments (by value)</b>		<b>by value</b>
1 Tracsis plc*	7,475	6.9%
2 Downing Care Homes Holdings Limited	5,648	5.2%
3 Doneloans Limited	4,595	4.2%
4 Anpario plc*	4,206	3.9%
5 Downing Strategic Micro-Cap Investment Trust plc**	3,710	3.4%
6 Baron House Developments LLP	3,234	3.0%
7 Carbice Corporation	2,816	2.6%
8 StorageOS Inc	2,773	2.5%
9 E-Fundamentals (Group) Limited	2,760	2.5%
10 Harrogate Street LLP	2,113	1.9%
11 Pilgrim Trading Limited	2,079	1.9%
12 Hummingbird Technologies Limited	2,035	1.9%
13 Imagen Limited	2,019	1.9%
14 Cornelis Networks Inc	1,951	1.8%
15 Trinny London Limited	1,935	1.8%
16 Virtual Class Limited	1,928	1.8%
17 Cadbury House Holdings Limited	1,801	1.6%
18 Impact Healthcare REIT plc**	1,729	1.6%
	54,807	50.4%
<b>Other investments (78 companies)</b>	38,478	35.3%
<b>Total investments</b>	93,285	85.7%
<b>Cash at bank and in hand</b>	14,548	13.4%
<b>Other net current assets</b>	1,021	0.9%
<b>Net Assets</b>	108,854	100.0%

\* Quoted on AIM

\*\* Listed and traded on the Main Market of the London Stock Exchange

All other investments unquoted.

## Summary of portfolio investments (by value)

A brief summary of the ten largest investments by value at 31 July 2021 is as follows:

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

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

**Doneloans Limited** is a non-VCT-qualifying investment company which holds a portfolio of secured loans from which it generates a steady income flow with limited capital risk.

**Anpario plc** is an international producer and distributor of natural animal feed additives for animal health, nutrition, and biosecurity.

**Downing Strategic Micro-Cap Investment Trust plc** is a non-qualifying investment which seeks to provide investors with long term growth through a concentrated portfolio of UK listed companies that typically have a market capitalisation of below £150 million.

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

**Carbice Corporation** has developed a suite of products based on its carbon material called Carbice Carbon which is primarily used as thermal management solutions to enable greater thermal conductivity.

**StorageOS Inc** is a cloud-based storage management software solution developed to manage storage issues. Downing led a \$10 million round in late 2020.

**E-Fundamentals (Group) Limited** is a Software as a Service (SaaS) analytics company, which has developed and commercialised a SaaS analytics tool sold directly to companies to enable them to accurately assess the performance of their products when being sold through third party e-commerce sites.

**Harrogate Street LLP** was created to fund the purchase of a hotel site that is let to Premier Inn on a long-term basis, which qualifies under the Business Premises Renovation Allowance (BPRA) scheme.

## Part IV – Definitions

<b>1985 Act</b>	Companies Act 1985, as amended from time to time
<b>Admission</b>	date on which the Offer Shares allotted pursuant to the Offer are listed on the Official List of the FCA and admitted to trading on the London Stock Exchange's main market for listed securities
<b>Adviser Charge</b>	a fee, payable to an Intermediary, agreed with the Investor for the provision of a personal recommendation and/or related services in relation to an investment in Offer Shares, and detailed on the Application Form
<b>AIM</b>	a market operated by the London Stock Exchange established in 1995 to provide a market for small, growing companies with greater regulatory flexibility than applies to the main market
<b>Annual Running Costs</b>	annual running costs incurred by the Company in the ordinary course of its business (including irrecoverable VAT but excluding any amount payable in respect of the Performance Incentive)
<b>Applicant</b>	person who applies for Offer Shares under the Offer through means of completing an Application Form
<b>Application Form(s)</b>	form(s) of application for Offer Shares
<b>Articles</b>	articles of association of the Company as at the date of this document
<b>Board or Directors</b>	board of directors of the Company
<b>Business Days</b>	any day (other than a Saturday or Sunday) on which clearing banks in London are open for normal banking business in sterling
<b>CA 2006</b>	Companies Act 2006 (as amended)
<b>Closing Date</b>	3.00 p.m. on 31 October 2022 unless extended at the discretion of the Directors but no later than 31 October 2022
<b>Company or Downing ONE</b>	Downing ONE VCT plc (registered number 03150868)
<b>CREST</b>	relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for the paperless settlement of transfers and the holding of Shares in uncertificated form which is administered by Euroclear UK & Ireland Limited (registered number 02878738)
<b>Direct Investor</b>	an investor with no adviser
<b>Dividend Reinvestment Scheme or DRIS</b>	the Company's dividend reinvestment scheme, details of which are set out in Annex I to this document
<b>Downing VCT</b>	a VCT managed or advised by Downing
<b>DTR</b>	the Disclosure Guidance and Transparency Rules, made by the FCA under Part VI of FSMA and relating to the disclosure of information in respect of financial instruments
<b>Existing Shares</b>	the Ordinary Shares in issue at the date of this document
<b>Fixed Income Securities</b>	investments made by the Company which do not comprise Qualifying Investments, such as bank deposits, loan stock, bonds, preference shares and other debt instruments
<b>FSMA</b>	Financial Services and Markets Act 2000, as amended, supplemented or replaced from time to time
<b>HMRC</b>	Her Majesty's Revenue and Customs
<b>IRR</b>	internal rate of return, which, when applied to the relevant cash flows, produces a net present value of zero (expressed as a percentage)
<b>ITA</b>	Income Tax Act 2007, as amended from time to time
<b>Initial Adviser Charge</b>	a one-off Adviser Charge to be paid at the time of or shortly after an investment for Offer Shares is made by an Investor

<b>Intermediary</b>	financial intermediary or adviser, authorised under FSMA, who signs the Application Form and whose details are set out on the Application Form
<b>Investment Adviser</b>	Downing LLP
<b>Investor</b>	individual who subscribes for Offer Shares pursuant to the Offer
<b>Listed</b>	admitted to the premium segment of the Official List and to trading on the London Stock Exchange
<b>Listing Rules</b>	listing rules of the FCA
<b>London Stock Exchange or LSE</b>	London Stock Exchange plc
<b>Management</b>	individuals engaged in the business of the Company and/or the Investment Adviser
<b>ML Regulations</b>	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, as amended, supplemented or replaced from time to time
<b>Net Assets</b>	gross assets less all liabilities (excluding contingent liabilities) of the Company calculated in accordance with the Company's normal accounting policies in force at the date of circulation
<b>NAV or Net Asset Value</b>	net asset value per Share
<b>New Investor</b>	Individual who subscribes for Offer Shares pursuant to the Offer
<b>New Shares</b>	shares issued under the Offer
<b>Offer</b>	offer for subscription to raise in aggregate up to £6.7 million by issue of Ordinary Shares by the Company pursuant to the terms set out in this document.
<b>Offer Price</b>	the latest published NAV per Offer Share adjusted for any dividends declared and ex-dividend since the NAV date, as appropriate, and determined for each Investor by the application of the Pricing Formula to their personal circumstances and rounded up to the nearest 0.1p
<b>Offer Shares</b>	those Ordinary Shares being made available for subscription pursuant to the Offer
<b>Official List</b>	official list of the FCA maintained in accordance with section 74(1) FSMA
<b>Ordinary Shares or Shares</b>	ordinary shares of 1p each in the capital of the Company (ISIN: GB00BFRSVQ41)
<b>Ordinary Shareholders or Shareholders</b>	holders of Ordinary Shares
<b>Performance Incentive Agreement</b>	an agreement between the Company and Downing LLP setting out the performance incentive arrangements as described in this document under the section headed "Charges"
<b>Pricing Formula</b>	the pricing formula by which the number of Offer Shares issued under the Offer is determined for each Investor
<b>Promoter or Downing</b>	Downing LLP, the promoter of the Offer
<b>Prospectus Rules</b>	Prospectus rules issued by the FCA pursuant to Part VI of the FSMA
<b>Qualifying Company</b>	Unquoted (including an AIM-quoted) company which satisfies the requirements of Part 4 of Chapter 6 of the ITA
<b>Qualifying Investments</b>	shares in, or securities of, a Qualifying Company held by a venture capital trust which meets the requirements described in Parts 3 and 4 of Chapter 6 of the ITA
<b>RPI</b>	inflation measured by the Retail Price Index
<b>Receiving Agent</b>	The City Partnership (UK) Limited
<b>Registrar</b>	The City Partnership (UK) Limited
<b>Spouse</b>	spouse or civil partner



<b>Total Return</b>	NAV, together with cumulative dividends paid since the merger in November 2013
<b>VCT Regulations 2004</b>	Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations SI 2004 No. 2199
<b>VCT Rules</b>	legislation, rules and HMRC interpretation and practice regulating the establishment and operation of venture capital trusts
<b>Venture Capital Trust or VCT</b>	venture capital trust as defined in section 259 of the ITA

## Part V - Terms and Conditions of Application

1. In these Terms and Conditions of Application, the expression "Prospectus" means this document. The expression "Application Form" means the application form for use in accordance with these Terms and Conditions of Application. Save where the content otherwise requires, the terms used in the Application Form bear the same meaning as in the Prospectus.
2. The right is reserved to reject any application or to accept any application in part only. Multiple applications are permitted. If any application is not accepted, or if any contract created by acceptance does not become unconditional, or if any application is accepted for fewer Offer Shares than the number applied for, or if in any other circumstances there is an excess payment in relation to an application, the application monies or the balance of the amount paid or the excess paid on application will be returned without interest by post at the risk of the Applicant. In the meantime, application monies will be retained in the Company's bank account.
3. You may pay for your application for Offer Shares by cheque or banker's draft submitted with the Application Form or direct bank transfer (CHAPS/BACS/Faster Payment) and the Directors reserve the right to permit other means of payment such as standing order or direct debit.
4. The contract created by the acceptance of applications in respect of the first allotment of Offer Shares will be conditional on the admission of the Offer Shares (in respect of such first allotment of Shares) being granted not later than 3.00 p.m. on 30 April 2022. If the conditions are not met, the Offer will be withdrawn and subscription monies will be returned to Investors within seven days of 30 April 2022, at their own risk, without interest. The Offer is not underwritten.
5. By completing and delivering an Application Form, you:
  - (a) offer to subscribe for the amount specified on your Application Form plus any commission waived for extra shares or any smaller sum for which such application is accepted at the Offer Price;
  - (b) acknowledge that, if your subscription is accepted and subject to clause 14 below, you will be allocated such number of Offer Shares as determined by the Pricing Formula;
  - (c) authorise your financial adviser, or whoever he or she may direct, the Registrar or the Company to send a document of title for, or credit your CREST account in respect of, the number of Offer Shares for which your application is accepted, and/or a crossed cheque for any monies returnable, by post at your risk to your address as set out on your Application Form;
  - (d) in consideration of the Company agreeing that it will not, prior to the closing date of the Offer, offer any Offer Shares to any persons other than by means of the procedures set out or referred to in this document, agree that your application may not be revoked once made and that this paragraph constitutes a collateral contract between you and the Company which will become binding upon despatch by post or delivery of your duly completed Application Form to the Company or to your financial adviser;
  - (e) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive share certificates for the Offer Shares applied for or to enjoy or receive any rights or distributions in respect of such Offer Shares unless and until you make payment in cleared funds for such Offer Shares and such payment is accepted by the Company (such acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Company of such late payment in respect of such Offer Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such Offer Shares as void and may allot such Offer Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Offer Shares (other than return of such late payment at your risk and without interest);
  - (f) agree that all cheques and banker's drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the verification of identity required by the ML Regulations and that such monies will not bear interest;
  - (g) undertake to provide satisfactory evidence of identity within such reasonable time (in each case to be determined in the absolute discretion of the Company and the Receiving Agent) to ensure compliance with the ML Regulations;
  - (h) agree that, in respect of those Offer Shares for which your application has been received and processed and not rejected, acceptance of your application shall be constituted by the Company instructing Downing or the Registrar to enter your name on the share register;
  - (i) agree that all documents in connection with the Offer and any returned monies will be sent at your risk and may be sent to you at your address as set out in the Application Form;
  - (j) agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations including the risk factors contained therein;

- (k) confirm that (save for advice received from your financial adviser) in making such application you are not relying on any information and representation other than those contained in the Prospectus and you accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof or involved in the preparation thereof will have any liability for any such other information or representation;
  - (l) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offer shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
  - (m) irrevocably authorise the Company, the Registrar or Downing or any other person authorised by any of them, as your agent, to do all things necessary to effect registration of any Offer Shares subscribed by or issued to you into your name and authorise any representatives of the Company, the Registrar or Downing to execute any documents required therefore and to enter your name on the register of members of the Company;
  - (n) agree to provide the Company with any information which it may request in connection with your application or to comply with the VCT Regulations or other relevant legislation (as the same may be amended from time to time) including without limitation satisfactory evidence of identity to ensure compliance with the ML Regulations;
  - (o) warrant that, in connection with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company, Downing or the Sponsor acting in breach of the regulatory or legal requirements of any territory in connection with the Offer or your application;
  - (p) confirm that you have read and complied with paragraph 6 below;
  - (q) confirm that you have reviewed the restrictions contained in paragraph 7 below;
  - (r) warrant that you are not under the age of 18 years;
  - (s) warrant that, if the laws of any territory or jurisdiction outside the United Kingdom are applicable to your application, you have complied with all such laws and none of the Company, Downing or the Sponsor or any of their respective agents will infringe any laws of any such territory or jurisdiction directly or indirectly as a result or in consequence of any acceptance of your application;
  - (t) agree that Downing and the Sponsor are acting for the Company in connection with the Offer and for no-one else and that they will not treat you as their customer by virtue of such application being accepted or owe you any duties or responsibilities concerning the price of Offer Shares or concerning the suitability of Offer Shares for you or be responsible to you for the protections afforded to their customers;
  - (u) warrant that if you sign the Application Form on behalf of somebody else or yourself and another or others jointly or a corporation you have the requisite power to make such investments as well as the authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions of application and undertake (save in the case of signature by an authorised financial adviser on behalf of the Investor) to enclose a power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
  - (v) warrant that you are not subscribing for the Offer Shares using a loan which would not have been given to you or any associate, or not given to you on such favourable terms, if you had not been proposing to subscribe for the Offer Shares;
  - (w) warrant that the Offer Shares are being acquired by you for *bona fide* investment purposes and not as part of a scheme or arrangement the main purpose of which, or one of the main purposes of which, is the avoidance of tax. Obtaining tax reliefs given under the applicable VCT legislation is not of itself tax avoidance;
  - (x) warrant that you are not a "US person" as defined in the United States Securities Act of 1933 (as amended) nor a resident of Canada and that you are not applying for any Offer Shares on behalf of or with a view to their offer, sale or delivery, directly or indirectly, to or for the benefit of any US person or resident of Canada; and
  - (y) warrant that the information contained in the Application Form is accurate.
6. No person receiving a copy of the Prospectus, or an Application Form, in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.

7. The Offer Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the "USA"). In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. Downing will not be registered under the United States Investment Adviser Act of 1940 (as amended). No application will be accepted if it bears an address in the USA.
8. This application is addressed to the Company, the Receiving Agent and the Sponsor. The rights and remedies of the Company and the Sponsor under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to either of them, and the exercise or partial exercise of one will not prevent the exercise of others.
9. The dates and times referred to in these Terms and Conditions of Application may be altered by the Company with the agreement of the Sponsor.
10. The Company has taken advantage of the provisions of the CA 2006 to allow annual reports and other statutory shareholder communications to be made available in electronic form on its website as the default means of publication. This will have a positive environmental impact and save the Company some costs compared to providing all communications in hard copy form by post. By default, applicants who provide an email address on the Application Form and do not complete select any alternative notification methods, will receive notification of shareholder communications by email. Investors can elect to receive notifications a letter by post or to receive all shareholder communications in hard copy paper form by ticking the appropriate box on the Application Form. Should you subsequently wish to change your election, you can do so at any time by contacting the Registrar, The City Partnership (UK) Limited of The Mending Rooms, Park Valley Mills, Meltham Road, Huddersfield HD4 7BH. Notwithstanding any election, the Company may in its sole discretion send any notification or information to Shareholders in paper form.
11. Intermediaries who have not provided personal recommendations or advice to UK clients in respect of the Offer Shares and who, acting on behalf of their clients, return valid Application Forms bearing their details and FCA number may be entitled to commission on the amount payable in respect of the Offer Shares allocated for each such Application Form at the rates specified in the paragraph headed "Commission" in Part IX of this document. Intermediaries may agree to waive part or all of their initial commission in respect of an application for Offer Shares. If this is the case, then the offer charges will be adjusted, in accordance with the Pricing Formula. Intermediaries should keep a record of Application Forms submitted bearing their details to substantiate any claim for their commission.
12. The notes within the Application Form form part of these Terms and Conditions of Application.
13. It is a condition of the Offer to ensure compliance with the ML Regulations. Downing is therefore entitled to require, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to Downing to be acting on behalf of some other person. Pending the provision of evidence satisfactory to Downing as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, Downing may, in its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or the Registrar may not enter the Applicant on the register of members or issue any share certificates in respect of such application. If verification of identity is required, this may result in delay in dealing with an application and in rejection of the application. The Company reserves the right, in its absolute discretion, for it or Downing to reject any application in respect of which Downing considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, the Company reserves the right in its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the Offer Shares in question (but in each case without prejudice to any rights the Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to Downing such information as may be specified by it as being required for the purpose of the ML Regulations.

14. The basis of allocation will be determined by the Company (after consultation with Downing) in its absolute discretion. It is intended that Applications will be accepted in the order in which they are received. The Offer will be closed on 30 April 2022 or as soon as full subscription is reached (unless closed earlier or extended at the Board's discretion). The right is reserved, notwithstanding the basis so determined, to reject in whole or in part and/or scale down any Application and to allot Offer Shares notwithstanding that the Offer is not fully subscribed. Application monies not accepted or if the Offer is withdrawn will be returned to the Applicant in full by means of a transfer back to the account from which it was received or by cheque, posted at the applicant's risk. The right is also reserved to treat as valid and binding any application not complying fully with these Terms and Conditions of Application or not in all respects complying with the notes on the Application Form. In particular, but without limitation, the Company may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Company to apply in accordance with these Terms and Conditions of Application.
15. The Company and/or Downing may use the information you give for administration, research and/or statistical purposes. Your details may be used by the Company and/or Downing (but will not be sold to third parties) to send you information on other potential investment opportunities (maximum six communications per annum). If you would prefer not to receive such information, please write to Downing.
16. The minimum subscription is £5,000 (including an Adviser charge) subject to the Board's discretion.
17. The application of the subscription proceeds is subject to the absolute discretion of the Directors.

## Part VI – Pricing of the Offer, Adviser Charges and Commission

### Pricing of the Offer

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

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

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

<sup>2</sup>adjusted for any dividends declared and ex-dividend since the NAV date, as appropriate.

**Illustrative examples** based on a subscription under the Offer of £10,000 and a NAV per Share of 61.0p (being the unaudited NAV as at 31 July 2021)

Example	Promoter's Fee	Initial Adviser Charge	Number of Offer Shares*	Issue Price**
(i)	4.5% (not advised)	N/A	$(10,000 - 450 - 0) \div 0.61 = 15,655$	63.9p
(ii)	2.5% (advised)	2.25%	$(10,000 - 250 - 225) \div 0.61 = 15,614$	64.0p
(iii)	2.5% (advised)	4.0%	$(10,000 - 250 - 400) \div 0.61 = 15,327$	65.2p

\* Rounded down to the nearest whole share

\*\* Rounded up to the nearest 0.1p

Applications made directly (not through an Intermediary) will attract a Promoter's Fee of 2.5%. It should be noted that the example Adviser Charges set out above have been provided to illustrate the pricing of the Offer and should not be considered as a recommendation as to the appropriate levels of Adviser Charges.

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

The number of Shares issued under the Offer will be affected by a "blended" issue cost, because Applicants will have a different issue costs attributable to their application for Offer Shares depending upon whether their Application is received directly, through an Intermediary providing advice or through a platform where no advice is given.

The Company's Net Asset Value shall be announced from time to time through a regulatory information service provider.

### Adviser Charges

Commission is generally not permitted to be paid to Intermediaries save in circumstances where an "enhanced value" non-advisory service is provided or where restricted advice is provided to a professional client of the adviser. Instead of commission being paid by the Company, a fee will usually be agreed between the Intermediary and Investor for the advice and related services ("Adviser Charge"). This fee can either be paid directly by the Investor to the Intermediary or the payment of such fee may be facilitated by Downing ONE VCT plc.

If the payment of an Initial Adviser Charge is to be facilitated by the Company, then the Investor is required to specify the amount of the charge on the Application Form. The Investor will be issued fewer Shares (to the equivalent value of the Initial Adviser Charge) through the Pricing Formula set out above.

The Initial Adviser Charge is inclusive of VAT, if applicable.

The Company is unable to facilitate payment of any ongoing adviser charges.

**Commission**

Commission is only payable in limited circumstances noted above. Initial Commission is payable by Downing out of its Promoter's Fee. Those Intermediaries who are permitted to receive commission will usually receive an initial commission of 2.0% of the amount invested by their clients under the Offer.

Additionally, provided that the Intermediary continues to act for the Investor and the Investor continues to be the beneficial owner of the Shares, and subject to applicable laws and regulations, the Intermediary will usually be paid an annual trail commission of 0.25% of the Net Asset Value for a maximum of five years following investment. Trail commission will not usually be transferred to a new Intermediary after the original investment has been made.

Trail commission will be paid annually in August or September (commencing 2023) based on the audited Net Asset Value at the preceding 31 March. Trail commission will be paid by Downing out of the Trail Fee. At Downing's discretion, the trail commission may be waived in favour of additional initial commission of 0.75%.



# Annex I – Terms and conditions of the Dividend Reinvestment Scheme (the “DRIS”)

## INTRODUCTION

The Company is offering to its Shareholders the opportunity to participate in a Dividend Reinvestment Scheme (“the Scheme”) whereby they may elect to receive Shares, credited as fully paid, instead of receiving dividends in cash. This is a simple, cost effective method for Shareholders to increase the value of their investment in the Company and to benefit from additional VCT income tax relief.

To participate in the Dividend Reinvestment Scheme, Shareholders who hold their Shares in certificated form must complete the relevant part of the Application Form or download and complete the Mandate Form from [www.downing.co.uk](http://www.downing.co.uk) and return to:

**The City Partnership (UK) Limited,  
The Mending Rooms, Park Valley Mills, Meltham Road, Huddersfield HD4 7BH  
(or in a prepaid envelope)**

Shareholders who hold their Shares in CREST may only apply using the Mandate Form in order to participate. In each case, the relevant action must be taken, and the Mandate Form must be received no later than 5 p.m. on the last date for elections of the relevant dividend.

A Shareholder’s membership of the Scheme will continue until such a time as that Shareholder cancels their membership. Participation in the Scheme can be cancelled at any time subject to the cancellation request being received by The City Partnership (UK) Limited, the Scheme Administrator, before the record date for the relevant dividend.

The Company retains the right to suspend or terminate the Scheme at any time.

## DEFINED TERMS

“Board” or “Directors”	the board of directors of the Company;
“Company”	Downing ONE VCT plc;
“CREST”	the electronic settlement system operated by Euroclear UK and Ireland Limited which allows Shareholders and bondholders to hold securities in uncertificated form;
“Dividend”	a dividend declared by the Company to which the Scheme applies;
“Dividend Reinvestment Scheme” or “Scheme”	the Scheme, whose terms and conditions are set out in this document;
“FCA”	the FCA, which is the regulator responsible for listing and monitoring companies whose shares are traded on the London Stock Exchange.
“Last Date for Elections”	the date on which Shareholders’ eligibility to elect for the Dividend Reinvestment Scheme is assessed;
“Mandate Form”	the form that enables CREST and non-CREST Shareholders in the Company to participate in the Dividend Reinvestment Scheme;
“New Shares”	those Shares to be issued on the Payment Date under the Scheme;
“Participant”	those Shareholders who elect to participate in the Scheme or, where a shareholder holds shares as nominee, the person being the beneficial owner of the ordinary shares registered in the name of that shareholder, who elects to participate in the Scheme;
“Payment Date”	the date on which a Dividend is due to be paid by the Company;
“Record Date”	the date on which Shareholders’ eligibility to receive a Dividend is assessed;
“Shares” or “Ordinary Shares”	ordinary shares of 1p nominal value in the capital of the Company; and
“Scheme Administrator”	The City Partnership (UK) Limited;

## RISK FACTORS

- There is no guarantee that the Company will continue to meet its investment objectives nor that suitable investment opportunities will be available. Past performance of the Company is no guarantee of future performance and past returns may not be repeated. Your capital is at risk if you invest in the Company and you may lose some or all of your capital.
- If Shareholders dispose of their VCT shares before the expiry of five years from the date of their issue, any income tax relief received on subscription will have to be repaid.
- Though it is intended that the Company will be managed so as to continue qualifying as a VCT, there is no guarantee that such status will be maintained. Failure to maintain such status could result in adverse tax consequences for investors, including being required to repay the 30% income tax relief.
- The ability of the Company to obtain maximum value from its investments, such as through a sale or takeover, may be restricted due to the requirement that it satisfy certain conditions necessary for it to maintain its VCT status.
- The Company's investments will generally be in relatively small companies whose securities may not be liquid and may therefore be difficult to realise and there can be no assurance that appreciation in value will occur.
- Whilst the Company's shares are listed on the London Stock Exchange, there is a limited secondary market for VCT shares which usually trade at a discount to their net asset value, and Shareholders may have difficulty in selling their shares.
- The information in this document is based on existing legislation and the tax relief described are those that are currently available. The tax rules or their interpretation in relation to an investment in the Company and/or rates of tax may change during the life of the Company and may apply retrospectively.

## TERMS AND CONDITIONS OF THE SCHEME

1. By electing to participate in the Scheme, Shareholders on the register of members of the Company at the close of business on a given Last Date for Elections may elect to receive New Shares, credited as fully paid, instead of the cash they would otherwise be due in respect of Dividends. The election may, subject to condition 3(d) and 3(e) below, only be made in respect of all (and not some only) of each Dividend and if accepted by the Scheme Administrator shall, subject to conditions 7 and 14 below, operate as a mandate.
2. The Company shall apply the monies held within the Scheme (being the amount of each Dividend paid on Shares held by, or on behalf of, Participants) to invest in New Shares in the Company. The Company shall not have the discretion to vary such investments and Shareholders may not instruct the Company or the Scheme Administrator to make any other investments.
3. (a) On or as soon as practicable after a Payment Date, the Participant's funds held by the Company shall be applied on behalf of that Participant in a subscription for the maximum number of New Shares that can be allotted for such investment.  
  
(b) The number of New Shares issued to a Participant pursuant to clause 3(a) above shall be calculated by dividing the aggregate value of the Participant's funds by the net asset value per Share of the Company (as determined by the Board on or around the Record Date but which will normally be the most recently announced financial year end or half yearly net asset value, as adjusted for dividends).  
  
(c) No fractions of Shares will be issued under the Scheme and no balance of any cash remaining with the Scheme Administrator after the calculation of each Participant's entitlement to New Shares shall be payable to Participants.  
  
(d) The Directors may, at their discretion, allow a Shareholder to make a partial reinvestment of a Dividend, where that shareholder is acting on behalf of more than one beneficial holder, for example through a nominee shareholding made in CREST or other custodians, nominees or trustees. A CREST Mandate Form must contain the number of Shares for which the election is being made. A cash dividend will automatically be paid on any Shares which are not specified in a CREST Mandate Form.

(e) Where Shares in certificated form are registered in the name of a nominee, the nominee should notify the beneficial shareholder of the amount of the dividend to which he or she is entitled. The nominee should then complete the first page of the Mandate Form together with the 'Nominee Shareholdings' section on the second page of the Mandate Form and confirm that the dividends attributable to such beneficial Shareholder(s) listed shall be applied towards participation in the Scheme and that the New Shares allotted under the Scheme are to be issued in the name of the nominee.

4. As soon as practicable after the issue of New Shares to a Participant in accordance with clause 3 above, the Scheme Administrator shall take all necessary steps to ensure that the Participant is entered onto the share register of the Company as the registered holder of those New Shares and that share certificates in respect of such Shares are issued and delivered to the Participant at his/her own risk. CREST members who have validly elected to receive New Shares will have their CREST accounts credited directly with the relevant New Shares.
5. A statement shall be attached to each new share certificate issued to a Participant, or if Shares are held in CREST shall be sent separately to the Participant's nominee, setting out (a) the total dividend payable, (b) the number and class of New Shares allotted, (c) the price at which the New Shares have been allotted, and (d) the balance of any residual cash (notwithstanding that the same shall not be payable to the Participant in accordance with clause 3(c) together with any other such information as may be required by the FCA Listing Rules.
6. All costs and expenses incurred by the Scheme Administrator in administering the Scheme will be borne by the Company.
7. Shareholders who hold their Shares in certificated form can apply by completing a Mandate Form and returning it to:

**The City Partnership (UK) Limited,  
The Mending Rooms,  
Park Valley Mills,  
Meltham Road,  
Huddersfield  
HD4 7BH**

Shareholders who hold their shares in CREST may only apply using the Mandate Form in order to participate. In each case, the relevant action must be taken, and the Mandate Form must be received by no later than 5 p.m. on the last date for elections of the relevant dividend.

8. If, prior to the day on which the Shares become ex-dividend, a Shareholder has sold or transferred all or some of his/her Shares in the Company, the shareholder should consult his/her stockbroker or agent without delay as to how to proceed.
9. New Shares will be New Ordinary Shares issued by the Company and will, subject to the individual Shareholders' particular circumstances, attract VCT relief applicable for the current tax year. The tax relief currently available to investors in new VCT shares in respect of investments of up to £200,000 per person per tax year (correct as at the date of this document) are as follows:
  - Income tax relief of up to 30% provided the shares are not disposed of (other than between spouses) within five years of issue. This relief is restricted to the amount that reduces the investor's income tax liability for the year to nil.
  - No liability to income tax on dividends paid by the VCT.
  - No capital gains tax on any gain or loss accruing to investors on a disposal of shares in the VCT after five years of ownership.

**Legislation introduced by the Government in its 2014 Budget restricts income tax relief on the subscription of new VCT shares where an investor has sold shares in the same VCT within the period of six months before to six months after the subscription. Please note that this restriction does not apply to Shares subscribed for through dividend reinvestment schemes and so will not apply to New Shares subscribed for under the Scheme.**

10. Each Participant warrants to the Scheme Administrator that (a) save in the case of a shareholder holding its shares as a nominee, during the continuance of his/her participation in the Scheme he/she will remain the sole owner of the New Shares free from encumbrances or security interests; (b) all information set out in the Mandate Form is correct and, to the extent any of the information changes he/she will notify the changes to the Scheme Administrator.
11. The right to participate in the Scheme will not be available to any person who has a registered address in any jurisdiction outside the UK. No such person receiving a copy of the Scheme documents may treat them as offering such a right unless an offer could properly be made to such person. It is the responsibility of any Shareholder wishing to participate in the Scheme to be satisfied as to the observance of the laws in the relevant jurisdiction(s) in connection therewith, including obtaining any governmental or other consents which may be required and observing any other formalities needing to be observed in any such jurisdiction(s).
12. Participants acknowledge that the Scheme Administrator is not providing a discretionary management service. Neither the Scheme Administrator nor the Company shall be responsible for any loss or damage to Participants as a result of their participation in the Scheme unless due to the negligence or wilful default of the Scheme Administrator or the Company or their respective employees and agents.
13. Participants may:
  - (a) at any time by notice to the Scheme Administrator terminate their participation in the Scheme; and
  - (b) in respect of shares they hold as nominee, give notice to the Scheme Administrator that, in respect of a forthcoming Payment Date, their election to receive shares is only to apply to a specified amount due to the Participant as set out in such notice.

Such notices shall not be effective in respect of the next forthcoming Payment Date unless received by the Scheme Administrator on or before the record date of the relevant dividend. In respect of notices under (a) above, such notice will be deemed to have been served where the shareholding of the Participant reduces to nil.
14. If a nominee, prior to a Record Date, sells Shares on behalf of the beneficial owner of such Shares, the nominee agrees to notify the Scheme Administrator of the full details of the sale as soon as practicable. Neither the Company nor the Scheme Administrator shall be responsible for any loss or damage as a result directly or indirectly of a failure by a nominee to comply with such obligation.
15. The Company retains the absolute right to suspend or terminate the Scheme at any time without notice. In the event of termination, Dividends will be paid in full in cash in the usual way.
16. The Company is entitled to amend the Scheme and conditions on giving five business days' notice in writing to all Participants. If such amendments have arisen as a result of any change in statutory or other regulatory requirements, notice of such amendment will not be given to Participants unless, in the Company's opinion, the change materially affects the interests of Participants. Amendment to the terms and conditions of the Scheme which are of a minor/technical nature and which do not adversely affect the interests of Participants may be effected without notice.
17. By completing and returning the Mandate Form to the Scheme Administrator, the Participant (a) agrees to provide the Company with any information which it may request in connection with such application and to comply with legislation relating to VCTs or other relevant legislation (as may be amended from time to time); and (b) declares that a loan has not been made to the Participant on whose behalf the Shares are held or any associate of either of them, which would not have been made or not have been made on the same terms but for the Participant electing to receive New Shares and that the New Shares are being acquired for bona fide investment purposes and not as part of a scheme of arrangement the main purpose of which is the avoidance of tax.
18. An application will be made to the UK Listing Authority for admission of New Shares to the Official List of the London Stock Exchange's main market for listed securities. The New Shares issued under the Scheme will rank *pari passu* in all respects with the Shares currently in issue.

19. Subscriptions by individuals for New Shares should attract applicable VCT tax relief (subject to the individuals' particular circumstances) for the current tax year provided that such subscriptions do not exceed £200,000. Where Shares are registered in the name of a nominee, the nominee shall notify the beneficial shareholder of the amount of any Dividend to which he/she is entitled, and which is eligible for participation in the Scheme. The nominee should then complete the Mandate Form as appropriate and confirm that the Dividend attributable to the Shares held on behalf of such individual shall be applied towards participation in the Scheme and that New Shares are to be issued in the name of the nominee to be held on behalf of the relevant beneficial shareholder(s). Please note that Participants and beneficial Shareholders are responsible for ascertaining their own tax status and liabilities and neither the Scheme Administrator nor the Company accepts any liability in the event that tax relief is not obtained. New Shares may not attract VCT relief and beneficial Shareholders should obtain tax advice in relation to their own particular circumstances.
20. These Scheme terms and conditions shall be governed by and construed in accordance with English law and each Participant submits to the jurisdiction of the English courts and agrees that nothing shall limit the right of the Company to bring any action, suit or proceeding arising out of or in connection with the Scheme in any other manner permitted by law or in any court of competent jurisdiction.

**Shareholders in any doubt about their tax position should consult their independent professional adviser.**



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