



# Downing TWO VCT plc

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Half-Yearly Report  
for the six months  
ended 30 June 2017

# CHAIRMAN'S STATEMENT

## Introduction

I am pleased to present the Half-Yearly Report for the six months ended 30 June 2017. The Company has a number of share pools, each of which is in a different stage in its planned exit life. Generally, progress has been satisfactory over the period, with all the mature share pools seeing an increase in their total return.

## Net asset values and overview

### 'D' Share pool

The 'D' Share pool is now in the process of exiting from its investments.

At 30 June 2017, the net asset value ("NAV") for a combined holding of one 'D' Share and one 'E' Share was 24.0p. Total Return (NAV plus dividends paid to date) is now 104.0p for a combined holding, compared to the original cost, net of income tax relief, of 70p per share.

I have been paid 80p per combined holding. The Manager is optimistic that one final dividend can be paid before the end of the year to bring the share pool to a close.

### 'F' Share pool

The 'F' Share pool launched in 2012 and is scheduled to start exiting from investments in early 2018.

At 30 June 2017, the net asset value ("NAV") for a holding of one 'F' Share was 70.0p, an increase of 2.8p (4.0%) over the period. Total Return (NAV plus dividends paid to date) is now 97.5p for a combined holding, compared to the original cost, net of income tax relief, of 70p per share.

The Manager anticipates that the first major distribution will be paid in the first quarter of 2018.

### 'G' Share pool

The 'G' Share pool raised funds in 2013 and has completed its initial investment phase. The target date to start realising investments is late 2018.

At 30 June 2017, the net asset value ("NAV") for a holding of one 'G' Share was 82.5p which represents a net increase of 1.5p (1.8%) over the period after adjusting for the dividends paid out. Total Return (NAV plus dividends paid to date) is now 105.0p, compared to the initial NAV, before income tax relief, of 100.0p.

### 'K' Share pool

The 'K' Share pool raised funds in 2016 and is continuing to build its initial investment portfolio. The target date to start realising investments is late 2021.

At 30 June 2017, the net asset value ("NAV") and total return for a holding of one 'K' Share was 98.4p which represents a net decrease of 0.6p (0.6%) over the period, compared to the initial NAV of 100.0p. This deficit arises due to the initial "cash drag" of holding uninvested funds. As the portfolio is developed this effect will diminish.

The Investment Manager's Report on pages 3 to 11 will provide more detail on each of the share pools.

## Dividends

In line with the Company's stated policies, interim dividends will be paid as follows:

'F' Shares	2.5p per share
'G' Shares	2.5p per share

Each of the above dividends will be paid on 15 December 2017 to Shareholders on the register at 24 November 2017.

No interim dividend is being declared in respect of the 'D' Shares as additional dividends will be declared once further investment realisations have been completed. No dividend is being declared in respect of the 'K' Share pool as the VCT regulations effectively prohibit dividends at this early stage in the pool's life.

## CHAIRMAN'S STATEMENT (continued)

### Share buybacks

The Company has a general policy in the first five years after the launch of a share class, of buying in its own shares that become available in the market for cancellation. As a result, the Company will currently buy 'G' Shares and 'K' Shares that become available in the market and will, subject to liquidity and regulatory constraints, buy at prices approximately equal to net asset value i.e. with no discount.

During the period to 30 June 2017, the Company repurchased and subsequently cancelled 24,000 'G' Shares for an aggregate consideration of £20,040, being an average price of 83.5p per 'G' Share.

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

### Outlook

The Manager will be engaged in a number of different activities for each of the share pools over the remainder of the year. We hope to see the 'D' Share come to the end of its life with a final dividend and expect preparations for investment realisations in the 'F' Share pool to advance significantly. The 'G' Share pool is expected to have limited investment activity over the remainder of the year while the Manager focuses on the existing portfolio, but we expect to see a number of new additions to the 'K' Share portfolio as the funds raised continue to be employed.

Shareholders may be aware of the "Patient Capital Review" currently being undertaken by the Government which is seeking to strengthen the UK as a place for growing innovative businesses. It is possible that this review could result in some changes to the VCT regulations and the associated tax reliefs. We expect that any planned changes will be announced in the Budget in November. The Board and Manager are closely monitoring developments and we will communicate with Shareholders if we believe there are any changes which could have a significant impact on Shareholders' investments.

In addition to any communications in connection with the above, I will update all Shareholders in my statement in the next Annual Report, and I also expect to write separately to 'D' Shareholders as and when there is news of a final distribution.



**Hugh Gillespie**  
Chairman

28 September 2017

## INVESTMENT MANAGER'S REPORT 'D' SHARE POOL

The 'D' Share pool is in the process of realising its investments in order to return funds to 'D' Shareholders. Progress has continued through the period and we are optimistic it will be completed in the near future.

### Investment activity

During the period under review, there was one partial disposal of £245,000 in Mosaic Spa and Health Clubs Limited. This represented a gain of £68,000 against the previous carrying value. Further proceeds for this investment are expected in due course at which point the company will be fully exited from the pool.

At 30 June 2017, the pool held seven investments with a valuation of £2.2 million. Three small valuation changes were made at the period end resulting in a total valuation reduction of £4,000. The carrying values adopted at the end of the period are consistent with the values at which we believe the investments can be exited.

### Realisation plans

The pools most significant holding is in Gara Rock Resort Limited, formerly Aminghurst Limited. We are pleased to report that we have recently exchanged contracts for the sale of the investment and expect this transaction to complete shortly.

Of the remaining six investments, Avon Solar Energy Limited and Westcountry Solar Solutions Limited are expected to exit in the next two months. Mosaic Spa and Health Clubs Limited partially exited during the period and we are exploring options to facilitate a complete exit for the share pool. No further proceeds are expected from Quadrate Spa Limited or Future Biogas (Reepham Road) Limited.

### Net asset value and results

At 30 June 2017, the net asset value ("NAV") for a combined holding of one 'D' Share and one 'E' Share was 24.0p. Total Return (NAV plus dividends paid to date) is now 104.0p for a combined holding.

The profit on ordinary activities for the 'D' Shares, after taxation was £78,000 for the period, comprising a revenue loss of £20,000 and a capital profit of £98,000.

### Outlook

The end of the task of realising all the share pool's investments is now in sight. The exact timing is dependent on transactions involving third parties and therefore is somewhat uncertain, however we anticipate that the pool should be able to make one final payment before the end of the year.

### Downing LLP

28 September 2017

## SUMMARY OF INVESTMENT PORTFOLIO 'D' SHARE POOL

as at 30 June 2017

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
<b>VCT qualifying and partially qualifying investments</b>				
Avon Solar Energy Limited	210	252	12	10.2%
Westcountry Solar Solutions Limited	250	216	(34)	8.8%
Mosaic Spa and Health Clubs Limited*	325	123	-	5.0%
Quadrate Spa Limited	144	-	-	0.0%
<b>Non-qualifying investments</b>				
Gara Rock Resort Limited	1,322	1,322	-	53.6%
Fenkle Street LLP	122	287	18	11.6%
Future Biogas (Reephram Road) Limited	320	-	-	0.0%
	<u>2,693</u>	<u>2,200</u>	<u>(4)</u>	<u>89.2%</u>
<b>Cash at bank and in hand</b>		<u>266</u>		<u>10.8%</u>
<b>Total</b>		<u>2,466</u>		<u>100%</u>

\* Partially qualifying investment

## SUMMARY OF INVESTMENT MOVEMENTS 'D' SHARE POOL

for the six months ended 30 June 2017

	Cost £'000	Market value at 01/01/17*	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
<b>Disposals</b>					
Mosaic Spa and Health Clubs Limited	196	177	245	49	68
	<u>196</u>	<u>177</u>	<u>245</u>	<u>49</u>	<u>68</u>

\* Adjusted for additions made in the period

## INVESTMENT MANAGER'S REPORT

### 'F' SHARE POOL

The 'F' Share pool is fully invested in a portfolio focused on asset backed businesses and those with predictable revenue streams. Planning has begun in respect of the process to realise investments and start returning funds to Shareholders which can commence early in 2018.

#### Investment activity

With the pool being fully invested, no new investments were made in the period although one follow-on investment of £194,000 was made in Goonhilly Earth Station Limited, where further funding was required.

Funds had previously been invested in two companies, Morava Limited and Brownfields Trading Limited to explore business opportunities in specific sectors. In the event both companies were unable to find suitable opportunities, the £275,000 of funds invested were returned to the Share pool.

One partial divestment took place in the period being the part repayment of a non-qualifying loan to Gara Rock Resort Limited, formerly Aminghurst Limited, which generated proceeds of £95,000.

The majority of investments remain valued at or above cost and there were several valuation movements in the period.

Merlin Renewables Limited, the anaerobic digestion plant in Norfolk continues to perform well and the valuation was increased by £67,000.

Vulcan Renewables Limited has been sold after the period and the increase in value of £66,000 reflected expected sales proceeds minus a discount for execution risk. The sale subsequently completed at a higher value than shown overleaf.

An uplift of £39,000 was recognised in the period on Fresh Green Power Limited. The domestic rooftop solar company is generating profits in line with our expectations and we are now exploring options to sell the investment.

The valuation of Lambridge Solar Limited, the owner of commercial solar arrays in Lincolnshire, has been increased by £26,000 as it continues to perform well.

Atlantic Dogstar Limited continues to perform to plan and a small valuation uplift of £7,000 has been recognised in the period.

#### Net asset value, results and dividend

At 30 June 2017, the net asset value ("NAV") for a holding of one 'F' Share was 70.0p, an increase of 2.8p (4.0%) over the period. Total Return (NAV plus dividends paid to date) is now 97.5p for a combined holding.

The gain on ordinary activities for the 'F' Shares, after taxation was £294,000 for the period, comprising a revenue profit of £89,000 and a capital gain of £205,000.

The Company will pay an interim dividend of 2.5p per 'F' Share on 15 December 2017 to 'F' Shareholders on the register at 24 November 2017.

#### Outlook

The focus now for the 'F' Share portfolio is shifting towards planning for exits. Good progress is being made and we anticipate that the first major distribution will be paid in the first quarter of 2018.

#### Downing LLP

28 September 2017

## SUMMARY OF INVESTMENT PORTFOLIO 'F' SHARE POOL

as at 30 June 2017

	Cost £'000	Valuation £'000	Unrealised gain in period £'000	% of portfolio by value
<b>VCT qualifying and partially qualifying investments</b>				
Apex Energy Limited	1,000	1,000	-	13.4%
Goonhilly Earth Station Limited	954	954	-	12.8%
Vulcan Renewables Limited	653	844	66	11.3%
Merlin Renewables Limited	500	642	67	8.6%
Lambridge Solar Limited	500	595	26	8.0%
Pearce and Saunders Limited	497	497	-	6.6%
Augusta Pub Company Limited	290	349	-	4.7%
Vectis Alpha Limited	300	300	-	4.0%
Fresh Green Power Limited	200	239	39	3.2%
Pabulum Pubs Limited	200	237	-	3.2%
Atlantic Dogstar Limited	200	234	7	3.2%
City Falkirk Limited	422	177	-	2.4%
Fubar Stirling Limited	268	169	-	2.3%
Rhodes Solutions Limited	125	125	-	1.7%
Green Energy Production UK Limited	100	100	-	1.3%
Cheers Dumbarton Limited	48	17	-	0.2%
Lochrise Limited	13	-	-	0.0%
<b>Non-qualifying investments</b>				
Baron House Developments Limited	481	481	-	6.5%
Gara Rock Resort Limited	163	163	-	2.2%
London City Shopping Centre Limited	66	66	-	0.9%
Pearce and Saunders DevCo Limited	46	46	-	0.6%
	<u>7,026</u>	<u>7,235</u>	<u>205</u>	<u>97.1%</u>
<b>Cash at bank and in hand</b>		<u>218</u>		<u>2.9%</u>
<b>Total</b>		<u><u>7,453</u></u>		<u><u>100.0%</u></u>

\* Partially qualifying investment

F Shares

## SUMMARY OF INVESTMENT MOVEMENTS 'F' SHARE POOL

as at 30 June 2017

Additions	£'000
Goonhilly Earth Station Limited	194
<b>Total</b>	<b>194</b>

Disposals	Cost £'000	Market value at 01/01/17 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Brownfields Trading Limited	150	150	150	-	-
Morava Limited	125	125	125	-	-
Gara Rock Resort Limited	95	95	95	-	-
	370	370	370	-	-



# INVESTMENT MANAGER'S REPORT

## 'G' SHARE POOL

The 'G' Share pool raised funds in 2013 and the task of building the initial VCT qualifying portfolio is now complete.

### Investment activity

No new investments were made in the period and one follow-on investment of £436,000 was made in Goonhilly Earth Station Limited, where further funding was required.

In the period, proceeds of £92,000 were received from the repayment in full of a loan to Craft Beer Pub Co Limited.

The majority of investments remain valued at or above cost and there were three valuation uplifts in the period totalling a gain of £229,000.

Atlantic Dogstar Limited continues to perform to plan and a valuation uplift of £133,000 has been recognised in the period.

The Antelope Pub Limited owns a pub of the same name in Tooting which continues to trade well and ahead of budget resulting in an increase in value of £82,000 being recognised in the period.

Ormsborough Limited owns several pubs and restaurants in Yorkshire with some trading well and others are under construction. Overall performance of the group has been good resulting in an uplift in valuation of £14,000.

### Net asset value

At 30 June 2017, the net asset value ("NAV") for a holding of one 'G' Share was 82.5p which represents a net increase of 1.5p (1.8%) over the period after adjusting for the dividends paid out. Total Return (NAV plus dividends paid to date) is now 105.0p.

### Results and dividend

The profit on ordinary activities for the 'G' Shares, after taxation, for the period was £383,000, comprising a revenue profit of £154,000 and a capital profit of £229,000.

The Company will pay an interim dividend of 2.5p per 'G' Share, on 15 December 2017 to 'G' Shareholders on the register at 24 November 2017.

### Outlook

The focus for the 'G' Share pool is on close monitoring and support of the portfolio companies in order to nurture growth before the commencement of the exit process, which is expected in early 2019.

### Downing LLP

28 September 2017

## SUMMARY OF INVESTMENT PORTFOLIO 'G' SHARE POOL

as at 30 June 2017

	Cost £'000	Valuation £'000	Unrealised gain in period £'000	% of portfolio by value
<b>VCT qualifying and partially qualifying investments</b>				
Atlantic Dogstar Limited	3,500	4,113	133	19.7%
Goonhilly Earth Station Limited	2,146	2,146	-	10.3%
Antelope Pub Limited	1,760	1,842	82	8.8%
Quadratrate Catering Limited	1,450	1,450	-	6.9%
Walworth House Pub Limited	1,330	1,330	-	6.4%
Apex Energy Limited	1,300	1,300	-	6.2%
Hermes Renewables Limited	1,000	1,000	-	4.8%
Zora Energy Limited	750	750	-	3.6%
Augusta Pub Company Limited	580	697	-	3.3%
Ormsborough Limited	500	523	14	2.5%
Pabulum Pubs Limited	400	475	-	2.3%
Oak Grove Renewables Limited	420	231	-	1.1%
<b>Non-qualifying investments</b>				
Quadratrate Spa Limited	1,450	1,450	-	6.9%
Hedderwick Limited	1,250	1,250	-	6.0%
Baron House Developments LLP	1,093	1,093	-	5.2%
Gara Rock Resort Limited	801	801	-	3.8%
Pearce and Saunders Limited	193	193	-	0.9%
London City Shopping Centre Limited	110	110	-	0.5%
	<u>20,033</u>	<u>20,754</u>	<u>229</u>	<u>99.3%</u>
<b>Cash at bank and in hand</b>		<u>158</u>		<u>0.7%</u>
<b>Total</b>		<u><u>20,912</u></u>		<u><u>100%</u></u>

## SUMMARY OF INVESTMENT MOVEMENTS 'G' SHARE POOL

as at 30 June 2017

Additions	£'000
Goonhilly Earth Station Limited	436
<b>Total</b>	<b>436</b>

	Cost £'000	Market value at 01/01/17 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Disposals					
Craft Beer Pub Co Limited	92	92	92	-	-
	92	92	92	-	-

## INVESTMENT MANAGER'S REPORT 'K' SHARE POOL

The 'K' Share pool closed its fundraising in September 2016 having raised £16.2 million. The process of investing the funds is well under way with £9.2 million invested in qualifying investments.

### Investment activity

During the last six months, three new qualifying investments have been made totalling £1.3 million as we continue to build the qualifying portfolio of the 'K' Share pool.

The qualifying investments include a £900,000 investment into Ormsborough Limited. The company owns several pubs and restaurants across Yorkshire and this investment supported their continued expansion.

£432,000 was invested in Pilgrim Trading Limited. The company acquired two sites to be converted into children's nurseries, one of which has recently been opened in Twickenham and the other is in the planning stage.

A £10,000 investment was made in Exclusive Events Venues Limited, in order to pay a deposit to secure a site in Chester that will be used exclusively as a wedding venue. Since the period end, following a successful planning application, a further investment has been made to acquire and develop the site.

Funds had previously been invested in two companies, Morava Limited and Brownfields Trading Limited to explore business opportunities in specific sectors. In the event both companies were unable to find suitable opportunities, the £2.1 million of funds invested were returned to the Share pool. There were no other disposals in the period.

One valuation adjustment was made in the period on Ormsborough Limited following good overall performance of the group which resulted in an uplift in valuation of £25,000.

### Net asset value, results and dividend

At 30 June 2017, the net asset value ("NAV") and total return for a holding of one 'K' Share was 98.4p, which represents a net decrease of 0.6p (0.6%) over the period.

The loss on ordinary activities for the 'K' Share pool, after taxation was £99,000 for the period, comprising a revenue loss of £123,000 and a capital profit of £24,000.

### Outlook

Over the remainder of the year, we will continue to pursue investment opportunities in order to add to the investment portfolio. We are satisfied with the progress to date but there is a significant level of funds still to be invested before the task of building the portfolio is complete.

### Downing LLP

28 September 2017

## SUMMARY OF INVESTMENT MOVEMENTS

### 'K' SHARE POOL

as at 30 June 2017

	Cost £'000	Valuation £'000	Unrealised gain in period £'000	% of portfolio by value
<b>VCT qualifying investments</b>				
Jito Trading Limited	1,500	1,500	-	9.7%
Yamuna Renewables Limited	1,300	1,300	-	8.4%
Rhodes Solutions Limited	1,250	1,250	-	8.1%
Vectis Alpha Limited	1,000	1,000	-	6.4%
Ormsborough Limited	900	925	25	6.0%
Ironhide Generation Limited	736	736	-	4.7%
Indigo Generation Limited	736	736	-	4.7%
Rockhopper Renewables Limited	591	591	-	3.8%
Pilgrim Trading Limited	432	432	-	2.8%
Zora Energy Renewables Limited	350	350	-	2.2%
SF Renewables (Solar) Limited	337	337	-	2.2%
Exclusive Events Venues Limited	10	10	-	0.1%
	<u>9,142</u>	<u>9,167</u>	<u>25</u>	<u>59.1%</u>
<b>Cash at bank and in hand</b>		<u>6,339</u>		<u>40.9%</u>
<b>Total</b>		<u><u>15,506</u></u>		<u><u>100%</u></u>

## SUMMARY OF INVESTMENT MOVEMENTS 'K' SHARE POOL

as at 30 June 2017

Additions	£'000
Ormsborough Limited	900
Pilgrim Trading Limited	432
Exclusive Events Venues Limited	10
<b>Total</b>	<b>1,342</b>

	Cost £'000	Market value at 01/01/17 £'000	Disposal proceeds £'000	Loss against cost £'000	Total realised gain £'000
<b>Disposals</b>					
Morava Limited	1,100	1,100	1,099	(1)	(1)
Brownfields Trading Limited	1,000	1,000	1,000	-	-
	<b>2,100</b>	<b>2,100</b>	<b>2,099</b>	<b>(1)</b>	<b>(1)</b>

# UNAUDITED SUMMARISED BALANCE SHEET

as at 30 June 2017

	30 Jun 2017					30 Jun 2016	31 Dec 2016 *
	'D' Shares £'000	'F' Shares £'000	'G' Shares £'000	'K' Shares £'000	Total £'000	Total £'000	Total £'000
<b>Fixed assets</b>							
Unquoted investments	2,200	7,235	20,754	9,167	39,356	40,497	39,670
<b>Current assets</b>							
Debtors	3	185	269	17	474	484	312
Cash at bank and in hand	266	218	158	6,339	6,981	5,307	8,461
	269	403	427	6,356	7,455	5,791	8,773
Creditors: amounts falling due within one year	(78)	(76)	(281)	(41)	(476)	(1,593)	(486)
<b>Net current assets</b>	191	327	146	6,315	6,979	4,198	8,287
<b>Net assets</b>	2,391	7,562	20,900	15,482	46,335	44,695	47,957
<b>Capital and reserves</b>							
Called up share capital	25	11	25	16	77	91	95
Capital redemption reserve	124	-	-	-	124	106	106
Special reserve	2,312	8,110	21,073	(2)	31,493	35,072	33,666
Share premium account	-	-	-	16,170	16,170	12,237	16,170
Revaluation reserve	(597)	211	721	25	360	(1,366)	(115)
Capital reserve – realised	-	(1,033)	(1,221)	1	(2,253)	(2,254)	(2,254)
Revenue reserve	527	263	302	(728)	364	809	289
<b>Total equity shareholders' funds</b>	2,391	7,562	20,900	15,482	46,335	44,695	47,957
<b>Basic and diluted net asset value per:</b>							
'D' Share	23.9p					34.8p	36.6p
'E' Share	0.1p					0.1p	0.1p
'F' Share		70.0p				70.0p	69.7p
'G' Share			82.5p			85.4p	83.5p
'K' Share				98.4p		99.7p	99.0p

\* The comparative Balance Sheet at 30 June 2016 and 31 December 2016 includes the 'C' Share pool which has subsequently been cancelled.

## STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017

	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
<b>At 1 January 2016</b>	79	106	40,086	-	(1,248)	(2,252)	1,962	38,733
Total comprehensive income	-	-	-	-	908	217	(280)	845
<i>Transactions with owners</i>								
Purchase of own shares	-	-	-	-	-	-	(36)	(36)
Issue of new shares	16	-	-	16,170	-	-	-	16,186
Share issue costs	-	-	-	-	-	-	(448)	(448)
Transfer between reserves	-	-	(6,420)	-	225	7,104	(909)	-
Dividends paid	-	-	-	-	-	(7,323)	-	(7,323)
<b>At 31 December 2016</b>	95	106	33,666	16,170	(115)	(2,254)	289	47,957
Total comprehensive income	-	-	-	-	455	101	100	656
<i>Transaction with owners</i>								
Purchase of own shares	-	-	-	-	-	-	(25)	(25)
Transfer between reserves	-	-	(2,173)	-	20	2,153	-	-
Dividends paid	-	-	-	-	-	(2,253)	-	(2,253)
Cancellation of shares	(18)	18	-	-	-	-	-	-
<b>At 30 June 2017</b>	77	124	31,493	16,170	360	(2,253)	364	46,335



## INCOME STATEMENT

for the six months ended 30 June 2017

### Company Total

	Six months ended 30 Jun 2017			Six months ended 30 Jun 2016*			Year ended 31 Dec 2016*
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	719	34	753	634	-	634	1,046
Gains on investments							
- realised	-	67	67	-	266	266	177
- unrealised	-	455	455	-	109	109	908
	719	556	1,275	634	375	1,009	1,085
Investment management fees	(445)	-	(445)	(409)	-	(409)	(861)
Other expenses	(150)	-	(150)	(174)	-	(174)	(308)
<b>Return on ordinary activities before taxation</b>	124	556	680	51	375	426	962
Tax on total comprehensive income and ordinary activities	(24)	-	(24)	-	-	-	(117)
<b>Return attributable to equity shareholders</b>	100	556	656	51	375	426	845
<b>Return per 'C' Share</b>	-	-	-	(0.4p)	-	(0.4p)	(0.4p)
<b>Return per 'A' Share</b>	-	-	-	-	-	-	-
<b>Return per 'D' Share</b>	(0.2p)	1.0p	(0.8p)	(0.4p)	0.5p	0.1p	1.7p
<b>Return per 'E' Share</b>	-	-	-	-	-	-	-
<b>Return per 'F' Share</b>	0.8p	1.9p	2.7p	0.5p	0.2p	0.7p	2.8p
<b>Return per 'G' Share</b>	0.6p	0.9p	1.5p	0.4p	1.2p	1.6p	2.2p
<b>Return per 'K' Share</b>	(1.2p)	0.2p	(1.0p)	(0.4p)	-	(0.4p)	(1.4p)

\* The comparative Income Statement as at 30 June 2016 and 31 December 2016 includes the 'C' Share Pool which has subsequently been cancelled.

## INCOME STATEMENT

for the six months ended 30 June 2017

### 'D' Shares

	Six months ended 30 Jun 2017			Six months ended 30 Jun 2016			Year ended 31 Dec 2016
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	9	34	43	(14)	-	(14)	90
Gains/(losses) on investments							
- realised	-	68	68	-	109	109	167
- unrealised	-	(4)	(4)	-	(58)	(58)	27
	9	98	107	(14)	51	37	284
Investment management fees	(19)	-	(19)	(27)	-	(27)	(50)
Other expenses	(15)	-	(15)	(19)	-	(19)	(34)
<b>(Loss)/return on ordinary activities before taxation</b>	(25)	98	73	(60)	51	(9)	200
Tax on total comprehensive income and ordinary activities	5	-	5	18	-	18	(24)
<b>(Loss)/return attributable to equity shareholders</b>	(20)	98	78	(42)	51	9	176

## INCOME STATEMENT

for the six months ended 30 June 2017

'F' Shares

	Six months ended 30 Jun 2017			Six months ended 30 Jun 2016			Year ended 31 Dec 2016
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	222	-	222	170	-	170	98
Gains on investments							
- realised	-	-	-	-	-	-	5
- unrealised	-	205	205	-	18	18	410
	222	205	427	170	18	188	513
Investment management fees	(68)	-	(68)	(70)	-	(70)	(138)
Other expenses	(43)	-	(43)	(40)	-	(40)	(78)
<b>Return on ordinary activities before taxation</b>	111	205	316	60	18	78	297
Tax on total comprehensive income and ordinary activities	(22)	-	(22)	(9)	-	(9)	5
<b>Return attributable to equity shareholders</b>	89	205	294	51	18	69	302

## INCOME STATEMENT

for the six months ended 30 June 2017

'G' Shares

	Six months ended 30 Jun 2017			Six months ended 30 Jun 2016			Year ended 31 Dec 2016
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	451	-	451	413	-	413	780
Gains on investments							
- realised	-	-	-	-	-	-	4
- unrealised	-	229	229	-	306	306	472
	451	229	680	413	306	719	1,256
Investment management fees	(207)	-	(207)	(219)	-	(219)	(436)
Other expenses	(53)	-	(53)	(70)	-	(70)	(127)
<b>Return on ordinary activities before taxation</b>	191	229	420	124	306	430	693
Tax on total comprehensive income and ordinary activities	(37)	-	(37)	(24)	-	(24)	(143)
<b>Return attributable to equity shareholders</b>	154	229	383	100	306	406	550

## INCOME STATEMENT

for the six months ended 30 June 2017

'K' Shares

	Six months ended 30 Jun 2017			Six months ended 30 Jun 2016			Year ended 31 Dec 2016
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	37	-	37	59	-	59	71
(Losses)/gains on investments							
- realised	-	(1)	(1)	-	-	-	-
- unrealised	-	25	25	-	-	-	-
	37	24	61	59	-	59	71
Investment management fees	(151)	-	(151)	(84)	-	(84)	(228)
Other expenses	(39)	-	(39)	(14)	-	(14)	(36)
<b>(Loss)/gain on ordinary activities before taxation</b>	<b>(153)</b>	<b>24</b>	<b>(129)</b>	<b>(39)</b>	<b>-</b>	<b>(39)</b>	<b>(193)</b>
Tax on total comprehensive income and ordinary activities	30	-	30	8	-	8	39
<b>Loss attributable to equity shareholders</b>	<b>(123)</b>	<b>24</b>	<b>(99)</b>	<b>(31)</b>	<b>-</b>	<b>(31)</b>	<b>(154)</b>

## UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2017

		30 Jun 2017					30 Jun 2016	31 Dec 2016
	Note	'D' Shares £'000	'F' Shares £'000	'G' Shares £'000	'K' Shares £'000	Total £'000	Total £'000	Total £'000
<b>Net cash inflow from operating activities</b>	<b>1</b>	2	(65)	191	(164)	(36)	1,506	281
<b>Cash flows from investing activities</b>								
Purchase of investments		-	(194)	(436)	(1,342)	(1,972)	(14,150)	(17,080)
Sale of investments		245	370	92	2,099	2,806	5,394	9,860
<b>Net cash inflow/(outflow) from investing activities</b>		245	176	(344)	757	834	(8,756)	(7,220)
<b>Net cash inflow/(outflow) before financing activities</b>		247	111	(153)	593	798	(7,250)	(6,939)
<b>Cash flows from financing activities</b>								
Proceeds from share issue		-	-	-	-	-	12,249	16,186
Share issue costs		-	-	-	-	-	(294)	(448)
Equity dividend paid		(1,350)	(270)	(633)	-	(2,253)	(6,419)	(7,323)
Purchase of own shares		-	-	(20)	(5)	(25)	-	(36)
<b>Net cash (outflow)/inflow from financing activities</b>		(1,350)	(270)	(653)	(5)	(2,278)	5,536	8,379
<b>(Decrease)/increase in cash</b>	<b>2</b>	(1,103)	(159)	(806)	588	(1,480)	(1,714)	1,440

## NOTES TO THE UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2017

	30 Jun 2017					30 Jun 2016	31 Dec 2016
	'D'	'F'	'G'	'K'	Total	Total	Total
	Shares	Shares	Shares	Shares	£'000	£'000	£'000
<b>1 Cash inflow from operating activities</b>							
(Loss)/return on ordinary activities							
before taxation	73	316	420	(129)	680	426	962
Corporation tax	-	-	-	-	-	12	(224)
(Gains)/losses on investments	(64)	(205)	(229)	(24)	(522)	(375)	(1,085)
Decrease/(increase) in other debtors	3	(160)	14	(14)	(157)	395	564
(Decrease)/increase in other creditors	(10)	(16)	(14)	3	(37)	1,048	64
Net cash inflow from operating activities	2	(65)	191	(164)	(36)	1,506	281
<b>2 Analysis of net funds</b>							
Beginning of period	1,369	377	964	5,751	8,461	7,021	7,021
Net cash (outflow)/inflow	(1,103)	(159)	(806)	588	(1,480)	(1,714)	1,440
End of period	266	218	158	6,339	6,981	5,307	8,461

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

### 1. General information

Downing TWO 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.

### 2. Accounting policies - Basis of accounting

The unaudited half-yearly results cover the six months to 30 June 2017 and have been prepared in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" revised January 2009 and in accordance with the accounting policies set out in the statutory accounts for the year ended 31 December 2016, which were prepared 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 ("FRS102").

3. All revenue and capital items in the Income Statement derive from continuing operations.

4. The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.

5. The comparative figures are in respect of the six month period ended 30 June 2016 and the year ended 31 December 2016 respectively.



## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 6. Dividends

Six months ended 30 June 2017				Year to 31 Dec 2016	
Paid in period	Per share pence	Revenue £'000	Capital £'000	Total £'000	Total £'000
<b>‘C’ Shares</b>					
Special ‘C’ 2016	30.6p	-	-	-	2,182
Special ‘A’ 2016	15.2p	-	-	-	1,632
		-	-	-	3,814
<b>‘D’ Shares</b>					
Y/E Dec 2016 Final	13.5p	-	1,350	1,350	-
Y/E Dec 2015 Final	17.0p	-	-	-	1,700
		-	1,350	1,350	1,700
<b>‘F’ Shares</b>					
Y/E Dec 2016 Final	2.5p	-	270	270	-
Y/E Dec 2015 Final	2.5p	-	-	-	270
Y/E Dec 2015 Interim	2.5p	-	-	-	270
		-	270	270	540
<b>‘G’ Shares</b>					
Y/E Dec 2016 Final	2.5p	-	633	633	-
Y/E Dec 2015 Final	2.5p	-	-	-	634
Y/E Dec 2015 Interim	2.5p	-	-	-	635
		-	633	633	1,269

No dividends have been paid or declared in respect of the 'E' Shares or 'K' Shares.

### 7. Basic and diluted return per share

	Weighted average number of shares in issue	Revenue return/(loss)		Capital return	
		£'000	Per share	£'000	Per share
'D' Shares	10,000,000	(20)	(0.2p)	98	1.0p
'E' Shares	14,950,000	-	-	-	-
'F' Shares	10,810,859	89	0.8p	205	1.9p
'G' Shares	25,318,897	154	0.6p	229	0.9p
'K' Shares	15,734,402	(123)	(1.2p)	24	0.2p
		100		556	

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 8. Net asset value per share

	Shares in issue	Net asset value	
		£'000	Per share
'D' Shares	10,000,000	2,376	23.9p
'E' Shares	14,950,000	15	0.1p
'F' Shares	10,810,859	7,562	70.0p
'G' Shares	25,328,571	20,900	82.5p
'K' Shares	15,734,429	15,482	98.4p
		<u>46,335</u>	

### 9. Reserves

	Period ended 30 Jun 2017 £'000	Year ended 31 Dec 2016 £'000
Capital redemption reserve	124	106
Special reserve	31,493	33,666
Share premium reserve	16,170	16,170
Revaluation reserve	360	(115)
Capital reserve - realised	(2,253)	(2,254)
Revenue reserve	364	289
	<u>46,258</u>	<u>47,862</u>

The Special reserve, Capital reserve - realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £1,381,000 which are included in the calculation of distributable reserves. Total distributable reserves are £28,223,000 (31 Dec 2016: £30,323,000).

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

10. The fair value of investments is determined using the detailed accounting policy set out in the statutory accounts for the year ended 31 December 2016.

The Company has categorised its financial instruments using the fair value hierarchy as follows:

- Level a Reflects financial instruments quoted in an active market;  
 Level b Reflects financial instruments that have prices that are observable either directly or indirectly; and  
 Level c i) Reflects financial instruments that use valuation techniques that are based on observable market data.  
 ii) Reflects financial instruments that use valuation techniques that are not based on observable market data (unquoted equity investments and loan note investments).

	Level a £'000	Level b £'000	Level c (ii) £'000	Period ended 30 June 2017 £'000	Level a £'000	Level b £'000	Level c (ii) £'000	Year ended 31 Dec 2016 £'000
Loan notes	-	-	9,914	9,914	-	-	9,943	9,943
Unquoted equity	-	-	29,442	29,442	-	-	29,727	29,727
	-	-	39,356	39,356	-	-	39,670	39,670

11. The unaudited condensed financial statements set out herein do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The figures for the year ended 31 December 2016 have been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies; the Auditor's report on those financial statements was unqualified.
12. The Directors confirm that, to the best of their knowledge, the half-yearly financial statements have been prepared in accordance with the "Statement: Half-Yearly Financial Reports" issued by the UK Accounting Standards Board as well as in accordance with FRS 104 Interim Financial Reporting and the half-yearly financial report includes a fair review of the information required by:
- a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 13. Risks and uncertainties

Under the Disclosure and Transparency Directive, the Board is required, in the Company's half-yearly results, to report on principal risks and uncertainties facing the Company over the remainder of the financial year.

The Board concluded that the key risks facing the Company over the remainder of the financial period are as follows:

- (i) Compliance risk of failure to maintain approval as a VCT; and
- (ii) Investment risk associated with investing in small and immature businesses.

The Company's compliance with the VCT regulations is continually monitored by the Manager, who reports regularly to the Board on the current position. The Company has also reappointed Philip Hare and Associates LLP to provide regular reviews and advice in this area.

In order to make VCT qualifying investments, the Company has to invest in small businesses which are often immature. It also has a limited period in which it must invest the majority of its funds. The Manager follows a rigorous process in vetting and carefully structuring new investments, including taking a charge over the assets of the business wherever possible and, after an investment is made, closely monitoring the business.

The Board is satisfied that these approaches provide satisfactory management of the key risks.

### 14. Going concern

The Directors have reviewed the Company's financial resources at the period end and conclude that the Company is well placed to manage its business risks.

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the Board believes that the Company continues to be a going concern and that it is appropriate to apply the going concern basis in preparing the financial statements.

15. Copies of the unaudited half-yearly report will be sent to Shareholders shortly. Further copies can be obtained from the Company's registered office or will be available for download from [www.downing.co.uk](http://www.downing.co.uk).

## SHAREHOLDER INFORMATION

### Performance summary

<b>'D' Share pool</b>	<b>30 Jun 2017 Pence</b>	<b>31 Dec 2016 Pence</b>	<b>30 Jun 2016 Pence</b>
Net asset value per 'D' Share	23.9	36.6	34.8
Net asset value per 'E' Share	0.1	0.1	0.1
Cumulative distributions per 'D' Share	80.0	66.5	66.5
Total return per 'D' Share and 'E' Share	<u>104.0</u>	<u>103.2</u>	<u>101.4</u>
<b>'F' Share pool</b>	<b>30 Jun 2017 Pence</b>	<b>31 Dec 2016 Pence</b>	<b>30 Jun 2016 Pence</b>
Net asset value per 'F' Share	70.0	69.7	70.0
Cumulative distributions per 'F' Share	27.5	25.0	22.5
Total return per 'F' Share	<u>97.5</u>	<u>94.7</u>	<u>92.5</u>
<b>'G' Share pool</b>	<b>30 Jun 2017 Pence</b>	<b>31 Dec 2016 Pence</b>	<b>30 Jun 2016 Pence</b>
Net asset value per 'G' Share	82.5	83.5	85.4
Cumulative distributions per 'G' Share	22.5	20.0	17.5
Total return per 'G' Share	<u>105.0</u>	<u>103.5</u>	<u>102.9</u>
<b>'K' Share pool</b>	<b>30 Jun 2017 Pence</b>	<b>31 Dec 2016 Pence</b>	<b>30 Jun 2016 Pence</b>
Net asset value per 'K' Share	<u>98.4</u>	<u>99.0</u>	<u>99.7</u>

# SHAREHOLDER INFORMATION (continued)

## Forthcoming dividends

	'F' Shares	'G' Shares
Interim 2017 – Payable 15 December 2017	2.5p	2.5p

## Dividends

Dividends are 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, (forms can be downloaded from [www.capitaassetservices.com/shareholders/information](http://www.capitaassetservices.com/shareholders/information)).

Queries relating to dividends and requests for mandate forms should be directed to the Company's registrar, Capita Asset Services, whose details are on the back cover of this document.

## Terminology

Throughout this report, the term “‘D’ Share(s)” has been used to refer to the pool of assets allocated to the ‘D’ Shares and ‘E’ Shares combined.

## Share scam warning

We are aware that a significant number of shareholders of VCTs managed by both Downing and other VCT houses 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. If you have any concerns, please contact Downing on 020 7416 7780.

## SHAREHOLDER INFORMATION (continued)

### Shareholder Communications

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

### Share prices

The Company's share prices can be found on various financial websites. The share prices are also available on Downing's website ([www.downing.co.uk](http://www.downing.co.uk)).

	<b>'D' Shares</b>	<b>'F' Shares</b>	<b>'G' Shares</b>	<b>'K' Shares</b>
TIDM/EPIC codes	<b>DP2D</b>	<b>DP2F</b>	<b>DP2G</b>	<b>DP2K</b>
Latest share price (per share) (26 Sept 2017):	11.5p	55.0p	75.0p	100.0p

  

	<b>'E' Shares</b>
TIDM/EPIC codes	<b>DP2E</b>
Latest share price (per share) (26 Sept 2017):	5.0p

### Trading shares

Any Shareholders who are considering selling some or all of their shares should ensure they are fully aware of any tax consequences. If you are in any doubt, please contact your financial adviser.

The Company operates a policy of buying its shares in for cancellation as they become available. The Company is, however, unable to buy back shares direct from Shareholders, so you will need to use a stockbroker to sell your shares. Downing is able to provide details of closed periods (when the Company is prohibited from buying in shares) and details of the price at which the Company has bought in shares. Contact details are shown on the back cover of this document.

### Notification of change of address

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

### Other information for Shareholders

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

**[www.downing.co.uk](http://www.downing.co.uk)**

If you have any queries regarding your shareholding in Downing TWO VCT plc, please contact the registrar on 0871 664 0324 or visit Capita's website at [www.capitaassetservices.com](http://www.capitaassetservices.com) and click on "Products and Services" and then "Shareholders".

**Directors**

Hugh Gillespie (Chairman)  
Dennis Hale  
Christopher McCann

**Company Secretary and Registered Office**

Grant Whitehouse  
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3 Lower Thames Street  
London EC3R 6HD

Registered No. 5334418

**Investment and Administration Manager**

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Tel: 020 7416 7780

**Registrar**

Capita Asset Services  
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34 Beckenham Road  
Beckenham  
Kent BR3 4TU

[www.capitaassetservices.com](http://www.capitaassetservices.com)  
Tel: 0871 664 0324

(calls cost 10p per minute plus network extras,  
lines open Monday to Friday 8:30am to 5:30pm)



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