Downing THREE VCT plc

Report & Accounts for the year ended 31 December 2019

Downing

SHAREHOLDER INFORMATION

Share prices

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

	'F' Shares	'H' Shares	'J' Shares
TIDM/EPIC code:	DP3F	DP3H	DP3J
Latest share price (29 April 2020):	16.0p	29.5p	37.0p

Dividends

Dividends will be paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's registrar, Link Asset Services, by writing to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Mandate forms can be downloaded from Link's website (see below).

Selling shares

The Company's shares can be traded in the same way as any other company listed on the London Stock Exchange, using a stockbroker. Disposing of shares may have tax implications, so Shareholders are urged to contact their independent financial adviser before making a decision. The market in the Company's shares may be illiquid as the Company is note currently buying in shares and does not expect to resume.

Share certificates

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

Notification of change of address

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

Financial calendar

TBA	Annual General Meeting
19 May 2020	Interim dividends paid
September 2020	Announcement of half yearly financial results

Other information for Shareholders

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

www.downing.co.uk

If you have any queries regarding your shareholding in Downing THREE VCT plc, please contact the registrar at the above address or visit Link's website at www.linkassetservices.com and click on "Shareholders and Investors" and then "Shareholder Services UK".

Share scam warning

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

Further information can be found on Downing's website at www.downing.co.uk/vctbolierroomscam
If you have any concerns, please contact Downing on 020 7416 7780.

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COMPANY INFORMATION

Registered number	5334413
Directors	Michael Robinson (Chairman) Roger Jeynes Dennis Hale
Company secretary and registered office	Grant Whitehouse St. Magnus House 3 Lower Thames Street London EC3R 6HD
Investment and Administration Manager	Downing LLP St. Magnus House 3 Lower Thames Street London EC3R 6HD Tel: 020 7416 7780 www.downing.co.uk
Auditor	BDO LLP 150 Aldersgate Street London EC1A 4AB
VCT status advisers	Philip Hare & Associates LLP Hamilton House 1 Temple Avenue London EC4Y 0HA
Registrars	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU www.linkassetservices.com
Bankers	Bank of Scotland 33 Old Broad Street London BX2 1LB Royal Bank of Scotland London Victoria Branch 119/121 Victoria Street London SW1E 6RA

INVESTMENT OBJECTIVES

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

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

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on page 31.

FINANCIAL HIGHLIGHTS

	Unaudited 31 Mar 2020 Pence	Audited 31 Dec 2019 Pence	Audited 31 Dec 2018 Pence
'F' Share pool			
Net asset value per 'F' Share	21.3	24.5	28.4
Cumulative distribution per 'F' Share	72.0	72.0	67.0
Total Return per 'F' Share	93.3	96.5	95.4
'H' Share pool			
Net asset value per 'H' Share	22.3	33.2	51.3
Cumulative distribution per 'H' Share	35.0	35.0	25.0
Total Return per 'H' Share	57.3	68.2	76.3
'J' Share pool			
Net asset value per 'J' Share	43.8	50.3	88.9
Cumulative distribution per 'J' Share	5.0	5.0	-
Total Return per 'J' Share	48.8	55.3	88.9

Forthcoming dividends

'J' Shares – Interim dividend in respect of the year ended 31 Dec 2019	Payable 19 May 2020	2.5p

FINANCIAL HIGHLIGHTS (continued)

Dividend history

Year end	Date paid	'F' Shares Pence per share	'H' Shares Pence per share	'J' Shares Pence per share
Interim Jan 2013	30 November 2012	5.0	-	-
Final Jan 2013	19 July 2013	2.5	-	-
Interim Dec 2013	27 November 2013	2.5	-	-
Final Dec 2013	27 June 2014	2.5	-	-
Interim Dec 2014	12 December 2014	2.5	5.0	-
Final Dec 2014	19 June 2015	2.5	2.5	-
Interim Dec 2015	18 December 2015	2.5	2.5	-
Final Dec 2015	24 June 2016	2.5	2.5	-
Interim Dec 2016	16 December 2016	2.5	2.5	-
Final Dec 2016	30 June 2017	2.5	2.5	-
Interim Dec 2017	15 December 2017	2.5	2.5	-
Special 2017	24 April 2018	19.0	-	-
Final Dec 2017	15 June 2018	-	2.5	-
Interim Dec 2018	9 November 2018	18.0	-	-
Interim Dec 2018	14 December 2018	-	2.5	-
Final Dec 2018	14 June 2019	-	5.0	2.5
Interim Dec 2019	8 November 2019	5.0	5.0	2.5
		72.0	35.0	5.0

DIRECTORS

Michael Robinson (Chairman) has over 30 years' experience in the private equity industry. He spent 25 years at 3i plc, where he was latterly a director managing a large portfolio of equity investments. He qualified as a chartered accountant with Deloitte Haskins & Sells in 1979 and is non-executive chairman of Limbs and Things Limited.

Roger Jeynes is a non-executive director of The Development Bank of Wales plc, Mapway Limited and Charborough Capital Limited. His early career included a number of senior technical, marketing and general management roles at IBM, EMC and Pyramid Technology in the UK, Italy and the USA, and from 1997 to 2006 he was Chief Operating Officer of Interregnum plc, the technology merchant bank. Roger has previously served on the boards of The AIM Distribution Trust, Pennine AIM 6 VCT plc, and Downing Distribution VCT1 plc.

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

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

CHAIRMAN'S STATEMENT

Introduction

I write this statement during a time when the world is experiencing unprecedented conditions as a result of the coronavirus pandemic. At this time, it is not clear exactly what the full extent of the impact on the UK and global economies will be, although it is inevitable that it will be substantial.

In line with its strategy, your Company has built investment portfolios focused around a number of sectors including leisure and hospitality. It is clear that many of the businesses in these sectors will be badly affected by the coronavirus pandemic lockdown in the UK. Unfortunately, this will result in reduced investment valuations and increased challenges in exiting from these investments.

This report includes the audited results for the year ended 31 December 2019, a period prior to the coronavirus pandemic. In order to provide Shareholders with a more up to date picture, the Company has also prepared unaudited investment valuations to 31 March 2020, based of the best information the Board and Manager have at the current time.

A brief summary of each share pool is provided below. More detailed reviews are provided in the Investment Manager's Report and Review of Investments on pages 6 to 29.

'F' Share pool

The 'F' Share pool was launched in 2012 and now holds a portfolio of nine investments with a total value of £2.4 million.

At 31 December 2019, the 'F' Share NAV stood at 24.5p, which represents an increase of 3.9% over the year after adjusting for the dividends of 5.0p per share paid in the year. Dividends paid to date total 72.0p per share such that Total Return (NAV plus cumulative dividends to date) is now 96.5p, compared to the initial cost to original subscribers net of income tax relief of 70.0p.

At 31 March 2020, the unaudited net asset value has fallen to 21.3p per share, resulting in a Total Return of 93.3p per share. The 'F' Share pool has commenced the process of realising its investments and returning funds to investors. Plans for further realisation have however been severely disrupted by the pandemic. The Company will update 'F' Shareholders when there is firm news to report.

'H' Share pool

The 'H' Share pool was launched in 2014 and the task of building the initial VCT qualifying portfolio is now complete. At 31 December 2019, the pool held 11 investments with a total value of £3.8 million.

At 31 December 2019, the 'H' Share NAV stood at 33.2p, which represents a decrease over the year of 15.8% after adjusting for the dividends of 10.0p per share paid in the year. Total Return (NAV plus cumulative dividends to date) is now 68.2p, 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). Major provisions have been required against several of the Share pool's investments, accounting for most of the fall in value.

With the share class still heavily exposed to the pub and hospitality sector, further falls in value have been experienced as the impact of the coronavirus pandemic has started to become clearer. At 31 March 2020, the unaudited net asset value was 22.3p per share, resulting in a Total Return of 57.3p per share. The 'H' Share pool has also commenced the process of realising its investments and returning funds to investors after passing its five year anniversary at the end of 2019. However, plans for further realisations have been severely disrupted by the pandemic. The Company will update 'H' Shareholders when there is firm news to report.

'J' Share pool

The 'J' Share Pool was launched in December 2014 and the majority of these funds have now been invested as at the year end. At 31 December 2019, the pool held 13 investments with a total value of £3.5 million. The 'J' Share pool suffered from some major problems in a number of portfolio companies towards the end of 2019, resulting in the NAV and Total Return falling.

At 31 December 2019, the 'J' Share NAV stood at 50.3p, which represents a decrease over the year of 37.8% after adjusting for the dividends of 5.0p per share paid in the year. Total Return (NAV plus cumulative dividends to date) is now 55.3p, compared to the initial NAV, before income tax relief, of 100.0p (or original cost, net of income tax relief, of 70.0p and 75.0p, depending on costs). Major provisions have been required against several of the share pool's investments, accounting for most of the fall in value.

Much of the Share pool's value is now held in a children's nursery and a wedding venue. The pandemic has created significant uncertainty for these businesses. At 31 March 2020, the unaudited NAV was 43.8p per share, giving a Total Return of 48.8p per share. Despite the bad news, the J Share is able to continue with its dividend policy. The Company will pay a dividend of 2.5p per 'J' Share on 19 May 2020 to shareholders on the register at 24 April 2020. This will be paid as an interim dividend in respect of the year ended 31 December 2019.

Share buybacks

As announced in June 2019, the Company is now unlikely to make any further purchases of any of its shares as the process of returning funds to all groups of Shareholders is progressing.

No share buybacks in respect of any share class were undertaken during the period.

A resolution to renew the buyback authority will however be proposed at the next Annual General Meeting to ensure the Company has flexibility.

Annual General Meeting ("AGM")

As Shareholders will be aware, there are currently major challenges to holding physical Annual General Meetings under the effective lockdown conditions. The Board is aware that this topic is being discussed by the various relevant authorities and believes that practical solutions will become clear in due course. The Board will monitor developments and will make arrangements to hold this year's AGM once it is practical to do so. The Company will send a notice of the AGM to all Shareholders at that time.

Future of the Company

As a planned exit VCT, the Board notes that the existing share classes are working towards returning funds to Shareholders and there are no plans for the Company to raise new funds or create any new share classes. The Board is therefore reviewing the future plans of the Company and may consider taking advantage of the VCT Winding Up Regulations, which involve the Company going into voluntary liquidation. This would allow the Company to reduce running costs while it works on exiting from investments. Any developments to this end will be communicated with Shareholders in due course and would require Shareholder approval.

Outlook

As with so many businesses, the coronavirus pandemic has created major challenges and uncertainty for many of our portfolio companies, especially as the Company typically invests in sectors which are particularly heavily exposed to the effects of the lockdown. The Investment Manager is working to support and assist all of the businesses to ensure that they all take advantage of Government support that has been made available and make sensible business decisions in this stressful time. We aim to have the businesses as well placed as they can be to survive these extreme conditions and recover when the effects of the pandemic start to subside.

There is, however, downside risk in many of the investment valuations and the timing of exits from any investments cannot be reliably estimated at this time.

I will update Shareholders on progress in my statement with the Half Yearly Report to 30 June 2020.

Michael Robinson
Chairman

30 April 2020

INVESTMENT MANAGER'S REPORT- 'F' SHARE POOL

Introduction

The 'F' Share pool holds nine investments and is fully invested in a portfolio focussed on asset backed businesses and those with predictable revenue streams. The focus for the year continues to be on realisations and maximising Shareholder returns.

Net asset value and results

At 31 December 2019, the 'F' Share NAV stood at 24.5p. This represents a net increase of 1.1p per share over the year (after adjusting for dividends paid during the year of 5.0p per Share), equivalent to an increase of 3.9%. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 96.5p.

The gain on ordinary activities for the 'F' Share pool for the year was £114,000 (2018: loss of £451,000), being a revenue gain of £14,000 (2018: loss £21,000) and a capital gain of £100,000 (2018: loss £430,000).

'F' Share pool - Investment activity

During the year, total proceeds of £716,000 were received from one full exit in Lambridge Solar Limited, the owner of commercial solar arrays in Lincolnshire. The exit generated a total gain over opening value of £111,000. As the pool is in its realisation phase, there were no new investments made during the period.

Plans were in place for the exit of the remaining portfolio companies. However, Shareholders should note that due to current market conditions and the global pandemic, this may now take longer than originally anticipated.

'F' Share pool – Portfolio valuation

The majority of investments remain valued at or above cost and there were several valuation movements in the period. This generated a small decrease in valuation over opening value of £11,000.

The most notable increase in the period related to Baron House Developments LLP, a company created to fund the purchase of a property outside Newcastle station, which qualifies under the BPRA scheme. At the period end, the investment value was uplifted by £192,000 following improved trading and an uplift in the value of the hotel site.

There were a number of small write downs at the period end that contributed to the valuation decrease during the period.

The largest decreases in valuation related to the Antic portfolio of investments, including, Pearce and Saunders Limited, Pearce and Saunders DevCo Limited and Atlantic Dogstar Limited.

Pearce and Saunders Limited, the owner of freehold pubs in south east London, and Pearce and Saunders DevCo Limited, the owner of development land at the rear of one of the freehold pub sites owned by Pearce and Saunders Limited, were decreased by £121,000 and £44,000 respectively, in line with expected exit proceeds.

Apex Energy Limited, the developer of a standby electricity generation plant in the East Midlands, was further reduced in value by £83,000 in line with preliminary exit proceeds.

Outlook

Focus for the 'F' Share pool remains on the realisation of its investments, with plans for the exit of the final investments now being delayed due to the coronavirus pandemic. Shareholders should note, as a result of the current global economy and effective lockdown in the UK, valuations post year end have been impacted and a number of provisions have been made. At 31 March 2020, the unaudited net asset value has fallen to 21.3p, resulting in a total return of 93.3p. We shall look to provide as much support as possible during this time to all investee companies and suggest, where possible, the extensive government schemes that are available.

Downing LLP

30 April 2020

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL

F Shares

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2019:

‘F’ Share pool	**Cost £’000**	**Valuation £’000**	**Valuation movement in year £’000**	**% of portfolio**
VCT qualifying and partially qualifying investments				
Downing Pub EIS One Limited	490	656	36	25.0%
Pearce and Saunders Limited	497	550	(121)	21.0%
Atlantic Dogstar Limited	200	258	(12)	9.9%
Fresh Green Power Limited	189	231	21	8.8%
Green Energy Production UK Limited	100	54	-	2.1%
Apex Energy Limited	1,000	17	(83)	0.6%
	2,476	1,766	(159)	67.4%
Non-qualifying investments				
Baron House Developments LLP	481	673	192	25.6%
Pearce and Saunders DevCo Limited	46	2	(44)	0.1%
London City Shopping Centre Limited	66	-	-	0.0%
	593	675	148	25.7%
	3,069	2,441	(11)	93.1%
Cash at bank and in hand		181		6.9%
Total investments		2,622		100.0%

The movements in the portfolio during the year and the basis of valuation of the main investments are set out above, and on pages 8 to 17.

A breakdown of the unquoted portfolio by valuation method used is summarised within note 17.

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

Summary of investment movements

Disposals

	Cost £'000	MV at 01/01/19† £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the year £'000
VCT qualifying investments					
Lambridge Solar Limited	500	605	716	216	111
Total 'F' Share pool	500	605	716	216	111

F Shares

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

Further details of the main investments:

Baron House Developments LLP

Cost at 31/12/19:	£481,000	Valuation at 31/12/19:	£673,000
Date of first investment:	Apr 12	Valuation at 31/12/18:	£481,000
		Valuation method:	Calibration to price of recent investment
Investment comprises:			
Loan stock:	£481,000	Proportion of loan stock held:	10%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating loss:	(£15,153)	(£56,566)
Net assets:	£3,739,049	£4,563,242

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

Downing Pub EIS One Limited

Cost at 31/12/19:	£490,000	Valuation at 31/12/19:	£656,000
Date of first investment:	Oct 17	Valuation at 31/12/18:	£620,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£490,000	Proportion of equity held:	8%

Summary financial information from statutory accounts to 31 December

	2018	2017
Turnover:	£7,704,852	£7,552,114
Operating profit/(loss):	£548,570	(£2,032,835)
Net assets:	£7,676,949	£7,428,443

Downing Pub EIS One Limited is a holding company that in October 2017 acquired 100% of the shares in two London pub companies, Pabulum Pubs Limited and Augusta Pub Co Limited. Via its two subsidiaries, the company now owns 7 trading freehold London pubs, which are managed by the Antic team.

Pearce and Saunders Limited

Cost at 31/12/19:	£497,000	Valuation at 31/12/19:	£550,000
Date of first investment:	Sep 13	Valuation at 31/12/18:	£671,000
		Valuation method:	Calibration to price of recent investment
Investment comprises:			
Ordinary shares:	£497,000	Proportion of equity held:	23%

Summary financial information from statutory accounts to 31 December*

	2018	2017
Net assets	£2,243,788	£2,431,574

Pearce and Saunders Limited is a freehold pub company that is managed by the Antic London team and funded by Downing VCTs. It was incorporated to acquire the freehold pubs of three South East London sites, with two sites being sold during the period and one remaining; The Old Post Office in Eltham.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)
Further details of the main investments:

Atlantic Dogstar Limited
www.anticlondon.com

Cost at 31/12/19:	£200,000	Valuation at 31/12/19:	£258,000
Date of first investment:	Jan 15	Valuation at 31/12/18:	£270,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£140,000	Proportion of equity held:	4%
Loan stock:	£60,000	Proportion of loan stock held:	1%

Summary financial information from statutory accounts to 31 December

	2018	2017
Turnover:	£6,271,940	£6,864,526
Operating profit:	£412,939	£1,063,372
Net assets:	£10,190,286	£11,228,374

Atlantic Dogstar Limited owned five pubs in London at the start of the period, with three of the five being sold during 2019. The remaining pubs are operated under the Antic London Brand, the management team of which has also invested in the company.

Fresh Green Power Limited

Cost at 31/12/19:	£189,000	Valuation at 31/12/19:	£231,000
Date of first investment:	Apr 12	Valuation at 31/12/18:	£210,000
		Valuation method:	Discounted cash flow – underlying business
Investment comprises:			
Ordinary ‘A’ shares:	*£nil*	Proportion of ‘A’ equity held:	20%
Preference ‘C’ shares:	£140,000	Proportion of ‘C’ equity held:	20%
Loan stock:	£49,000	Proportion of loan stock held:	20%

Summary financial information from statutory accounts to 30 September

	2018	2017
Turnover:	£119,475	£126,659
Operating profit:	£44,985	£54,391
Net assets:	£699,398	£697,035

Fresh Green Power Limited owns solar panels on the rooftops of domestic properties in the UK. The households benefit from free electricity whilst Fresh Green Power receive Feed-in Tariffs and payments for the surplus electricity produced.

Green Energy Production UK Limited

Cost at 31/12/19:	£100,000	Valuation at 31/12/19:	£54,000
Date of first investment:	Apr 12	Valuation at 31/12/18:	£54,000
		Valuation method:	Discounted cash flow – underlying business
Investment comprises:			
Ordinary ‘A’ shares:	*£nil*	Proportion of ‘A’ equity held:	20%
Preference ‘C’ shares:	£70,000	Proportion of ‘C’ equity held:	20%
Loan stock:	£30,000	Proportion of loan stock held:	20%

Summary financial information from statutory accounts to 30 September

	2018	2017
Turnover:	£33,522	£73,904
Operating (loss)/profit:	(£6,895)	£40,678
Net assets:	£278,340	£303,582

Green Energy Production UK Limited has installed a portfolio of commercial solar panels on the roof tops of chicken sheds in Lincolnshire. The companies benefit from free electricity whilst Green Energy receive Feed in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

Further details of the main investments:

Apex Energy Ltd

Cost at 31/12/19:	£1,000,000	Valuation at 31/12/19:	£17,000
Date of first investment:	Nov 15	Valuation at 31/12/18:	£100,000
		Valuation method:	Discounted cash flow from the investment
Investment comprises:			
Ordinary shares:	£1,000,000	Proportion of equity held:	20%

Summary financial information from statutory accounts to 30 September*

	2018	2017
Net assets:	£4,453,146	£4,841,102

Apex Energy Limited was developing a standby electricity generation plant up to 20 MW in capacity. Operations at the site have been severely impacted following several material shortcomings in the plant and equipment supplied.

Pearce and Saunders DevCo Limited

Cost at 31/12/19:	£46,000	Valuation at 31/12/19:	£2,000
Date of first investment:	Jun 15	Valuation at 31/12/18:	£46,000
		Valuation method:	Calibration to price of recent investment
Investment comprises:			
Ordinary shares:	£44,000	Proportion of equity held:	23%
Loan stock:	£2,000	Proportion of loan stock held:	23%

Summary financial information from statutory accounts to 31 August*

	2018	2017
Net assets:	£252,710	£253,749

Pearce and Saunders DevCo Limited was created to complete the acquisition of development land at the rear of the Eltham GPO, Eltham, London, a Downing-backed public house managed by Antic London.

London City Shopping Centre Limited

Cost at 31/12/19:	£66,000	Valuation at 31/12/19:	*£nil*
Date of first investment:	Mar 13	Valuation at 31/12/18:	*£nil*
		Valuation method:	Net assets
Investment comprises:			
Ordinary ‘A’ shares:	£66,000	Proportion of ‘A’ equity held:	4%
Loan stock:	*£nil*	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 30 November*

	2017	2016
Net liabilities:	£2,203,615	£2,116,512

The Downing VCTs committed a small loan to London City Shopping Centre Limited for the purchase of a development site near the Barbican, London. As a result of the company forfeiting the lease during the year, the company entered administration.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

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

Further details of the main investments:

Summary of loan stock interest income

Loan stock interest recognised in the year from the main investments held by the 'F' Share pool	£'000
Baron House Developments LLP	98
Pearce and Saunders Limited	-
Downing Pub EIS One Limited	-
Atlantic Dogstar Limited	16
Fresh Green Power Limited	8
Apex Energy Limited	-
Green Energy Production UK Limited	5
Pearce and Saunders DevCo Limited	-
London City Shopping Centre Limited	(29)
	98
Receivable from other investments	-
	98

Analysis of investments by investment type

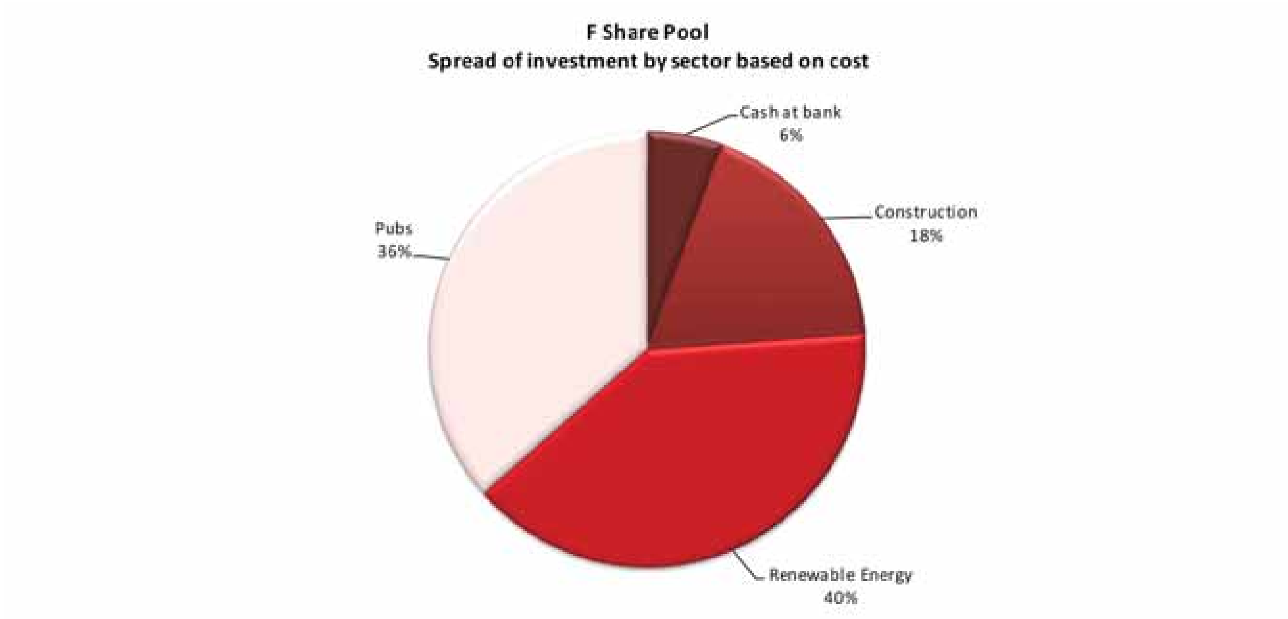
The following shows the split of the 'F' Share pool's investment portfolio by type of instrument held at 31 December 2019:

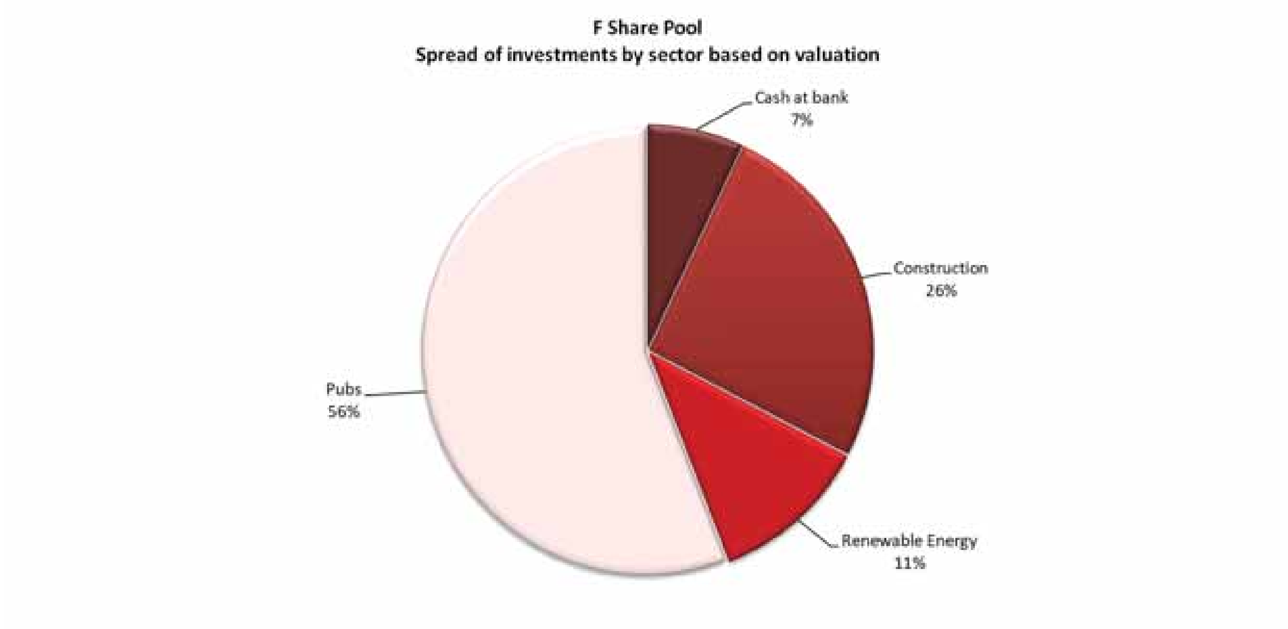
	Portfolio split 31 Dec 2019
Qualifying investments	
Loans to qualifying companies	4%
Ordinary shares in qualifying companies	72%
Non-qualifying investments (including cash at bank)	24%
	100%

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

Analysis of investments by commercial sector

The split of the ‘F’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2019) is as follows:





F Shares

INVESTMENT MANAGER'S REPORT- 'H' SHARE POOL

The 'H' Share pool raised funds in 2014 and the task of building the initial VCT qualifying portfolio is now complete. The share pool reached its five year anniversary at the end of 2019 and focus now shifts to the realisation of the Share pool in order to return funds to Shareholders. It is disappointing to report that the 'H' Share pool has suffered heavily from difficulties in several of its investments. The further required write downs have had a significant negative impact on Total Return over the year.

Net asset value and results

At 31 December 2019, the net asset value per 'H' Share was 33.2p. This represents a net decrease of 8.1p per Share over the year (after adjusting for dividends paid during the year of 10.0p per share), equivalent to a decrease of 15.8%. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 68.2p.

The loss on ordinary activities for the 'H' Share pool for the year was £1.1 million (2018: £3.5 million) being a revenue profit of £132,000 (2018: £194,000) and a capital loss of £1.2 million (2018: £3.7 million).

Investment activity

With the task of building the initial VCT qualifying portfolio complete, no new investments were made in the period. Two full exits completed during the period generating total proceeds of £1.5 million.

Proceeds of £515,000 were generated from the sale of Antelope Pub Limited, which owns a pub of the same name in Tooting, London. This represented a gain over cost of £15,000.

In addition, Hedderwick Limited, the owner of two freehold pubs located in Royston, Hertfordshire and Olney, Milton Keynes, was successfully exited during the year and generated proceeds of £1.0 million. This represented a gain over cost of £143,000.

'H' Share pool – Portfolio valuation

The period to 31 December 2019 has seen a number of disappointing developments, resulting in an unrealised loss of £1.3 million.

The most notable decreases come from the Indian Solar portfolio of investments which include Ironhide Generation Limited, Indigo Generation Limited, SF Renewables Limited and Rockhopper Renewables Limited, which contributed over £1.1 million of the total unrealised loss.

Indigo Generation Limited and Ironhide Generation Limited are both developing solar farms on adjacent land in India. Due to a combination of factors, each investment has been reduced in value at the period end. One of the main factors affecting the sites is the private Power Purchase Agreement ("PPA") market in the region of India that has been particularly affected by reductions in long term PPA terms, as a result of high inflation levels. Construction of the first phase of each site has now been completed at the year end and grid connections have been secured. However, the second phase of the build programme is currently behind schedule. As a result, a provision of £399,000 has been required against each investment.

Rockhopper Renewables Limited, which operates a single ground-mounted solar farm in Telagana has also suffered as a result of the above issues to the Indian solar portfolio. In addition, there is further uncertainty over whether a permit will be granted to enter into private PPAs due to the state authorities delaying these permits unlawfully. As a result, the valuation of the investment has been reduced by £246,000.

Apex Energy Limited, the developer of a standby electricity generation plant in the East Midlands, was further reduced in value by £108,000 in line with preliminary expected exit proceeds.

Outlook

The falls in value experienced by the 'H' Share pool are extremely disappointing. We have dedicated substantial resources to the portfolio companies in question in seeking to address the issues and are developing plans to recover as much value as possible for investors.

Regrettably, the coronavirus pandemic has further hit valuations after the year end. Following a review, it is clear that adjustments have been required to the valuations of the pub and hospitality related investments. As at 31 March 2020, the unaudited net asset value has fallen to 22.3p, resulting in a total return of 57.3p. In addition, the plans for exiting the investments have been impacted and it is currently unclear when further exits will be achieved. We are providing as much support as possible to all investee companies during this difficult time, seeking to position them as well as we can to facilitate an exit when conditions improve.

Downing LLP

30 April 2020

REVIEW OF INVESTMENTS – 'H' SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2019:

'H' Share pool	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying investments and partially qualifying investments				
Atlantic Dogstar Limited	1,000	1,292	(58)	31.7%
Quadrate Catering Limited	850	701	-	17.2%
SF Renewables (Solar) Limited	281	253	(70)	6.2%
Rockhopper Renewables Limited	492	246	(246)	6.0%
Hermes Wood Pellets Limited	1,500	228	-	5.6%
Ironhide Generation Limited	613	215	(399)	5.3%
Indigo Generation Limited	613	215	(399)	5.3%
Pearce and Saunders Limited	193	193	-	4.7%
Zora Energy Renewables Limited	1,000	90	(13)	2.2%
Apex Energy Limited	1,300	22	(108)	0.5%
	7,842	3,455	(1,293)	84.7%
Non-qualifying investments				
Quadrate Spa Limited	850	392	-	9.6%
	850	392	-	9.6%
	8,692	3,847	(1,293)	94.3%
Cash at bank and in hand		233		5.7%
Total investments		4,080		100.0%

The movements in the portfolio during the year and the basis of valuation of the largest investments are set out on pages 16 to 20.

A breakdown of the unquoted portfolio by valuation method used is summarised within note 17.

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

Summary of investment movements

Disposals

	Cost £'000	MV at 01/01/19 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the year £'000
VCT qualifying and partially qualifying investments					
Antelope Pub Limited	500	500	515	15	15
Non-qualifying investments					
Hedderwick Limited	875	945	1,018	143	73
	1,375	1,445	1,533	158	88

H Shares

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

Further details of the main investments:

Atlantic Dogstar Limited

www.anticlondon.com

Cost at 31/12/19:	£1,000,000	Valuation at 31/12/19:	£1,292,000
Date of first investment:	Jan 15	Valuation at 31/12/18:	£1,350,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary 'B' shares:	£700,000	Proportion of 'B' equity held:	20%
Loan stock:	£300,000	Proportion of loan stock held:	3%

Summary financial information from statutory accounts to 31 December

	2018	2017
Turnover:	£6,271,940	£6,864,526
Operating profit:	£412,939	£1,063,372
Net assets:	£10,190,286	£11,228,374

Atlantic Dogstar Limited owned five pubs in London at the start of the period, the Dogstar in Brixton, the Clapton Hart in Clapton, the East Dulwich Tavern in Dulwich, the Old Red Lion in Kennington and Westow House in Crystal Palace, with three of the five being sold during 2019. The remaining pubs are operated under the Antic London Brand, the management team of which has also invested in the company.

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk

Cost at 31/12/19:	£850,000	Valuation at 31/12/19:	£701,000
Date of first investment:	Jan 16	Valuation at 31/12/19:	£701,000
		Valuation method:	Discounted cash flow – underlying business
Investment comprises:			
Ordinary shares:	£596,000	Proportion of equity held:	22%
Loan stock:	£255,000	Proportion of loan stock held:	22%

Summary financial information from statutory accounts to 31 March

	2018	2017
Turnover:	£6,474,425	£6,632,049
Operating profit:	£416,469	£589,187
Net assets:	£292,988	£563,174

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

Quadrate Spa Limited

www.theclubandspabirmingham.co.uk

Cost at 31/12/19:	£850,000	Valuation at 31/12/19:	£392,000
Date of first investment:	Jan 16	Valuation at 31/12/18:	£392,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary Shares:	£595,000	Proportion of equity held:	22%
Loan stock:	£255,000	Proportion of loan stock held:	22%

Summary financial information from statutory accounts to 31 March

	2018	2017
Turnover:	£1,429,322	£1,518,466
Operating profit:	£614,300	£94,769
Net liabilities:	(£881,484)	(£806,203)

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

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

REVIEW OF INVESTMENTS – 'H' SHARE POOL (continued)
Further details of the main investments:

SF Renewables (Solar) Limited

Cost at 31/12/19:	£281,000	Valuation at 31/12/19:	£253,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£323,000
		Valuation method:	Discounted cash flow – underlying business
Investment comprises:			
Ordinary 'B' shares:	£281,000	Proportion of 'B' equity held:	4%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating profit:	(£316,449)	(£314,396)
Net assets:	£7,902,488	£7,641,683

SF Renewables (Solar) Limited forms part of the Indian Solar Group of investments along with Rockhopper Renewables Limited, Ironhide Generation Limited and Indigo Generation Limited. The company acquired land in Southern India to build and operate a single ground mounted solar farm.

Rockhopper Renewables Limited

Cost at 31/12/19:	£492,000	Valuation at 31/12/19:	£246,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£492,000
		Valuation method:	Discounted cash flow – underlying business
Investment comprises:			
Ordinary shares:	£492,000	Proportion of equity held:	11%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating loss:	(£239,387)	(£194,232)
Net assets:	£3,886,806	£3,927,227

Rockhopper Renewables Limited forms part of the Indian Solar group of investments. The company acquired land in Telangana, India to build and operate a single ground-mounted PV system up to 8.4MW in capacity which began operating in December 2017.

Hermes Wood Pellets Limited

Cost at 31/12/19:	£1,500,000	Valuation at 31/12/19:	£228,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£228,000
		Valuation method:	Discounted cash flow from the investment
Investment comprises:			
Ordinary shares:	£1,500,000	Proportion of equity held:	15%

Summary financial information from statutory accounts to 31 December*

	2018	2017
Net assets:	£5,210,136	£4,963,977

In 2016 £1.5 million was invested in Hermes Wood Pellets Limited to build, own and operate a wood pelleting plant. Operations at the site have been severely impacted due to significant delays and cost overruns.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

REVIEW OF INVESTMENTS – 'H' SHARE POOL (continued)
Further details of the main investments:

Ironhide Generation Limited

Cost at 31/12/19:	£613,000	Valuation at 31/12/19:	£215,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£613,000
		Valuation method:	Discounted cashflow underlying business
Investment comprises:			
Ordinary shares:	£613,000	Proportion of equity held:	13%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating loss:	(£287,308)	(£101,908)
Net assets:	£3,914,267	£4,066,905

Ironhide Generation Limited forms part of the Indian solar group of investments. The company acquired land in Maharashtra, India to build and operate a single ground mounted PV system up to 10MW in capacity, which was completed in December 2019.

Indigo Generation Limited

Cost at 31/12/19:	£613,000	Valuation at 31/12/19:	£215,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£613,000
		Valuation method:	Discounted cashflow underlying business
Investment comprises:			
Ordinary shares:	£613,000	Proportion of equity held:	13%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating loss:	(£290,425)	(£108,483)
Net assets:	£3,927,381	£4,075,056

In April 2016 the 'H' Share pool invested alongside other Downing funds and VCT's into Indigo Generation Limited. The company forms part of the Indian Solar group of companies and is seeking to build and operate a single ground-mounted PV system up to 10MW in capacity. The plant is was completed in December 2019.

Pearce and Saunders Limited

Cost at 31/12/19:	£193,000	Valuation at 31/12/19:	£193,000
Date of first investment:	Feb 15	Valuation at 31/12/18:	£193,000
		Valuation method:	Calibration to price of recent investment
Investment comprises:			
Loan stock:	£193,000	Proportion of loan stock held:	23%

Summary financial information from statutory accounts to 31 December*

	2018	2017
Net assets:	£2,243,788	£2,431,574

Pearce and Saunders Limited is a freehold pub company that is managed by the Antic London team and funded by Downing VCTs. It was incorporated to acquire the freehold pubs of three South East London sites, with two sites being sold during the period and one remaining; The Old Post Office in Eltham.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

H Shares

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

Further details of the main investments:

Zora Energy Renewables Limited

Cost at 31/12/19:	£1,000,000	Valuation at 31/12/19:	£90,000
Date of first investment:	Oct 16	Valuation at 31/12/18:	£104,000
		Valuation method:	Calibration to price of recent investment
Investment comprises:			
Ordinary shares:	£1,000,000	Proportion of equity held:	42%

Summary financial information from statutory accounts to 28 February*

	2019	2018
Net assets	£571,602	£1,395,695

Zora Energy Renewables Limited is a wood pellet and sales distribution business in the UK, aimed at commercial and domestic users of wood pellets in biomass boilers, based in Goole, Yorkshire.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

Summary of loan stock interest income

Loan stock interest recognised in the year from the largest investments held by the 'H' Share pool	**£'000**
Atlantic Dogstar Limited	81
Quadrate Catering Limited	68
Quadrate Spa Limited	68
SF Renewables (Solar) Limited	-
Rockhopper Renewables Limited	-
Hermes Wood Pellets Limited	-
Ironhide Generation Limited	-
Indigo Generation Limited	-
Pearce and Saunders Limited	-
Apex Energy Limited	-
	217
Receivable from other investments	24
	241

Analysis of investments by investment type

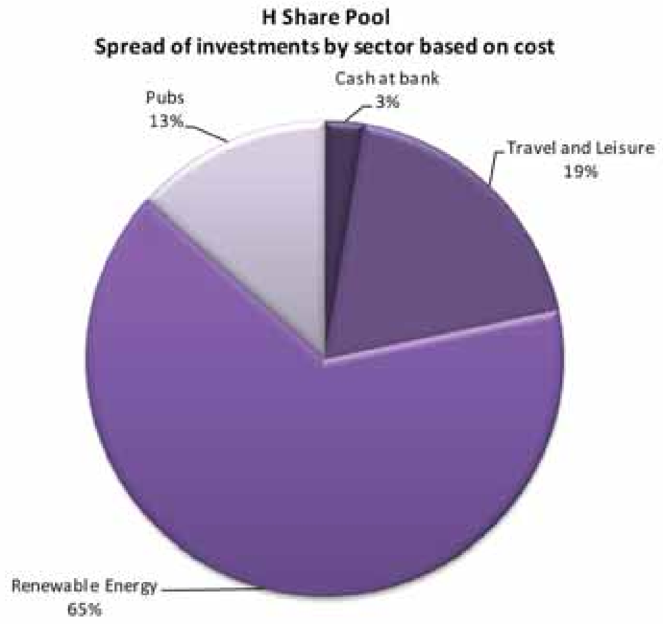
The following shows the split of the 'H' Share pool's investment portfolio by type of instrument held at 31 December 2019:

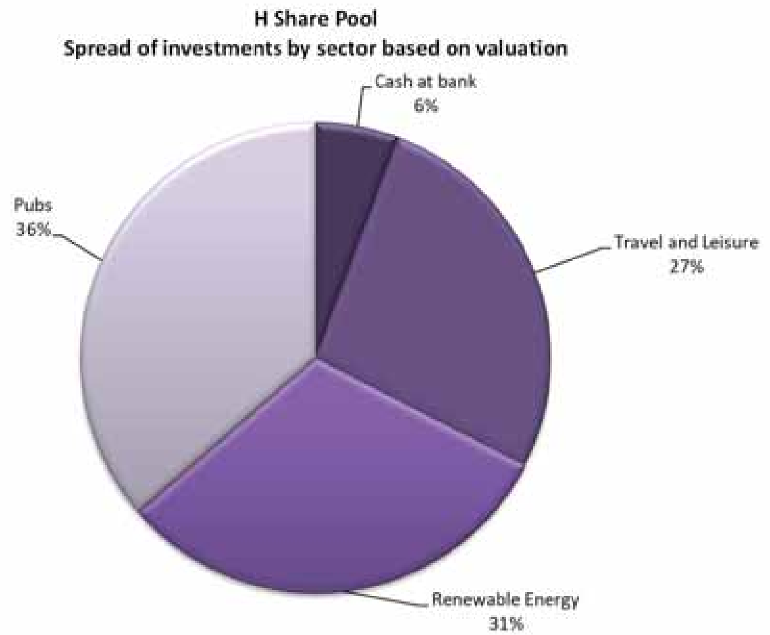
	Portfolio split 31 Dec 2019
Qualifying investments	
Loans to qualifying companies	8%
Ordinary shares in qualifying companies	80%
Non-qualifying investments (including cash at bank)	12%
	100%

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

Analysis of investments by commercial sector

The split of the 'H' Share pool's venture capital investment portfolio by commercial sector (by cost and value at 31 December 2019) is as follows:





H Shares

INVESTMENT MANAGER'S REPORT- 'J' SHARE POOL

Introduction

The fundraising for the 'J' Share pool was launched in December 2014 and raised £11 million prior to closing in 2015. The majority of these funds have now been invested as at the year end. It is disappointing to report that during the period, the share pool suffered some significant provisions in respect of a number of investments.

Net asset value and results

At 31 December 2019, the net asset value and total return per 'J' Share was 50.3p. This represents a net decrease of 33.6p per Share over the year (after adjusting for dividends paid during the year of 5.0p per Share), equivalent to a decrease of 37.8%. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original offer is now 55.3p.

The loss on ordinary activities for the 'J' Share, after taxation, for the period was £3.6 million (2018: £617,000), being a revenue loss of £25,000 (2018: £86,000) and a capital loss of £3.6 million (2018: £531,000).

'J' Share pool - Investment activity

During the period, no new investments were made, with there being three full exits generating an overall gain over cost in the period of £7,000.

Proceeds of £61,000 were received from the exit of Snow Hill Developments LLP, representing a gain over cost of £18,000. In addition, the residual holding in Mosaic Spa and Health Clubs Limited, the provider of gym and spa management services, was exited at the end of the summer, generating minor loss over cost of £11,000.

There was also a loan note redemption in Hedderwick Limited, the owner of freehold pubs located in Royston, Hertfordshire and Olney, Milton Keynes, which was redeemed at par.

'J' Share pool – portfolio valuation

The period to 31 December 2019 has seen a number of disappointing developments, resulting in an unrealised loss of £3.6 million.

A significant portion of the unrealised loss for the year related to five investments. Further details on each is noted below.

The most notable decreases related to Jito Trading Limited and Yamuna Renewables Limited, which were written down by £1.0 million and £800,000 respectively. As noted in the half year accounts, Yamuna Renewables Limited, a wood pelleting plant in Gars am Kamp, Austria was reduced to nil due to a number of factors. Consumer demand at the site substantially reduced following warmer than expected weather, in addition to two serious fires at the facility which resulted in a halt to production. As the company has some borrowings, it is difficult to recover any value and as a result the investment has been fully provided against.

The problems encountered at Yamuna have resulted in consequential problems with Jito Trading Limited, the operator of another wood pelleting plant in Weitra, Austria, who share the same management team. As a result, an advisor has been appointed to sell the business. However, as the company has borrowings, it is not expected that a sale based on the current offers would recover any value for the equity shareholders, including the 'J' Share pool.

Ormsborough Limited, the owner of several pubs and restaurants in Yorkshire, has been reduced to nil at the period end following the sale of the company that resulted in nil value for equity shareholders. The company has since gone into liquidation and as a result a full provision has been recognised.

Indigo Generation Limited and Ironhide Generation Limited are both developing solar farms on adjacent land in India. Due to a combination of factors, each investment has been reduced in value at the period end. One of the main factors affecting the sites is the private Power Purchase Agreements ("PPA") market in this region of India that has been particularly affected by reductions in long term PPA terms, as a result of high inflation levels. Construction of the first phase of each site has now been completed at the year end and grid connections have been secured. However, the second phase of the build programme is currently behind schedule. As a result, a write down of £398,000 has been required against each investment.

Outlook

The falls in value experienced by the 'J' Share pool during the year are extremely disappointing. We have dedicated substantial resources to address the issues of the affected companies. Since the year end, the coronavirus pandemic has further impacted the portfolio. Children's nurseries and wedding venues are clearly businesses that are suffering heavily from the lockdown and provisions have been made accordingly. The unaudited net asset value as at 31 March 2020 was 43.8p per share, and Total Return of 48.8p per share. Plans to exit the investments will be reformulated when conditions allow. In the meantime, we will be working to support all portfolio companies, ensuring that they benefit from Government aid that is available and take sensible decisions as they deal with these unprecedented conditions.

Downing LLP

30 April 2020

REVIEW OF INVESTMENTS – 'J' SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2019:

'J' Share pool	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying investments and partially qualifying investments				
Pilgrim Trading Limited	1,297	1,297	-	24.7%
Exclusive Events Venues Limited	500	500	-	9.5%
Garthcliff Shipping Limited	400	400	-	7.6%
SF Renewables (Solar) Limited	281	253	(71)	4.8%
Rockhopper Renewables Limited	492	246	(246)	4.7%
Indigo Generation Limited	613	215	(398)	4.1%
Ironhide Generation Limited	613	215	(398)	4.1%
Zora Energy Renewables Limited	300	27	(5)	0.5%
Jito Trading Limited	1,000	-	(1,000)	0.0%
Yamuna Renewables Limited	800	-	(800)	0.0%
Ormsborough Limited	1,000	-	(688)	0.0%
	7,296	3,153	(3,606)	60.0%
Non-qualifying investments				
Fenkle Street LLP	287	317	22	6.1%
London City Shopping Centre Limited	15	-	-	0.0%
	302	317	22	6.1%
	7,598	3,470	(3,584)	66.1%
Cash at bank and in hand		1,779		33.9%
Total investments		5,249		100.0%

The movements in the portfolio during the year and the basis of valuation of the largest investments are set out on pages 24 to 28.

A breakdown of the unquoted portfolio by valuation method used is summarised within note 17.

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

Summary of investment movements

	Cost £’000	MV at 01/01/19† £’000	Disposal proceeds £’000	(Loss)/ gain against cost £’000	Total realised (loss)/gain during the year £’000
VCT qualifying and partially qualifying investments					
Mosaic Spa and Healthclubs Limited	24	26	13	(11)	(13)
Non-qualifying investments					
Snow Hill Developments LLP	43	43	61	18	18
Hedderwick Limited	375	375	375	-	-
Total ‘J’ Share pool	442	444	449	7	5

J Shares

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

Further details of the main investments:

Pilgrim Trading Limited

Cost at 31/12/19:	£1,297,000	Valuation at 31/12/19:	£1,297,000
Date of first investment:	Oct 15	Valuation at 31/12/18:	£1,297,000
		Valuation method:	Calibration to price of recent investment
Investment comprises:			
Ordinary shares:	£908,000	Proportion of equity held:	30%
Loan stock:	£389,000	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 August*

	2018	2017
Net assets	£2,811,422	£2,972,040

Pilgrim Trading Limited has acquired two vacant properties in London, one in Twickenham and one in Brentford, which are now both open and operational as children's nurseries.

Exclusive Events Venues Limited

Cost at 31/12/19:	£500,000	Valuation at 31/12/19:	£500,000
Date of first investment:	Apr 17	Valuation at 31/12/18:	£500,000
		Valuation method:	Calibration to price of recent investment
Investment comprises:			
Ordinary shares:	£500,000	Proportion of equity held:	10%

Summary financial information from statutory accounts for the period to*

	31 Dec 2018	31 March 2018
Net assets:	£4,904,712	£4,922,606

Exclusive Events Venues Limited acquired the Old Bishops Palace site in Chester in April 2017 for operation as an exclusive use wedding venue. Further funding was deployed in November 2017 to finance the extension and refurbishment of the site which is expected to open in the first half of 2020.

Garthcliff Shipping Limited

Cost at 31/12/19:	£400,000	Valuation at 31/12/19:	£400,000
Date of first investment:	Nov 17	Valuation at 31/12/18:	£400,000
		Valuation method:	Discounted cash flow from the investment
Investment comprises:			
Ordinary shares:	£400,000	Proportion of equity held:	8%

Summary financial information from statutory accounts for the period to 31 May

	2019	2018
Turnover:	£2,428,538	£667,124
Operating loss:	(£113,402)	(£571,225)
Net assets:	£5,408,769	£5,157,066

The Downing VCTs invested £5 million alongside the Downing EIS funds into Garthcliff Shipping Limited in order to fund the acquisition of a Feeder Container Vessel which is being managed by Conbulk Ship Management Corporation. The Vessel is chartered to transport containers worldwide.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

REVIEW OF INVESTMENTS – 'J' SHARE POOL (continued)
Further details of the main investments:

Fenkle Street LLP

Cost at 31/12/19:	£287,000	Valuation at 31/12/19:	£317,000
Date of first investment:	Nov 17	Valuation at 31/12/18:	£295,000
		Valuation method:	Discounted cash flow from the investment
Investment comprises:			
Loan stock:	£287,000	Proportion of loan stock held:	18%

Summary financial information from statutory accounts to 30 June

	2019	2018
Turnover:	*£nil*	*£nil*
Operating profit:	£43,683	£51,910
Net assets:	£3,292,212	£3,598,411

The Downing VCTs provided loans to Fenkle Street LLP for the purchase of a freehold office building in central Newcastle, which qualifies under the Business Premises Renovation Allowance (BPRA) scheme and opened as a hotel in June 2012.

SF Renewables (Solar) Limited

Cost at 31/12/19:	£281,000	Valuation at 31/12/19:	£253,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£323,000
		Valuation method:	Discounted cash flow underlying business
Investment comprises:			
Loan stock:	£281,000	Proportion of equity held:	4%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating loss:	(£316,449)	(£314,396)
Net assets:	£7,902,488	£7,641,683

SF Renewables (Solar) Limited forms part of the Indian Solar Group of investments along with Rockhopper Renewables Limited, Ironhide Generation Limited and Indigo Generation Limited. The company acquired land in Southern India to build and operate a single ground mounted solar farm.

Rockhopper Renewables Limited

Cost at 31/12/19:	£492,000	Valuation at 31/12/19:	£246,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£492,000
		Valuation method:	Discounted cash flow underlying business
Investment comprises:			
Ordinary shares:	£492,000	Proportion of equity held:	11%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating loss:	(£239,387)	(£194,232)
Net assets:	£3,886,806	£3,927,227

Rockhopper Renewables Limited forms part of the Indian Solar group of investments. The company acquired land in Telangana, India to build and operate a single ground-mounted PV system up to 8.4MW in capacity which began operating in December 2017.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

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

Further details of the main investments:

Indigo Generation Limited

Cost at 31/12/19:	£613,000	Valuation at 31/12/19:	£215,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£613,000
		Valuation method:	Discounted cash flow underlying business
Investment comprises:			
Ordinary shares:	£613,000	Proportion of equity held:	13%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating loss:	(£290,425)	(£108,483)
Net assets:	£3,927,381	£4,075,056

In April 2016 the 'J' Share pool invested alongside other Downing funds and VCT's into Indigo Generation Limited. The company forms part of the Indian Solar group of companies and is seeking to build and operate a single ground-mounted PV system up to 10MW in capacity. The plant was completed in December 2019.

Ironhide Generation Limited

Cost at 31/12/19:	£613,000	Valuation at 31/12/19:	£215,000
Date of first investment:	Apr 16	Valuation at 31/12/18:	£613,000
		Valuation method:	Discounted cash flow underlying business
Investment comprises:			
Ordinary shares:	£613,000	Proportion of equity held:	13%

Summary financial information from statutory accounts to 31 March

	2019	2018
Turnover:	*£nil*	*£nil*
Operating loss:	(£287,308)	(£101,908)
Net assets:	£3,914,267	£4,066,905

Ironhide Generation Limited forms part of the Indian solar group of investments. The company acquired land in Maharashtra, India to build and operate a single ground mounted PV system up to 10MW in capacity, which was completed in December 2019.

Zora Energy Renewables Limited

Cost at 31/12/19:	£300,000	Valuation at 31/12/19:	£27,000
Date of first investment:	Oct 16	Valuation at 31/12/18:	£31,000
		Valuation method:	Calibration to price of recent investment
Investment comprises:			
Ordinary Shares:	£300,000	Proportion of equity held:	13%

Summary financial information from statutory accounts to 28 February*

	2019	2018
Net assets:	£571,602	£1,395,695

Zora Energy Renewables Limited is a wood pellet and sales distribution business in the UK, aimed at commercial and domestic users of wood pellets in biomass boilers, based in Goole, Yorkshire.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

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

Further details of the main investments:

Jito Trading Limited

Cost at 31/12/19:	£1,000,000	Valuation at 31/12/19:	*£nil*
Date of first investment:	Apr 16	Valuation at 31/12/18:	£1,000,000
		Valuation method:	Discounted cash flow from the investment
Investment comprises:			
Ordinary Shares:	£1,000,000	Proportion of equity held:	20%

Summary financial information from statutory accounts to 31 March

	2019	2018
Net assets:	£4,643,006	£5,014,673

Jito Trading Limited was incorporated with the intention of operating in the wood refinery sector in Northern Austria. The processed wood will be sold as fuel for biomass boilers. Construction of the plant commenced in September 2018 but has been severely delayed due to planning issues.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

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

Summary of loan stock interest income

Loan stock interest recognised in the year from the largest investments held by the ‘J’ Share pool	**£’000**
Pilgrim Trading Limited	146
Exclusive Events Venues Limited	-
Garthcliff Shipping Limited	-
Fenkle Street LLP	8
SF Renewables (Solar) Limited	-
Rockhopper Renewables Limited	-
Indigo Generation Limited	-
Ironhide Generation Limited	-
Zora Energy Renewables Limited	-
Jito Trading Limited	-
	154
Receivable from other investments	-
	154

Analysis of investments by investment type

The following shows the split of the ‘J’ Share pool’s investment portfolio by type of instrument held at 31 December 2019:

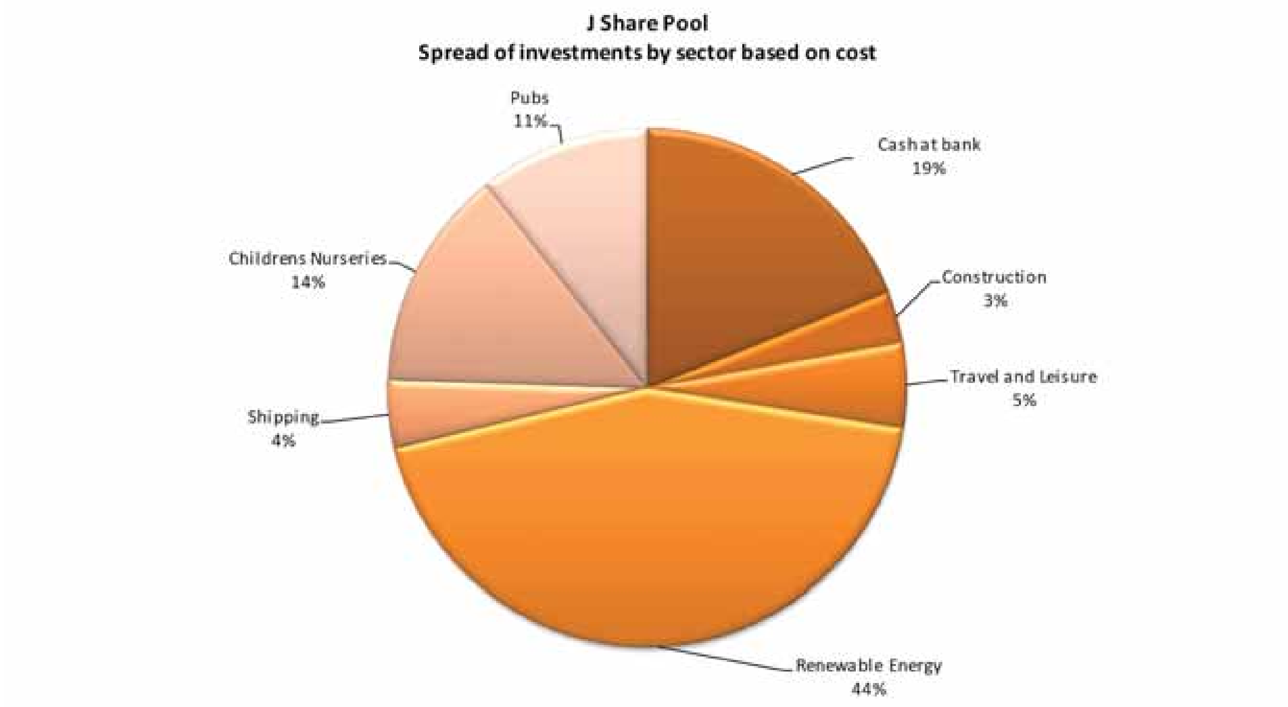
	Portfolio split 31 Dec 2019
Qualifying investments	
Loans to qualifying companies	4%
Ordinary shares in qualifying companies	74%
Non-qualifying investments (including cash at bank)	22%
	100%

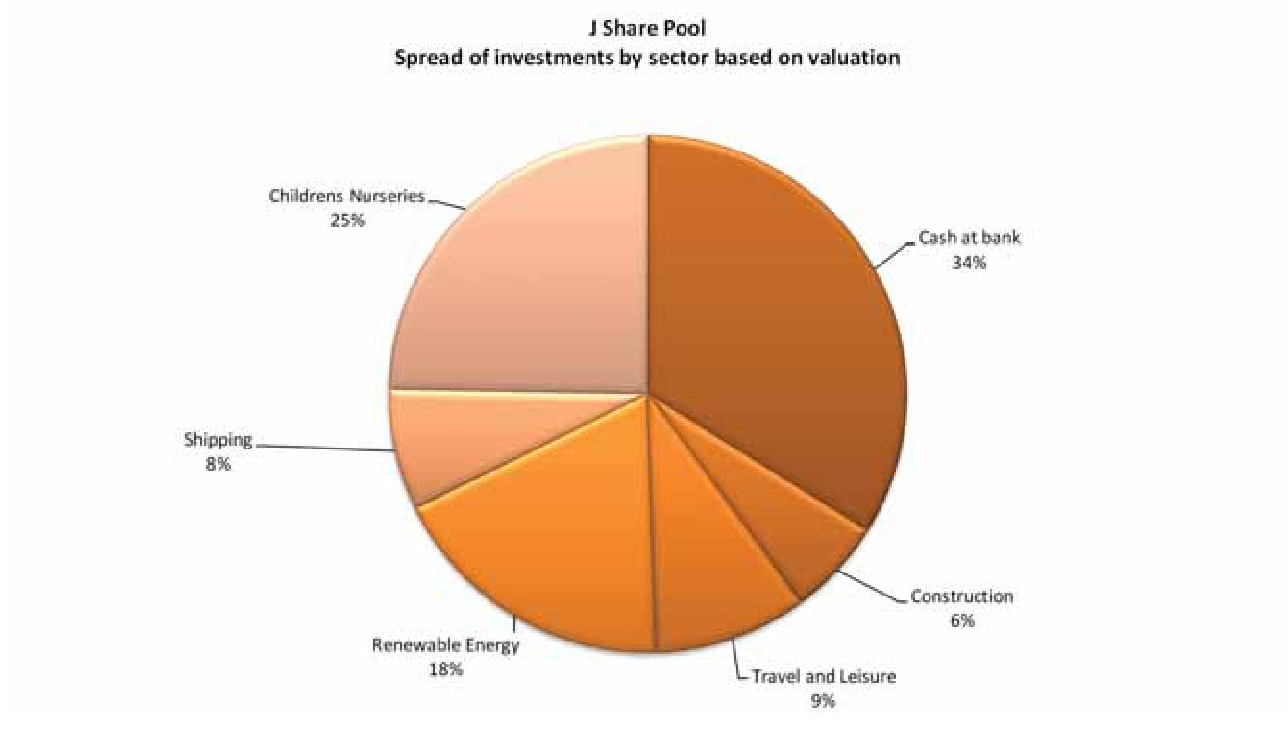
J Shares

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

Analysis of investments by commercial sector

The split of the 'J' Share pool's venture capital investment portfolio by commercial sector (by cost and value at 31 December 2019) is as follows:





J Shares

STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 31 December 2019. The Board have prepared this report in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Principal objectives and strategy

The Company's principal objective is to provide Shareholders with an attractive level of tax-free capital gains and income generated from a portfolio of investments in a range of different sectors.

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

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

Business review and developments

'F' Share pool

The 'F' Share pool began the year with £3.1 million of investments and ended the year with £2.4 million spread across a portfolio of nine companies. Six of these investments, with a value of £1.8 million, were VCT qualifying (or part qualifying).

The gain on ordinary activities after taxation for the year was £114,000, comprising a revenue gain of £14,000 and a capital gain of £100,000.

'H' Share pool

The 'H' Share pool began the year with £6.6 million of investments and ended with £3.8 million spread across a portfolio of 11 companies. 10 of these investments, with a value of £3.5 million, were VCT qualifying (or part qualifying).

The loss on ordinary activities after taxation for the year was £1.1 million, comprising a revenue gain of £132,000 and a capital loss of £1.2 million.

'J' Share pool

The 'J' Share pool began the year with £7.5 million of investments and ended with £3.5 million spread across a portfolio of 13 companies. 11 of these investments, with a value of £3.2 million, were VCT qualifying (or part qualifying).

The loss on ordinary activities after taxation for the year was £3.6 million, comprising a revenue loss of £25,000 and a capital loss of £3.6 million.

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

Key performance indicators

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

Principal risks and uncertainties

The Directors have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal financial risks faced by the Company, which include interest rate, market price, credit and liquidity risks, are summarised within note 17 to the financial statements.

On 11 March 2020, the World Health Organisation declared the outbreak of a strain of novel coronavirus disease, Covid-19, a global pandemic which the Board recognise has resulted in subsequent major developments and an impact on post year end valuations. Although the full impact is not yet known, there is a significant risk that the pandemic may negatively impact the prospects of many businesses within the portfolio, particularly those in the hospitality and children's nursery sectors, which the Board and Manager believe will result in lower valuations of those investments. As a result, the unaudited NAVs as at 31 March 2020 have been summarised within note 21.

Principal risks and uncertainties (continued)

In addition to these risks, the Company, as a fully listed company on the London Stock Exchange with a premium listing and as a Venture Capital Trust, operates in a complex regulatory environment and therefore faces a number of related risks. A breach of the VCT regulations could result in the loss of VCT status and consequent loss of tax reliefs currently available to Shareholders and the Company being subject to capital gains tax. Serious breaches of other regulations, such as the Listing Rules of the Financial Conduct Authority, and the Companies Act 2006, could lead to suspension from the Stock Exchange and damage to the Company's reputation.

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

The Company has, to date, invested mainly in assets which generate revenues from contracts with third parties which, the Board and Manager believe, will not be severely affected by the final Brexit withdrawal agreement.

Viability statement

In accordance with provisions 33 and 36 of the AIC Code of Corporate Governance, the Directors have carried out a robust assessment of the emerging and principal risks facing the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has conducted this review for the period covering the expected remaining life of each of the planned exit Share pools. The longest of these time horizons is two years from the date the accounts are approved.

The two year review considers the emerging and principal risks facing the Company, noted on page 31, as well as those which are summarised within note 17. The review also takes into consideration the Company's cash flows, dividend cover and VCT monitoring compliance over the period. The two year review makes assumptions about the level of investment activity, expenditure, dividends and share buybacks.

The Directors believe that the Company is well placed to manage its business risks successfully. Based on the results, the Board confirms that, taking into account the Company's current position and subject to the principal risks faced by the business, the Company will be able to continue in operation and meet its liabilities as they fall due for a period of at least two years from the accounts approval date.

Business model

The Company operates as a Venture Capital Trust to ensure its Shareholders can benefit from tax reliefs available.

The business of the Company is to act as an investment company, investing in a portfolio which meets the conditions set within its Investment Policy, as shown below.

Investment policy

Qualifying investments

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

Non-qualifying investments

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

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

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

Following changes to the VCT Regulations that came into force on 6 April 2016, new non-qualifying investments are now effectively restricted to cash deposits and investments in quoted securities, investment trusts and OEICs.

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

Qualifying investments	80%
Non-qualifying investments	20%
	100%

Investment policy (continued)

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 the Company; and

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

The above Listing Rules have been complied with for the year end 31 December 2019.

Venture Capital Trust Regulations

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

1. The Company holds at least 70% (80% from 1 January 2020) of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007);
2. At least 70% of the Company's qualifying investments (by value) are held in "eligible shares" ("eligible shares" generally being ordinary share capital) for funds raised on or after 6 April 2011;
3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);
4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment);
5. The Company's income for each financial year is derived wholly or mainly from shares and securities; and
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained.

Performance incentive fees

'F' Share pool

The Performance Incentive fee in respect of the 'F' Share pool will only become payable if 'F' Shareholders:

(i) receive Shareholder Proceeds of at least 100.0p per 'F' Share (excluding initial income tax relief); and

(ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

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

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

'H' Share pool

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

(i) have the opportunity to receive shareholder proceeds of at least 105.82p per 'H' Share (excluding initial income tax relief); and

(ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

Performance incentive fees (continued)

'H' Share pool (continued)

If the Hurdles are met, the Performance Incentive will be 3.0p per H Share plus 20% of the funds available above 105.82p per 'H' Share (for distribution to 'H' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount (over the period to when an exit is provided in approximately six years) equivalent to 7.0p per 'H' Share (based on the number of 'H' Shares in issue at the close of the Offer). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

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

J Share pool

The Performance Incentive fee in respect of the 'J' Share pool will only become payable if 'J' Shareholders:

(i) have the opportunity to receive Shareholder proceeds of at least 104.17p per J Share (excluding initial income tax relief); and

(ii) achieve a tax-free Compound Return of at least 6% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

104.17p is the assumed gross issue price per J Share based on an initial NAV of 100p and issue costs of 4%. If the Hurdles are met, the Performance Incentive will be 3.0p per J Share plus 20% of the funds available above 104.17p per J Share (before distribution to J Shareholders and the payment of the Performance Incentive).

The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount (over the period to when an exit is provided in approximately six years) equivalent to 7.0p per J Share (based on the number of J Shares in issue at the close of the Offers). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

For example, if the total funds available for distribution over six years were 114.17p per J Share, the Performance Incentive would be 5p per J Share (3p plus 20% x 10p), leaving Shareholder Proceeds of 109.17p per J Share (assuming the Hurdles have been met and ignoring any benefit from corporation tax relief on the Performance Incentive). If the total funds available for distribution were instead 135p per J Share, the Performance Incentive would be capped at 7.0p per J Share, leaving Shareholder Proceeds of 128.0p per J Share.

As the targets for all pools have not been met, no fee is due to be paid in respect of the year ended 31 December 2019.

Statement on s172

Under section 172 of the Companies Act 2006, the Board have a duty to promote the success of the Company, and when making decisions for the long term, have regard to a range of matters including:

- the likely consequences of any decisions in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the environment and community;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between Shareholders of the Company

However, the Company has no employees (other than its Directors) and no customers in the traditional sense. It is normal practice for Venture Capital Trusts to delegate authority for day-to-day management and administration of the Company to third parties. The Board will then engage with the third parties in setting, approving and overseeing the execution of the business strategy and related policies.

Statement on s172 (continued)

In accordance with the Company's nature as a Venture Capital Trust, the Board's principal concern has been, and continues to be, the interest of the Company's Shareholders taken as a whole as well as continuing to monitor portfolio management in light of the Company's objectives.

In addition to this, the Board has a responsible governance culture and has due regard for broader matters so far as they apply, including the expectations of its regulators. Specifically, the Board engages with the Manager at every Board meeting where it will review the financial and operational performance, as well as legal and regulatory compliance. The Board also reviews its relationships with other service providers at least annually as well as other areas over the course of the financial year, including the Company's key risks; stakeholder-related matters; diversity and inclusivity; environmental matters; and corporate responsibility and governance.

The Manager regularly engages with major Shareholders, by producing half yearly reports and reporting back to the Board. The Board also encourage all Shareholders to attend the AGM and welcomes any other communications from Shareholders. Its main stakeholders therefore comprise of the Shareholders, the Investment Manager, other service providers and investee companies.

Borrowings

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a maximum amount equal to 50% of the aggregate amount paid on any shares issued by the Company together with any share premium thereon, currently equal to £11.9 million. There are no plans to utilise this ability at the current time. In August 2018, the balances on the Share Premium account were cancelled and added to the Special Reserve.

Environmental, social and human rights policy

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

Global greenhouse gas emissions

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

Directors and senior management

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

Future prospects

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

By order of the Board

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

30 April 2020

The Directors present the Annual Report and Accounts of the Company for the year ended 31 December 2019.

Share capital

At the year end, the Company had in issue 10,821,660 'F' Shares of 0.1p each, 13,389,758 'H' Shares of 0.1p each and 10,675,533 'J' Shares of 0.1p each.

Only the holders of the 'F' Shares, 'H' Shares and 'J' Shares have voting rights. There are no other share classes in issue.

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

No shares were purchased in the year to 31 December 2019 in respect of any of the share classes.

At the AGM that took place on 5 June 2019, the Company was authorised to make market purchases of its 'F' Shares, 'H' Shares and 'J' Shares up to a limit of 1,612,427 'F' Shares, 1,995,073 'H' Shares and 1,590,654 'J' Shares which represented approximately 14.9% of the issued share capital of each share class respectively at the date of the AGM.

At the current date, authority remains for 1,612,427 'F' Shares, 1,995,073 'H' Shares and 1,590,654 'J' Shares. A resolution to renew this authority will be put to Shareholders at the next AGM.

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

Results and dividends

	£'000	Pence per share
Return/(loss) on ordinary activities after tax for the year ended 31 December 2019 split as:		
'F' Shares	114	1.0p
'H' Shares	(1,073)	(8.0p)
'J' Shares	(3,588)	(33.6p)
Total	(4,547)	
Distributions paid during the current year		
14 June 2019 ('H' Shares)	669	5.0p
14 June 2019 ('J' Shares)	267	2.5p
8 November 2019 ('F' Shares)	541	5.0p
8 November 2019 ('H' Shares)	670	5.0p
8 November 2019 ('J' Shares)	267	2.5p
	2,414	

Your Board is proposing to pay an interim dividend of 2.5p per 'J' Share payable on 19 May 2020 to Shareholders on the register at 24 April 2020.

Directors

The Directors during the year and their audited beneficial interests in the issued shares of the Company as at 31 December 2019 and 31 December 2018 were as follows:

Directors		No. of shares 31 Dec 2019	31 Dec 2018
Dennis Hale	'H' Shares	4,975	4,975
	'J' Shares	5,970	5,970
Roger Jeynes	'H' Shares	19,900	19,900
	'J' Shares	9,950	9,950
Michael Robinson	'F' Shares	18,630	18,630
	'H' Shares	9,950	9,950
	'J' Shares	4,975	4,975

Between 31 December 2019 and the date of this report, there were no movements in the Director's shareholdings.

Directors (continued)

Michael Robinson and Roger Jeynes were last re-elected at the AGM that took place in June 2019. In accordance with the Articles of Association Roger Jeynes is not required to retire for three AGMs following the 2019 AGM and therefore will retire and being eligible, offers himself for re-election at the AGM in 2022. In accordance with corporate governance practice, by virtue of serving on the board for more than nine years, Dennis Hale and Michael Robinson will retire at each Annual General Meeting and being eligible, offers themselves for re-election. The Board recommends that Shareholders take into consideration each Director's considerable experience in VCTs and other areas, as shown in their respective biographies on page 3, in order to support the resolutions to re-appoint the Directors.

The terms of appointment of each of the directors are detailed in a letter of appointment signed in February and April 2016. These agreements are for a period of three years and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

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

Investment and administration manager

DLLP is paid 1.8% of the 'F' Share net assets per annum and 2.0% of the 'H' and 'J' Share net assets per annum. Additionally, DLLP provides administration services to the Company for a fee of £58,000 (plus RPI adjustment) per annum.

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

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

The annual running costs of the Company, for the year, are also subject to a cap of 3.5% of net assets for the 'F', 'H' Share pools and 3.0% of net assets for the 'J' Share pool of the Company. Any excess costs over this cap are met by DLLP through a reduction in fees. From 1 January 2020, the Investment Manager agreed to waive fees in respect of the 'H' Share pool and 'J' Share pool.

Trail commission

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

Creditor payment policy

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

VCT status

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

A summary of the VCT Regulations is included in the Company's Investment Policy shown on pages 31 and 32. Compliance with the main VCT Regulations for the year ended 31 December 2019 is summarised as follows:

1.	The Company holds at least 70% (80% from 1 January 2020) of its investments in qualifying companies;	88.3%
2.	At least 70% of the Company's qualifying investments (by value) are held in "eligible shares" ("eligible shares" generally being ordinary share capital) for funds raised on or after 6 April 2011;	92.8%
3.	At least 10% of each investment held in "eligible shares";	Complied
4.	No investment constitutes more than 15% of the Company's portfolio;	Complied
5.	Income is derived wholly or mainly from shares and securities; and	96.0%
6.	No more than 15% of the income from shares and securities is retained.	Complied

Substantial interests

As at 31 December 2019 and the date of this report, the Company had not been notified of any beneficial interest exceeding three per cent of any class of Share Capital.

Auditor

A resolution to re-appoint BDO LLP as the Company's Auditor will be proposed at the next AGM.

Annual General Meeting

During these unprecedent times there are currently major challenges to holding a physical Annual General Meeting. The Board has therefore taken the decision to postpose the meeting and will make arrangements to hold this year's AGM once practical solutions have been agreed.

The Company will notify Shareholders when these arrangements are in place.

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, The Report of the Directors, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, to disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on page 3, confirms that, to the best of each person's knowledge:

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

Website publication

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

Corporate governance

The Company's compliance with, and departures from, the Association of Investment Companies Code of Corporate Governance (AIC Code) is shown on page 43 and 46.

Other matters

Information in respect of financial instruments, and future developments which were previously disclosed within the Directors Report has been disclosed within the Strategic Report on pages 30 to 31.

Information in respect of greenhouse gas emissions which is normally disclosed within the Report of the Directors has been disclosed within the Strategic Report on page 34.

Statement as to disclosure of information to Auditor

The Directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

By order of the Board

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

30 April 2020

DIRECTORS' REMUNERATION REPORT

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

Under the requirements of Section 497, the Company's Auditors are required to audit certain disclosures contained within the Report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 47 to 51.

Directors' remuneration policy

Below is the Company's remuneration policy. Shareholders approved this policy at the AGM in June 2017. In accordance with the regulations, Shareholders must vote on the remuneration policy, for the financial year commencing after the AGM, every three years or sooner if the Company wants to make changes to the policy. Therefore, the policy will be put to Shareholders again at the next AGM in 2020.

The Company's policy on Directors' remuneration is to seek to remunerate board members at a level appropriate for the time commitment required and degree of responsibility involved for a Venture Capital Trust.

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

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

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

Service contracts

Each of the Directors is engaged under a letter of appointment or consultancy agreement for a fixed term of three years from the date of their appointment and thereafter on a three-month rolling notice.

Directors' remuneration (audited)

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

	Current annual fee £	Year ended 31/12/19 £	Year ended 31/12/18 £
Dennis Hale	15,000	15,000	15,000
Roger Jeynes	22,000	22,000	22,000
Michael Robinson	27,500	27,500	27,500
	64,500	64,500	64,500

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

Statement of voting at AGM

At the AGM on 5 June 2019, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

In favour	65.5%
Against	34.5%
Withheld	nil votes

The Directors have analysed the votes against the Directors and note that 11 shareholders out of approximately 1,300 shareholders have voted against the resolution. The Directors believe that this was a reaction to the disappointing set of results and reports by some of the share classes which have been experiencing difficulties in a number of portfolio companies. The Directors have ensured that the Investment Manager has committed additional resources to such investments seeking to resolve the issues to the extent it may be possible.

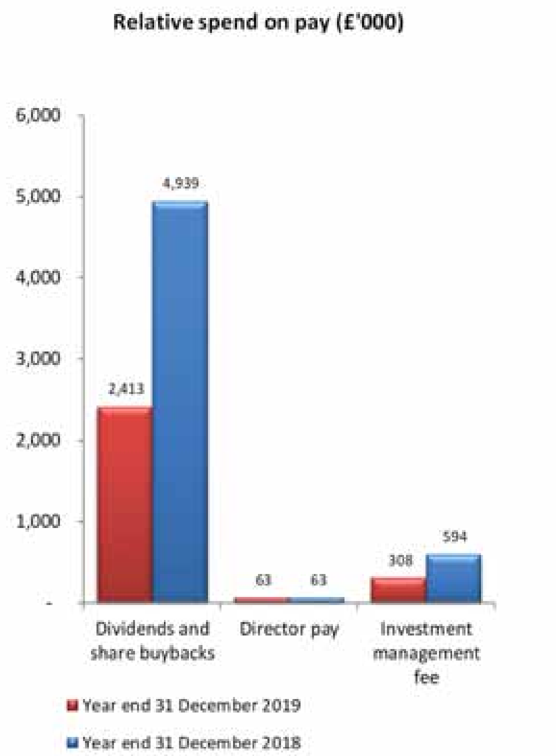
At the 2017 AGM, where the remuneration policy was last put to a Shareholder vote, 91.8% voted for the resolution and 8.2% against, showing significant Shareholder support.

Directors' remuneration (audited)

Information in respect of the Directors beneficial interests in the issued shares of the Company at 31 December 2019 and 31 December 2018 has been disclosed within the Report of the Directors on page 35.

Relative importance of spend on pay

The difference in actual spend between the year ended 31 December 2019 and the year ended 31 December 2018 on remunerations for all employees in comparison to distributions (dividends and share buy-back) and other significant spend are set out in the tabular graph below:



Insurance cover

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

Performance graph

The charts on page 41 and 42 represent the 'F' Share pool, 'H' Share pool and 'J' Share pool performance over the period since shares were first listed on the London Stock Exchange, and compares the Total Return of the Company (Net Asset Value plus dividends) to a rebased Numis Smaller Companies Index including dividends reinvested. The Numis Smaller Companies Index has been chosen as a comparison as the Board considers it is the publicly available index which most closely matches the spread of investments held by the Company. It has been rebased to 100 at the launch date of each respective pool.

Statement by the Chairman of the remuneration committee

Directors' fees were last reviewed by the remuneration committee during its meeting on 21 February 2017, when it was agreed to increase the total Directors fees to £64,500 per annum with effect from 1 January 2017.

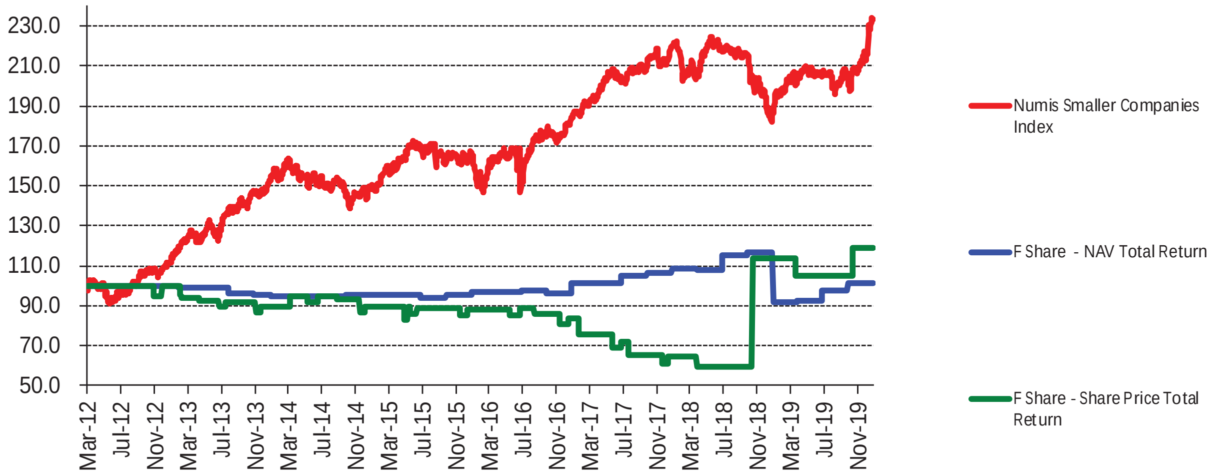
Particulars of the members of the Remuneration Committee is given within the Corporate Governance Statement on page 43.

By order of the Board

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

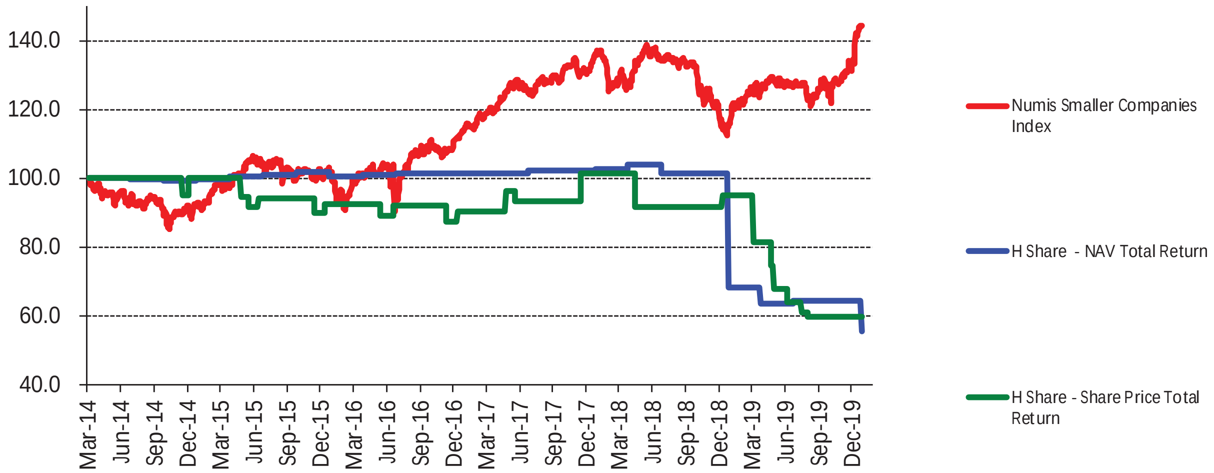
30 April 2020

Downing THREE VCT plc
'F' Share performance chart

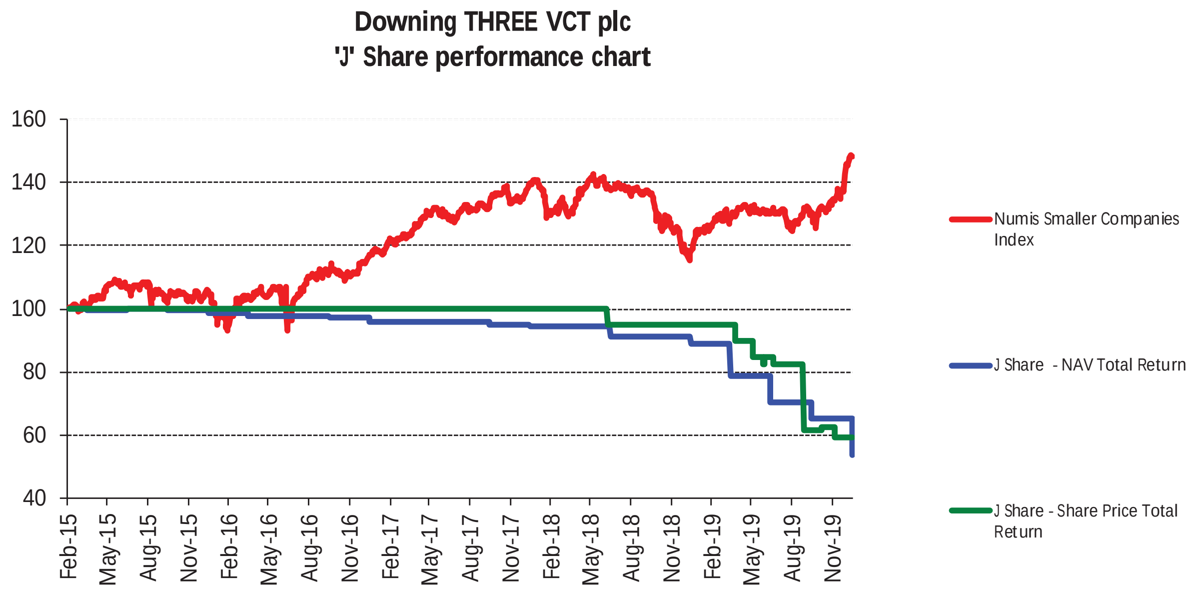


Note: The 'F' Share pool was first launched in the year ended 31 January 2012.

Downing THREE VCT plc
'H' Share performance chart



Note: The 'H' Share pool was first launched in the year ended 31 December 2014.



Note: The 'J' Share pool was first launched in the year ended 31 December 2015.

CORPORATE GOVERNANCE

The Directors support the relevant principles of the 2019 Association of Investment Companies Code of Corporate Governance (AIC Code), being the principles of good governance and the code of best practice, as set out in the annex to the Listing Rules of the UK Listing Authority. The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (UK Code) as well as setting out additional Provisions. The Board considers that reporting against principles and recommendations of The AIC Code, will provide better information to Shareholders.

The Board

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

In accordance with Company policy and corporate governance best practice, Dennis Hale and Michael Robinson offer themselves for re-election at the next AGM.

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

The Board has also established procedures whereby Directors wishing to do so in the furtherance of their duties may take independent professional advice at the Company's expense.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary provides the Board with full information on the Company's assets and liabilities and other relevant information requested by the Chairman, in advance of each Board meeting.

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

The Board has authority to make market purchases of the Company's own shares. This authority for up to 14.9% of the Company's issued share capital was granted at the last AGM. A resolution will be put to Shareholders to renew this authority at the next AGM.

The capital structure of the Company is disclosed on page 35.

Audit Committee

The Audit Committee is responsible for:

- monitoring the Company's financial reporting;
- reviewing internal controls and risk management systems; and
- matters regarding audit and external auditors.

Financial Reporting

The Committee is responsible for reviewing, and agreeing the half-yearly and annual accounts (including those figures presented within) before they are presented to the Board for final approval.

In particular, the Committee reviews, challenges (where appropriate) and agrees the basis for the carrying value of the unquoted investments, as prepared by the Investment Manager, for presentation within the half- yearly and annual accounts.

The Committee also takes into careful consideration comments on matters regarding valuation, revenue recognition and disclosures arising from the Report to the Audit Committee as part of the finalisation process for the Annual Accounts.

Internal audit and control

The Committee has considered the need for an internal audit function and has concluded that at the present time this would not be appropriate for a company of this size and structure. The Committee seeks to satisfy themselves that there is a proper system and allocation of the responsibilities for the day-to-day monitoring of financial controls by receiving representations and information either upon request or voluntarily from the Manager. This is covered more fully under Internal Control.

Whistleblowing procedures

As the Company has no staff, other than Directors, there are no procedures in place, relating to whistleblowing. The Audit Committee understands that the Manager has whistleblowing procedures in place.

CORPORATE GOVERNANCE (continued)

Audit Committee (continued)

External auditor

The Committee reviews and agrees the audit strategy paper, presented by the Auditor in advance of the audit, which sets out the key risk areas to be covered during the audit, confirms their status of independence and includes the proposed audit fee. The Committee confirms that the two main areas of risk for the year under review are the carrying value of investments and revenue recognition. The Committee's consideration of these matters is set out in this report.

The Committee, after taking into consideration comments from the Manager, DLLP, regarding the effectiveness of the audit process; immediately before the conclusion of the annual audit, will recommend that the Board either re-appoint or remove the auditors.

Under the Competition and Markets Authority regulations, there is a requirement that an audit tender process be carried out every ten years and mandatory rotation at least every twenty years. The last audit tender took place for the year ended 31 December 2017 and therefore mandatory rotation will not be required until the year ended 31 December 2027.

Following assurances received from the Manager at the completion of the audit for the year to 31 December 2019 and taking discussions held with the Engagement Partner at BDO LLP into consideration, the Committee has recommended they be reappointed at the next AGM.

Non audit services

The Committee will approve the provision of ad-hoc work and maximum expected fee before being undertaken; to ensure the Auditor objectivity and independence are safeguarded.

Board and Committee meetings

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

	Board meetings attended (4 held)	**Audit Committee meetings attended** (2 held)
Michael Robinson	4	2
Dennis Hale	4	2
Roger Jeynes	4	2

Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration due to each Director are set out in the Directors' Remuneration Report on page 39 and this is subject to Shareholder approval.

Nomination Committee

The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. The Committee meets as and when appropriate.

Diversity policy

When considering a new appointment to the Board, the Committee's responsibility is to ensure that Shareholders are safeguarded by appointing the most appropriate person for the position (irrespective of gender), giving due regard to past and present experience in the sectors in which the Company invests. The Company therefore does not have a specific diversity policy in place.

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by Shareholders during the course of the year, or to meet with major Shareholders if so requested.

In addition to the formal business of the AGM, representatives of the Investment Manager and the Board are available to answer any questions a Shareholder may have.

Separate resolutions are proposed at the AGM on each substantially separate issue. The Manager collates proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. Proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called. The notice of the next AGM and proxy form will be communicated to Shareholders once practical solutions have been agreed.

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

Financial reporting

The Directors' statement of responsibilities for preparing the accounts is set out in the Report of the Directors on page 37, and a statement by the Auditor about their reporting responsibilities is set out in the Auditor's Report on page 51.

Internal control

The Board has adopted an Internal Control Manual ("Manual") for which they are responsible, which has been compiled in order to comply with the AIC Code. The Manual is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, which it achieves by detailing the perceived risks and controls to mitigate them. The Board reviews the perceived risks in line with relevant guidance on an annual basis and implements additional controls as appropriate.

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

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

The Board is responsible for ensuring that the procedures to be followed by the advisers and themselves are in place, and they review the effectiveness of the Manual, based on the report from the Audit Committee, on an annual basis to ensure that the controls remain relevant and were in operation throughout the year.

Although the Board is ultimately responsible for safeguarding the assets of the Company, the Board has delegated, through written agreements, the day-to-day operation of the Company to Downing LLP.

Anti-bribery policy

The Company operates an anti-bribery policy to ensure that it meets its responsibilities arising from the Bribery Act 2010. This policy can be found on the website maintained by the Manager at www.downing.co.uk.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 4 to 5, the Investment Manager's Reports on pages 6, 14 and 22, the Strategic Report on page 30 and the Report of the Directors on page 35.

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Balance Sheet on page 55, the Cash Flow statement on page 59 and the Strategic Report on page 34. In addition, note 17 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Board have undertaken a review of the prospects of the Company over a 12-month period. The major cash outflows of the Company (most notably investments, share buybacks and dividends) are within the Company's control. The Company has considerable financial resources at the year end and holds a diversified portfolio of investments. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully, despite the current uncertain economic outlook.

Although the Board is reviewing the future plans of the Company and may consider to take advantage of the VCT Winding Up Regulations, there are no formal proposals to date and as a result the Board believe that it is appropriate to continue to apply the going concern basis.

The result of the EU referendum in 2016 has resulted in a UK withdrawal from the EU. Whilst the details of the EU withdrawal agreement are yet unknown the impact of Brexit might have some significant effect on the macroeconomic environment in the medium and long term, however the Board believes the impact on the Company will be reasonably small.

On 11 March 2020, the World Health Organisation declared the outbreak of a strain of novel coronavirus disease, Covid-19, a global pandemic. Although the full impact of the unprecedented situation is not yet known, there is a significant risk that the pandemic will negatively impact the prospects of many businesses within the portfolio and as such see a fall in investee valuations and net asset values. However, the Board is confident that the current situation will not threaten the going concern status and are satisfied that the Company has adequate resources to continue in business for at least twelve months from the date of approval of these financial statements.

For this reason, the Board believe that the Company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Compliance statement

The Listing Rules require the Board to report on compliance with the UK Corporate Governance Code provisions throughout the accounting year. The preamble to the UK Corporate Governance Code does, however, acknowledge that some provisions may have less relevance for investment companies adding that the AIC Code can assist in meeting the obligations under the UK Corporate Governance Code. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 December 2019 with the provisions set out in Sections 5 to 9 of the AIC Code of Corporate Governance.

a) The Company has no major Shareholders, so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the Annual General Meeting. (5.2.3)

b) Due to the size of the Board and nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed. (6.2.14)

c) Due to the size of the Board and the nature of the VCT's business, the Board considers it appropriate for the entire Board, including the chair, to fulfil the role of the nomination, audit and the remuneration committee. (7.2.22, 9.2.37, 8.2.29)

By order of the Board

GWhitehouse

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

30 April 2020

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

Opinion

We have audited the financial statements of Downing THREE VCT plc (the "company") for the year ended 31 December 2019 which comprise the income statement, the balance sheet, the statement of changes in equity and the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. As stated in the post balance sheet events note 21, we have not audited the net asset value at 31 March 2020. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the company's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

<table>
<tr><th>Key Audit Matter</th><th>How We Addressed the Key Audit Matter in the Audit</th></tr>
<tr><td>Valuation of investments (Note 2 and 10 to the financial statements)

There is a high level of estimation uncertainty involved in determining the unquoted investment valuations; consisting both equity and loan stock portions.

The Investment Manager's fee is based on the value of the net assets of the fund, as shown in note 4.

As the Investment Manager is responsible for valuing investments for the financial statements, there is a potential risk of overstatement of investment valuations.</td><td>We tested a sample of 98% of the unquoted investment portfolio by value of investment holdings. 42% of the unquoted portfolio is based on valuations using an offer to acquire the investee company. For such investments, we checked the third party offer to supporting documentation and considered the Investment Manager's determination of whether there were any reasons why the valuation and the valuation methodology was not appropriate at 31 December 2019.

The remaining 58% of the investment portfolio is valued with reference to more subjective techniques including discounted cash flow models or using multiples of revenue or earnings.

Our detailed testing for such investments, performed on all investments within our sample comprised:
Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines obtaining management explanations
Re-performed the calculation of the multiples-based investment valuations
Benchmarked key inputs and estimates to independent information and our own research.
Where a valuation has been performed by a third party management's expert, we assessed the competence and capabilities of that expert, the quality of their work and their qualifications, as well as challenging the basis of inputs and assumptions used by the expert. We also considered any updates for subsequent information to the valuation made by the investment manager and obtained appropriate evidence for those changes
Challenged the assumptions inherent in the valuation of unquoted investments and assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements
Considered the economic environment in which the investment operates to identify factors that could impact the investment valuation
Developed our own point estimates where alternative assumptions could reasonably be applied and considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.
For investments not included in our detailed testing, we performed the following procedures where relevant:
Considered whether the valuation had been prepared by a suitably qualified individual
Considered whether a valid IPEV methodology had been adopted
Considered whether the valuation used up to date trading information.
Performed analytical procedures, by considering any changes to the valuation methodology from the prior year.
For a sample of loans held at fair value included above, we:
Vouched security held to documentation
Considered the assumption that fair value is not significantly different to cost by challenging the assumption that there is no significant movement in the market interest rate since acquisition and considering the "unit of account" concept (i.e. the investment as a whole)
Reviewed the treatment of accrued redemption premium/other fixed returns in line with the SORP.
Key observations
Based on the procedures performed we concluded that the valuation of the portfolio of investments was not materially misstated.</td></tr>
</table>

Key audit matters (continued)

Key Audit Matter	How We Addressed the Key Audit Matter in the Audit
Revenue recognition **(Note 2 and 3 to the financial statements)** Revenue consists primarily of interest earned on loans to investee companies, as well as dividends receivable from investee companies. Revenue recognition is considered to be a significant risk, particularly the assessment of the recoverability of loan interest income, and the completeness of dividends, as it is one of the key drivers of dividend returns to investors. Income arises from unquoted investments and can be difficult to predict. It is often a key factor in demonstrating the performance of the portfolio.	We recalculated expected income from loan stock investments in line with the underlying agreements and confirmations from investee companies. We traced a sample of interest receipts to bank and have considered the recoverability of loan stock interest with reference to post year end receipts. We also reviewed the recognition and classification of accrued fixed income receipts to ascertain whether it meets the definition of realised income under the Companies Act, or whether it should be recognised as an unrealised capital gain. We reviewed the accounts of unquoted investee companies to identify unrecorded dividends and, where recorded, we agreed dividends into the VCT's financial statements. We reviewed dividend histories from an independent source for quoted investments and recalculated the expected dividend in the accounts. Where appropriate we also agreed actual dividends received to RNS announcements, minutes and bank statements. *Key observations* As a result of performing the above procedures, we did not find any material misstatements in respect of revenue recognition.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements. The application of these key considerations gives rise to three levels of materiality, the quantum and purpose of which are tabulated below.

Materiality measure	**Purpose**	**Key considerations and benchmarks**	**Quantum (£)**
Financial statement materiality. *(2% of gross investments)*	Assessing whether the financial statements as a whole present a true and fair view.	• The value of gross investments • The level of judgement inherent in the valuation • The range of reasonable alternative valuations	£195,000 (31 December 2018: £343,000)
Performance materiality. *(75% of materiality)*	Lower level of materiality applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions.	• Financial statement materiality • Risk and control environment • History of prior errors (if any)	£146,000 (31 December 2018: £240,000)
Specific materiality – classes of transactions and balances which impact on net realised returns. (10% of net revenue returns to shareholders)	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	• Level of net revenue • returns to shareholder	£11,000 (31 December 2018: £16,000)

In prior year we set a formal specific materiality threshold for those items impacting revenue return of £16,000 which was based on 8% of net revenue returns to shareholders. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of 4,000 (2018 - £11,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the company's activities, and the overall control environment. Based on this understanding we assessed those aspects of the company's transactions and balances which were most likely to give rise to a material misstatement.

An overview of the scope of our audit (continued)

In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of investments which have a high level of estimation uncertainty involved in determining the unquoted investment valuations.

How the audit was considered capable of detecting irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("the SORP") issued in November 2014 and updated in February 2018 with consequential amendments and FRS 102. We also considered the company's qualification as a VCT under UK tax legislation.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management; and
- review of minutes of board meetings throughout the period.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable–** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting–** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code –** the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Opinions on other matters prescribed by the Companies Act 2006 (continued)

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ending 31 January 2006 to 31 December 2019. The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit. Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Vanessa-Jayne Bradley (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
30 April 2020
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INCOME STATEMENT
for the year ended 31 December 2019

	Note	Year ended 31 December 2019 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 2018 Revenue £'000	Capital £'000	Total £'000
Income	3	654	16	670	885	32	917
Loss on investments	10	-	(4,684)	(4,684)	-	(4,677)	(4,677)
		654	(4,668)	(4,014)	885	(4,645)	(3,760)
Investment management fees	4	(307)	-	(307)	(430)	-	(430)
Other expenses	5	(250)	-	(250)	(256)	-	(256)
(Loss)/return on ordinary activities before tax		97	(4,668)	(4,571)	199	(4,645)	(4,446)
Tax on total comprehensive income and ordinary activities	7	24	-	24	(112)	-	(112)
(Loss)/return for the year attributable to equity shareholders		121	(4,668)	(4,547)	87	(4,645)	(4,558)
Basic and diluted (loss)/return per:							
'F' Share	9	0.1p	0.9p	1.0p	(0.2p)	(4.0p)	(4.2p)
'H' Share	9	1.0p	(9.0p)	(8.0p)	1.5p	(27.6p)	(26.1p)
'J' Share	9	(0.2p)	(33.4p)	(33.6p)	(0.8p)	(5.0p)	(5.8p)

All Revenue and Capital items in the above statement are derived from continuing operations. No operations were acquired or discontinued during the year. The total column within the Income Statement represents the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS 102"). The supplementary revenue and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 and updated February 2018 by the Association of Investment Companies ("AIC SORP").

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

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

INCOME STATEMENT (ANALYSED BY SHARE POOL)
for the year ended 31 December 2019

'F' Share pool

		Year ended 31 December 2019			Year ended 31 December 2018		
	Note	**Revenue £'000**	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Income		105	-	105	172	-	172
Gain/(loss) on investments		-	100	100	-	(430)	(430)
		105	100	205	172	(430)	(258)
Investment management fees		(49)	-	(49)	(98)	-	(98)
Other expenses		(52)	-	(52)	(68)	-	(68)
Return/(loss) on ordinary activities before tax		4	100	104	6	(430)	(424)
Tax on total comprehensive income and ordinary activities		10	-	10	(27)	-	(27)
Return/(loss) attributable to equity shareholders	**9**	14	100	114	(21)	(430)	(451)

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

INCOME STATEMENT (ANALYSED BY SHARE POOL) (continued)
for the year ended 31 December 2019

'H' Share pool

		Year ended 31 December 2019			Year ended 31 December 2018		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		382	-	382	515	-	515
(Loss)/gain on investments		-	(1,205)	(1,205)	-	(3,684)	(3,684)
		382	(1,205)	(823)	515	(3,684)	(3,169)
Investment management fees		(131)	-	(131)	(169)	-	(169)
Other expenses		(91)	-	(91)	(105)	-	(105)
(Loss)/return on ordinary activities before tax		160	(1,205)	(1,045)	241	(3,684)	(3,443)
Tax on total comprehensive income and ordinary activities		(28)	-	(28)	(47)	-	(47)
(Loss)/return attributable to equity shareholders	**9**	132	(1,205)	(1,073)	194	(3,684)	(3,490)

'J' Share pool

		Year ended 31 December 2019			Year ended 31 December 2018		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		167	16	183	198	32	230
Loss on investments		-	(3,579)	(3,579)	-	(563)	(563)
		167	(3,563)	(3,396)	198	(531)	(333)
Investment management fees		(127)	-	(127)	(163)	-	(163)
Other expenses		(107)	-	(107)	(83)	-	(83)
Loss on ordinary activities before tax		(67)	(3,563)	(3,630)	(48)	(531)	(579)
Tax on total comprehensive income and ordinary activities		42	-	42	(38)	-	(38)
Loss attributable to equity shareholders	**9**	(25)	(3,563)	(3,588)	(86)	(531)	(617)

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

BALANCE SHEET
as at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Investments	**10**	9,758	17,140
Current assets			
Debtors	**11**	678	779
Cash at bank and in hand		2,193	1,762
		2,871	2,541
Creditors: amounts falling due within one year	**12**	(164)	(255)
Net current assets		2,707	2,286
Net assets		12,465	19,426
Capital and reserves			
Called up share capital	**13**	35	35
Capital redemption reserve	**14**	149	149
Special reserve	**14**	23,726	25,206
Revaluation reserve	**14**	(6,932)	(4,748)
Capital reserve – realised	**14**	(4,447)	(1,029)
Revenue reserve	**14**	(66)	(187)
Total equity shareholders' funds	**15**	12,465	19,426
Basic and diluted net asset value per Share:			
'F' Share	**15**	24.5p	28.4p
'H' Share	**15**	33.2p	51.3p
'J' Share	**15**	50.3p	88.9p

The financial statements on pages 52 to 79 were approved and authorised for issue by the Board of Directors on 30 April 2020 and were signed on its behalf by:

Michael Robinson
Chairman
Company number: 5334413

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

BALANCE SHEET (ANALYSED BY SHARE POOL)
as at 31 December 2019

'F' Shares

	Note	2019 £000	2018 £000
Fixed assets			
Investments		2,441	3,057
Current assets			
Debtors		69	55
Cash at bank and in hand		181	31
		250	86
Creditors: amounts falling due within one year		(45)	(70)
Net current assets		205	16
Net assets		2,646	3,073
Capital and reserves			
Called up share capital	**13**	11	11
Capital redemption reserve		149	149
Special reserve		3,903	4,229
Revaluation reserve		(771)	(721)
Capital reserve – realised		(1,099)	(1,033)
Revenue reserve		453	438
Total equity shareholders' funds	**15**	2,646	3,073

'H' Shares

	Note	2019 £000	2018 £000
Fixed assets			
Investments		3,847	6,586
Current assets			
Debtors		451	284
Cash at bank and in hand		233	103
		684	387
Creditors: amounts falling due within one year		(83)	(111)
Net current assets		601	276
Net assets		4,448	6,862
Capital and reserves			
Called up share capital	**13**	13	13
Special reserve		8,905	10,086
Revaluation reserve		(4,847)	(3,483)
Revenue reserve		377	246
Total equity shareholders' funds	**15**	4,448	6,862

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

BALANCE SHEET (ANALYSED BY SHARE POOL) (continued)
as at 31 December 2019

'J' Shares

	Note	2019 £000	2018 £000
Fixed assets			
Investments		3,470	7,497
Current assets			
Debtors		158	440
Cash at bank and in hand		1,779	1,628
		1,937	2,068
Creditors: amounts falling due within one year		(36)	(74)
Net current assets		1,901	1,994
Net assets		5,371	9,491
Capital and reserves			
Called up share capital	**13**	11	11
Special reserve		10,918	10,891
Revaluation reserve		(1,314)	(544)
Capital reserve – realised		(3,348)	4
Revenue reserve		(896)	(871)
Total equity shareholders' funds	**15**	5,371	9,491

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

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Called up share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Share premium reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000	Total £'000
At 1 January 2018	60	124	5,146	24,639	1	(1,039)	(239)	28,692
Total comprehensive income	-	-	-	-	(5,079)	434	87	(4,558)
Share premium cancellation	-	-	24,639	(24,639)	-	-	-	-
Transactions with owners								
Purchase of own shares	-	-	-	-	-	-	(35)	(35)
Transfer between Reserves*	-	-	(4,579)	-	330	4,249	-	-
Cancellation of shares	(25)	25	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(4,673)	-	(4,673)
At 31 December 2018	35	149	25,206	-	(4,748)	(1,029)	(187)	19,426
Total comprehensive income	-	-	-	-	(4,888)	220	121	(4,547)
Realisation of impaired valuations	-	-	-	-	2,881	(2,881)	-	-
Transactions with owners								
Transfer between Reserves*	-	-	(1,480)	-	(177)	1,657	-	-
Dividends paid	-	-	-	-	-	(2,414)	-	(2,414)
At 31 December 2019	35	149	23,726	-	(6,932)	(4,447)	(66)	12,465

* A transfer of £177,000 (2018: £330,000) representing previously recognised unrealised gains/losses on disposal of investments during the year ended 31 December 2019 has been made from the Revaluation Reserve to the Capital Reserve-realised. A transfer of £1.7 million (2018: £4.2 million) representing realised gains on disposal of investments, less capital expenses and capital dividends in the year was made from Capital Reserve – realised to Special reserve.

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

CASH FLOW STATEMENT
for the year ended 31 December 2019

		Year ended 31 December 2019			
	Note	'F' Share pool £'000	'H' Share pool £'000	'J' Share pool £'000	Total £'000
Net cash (outflow)/inflow from operating activities	**16**	(25)	(64)	236	147
Cash flow from investing activities					
Proceeds from sale of investments		716	1,533	449	2,698
Net cash inflow from investing activities		716	1,533	449	2,698
Net cash inflow before financing activities		691	1,469	685	2,845
Cash flows from financing activities					
Equity dividends paid	**8**	(541)	(1,339)	(534)	(2,414)
Net cash outflow from financing activities		(541)	(1,339)	(534)	(2,414)
Increase in cash		150	130	151	431
Cash and cash equivalents at start of year		31	103	1,628	1,762
Cash and cash equivalents at end of year		181	233	1,779	2,193
Cash and cash equivalents comprise					
Cash at bank and in hand		181	233	1,779	2,193
Total cash and cash equivalents		181	233	1,779	2,193

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

CASH FLOW STATEMENT
for the year ended 31 December 2019

	Note	Year ended 31 December 2018 'F' Share pool £'000	'H' Share pool £'000	'J' Share pool £'000	Total £'000
Net cash (outflow)/inflow from operating activities	**16**	9	28	(382)	(345)
Cash flow from investing activities					
Purchase of investments		-	-	(375)	(375)
Proceeds from sale of investments		1,964	632	661	3,257
Net cash inflow from investing activities		1,964	632	286	2,882
Net cash inflow/(outflow) before financing activities		1,973	660	(96)	2,537
Cash flows from financing activities					
Equity dividends paid	**8**	(4,004)	(669)	-	(4,673)
Purchase of own shares		-	(16)	(19)	(35)
Net cash outflow from financing activities		(4,004)	(685)	(19)	(4,708)
(Decrease)/increase in cash		(2,031)	(25)	(115)	(2,171)
Cash and cash equivalents at start of year		2,062	128	1,743	3,933
Cash and cash equivalents at end of year		31	103	1,628	1,762
Cash and cash equivalents comprise					
Cash at bank and in hand		31	103	1,628	1,762
Total cash and cash equivalents		31	103	1,628	1,762

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

NOTES TO THE ACCOUNTS
for the year ended 31 December 2019

1. General information

Downing THREE VCT plc ("the Company") is a venture capital trust established under the legislation introduced in the Finance Act 1995 and is domiciled in the United Kingdom and incorporated in England and Wales, and its registered office is St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD.

2. Accounting policies

Basis of accounting

The Company has prepared its financial statements under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and in accordance with the Statement of Recommended Practice ("SORP") for investment trust companies and venture capital trusts issued by the Association of Investment Companies ("AIC") in November 2014 and updated February 2018 as well as the Companies Act 2006.

The financial statements are presented in Sterling (£) and rounded to thousands.

Going concern

After reviewing the Company's forecasts and projections, the Directors have a reasonable expectation that the major cash outflows of the Company (most notably investments, share buybacks and dividends) are within the Company's control and therefore the Company has sufficient cash to meet its expenses and liabilities when they fall due. As such, the Board confirms that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements as noted further within the Corporate Governance report on page 45.

Presentation of Income Statement

In order to better reflect the activities of a venture capital trust and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The return on ordinary activities is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Part 6 of the Income Tax Act 2007.

Investments

Venture capital investments are designated as "fair value through profit or loss" assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, with a view to selling after a period of time, in accordance with the Company's documented investment policy. The fair value of an investment upon acquisition is deemed to be cost. Thereafter investments are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEV") together with FRS 102 sections 11 and 12.

For unquoted investments, fair value is established using the IPEV guidelines. The valuation methodologies for unquoted entities used by the IPEV to ascertain the fair value of an investment are as follows:

- Price of recent investment;
- Multiples;
- Net assets;
- Discounted cash flows or earnings (of underlying business);
- Discounted cash flows (from the investment); and
- Industry valuation benchmarks.

The methodology applied takes account of the nature, facts and circumstances of the individual investment and uses reasonable data, market inputs, assumptions and estimates in order to ascertain fair value.

2. Accounting policies (continued)

Investments (continued)

All investments are held at the price of recent investment for an appropriate period where there is considered to have been no change in fair value. Where this basis is no longer considered appropriate, the following factors will be considered:

- Where a value is demonstrated by a material arms-length transaction by an independent third party in the shares of a company, this value may be used;
- In the absence of the above, depending on each of the subsequent trading performance and investment structure of an investee company, the valuation basis will likely move to either:
  - i) an earnings multiple basis; or
  - ii) where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate.
- Premiums on loan stock investments are accrued at fair value when the Company receives the right to the premium and when considered recoverable;
- Where an earnings multiple or cost less impairment basis is not appropriate and overriding factors apply, discounted cash flow, a net asset valuation, or industry specific valuation benchmarks may be applied.

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

It is not the Company's policy to exercise significant influence over investee companies. Therefore, the results of these companies are not incorporated into the Income Statement except to the extent of any income accrued. This is in accordance with the SORP and FRS 102 sections 14 and 15 that does not require portfolio investments, where the interest held is greater than 20%, to be accounted for using the equity method of accounting.

Income

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

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

Distributions from investments in limited liability partnerships ("LLPs") are recognised as they are paid to the Company. Where such items are considered capital in nature they are recognised as capital profits.

Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Income Statement, all expenses have been presented as revenue items except as follows:

- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The Company has adopted the policy of allocating Investment Manager's fees 100% as revenue.
- Expenses and liabilities not specific to a share class are generally allocated pro rata to the net assets.
- Performance incentive fees arising from the disposal of investments are deducted as a capital item.

Dividends payable

Dividends payable are recognised as distributions in the financial statements when the Company's liability to make payment has been established, normally the record date.

Taxation

The tax effects on different items in the Income Statement are allocated between capital and revenue on the same basis as the particular item to which they relate using the Company's effective rate of tax for the accounting year.

2. Accounting policies (continued)

Taxation (continued)

Due to the Company's status as a Venture Capital Trust and the continued intention to meet the conditions required to comply with Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arise.

Deferred taxation which is not discounted is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred taxation is not discounted.

Other debtors and other creditors

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

Issue costs

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

Significant estimates and judgements

Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the financial statements. The area involving a higher degree of judgement and estimates is the valuation of unquoted investments as explained in the investment accounting policy above and addressed further in note 10.

3. Income

	Revenue £'000	Capital £'000	2019 Total £'000	2018 Total £'000
Income from investments				
Loan stock interest	629	-	629	844
LLP income	-	16	16	32
	629	16	645	876
Other income				
Bank interest	2	-	2	7
Fee income	23	-	23	34
	654	16	670	917

4. Investment management fees

Downing LLP ("DLLP") (formerly Downing Managers 3 Limited), provides management services in respect of the portfolio of venture capital investments. The management fee, which is charged to the Company, is based on an annual amount of 1.8% of the 'F' share pool net assets and 2.0% of the 'H' and 'J' share pools net assets. From 1 January 2020, the Investment Manager has agreed to waive fees in respect of the 'H' and 'J' share pools. The Manager also provides administration services for a fee of £58,000 (plus RPI) per annum. Fees in relation to these services are shown within note 5.

	2019 £'000	2018 £'000
Investment management fees	307	430

5. Other expenses

	2019 £'000	2018 £'000
Administration services	62	60
Trail commission	14	15
Directors' remuneration (including employees NIC)	67	67
Social security costs	2	2
Auditor's remuneration for audit	22	23
Auditor's remuneration for non-audit services (taxation)	-	-
Other	83	89
	250	256

The 'F' and 'H' Share pool are subject to an annual running costs cap of 3.5% of the net asset value of each respective share pool. The 'J' Share pool is subject to an annual running costs cap of 3.0% of the net asset value.

6. Directors' remuneration

The Directors of the Company are considered to be the only key management personnel of the Company. Details of remuneration are given in the Directors' Remuneration Report on page 39. The Company had no employees (other than Directors) during the year. Costs in respect of these are referred to in note 5 above.

No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

7. Tax on ordinary activities

	2019 £'000	2018 £'000
(a) Tax charge for year		
UK corporation tax	(24)	112
Charge for the year	(24)	112
(b) Factors affecting tax charge for the year		
Loss on ordinary activities before taxation	(4,572)	(4,446)
Tax charge calculated on (loss)/return on ordinary activities before taxation at the applicable rate of 19.0% (Year ended 31 Dec 2018: 19.0%)	(869)	(845)
Effects of:		
Loss/(gain) on investments	890	889
LLP profit distributions	20	29
Expenses disallowed for tax purposes	-	2
Adjustment in respect of prior year	(51)	45
Excess management fees carried forward on which deferred tax asset is not recognised	-	-
LLP trading losses utilised	(14)	(8)
	(24)	112

8. Dividends

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by 'F' Share pool						
Y/e Dec 2019 Interim – 5.0p	-	541	541	-	-	-
Y/e Dec 2018 Interim – 18.0p	-	-	-	-	1,948	1,948
Y/e Dec 2017 Final – 19.0p	-	-	-	-	2,056	2,056
	-	541	541	-	4,004	4,004
Paid by 'H' Share pool						
Y/e Dec 2019 Interim – 5.0p	-	670	670	-	-	-
Y/e Dec 2018 Final – 5.0p	-	669	669	-	-	-
Y/e Dec 2018 Interim – 2.5p	-	-	-	-	334	334
Y/e Dec 2017 Final – 2.5p	-	-	-	-	335	335
	-	1,339	1,339	-	669	669
Proposed by 'H' Share pool						
Y/e Dec 2018 Final – 5.0p	-	-	-	-	669	669
	-	-	-	-	669	669
Paid by 'J' Share pool						
Y/e Dec 2019 Interim – 2.5p	-	267	267	-	-	-
Y/e Dec 2018 Final – 2.5p	-	267	267	-	-	-
	-	534	534	-	-	-
Proposed by 'J' Share pool						
Y/e Dec 2019 Interim – 2.5p	-	267	267	-	-	-
Y/e Dec 2018 Final – 2.5p	-	-	-	-	267	267
	-	267	267	-	267	267

9. Basic and diluted return per share

	'F' Shares	'H' Shares	'J' Shares
Revenue return/(loss) (£'000)	14	132	(25)
Per share (pence)	0.1p	1.0p	(0.2p)
Net capital gain/(loss) for the year (£'000)	100	(1,205)	(3,563)
Per share (pence)	0.9p	(9.0p)	(33.4p)
Total gain/(loss) after taxation (£'000)	114	(1,073)	(3,588)
Per share (pence)	1.0p	(8.0p)	(33.6p)
Weighted average number of shares in issue	10,821,660	13,389,758	10,675,533

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

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

	Unquoted investments £'000
Cost at 1 January 2019	21,927
Unrealised losses at 1 January 2019	(4,787)
Valuation at 1 January 2019	17,140
Movement in the year:	
Purchased at cost	-
Sale - proceeds	(2,698)
- realised gains on sales	204
Unrealised losses in the income statement	(4,888)
Valuation at 31 December 2019	9,758
Cost at 31 December 2019	19,610
Unrealised losses at 31 December 2019	(9,852)
Valuation at 31 December 2019	9,758

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

The Company has categorised its fair value through profit or loss financial instruments using the fair value hierarchy as follows:

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

10. Investments (continued)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2019 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2018 £'000
Loan notes	-	-	2,494	2,494	-	-	2,873	2,873
Unquoted equity	-	-	7,264	7,264	-	-	14,267	14,267
	-	-	9,758	9,758	-	-	17,140	17,140

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

	Loan notes £'000	Unquoted equity £'000	Total £'000
Balance at 1 January 2019	2,873	14,267	17,140
Movements in the Income Statement:			
Unrealised gains/(losses) in the Income Statement	215	(5,103)	(4,888)
Realised gains in the Income Statement	5	199	204
	3,093	9,363	12,456
Purchases at cost	-	-	-
Sales proceeds	(599)	(2,099)	(2,698)
Balance at 31 December 2019	2,494	7,264	9,758

Changing one or more of the inputs to reasonable possible alternative valuation assumptions could result in a significant change in the fair value of the Level 3 investments. There is an element of judgement in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the Company's investments.

The basis of valuation of the investments was unchanged during the year.

The Board and the Investment Manager believe that the valuations as at 31 December 2019 reflect the most appropriate assumptions at that date, giving due regard to all information available from each investee company. Consequently, the variation in the spread of reasonable, possible, alternative valuations is likely to be in the range set out in note 17.

An analysis of venture capital investments between equity and non-equity elements is set out on pages 12, 20 and 28 within the Review of Investments.

Significant interests

Details of shareholdings in those companies where the company's holding at 31 December 2019 represents greater than 20% of the nominal value of any class of the allotted shares in the portfolio company are included within the review of investments on pages 9 to 28. Relevant companies which are not included within the review of investments are disclosed below. All of the companies named are incorporated in England and Wales.

Company	Registered office	Held by	Class of shares	Number held	Proportion of class held
Zora Energy Renewables Limited	YO8 6EL	'H' Share pool	Ordinary 'B' Shares	1,000,000	41.7%

10. Investments (continued)

The following summary shows investments made by the Company in which other funds managed by Downing have also invested. Amounts shown are original cost of investments.

Company	Cost £'000	Equity held by Other Downing Discretionary Funds Note 1 %	Equity held by Other Downing Funds Note 2 %
Apex Energy Limited	2,300	54.0†	-
Atlantic Dogstar Limited	1,200	42.4	-
Baron House Developments LLP	481	-	-
Commercial Street Hotel Limited	-	24.8	25.7
Downing Pubs EIS One Limited	490	23.7	7.9
Exclusive Events Venues Limited	500	10.0	-
Fenkle Street LLP	287	-	-
Fresh Green Power Limited	189	6.2	6.2
Garthcliff Shipping Limited	400	26.0	-
Green Energy Production UK Limited	100	6.2	6.2
Hermes Wood Pellets Limited	1,500	10.1	-
Indigo Generation Limited	1,227	15.3	19.2
Ironhide Generation Limited	1,227	15.3	19.2
Jito Trading Limited	1,000	30.0	50.0
London City Shopping Centre Limited	81	-	-
Ormsborough Limited	1,000	23.5	-
Pearce and Saunders DevCo Limited	46	27.8	37.1
Pearce and Saunders Limited	690	27.8	37.1
Pilgrim Trading Limited	1,297	10.0	60.0†
Quadrate Catering Limited	850	38.1	39.5
Quadrate Spa Limited	1,099	44.2	34.2
Rockhopper Renewables Limited	984	13.0	16.2
SF Renewables (Solar) Limited	562	4.6	5.7
Yamuna Renewables Limited	800	13.0	50.0
Zora Energy Renewables Limited	1,300	45.8	-
	19,610		

Details of the equity held by Downing THREE VCT plc as at 31 December 2019 are included within the review of investments on pages 9 to 28.

Note 1: Other Downing Discretionary Funds comprise Downing TWO VCT plc and Downing FOUR VCT plc which are managed under discretionary management agreements by Downing LLP.
Note 2: Other Downing Funds comprise Downing ONE VCT plc, which are self-managed funds where executives of Downing LLP are involved in the management.

†Investment decisions are made by the respective VCT Board of Directors.

11. Debtors

	2019 £'000	2018 £'000
Prepayments and accrued income	678	779
Other debtors	-	-
	678	779

12. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Accruals and deferred income	133	184
Corporation tax	27	67
Other taxes and social security	4	4
	164	255

13. Called up share capital

	2019 £'000	2018 £'000
Issued, allotted, called up and fully-paid:		
10,821,660 (2018: 10,821,660) 'F' Shares of 0.1p each	11	11
13,389,758 (2018: 13,389,758) 'H' Shares of 0.1p each	13	13
10,675,533 (2018: 10,675,533) 'J' Shares of 0.1p each	11	11
	35	35

During the year, no 'F' Shares, 'H' Shares or 'J' Shares were repurchased.

The Company's capital is managed in accordance with its investment policy as shown in the Strategic Report on page 31, in pursuit of its principal investment objectives as stated on page 2.

13. Called up share capital (continued)

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

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

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

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

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

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

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

If the Hurdles are met, the Performance Incentive will be 3.0p per 'H' Share plus 20% of the funds available above 105.82p per 'H' Share (for distribution to 'H' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount (over the period to when an exit is provided in approximately six years) equivalent to 7.0p per 'H' Share (based on the number of 'H' Shares in issue at the close of the Offers). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

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

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

- have the opportunity to receive Shareholder Proceeds of at least 104.17p per 'J' Share (excluding initial income tax relief); and
- achieve a tax-free Compound Return of at least 6% per annum (after allowing for income tax relief on investment) (together the "Hurdles"). 104.17p is the assumed gross issue price per 'J' Share based on an initial NAV of 100p and issue costs of 4%.

If the Hurdles are met, the Performance Incentive will be 3.0p per 'J' Share plus 20% of the funds available above 104.17p per 'J' Share (before distribution to 'J' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount (over the period to when an exit is provided in approximately six years) equivalent to 7.0p per 'J' Share (based on the number of 'J' Shares in issue at the close of the Offers). Investors choosing to retain rather than exit their investment after five years will be deemed to have received Shareholder Proceeds for the purposes of the calculation of the Performance Incentive.

14. Reserves

	2019 £'000	2018 £'000
Capital redemption reserve	149	149
Special reserve	23,726	25,206
Revaluation reserve	(6,932)	(4,748)
Capital reserve – realised	(4,447)	(1,029)
Revenue reserve	(66)	(187)
	12,430	19,391

The Special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay capital distributions. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £7,805,000 which are included in the calculation of distributable reserves. At 31 December 2019, total distributable reserves were £11.4 million (2018: £18.2 million).

Share premium reserve
This reserve accounts for the difference between the prices at which shares are issued and the nominal value of the shares and transfers to the other distributable reserves.

Revaluation reserve
Increases and decreases in the valuation of investments held at the year end against cost are included in this reserve.

Capital redemption reserve
This reserve accounts for amounts by which the issued share capital is diminished through the repurchase and cancellation of the Company's own shares.

Capital reserve – realised
The following are disclosed in this reserve:

- gains and losses compared to cost on the realisation of investments; and
- expenses, together with the related taxation effect, charged in accordance with the above accounting policies.

Revenue reserve
This reserve accounts for movements from the revenue column of the Income Statement, the payment of dividends and other non-capital realised movements.

15. Basic and diluted net asset value per share

	Shares in issue		2019 Net asset value		2018 Net asset value	
	31 Dec 2019	31 Dec 2018	per share	£'000	per share	£'000
'F' Shares	10,821,660	10,821,660	24.5p	2,646	28.4p	3,073
'H' Shares	13,389,758	13,389,758	33.2p	4,448	51.3p	6,862
'J' Shares	10,675,533	10,675,533	50.3p	5,371	88.9p	9,491
				12,465		19,426

The 'F' Share pool, 'H' Share pool and 'J' Share pool are treated as separate investment pools.

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

Year ended 31 December 2019

	'F' Share pool £'000	'H' Share pool £'000	'J' Share pool £'000	Total £'000
Return/(loss) on ordinary activities before taxation	104	(1,045)	(3,630)	(4,571)
Corporation tax paid	(4)	(45)	32	(17)
Gains/(losses) on investments	(100)	1,205	3,579	4,684
Decrease/(increase) in prepayments and accrued income	(14)	(167)	283	102
(Decrease)/increase in accruals and deferred income	(11)	(12)	(28)	(51)
Net cash (outflow)/ inflow from operating activities	(25)	(64)	236	147

Year ended 31 December 2018

	'F' Share pool £'000	'H' Share pool £'000	'J' Share pool £'000	Total £'000
Loss on ordinary activities before taxation	(424)	(3,443)	(579)	(4,446)
Corporation tax paid	(7)	-	(38)	(45)
Gains on investments	430	3,684	563	4,677
Decrease/(increase) in prepayments and accrued income	70	(195)	(331)	(456)
(Decrease)/increase in accruals and deferred income	(60)	(18)	3	(75)
Net cash (outflow)/inflow from operating activities	9	28	(382)	(345)

17. Financial instruments

The Company held the following categories of financial instruments at 31 December 2019:

		2019		2018
	Cost	Value	Cost	Value
	£'000	£'000	£'000	£'000
Assets at fair value through profit or loss	19,610	9,758	21,927	17,140
Other financial assets/(liabilities)	534	534	580	580
Cash at bank	2,193	2,193	1,762	1,762
Total	22,337	12,485	24,269	19,482

The Company's financial instruments comprise investments held at fair value through profit and loss, being equity and loan stock investments in unquoted companies, loans and receivables consisting of short term debtors, cash deposits and financial liabilities, being creditors arising from its operations. The main purpose of these financial instruments is to generate cashflow and revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors and does not use any derivatives.

The fair value of investments is determined using the detailed accounting policy as shown in note 2. The composition of the investments is set out in note 10.

The fair value of cash deposits and short term debtors and creditors equates to their carrying value in the Balance Sheet.

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

The Company's investment activities expose the Company to a number of risks associated with financial instruments and the sectors in which the Company invests. The emerging and principal financial risks arising from the Company's operations are:

- Market risks
- Credit risk
- Liquidity risk

The Board regularly reviews these risks and the policies in place for managing them. There have been no significant changes to the nature of the risks that the Company is exposed to over the year and there have also been no significant changes to the policies for managing those risks during the year.

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

Market risks

As a VCT, the Company is exposed to investment risks in the form of potential losses and gains that may arise on the investments it holds in accordance with its investment policy. The management of these investment risks is a fundamental part of the investment activities undertaken by the Investment Manager and overseen by the Board. The Manager monitors investments through regular contact with management of investee companies, regular review of management accounts and other financial information, and attendance at investee company board meetings. This enables the Manager to manage the investment risk in respect of individual investments. Investment risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

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

- Investment price risk
- Interest rate risk

17. Financial instruments (continued)

Investment price risk

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

At 31 December 2019, the unquoted portfolio was valued at £9,758,000 (2018: £17,140,000). A breakdown of the unquoted portfolio by valuation method used is as follows:

	2019 £'000	2018 £'000
Price of recent investment	1,297	7,162
Multiples	4,543	5,612
Discounted cash flows or earnings (of underlying business)	2,815	910
Discounted cash flows (from the investment)	1,103	3,456
	9,758	17,140

As many of the Company's unquoted investments are valued using revenue or earnings multiples of comparable companies or sectors, a change in the relevant market sectors could impact on the valuation of the equity investments held in the unquoted portfolio. As the unquoted investments are across a broad range of sectors and valued using different valuation techniques, it is not possible to create a meaningful analysis by changing any one input or discount factor. As unquoted investments are typically structured as partly equity and partly loan notes, investment price risk of the unquoted investments is considered as a whole. The Board has considered the current volatile market conditions arising from the coronavirus pandemic in determining the reasonably possible market movements that should be illustrated with sensitivity analysis. It was concluded that a positive 20% and negative 50% movement (2018: 10% movement) in the price of these investments is considered to be a reasonable maximum and minimum level in a year and would have an effect as follows:

Movement in unquoted investment valuations

	Year ended 31 December 2019			
	+20%		-50%	
	Impact on net assets £'000	Impact on NAV per share Pence	Impact on net assets £'000	Impact on NAV per share Pence
'F' Shares	488	4.9p	(1,221)	(12.2p)
'H' Shares	769	6.6p	(1,923)	(16.6p)
'J' Shares	694	10.1p	(1,735)	(25.1p)

	Year ended 31 December 2018			
	+10%		-10%	
	Impact on net assets £'000	Impact on NAV per share Pence	Impact on net assets £'000	Impact on NAV per share Pence
'F' Shares	306	2.8p	(306)	(2.8p)
'H' Shares	659	5.1p	(659)	(5.1p)
'J' Shares	750	8.9p	(750)	(8.9p)

17. Financial instruments (continued)

Investment price risk **(continued)**

The sensitivity analysis for unquoted valuations above assumes that each of the sub-categories of financial instruments (ordinary shares and loan stocks) held by the Company produces an overall positive movement of 20% and negative movement of 50%. Shareholders should note that equal correlation between these sub-categories is unlikely to be the case in reality, particularly in the case of loan stock instruments. Where share valuations are falling, the equity instrument will fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to investment price risk in isolation.

Interest rate risk

Some of the Company's financial assets are interest-bearing, of which some are at fixed rates and some variable. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

The Company accepts exposure to interest rate risk on floating-rate financial assets through the effect of changes in prevailing interest rates. The Company receives interest on its cash deposits at a rate agreed with its bankers. Investments in loan stock attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

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

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

	Average interest rate	Average period until maturity	2019 £'000	2018 £'000
Fixed rate	21.7%	165 days	2,494	2,873
Floating rate	0.75%		2,193	1,762
No interest rate			7,778	14,791
			12,465	19,426

The Company monitors the level of income received from fixed and floating rate assets and, if appropriate, may make adjustments to the allocation between the categories in particular, should this be required to ensure compliance with the VCT regulations.

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the year by £2,000 for the 'F' Share pool, £2,000 for the 'H' Share pool and £18,000 for the 'J' Share pool. Throughout the period, the Bank of England base rate was held at 0.75%. Following the period end, The Bank of England base rate decreased from 0.75% per annum to 0.1% per annum in March 2020. Any potential change in the base rate at the current level, would have an immaterial impact on the net assets and total return of the Company.

17. Financial instruments (continued)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan stock in investee companies, cash deposits and debtors.

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

	2019 £'000	2018 £'000
Investments in loan stocks	2,494	2,873
Cash at bank	2,193	1,762
Interest, dividends and other receivables	671	768
	5,358	5,403

The Manager manages credit risk in respect of loan stock with a similar approach as described under "Market risks" above. In addition, the credit risk is mitigated for all investments in loan stocks by taking security, covering the full par value of the loan stock in the form of fixed and floating charges over the assets of the investee companies. The strength of this security in each case is dependent on the nature of the investee company's business and its identifiable assets. Similarly, the management of credit risk associated with interest, dividends and other receivables is covered within the investment management procedures.

Cash is mainly held by Bank of Scotland plc and Royal Bank of Scotland plc, both of which are A-rated financial institutions. Consequently, the Directors consider that the credit risk associated with cash deposits is low.

There have been no changes in fair value during the year that are directly attributable to changes in credit risk.

17. Financial instruments (continued)

Credit risk (continued)

The table below shows an analysis of the assets, highlighting the length of time that it could take the Company to realise its assets if it were required to do so.

The carrying value of loan stock investments held at fair value through the profit and loss account at 31 December 2019 as analysed by the expected maturity date is as follows:

As at 31 December 2019	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	391	-	-	-	-	391
Past due loan stock	1,593	510	-	-	-	2,103
	1,984	510	-	-	-	2,494

As at 31 December 2018	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	483	764	150	-	-	1,397
Past due loan stock	966	-	510	-	-	1,476
	1,449	764	660	-	-	2,873

Of the loan stock classified as "past due" above, as at the balance sheet date, £510,000, falling within the banding of one to two years related to the principal of loan notes where, although the principal remained within term, the investee company was not fully servicing the interest obligations under the loan note and is thus in arrears. The £1,593,000 remaining related to the principal of loan notes where the note has passed the maturity date. Notwithstanding the arrears of interest, the Directors do not consider that the maturity of the principal has altered.

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. As the Company has a relatively low level of creditors, (£164,000, 2018: £255,000) and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. The Company always holds sufficient levels of funds as cash in order to meet expenses and other cash outflows as they arise. For these reasons, the Board believes that the Company's exposure to liquidity risk is minimal.

The Company's liquidity risk is managed by the Investment Manager in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

Financial liabilities

The Company has no financial liabilities or guarantees, other than the creditors disclosed within the balance sheet (2018: none).

18. Capital management

The Company defines capital as Shareholders funds and is managed in accordance with its investment policy, as shown in the Strategic Report on page 31, in pursuit of its principal investment objectives as stated on page 2.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and to provide an adequate return to Shareholders by allocating its capital to assets commensurately with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (80% from 1 January 2020, as measured under the tax legislation) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed. The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

Although, as the investment policy implies, the Board would consider levels of gearing, there are no current plans to do so. It regards the net assets of the Company as the Company's capital, as the level of liabilities is small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous period.

19. Contingencies, guarantees and financial commitments

At 31 December 2019 and 31 December 2018, the Company had no contingencies, guarantees or financial commitments.

20. Controlling party

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

21. Events after the end of the reporting period

After the end of the reporting period, on 11 March 2020, the World Health Organisation declared the outbreak of a strain of novel coronavirus disease, Covid-19, a global pandemic which has resulted in subsequent major developments and an impact on post year end valuations. Although the full impact of the pandemic is not yet known, there is a significant risk that the pandemic will negatively impact the prospects of many businesses within the portfolio, particularly those in the hospitality and children's nursery sectors which are held across all Share classes. Investment executives are carrying out an active and ongoing role in supporting all portfolio companies at this unprecedented time and are implementing any measures required to ensure each business suffers the least possible disruption. Provisions have been required against a number of the portfolio companies as at 31 March 2020. As a result, the unaudited NAVs and Total Return as at 31 March 2020 are as follows:

	Unaudited 31 Mar 2020 Pence	Audited 31 Dec 2019 Pence
'F' Share pool		
Net asset value per 'F' Share	21.3	24.5
Cumulative distributions per 'F' Share	72.0	72.0
Total Return per 'F' Share	93.3	96.5
'H' Share pool		
Net asset value per 'H' Share	22.3	33.2
Cumulative distribution per 'H' Share	35.0	35.0
Total Return per 'H' Share	57.3	68.2
'J' Share pool		
Net asset value per 'J' Share	43.8	50.3
Cumulative distribution per 'J' Share	5.0	5.0
Total Return per 'J' Share	48.8	55.3

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