

Downing TWO VCT plc

Half-Yearly Report
for the six months
ended 30 June 2020



CHAIRMAN'S STATEMENT

Introduction

I present the Half-Yearly Report for the six months ended 30 June 2020.

As Shareholders will be aware, a number of the Company's portfolio businesses have faced some significant challenges over the last couple of years. With significant exposure to the hospitality sector, the coronavirus pandemic has unfortunately further impacted a number of the portfolio companies

The Company has three share pools, two of which are in process of realising investments and one which is preparing to start the realisation process.

A brief summary of each share pool is provided below.

Net asset values and overview

'F' Share pool

The 'F' Share pool launched in 2012 and is currently in its realisation phase. Exits from a number of investments have been effectively put on hold as a result of the ongoing pandemic, however the Manager is still working on a number of possible divestments in order to return funds to Shareholders.

At 30 June 2020, the remaining net asset value ("NAV") was 18.8p per F Share, a decrease of 5.9p (23.9%) over the period. Total Return (NAV plus dividends paid to date) is now 90.8p, compared to the original cost, net of income tax relief, of 70p per share.

The 'F' Share pool still holds nine investments, with plans resuming for exits from each of them.

The task of exiting from the remaining investments is dependent on third parties and it is therefore difficult to accurately estimate when this process will complete. A number of the investments in the portfolio are in industries that have been severely impacted by the pandemic, and as a result have suffered delays in the divestment timeline.

The Investment Manager notes that it is currently unclear when further exits will be achieved, although they are seeking opportunities where possible. The Manager anticipates that the next major distribution will be paid in 2021.

'G' Share pool

The 'G' Share pool passed its five-year anniversary in November 2018 and the focus remains on the process of realising the remaining investments, in order to return funds to Shareholders.

At 30 June 2020, the pool held 12 investments and the net asset value ("NAV") was 34.1p per 'G' Share, which represents a net decrease of 12.0p (24.9%) over the period, after adjusting for the dividends paid out. Total Return (NAV plus dividends paid to date) is now 87.6p, compared to the initial NAV, before income tax relief, of 100.0p (or original cost, net of income tax relief, which was typically between 70.0p and 75.0p, depending on costs).

The 'G' Share pool is expected to make distributions as realisations are achieved. The Investment Manager expects to resume this process over the remainder of the year.

'K' Share pool

The 'K' Share pool raised funds in 2016. The target date to start realising investments is 2021.

Unfortunately, the portfolio has suffered heavily over the six-month period with most investments badly impacted by the consequences of the pandemic.

At 30 June 2020, the share pool held 15 investments and the net asset value ("NAV") was 36.6p per 'K' Share, which represents a net decrease of 14.1p (24.2%) over the period, after adjusting for the dividends paid out of 7.5p. Total Return (NAV plus dividends paid to date) is now 44.1p per K Share, compared to the initial NAV before income tax relief, of 100.0p (or original cost, net of income tax relief, which was typically between 70.0p and 75.0p, depending on costs).

CHAIRMAN'S STATEMENT (continued)

Net asset values and overview (continued)

'K' Share pool (continued)

The Board acknowledges that overall performance of the 'K' Share pool is extremely poor. As noted previously, the Board has reached agreement with the Investment Manager such that no further management fees will be paid in respect of the 'K' Share pool.

The 'K' Share pool does have cash available so will pay an interim dividend of 2.5p per 'K' Share on 27 November 2020, to Shareholders on the register at the close of business on 6 November 2020.

Share buybacks

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.

Outlook

The further losses of value on all pools since the valuation at 31 March 2020 are extremely disappointing. Although there is the possibility of recoveries in value, the recent increase in coronavirus infections in the UK may further harm the sectors in which many of the portfolio companies operate and could result in further losses.

The Board has given consideration to the best way forward from this position. The Board does not consider that a change of manager at this stage is practical or would be in the best interest of shareholders, but believes that continuing to work closely with the existing manager to ensure everything is done to recover value is the best route.

The Board does not expect to raise any new funds for the Company in future and so is now considering putting proposals to Shareholders for the Company to take advantage of the VCT winding up regulations which involves entering into a members' voluntary liquidation. This will allow the company to reduce its running cost while it realises the investments across all share pools. The Board intends to prepare proposals for Shareholder approval in the coming months.



Hugh Gillespie
Chairman

30 September 2020

INVESTMENT MANAGER'S REPORT

'F' SHARE POOL

As at 30 June 2020, the 'F' Share pool held nine investments. Focus for the 'F' Share pool remains on the realisation of its investments and maximising Shareholder returns which has been delayed due to the ongoing coronavirus pandemic.

Net asset value, results and dividend

At 30 June 2020, the net asset value ("NAV") for a holding of one 'F' Share was 18.8p, a decrease of 5.9p (23.9%) over the period. Total Return (NAV plus dividends paid to date) is now 90.8p.

The loss on ordinary activities for the 'F' Shares, after taxation was £641,000 for the period, comprising a revenue loss of £32,000 and a capital loss of £609,000.

'F' Share pool – Portfolio valuation

The period to 30 June 2020 has seen a number of unforeseen developments which have impacted the 'F' Share portfolio. The portfolio companies are heavily exposed to the effective lockdown in the UK economy, resulting in an unrealised loss of £609,000.

The most significant decreases in valuation were in respect of Pearce and Saunders Limited and Downing Pub EIS ONE Limited, which both operate in the pub and hospitality industry.

Pearce and Saunders Limited, the owner of freehold pubs in south east London, was decreased in value by £457,000 to reflect the forced closure of the site and the wider economic impact of COVID-19.

Downing Pub EIS ONE Limited, which acquired the holdings of two other pub companies in 2017, was decreased in value by £134,000 following the collapse of the proposed management buy-out that was due to complete in March 2020.

The Investment Manager has supported both of these investee companies during this difficult time as well as ensuring these businesses have taken advantage of the Government support that has been made available.

There were a small number of valuation increases in the period. The most notable being a £42,000 increase in value to Fresh Green Power Limited, the domestic rooftop solar company, which was increased due to improved operating performance over the period.

Realisation plans

A number of the investment companies within the portfolio had proposed exit plans in place which have now been effectively paused or have collapsed as a result of the ongoing pandemic and have forced the Investment Manager to seek other opportunities to exit.

Despite the divestment timeline suffering, the Investment Manager is hopeful that there are reasonable prospects for the completion of exits from a small number of the investee companies across the remainder of the year if conditions improve, although shareholders should note it is currently unclear when and if these will be achieved. The exact timing will be dependent on third parties and a number of external factors.

Outlook

Valuations of investments within the 'F' Share pool have been impacted as a result of the ongoing coronavirus pandemic. The pool is exposed to a number of the sectors which have suffered heavily from the effective lockdown in the UK. Focus for the Investment Manager remains on the exit of the final nine investments in the portfolio, as well as continuing to support all investee companies during this difficult period.

Downing LLP

30 September 2020

SUMMARY OF INVESTMENT PORTFOLIO 'F' SHARE POOL

as at 30 June 2020

	Cost £'000	Valuation £'000	Unrealised (loss)/gain in period £'000	% of portfolio by value
VCT qualifying and partially qualifying investments				
Downing Pub EIS ONE Limited	490	522	(134)	26.2%
Fresh Green Power Limited	189	273	42	13.7%
Atlantic Dogstar Limited	200	179	(79)	9.0%
Pearce and Saunders Limited	497	93	(457)	4.7%
Green Energy Production UK Limited	100	64	10	3.2%
Apex Energy Limited	1,000	26	9	1.3%
Non-qualifying investments				
Baron House Developments LLP	481	673	-	33.8%
London City Shopping Centre Limited	66	-	-	0.0%
Pearce and Saunders DevCo Limited	44	-	-	0.0%
	<u>3,067</u>	<u>1,830</u>	<u>(609)</u>	<u>91.9%</u>
Cash at bank and in hand		<u>162</u>		<u>8.1%</u>
Total		<u>1,992</u>		<u>100.0%</u>

SUMMARY OF INVESTMENT MOVEMENTS 'F' SHARE POOL

as at 30 June 2020

Disposals	Cost £'000	Market value at 01/01/20 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Pearce and Saunders DevCo Limited	2	2	2	-	-
	<u>2</u>	<u>2</u>	<u>2</u>	<u>-</u>	<u>-</u>

Prior to disposal, any unrealised gains or losses resulting from the revaluation of investments are reflected in their fair values.

INVESTMENT MANAGER'S REPORT

'G' SHARE POOL

The 'G' Share pool raised funds in 2013 and focus for the Share pool remains on the process of realising investments, as it looks to maximise Shareholder returns. Over the period to 30 June 2020, the process has been significantly delayed as a result of the ongoing coronavirus pandemic.

Investment activity

During the period a partial exit was successfully completed from Pearce and Saunders Limited, the owner of freehold pubs in south east London. Proceeds of £230,000 were generated, which represented a gain over cost of £173,000.

'G' Share pool – Portfolio valuation

The period to 30 June 2020 has seen a number of disappointing valuation movements, resulting in an unrealised loss of £3.6 million.

The majority of the unrealised loss is driven from holding a portfolio of investments which have been severely impacted by the effective lockdown within the UK and its resulting consequences.

The largest decrease in value at the period end related to Atlantic Dogstar Limited, which owns a group of London pubs. As a result of the lockdown restrictions, the two London pubs were forced to close and the planned management buy-out that was due to complete in March 2020 collapsed, leading to a reduction in value of £1.4 million.

The investments in Quadrate Spa Limited and Quadrate Catering Limited, which own and operate a health club business and a top floor restaurant in The Cube complex in Birmingham, were both written down to nil, generating a combined loss of £1.9 million.

A sale and leaseback transaction was due to complete in February 2020. However as a result of the coronavirus pandemic, both companies are not operational following government-imposed lockdown measures and the offer has been withdrawn. We continue to monitor the situation and are assisting management where possible.

Realisation plans

Prior to the unforeseen coronavirus pandemic, there were a number of realisation plans in place for the exit of several portfolio companies. As a result of the ongoing situation, these plans have either collapsed or have been delayed. It is currently unclear when further exits will be achieved, although the manager is seeking opportunities where possible.

Net asset value

At 30 June 2020, the net asset value ("NAV") for a holding of one 'G' Share was 34.1p, which represents a net decrease of 12.0p (24.9%) over the period. Total Return (NAV plus dividends paid to date) is now 87.6p.

Results

The loss on ordinary activities for the 'G' Share pool, after taxation, for the period was £3.0 million, comprising a revenue profit of £344,000 and a capital loss of £3.4 million.

Outlook

The falls in value experienced by the Share pool during the year are extremely disappointing. Businesses in the leisure and hospitality sector have clearly suffered heavily from the lockdown and provisions have been required as a result.

We continue to dedicate substantial resources to supporting the investee companies through these difficult and unprecedented times, as we also look to continue the process of realising investments and return funds to investors.

Downing LLP

30 September 2020

SUMMARY OF INVESTMENT PORTFOLIO 'G' SHARE POOL

as at 30 June 2020

	Cost £'000	Valuation £'000	Unrealised (loss)/gain in period £'000	% of portfolio by value
VCT qualifying and partially qualifying investments				
Atlantic Dogstar Limited	3,500	3,142	(1,379)	42.1%
Walworth House Pub Limited	1,330	1,176	(47)	15.8%
Downing Pub EIS ONE Limited	980	1,044	(267)	14.0%
Hermes Wood Pellets Limited	1,000	152	-	2.0%
Pearce and Saunders Limited	136	136	-	1.8%
Zora Energy Renewables Limited	750	49	(19)	0.7%
Apex Energy Limited	1,300	33	11	0.4%
Ormsborough Limited	500	-	-	0.0%
Quadrate Catering Limited	1,450	-	(1,196)	0.0%
Non-qualifying investments				
Baron House Developments LLP	1,093	1,530	-	20.5%
Quadrate Spa Limited	1,450	-	(669)	0.0%
London City Shopping Centre Limited	110	-	-	0.0%
	<u>13,599</u>	<u>7,262</u>	<u>(3,566)</u>	97.3%
Cash at bank and in hand		<u>204</u>		<u>2.7%</u>
Total		<u>7,466</u>		<u>100%</u>

SUMMARY OF INVESTMENT MOVEMENTS 'G' SHARE POOL

as at 30 June 2020

Disposals	Cost £'000	Market value at 01/01/20 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Pearce and Saunders Limited	57	57	230	173	173
	<u>57</u>	<u>57</u>	<u>230</u>	<u>173</u>	<u>173</u>

Prior to disposal, any unrealised gains or losses resulting from the revaluation of investments are reflected in their fair values.

INVESTMENT MANAGER'S REPORT

'K' SHARE POOL

At the period end, the 'K' Share pool held 15 investments across a range of industries. It is very disappointing to have to report that several investee companies have suffered further setbacks and have required significant provisions for the six months to 30 June 2020.

'K' Share pool – Portfolio valuation

As noted in the year end accounts, the portfolio faced a number of challenges in the first few months of 2020, leading to an unrealised loss of £2.0 million as at 30 June 2020.

A significant portion of the unrealised loss for the period related to three investments. Further details on each are noted below.

The most notable provision is in respect of Garthcliff Shipping Limited, which owns a feeder container vessel that is chartered to third parties to transport containers to and from ports. Following a period of reduced demand for container vessels as worldwide economies suffered as a result of the coronavirus pandemic, a buyer for the vessel has been sought and the value has been reduced by £1.0 million in line with anticipated exit proceeds.

Apprise Pubs Limited, was established to build an estate of quality freehold pubs across the south of England alongside long-term Downing partner, Oakman Inns. As a result of the government-imposed lockdown, one site was forced to close whilst refurbishment at a second site was postponed leading to a provision of £442,000.

Exclusive Events Venues Limited, the operator of an exclusive use wedding venue in Chester, England, completed refurbishment in February 2020. In line with government-imposed measures, the venue was forced to postpone events, resulting in a provision of £157,000.

We continue to work closely and support each of the portfolio companies, ensuring that they have benefited from the Government aid that is available and take sensible decisions as they deal with these extraordinary circumstances.

Net asset value, results and dividend

At 30 June 2020, the net asset value ("NAV") and Total Return for a holding of one 'K' Share was 36.6p, which represents a net decrease of 14.1p (24.2%) over the period. The loss on ordinary activities for the 'K' Share pool, after taxation, was £2.2 million for the period, comprising a revenue loss of £186,000 and a capital loss of £2.0 million.

The Company will pay an interim dividend of 2.5p per 'K' Share on 27 November 2020, to Shareholders on the register at 6 November 2020.

Outlook

Regrettably, the coronavirus pandemic has further hit investment valuations during the period to 30 June 2020, with a large number of portfolio companies within the leisure and hospitality sectors being impacted most severely.

The process of realising the investments to return funds to shareholders is due to commence 2021. Prior to this, we shall be supporting each investee company within the portfolio as much as possible, seeking to position them as well as we can to facilitate an exit in line with the divestment timeline and at optimal value.

Downing LLP

30 September 2020

SUMMARY OF INVESTMENT PORTFOLIO 'K' SHARE POOL

as at 30 June 2020

	Cost £'000	Valuation £'000	Unrealised (loss)/gain in period £'000	% of portfolio by value
VCT qualifying investments				
Apprise Pubs Limited	1,300	858	(442)	15.0%
Walworth House Pub Limited	500	442	(18)	7.7%
Pilgrim Trading Limited	432	347	(85)	6.1%
Exclusive Events Venues Limited	500	343	(157)	6.0%
SF Renewables (Solar) Limited	337	292	(12)	5.1%
Garthcliff Shipping Limited	1,300	255	(1,045)	4.4%
Rockhopper Renewables Limited	591	222	(73)	3.9%
Indigo Generation Limited	736	179	(79)	3.1%
Ironhide Generation Limited	736	161	(96)	2.8%
Zora Energy Renewables Limited	350	23	(8)	0.4%
Ormsborough Limited	1,400	-	-	0.0%
Yamuna Renewables Limited	1,300	-	-	0.0%
Jito Trading Limited	1,500	-	-	0.0%
Non-qualifying investments				
Fenkle Street LLP	287	306	(12)	5.3%
London City Shopping Centre Limited	15	-	-	0.0%
	<u>11,284</u>	<u>3,428</u>	<u>(2,027)</u>	59.8%
Cash at bank and in hand		<u>2,308</u>		<u>40.2%</u>
Total		<u>5,736</u>		<u>100%</u>

UNAUDITED SUMMARISED BALANCE SHEET

as at 30 June 2020

	30 Jun 2020				30 Jun	31 Dec
	'F'	'G'	'K'	Total	2019	2019
	Shares £'000	Shares £'000	Shares £'000	Total £'000	Total £'000	Total £'000
Fixed assets						
Unquoted investments	1,830	7,262	3,428	12,520	22,452	18,781
Current assets						
Debtors	93	1,450	6	1,549	1,438	1,374
Cash at bank and in hand	162	204	2,308	2,674	7,337	4,136
	<u>255</u>	<u>1,654</u>	<u>2,314</u>	<u>4,223</u>	<u>8,775</u>	<u>5,510</u>
Creditors: amounts falling due within one year	<u>(53)</u>	<u>(302)</u>	<u>9</u>	<u>(346)</u>	<u>(494)</u>	<u>(306)</u>
Net current assets	<u>202</u>	<u>1,352</u>	<u>2,323</u>	<u>3,877</u>	<u>8,281</u>	<u>5,204</u>
Net assets	<u>2,032</u>	<u>8,614</u>	<u>5,751</u>	<u>16,397</u>	<u>30,733</u>	<u>23,985</u>
Capital and reserves						
Called up share capital	11	25	16	52	52	52
Capital redemption reserve	149	-	-	149	149	149
Special reserve	3,949	14,671	14,986	33,606	38,681	34,938
Share premium account	-	-	-	-	-	-
Revaluation reserve	(1,419)	(5,726)	(3,642)	(10,787)	(6,361)	(4,585)
Capital reserve – realised	(1,099)	(1,831)	(4,155)	(7,085)	(2,249)	(7,105)
Revenue reserve	441	1,475	(1,454)	462	461	536
Total equity shareholders' funds	<u>2,032</u>	<u>8,614</u>	<u>5,751</u>	<u>16,397</u>	<u>30,733</u>	<u>23,985</u>
Basic and diluted net asset value per:						
'F' Share	18.8p				30.6p	24.7p
'G' Share		34.1p			63.2p	48.1p
'K' Share			36.6p		72.9p	58.2p

STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020

	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 2019	52	149	38,471	-	(3,911)	(2,250)	349	32,860
Total comprehensive income	-	-	-	-	(5,388)	256	337	(4,795)
Realisation of impaired valuations	-	-	-	-	4,891	(4,891)	-	-
Transactions with owners								
Purchase of own shares	-	-	-	-	-	-	-	-
Transfer between reserves	-	-	(3,533)	-	(177)	3,710	-	-
Dividends paid	-	-	-	-	-	(3,930)	(150)	(4,080)
Cancellation of shares	-	-	-	-	-	-	-	-
At 31 December 2019	52	149	34,938	-	(4,585)	(7,105)	536	23,985
Total comprehensive income	-	-	-	-	(6,202)	173	126	(5,903)
Transaction with owners								
Purchase of own shares	-	-	-	-	-	-	-	-
Transfer between reserves	-	-	(1,332)	-	-	1,332	-	-
Dividends paid	-	-	-	-	-	(1,485)	(200)	(1,685)
At 30 June 2020	52	149	33,606	-	(10,787)	(7,085)	462	16,397

INCOME STATEMENT

for the six months ended 30 June 2020

Company Total

	Six months ended 30 Jun 2020			Six months ended 30 Jun 2019			Year ended 31 Dec 2019
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	1,908	-	1,908	619	16	635	1,198
Gains/(losses) on investments							
- realised	-	173	173	-	125	125	240
- unrealised	-	(6,202)	(6,202)	-	(2,380)	(2,380)	(5,388)
	<u>1,908</u>	<u>(6,029)</u>	<u>(4,121)</u>	<u>619</u>	<u>(2,239)</u>	<u>(1,620)</u>	<u>(3,950)</u>
Investment management fees	(116)	-	(116)	(289)	-	(289)	(551)
Other expenses	(1,557)	-	(1,557)	(123)	-	(123)	(244)
Return/(loss) on ordinary activities before taxation	<u>235</u>	<u>(6,029)</u>	<u>(5,794)</u>	<u>207</u>	<u>(2,239)</u>	<u>(2,032)</u>	<u>(4,745)</u>
Tax on total comprehensive income and ordinary activities	(109)	-	(109)	(95)	-	(95)	(50)
Return/(loss) attributable to equity shareholders	<u>126</u>	<u>(6,029)</u>	<u>(5,903)</u>	<u>112</u>	<u>(2,239)</u>	<u>(2,127)</u>	<u>(4,795)</u>
Return per 'F' Share	(0.3p)	(5.6p)	(5.9p)	-	1.9p	1.9p	1.0p
Return per 'G' Share	1.4p	(13.4p)	(12.0p)	0.8p	1.4p	2.2p	1.2p
Return per 'K' Share	(1.2p)	(12.9p)	(14.1p)	(0.6p)	(17.8p)	(18.4p)	(33.2p)

INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2020

'F' Shares	Six months ended 30 Jun 2020			Six months ended 30 Jun 2019			Year ended 31 Dec 2019
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	111	-	111	76	-	76	105
Gains/(losses) on investments							
- realised	-	-	-	-	-	-	110
- unrealised	-	(609)	(609)	-	201	201	(10)
	<u>111</u>	<u>(609)</u>	<u>(498)</u>	<u>76</u>	<u>201</u>	<u>277</u>	<u>205</u>
Investment management fees	(20)	-	(20)	(24)	-	(24)	(49)
Other expenses	(118)	-	(118)	(19)	-	(19)	(39)
	<u>(27)</u>	<u>(609)</u>	<u>(636)</u>	<u>33</u>	<u>201</u>	<u>234</u>	<u>117</u>
(Loss)/return on ordinary activities before taxation							
	(27)	(609)	(636)	33	201	234	117
Tax on total comprehensive income and ordinary activities	(5)	-	(5)	(27)	-	(27)	(7)
	<u>(32)</u>	<u>(609)</u>	<u>(641)</u>	<u>6</u>	<u>201</u>	<u>207</u>	<u>110</u>
(Loss)/return attributable to equity shareholders							
	(32)	(609)	(641)	6	201	207	110

INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2020

'G' Shares	Six months ended 30 Jun 2020			Six months ended 30 Jun 2019			Year ended 31 Dec 2019
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	1,738	-	1,738	491	-	491	941
Gains/(losses) on investments							
- realised	-	173	173	-	125	125	125
- unrealised	-	(3,566)	(3,566)	-	236	236	(271)
	<u>1,738</u>	<u>(3,393)</u>	<u>(1,655)</u>	<u>491</u>	<u>361</u>	<u>852</u>	<u>795</u>
Investment management fees	(96)	-	(96)	(148)	-	(148)	(288)
Other expenses	(1,189)	-	(1,189)	(55)	-	(55)	(110)
	<u>(1,285)</u>	<u>-</u>	<u>(1,285)</u>	<u>(148)</u>	<u>-</u>	<u>(148)</u>	<u>(288)</u>
(Loss)/return on ordinary activities before taxation	453	(3,393)	(2,940)	288	361	649	397
Tax on total comprehensive income and ordinary activities	(109)	-	(109)	(86)	-	(86)	(94)
	<u>(109)</u>	<u>-</u>	<u>(109)</u>	<u>(86)</u>	<u>-</u>	<u>(86)</u>	<u>(94)</u>
(Loss)/return attributable to equity shareholders	344	(3,393)	(3,049)	202	361	563	303

INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2020

'K' Shares	Six months ended 30 Jun 2020			Six months ended 30 Jun 2019			Year ended 31 Dec 2019
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	59	-	59	52	16	68	152
(Losses)/gains on investments							
- realised	-	-	-	-	-	-	5
- unrealised	-	(2,027)	(2,027)	-	(2,817)	(2,817)	(5,107)
	<u>59</u>	<u>(2,027)</u>	<u>(1,968)</u>	<u>52</u>	<u>(2,801)</u>	<u>(2,749)</u>	<u>(4,950)</u>
Investment management fees	-	-	-	(117)	-	(117)	(214)
Other expenses	(250)	-	(250)	(49)	-	(49)	(95)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(117)</u>	<u>-</u>	<u>(117)</u>	<u>(214)</u>
Loss on ordinary activities before taxation	(191)	(2,027)	(2,218)	(114)	(2,801)	(2,915)	(5,259)
Tax on total comprehensive income and ordinary activities	5	-	5	18	-	18	51
	<u>5</u>	<u>-</u>	<u>5</u>	<u>18</u>	<u>-</u>	<u>18</u>	<u>51</u>
Loss attributable to equity shareholders	(186)	(2,027)	(2,213)	(96)	(2,801)	(2,897)	(5,208)

UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2020

	Note	30 Jun 2020			Total £'000	30 Jun	31 Dec
		'F'	'G'	'K'		2019	2019
		Shares £'000	Shares £'000	Shares £'000		Total £'000	Total £'000
Net cash (outflow)/inflow from operating activities	1	(46)	119	(82)	(9)	65	166
Cash flows from investing activities							
Sale of investments		2	230	-	232	3,217	3,995
Net cash inflow from investing activities		<u>2</u>	<u>230</u>	<u>-</u>	<u>232</u>	<u>3,217</u>	<u>3,995</u>
Net cash (outflow)/inflow before financing activities		(44)	349	(82)	223	3,282	4,161
Cash flows from financing activities							
Equity dividend paid		-	(506)	(1,179)	(1,685)	-	(4,080)
Net cash outflow from financing activities		<u>-</u>	<u>(506)</u>	<u>(1,179)</u>	<u>(1,685)</u>	<u>-</u>	<u>(4,080)</u>
(Decrease)/increase in cash	2	<u>(44)</u>	<u>(157)</u>	<u>(1,261)</u>	<u>(1,462)</u>	<u>3,282</u>	<u>81</u>

NOTES TO THE UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2020

	30 Jun 2020				30 Jun	31 Dec
	'F'	'G'	'K'	Total	2019	2019
	Shares	Shares	Shares	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
1 Cash inflow/(outflow) from operating activities						
(Loss) on ordinary activities before taxation	(636)	(2,940)	(2,218)	(5,794)	(2,032)	(4,745)
Corporation tax	-	-	-	-	(8)	(145)
(Gains)/losses on investments	609	3,393	2,027	6,029	2,255	5,148
(Increase)/decrease in other debtors	(24)	(310)	159	(175)	(108)	(45)
(Decrease)/increase in other creditors	5	(24)	(50)	(69)	(42)	(47)
Net cash (outflow)/inflow from operating activities	(46)	119	(82)	(9)	65	166
2 Analysis of net funds						
Beginning of period	206	361	3,569	4,136	4,055	4,055
Net cash (outflow)/inflow	(44)	(157)	(1,261)	(1,462)	3,282	81
End of period	162	204	2,308	2,674	7,337	4,136

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 2020 and have been prepared in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued in October 2019 (“AIC SORP”) and in accordance with the accounting policies set out in the statutory accounts for the year ended 31 December 2019, 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 (“FRS 102”).

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 2019 and the year ended 31 December 2019 respectively.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

6. Dividends

Paid in period	Per share pence	Six months ended 30 June 2020			Year to 31 Dec 2019
		Revenue £'000	Capital £'000	Total £'000	Total £'000
'F' Shares					
Y/E Dec 2019 Interim	5.0p	-	-	-	541
		-	-	-	541
'G' Shares					
Y/E Dec 2019 Interim	2.0p	200	306	506	
Y/E Dec 2019 Interim	14.0p	-	-	-	3,539
		200	306	506	3,539
'K' Shares					
Y/E Dec 2019 Interim	7.5p	-	1,179	1,179	-
		-	1,179	1,179	-

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

7. Basic and diluted return per share

	Weighted average number of shares in issue	Revenue return/(loss)		Capital return/(loss)	
		£'000	Per share	£'000	Per share
'F' Shares	10,810,859	(32)	(0.3p)	(609)	(5.6p)
'G' Shares	25,281,571	344	1.4p	(3,393)	(13.4p)
'K' Shares	15,718,154	(186)	(1.2p)	(2,027)	(12.9p)
		126		(6,029)	

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

8. Net asset value per share

	Shares in issue	Net asset value £'000	Per share
'F' Shares	10,810,859	2,032	18.8p
'G' Shares	25,281,571	8,614	34.1p
'K' Shares	15,718,154	5,751	36.6p
		<u>16,397</u>	

9. Reserves

	Period ended 30 Jun 2020 £'000	Year ended 31 Dec 2019 £'000
Capital redemption reserve	149	149
Special reserve	33,606	34,938
Revaluation reserve	(10,787)	(4,585)
Capital reserve - realised	(7,085)	(7,105)
Revenue reserve	462	536
	<u>16,345</u>	<u>23,933</u>

The Special reserve, Capital reserve - realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £11,616,000 which are included in the calculation of distributable reserves. Total distributable reserves are £15,367,000 (31 Dec 2019: £21,453,000).

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 2019.

The Company has categorised its 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).

	Period ended			Year ended				
	Level 1	Level 2	Level 3	30 June 2020	Level 1	Level 2	Level 3	31 Dec 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	-	-	4,512	4,512	-	-	5,424	5,424
Unquoted equity	-	-	8,008	8,008	-	-	13,357	13,357
	-	-	12,520	12,520	-	-	18,781	18,781

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 2019 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:
- 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
 - 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 impact of the coronavirus pandemic has created heightened uncertainty but has not changed the nature of these risks.

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 & 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. The impact of the coronavirus pandemic has been significant on some portfolio companies and, in many cases, the VCT regulations restrict the Company from making further investment into these businesses, so the Manager seeks to provide whatever other support they can to these businesses, including encouraging them to take advantage of Government support that may be available. The Company 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 despite the current economic outlook and impact of the COVID-19 pandemic that is still being experienced.

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.

SHAREHOLDER INFORMATION

Performance summary

'F' Share pool	30 Jun	31 Mar	31 Dec	30 Jun
	2020	2020	2019	2019
	Pence	Pence	Pence	Pence
Net asset value per 'F' Share	18.8	21.6	24.7	30.6
Cumulative distributions per 'F' Share	72.0	72.0	72.0	67.0
Total return per 'F' Share	<u>90.8</u>	<u>93.6</u>	<u>96.7</u>	<u>97.6</u>
'G' Share pool	30 Jun	31 Mar	31 Dec	30 Jun
	2020	2020	2019	2019
	Pence	Pence	Pence	Pence
Net asset value per 'G' Share	34.1	36.0	48.1	63.2
Cumulative distributions per 'G' Share	53.5	51.5	51.5	37.5
Total return per 'G' Share	<u>87.6</u>	<u>87.5</u>	<u>99.6</u>	<u>100.7</u>
'K' Share pool	30 Jun	31 Mar	31 Dec	30 Jun
	2020	2020	2019	2019
	Pence	Pence	Pence	Pence
Net asset value per 'K' Share	36.6	50.3	58.2	72.9
Cumulative distributions per 'K' Share	7.5	-	-	-
Total return per 'K' Share	<u>44.1</u>	<u>50.3</u>	<u>58.2</u>	<u>72.9</u>

Forthcoming dividends

Interim 2020 – Payable 27 November 2020

'K' Shares
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.linkassetsservices.com by clicking on "Shareholders and Investors" and then "Shareholder Services UK").

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

Share scam warning

We are aware that a significant number of shareholders of VCTs managed by both Downing and other VCT managers have 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/vctboilerroomscam. 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, Link 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).

	'F' Shares DP2F	'G' Shares DP2G	'K' Shares DP2K
TIDM/EPIC codes			
Latest share price (per share) (29 Sept 2020):	15.5p	25.0p	40.0p

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.

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

If you have any queries regarding your shareholding in Downing TWO VCT plc, please contact the registrar on 0371 664 0300 or visit Link's website at www.linkassetservices.com and click on "Shareholders and Investors", and then "Shareholder Services UK".

Directors

Hugh Gillespie (Chairman)
Dennis Hale
Christopher McCann

Company Secretary and Registered Office

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

Registered No. 05334418

Investment and Administration Manager

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

www.downing.co.uk
Tel: 020 7416 7780

Registrar

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

www.linkassetservices.com
Tel: 0371 664 0300

(calls cost 12p per minute plus network extras,
lines open Monday to Friday 9:00am to 5:30pm)



St Magnus House
3 Lower Thames Street
London EC3R 6HD

020 7416 7780
customer@downing.co.uk
www.downing.co.uk



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