



**downing** absolute  
INCOME VCT 2 plc



**Securities Note**  
(including Application Form)

Sponsored by  
**Howard Kennedy**

Managed by  
**Downing Corporate Finance Limited**

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## Offer Statistics

|  |             |
|--|-------------|
| Offer Price per Share  | 100.0p      |
| Initial Net Assets per Share at the close of the Offers                                | 94.5p       |
| Maximum number of Ordinary Shares in issue, following the Offers, at full subscription | 20,000,002  |
| Maximum number of A Shares in issue, following the Offers, at full subscription        | 30,000,000  |
| Maximum net proceeds of the Offers, at full subscription                               | £18,910,000 |

If the Minimum Subscriptions are not received by 1.00 p.m. on 5 April 2010, the Offers will be withdrawn. This condition may only be waived or varied through the production of a supplementary prospectus. In the event that the Minimum Subscriptions are not received, subscription monies will be returned to Investors within seven days of 5 April 2010, at their own risk, without interest.

## Special Terms

### *Downing VCTs' shareholders (including spouses)*

Accepted applications received by 12 February 2010 will attract Additional Shares equivalent to 2% of the amount subscribed under the Offers. Thereafter accepted applications will attract Additional Shares equivalent to 1% of the amount subscribed under the Offers.

### *All other Investors*

Accepted applications received by 12 February 2010 will attract Additional Shares equivalent to 1% of the amount subscribed under the Offers.

The cost of these Additional Shares will be paid by Downing Corporate Finance Limited.

This document, the Registration Document and the Summary, which together comprise the prospectus ("the Prospectus") relating to Downing Absolute Income VCT 2 plc, have been prepared in accordance with the Prospectus Rules made under Section 84 of the Financial Services and Markets Act 2000 ("FSMA"), and the Prospectus has been approved by, and filed with, the Financial Services Authority.

Application has been made to the UK Listing Authority for up to 20,000,002 Ordinary Shares and up to 30,000,000 A Shares in the Company, to be admitted to the Official List. Application will also be made to the London Stock Exchange for up to 20,000,002 Ordinary Shares and up to 30,000,000 A Shares, in the Company, to be admitted to trading on its main market for listed securities. It is expected that Admission of the first allotment of Shares will become effective, and that dealings in these shares will commence, by 29 January 2010 and subsequent allotments thereafter within 20 Business Days of allotment.

The Company and its Directors, whose names appear on page 9 of this document, accept responsibility for the information contained in the Prospectus. To the best of the knowledge of the Company and its Directors (who have taken all reasonable care to ensure that such is the case) the information contained in the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Howard Kennedy is acting as sponsor and Downing Corporate Finance Limited is acting as promoter of the Company in connection with the Offers, and neither of them is advising any other person or treating any other person as a customer or client in relation to the Offers or (subject to the responsibilities and liabilities imposed by the FSMA or the regulatory regime established thereunder) will be responsible to any such person for providing the protections afforded to their respective customers or clients, or for providing advice in connection with the Offers.

## Downing Absolute Income VCT 2 plc

(Incorporated in England and Wales under the Companies Act 2006 with registered number 7059435)

### Offers for Subscription for the 2009/10 and 2010/11 tax years of up to, in aggregate, 20,000,000 Ordinary Shares and 20,000,000 A Shares in the capital of the Company

#### Sponsor

Howard Kennedy

#### Promoter

Downing Corporate Finance Limited

Issued share capital of the Company immediately following the Offers, assuming full subscription:

|  | Issued and to be issued fully paid |               |
|--|------------------------------------|---------------|
|  | No. of shares                      | Nominal value |
| Ordinary Shares of 0.1p each<br>(ISIN: GB00B4K0JB10) | 20,000,002                         | £20,000       |
| A Shares of 0.1p each<br>(ISIN: GB00B4KN4379)        | 30,000,000                         | £30,000       |

The subscription list for the Offers will open on 10 December 2009 and may close at any time thereafter but, in any event, not later than 1.00 p.m. on 5 April 2010 in the case of the 2009/10 Offer and not later than 5.00 p.m. on 30 April 2010 in the case of the 2010/11 Offer, unless previously extended by the Directors. The terms and conditions of the Offers are set out on pages 18 to 19 of this document and are followed by an Application Form for use in connection with the Offers. If the Minimum Subscriptions are not received by 1.00 p.m. on 5 April 2010, the Offers will be withdrawn. This condition may only be waived or varied through the production of a supplementary prospectus. The Offers are not underwritten.

**Your attention is drawn to the Risk Factors set out on page 2 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.**

This document should be read in conjunction with the Summary and Registration Document, which may be obtained from the promoter of the Offers:

Downing Corporate Finance Limited  
Kings Scholars House  
230 Vauxhall Bridge Road  
London SW1V 1AU

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

## Risk Factors

**Your capital is at risk if you invest in Downing Absolute Income VCT 2 plc and you may lose some or all of your investment.**

The Company's business, financial condition or results could be materially and adversely affected by any of the risks described below. In such cases, the market price of the Shares may decline as a result of any of these risks and Investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Company. The Directors consider the following to be all the material risks for potential Investors in the Company and they are not set out in any particular order of priority:

- Although 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 do so could result in adverse tax consequences for Investors, including being required to repay the 30% income tax relief.
- The levels and bases of reliefs from taxation may change and could apply retrospectively. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of Investors. The Company's objectives have been set on the basis that all Investors obtain 30% income tax relief on their subscriptions. Therefore, this investment may not be suitable for Investors who do not qualify for the full 30% income tax relief.
- The target tax-free dividends of 5p per annum is only a target and is not guaranteed and there is no certainty as to the level of dividends. If any of the Company's investments do not perform to plan, then there could be a reduction in the return to Shareholders.
- Although the Shares will be Listed, it is highly unlikely that a liquid market in the Shares will develop as the initial income tax relief is only available to those subscribing for 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 Net Asset Value or the ability to buy and sell at that price. It should be noted that shares held in VCTs usually trade at a discount to the VCT's net asset value.
- 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% income tax relief obtained upon investment. Accordingly, investment in the Company is not suitable as a short or medium term investment.
- Most of the Company's investments are likely to be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise.
- In order to comply with VCT legislation, the Qualifying Companies must have gross assets of not more than £7 million prior to such investment and have fewer than 50 full time employees. Such companies generally have a higher risk profile than larger companies and may also have limited trading records. Therefore, Qualifying Companies may not produce the anticipated returns and Investors could get back less than they invested.
- There is no guarantee that the Company's objectives will be met or that suitable investment opportunities will be identified.
- The Company's ability to obtain maximum value from its investments (for example, through their sale) may be limited by the requirements of the relevant VCT legislation in order to maintain the VCT status of the Company (such as the obligation to have at least 70% by value of each VCT's investments in Qualifying Investments).
- The past performance of investments made by the Downing VCTs or the Management Team should not be regarded as an indication of the performance of investments to be made by the Company.
- Changes in legislation in respect of VCTs in general, and Qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Company to meet their objectives and/or reduce the level of returns which would otherwise have been achievable.
- The value of Shares is dependent on the performance of the Company's underlying investments. The value of the investment and the dividend stream can rise and fall.

## Forward-Looking Statements

You should not place undue reliance on forward-looking statements. This Securities Note 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 Securities Note, based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future. These statements will be updated as and when required by the Prospectus Rules, the Listing Rules and the DTR, as appropriate.

# Part I – The Offers

## Introduction

VCTs were introduced to encourage individuals, by offering them substantial tax benefits, to invest in a portfolio of investments comprising at least 70% in unquoted UK trading companies. VCTs are investment companies whose shares are listed on the Official List and traded on the London Stock Exchange. To date, approximately £3.5 billion has been raised by over 100 VCTs (*source: Downing*).

All Downing’s VCTs seek to reduce risks compared to typical VCTs, by focusing on investing in businesses that trade from freehold premises and typically have little, if any, bank loans. The majority of Downing’s VCTs’ investments are in the form of loans secured on freehold premises. Downing’s VCTs fall into two broad categories:

- (i) **Planned Exit VCTs** – which seek to sell their investments as soon as possible after the minimum VCT holding period (currently five years) and return the funds to shareholders. A significant proportion of the returns to investors from planned exit VCTs will inevitably come from the initial income tax relief because growth from the investments may be restricted due to the short holding period.
- (ii) **Generalist VCTs** – which do not have a fixed wind-up date and seek to provide long term tax-free income. Downing Absolute Income VCT 2 is the Manager’s second Generalist VCT and follows on from Downing Absolute Income VCT 1 (formerly called Downing Protected VCT I plc), which was launched in March 1997. Downing Absolute Income VCT 1’s performance is ranked in the top 15 out of over 150 VCT offers (*source: Allenbridge Group - based on Total Return*) and its track record is as follows:

| Downing Absolute Income VCT 1 – track record since launch in 1997 |                |            |                           |                            |                                     |                                      |
|---|----------------|------------|---------------------------|----------------------------|-------------------------------------|--------------------------------------|
| Net Cost <sup>1</sup>   | Dividends paid | Latest NAV | Total Return <sup>2</sup> | Increase over net cost (%) | Tax-free annual return <sup>3</sup> | Gross equivalent return <sup>4</sup> |
| 80p   | 54.4p          | 85.7p      | 140.1p                    | +75%                       | 5.8%                                | 9.6%                                 |

<sup>1</sup> Net cost is the initial offer price of 100p per share less 20% income tax relief available on subscriptions to VCTs at that time.  
<sup>2</sup> Total Return is cumulative dividends paid (including the tax credits where reclaimable) and the most recently announced net asset value at 30 September 2009.  
<sup>3</sup> The tax-free annual return is calculated as an IRR assuming the subscription was made on the closing date of the offer, 20% tax relief was received seven months later and taking account of all dividends and the NAV at 30 September 2009.  
<sup>4</sup> The gross equivalent return is to a 40% taxpayer and is calculated by dividing the tax-free annual return by 0.6. It should be noted that VCTs whose shares were issued before 1998, such as Downing Absolute Income VCT 1, operate under less restrictive investment rules and, in particular, are permitted to invest in care homes, hotels and property development businesses, which are excluded businesses for the Company.

(Source: Downing Absolute Income VCT 1’s unaudited management accounts to 30 September 2009 and Downing)

Downing’s Generalist VCTs seek to generate more growth from their investments compared to its planned exit VCTs by having greater flexibility to hold investments until the most opportune time to exit. In the Manager’s opinion the best time to exit investments is likely to be at the same point as the entrepreneur, which will be dependent upon a number of factors, such as the performance of the business, the general economy and availability of finance.

Downing Absolute Income VCT 2 is a Generalist VCT and is seeking to raise up to £20 million under the Offers in order to take advantage of the growth potential of attractive businesses currently available because of the lack of alternative finance.

## Objectives

The Company’s principal objectives are to:

- (i) invest in a portfolio of Venture Capital Investments;
- (ii) provide positive net of tax Total Returns to Investors from inception in all market conditions;
- (iii) target an annual dividend of 5p per Share; and
- (iv) maintain VCT status to enable Investors to retain their 30% income tax relief on investment.

The Company will not vary these investment objectives, to any material extent, without the approval of Shareholders.

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

The principal UK tax reliefs, which are available on a maximum investment of £200,000 per individual in each of the 2009/10 and 2010/11 tax years, are set out below:

- **Income tax relief at 30%** of the amount subscribed provided the VCT shares are held for at least five years. Relief is restricted to the amount which reduces the investor's income tax liability to nil.
- **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:

| Effect of initial 30% income tax relief   |                  |
|---|------------------|
| <b>Cost of investment</b>   | <b>Per Share</b> |
| Gross subscription by Investor  | 100.0p           |
| 30% income tax relief   | (30.0p)          |
| <b>Net of tax cost of investment</b>  | <b>70.0p</b>     |
| <b>Initial value of investment</b>  |                  |
| Gross subscription by Investor  | 100.0p           |
| Issue costs   | (5.5p)           |
| <b>Initial Net Asset Value</b>  | <b>94.5p</b>     |
| <b>Initial "uplift" (pence)</b>   | +24.5p           |
| <b>Initial "uplift" (%)</b>   | +35.0%           |
| <p>The above table shows that, assuming income tax relief is received at 30%, the Investor's net of tax cost of investment is 70p per Share and the initial NAV is 94.5p, an "uplift" of 24.5p per Share or +35%. <b>Investors should note that they are required to hold the Shares for at least five years in order to retain the income tax relief and, as such, this initial uplift cannot be immediately realised.</b></p> |                  |
| <i>(Source: Downing)</i>  |                  |

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

## Absolute Returns

The Company will seek to provide positive net of tax Total Returns to Investors in all market conditions (after tax reliefs and tax payments). The Company is, therefore, targeting positive absolute returns rather than relative out-performance of a benchmark (usually an index, such as the FTSE 100).

Traditional absolute return funds operate a combination of different strategies. One strategy is to invest in a wide range of assets, including not only shares, bonds and cash, but also property and hedge funds. It can also mean using derivatives, for example, to profit from falling share prices (known as "shorting").

The Company's strategy for providing positive absolute returns in all market conditions is very different from traditional funds and is based on:

- A conservative investment strategy:** a significant proportion of the Company's returns will be in the form of interest on its loans. The Company should not require significant capital growth from the underlying investments to achieve the desired returns;
- Flexibility on the timing of disposals:** the Company is a medium to long term investor and will seek to hold investments until the optimum time to exit; and
- The significant value of the VCT tax reliefs:** 30% income tax relief reduces the net cost of each Share to 70p, thereby providing a substantial cushion against a fall in value. Tax-free dividends and growth also enhance the net of tax returns to Investors.

The table below shows that all 12 Downing VCT offers have, to date, provided positive net of tax returns from inception in all market conditions. This table also demonstrates that the performance of the Downing VCTs is not strongly correlated to the FTSE All-Share (total return) Index.

| <b>Track record of the Downing VCTs</b>       |                           |                             |   |                                   |   |
|---|---------------------------|-----------------------------|---|-----------------------------------|---|
|   | <b>Tax year of launch</b> | <b>Net cost<sup>1</sup></b> | <b>Total Return to date<sup>2</sup></b> | <b>Increase over net cost (%)</b> | <b>Movement in FTSE All Share (%)<sup>3</sup></b> |
| <b>Generalist VCT (no fixed wind-up date)</b> |                           |                             |   |                                   |   |
| Downing Absolute Income VCT 1                 | 96/97                     | 80p                         | 140.10p                                 | +75%                              | +90%  |
| <b>Planned Exit VCTs (fixed term)</b>         |                           |                             |   |                                   |   |
| Downing VCT 2 – Ordinary Shares               | 04/05                     | 60p                         | 90.20p                                  | +50%                              | +26%  |
| Downing VCT 3 – Ordinary Shares               | 04/05                     | 60p                         | 90.20p                                  | +50%                              | +26%  |
| Downing VCT 4                                 | 05/06                     | 60p                         | 95.60p                                  | +59%                              | -2%   |
| Downing VCT 5                                 | 05/06                     | 60p                         | 95.70p                                  | +60%                              | -2%   |
| Downing VCT 6                                 | 06/07                     | 70p                         | 91.05p                                  | +30%                              | -12%  |
| Downing VCT 7                                 | 06/07                     | 70p                         | 90.95p                                  | +30%                              | -12%  |
| Downing VCT 8/9                               | 07/08                     | 70p                         | 91.30p                                  | +30%                              | -7%   |
| Downing Opportunities VCT                     | 08/09                     | 70p                         | 102.90p                                 | +47%                              | +33%  |
| Downing VCT 2 – 2008 Shares                   | 08/09                     | 70p                         | 95.70p                                  | +37%                              | +33%  |
| Downing VCT 3 – 2008 Shares                   | 08/09                     | 70p                         | 95.70p                                  | +37%                              | +33%  |

1 Net cost is the initial offer price of 100p per share less the income tax relief available to investors in each of the VCTs.  
2 Total Return is cumulative dividends paid (including the tax credits where reclaimable) and the most recently announced net asset value for each VCT in pence per share.  
3 The movement in the FTSE All-Share Index is the total return measure of this index (i.e. it includes income) and is calculated from 5 April in the tax year of launch of each VCT up to 30 November 2009.

*(Source: announcements made by the relevant VCT through a regulatory information service and FTSE All-Share (total return) Index).*

Investors should note that they are required to hold shares for a minimum period (currently five years) to retain the income tax relief and that some of the VCTs listed above have only recently launched; consequently, it is too early to judge their performance. In any case, past performance is no guide to future performance. The movement in the FTSE All-Share Index is stated before any deductions for capital gains tax, income tax and charges which may be payable by investors whereas the Downing VCTs' returns are tax-free and after charges.

## Income

The Board has a stated objective of paying annual dividends of 5p per Share, comprising 2.5p per Share bi-annually. The Board intends to maintain this consistent dividend policy even if it results in a decline in Net Assets (i.e. it may be paid from capital). Set out below is a table illustrating the returns to Shareholders assuming annual dividends of 5p per Share are paid. Investors should note that the level of dividends is not guaranteed and no forecast is intended or implied.

| <b>Illustrative yield per Share (after 30% income tax relief)</b> |                                |                       |                                 |                                 |
|---|--------------------------------|-----------------------|---------------------------------|---------------------------------|
| <b>Net of tax offer price<sup>1</sup></b>                         | <b>Target annual dividends</b> | <b>Tax-free yield</b> | <b>Gross equivalent yield</b>   |                                 |
|   |                                |                       | <b>40% taxpayer<sup>2</sup></b> | <b>50% taxpayer<sup>2</sup></b> |
| 70.0p   | 5.0p                           | 7.1% p.a.             | 9.5% p.a.                       | 11.2% p.a.                      |

<sup>1</sup> The returns listed are based on the Offer Price of 100p multiplied by 70%, to reflect initial income tax relief of 30%. Investors should note that they will be required to pay the full Offer Price and claim the income tax relief separately.  
<sup>2</sup> The gross equivalent yield is the yield on a non-VCT UK dividend that would result in a net yield of 5%, assuming a 40% taxpayer and 50% taxpayer respectively.

Dividends will be paid bi-annually around the end of September and March; the first dividend is expected to be paid in September 2010.

## VCTs for Retirement Planning

The Board believes that an investment in the Company could be used in conjunction with pensions for retirement planning for certain investors for the following reasons:

- i) The Company will provide tax-free income.
- ii) Recent tax legislation has made pension contributions less attractive to those earning over £150,000 because of potentially lower levels of tax relief on contributions and higher income tax on pension income.
- iii) The Company is the only VCT that has a policy of buying Shares from Shareholders at nil discount to Net Asset Value in the first five years from the launch of the Offers, subject to regulations and the Company having sufficient liquidity. Investors should note that the income tax relief of 30% may be re-payable if the Shares are not held for the minimum holding period of five years; however, there is no clawback of the 30% income tax relief following the death of a Shareholder.

The table below compares the tax reliefs of VCTs and pensions.

| Comparison of VCTs and Pensions |   |   |
|---------------------------------|---|---|
|                                 | VCT   | Pension   |
| Effective Tax Relief            | 30%   | 20%-40%   |
| Income Tax                      | Tax-free  | 25% of fund at retirement can be taken as a tax-free lump sum<br>Balance taxed as earned income |
| Capital Gains Tax               | Tax-free  | N/a   |
| Minimum Holding Period          | 5 Years   | Until retirement  |
| Maximum Annual Investment       | £200,000  | Lower of £245,000 or taxable income   |
| Maximum Total Investment        | None  | £1,750,000  |
| Death                           | Full value can be passed onto beneficiaries (may be subject to inheritance tax) | After an annuity is purchased there will be no inheritance                                      |

The above figures assume that the Shareholder and the VCT qualify for all applicable tax reliefs. (source: Downing)

## Investment Policy

### Asset allocation

Initially the Company's funds will be held in cash prior to making Non-Qualifying Investments. Progressively over a three year period, the Company will make Venture Capital Investments. By 31 March 2013, and thereafter, it is estimated that approximately 75% of the Company's funds will be invested in Venture Capital Investments, with the balance held in Non-Qualifying Investments.

### Venture Capital Investments

Venture Capital Investments will be sought in UK trading companies. The majority of these are likely to own substantial assets such as children's nurseries, health clubs, pubs, stock or work-in progress. The Company will seek to build a diversified portfolio comprising lower growth investments, with a smaller number of higher growth investments. Qualifying Investments will be sought in two areas as follows:

#### Lower growth investments (approximately 75% of Qualifying Investments after three years)

Key characteristics:

- (i) *Types of businesses* - focus on businesses with little, if any, external debt that:
  - own freehold assets; or
  - have predictable revenue streams from financially sound customers supported by legal contracts.
- (ii) *Level of funding*:
  - the Company will typically invest between 70% and 95% of the value of each business' assets in equity and loan stock secured by a legal charge.
- (iii) *Target returns*:
  - a target return from each investment of approximately 10% per annum, of which a significant proportion will be by way of interest on the Company's loans.

### **Higher growth investments** (approximately 25% of Qualifying Investments after three years)

Key characteristics:

- (i) *Types of businesses* - investments will include businesses:
  - owning freehold assets with external gearing;
  - with predictable revenue streams not supported by legal contracts;
  - purchasing freehold assets from administrators;
  - which require funding to back the existing management team in a secondary buy-out;
  - quoted on AIM (see below); and
  - seeking mezzanine finance.
- (ii) *Level of funding*:
  - the Company will fund up to 100% of the businesses' requirements.
- (iii) *Target returns*:
  - a minimum target return from each investment of 15% per annum, of which a significant proportion is likely to be by way of capital uplift.

It is anticipated that the vast majority of Qualifying Investments will be made in unquoted companies. AIM quoted investments will be assessed in a similar way to unquoted investment opportunities and the Company will generally seek investor protections (such as seat(s) on the board of the investee company), substantial stakes and loan participation.

### **Non-Qualifying Investments**

The funds not employed in Venture Capital Investments will be invested in:

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

Secured loans will be secured on assets held by the borrower. The borrowers may include Downing Absolute Income VCT 2's Qualifying Companies or investee companies of other funds managed by Downing. Fixed income securities will consist of bonds issued by the UK Government, major companies and institutions, liquidity funds, fixed deposits or similar securities and will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated).

The Company may also make strategic Non-Qualifying Investments to support or enhance Qualifying Investments. An example could be providing a non-qualifying loan to an investee company in which the Company has made a Qualifying Investment. In this example, if the non-qualifying loan had not been made then the investee may have borrowed from a bank and provided a charge, which may have weakened the Company's security.

### **Risk diversification**

The Directors will control the overall risk of the Company. The Manager will ensure the Company has exposure to a diversified range of Venture Capital Investments from different sectors and no more than 15% of the proceeds of the Offers will be invested in any one unquoted company or any one issue of fixed income securities (except UK Government gilts or deposit accounts with UK clearing banks).

### **Venture capital trust requirements**

To maintain its VCT status, the Company will comply with a number of requirements within specified time periods as set out in Part 6 of the ITA. Part II of the Registration Document summarises how the main VCT requirements apply to the Company and they include the following restrictions:

- (i) not more than 15% by value of the Company's investments can be held in a single company or group (other than a VCT); and
- (ii) the Company is limited to investing up to £1 million per tax year in each Qualifying Company.

### **Listing rules**

In accordance with the Listing Rules:

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

## Borrowing policy

Under its Articles, the Company has the ability to borrow a maximum amount equal to 15% of the aggregate amount paid on any shares issued by the Company (together with any share premium thereon). As at the date of this document, the Company has not made any borrowings. Although the Board does not intend to borrow, it has the flexibility to do so. In particular, because the Board intends to minimise cash balances, the Company may borrow on a short-term basis for cashflow purposes.

The Directors do not intend to vary the Company's investment policy, which will be adhered to for at least three years following the date on which the Shares are Listed. However, should a change in the investment policy be deemed appropriate this will be adopted with Shareholders' approval and in accordance with the Listing Rules.

## Share Buyback Policy

The Company will make market purchases of its own Shares, up to a maximum annual number of Shares equivalent to 14.9% of the total number of issued Shares from time to time. The Board intends to operate a policy of purchasing Shares that become available in the market at a price equivalent to the Company's most recently published Net Asset Value, less the discounts detailed below (subject to liquidity and regulations). The proceeds received by Shareholders on the sale of their Shares to the Company will be reduced by costs such as the market-maker's margin and stockbroker's commission.

| Share buyback policy               | Discount to NAV |
|------------------------------------|-----------------|
| From launch to 31 December 2014    | Nil             |
| 1 January 2015 to 31 December 2015 | 15.0%           |
| 1 January 2016 to 31 December 2016 | 7.5%            |
| 1 January 2017 onwards             | Nil             |

The Company will buy back Shares in the first five years from the launch of the Offers, at nil discount to Net Asset Value at any time, subject to regulations and having sufficient liquidity within the Company. The Board considers that they would be treating Shareholders fairly by having a nil discount policy. Investors should note that the income tax relief of 30% will be re-payable if the Shares are not held for the minimum holding period of five years; however, there is no clawback of the 30% income tax relief following the death of a Shareholder.

The Board anticipates that the only sellers of Shares within five years are likely to be deceased Shareholders' estates and those Shareholders whose circumstances have changed (to such an extent they are willing to repay the 30% tax relief in order to gain access to the funds).

The Listing Rule regulations include:

- the minimum price the Company may pay for each Share will be its nominal value of 0.1p; and
- the maximum price the Company may pay for each Share is an amount not more than 5% above the average of the middle market values of the Shares taken from the Official List for the five business days immediately preceding the day on which the Shares are contracted to be purchased.

**The Company's share buyback policy will not be materially changed without the approval of Shareholders.**

## Manager

### Downing Corporate Finance Limited

The Company will be managed by Downing Corporate Finance Limited, under the terms of a discretionary investment management agreement for a minimum term of five years. Downing was incorporated in 1986 and is authorised and regulated by the Financial Services Authority. Since 1991, Downing has specialised in structuring, promoting, managing and administering tax efficient products. Downing has raised over £130 million for the Downing VCTs and its Management Team comprises 10 executives.

Downing's Management Team is responsible for the management of the Downing VCTs, each of which has a strategy of investing in Qualifying Companies primarily benefiting from asset-backing.

## Co-investment policy

The Company has a co-investment agreement with the Downing VCTs, Downing's IHT and EIS funds (together "the Funds"). It has been agreed that allocations will be offered to each party in proportion to their respective funds available for investment, subject to: (i) a priority being given to any of the Funds in order to maintain their tax status; (ii) the time horizon of the investment opportunity being compatible with the exit strategy of each Fund; and (iii) the risk/reward profile of the investment opportunity being compatible with the target return for each Fund. The terms of the investments may differ between the parties, but all investments will be approved by the relevant board, designated members or committees. 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. It is not intended that the Company will co-invest with Directors or members of the Management Team (including family members).

## Directors

The Board comprises three Directors, all of whom are non-executive.

**Chad Murrin (Chairman)** graduated in law from Cambridge University and then qualified as a barrister. He worked for 3i Group plc from 1986-2004, the last five as 3i's corporate development director. In 2004, he set up a corporate advisory business, Murrin Associates Limited. He holds the Advanced Diploma in Corporate Finance from The Corporate Finance Faculty of the ICAEW. He is a director of Pennine Downing AIM VCT 2 plc, TP70 VCT plc, TP70 2008 (II) plc, Beard Construction and Setsquare Recruitment.

**Barry Dean** is a chartered accountant and has over 25 years' experience in the private equity industry, including 14 years as managing director of Dresdner Kleinwort Benson Private Equity Limited. He is a director of Henderson Private Equity Investment Trust plc (a quoted investment trust investing in private equity), Elderstreet VCT plc and ProVen VCT plc. Barry is also an advisory committee member for Parallel Private Equity LLP and an adviser to an Italian private equity fund management business, and serves on the investment committee of Beamreach Capital LLP, which invests in private equity.

**Nicholas Lewis** is a director of Downing Corporate Finance Limited, which he founded in 1986. He is a director of a number of other VCTs including Downing Absolute Income VCT 1, Downing VCT 6 and Downing VCT 7. He was formerly with NatWest Ventures Limited and before that with Apax Partners and Co. Limited.

The Directors and the Management Team (including spouses) will be investing £95,000 under the Offers on the same terms as Investors. This will bring the total invested by the Management Team in the Downing VCTs to approximately £1.9 million.

## Structure of the A Shares

To give effect to the Performance Incentive, described below, Investors will subscribe for A Shares. Based on an Offer Price of £1 per Share, each Investor will receive one Ordinary Share at a subscription price of 99.9p and one A Share at a subscription price of 0.1p.

Management has been conditionally allotted 10,000,000 A Shares, at a price of 0.1p each. These A Shares will be unconditionally issued to Management after 3,333,334 A Shares in the Company have been issued to Shareholders who are not connected to Management.

In the event that the Offers are fully subscribed, 30,000,000 A Shares will be issued, of which the 10,000,000 A Shares issued to Management will represent one-third of the total issued A Shares in the Company. In the event that the Offers are not fully subscribed, the proportion of Management's A Shares in excess of one-third of the issued A Share capital in the Company will be converted into worthless Deferred Shares. Therefore, after the close of the Offers, Management will own one-third of the issued A Share capital of the Company.

Since the A Shares are VCT qualifying, income tax relief is available at 30% of the amount subscribed (provided the A Shares are held for at least five years) and all gains and distributions can be made free of tax. Further details of the terms of the A Shares are set out in Part III of this document.

## Management Fees

### Annual fees

Downing will receive an annual investment management fee of 1.8% of the Net Assets. Downing will also receive an annual fee of £65,000 (plus VAT, if applicable, and RPI linked) for administration services. The Annual Running Costs of the Company are capped at 3.5% (including irrecoverable VAT and annual trail commission) of the Net Assets calculated on a semi-annual basis and any excess will be paid by the Manager, or refunded by way of a reduction in its fees. Annual Running Costs include, *inter alia*, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders, annual trail commission and the annual fees payable to Downing, but not the Performance Incentive. Assuming full subscription, the Directors estimate that the Annual Running Costs of the Company will be approximately 3.3% of its Net Assets (including irrecoverable VAT) in the first accounting period (calculated on an annualised basis).

Downing will also receive arrangement fees (capped at 1% of the sums invested by the Company, with any excess paid to the Company) and monitoring fees (capped at £10,000 (exclusive of VAT) per annum in respect of each of the Company's investments) from investee companies. Costs incurred on abortive investment proposals will be the responsibility of Downing.

### Performance Incentive

As is customary in the venture capital industry, Management will be entitled to receive a performance-related incentive based upon returns to Shareholders. The Performance Incentive will first be calculated in approximately six years. There are two hurdles (together "the Hurdle") to be met for any payment under the Performance Incentive: (i) On average, annual dividends or other Shareholder Proceeds of 5p per Share are required to be paid each year from the close of the Offers; and (ii) the Total Return to Investors at 31 March 2016 needs to be at least 115p per Share, or at least 120p per Share at 31 March 2017, or at least 125p per Share at 31 March 2018 and so on (the Total Return to Investors hurdle will increase by 5p every subsequent year).

If the Hurdle is achieved in any accounting period, the payout will be up to 1p per Share for that accounting period and up to 1p per Share for any previous accounting periods where the Performance Incentive has not been paid (i.e. "catch up" of the previous unpaid Performance Incentive). Therefore, the maximum cumulative Performance Incentive is 6p per Share after six years, 7p per Share after seven years and so on.

The table below illustrates the allocation of the Total Return between Shareholders and Management at different levels of Total Returns (assuming annual dividends of 5p per Share have been paid). **No forecast or projection is implied or should be inferred.**

| Illustration of Performance Incentive |                       |                           |  |                       |                           |
|---------------------------------------|-----------------------|---------------------------|--|-----------------------|---------------------------|
| Total Return                          | Year 6                |                           | Total Return (after any Performance Incentive previously paid) | Year 7                |                           |
|                                       | Performance Incentive | Total Return to Investors |  | Performance Incentive | Total Return to Investors |
| 110p                                  | Nil                   | 110p                      | 120p   | Nil                   | 120p                      |
| 115p                                  | Nil                   | 115p                      | 123p   | 3p                    | 120p                      |
| 120p                                  | 5p                    | 115p                      | 123p   | 2p                    | 121p                      |
| 125p                                  | 6p                    | 119p                      | 123p   | 1p                    | 122p                      |
| 130p                                  | 6p                    | 124p                      | 130p   | 1p                    | 129p                      |

The Directors will, in determining the level of dividends to be declared in respect of the A Shares at the end of each accounting period, act reasonably and in good faith, taking into account the level of Performance Incentive that would be due if distributions were maximised, the Company's liquidity requirements and any statutory, legal or regulatory restrictions.

## Other Information

### Taxation and HM Revenue & Customs approval

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

## The Offers and minimum and maximum subscription

Ordinary Shares are being offered at 99.9p each and A Shares are being offered at 0.1p each and, therefore, for each 100p subscribed by Investors and accepted by the Company, Applicants will be allocated one Ordinary Share and one A Share. A maximum of 20 million Ordinary Shares and 20 million A Shares, which are being offered to the public, are being made available by the Company under the Offers. In the event that applications are received in excess of the maximum subscription under the Offers, the Directors and the Sponsor reserve the right to use their absolute discretion in the allocation of successful applications, giving priority to the earliest Applicants. The minimum investment per Applicant is £5,000. The maximum investment, on which tax reliefs in VCTs are available, is £200,000 per Applicant in each of the 2009/10 and 2010/11 tax years. The subscription list for the Offers will open at 9 a.m. on 10 December 2009 and may close at any time thereafter, but in any event, not later than 1.00 p.m. on 5 April 2010 in the case of the 2009/10 Offer, and not later than 5.00 p.m. on 30 April 2010, unless fully subscribed earlier or previously extended by the Directors, in the case of the 2010/11 Offer. If the Minimum Subscriptions are not received by 1.00 p.m. on 5 April 2010, the Offers will be withdrawn. This condition may only be waived or varied through the production of a supplementary prospectus. In the event that the Minimum Subscriptions are not received by such time, subscription monies will be returned to Investors within seven days of 5 April 2010, at their own risk, without interest. The Offers are not underwritten. Shares will be allotted and issued in respect of valid applications on 10 January 2010, 5 April 2010, on 30 April 2010 and on any other dates on which the Directors decide. Application has been made to the UK Listing Authority on behalf of the Company for the Admission of up to 20,000,002 Ordinary Shares and 30,000,000 A Shares. Ordinary Shares and A 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 Shares thereafter. It is anticipated that dealings in the first allotment of Ordinary Shares and A Shares will commence by 29 January 2010 and subsequent allotments thereafter within 20 Business Days of allotment. Dealings may not begin before notification of allotments is made. Revocation of the Offers cannot occur after dealings in the Shares have commenced. The Company has applied for its Ordinary Shares and A Shares to be admitted to CREST. Share certificates (where applicable) and certificates to enable a claim for income tax relief to be made in respect of Shares will be posted to Shareholders within 30 days of each allotment. No notification will be made to successful applicants prior to despatch of definitive share certificates. Prior to despatch of definitive share certificates (where applicable), transfers (if any) will be certified against the register. No temporary documents of title will be issued. CREST accounts will first be credited on the same day on which dealings in the Shares first commence. The initial costs of the Offers are fixed at 5.5% of the gross proceeds; consequently the net proceeds of the Offers will be 94.5% of the amount subscribed per Share. The result of the Offers will be announced through a regulatory information service provider authorised by the Financial Services Authority.

## Launch costs

Downing has agreed to underwrite all the costs of the Offers in return for an initial fee of 5.5% of the gross funds raised (i.e. 5.5p per Share issued at £1.00), together with an annual fee of 0.5% per annum of the Net Assets (capped at 4.5% of the gross proceeds of the Offers). Out of its capital raising fees, Downing will be responsible for paying all the costs of the Offers including commission (as described in the paragraph headed "Commission" below) to authorised financial intermediaries.

## Commission

Authorised financial intermediaries will usually be entitled to receive an initial commission of either 3% or 2% (depending on whether they wish to receive trail commission) of the amount invested by their clients. Additionally, provided that the intermediary continues to act for the client and the client continues to be the beneficial owner of the Shares, intermediaries who elect to take an initial commission of 2% will usually be paid an annual trail commission of 0.5% of the Net Asset Value of their clients' holdings for the life of this investment (the cumulative trail commission is subject to a cap of 4.5% of the gross proceeds of the Offers). Trail commission will be paid annually in July (commencing July 2011) based on the audited Net Asset Value at the preceding 31 March.

## Availability of the Prospectus

Copies of the Prospectus relating to the Company are available for inspection only during normal business hours on any weekday (public holidays excepted) at the UK Listing Authority's Document Viewing Facility, which is situated at the Financial Services Authority, 25 The North Colonnade, London E14 5HS until the Offers close and may be obtained, free of charge, from the Company's registered office, where they are also on display, and from Downing Corporate Finance Limited.

| Financial Calendar               |                     |
|----------------------------------|---------------------|
| Financial year end               | 31 March            |
| Final results announcement       | July                |
| Annual general meeting           | September           |
| Dividends paid                   | September and March |
| Half yearly results announcement | November            |

# 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 Shares must be aged 18 or over to qualify for the tax reliefs outlined below.

#### *Relief from income tax*

An investor subscribing up to £200,000 in the 2009/10 tax year for eligible shares in a VCT will be entitled to claim income tax relief, at the rate of 30%, although this relief will be withdrawn if either the shares are sold within five years or the investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the investor's income tax liability to nil. However, tax credits on dividends are notional and cannot be repaid and, therefore, investors should take this into account when calculating the value of the income tax relief.

#### *Dividend relief*

An investor who subscribes for or acquires eligible shares in a VCT (up to a maximum of £200,000 in the 2009/10 tax year) 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. Dividends carry a tax credit at the rate of one-ninth of the net dividend which is not repayable and which cannot be utilised in any other way.

#### *Capital gains tax relief*

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

#### *Loss of tax reliefs*

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

- income tax becoming payable on all payments of dividends by the company; and
- any gain arising on a disposal of the shares would be liable to capital gains tax and losses on the shares would be allowable losses for capital gains tax purposes.

The Ordinary Shares and A Shares are both eligible VCT shares for the purposes of this section.

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

#### (i) *Initial income tax*

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

#### (ii) *Tax implications for the beneficiary*

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

#### (iii) *Transfer of shares between spouses*

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

### 4. General

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

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

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

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

#### (iii) *Purchases in the market after listing*

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

#### (iv) *The VCT Regulations 2004*

The VCT Regulations came into force on 17 October 2004. Under the VCT Regulations, monies raised by any further issue of shares by an existing VCT must be applied by that VCT for qualifying purposes. If any of the money raised (except for amounts which HM Revenue & Customs agrees are insignificant in the context of the whole issued ordinary share capital of the VCT) is used by the VCT to purchase its own shares then the funds may be deemed to not have been used for a qualifying purpose.

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

## Part III – Details of the A Shares

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### Reasons for issuing A Shares

The A Shares provide a Performance Incentive to Management and only pay out in the event that certain hurdles are achieved (see the paragraph headed "Performance Incentive" in Part I of this document for further information).

### Allocation of Shareholders' subscriptions

Assuming an Offer Price of 100p per Share, Applicants will be allocated:

- One Ordinary Share at a price of 99.9p each; AND
- One A Share at a price of 0.1p each.

In the case of fractional entitlements to A Shares, such amounts will be rounded down to the nearest whole number of A Shares, and for the avoidance of doubt fractions of A Shares will not be issued but will be consolidated and sold in the market for the benefit of the Company.

In the event of further issues of Ordinary Shares, after the close of the Offers, Management will be entitled to subscribe for such number of further A Shares, such that they continue to hold one-third of the aggregate number of issued A Shares.

Both the Ordinary Shares and the A Shares will be Listed and should be VCT Qualifying.

### Management's holding of A Shares

Before the launch of the Offers, 10,000,000 A Shares in the Company were conditionally allotted to Management, at a price of 0.1p each. These A Shares will be unconditionally issued to Management once 3,333,334 A Shares in the Company have been issued to Shareholders who are not connected to Management. In the event that the Offers are fully subscribed, 30,000,000 A Shares will be issued, of which the 10,000,000 A Shares issued to Management will represent one-third of the total issued A Shares in the Company. In the event that the Offers are not fully subscribed, the proportion of Management A Shares in excess of one-third of the entire issued A Share capital in the Company will be converted into worthless Deferred Shares. Therefore, after the close of the Offers, the Management A Shares will represent one-third of the issued A Share capital of the Company, irrespective of the amount raised under the Offers.

### Distributions of income and capital

Distributions of income and returns of capital (whether by way of reduction of capital or otherwise) shall be made on the following basis to the holders of Ordinary Shares and A Shares:

- 1) If the Hurdle is not met then Shareholder Proceeds will be distributed to the Ordinary Shareholders and the A Shareholders pro rata according to the amount subscribed for those shares under the Offers until the Hurdle is met.
- 2) Once the Hurdle is met, Shareholder Proceeds will then be distributed as follows:
  - a) if the Total Distribution is less than or equal to 5p, Shareholder Proceeds will be distributed pro rata to the Ordinary Shareholders and the A Shareholders, according to the amount subscribed for the shares under the Offers;
  - b) if the Total Distribution is greater than 5p and less than or equal to 7.5p then A Shareholders will receive an amount per A Share equal to the Total Distribution less 5p multiplied by 3 (e.g. for a Total Distribution of 6p, then A Shareholders would receive 3p  $((6p-5p) \times 3 = 3p)$  per A Share and the Ordinary Shareholders will receive the balance pro rata to their holdings of Ordinary Shares; and
  - c) if the Total Distribution is greater than 7.5p the Ordinary Shareholders will receive an amount equal to the nominal value of their Ordinary Shares and the surplus will be paid to the A Shareholders pro rata to their holdings of A Shares.
- 3) Provided always that the aggregate of Shareholder Proceeds paid to all holders of A Shares shall not exceed the Cap. Once the Cap is exceeded then Shareholder Proceeds will be distributed to the Ordinary Shareholders and the A Shareholders pro rata according to the amount subscribed for those shares under the Offers.

A Shares issued to Management will represent one-third of the total issued A Shares of the Company. The Performance Incentive is capped at 1p per annum for Management A Shares. As such the Cap is 3p per A Share.

In relation to the A Shares, if the amount of any dividend on those shares would in aggregate be less than £5,000, or would be less than an amount being equivalent to 0.25p per A Share, then that dividend will not be declared and paid, but the funds relating to the dividend will be retained by the Company and aggregated, with a dividend being declared and paid once either of those thresholds is reached. No interest will be paid on the funds prior to, or after, the declaration of such dividend.

## Part IV – Definitions

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

|  |  |
|--|--|
| "2006 Act"                                   | the Companies Act 2006 (as amended)  |
| "A Shares"                                   | A Shares of 0.1p each in the capital of the Company (ISIN: GB00B4KN4379)   |
| "the Acts"                                   | the Companies Acts as defined in section 2 of the 2006 Act and every other statute from time to time in force in the United Kingdom concerning companies insofar as the same applies to the Company or any re-enactment thereof for the time being in force  |
| "Additional Shares"                          | Shares issued, at no additional cost to the Applicant, as explained in the Special Terms paragraph on the inside cover of this document  |
| "Admission"                                  | admission of the Ordinary Shares and A Shares to the Official List and to trading on the London Stock Exchange's main market for listed securities   |
| "Annual Running Costs"                       | annual costs incurred by the Company in the ordinary course of its business (including irrecoverable VAT but excluding any amount payable in respect of the Performance Incentive)   |
| "Applicant"                                  | Investor who subscribes for Shares pursuant to the Prospectus  |
| "Application Form"                           | form of application for Shares under the Offers set out at the end of this document  |
| "Articles"                                   | Articles of Association of the Company   |
| "Business Day"                               | any day other than a Saturday or Sunday on which clearing banks are open for all normal banking business in London   |
| "Cap"  | limits the maximum Performance Incentive in respect of the Shares to an amount equivalent to 1p per Share per annum. If, in any accounting period of the Company, the Performance Incentive payable in respect of the Shares is less than the Cap then the Cap for the following accounting periods will increase by the amount of the shortfall until fully utilised by payments of the Performance Incentive           |
| "Combined Code"                              | The Combined Code on Corporate Governance (2008) issued by the Financial Reporting Council   |
| "Company" or "Downing Absolute Income VCT 2" | Downing Absolute Income VCT 2 plc  |
| "CREST"                                      | the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for the paperless settlement of transfers and the holding of shares in uncertificated form which is administered by Euroclear UK & Ireland Limited   |
| "CREST Regulations"                          | Uncertificated Securities Regulations 1995 (SI 1995/3272)  |
| "Deferred Shares"                            | deferred Shares of 0.1p each in the capital of the Company which will be converted from A Shares in the circumstances described in Part III of this document and which will have no effective value  |
| "Directors" or "Board"                       | directors of the Company   |
| "Downing" or "Manager"                       | Downing Corporate Finance Limited, which is authorised and regulated by the Financial Services Authority   |
| "Downing Opportunities"                      | Downing Structured Opportunities VCT 1 plc   |
| "Downing VCTs"                               | Downing Absolute Income VCT 1 and Downing VCT 2 – 9, Downing Opportunities and the Company, as applicable  |
| "Downing VCT *"                              | Downing Protected VCT * plc, where * is any combination of IV –IX or expressed as "4-9", as applicable   |
| "Downing Absolute Income VCT 1"              | Downing Absolute Income VCT 1 plc  |
| "Downing VCT 2"                              | Downing Planned Exit VCT 2 plc   |
| "Downing VCT 3"                              | Downing Planned Exit VCT 3 plc   |
| "DTR"  | the Disclosure and Transparency Rules, being the rules published by the FSA from time to time and relating to the disclosure of information in respect of financial instruments  |
| "FSA"  | Financial Services Authority   |
| "Generalist VCTs"                            | VCTs which do not have a fixed wind-up date and do not specialise in investing in any one sector   |
| "Hurdle"                                     | achievement calculated on a per Share basis, first calculated at the Company's sixth year end, of (i) on average, annual Shareholder Proceeds of 5p per Share have been paid from the close of the Offers; and (ii) the Total Return to Investors is at least 115p per Share (after allowing for any Performance Incentive) at 31 March 2016. The Total Return to Investors hurdle increases by 5p every year thereafter |
| "Investor"                                   | subscriber for Shares under the Offers   |
| "IRR"  | the internal rate of return, which applied to the relevant cash flows, produces a net present value of zero (expressed as a percentage)  |
| "ITA"  | Income Tax Act 2007  |
| "Listed"                                     | admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities  |
| "Listing Rules"                              | Listing Rules of the UK Listing Authority  |
| "London Stock Exchange"                      | London Stock Exchange plc  |
| "Management"                                 | individuals engaged in the business of the Company and/or Downing, and the Management Team   |
| "Management A Shares"                        | up to 10,000,000 A Shares in the Company to be issued to Management  |

|  |  |
|--|--|
| <b>"Management Team"</b>                                       | as at the date of this document, Paul Beaumont, Jonathan Boss, Pierre Clarke, Colin Corbally, Michael Hughes, Steven Kennee, Nicholas Lewis, Judith MacKenzie, Tony McGing and Grant Whitehouse  |
| <b>"Minimum Subscriptions"</b>                                 | the minimum net proceeds required to be raised under the Offers, being £945,000  |
| <b>"ML Regulations"</b>  | Money Laundering Regulations 2007  |
| <b>"NAV" or "Net Asset Value"</b>                              | net asset value per share  |
| <b>"Net Assets"</b>  | gross assets less all liabilities (excluding contingent liabilities) of the Company  |
| <b>"Non-Qualifying Investment"</b>                             | an investment which is not a Qualifying Investment   |
| <b>"Offer Agreement"</b>                                       | agreement dated 10 December 2009 between the Company, the Directors, the Sponsor and Downing, a summary of which is set out in paragraph 5(a) of Part III of the Registration Document   |
| <b>"Offer Price"</b>   | 100p per Share comprising 99.9p per Ordinary Share and 0.1p per A Share  |
| <b>"Offers"</b>  | together the 2009/10 Offer and the 2010/11 Offer   |
| <b>"2009/10 Offer"</b>   | offer for subscription in respect of the 2009/10 tax year, being made by the Company on the terms set out in the Prospectus  |
| <b>"2010/11 Offer"</b>   | offer for subscription in respect of the 2010/11 tax year, being made by the Company on the terms set out in the Prospectus  |
| <b>"Official List"</b>   | the Official List of the UK Listing Authority  |
| <b>"Ordinary Shares"</b>                                       | Ordinary Shares of 0.1p each in the capital of the Company (ISIN: GB00B4K0JB10)  |
| <b>"Performance Incentive"</b>                                 | performance-related incentive payable in relation to the Management A Shares in the event that the Hurdle is achieved, as described in this document under the section headed "Management Fees"  |
| <b>"Prospectus"</b>  | this document, the Registration Document and the Summary which together describe the Offers in full  |
| <b>"Prospectus Rules"</b>                                      | the Prospectus Rules issued by the Financial Services Authority and made under Part IV of the Financial Services and Markets Act 2000  |
| <b>"Qualifying Companies"</b>                                  | unquoted companies carrying on qualifying trades wholly or mainly in the United Kingdom and which satisfy certain other conditions as defined in Chapter 4 Part 6 of the ITA   |
| <b>"Qualifying Investment" or "Venture Capital Investment"</b> | investment in an unquoted trading company, which comprises a qualifying holding for a VCT as defined in Chapter 4 Part 6 of the ITA  |
| <b>"Registrar"</b>   | Capita Registrars Limited  |
| <b>"Registration Document"</b>                                 | the document which has been prepared in accordance with the Prospectus Rules in connection with the Offers   |
| <b>"RPI"</b>   | Retail Prices Index  |
| <b>"Securities Note"</b>                                       | this document, which has been prepared in accordance with the Prospectus Rules in connection with the Offers   |
| <b>"Shareholder Proceeds"</b>                                  | amounts paid by way of dividends or other distributions, share buybacks, proceeds on a sale or winding-up of the Company and any other proceeds or value received, or deemed to be received, by Shareholders in the Company, excluding any income tax relief on subscription |
| <b>"Shareholders"</b>  | holders of Shares  |
| <b>"Share(s)"</b>  | Ordinary Share(s) and/or A Share(s) (excluding Management A Shares)  |
| <b>"Sponsor"</b>   | Howard Kennedy   |
| <b>"Summary"</b>   | the summary of the Offers prepared in accordance with the Prospectus Rules   |
| <b>"Total Distribution"</b>                                    | total Shareholder Proceeds distributed or proposed to be distributed to all Shareholders (before the allocation between A Shares and Ordinary Shares is calculated) divided by the number of Ordinary Shares in issue  |
| <b>"Total Return"</b>  | NAV together with cumulative dividends paid including tax credits where reclaimable  |
| <b>"UK Listing Authority"</b>                                  | Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000  |
| <b>"VCT"</b>   | a company approved as a venture capital trust under Section 274 ITA  |
| <b>"VCT Regulations"</b>                                       | The Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004  |

# Part V – Additional Information

## 1. The Company

Downing Absolute Income VCT 2 plc was incorporated in England and Wales as a public company with limited liability on 28 October 2009 with registered number 7059435. The principal legislation under which the Company operates and under which the Ordinary Shares and A Shares have been created is the 2006 Act and regulations made thereunder.

## 2. Articles of association

The Articles contain the following provisions relating to the Company's share capital:

### (a) Variation of Rights

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Acts and every other statute for the time being in force concerning companies and affecting the Company ("the Statutes"), be varied or abrogated in respect of the whole or any part of that class either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up. At every such separate general meeting the necessary quorum shall be at least two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class (but so that at any adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum). Further provisions are set out at paragraph 3(j) of Part III of the Registration Document.

### (b) Alteration of Share Capital

The Company may from time to time by ordinary resolution:

- (i) consolidate all or any of its share capital into shares of a larger amount than its existing shares; and
- (ii) cancel any shares which have not been taken, or agreed to be taken, by any person and diminish the amount of its capital by the nominal amount of the shares so cancelled.

Subject to the provisions of the Statutes, the Company may by special resolution:

- (i) purchase any of its own shares (including any redeemable shares);
- (ii) reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner; or
- (iii) sub-divide its shares, or any of them, into shares of a smaller amount and by the same resolution may confer special rights on any of the shares resulting from the sub-division.

### (c) Issue of Shares

The provisions of Section 561(1) of the 2006 Act (which to the extent not disapplied pursuant to Section 570 of the 2006 Act, confer on Shareholders' rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the share capital of the Company, except to the extent disapplied by the Company in general meeting. Subject to the provisions of the Statutes relating to authority, pre-emption rights and otherwise and of any resolution of the Company in general meeting passed pursuant thereto, all shares shall be at the disposal of the Directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper, provided that no such share shall be issued at a discount.

### (d) Transfer of Shares

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

(i) it is duly stamped (if so required), is lodged with the Company's registrars or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(ii) it is in respect of only one class of share;

(iii) the transferees do not exceed four in number; and

(iv) it does not relate to any shares in respect of which the Company has a lien.

### (e) Voting Rights of Ordinary Shares and A Shares

The Ordinary Shareholders and the A Shareholders are entitled to receive notice of, to attend, speak and vote at any general meeting. Subject to (f) below, every Ordinary Shareholder present in person or by proxy shall upon a show of hands have one thousand votes for every Ordinary Share held by him and every Ordinary Shareholder present in person or by proxy shall upon a poll have one thousand votes for every Ordinary Share held by him. Subject to (f) below, every A Shareholder present in person or by proxy shall upon a show of hands have one vote for every A Share held by him and every A Shareholder present in person or by proxy shall upon a poll have one vote for every A Share held by him.

### (f) Voting where variation or Takeover Offer

Where the resolution to be considered by a meeting of Shareholders is in respect of a variation to the rights of the A Shareholders or where a Takeover Offer (as defined in the Articles) remains open for acceptance at the time of the relevant meeting, the voting rights of the A Shareholders shall rank pari passu with those of the Ordinary Shares. At such meetings each Ordinary Shareholder and A Shareholder present in person or by proxy shall upon a show of hands each have one vote for every share held by each of them and every Ordinary Shareholder and A Shareholder present in person or by proxy shall upon a poll each have one vote for every share held by each of them.

### (g) Redesignation of A Shares to Deferred Shares and rights of Deferred Shares

On the final closing date of the Offers, any Management A Shares in excess of one-third of the total number of issued A Shares will be converted into and redesignated as Deferred Shares pro rata to each holder's respective holdings of A Shares. The Deferred Shares shall entitle the holders thereof to the following rights (subject to the following restrictions) in relation to their Deferred Shares:

(i) as regards dividends, the holders of Deferred Shares shall not be entitled to any dividends or other distributions in respect of their holding of such shares;

(ii) on any winding-up or on any return of capital (by way of reduction of capital or otherwise), the holders of the Deferred Shares shall be entitled in respect of such shares to the nominal value in respect of such shares after the holders of the Ordinary Shares and A Shares shall have received £1,000,000 in respect of each such share held by them;

(iii) as regards voting, the holders of Deferred Shares shall not be entitled to receive notice of and attend general meetings and not be entitled to vote at such meetings in respect of such shares; and

(iv) the Deferred Shares may be redeemed by the Company at any time and on their redemption the holders thereof shall, subject to the provisions of the Act, be paid, in aggregate, 0.1p in respect of all Deferred Shares then in issue (pro rata to their respective holdings of Deferred Shares). The holders of the Deferred Shares shall promptly take all actions required by the Company in relation to, or otherwise in connection with, any such redemption including, without prejudice to the generality of the foregoing, the delivery of all share certificates in respect of such Deferred Shares to such person and at such time as directed by the Company.

### (h) Redemption provisions on Shares

There are no redemption provisions affecting the Shares.

### (i) Rights attaching to the redeemable preference shares ("Redeemable Shares")

Each of the Redeemable Shares carries the right to a fixed dividend of 0.1% per annum on the nominal amount thereof, but confers no right to vote except where the rights of the holders of those shares are to be varied or abrogated. On a winding-up the Redeemable Shares

confer the right to be paid the nominal amount paid upon such shares *pari passu* with, and in proportion to, the amount of capital paid to the holders of the Ordinary Shares and the A Shares. The Redeemable Shares are redeemable at any time by the Company for a sum equivalent to the amount paid up on each share.

- (j) Dividends and other distributions of income and capital  
The Company may in general meeting by ordinary resolution declare dividends in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors. The Directors may pay interim dividends. No dividend or other monies payable in respect of a share shall bear interest against the Company. There are no fixed dates on which entitlement to a dividend arises. All dividends unclaimed for a period of twelve years after being declared or becoming due for payment shall be forfeited and shall revert to the Company. Notwithstanding the above provisions, as regards distributions, dividends and other distributions or a return of capital (otherwise than on a market purchase by the Company of any of its shares) shall only be made out of the assets attributable to the Ordinary Shares and the A Shares and shall be applied on the basis set out in Part III of this document.

- (k) Winding-up or return of capital  
On a winding-up or return of capital (by way of reduction of capital or otherwise) the capital and assets of the Company will be divided amongst the holders of the shares in accordance with the respective rights of the Ordinary Shares and A Shares as set out in Part III of this document. The Articles provide that the liquidator may, with the sanction of a special resolution and any other sanction required by the Acts, divide amongst the members *in specie* the whole or any part of the assets of the Company in such manner as he may determine.

### 3. Overseas Investors

- (a) No person receiving a copy of this document or an Application Form in any territory other than the UK may treat the same as constituting an offer or invitation to him to subscribe for or purchase Shares unless, in such territory, such offer or invitation could lawfully be made.
- (b) No action has been taken to permit the distribution of this document in any jurisdiction outside the UK where such action is required to be taken. All Applicants will be required to warrant that they are not a US person as defined in paragraph 5(x) of Part VI of this document or a resident of Canada.

### 4. Working capital of the Company

The Company is of the opinion that, after taking into account the Minimum Subscriptions, it has sufficient working capital for its present requirements, that is for at least the next 12 months following the date of this document.

If the Minimum Subscriptions are not received by 1.00 p.m. on 5 April 2010, the Offers will be withdrawn. This condition may only be waived or varied through the production of a supplementary prospectus. In the event that the Minimum Subscriptions are not received, subscription monies will be returned to Investors within seven days of 5 April 2010, at their own risk, without interest.

### 5. Capitalisation and indebtedness

As at the date of this document, the Company has:

- (a) no current debt and no non-current debt; (b) Shareholders' equity of £50,000 comprising 50,000 redeemable preference shares of £1 each (one-quarter paid up) and 2 ordinary shares of 0.1p each; and (c) no legal or other reserves.

### 6. Investor profile

A typical Investor will be a retail client (not a corporate), who is aged 18 or over, pays UK income tax and who already has a portfolio of non-VCT investments such as unit trusts, OEICs, structured products, investment trusts and/or direct shareholdings in listed companies and has sufficient income and capital so that his investment in the Company can be held for over five years.

The individual will be professionally advised and/or a sophisticated investor. The individual's income tax liability

should be more than sufficient to utilise all the initial income tax relief available on the investment. The individual should be willing to invest over the medium to long term and be comfortable with higher risk investments.

### 7. Information sourced from third parties

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

### 8. Resolutions

By resolutions passed by the Company on 4 December 2009:

- (a) the Directors were generally and unconditionally authorised in accordance with Section 551 of the 2006 Act to, *inter alia*, allot shares up to a maximum nominal amount of £139,999; this authority to expire at the end of the period of five years from the date of passing of the resolution (unless previously revoked, varied or extended by the Company in general meeting) but so that such authority allows the Company to make offers or agreements before the expiry thereof which would or might require, *inter alia*, shares to be allotted after the expiry of such authority;
- (b) new Articles of Association of the Company were adopted;
- (c) the Directors were empowered pursuant to Section 570 of the 2006 Act to allot or make offers or agreements to allot equity securities (as defined in Section 560(1) of the 2006 Act) for cash pursuant to the authority referred to in paragraph 8(a) above as if Section 561(1) of the 2006 Act did not apply to any such allotment during the period of such authority. This power is limited to:
- (i) the allotment of up to 50,000 Redeemable Shares;
- (ii) the allotment of up to 20,000,000 Ordinary Shares and up to 20,000,000 A Shares pursuant to the Offers;
- (iii) the allotment of up to 10,000,000 Management A Shares;
- (iv) the allotment of equity securities pursuant to an offer of securities by way of rights issue; and
- (v) otherwise than pursuant to sub-paragraphs (i) to (iv), above, the allotment of equity securities up to an aggregate nominal amount of 10% of the issued Ordinary Share and A Share capital of the Company from time to time;
- (d) the Company was generally and unconditionally authorised pursuant to Section 701 of the 2006 Act to make one or more market purchases of its Ordinary Shares and A Shares which authority is limited to 14.9% of the issued share capital of each class of shares in the Company from time to time. The price paid must not be less than 0.1p per Ordinary Share or 0.1p per A Share nor more than an amount equal to 105% of the average of the middle market prices of the relevant Shares shown in the quotations in the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the share is contracted to be purchased. The authority, unless renewed or revoked prior to such time, expires 18 months from the passing of the resolution; and
- (e) it was resolved that the sum standing to the credit of the share premium account of the Company following the closing date of the Offers be cancelled.

### 9. Material interests

Downing will be paid an annual investment management fee of 1.8% of the Net Assets of the Company and an administration fee of £65,000 (plus VAT). In line with normal VCT practice, Management will be entitled to receive a Performance Incentive. Further details of these arrangements are set out in Part I of this document.

### 10. Results of the Offers

The results of the Offers will be announced through a regulatory information service provider.

10 December 2009

## Part VI – Terms and Conditions of Application

1. In these Terms and Conditions of Application, the expression "Prospectus" means this document, the Registration Document and the Summary, each dated 10 December 2009. The expression "Application Form" means the application form for use in accordance with these Terms and Conditions of Application. Save where the content requires otherwise, 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 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 account with Bank of Scotland.
  3. You may pay for your application for Shares by cheque or bankers' draft submitted with the Application Form.
  4. The contract created by the acceptance of applications in respect of the first allotment of Shares under the Offers will be conditional on:
    - (a) the Minimum Subscriptions being received by 1.00 p.m. on 5 April 2010; and
    - (b) Admission of the Ordinary Shares and A Shares (in respect of such first allotment of Shares) being granted not later than 5:00 p.m. on 30 April 2010.

If the Minimum Subscriptions are not received, the Offers will be withdrawn. This condition may only be waived or varied through the production of a supplementary prospectus. In the event that the Minimum Subscriptions are not received by 1.00 p.m. on 5 April 2010, subscription monies will be returned to Investors within seven days of 5 April 2010, at their own risk, without interest. The Offers are not underwritten.
  5. By completing and delivering an Application Form, you:
    - (a) offer to subscribe for the amount specified on your Application Form or any smaller sum for which such application is accepted at the Offer Price subject to the Prospectus, these Terms and Conditions of Application, the Memorandum of Association of the Company and its Articles;
    - (b) acknowledge that, subject to any adjustment for Additional Shares and IFA commission waived as extra Shares, if your subscription is accepted, you will be allocated one Ordinary Share (price 99.9p per share) and one A Share (price 0.1p per share) for each 100p invested;
    - (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 Shares for which your application is accepted, and/or a crossed cheque for any monies returnable, by post at your risk to your address as set out on your Application Form;
    - (d) agree that your application may not be revoked and that this paragraph constitutes a collateral contract between you and the Company which will become binding upon despatch by post or delivery of your duly completed Application Form to the Company or to your financial adviser;
    - (e) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive share certificates for the Shares applied for or to enjoy or receive any rights or distributions in respect of such Shares unless and until you make payment in cleared funds for such Shares and such payment is accepted by the Company (which 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 Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such Shares as void and may allot such Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Shares (other than return of such late payment at your risk and without interest);
- (f) agree that all cheques and bankers' drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the verification of identity required by the ML Regulations and that such monies will not bear interest;
  - (g) undertake to provide satisfactory evidence of identity within such reasonable time (in each case to be determined in the absolute discretion of the Company and the Sponsor) to ensure compliance with the ML Regulations;
  - (h) agree that, in respect of those Shares for which your application has been received and processed and not rejected, acceptance of your application shall be constituted by the Company instructing Downing or the Registrar to enter your name on the share register;
  - (i) agree that all documents in connection with the Offers and any returned monies will be sent at your risk and may be sent to you at your address as set out in the Application Form;
  - (j) agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations including the risk factors contained therein;
  - (k) confirm that (save for advice received from your financial adviser) in making such application you are not relying on any information and representation other than those contained in the Prospectus and you accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof or involved in the preparation thereof will have any liability for any such other information or representation;
  - (l) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offers shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
  - (m) irrevocably authorise the Company, the Registrar or Downing or any other person authorised by any of them, as your agent, to do all things necessary to effect registration of any 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 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 Offers 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 Offers 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 Shares or concerning the suitability of 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 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 Shares;
- (w) warrant that the 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 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;
- (y) warrant that the information contained in the Application Form is accurate; and
- (z) agree that if Shares are not issued to you, or not issued to you on any particular date, the Company and Downing will have no liability to you.
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 Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the "USA"). In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. The Manager will not be registered under the United States Investment Adviser Act of 1940 (as amended). No application will be accepted if it bears an address in the USA.
8. This application is addressed to the Company and the Sponsor. The rights and remedies of the Company and the Sponsor under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to either of them, and the exercise or partial exercise of one will not prevent the exercise of others.
9. The dates and times referred to in these Terms and Conditions of Application may be altered by the Company with the agreement of the Sponsor.
10. Authorised financial advisers who, acting on behalf of their clients, return valid Application Forms bearing their stamp and Financial Services Authority number will be entitled to commission on the amount payable in respect of the Shares allocated for each such Application Form at the rates specified in the paragraph headed "Commission" in Part I of this document. Authorised financial advisers may agree to waive part or all of their initial commission in respect of an application. If this is the case, then such application will be treated as an application to subscribe the amount stated in box number 2 of the Application Form together with an additional subscription equivalent to the amount of commission waived. Downing or the Registrar is authorised to amend such box number 2 to include any such additional subscription. Financial advisers should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for their commission.
11. The section headed Notes on Application Form forms part of these Terms and Conditions of Application.
12. It is a condition of the Offers to ensure compliance with the ML Regulations. Downing is therefore entitled to require, in 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 bankers' 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 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.
13. The right is also reserved to treat as valid and binding any application not complying fully with these Terms and Conditions of Application or not in all respects complying with the Notes on Application Form. In particular, but without limitation, the Company may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Company to apply in accordance with these Terms and Conditions of Application.
14. 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.

# DOWNING ABSOLUTE INCOME VCT 2 PLC

## Application Form

Reservation Number  
 (if applicable)

Make your cheque or bankers' draft out to "**Downing Absolute Income VCT 2 plc**" and crossed "A/C Payee only" and return this form as soon as possible to Downing Corporate Finance Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU. The closing date for the 2009/10 Offer will be 1.00 p.m. on Monday 5 April 2010 and, in respect of the 2010/11 Offer, 5.00 p.m. on Friday 30 April 2010 (unless extended or fully subscribed earlier).

|          |                        |                  |  |                        |             |  |  |
|----------|------------------------|------------------|--|------------------------|-------------|--|--|
| <b>1</b> | Title and Name in Full |                  |  |                        |             |  |  |
|          | Permanent Address      |                  |  |                        |             |  |  |
|          |                        |                  |  |                        |             |  |  |
|          | Postcode               |                  |  |                        | Daytime Tel |  |  |
|          | Email Address          |                  |  |                        |             |  |  |
|          | Date of Birth          | / / 19           |  | National Insurance No. |             |  |  |
|          |                        | (day/month/year) |  |                        |             |  |  |

|          |   |                      |   |            |
|----------|---|----------------------|---|------------|
| <b>2</b> | I am subscribing for New Shares as Follows: | 2009/10 tax year     | £ <input style="width: 100%; height: 25px;" type="text"/> | <b>A</b>   |
|          |   | 2010/11 tax year     | £ <input style="width: 100%; height: 25px;" type="text"/> | <b>B</b>   |
|          |   | <b>TOTAL (A + B)</b> | £ <input style="width: 100%; height: 25px;" type="text"/> | Min £5,000 |

Or such lesser sum for which this application may be accepted on the Terms and Conditions of Application set out in Part VI of this document dated 10 December 2009. Please send me a certificate(s) confirming my entitlement to VCT tax reliefs.

BY SIGNING THIS FORM I HEREBY DECLARE THAT: (i) I have had an opportunity to receive the Prospectus dated 10 December 2009 and to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the Shares in Downing Absolute Income VCT 2 plc issued to me pursuant to the Offers; (iii) to the best of my knowledge and belief, the particulars I have given to Downing Absolute Income VCT 2 plc are correct; and (iv) I acknowledge that my application for Shares will be allocated in the manner described under the heading "The Offers and minimum and maximum subscription" in Part I of this document.

**Investors and their advisers are required to provide an email address if they require the receipt of the Application Form to be acknowledged.**

|          |   |   |
|----------|---|---|
| <b>3</b> | Please tick this box if you would like to receive progress updates from the Company by email (approximately five emails per year) | <input style="width: 40px; height: 30px;" type="checkbox"/> |
|----------|---|---|

**HM Revenue and Customs may inspect this application form. It is a serious offence to make a false declaration.**

|          |           |   |      |   |   |   |
|----------|-----------|---|------|---|---|---|
| <b>4</b> | Signature | <input style="width: 100%; height: 100%;" type="text"/> | Date | <input style="width: 100%; height: 100%;" type="text"/> | <input style="width: 100%; height: 100%;" type="text"/> | <input style="width: 100%; height: 100%;" type="text"/> |
|----------|-----------|---|------|---|---|---|

|   |  |
|---|--|
| <b>Authorised intermediaries should stamp and complete this box</b> |  |
| Contact Name  |  |
| Firm Name   | Chelsea Financial Services             |
| FSA No.   | 114493                                 |
| Address   | St James Hall, Moore Park Road, London |
| Postcode  | SW6 2JS                                |
| Tel.  |  |
| Email Address   |  |

|   |  |
|---|--|
| <b>Commission Options (tick one box)</b>  |  |
| <b>Authorised intermediaries should complete this box</b>   |  |
| A) 3% upfront; no trail   | <input style="width: 80%; height: 20px;" type="checkbox"/> |
| OR  |  |
| B) 2% upfront; 0.5% p.a. trail  | <input style="width: 80%; height: 20px;" type="checkbox"/> |
| <b>Commission waived (leave blank if nil waived)</b>  |  |
| Commission waived as extra shares (insert the sum in £s)  | £ <input style="width: 80%; height: 20px;" type="text"/>   |
| Due completion of the agent's box indicates that the agent is duly authorised to transact investments of this type under the Financial Services and Markets Act 2000. |  |

|                              |   |                          |   |
|------------------------------|---|--------------------------|---|
| <b>For Official Use Only</b> |   |                          |   |
| Less than £11,000            | <input style="width: 100%; height: 20px;" type="checkbox"/> | List A                   | <input style="width: 100%; height: 20px;" type="checkbox"/> |
| Personal Cheque              | <input style="width: 100%; height: 20px;" type="checkbox"/> | List B                   | <input style="width: 100%; height: 20px;" type="checkbox"/> |
| Letter of Introduction       | <input style="width: 100%; height: 20px;" type="checkbox"/> | Money Laundering Officer | <input style="width: 100%; height: 20px;" type="checkbox"/> |



# Notes on Application Form

Before making an application to acquire Shares you are strongly recommended to consult an appropriate financial adviser authorised under the Financial Services and Markets Act 2000. It is essential that you complete all parts of the Application Form in accordance with the instructions in these notes. Please send the completed Application Form, together with your cheque or bankers' draft, by post, or deliver it by hand, to Downing Corporate Finance Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU. If you have any questions on how to complete the Application Form please contact Downing Corporate Finance Limited on 020 7416 7780 or your financial adviser.

The following notes should be read in conjunction with the Application Form and the Terms and Conditions of Application.

**1**

Insert in Box 1 in BLOCK CAPITALS your full name, permanent address, daytime telephone number, date of birth, National Insurance number and, if you have one, your email address. Joint applications are not permitted.

**2**

Insert (in figures) in Box A the total amount you wish to invest under the Offers in respect of the 2009/10 tax year (state nil if appropriate). Insert (in figures) in Box B the amount you wish to invest under the Offers in respect of the 2010/11 tax year (state nil if appropriate). **You may post-date your cheque to 6 April 2010 in respect of the sum in Box B.** Insert (in figures) the total of Boxes A and B in Box C. This is the total amount you are subscribing under the Offers. Share subscriptions will be adjusted to reflect any commission waived (by agents) as extra Shares or any Additional Shares issued.

**Please note that the minimum investment is £5,000.** The maximum investment, on which tax reliefs on investments in VCTs are available, is £200,000 in each of the 2009/10 and 2010/11 tax years.

Attach your cheque or bankers' draft to the Application Form for the exact amount shown in Box C. Your cheque or bankers' draft must be made payable to "**Downing Absolute Income VCT 2 plc**" and crossed "**A/C Payee only**". Your payment must relate solely to this application.

### Money Laundering Regulations 2007 – Important note for applications of £11,000 or more

If the value of the shares applied for is £11,000 or more (or is one of a series of linked applications, the value of which exceeds that amount) payment should be made by means of a cheque drawn on an account in the name of the Applicant. If this is not practicable and you use a cheque drawn by a third party or a building society cheque or bankers' draft, you should write the name, address and date of birth of the Applicant on the back of the cheque or bankers' draft and:

- (a) if a building society cheque or bankers' draft is used, the building society or bank must also endorse on the cheque or draft the name and account number of the person whose account is being debited; or
- (b) if a cheque is drawn by a third party, you must ensure that one item from each of List A and List B (see below) is enclosed with the form.

Alternatively, verification of the Applicant's identity may be provided by means of a "Letter of Introduction" in the prescribed form from a UK or European Economic Area financial institution (such as a bank or stockbroker) or other regulated person (such as a solicitor, accountant or appropriate financial adviser) who is required to comply with the ML Regulations. The relevant financial institution or regulated person will be familiar with the requirements and the relevant form.

### For applications of £11,000 or more and subscription by way of a cheque drawn by a third party (one item from List A AND one item from List B)

#### List A (Verification of Identity)

Current signed passport  
Current UK Driving Licence  
HM Revenue and Customs Tax Notification  
Firearms Certificate

#### List B (Verification of Address)

Recent\* utility bill (but not a mobile telephone bill)  
Recent\* local authority tax bill  
Recent\* bank or building society statement  
Recent\* mortgage statement from a recognised lender

Please send original (not passport or driving licence) or certified copies of the documents. Certified as a true copy of the original by a UK lawyer, banker, authorised financial intermediary (e.g. financial adviser or an FSA authorised mortgage broker), accountant, teacher, doctor, minister of religion, postmaster or sub-postmaster. The person certifying the document should state that the copy is a true copy of the original, print their name, address, telephone number and profession and sign and date the copy. \*"Recent" means dated within the last three months.

**No money laundering verification is required to be enclosed if the application is for less than £11,000 or if payment is by means of a cheque drawn on an account in the name of the Applicant** (provided that (a) the cheque includes details of the Applicant's bank account or building society account (as applicable) and (b) the cheque is drawn on a UK or European Union authorised bank or credit institution). Please note, however, that Downing may, in its absolute discretion, require Money Laundering verification and that Money Laundering verification will be required by introducing financial advisers.

**3**

Please tick this box if you would like to receive email updates from the Company (approximately five emails per year).

**4**

**Read the declaration and sign and date the Application Form in Box 4.** If someone other than the Applicant named in Box 1 signs on such Applicant's behalf, such signatory must ensure that the declaration given on behalf of such Applicant is correct.

Authorised intermediaries who are entitled to receive commission should stamp and complete the agent's box, giving their full name and address, telephone number and details of their authorisation under the Financial Services and Markets Act 2000. The right is reserved to withhold payment of commission if the Company is not, at its sole discretion, satisfied that the agent is so authorised. Intermediaries should indicate which commission option they prefer by ticking one of the boxes. Intermediaries can choose to waive some or all of their upfront commission, which will be invested in additional shares for their clients.

**Receipt of applications will be acknowledged only by email to both Applicants and their intermediaries.**

Downing Corporate Finance Limited  
Kings Scholars House  
230 Vauxhall Bridge Road  
London  
SW1V 1AU

tel: **020 7416 7780**  
email: **vct@downing.co.uk**  
web: **www.downing.co.uk**

Authorised and regulated by the  
Financial Services Authority