



Downing THREE VCT plc (in Liquidation)

Shareholder update
May 2023

Downing 

Shareholder Information

Performance summary

F Share pool	31 Dec 2022 Pence	30 Jun 2022 Pence	30 Jun 2021 Pence
Net asset value per F Share	14.4	20.5	18.7
Cumulative distributions per F Share	77.0	72.0	72.0
Total return per F Share	91.4	92.5	90.7

H Share pool	31 Dec 2022 Pence	30 Jun 2022 Pence	30 Jun 2021 Pence
Net asset value per H Share	1.8	20.2	18.7
Cumulative distributions per H Share	58.0	39.5	39.5
Total return per H Share	59.8	59.7	58.2

J Share pool	31 Dec 2022 Pence	30 Jun 2022 Pence	30 Jun 2021 Pence
Net asset value per J Share	16.2	21.1	22.2
Cumulative distributions per J Share	19.5	17.5	17.5
Total return per J Share	35.7	38.6	39.7

Distributions

Distributions in liquidation are paid by the registrar on behalf of the Company. Shareholders who wish to have distributions paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose (forms can be downloaded from the Company's registrar, The City Partnership).

Queries relating to distributions and requests for mandate forms should be directed to the Company's registrar, The City Partnership, whose details are on the back cover of this document.

Share scam warning

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

Further information can be found on Downing's website at

www.downing.co.uk/vctboilerroomscam

If you have any concerns, please contact Downing on 020 7416 7780.

Statement from the Supervisory Committee Chairman

Introduction

The Company has now been in members' voluntary liquidation for 2 years as the Manager seeks to exit from the remaining investments and return funds to shareholders. Our last report was issued in September 2022 covering the period to 30 June 2022. This report covers the six-month period to 31 December 2022 and also details realisations since that period end. The disruption of the pandemic was a major hindrance to the exit process. However as more normal conditions have returned, the underlying businesses in the portfolios have worked to re-establish trading levels which allow disposal plans to be pursued. Nonetheless, high interest rates and decreasing consumer confidence make business sales challenging.

Overview

The Company still has three share pools. Progress has been made in the period under review towards realising investments in all three share pools, with a few minor disposals and many of the other remaining investments moving closer to completing a sale.

Share pool overview

F Share pool

The F Share pool launched in 2012 and currently holds a portfolio of three investments with remaining value and a total value of £1.3 million at the period end.

At 31 December 2022, the remaining net asset value ("NAV") was 14.4p per F Share, a decrease of 1.1p (5.4%) over the period, after adjusting for the 5.0p dividend paid in October 2022. Total Return (NAV plus dividends paid to date) is now 91.4p, compared to the original cost, net of income tax relief, of 70.0p per share.

A distribution of 5.5p per F Share will be paid on 23 June 2023 to shareholders on the register at 2 June 2023. This equates to £595,000 of cash.

H Share pool

The H Share pool launched in 2014 and now has only one remaining investment with value, valued at £175,000.

At 31 December 2022, the net asset value ("NAV") was 1.8p per H Share, which represents a net increase of 0.1p (0.5%) over the period, after adjusting for the 18.5p dividend paid in October 2022. Total Return (NAV plus dividends paid to date) is now 59.8p, compared to the initial NAV, before income tax relief, of 100.0p (or original cost, net of income tax relief, which was typically between 70.0p and 75.0p, depending on costs).

There were two exits during the period, a partial disposal of Atlantic Dogstar Limited, generating total proceeds of £327,000, and the full disposal of Rockhopper Renewables Limited which unfortunately resulted in no proceeds as the investment had no prospect of recovery of any value. As the above proceeds were distributed to H Shareholders as part of the 18.5p per share dividend paid in October 2022, no further dividend is being declared at the current time.

Focus continues to be on seeking an exit from the final investment at an optimal value.

Letter from the Supervisory Committee

Chairman (continued)

Share pool overview (continued)

J Share pool

The overall performance of the J Share pool remains very disappointing.

The J Share pool raised the majority of its funds in the 2014/15 tax year and passed the five-year anniversary of the close of the offer for subscription at the end of 2020.

At 31 December 2022, the share pool held four active investments with a total value of £1.1 million and the net asset value ("NAV") was 16.2p per J Share, a decrease of 2.9p (13.7%) over the period. Total Return (NAV plus dividends paid to date) is now 35.7p per J Share, compared to the initial NAV before income tax relief, of 100.0p (or original cost, net of income tax relief, which was typically between 70.0p and 75.0p, depending on costs).

The J Share pool received proceeds of £272,000 from Fenkle Street LLP, after the period end, in March 2023.

A distribution of 3.0p per J Share will be paid on 23 June 2023 to shareholders on the register at 2 June 2023. This equates to £320,000 of cash.

The Investment Manager's Reports on pages 4 to 9 provide further details on each share pool.

Outlook

Over the remainder of 2023, we expect to see the Manager deliver exits from most of the remaining investments in the F and H Share pools so that the task of returning funds to investors can be completed. The timeline for the disposal of the investment in Baron House in the F Share pool is, however, unclear and may now take some time to complete.

The horizon is expected to be slightly longer for the J Share pool. Although clear sales plans are being executed for all investments, there are challenges to be addressed in order to deliver optimal value for shareholders. For this reason, the process of exiting the J Share pool investments may not complete until 2024.

Michael Robinson

Chairman - Supervisory Committee

24 May 2023

Investment Manager's Report

F Share pool

As at 31 December 2022, the F Share pool held six investments. Focus for the F Share pool remains on the realisation of its investments and maximising Shareholder returns.

Net asset value and results

At 31 December 2022, the net asset value ("NAV") for a holding of one F Share was 14.4p, a decrease of 1.1p (5.4%) over the period, after adjusting for the 5.0p dividend paid in October 2022. Total Return (NAV plus dividends paid to date) is now 91.4p.

The loss on ordinary activities for the F Shares, after taxation, was 1.2p for the period, comprising a nominal revenue profit of 0.1p and a capital loss of 1.3p due to reduced valuations of two of the share pool's remaining investments (a pub and a hotel).

F Share pool – Portfolio valuation and realisations

During the period, one partial realisation was achieved. A portion of the loan note investment in Atlantic Dogstar Limited was repaid in August 2022 as part of a distribution of the company's remaining free cash, with £65,000 received by the F Share pool. The company is now being prepared for liquidation and no further distributions are expected to be made to the VCT, so an adjustment has been made to the carrying value accordingly.

Elsewhere in the portfolio, an uplift of £17,000 was recognised on the equity investment in Downing Pub EIS Limited, a holding company that owned two London pub companies. The company is in the process of winding up after the sale of its pubs, with £591,000 received by the F Share Pool in January 2023 and a further distribution expected shortly.

Baron House Developments LLP was created to fund the development of a hotel in Newcastle. With the hotel facing challenging trading conditions the value of the loan stock investment was written down by £164,000 during the period but remains valued above cost. A sales process was being progressed with a potential buyer. However, after a significant price reduction was sought, the deal has collapsed. Marketing of the hotel for sale is now starting again to identify another buyer.

Pearce and Saunders Limited, and the related Pearce and Saunders DevCo Limited, are now in the process of being wound up. Further distributions due to the F Share pool are estimated at £37,000.

Outlook

Following the forthcoming dividend of 5.5p per share, the remaining NAV per F Share will be 9.2p.

We are now close to extracting the residual value from most of the portfolio's remaining investments, although there is some uncertainty about the timing of an exit from Baron House, where we believe it is in Shareholders' best interests for us to find a new buyer in order to achieve an exit at an appropriate price.

Downing LLP

24 May 2023

Summary of Investment Portfolio

F Share pool

as at 31 December 2022

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
Downing Pubs EIS One Limited	490	685	17	47.6%
Baron House Developments LLP	481	581	(164)	40.4%
Pearce and Saunders DevCo Limited	44	37	-	2.6%
Pearce and Saunders Limited	497	-	-	-
Atlantic Dogstar Limited	152	-	(44)	-
London City Shopping Centre Limited	66	-	-	-
	1,730	1,303	(191)	90.6%
Cash at bank and in hand		135		9.4%
Total		1,438		100.0%

Summary of Investment Disposals

F Share pool

1 July 2022 to 31 December 2022

Disposals	Cost £'000	Market value at 01/07/22 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Atlantic Dogstar Limited	14	14	65	51	51

1 January 2023 to 30 April 2023

Disposals	Cost £'000	Market value at 01/01/23 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Downing Pubs EIS One Limited	422	591	591	169	-

Investment Manager's Report

H Share pool

The H Share pool raised funds in 2014. We continue to seek realisations from investments in order to return funds to Shareholders. At the period end, the H Share pool had one investment remaining with value.

Net asset value and results

At 31 December 2022, the net asset value per H Share was 1.8p, an increase of 0.1p (0.5%) over the period, after adjusting for the 18.5p dividend paid in October 2022. Total Return (NAV plus dividends paid to date) is now 59.8p.

The gain on ordinary activities for the H Shares, after taxation, for the period was 0.1p per share, comprising a revenue profit of 0.3p per share and a capital loss of 0.2p per share.

H Share pool – Portfolio valuation and realisation plans

The portfolio showed a net unrealised loss in the period to 31 December 2022 of £283,000.

A portion of the loan to Atlantic Dogstar Limited was repaid in August 2022 as part of a distribution of the company's remaining free cash following the sale of its pubs, with £327,000 received by the H Share pool. The company is now in the process of winding up and no further distributions are expected to be made to the VCT, so the carrying value has been adjusted accordingly resulting in an unrealised loss for the period of £222,000 although offset by the realised gain of £257,000.

Rockhopper Renewables Limited, an Indian solar plant, was disposed of during the period. A political risk insurance claim was being pursued which may have provided some value for the H Share pool but unfortunately this claim was ultimately unsuccessful and there was no recovery of value.

There has been no movement in the valuation of SF Renewables (Solar) Limited, another Indian solar plant, over the period. A sale process is about to commence for the investment and is expected to complete by the end of this year.

Pearce and Saunders Limited, a freehold pub company, repaid £60,000 of interest to the H Share pool in August 2022. The company will be put into administration in the coming months and, although this is likely to result in further distributions, the amounts are likely to be small and, at this point, are uncertain. Therefore, the value of the remaining investment has been fully provided against, representing an unrealised loss in the period of £61,000.

Outlook

We are focused on exiting from the final investment with value, SF Renewables Limited, and are hopeful that this will complete before the end of the year. Once that is complete, a final distribution will be made to bring this share pool to a close.

Downing LLP

24 May 2023

Summary of Investment Portfolio

H Share pool

as at 31 December 2022

	Cost £'000	Valuation £'000	Unrealised loss in period £'000	% of portfolio by value
SF Renewables (Solar) Limited	281	175	-	75.1%
Quadratrate Catering Limited	850	-	-	-
Quadratrate Spa Limited	850	-	-	-
Atlantic Dogstar Limited	762	-	(222)	-
Pearce and Saunders Limited	90	-	(61)	-
	2,833	175	(283)	75.1%
Cash at bank and in hand		58		24.9%
Total		233		100.0%

Summary of Investment Disposals

H Share pool

1 July 2022 to 31 December 2022

Disposals	Cost £'000	Market value at 01/07/22 £'000	Disposal proceeds £'000	Gain/(loss) against cost £'000	Total realised gain £'000
Atlantic Dogstar Limited	71	70	327	256	257
Rockhopper Renewables Limited	492	-	-	(492)	-
	563	70	327	(236)	257

Investment Manager's Report

J Share pool

At the period end, the J Share pool held four investments with value, primarily in the hospitality and renewable energy sectors.

Net asset value and results

At 31 December 2022, the net asset value per J Share was 16.2p, a net decrease of 2.9p (13.7%) over the period, after adjusting for the 2.0p dividend paid in October 2022. Total return (NAV plus dividends paid to date) is 35.7p.

The loss on ordinary activities for the J Share pool, after taxation, was £311,000 for the period, comprising a revenue loss of £209,000 and a capital loss of £102,000.

J Share pool – Portfolio valuation and realisation plans

During the period to 31 December 2022, much of the portfolio remained stable, however, there were two notable reductions in valuations.

Fenkle Street LLP held an interest in a hotel in central Newcastle. A transaction to sell the hotel finally completed in March 2023, providing final proceeds of £44,000.

We are currently exploring options to sell the shares held in Exclusive Events Venues Limited, the operator of a wedding venue in Chester, England, but current market conditions are not ideal for the sale of a such assets and therefore a write down of £58,000 has been applied to the investment's value since we last reported in June 2022.

The share pool's largest investment, Pilgrim Trading Limited, owns two children's day nurseries. The business has faced significant challenges with one of the nurseries struggling to achieve critical mass. A sales price has been agreed for the company and it is hoped that the sale will complete in the summer. The agreed price will result in total proceeds, including interest, of £893,000. This is unfortunately a significant shortfall on the previous carrying value at 30 June 2022. Although the capital value has been maintained, a provision of £285,000 has been required against loan stock interest which has had a negative impact on the income for the share pool for the period.

There has been no movement in the valuation of SF Renewables (Solar) Limited, an Indian solar plant, over the period. A sale process is about to commence for the investment and is expected to complete by the end of this year.

Rockhopper Renewables Limited, another Indian solar plant, was disposed of during the period. A political risk insurance claim was being pursued which may have provided some value for the J Share pool but unfortunately, this claim was ultimately unsuccessful and there was no recovery of value.

Investment Manager's Report

J Share pool (continued)

Outlook

The overall performance of the J Share pool's investments has been extremely disappointing, and a significant improvement is unlikely at this stage. Our focus is on exiting from the remaining three investments at optimal values. We hope to see good progress to this end during the remainder of this year although the task may not complete fully until 2024. Further distributions will be made as these realisations come through.

Downing LLP

24 May 2023

Summary of Investment Portfolio

J Share pool

as at 31 December 2022

	Cost £'000	Valuation £'000	Unrealised loss in period £'000	% of portfolio by value
Pilgrim Trading Limited	1,297	389	-	31.0%
Fenkle Street LLP	287	278	(44)	22.1%
Exclusive Events Venues Limited	500	255	(58)	20.3%
SF Renewables (Solar) Limited	281	175	-	13.9%
Ormsborough Limited	1,000	-	-	-
Jito Trading Limited	1,000	-	-	-
Yamuna Renewables Limited	800	-	-	-
London City Shopping Centre Limited	15	-	-	-
	5,180	1,097	(102)	87.3%
Cash at bank and in hand		159		12.7%
Total		1,256		100.0%

Summary of Investment Disposals

J Share pool

1 July 2022 to 31 December 2022

Disposals	Cost £'000	Market value at 01/07/22 £'000	Disposal proceeds £'000	Loss against cost £'000	Total realised gain £'000
Rockhopper Renewables Limited	492	-	-	(492)	-

1 January 2023 to 30 April 2023

Disposals	Cost £'000	Market value at 01/01/23 £'000	Disposal proceeds £'000	Loss against cost £'000	Total realised gain £'000
Fenkle Street LLP	287	278	272	(15)	(6)

Unaudited Summarised Balance Sheet

as at 31 December 2022

	31 December 2022				30 June 2022
	F	H	J	Total	Total
	Shares £'000	Shares £'000	Shares £'000	£'000	£'000
Fixed assets					
Unquoted investments	1,303	175	1,097	2,575	3,235
Current assets					
Debtors	165	28	490	683	939
Cash at bank and in hand	136	58	159	353	3,252
	301	86	649	1,036	4,191
Creditors: amounts falling due within one year	(50)	(20)	(17)	(87)	(245)
Net current assets	251	66	632	949	3,946
Net assets	1,554	241	1,729	3,524	7,181
Capital and reserves					
Called up share capital	11	13	11	35	35
Capital redemption reserve	148	-	-	148	148
Special reserve	2,594	3,867	8,665	15,126	15,787
Revaluation reserve	(570)	(958)	(1,267)	(2,795)	(4,905)
Capital reserve - realised	(1,099)	(3,401)	(4,897)	(9,397)	(4,448)
Revenue reserve	470	720	(783)	407	564
Total equity shareholders' funds	1,554	241	1,729	3,524	7,181
Basic and diluted net asset value per:					
F Share	14.4p				20.5p
H Share		1.8p			20.2p
J Share			16.2p		21.1p

Income Statement

for the six months ended 31 December 2022

Company	Six months ended 31 Dec 2022		
	Revenue £'000	Capital £'000	Total £'000
Income	(199)	-	(199)
Gains/(losses) on investments			
- realised	-	308	308
- unrealised	-	(576)	(576)
	(199)	(268)	(467)
Investment management fees	(12)	-	(12)
Other expenses	(55)	-	(55)
Loss on ordinary activities before taxation	(266)	(268)	(534)
Tax on total comprehensive income and ordinary activities ¹	109	-	109
Loss attributable to equity shareholders	(157)	(268)	(425)
Return per F Share	0.1p	(1.3p)	(1.2p)
Return per H Share	0.3p	(0.2p)	0.1p
Return per J Share	(2.0p)	(0.9p)	(2.9p)

¹Tax on total comprehensive income and ordinary activities is a credit due to a reduction in the accrual brought forward and a creditor that arose due to amended returns being filed for previous periods.

Income Statement (analysed by Share pool)

for the six months ended 31 December 2022

F Shares	Six months ended 31 Dec 2022		
	Revenue £'000	Capital £'000	Total £'000
Income	15	-	15
Gains/(losses) on investments			
- realised	-	51	51
- unrealised	-	(191)	(191)
	15	(140)	(125)
Investment management fees	(12)	-	(12)
Other expenses	(20)	-	(20)
Loss on ordinary activities before taxation	(17)	(140)	(157)
Tax on total comprehensive income and ordinary activities ¹	30	-	30
Return/(loss) attributable to equity shareholders	13	(140)	(127)

¹Tax on total comprehensive income and ordinary activities is a credit due to a reduction in the accrual brought forward and a creditor that arose due to amended returns being filed for previous periods.

Income Statement (analysed by Share pool)

for the six months ended 31 December 2022

H Shares	Six months ended 31 Dec 2022		
	Revenue £'000	Capital £'000	Total £'000
Income	60	-	60
Gains/(losses) on investments			
- realised	-	257	257
- unrealised	-	(283)	(283)
	60	(26)	34
Investment management fees	-	-	-
Other expenses	(18)	-	(18)
Return/(loss) on ordinary activities before taxation	42	(26)	16
Tax on total comprehensive income and ordinary activities	(2)	-	(2)
Return/(loss) attributable to equity shareholders	40	(26)	14

Income Statement (analysed by Share pool)

for the six months ended 31 December 2022

J Shares	Six months ended 31 Dec 2022		
	Revenue £'000	Capital £'000	Total £'000
Income	(274)	-	(274)
Losses on investments			
- realised	-	-	-
- unrealised	-	(102)	(102)
	(274)	(102)	(376)
Investment management fees	-	-	-
Other expenses	(16)	-	(16)
Loss on ordinary activities before taxation	(290)	(102)	(392)
Tax on total comprehensive income and ordinary activities ¹	81	-	81
Loss attributable to equity shareholders	(209)	(102)	(311)

¹Tax on total comprehensive income and ordinary activities is a positive figure due to a reduction in the accrual brought forward and a creditor that arose due to amended returns being filed for previous periods.

Notes to the Unaudited Financial Statements

1. Forthcoming Distributions

Share class	Date payable	Per share pence
F Shares	23 June 2023	5.5
J Shares	23 June 2023	3.0

The above distributions will be paid to Shareholders on the register at 2 June 2023. No distribution in respect of the H Shares is being declared at this time.

2. The unaudited condensed financial statements set out herein do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been delivered to the Registrar of Companies.

Shareholder Information (continued)

Shareholder Communications

Shareholders now have the opportunity to be notified when financial reports are available to view on Downing's website by email or letter; alternatively, you can elect to receive full hard copies via post. By default, notifications will be communicated by letter. If you wish to change your communications election at any time, please contact the registrar, The City Partnership, whose details are on the back cover of this document.

Notification of change of address

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

Other information for Shareholders

Up to date Company information (including company announcements, share prices and dividend and distribution history) may be obtained from Downing's website at:

www.downing.co.uk/d3

If you have any queries regarding your shareholding in Downing THREE VCT plc, please contact the registrar on 01484 240 910 or access your information on City Partnership's website via The Hub at:

downing-vct.cityhub.uk.com

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