Downing TWO VCT plc

Report & Accounts
for the year ended
31 December 2018

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	'G' Shares	'K' Shares
TIDM/EPIC code:	DP2F	DP2G	DP2K
Latest share price (24 April 2019):	20.0p	60.0p	90.0p

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 bought and sold 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.

Share certificates

Share certificates issued in the Company's previous names, "Downing Protected VCT II plc" and "Downing Planned Exit VCT 2 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

5 June 2019	Annual General Meeting
September 2019	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 TWO VCT plc, please contact the registrar on the above number or visit Link's website at www.linkassetservices.com and click on "Products and Services" and then "Shareholders".

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

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COMPANY INFORMATION

Registered number	5334418
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
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 55 Baker Street London W1U 7EU
VCT status advisers	Philip Hare & Associates LLP Suite C – First Floor 4-6 Staple Inn London WC1V 7QH
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 TWO 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

	31 Dec 2018 Pence	31 Dec 2017 Pence
'F' Share pool		
Net asset value per 'F' Share	28.7	69.6
Cumulative distributions per 'F' Share	67.0	30.0
Total Return per 'F' Share	95.7	99.6
'G' Share pool		
Net asset value per 'G' Share	60.9	82.1
Cumulative distributions per 'G' Share	37.5	25.0
Total Return per 'G' Share	98.4	107.1
'K' Share pool		
Net asset value per 'K' Share	91.3	97.7
Cumulative distributions per 'K' Share	-	-
Total Return per 'K' Share	91.3	97.7

FINANCIAL HIGHLIGHTS (continued)

Dividend history

Year end	Date paid	'F' Shares Pence per share	'G' Shares Pence per share	'K' 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	5.0	-
Final Dec 2013	27 June 2014	2.5	2.5	-
Interim Dec 2014	12 December 2014	2.5	2.5	-
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	10.0	-
		67.0	37.5	-

DIRECTORS

Hugh Gillespie (Chairman) was formerly a director of Hill Samuel Bank Limited and non-executive director and chairman of a number of public companies including other Downing VCTs.

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 THREE VCT plc.

Christopher McCann has been a non-executive director of a number of Downing VCTs. He is a Chartered Accountant and was vice chairman of the private equity manager, Bridgepoint Capital Limited, where he worked from 1987 to 2002. Prior to this he worked for the Barclays Bank Group. He has been a director or chairman of numerous private companies and the chairman of an AIM quoted company.

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

CHAIRMAN'S STATEMENT

Introduction

It is disappointing to have to report that there have been negative developments in a number of investee companies in the later part of the year ended 31 December 2018. This has resulted in decreases in the Total Return of each of the Company's share pools across the year.

Three energy related investments in particular have suffered heavily, requiring substantial provisions. 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 10 investments with a total value of £3.1 million.

At 31 December 2018, the 'F' Share NAV stood at 28.7p, which represents a decrease of 5.6% over the year after adjusting for the dividends of 37.0p per share paid in the year. Dividends paid to date total 67.0p per share such that Total Return (NAV plus cumulative dividends to date) is now 95.7p, compared to the initial cost to original subscribers net of income tax relief of 70.0p. A large provision against the share pool's investment in Apex Energy Limited has been required, accounting for most of the decrease in the NAV.

The F Share pool is in the process of realising its investments and returning funds to investors. The Investment Manager is optimistic that this process will complete before the end of the year.

'G' Share pool

The 'G' Share pool was launched in 2013 and has now started to realise its investments, in order to return funds to Shareholders. At 31 December 2018, the pool held 14 investments with a total value of £14.2 million.

At 31 December 2018, the 'G' Share NAV stood at 60.9p, which represents a decrease over the year of 10.6% after adjusting for the dividends of 12.5p per share paid in the year. Total Return (NAV plus cumulative dividends to date) is now 98.4p, compared to the initial NAV of 100.0p. Major provisions have been required against the share pool's investments in Hermes Wood Pellets Limited, Apex Energy Limited, Zora Energy Renewables Limited and Quadrate Spa Limited, accounting for most of the fall in value.

The G Share pool has commenced the process of realising its investments and returning funds to investors. The Investment Manager expects that most of the remaining investments will be realised during the course of 2019. The Board intends to pay further dividends as soon as a significant level of funds has been generated by further realisations.

'K' Share pool

The 'K' Share pool raised the majority of its £16.2 million of funds in the 2015/16 tax year.

At 31 December 2018, the pool held 17 investments with a total value of £10.6 million. The NAV and Total Return at 31 December 2018 stood at 91.3p per share which represents a decrease over the year of 6.6%.

Due to VCT regulations, the 'K' Share pool is effectively prohibited from paying dividends before 2020 and therefore, the Board expects regular dividends to be paid from 2020. The share pool is scheduled to start realising its investments to return funds to investors in 2021.

Share buybacks

For share classes where all investors are still within the initial five year period (currently the 'K' Share class only), the Company operates a general policy of buying in its own shares for cancellation when any become available in the market. During this period, any such purchases will be undertaken at a price equal to the latest published NAV (i.e. at nil discount). Any buybacks are subject to regulatory restrictions and the availability of liquid funds.

The Company is now unlikely to make any further purchases of the 'F' Shares and the 'G' Shares as the process of returning funds to those Shareholders is now underway.

During the year to 31 December 2018, the Company repurchased and subsequently cancelled 47,000 'G' Shares and 16,275 'K' Shares for an aggregate consideration of £38,000 and £17,000 respectively, being an average price of 81.0p per 'G' Share and 97.5p per 'K' Share.

A resolution to renew the buyback authority for the Company to purchase its own shares will be proposed at the forthcoming Annual General Meeting.

Share Premium reserve cancelation

In August 2018, the share premium reserve that arose on the issue of the K Shares was cancelled and transferred to the special reserve, contributing an additional £16.2 million to distributable reserves.

Annual General Meeting ("AGM")

The Company's twelfth AGM will be held at St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD at 11.00 a.m. on 5 June 2019.

One item of special business will be proposed at the AGM. As mentioned above, the Company will seek to renew the authority for the Company to buy back shares.

Outlook

Despite that fact that many of the businesses in which the Company has invested own substantial assets, the fact that the businesses are young (in line with the VCT regulations) and thus immature means there are still significant risks associated with them. This has been highlighted by the setbacks seen in several of the investee companies during the year. Close monitoring of the investee companies has always been a key part of the Investment Manager's role and will continue to remain so. The Board is ensuring that the Manager takes all reasonable steps that it can to seek to recover as much value as possible from the investments that have faced difficulties.

With the backdrop of Brexit, the economic and political environment in the UK has remained uncertain over the past year and little clarity has been obtained as to the likely outcome of the ongoing negotiations between the UK and the EU. Although this could potentially have some impact on the process of disposing of investments, the Board feels that any impact will be relatively limited.

In the coming year, we expect to see the remaining 'F' Share portfolio realised in order to distribute the final funds to investors, with good progress also being made in relation to the 'G' Share pool. However, Shareholders should note that the timing of anticipated realisations is dependent on many external factors.

I will update Shareholders on progress in my statement with the Half Yearly Report to 30 June 2019. I will also communicate with 'F' Shareholders and 'G' Shareholders as and when there is news about further dividends.

Hugh Gillespie
Chairman

25 April 2019

INVESTMENT MANAGER'S REPORT- 'F' SHARE POOL

Introduction

The 'F' Share pool holds 10 investments and is fully invested in a portfolio focussed on asset backed businesses and those with predictable revenue streams. The focus for this year has been on realisations with the 'F' Share pool making two significant distributions during the period.

Net asset value and results

At 31 December 2018, the 'F' Share NAV stood at 28.7p. This represents a net decrease of 3.9p per share over the year (after adjusting for dividends paid during the year of 37.0p per Share), equivalent to a decrease of 5.6%. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 95.7p.

The loss on ordinary activities for the 'F' Share pool for the year was £424,000 (2017: profit of £528,000), being a revenue profit of £6,000 (2017: £182,000) and a capital loss of £430,000 (2017: gain of £346,000).

'F' Share pool - Investment activity

During the year, total proceeds of £2.0 million were received from three full exits and one partial exit, generating a total gain over opening value of £350,000.

Goonhilly Earth Station Limited, the operator of a satellite earth station in Cornwall, was sold during the summer and generated proceeds of £1.2 million for the Share pool. This represented an uplift over cost of £217,000.

Proceeds of £770,000 were received from the sale of Merlin Renewables Limited, the anaerobic digestion plant in Norfolk compared to a cost of £500,000.

In addition to the above, there was a full exit from the Scottish licensed leisure company, Fubar Stirling Limited, which generated proceeds of £12,000 and a total gain over carrying value of £5,000.

There was also a partial loan note redemption in Fresh Green Power Limited, the domestic rooftop solar company, which was redeemed at par.

With the pool in the process of realising its investments following the passing of the five year anniversary of the close of the 'F' Share offer, no new investments were made in the period.

Plans are in place for the exit of the remaining portfolio companies and we anticipate this exercise will complete in full by the third quarter of 2019.

'F' Share pool – Portfolio valuation

The majority of investments remain valued at or above cost, however there were a small number of substantial decreases in value in the portfolio that have resulted in an unrealised loss over opening value of £780,000.

Pearce and Saunders Limited, the owner of three freehold pubs in south east London, has increased in value by £174,000 in line with expected exit proceeds.

Portfolio company, Atlantic Dogstar Limited was uplifted by £35,000, based on the minimum expected returns.

The most notable write down in the period related to Apex Energy Limited, the developer of a standby electricity generation plant in the East Midlands. The investment was reduced in value by £900,000 following several material shortcomings in the plant and equipment supplied which have severely impacted operations. Work is ongoing to establish what steps could result in some recovery of value, including legal action against the third party operator.

London City Shopping Centre Limited, which was seeking to develop a site near the Barbican, London, was unable to find a buyer for the site or secure additional funding to progress with the development. As a result, the business has entered administration and has now been fully provided against. This resulted in a valuation decrease of £66,000.

Outlook

Focus for the 'F' Share pool remains on the realisation of its investments. Realisation plans are in place for the remaining investments in the portfolio, with some expected to complete in the next few months in order to distribute the final funds to investors.

Downing LLP

25 April 2019

F Shares

REVIEW OF INVESTMENTS – 'F' SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2018:

'F' Share pool	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Pearce and Saunders Limited	497	671	174	21.5%
Downing Pub EIS One Limited	490	620	32	19.9%
Lambridge Solar Limited	500	605	10	19.4%
Atlantic Dogstar Limited	200	270	35	8.7%
Fresh Green Power Limited	189	210	(19)	6.8%
Apex Energy Limited	1,000	100	(900)	3.2%
Green Energy Production UK Limited	100	54	(46)	1.7%
	2,976	2,530	(714)	81.2%
Non-qualifying investments				
Baron House Developments LLP	481	481	-	15.4%
Pearce and Saunders DevCo Limited	46	46	-	1.5%
London City Shopping Centre Limited	66	-	(66)	0.0%
	593	527	(66)	16.9%
	3,569	3,057	(780)	98.1%
Cash at bank and in hand		60		1.9%
Total investments		3,117		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 11.

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 01/01/18 † £’000	Disposal proceeds £’000	Gain/ (loss) against cost £’000	Total realised gain during the year £’000
VCT qualifying and partially qualifying investments					
Goonhilly Earth Station Limited	954	954	1,171	217	217
Merlin Renewables Limited	500	642	770	270	128
Fubar Stirling Limited	101	7	12	(89)	5
Fresh Green Power Limited	11	11	11	-	-
Total ‘F’ Share pool	1,566	1,614	1,964	398	350

† Adjusted for additions in the year

F Shares

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

Further details of the main investments:

Pearce and Saunders Limited

Cost at 31/12/18:	£497,000	Valuation at 31/12/18:	£671,000
Date of first investment:	Sep 13	Valuation at 31/12/17:	£497,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£497,000	Proportion of equity held:	19%

Summary financial information from statutory accounts to 31 December*

	2017	2016
Net assets	£2,431,574	£846,731

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; Jam Circus in Brockley, The Old Post Office in Eltham and the John Jackson in Wallington.

Downing Pub EIS One Limited

Cost at 31/12/18:	£490,000	Valuation at 31/12/18:	£620,000
Date of first investment:	Oct 17	Valuation at 31/12/17:	£588,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£490,000	Proportion of equity held:	8%

Summary financial information from statutory accounts to 31 December*

	2017	2016
Net assets:	£7,420,307	£2,579,350

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 9 trading freehold London pubs, which are managed by the Antic team.

Lambridge Solar Limited

Cost at 31/12/18:	£500,000	Valuation at 31/12/18:	£605,000
Date of first investment:	Jul 14	Valuation at 31/12/17:	£595,000
		Valuation method:	Discounted cash flow from the investment
Investment comprises:			
Ordinary shares:	£500,000	Proportion of equity held:	4%

Summary financial information from statutory accounts to 31 December*

	2017	2016
Turnover:	£939,407	£1,116,405
Operating profit:	£133,359	£343,172
Net assets:	£7,652,431	£7,856,548

Lambridge Solar Limited owns a 9.0 MW ground-mounted photovoltaic system at Burton Pedwardine in Lincolnshire. It qualifies for Renewable Obligations Certificates ("ROC") and receives 1.6 ROCs for every megawatt hour of electricity generated.

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:

Baron House Developments LLP

Cost at 31/12/18:	£481,000	Valuation at 31/12/18:	£481,000
Date of first investment:	Apr 12	Valuation at 31/12/17:	£481,000
		Valuation method:	Discounted cash flow - underlying business
Investment comprises:			
Loan stock:	£481,000	Proportion of loan stock held:	10%

Summary financial information from statutory accounts to 31 March

	2018	2017
Turnover:	*£nil*	*£nil*
Operating (loss)/profit	(£56,005)	£157,373
Net assets:	£4,563,242	£5,282,788

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.

Atlantic Dogstar Limited
www.anticlondon.com

Cost at 31/12/18:	£200,000	Valuation at 31/12/18:	£270,000
Date of first investment:	Jan 15	Valuation at 31/12/17:	£235,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£140,000	Proportion of equity held:	2%
Loan stock:	£60,000	Proportion of loan stock held:	1%

Summary financial information from statutory accounts to 31 December

	2017	2016
Turnover:	£6,864,526	£6,957,856
Operating profit:	£1,063,372	£1,008,325
Net assets:	£11,228,374	£4,818,578

Atlantic Dogstar Limited owns five pubs in London, 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. The 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 31/12/18:	£189,000	Valuation at 31/12/18:	£210,000
Date of first investment:	Apr 12	Valuation at 31/12/17:	£239,000
		Valuation method:	Discounted cash flow - underlying business
Investment comprises:			
Ordinary 'A' shares:	*£nil*	Proportion of 'A' equity held:	3%
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*

	2017	2016
Net assets:	£697,035	£691,005

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 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.

* 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:

Apex Energy Limited

Cost at 31/12/18:	£1,000,000	Valuation at 31/12/18:	£100,000
Date of first investment:	Nov 15	Valuation at 31/12/17:	£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 30 September*

	2017	2016
Net assets:	£4,841,102	£5,000,605

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.

Green Energy Production UK Limited

Cost at 31/12/18:	£100,000	Valuation at 31/12/18:	£54,000
Date of first investment:	Apr 12	Valuation at 31/12/17:	£100,000
		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

	2017	2016
Turnover:	£73,904	£43,899
Operating profit:	£40,678	£8,827
Net assets:	£303,582	£281,748

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.

Pearce and Saunders DevCo Limited

Cost at 31/12/18:	£46,000	Valuation at 31/12/18:	£46,000
Date of first investment:	Jun 15	Valuation at 31/12/17:	£46,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£44,000	Proportion of equity held:	19%
Loan stock:	£2,000	Proportion of loan stock held:	23%

Summary financial information from statutory accounts to 31 August*

	2017	2016
Net assets:	£253,749	£254,049

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.

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**
Pearce and Saunders Limited	-
Downing Pub EIS One Limited	-
Lambridge Solar Limited	-
Baron House Developments LLP	58
Atlantic Dogstar Limited	16
Fresh Green Power Limited	4
Apex Energy Limited	-
Green Energy Production UK Limited	2
Pearce and Saunders DevCo Limited	-
London City Shopping Centre Limited	7
	87
Receivable from other investments	65
	152

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 2018:

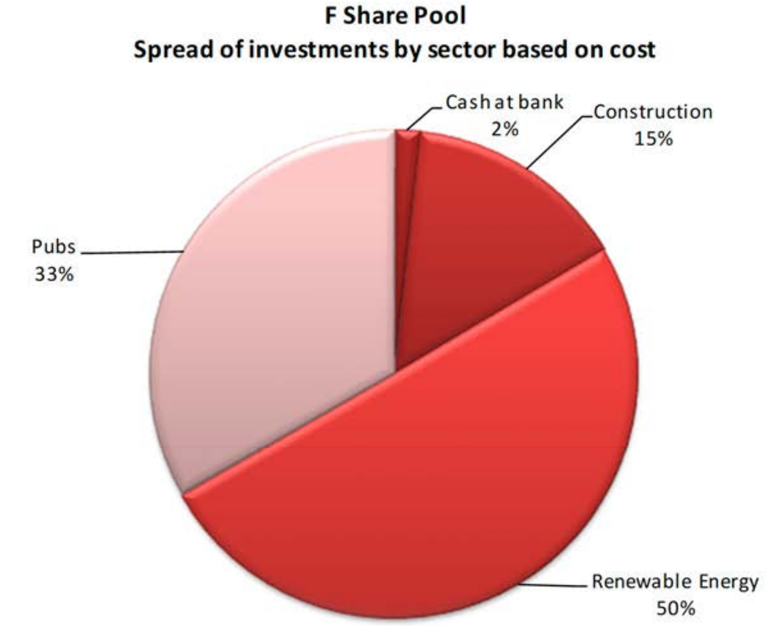
	Portfolio split 31 Dec 2018
Qualifying investments	
Loans to qualifying companies	4%
Ordinary shares in qualifying companies	78%
Non-qualifying investments (including cash at bank)	18%
	100%

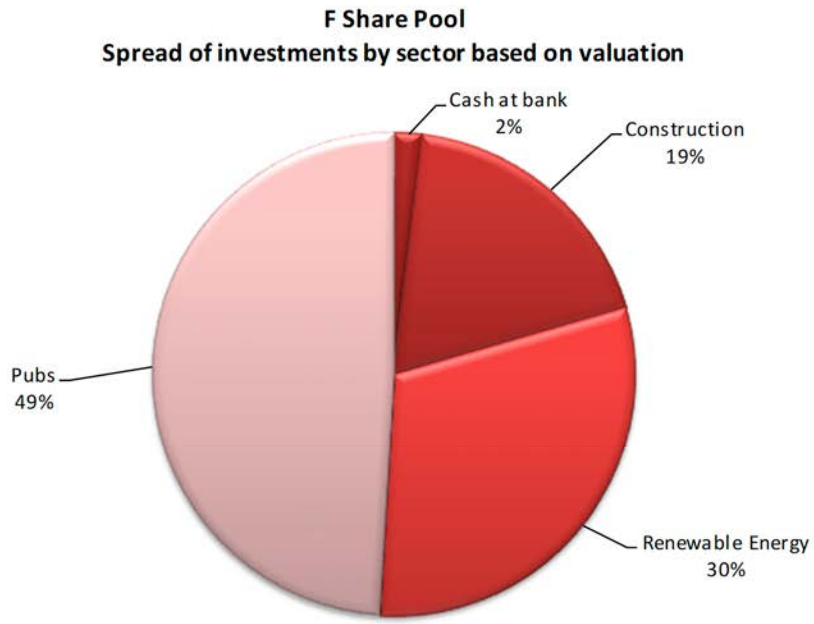
F Shares

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 2018) is as follows:





INVESTMENT MANAGER'S REPORT- 'G' SHARE POOL

Introduction

The 'G' Share pool raised funds in 2013 and the task of realising its investments is now underway following the passing of the five year anniversary of the close of the 'G' Share offer. It is disappointing to have to report that, several portfolio companies suffered substantial setbacks which have required large provisions.

Net asset value and results

At 31 December 2018, the 'G' Share NAV stood at 60.9p. This represents a net decrease of 8.7p per Share over the year (after adjusting for dividends paid during the year of 12.5p per Share), equivalent to a decrease of 10.6%. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 98.4p.

The loss on ordinary activities for the 'G' Share pool for the year was £2,180,000 (2017: profit of £906,000), being a revenue profit of £631,000 (2017: £691,000) and a capital loss of £2.8 million (2017: gain of £215,000).

'G' Share pool - Investment activity

With the pool now being in the realisation phase, no new investments were made in the period. Two full exits completed during the period generating total proceeds £2.9 million.

Goonhilly Earth Station Limited, the operator of a satellite earth station in Cornwall, was sold during the summer and generated proceeds of £2.6 million for the Share pool. This represented an uplift over cost of £489,000.

In addition, proceeds of £257,000 were generated from the sale of Oak Grove Renewables Limited, the operator of an anaerobic digestion plant in Norfolk. This represented a loss over cost of £163,000.

'G' Share pool – Portfolio valuation

The period to 31 December 2018 has seen a number of disappointing developments, resulting in an unrealised loss of £3.3 million.

The most notable write down in the period related to Apex Energy Limited, who are the developer of a standby electricity generation plant in the East Midlands. The investment was reduced in value by £1.2 million following several material shortcomings in the plant and equipment supplied that have severely impacted operations. Work is ongoing to establish what steps could result in some recovery of value, including legal action against the third party operator.

Hermes Wood Pellets Limited was planning to build, commission and operate a wood pelleting plant in Goole, Yorkshire. However, due to significant delays and cost overruns, the contractor was unable to procure a construction contractor which would deliver the project within budget. As a result, a significant shortfall has been created resulting in a valuation write down of £848,000. We are working with management to find a solution which can recover some equity value for Shareholders.

Zora Energy Renewables Limited is a wood pellet sales and distribution business. To date the business has been unable to develop at the rate originally planned and a provision of £672,000 has been required.

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 reduced in value by £781,000 and £254,000 respectively as a result of continued performance issues.

The unrealised losses were partially offset by gains in the period totalling £692,000.

The most significant gain related to Atlantic Dogstar Limited, which owns a group of London pubs. The investment was uplifted by £613,000 based on the minimum expected returns.

Outlook

Following the passing of the five year anniversary of the close of the 'G' Share offer in November 2018, focus now shifts to realising the investments in order to return funds to investors. Plans are now being progressed for the disposal of all investments, including those that have faced challenges as discussed above. We anticipate that the exercise will take some time to complete in full and expect to see good progress over the coming months.

Downing LLP

25 April 2019

REVIEW OF INVESTMENTS – 'G' SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2018:

'G' Share pool	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Atlantic Dogstar Limited	3,500	4,725	613	32.5%
Antelope Pub Limited	1,760	1,760	-	12.1%
Walworth House Pub Limited	1,330	1,330	-	9.1%
Downing Pub EIS One Limited	980	1,240	62	8.5%
Quadrate Catering Limited	1,450	1,196	(254)	8.2%
Ormsborough Limited	500	351	(182)	2.4%
Pearce and Saunders Limited	193	193	-	1.3%
Hermes Wood Pellets Limited	1,000	152	(848)	1.0%
Apex Energy Limited	1,300	130	(1,170)	0.9%
Zora Energy Renewables Limited	750	78	(672)	0.6%
	12,763	11,155	(2,451)	76.6%
Non-qualifying investments				
Hedderwick Limited	1,250	1,320	17	9.1%
Baron House Developments LLP	1,093	1,093	-	7.5%
Quadrate Spa Limited	1,450	669	(781)	4.6%
London City Shopping Centre Limited	110	-	(110)	0.0%
	3,903	3,082	(874)	21.2%
	16,666	14,237	(3,325)	97.8%
Cash at bank and in hand		324		2.2%
Total investments		14,561		100.0%

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

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

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

Summary of investment movements

Disposals

	Cost £'000	MV at 01/01/18 £'000	Disposal proceeds £'000	Gain/ (loss) against cost £'000	Total realised gain during the year £'000
VCT qualifying and partially qualifying investments					
Goonhilly Earth Station Limited	2,146	2,146	2,635	489	489
Oak Grove Renewables Limited	420	232	257	(163)	25
	2,566	2,378	2,892	326	514

G Shares

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

Further details of the main investments:

Atlantic Dogstar Limited
www.anticlondon.com

Cost at 31/12/18:	£3,500,000	Valuation at 31/12/18:	£4,725,000
Date of first investment:	Jan 15	Valuation at 31/12/17:	£4,112,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£2,450,000	Proportion of equity held:	40%
Loan stock:	£1,050,000	Proportion of loan stock held:	18%

Summary financial information from statutory accounts to 31 December

	2017	2016
Turnover:	£6,864,526	£6,957,856
Operating profit:	£1,063,372	£1,008,325
Net assets:	£11,228,374	£4,818,578

Atlantic Dogstar Limited owns five pubs in London, 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. The pubs are operated under the Antic London brand, the management team of which has also invested in the company.

Antelope Pub Limited

Cost at 31/12/18:	£1,760,000	Valuation at 31/12/18:	£1,760,000
Date of first investment:	Mar 13	Valuation at 31/12/17:	£1,760,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£1,232,000	Proportion of equity held:	78%
Loan stock:	£528,000	Proportion of loan stock held:	45%

Summary financial information from statutory accounts to 31 December*

	2017	2016
Net assets:	£3,092,034	£2,171,870

Antelope Pub Limited owns and operates a freehold pub, The Antelope, in Tooting South West London. Downing's funds are invested alongside an existing and experienced operator, Antic London.

Walworth House Pub Limited

Cost at 31/12/18:	£1,330,000	Valuation at 31/12/18:	£1,330,000
Date of first investment:	Sep 16	Valuation at 31/12/17:	£1,330,000
		Valuation method:	Discounted cash flow from the investment
Investment comprises:			
Ordinary shares:	£931,000	Proportion of equity held:	73%
Loan stock:	£399,000	Proportion of loan stock held:	73%

Summary financial information from statutory accounts to 31 December*

	2017	2016
Net liabilities:	£2,159,541	£1,107,938

In September 2016, £1.3 million was invested in Walworth House Pub Limited to enable it to purchase a large vacant freehold property in Walworth, South London, before converting it into a public house. The investment was made alongside Antic London, a long-term investment partner of the Downing funds. The pub opened for trading in early 2018.

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 – 'G' SHARE POOL (continued)

Further details of the main investments:

Hedderwick Limited

Cost at 31/12/18:	£1,250,000	Valuation at 31/12/18:	£1,320,000
Date of first investment:	Oct 15	Valuation at 31/12/17:	£1,303,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£875,000	Proportion of equity held:	50%
Loan stock:	£375,000	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to*

	1 April 2018	2 April 2017
Net assets:	£1,071,570	£1,514,158

Hedderwick Limited owns Banyers House in Royston which has been trading since December 2016. The Company also owns a property in Olney, Buckinghamshire which opened as a public house in March 2018. Both sites are managed by Oakman Inns.

Downing Pub EIS One Limited

Cost at 31/12/18:	£980,000	Valuation at 31/12/18:	£1,240,000
Date of first investment:	Oct 17	Valuation at 31/12/17:	£1,178,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£980,000	Proportion of equity held:	16%

Summary financial information from statutory accounts to 31 December*

	2017	2016
Net liabilities:	£7,420,307	£2,579,350

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 9 trading freehold London pubs, which are managed by the Antic team.

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk

Cost at 31/12/18:	£1,450,000	Valuation at 31/12/18:	£1,196,000
Date of first investment:	Jan 16	Valuation at 31/12/17:	£1,450,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£1,015,000	Proportion of equity held:	38%
Loan stock:	£435,000	Proportion of loan stock held:	38%

Summary of 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.

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 – ‘G’ SHARE POOL (continued)

Further details of the main investments:

Baron House Developments LLP

Cost at 31/12/18:	£1,093,000	Valuation at 31/12/18:	£1,093,000
Date of first investment:	Apr 13	Valuation at 31/12/17:	£1,093,000
		Valuation method:	Price of recent investment

Investment comprises:

Loan stock:	£1,093,000	Proportion of loan stock held:	23%

Summary financial information from statutory accounts to 31 March

	2018	2017
Turnover:	*£nil*	*£nil*
Operating (loss)/profit:	(£56,005)	£157,373
Net assets:	£4,563,242	£5,282,788

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.

Quadrate Spa Limited
www.theclubandspabirmingham.co.uk

Cost at 31/12/18:	£1,450,000	Valuation at 31/12/18:	£669,000
Date of first investment:	Jan 16	Valuation at 31/12/17:	£1,450,000
		Valuation method:	Multiples

Investment comprises:

Ordinary Shares:	£1,015,000	Proportion of equity held:	26%
Loan stock:	£435,000	Proportion of loan stock held:	38%

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.

Ormsborough Limited

Cost at 31/12/18:	£500,000	Valuation at 31/12/18:	£351,000
Date of first investment:	Nov 16	Valuation at 31/12/17:	£533,000
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£500,000	Proportion of equity held:	5%

Summary financial information from statutory accounts to 31 July*

	2017	2016
Net assets:	£8,318,284	£3,542,731

In March 2017 the Downing VCTs invested into Ormsborough Limited. Following the VCT investment, the company acquired and refurbished sites in Beverley, Bingley and Northallerton, Yorkshire, which were rebranded and opened as Firepit bar and Smokehouse and The Potting Shed respectively.

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

Further details of the main investments:

Pearce and Saunders Limited

Cost at 31/12/18:	£193,000	Valuation at 31/12/18:	£193,000
Date of first investment:	Sep 13	Valuation at 31/12/17:	£193,000
		Valuation method:	Multiples
Investment comprises:			
Loan stock:	£193,000	Proportion of loan stock held:	23%

Summary financial information from statutory accounts to 31 December*

	2017	2016
Net assets:	£2,431,574	£846,731

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; Jam Circus in Brockley, The Old Post Office in Eltham and the John Jackson in Wallington.

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 ten largest investments held by the 'G' Share pool	**£'000**
Atlantic Dogstar Limited	284
Antelope Pub Limited	141
Walworth House Pub Limited	106
Hedderwick Limited	250
Downing Pub EIS One Limited	-
Quadrate Catering Limited	116
Baron House Developments LLP	133
Quadrate Spa Limited	116
Ormsborough Limited	-
Pearce and Saunders Limited	-
	1,146
Receivable from other investments	159
	1,305

Analysis of investments by investment type

The following shows the split of the 'G' Share pool's investment portfolio by type of instrument held at 31 December 2018:

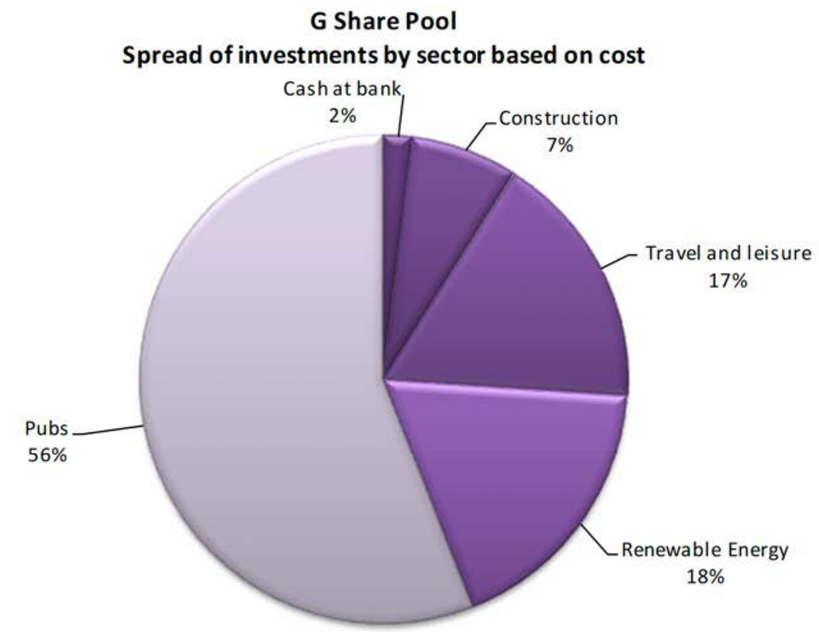
	Portfolio split 31 Dec 2018
Qualifying investments	
Loans to qualifying companies	15%
Ordinary shares in qualifying companies	60%
Non-qualifying investments (including cash at bank)	25%
	100%

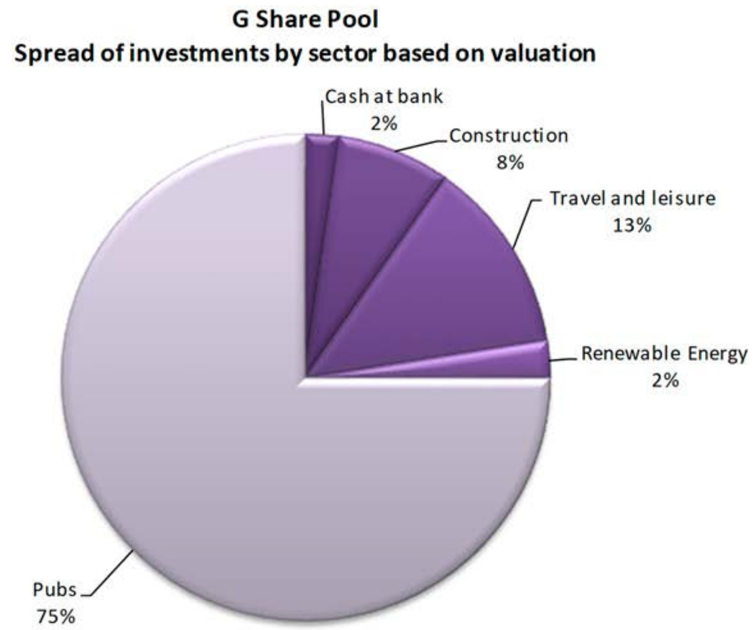
REVIEW OF INVESTMENTS – 'G' SHARE POOL (continued)

Further details of the main investments:

Analysis of investments by commercial sector

The split of the 'G' Share pool's venture capital investment portfolio by commercial sector (by cost and value at 31 December 2018) is as follows:





G Shares

INVESTMENT MANAGER'S REPORT- 'K' SHARE POOL

Introduction

The 'K' Share pool closed its fundraising period on 30 September 2016 having raised £16.2 million. The process of investing the funds is well underway with £10.6 million invested in qualifying or part qualifying investments.

'K' Share pool - Net asset value and results

At 31 December 2018, the 'K' Share NAV and Total Return (NAV plus cumulative dividends to date) was 91.3p, a decrease of 6.4p per Share over the year, equivalent to a decrease of 6.6%.

The loss on ordinary activities for the 'K' Share pool for the year was £1.0 million (2017: £212,000), being a revenue loss of £271,000 (2017: £253,000) and a capital loss of £729,000 (2017: gain of £41,000).

'K' Share pool - Investment activity

The 'K' Share pool became qualifying at the end of the period and no new qualifying investments were made in the period.

Funds had previously been invested in Managed Storage Services (1) Limited to explore business opportunities in the storage sector. The company was unable to find a suitable opportunity, therefore the £1.0 million invested was returned to the Share pool in order to invest in other qualifying investments.

In addition to the above, proceeds of £4,000 of loan repayments were received from Mosaic Spa and Health Clubs Limited, a provider of gym and spa management services.

'K' Share pool – Portfolio valuation

Whilst the majority of the portfolio performed in line with expectations during the year, two investments faced difficulties resulting in a reduction in valuation in the period of £761,000.

Ormsborough Limited owns several pubs and restaurants in Yorkshire, with some trading well and others under construction. The investment has been reduced in value by £493,000 as a result of the delays and cost overruns on one of the company's pub developments and the failure of the original operator. Management has now put in place a plan for the completion of these developments.

Zora Energy Renewables Limited is a wood pellet sales and distribution business. To date, the business has been unable to develop at the rate originally planned and a provision of £314,000 has been required.

The unrealised losses were partially offset by gains in the period totalling £61,000.

The most notable gain related to SF Renewables (Solar) Limited, which operates a ground-mounted solar farm in Southern India. The investment was uplifted by £51,000 following performance targets being met.

Outlook

The task of building the 'K' Share portfolio is complete and our focus is now on monitoring and supporting the investments during the holding period ahead of their eventual disposal.

Since the end of the reporting period, in February 2019, a fire occurred at one of the portfolio companies, Yamuna Renewables Limited. The facility has been brought back to full operational capability and an insurance claim is being pursued, however the interruption in supply during the key season trading period has impacted customer confidence. A provision against the valuation may be required when the impact has been fully assessed.

It is disappointing that two investments have suffered some significant difficulties during the period but we are taking action to recover as much value as possible. We believe that the majority of investments in the portfolio have good potential for growth over the planned life of the share pool and we will be working closely with all of them to support their development.

Downing LLP

25 April 2019

REVIEW OF INVESTMENTS – 'K' SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2018:

'K' Share pool	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Jito Trading Limited	1,500	1,500	-	10.5%
Apprise Pubs Limited	1,300	1,300	-	9.1%
Garthcliff Shipping Limited	1,300	1,300	-	9.1%
Yamuna Renewables Limited	1,300	1,300	-	9.1%
Ormsborough Limited	1,400	948	(493)	6.6%
Ironhide Generation Limited	736	736	-	5.1%
Indigo Generation Limited	736	736	-	5.1%
Rockhopper Renewables Limited	591	591	-	4.2%
Walworth House Pub Limited	500	500	-	3.5%
Exclusive Events Venues Limited	500	500	-	3.5%
Pilgrim Trading Limited	432	432	-	3.0%
SF Renewables (Solar) Limited	337	388	51	2.7%
Zora Energy Renewables Limited	350	36	(314)	0.3%
Mosaic Spa and Health Clubs Limited	24	26	2	0.2%
	11,006	10,293	(754)	72.0%
Non-qualifying investments				
Fenkle Street LLP	287	295	8	2.1%
Snow Hill Developments Limited	43	43	-	0.3%
London City Shopping Centre Limited	15	-	(15)	0.0%
	345	338	(7)	2.4%
	11,351	10,631	(761)	74.4%
Cash at bank and in hand		3,671		25.6%
Total investments		14,302		100.0%

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

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

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

Summary of investment movements

Disposals

	Cost £’000	MV at 01/01/18 † £’000	Disposal proceeds £’000	Gain against cost £’000	Total realised gain during the year £’000
VCT qualifying and partially qualifying investments					
Mosaic Spa and Health Clubs Limited	3	3	4	1	1
Non-qualifying investments					
Managed Storage Services (1) Limited	1,000	1,000	1,000	-	-
Total ‘K’ Share pool	1,003	1,003	1,004	1	1

K Shares

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

Further details of the main investments:

Jito Trading Limited

Cost at 31/12/18:	£1,500,000	Valuation at 31/12/18:	£1,500,000
Date of first investment:	Apr 16	Valuation at 31/12/17:	£1,500,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£1,500,000	Proportion of equity held:	30%

Summary financial information from statutory accounts to*

	31 Mar 2018	28 Feb 2017
Net assets	£5,014,673	£5,016,565

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 and is expected to complete during 2019.

Apprise Pubs Limited

Cost at 31/12/18:	£1,300,000	Valuation at 31/12/18:	£1,300,000
Date of first investment:	Nov 17	Valuation at 31/12/17:	£1,300,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£1,300,000	Proportion of equity held:	27%

Summary financial information from statutory accounts to 30 June*

	2017
Net assets	£1

In November 2017, £1.3 million of funds were deployed into Apprise Pubs. The company, with the support of long term Downing partner, Oakman Inns, is in the process of building an estate of quality freehold pubs across the South of England. The company acquired its first site in March 2018 in South West London, which was successfully converted into a gastropub which opened for trading in December 2018.

Garthcliff Shipping Limited

Cost at 31/12/18:	£1,300,000	Valuation at 31/12/18:	£1,300,000
Date of first investment:	Nov 17	Valuation at 31/12/17:	£1,300,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£1,300,000	Proportion of equity held:	26%

Summary financial information from statutory accounts to 31 May

	2018
Turnover:	£667,124
Operating loss:	(£571,225)
Net assets:	£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 around the Mediterranean.

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 – 'K' SHARE POOL (continued)

Further details of the main investments:

Yamuna Renewables Limited

Cost at 31/12/18:	£1,300,000	Valuation at 31/12/18:	£1,300,000
Date of first investment:	Apr 16	Valuation at 31/12/17:	£1,300,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£1,300,000	Proportion of equity held:	26%

Summary financial information from statutory accounts to*

	31 Mar 2018	28 Feb 2017
Net assets:	£4,377,600	£4,678,643

In April 2016, the 'K' Share pool invested £1.3 million into Yamuna Renewables Limited, alongside other Downing VCTs, for the construction and development of a 40kt per annum wood pelleting plant in Gars am Kamp, Austria, with the plant becoming operational during 2018. The company is working with ARC Applied Sciences to use their patented design and technology.

Ormsborough Limited

Cost at 31/12/18:	£1,400,000	Valuation at 31/12/18:	£948,000
Date of first investment:	Mar 17	Valuation at 31/12/17:	£1,441,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£1,400,000	Proportion of equity held:	13%

Summary financial information from statutory accounts to 31 July*

	2017	2016
Net assets:	£8,318,284	£3,542,731

In March 2017 the K Share pool invested £1.4 million into Ormsborough Limited. Following the VCT investment, the company acquired and refurbished sites in Beverley, Bingley and Northallerton, Yorkshire, which were rebranded and opened as Firepit bar and Smokehouse and The Potting Shed respectively.

Ironhide Generation Limited

Cost at 31/12/18:	£736,000	Valuation at 31/12/18:	£736,000
Date of first investment:	Nov 17	Valuation at 31/12/17:	£736,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£736,000	Proportion of equity held:	15%

Summary financial information from statutory accounts to 31 March

	2018	2017
Turnover:	*£nil*	*£nil*
Operating loss:	(£101,908)	(£11,124)
Net assets:	£4,066,905	£4,731,844

The 'K' Share pool, other Downing VCTs and Armstrong Energy are working together with Ironhide Generation Limited which is seeking to build and operate a single ground-mounted PV system of up to 10MW in capacity in a solar park in Maharashtra, India, with construction expected to complete in 2019. The power will be sold to a number of commercial partners.

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 – 'K' SHARE POOL (continued)

Further details of the main investments:

Indigo Generation Limited

Cost at 31/12/18:	£736,000	Valuation at 31/12/18:	£736,000
Date of first investment:	Apr 16	Valuation at 31/12/17:	£736,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary Shares:	£736,000	Proportion of equity held:	15%

Summary financial information from statutory accounts to 31 March

	2018	2017
Turnover:	*£nil*	*£nil*
Operating loss:	(£108,483)	(£13,884)
Net assets:	£4,075,056	£4,732,392

In April 2016 the 'K' 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 expected to become operational in 2019.

Rockhopper Renewables Limited

Cost at 31/12/18:	£591,000	Valuation at 31/12/18:	£591,000
Date of first investment:	Mar 14	Valuation at 31/12/17:	£591,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£591,000	Proportion of equity held:	13%

Summary financial information from statutory accounts to 31 March

	2018	2017
Turnover:	*£nil*	*£nil*
Operating loss:	(£194,232)	(£11,670)
Net assets:	£3,927,227	£4,424,727

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.

Walworth House Pub Limited

Cost at 31/12/18:	£500,000	Valuation at 31/12/18:	£500,000
Date of first investment:	Nov 17	Valuation at 31/12/17:	£500,000
		Valuation method:	Discounted cash flow from the investment
Investment comprises:			
Ordinary shares:	£350,000	Proportion of equity held:	27%
Loan stock:	£150,000	Proportion of loan stock held:	27%

Summary financial information from statutory accounts to 31 December*

	2017	2016
Net assets:	£2,159,541	£1,107,938

In November 2017, £500,000 was invested in Walworth House Pub Limited to enable it to purchase a large vacant freehold property in Walworth, South London, before converting it into a public house. The investment was made alongside Antic London, a long-term investment partner of the Downing funds. The pub opened for trading in early 2018.

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 – 'K' SHARE POOL (continued)

Further details of the main investments:

Exclusive Events Venues Limited

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

Summary financial information from statutory accounts to 31 March*

	2018
Net assets:	£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 complete in 2019.

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 ten largest investments held by the 'K' Share pool	£'000
Jito Trading Limited	-
Apprise Pubs Limited	-
Garthcliff Shipping Limited	-
Yamuna Renewables Limited	-
Ormsborough Limited	-
Ironhide Generation Limited	-
Indigo Generation Limited	-
Rockhopper Renewables Limited	-
Walworth House Pub Limited	40
Exclusive Events Venues Limited	-
	40
Receivable from other investments	58
	98

Analysis of investments by investment type

The following shows the split of the 'K' Share pool's investment portfolio by type of instrument held at 31 December 2018:

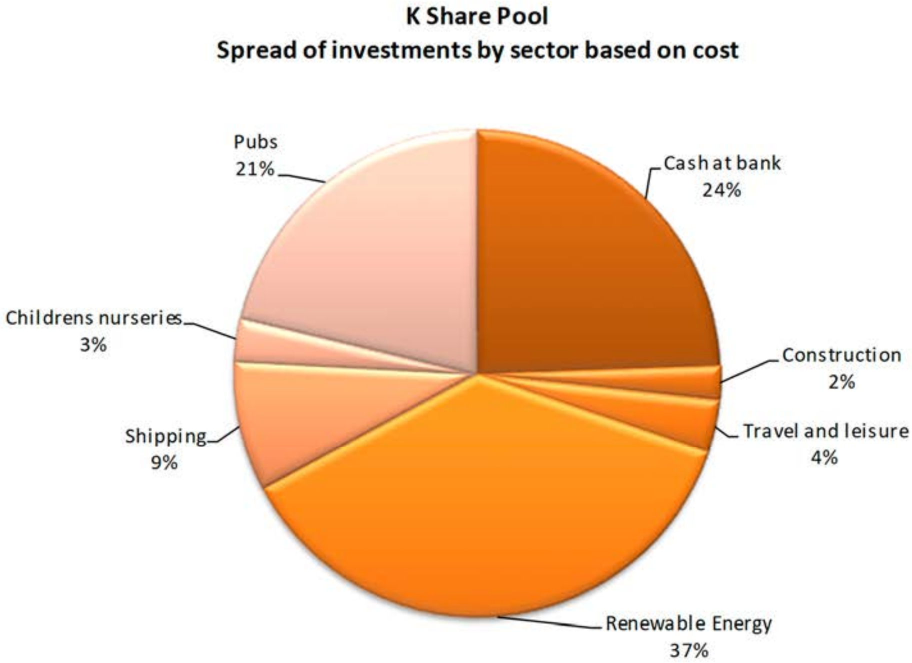
	Portfolio split 31 Dec 2018
Qualifying investments	
Loans to qualifying companies	2%
Ordinary shares in qualifying companies	71%
Non-qualifying investments (including cash at bank)	27%
	100%

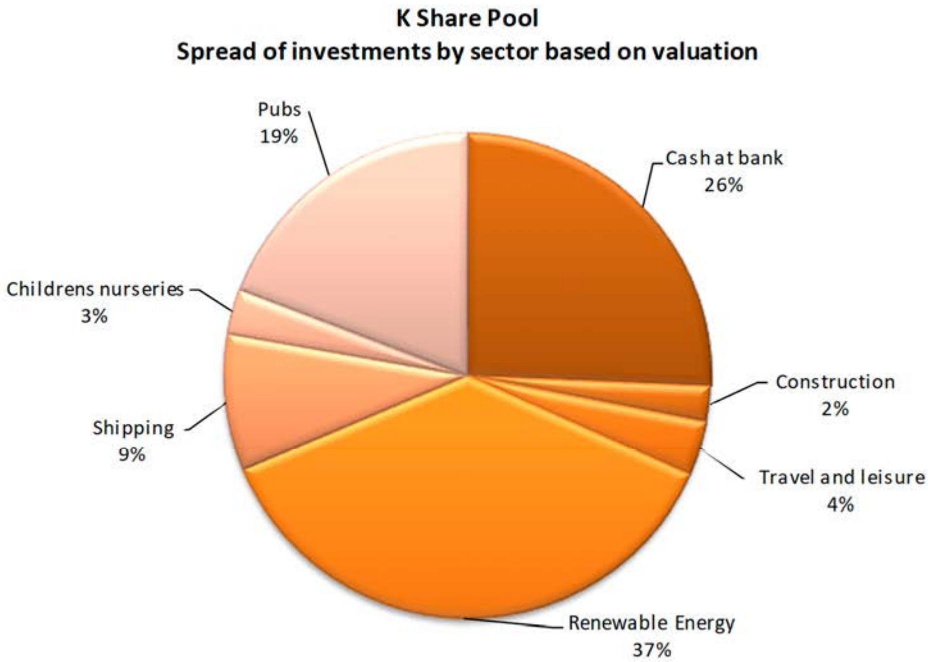
REVIEW OF INVESTMENTS – 'K' SHARE POOL (continued)

Further details of the main investments:

Analysis of investments by commercial sector

The split of the 'K' Share pool's venture capital investment portfolio by commercial sector (by cost and value at 31 December 2018) is as follows:





K Shares

The Directors present the Strategic Report for the year ended 31 December 2018. 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 £5.5 million of investments and ended the year with £3.1 million spread across a portfolio of 10 companies. 7 of these investments, with a value of £2.5 million, were VCT qualifying (or part qualifying).

The loss on ordinary activities after taxation for the year was £424,000, comprising a revenue gain of £6,000 and a capital loss of £430,000.

'G' Share pool

The 'G' share pool began the year with £19.9 million of investments and ended with £14.2 million of investments spread across a portfolio of 14 companies. 10 of these, with a value of £11.2 million, were VCT qualifying (or part qualifying).

The loss on ordinary activities after taxation for the year was £2.2 million, comprising a revenue profit of £631,000 and a capital loss of £2.8 million.

'K' Share pool

The 'K' share pool began the year with £12.4 million of investments and ended the year with £10.6 million of investments spread across a portfolio of 17 companies. 14 of these, with a value of £10.3 million, were VCT qualifying (or part qualifying).

The loss on ordinary activities after taxation for the year was £1.0 million, comprising a revenue loss of £271,000 and a capital loss of £729,000.

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 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.

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 months. These policies have remained unchanged since the beginning of the financial year.

There continues to be uncertainty surrounding Brexit, which has deflated Sterling thus far, and has the potential to impose restrictions on the free movement of people and goods. However, as the Company has, to date, invested mainly in UK assets which generate revenues from contracts with parties principally based in the UK, the Board and Manager believe that, subject to major economic disruption taking place, the potential impact of Brexit on the Company is limited.

Viability statement

In accordance with C.2.1 and C.2.2 of the 2016 revision of the UK Corporate Governance Code, the Directors have carried out a robust assessment of the 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 three years from the date the accounts are approved.

The three year review considers the principal risks facing the Company which are summarised within note 17 as well as the Company's cash flows, dividend cover and VCT monitoring compliance over the period. The three 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 three 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 trading companies that 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

Existing funds not employed in qualifying investments are predominantly invested in:

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

Secured loans are secured on property or other assets. Fixed Income Securities 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	75%
Non-qualifying investments	25%
	100%

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 ended 31 December 2018.

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 on the following page.

Investment policy (continued)

Venture Capital Trust Regulations (continued)

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.

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 £19.3 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.

Performance incentive fees

The investments, other assets and liabilities of each share class are managed as separate pools and, accordingly, performance incentive arrangements are specific to each pool.

'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 5.0p 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.

'G' Share pool

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

i) receive Shareholder Proceeds of at least 105.82p per 'G' 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 'G' Share plus 20% above 105.82p per 'G' Share of the funds available (for distribution to 'G' 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 'G' Share pool equivalent to 7.0p per 'G' Share (based on the number of 'G' Shares in issue at the close of the Offer).

Performance incentive fees (continued)

'K' Share pool

The Performance Incentive fee in respect of the 'K' Shares will only become payable if 'K' Shareholders:

i) have the opportunity to receive Shareholder Proceeds of at least 100p per 'K' 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 the investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 20% of the aggregate excess on any amounts distributed by the Company in excess of 100p per 'K' Share (calculated before 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) equivalent to 6.0p per 'K' Share (based on the number of 'K' Shares in issue at the close of the Offer).

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 2018.

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

25 April 2019

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 December 2018.

Share capital

At the year end, the Company had in issue 10,810,859 ‘F’ Shares of 0.1p each, 25,281,571 ‘G’ Shares of 0.1p each and 15,718,154 ‘K’ Shares of 0.1p each.

On 11 July 2018, the ‘D’ Shares and ‘E’ Shares were converted into deferred shares and subsequently cancelled and delisted.

Only the holders of the ‘F’ Shares, ‘G’ Shares and ‘K’ Shares have voting rights. There are no other share classes in issue.

The ‘F’ Shares (“‘F’ Share pool”), the ‘G’ Shares (“‘G’ Share pool”) and the ‘K’ Shares (“’K’ Share pool”) are maintained as separate investment pools.

For share classes where all investors are still within the initial five year period (currently the ‘K’ Share class only), the Company has a general policy of buying in for cancellation its own shares that become available in the market.

During the year, the Company purchased 47,000 ‘G’ Shares at a price of 81.0p per share and 16,275 ‘K’ Shares at a price of 97.5p per share. These shares were subsequently cancelled. No shares were purchased in the year to 31 December 2018 in respect of the ‘F’ Shares.

At the AGM that took place on 7 June 2018, the Company was authorised to make market purchases of its ‘D’ Shares, ‘E’ Shares, ‘F’ Shares and ‘G’ Shares up to a limit of 1,490,000 ‘D’ Shares, 2,227,550 ‘E’ Shares, 1,610,818 ‘F’ Shares, 3,773,957 ‘G’ Shares and 2,344,430 ‘K’ 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 1,610,818 ‘F’ Shares, 3,726,957 ‘G’ Shares and 2,328,155 ‘K’ Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 5 June 2019.

The minimum price which may be paid for an ‘F’ Share, a ‘G’ Share or a ‘K’ Share is 0.1p, exclusive of all expenses, and the maximum price which may be paid for an ‘F’ Share, a ‘G’ Share or a ‘K’ 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**
Loss on ordinary activities after tax for the year ended 31 December 2018 split as:		
‘F’ Shares	(424)	(3.9p)
‘G’ Shares	(2,180)	(8.6p)
‘K’ Shares	(1,000)	(6.3p)
Total	(3,604)	
Distributions paid during the current year		
24 April 2018 (‘F’ Shares)	2,054	19.0p
15 June 2018 (‘G’ Shares)	633	2.5p
9 November 2018 (‘F’ Shares)	1,946	18.0p
9 November 2018 (‘G’ Shares)	2,533	10.0p
	7,166	

Directors

The Directors during the year and their audited beneficial interests in the issued shares of the Company as at 31 December 2018 and 31 December 2017 were as follows:

		No. of shares	
Directors		**31 Dec 2018**	**31 Dec 2017**
Hugh Gillespie	‘G’ Shares	4,900	4,900
	‘K’ Shares	5,006	5,006
Dennis Hale	‘F’ Shares	5,175	5,175
	‘G’ Shares	5,820	5,820
Christopher McCann		-	-

Directors (continued)

Between 31 December 2018 and the date of this report there were no movements in the Director's shareholdings.

Christopher McCann was last re-elected at the AGM that took place in June 2016. In accordance with the Articles of Association he is required to retire and being eligible offers himself for re-election at the third AGM following the 2016 AGM. In accordance with corporate governance practice, by virtue of serving on the board for more than nine years, Hugh Gillespie and Dennis Hale will retire at each AGM and being eligible, offer 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 dated February 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

Downing LLP ("DLLP") provides investment management services to the Company. DLLP is paid 1.8% of the 'F' Share net assets per annum and 2.0% of the 'G' and 'K' Share net assets per annum. Additionally, DLLP provides administration services to the Company for a fee of £60,000 (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' and 'G' Share pools and 3.0% of net assets for the 'K' Share pool. Any excess costs over this cap are met by DLLP through a reduction in fees.

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, at each 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 2018 is summarised as follows:

1.	The Company holds at least 70% (80% from 1 January 2020) of its investments in qualifying companies;	80.9%
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;	82.6%
3.	At least 10% of each investment is 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	97.8%
6.	No more than 15% of the income from shares and securities is retained.	Complied

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.

Substantial interests
As at 31 December 2018 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 forthcoming AGM.

Annual General Meeting
The Annual General Meeting will be held at St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD at 11.00 a.m. on 5 June 2019. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

Directors' responsibilities statement
The Directors are responsible for preparing the Report of the Directors, the Directors' Remuneration Report, the Strategic 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 year.

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 Report of the Directors, Strategic Report, 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 ongoing 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 pages 44 to 45.

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 33.

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 33.

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

25 April 2019

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 Annual General Meeting to be held on 5 June 2019.

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 46 to 50.

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 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 31/12/18 £	Year ended 31/12/17 £
Hugh Gillespie	27,500	27,500	27,500
Dennis Hale	15,000	15,000	15,000
Christopher McCann	22,000	22,000	22,000
	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 7 June 2018, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

In favour	94.6%
Against	5.4%
Withheld	nil votes

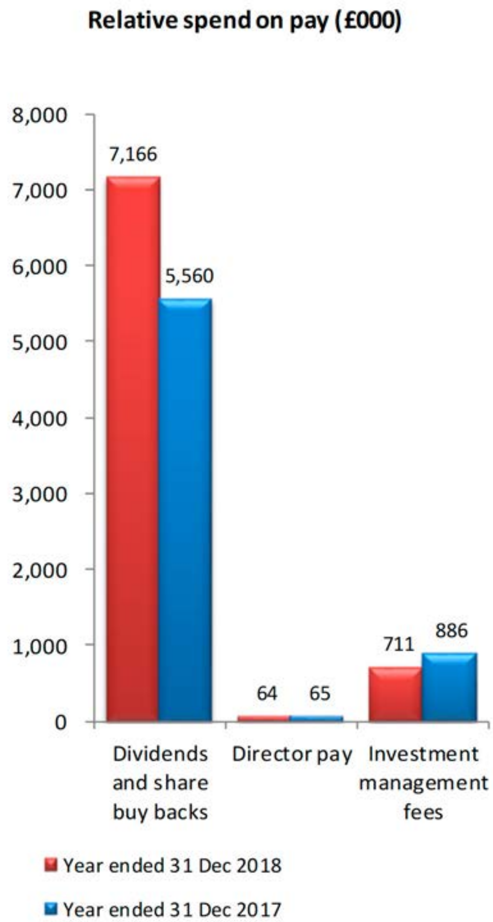
At the 2017 AGM, where the remuneration policy was last put to a Shareholder vote, 91.8% voted for the resolution and 8.2% against, showing significant Shareholder support.

Directors' shareholdings (audited)

Information in respect of the Directors' beneficial interests in the issued shares of the Company at 31 December 2018 and 31 December 2017 has been disclosed within the Report of the Directors on page 34.

Relative importance of spend on pay

The difference in actual spend between December 2017 and December 2018 on remuneration for all employees in comparison to distributions (dividends and share buy backs) and other significant spending 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 the next pages represent the 'F' Share pool, 'G' Share pool and 'K' 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.

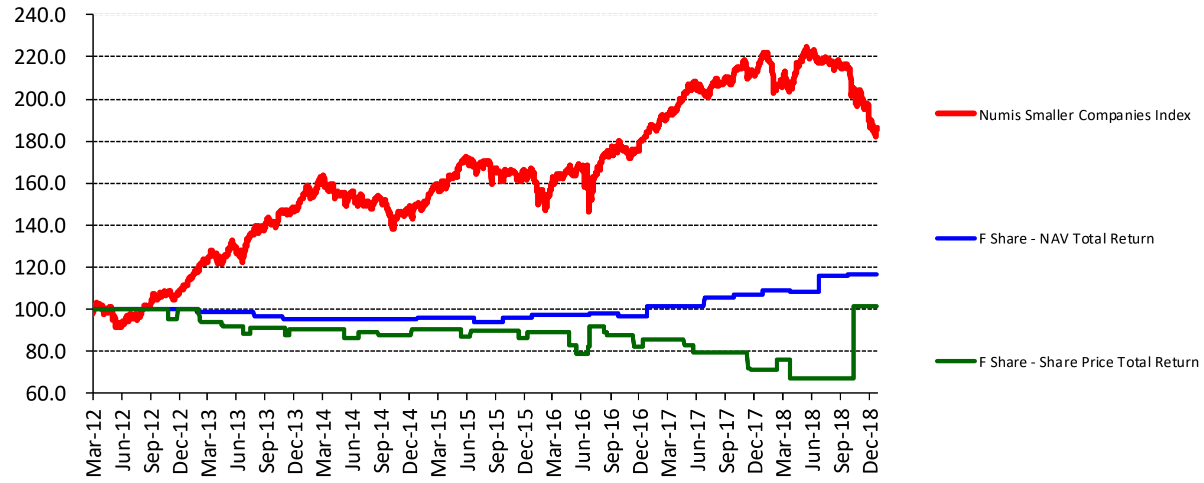
Particulars of the members of the Remuneration Committee are given within the Corporate Governance Statement on page 42.

By order of the Board

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

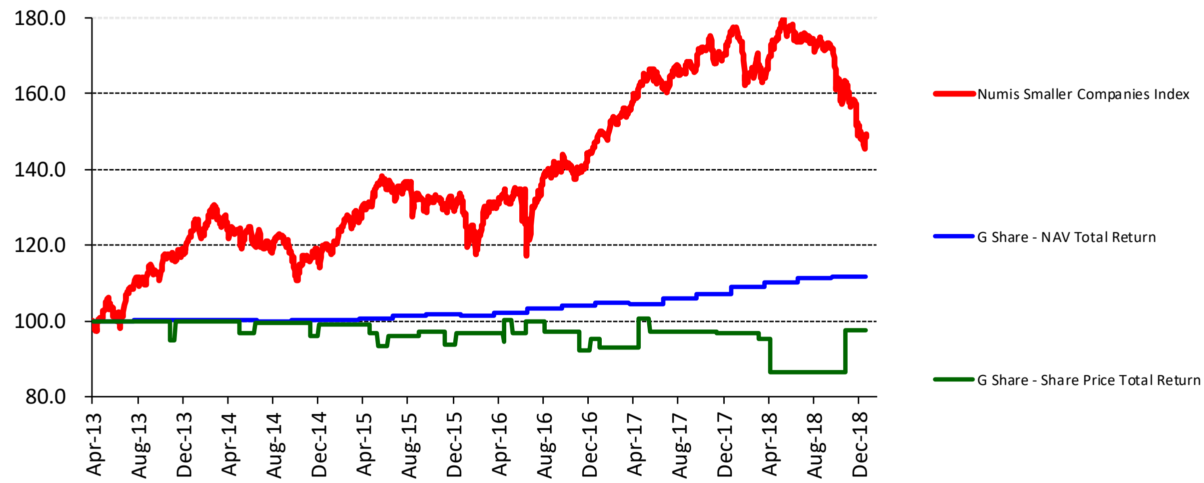
25 April 2019

Downing TWO VCT plc
'F' Share performance chart

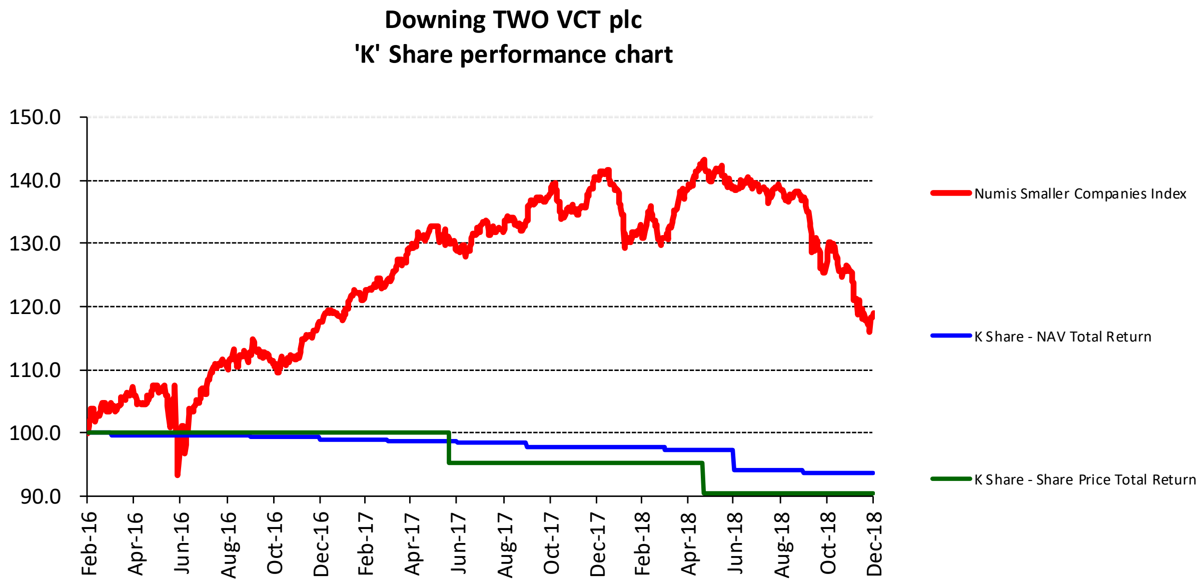


Note: The 'F' Share pool was first launched in the year ended 31 January 2012.

Downing TWO VCT plc
'G' Share performance chart



Note: The 'G' Share pool was first launched in the year ended 31 December 2013.



Note: The 'K' Share pool was first launched in the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Directors support the relevant principles of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide), 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 Board considers that reporting against principles and recommendations of The UK Corporate Governance Code in addition to the AIC Code, by reference to the AIC Guide (which incorporates The UK Corporate Governance 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 Hugh Gillespie. Biographical details of the Board members (including significant other commitments of the Chairman) are shown on page 3.

In accordance with Company policy and corporate governance best practice, Hugh Gillespie, Dennis Hale and Christopher McCann 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 Directors sit on all Committees. The Chairman of each Committee is Hugh Gillespie, with the other members being Dennis Hale and Christopher McCann. 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 forthcoming AGM.

The capital structure of the Company is disclosed on page 34 of the Report of the Directors.

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 in respect of C.3.5 of the UK Corporate Governance Code, relating to whistleblowing. The Audit Committee understands that the Manager has whistleblowing procedures in place.

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, Downing LLP, 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 Managers at the completion of the audit for the year ended 31 December 2018 and taking discussions held with the Engagement Partner at BDO LLP into consideration, the Committee has recommended they be reappointed at the forthcoming AGM.

Non audit services

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

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)
Hugh Gillespie	4	2
Dennis Hale	4	2
Christopher McCann	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 38 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. In order to comply with the UK Corporate Governance Code, 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 can be found at the end of these financial statements.

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 36, and a statement by the Auditor about their reporting responsibilities is set out in the Auditor's Report on page 50.

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 UK Corporate Governance 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 34.

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Balance Sheet on page 54, the Cash Flow statement on page 58 and the Strategic Report on page 30. 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 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.

The result of the EU referendum in 2016 and 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. The majority of the funds raised in the Company are fully invested with a good pipeline in place for its remaining funds. As a result, the Board considers any impact to be small, however will of course continue to monitor developments.

The Directors confirm that they 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, they 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 and AIC Guide 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 2018 with the provisions set out in the UK Corporate Governance Code issued in April 2016.

Compliance statement (continued)

a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. In addition, 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. (B.4.1, B.4.2, E.1.1)

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. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)

c) Non-executive Directors have consultancy agreements, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion, this does not make a substantive difference to the circumstances of the Company. (B.2.3)

d) As the Company has had no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)

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

25 April 2019

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

Opinion

We have audited the financial statements of Downing TWO VCT PLC (the 'Company') for the year ended 31 December 2018 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2018 and of its loss for the period 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 disclosures in the annual report set out on page 30 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- 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)

Key audit matter	How our audit addressed the key audit matter
Valuation of unquoted investments (Note 2 page 60 and Note 10 on page 65): There is a high level of estimation uncertainty involved in determining the unquoted investment valuations. The Investment Manager's fee is based on the value of the net assets of the fund. As the Investment Manager is responsible for valuing investments for the financial statements, there is a potential risk of overstatement of investment valuations. The existence of an expense cap in the management agreement increases this risk.	We tested a sample of 98% of the unquoted investment portfolio by value of investment holdings. 47% of the unquoted portfolio is based on valuations using cost (where the investment was recently acquired), the price of a recent investment, or an offer to acquire the investee company. For such investments, we checked the cost, recent investment price or 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 2018. The remaining 53% 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: • Forming a determination of 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. • 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. • Ensured our findings were suitable for our testing.
Revenue recognition: Revenue consists of loan stock interest, dividends receivable from investee companies and interest earned on cash balances. Revenue recognition is considered to be significant audit risk as it is the key driver of dividend returns to investors and judgement is required in determining whether accrued income should be regarded as recoverable and therefore appropriately recognised as income.	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.

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 two 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	£557,000 (2017: £756,000)
Performance materiality (70% of the financial statement 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)	£390,000 (2017: £530,000)
Specific materiality – classes of transactions and balances which impact on net realised returns. (8% 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	£50,000 (2017: £59,000)

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £28,000 (2017: £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. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. 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.

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 those 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 SORP 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.

An overview of the scope of our audit (continued)
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:
- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period; and
- considering the effectiveness of the control environment in monitoring compliance with laws and regulations.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report 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 the 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 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.

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 period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the 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.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF DOWNING TWO VCT PLC (continued)

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 Company on 20 April 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ending 31 January 2006 to 31 December 2018.

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
UK
25 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INCOME STATEMENT
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 2017* Revenue £'000	Capital £'000	Total £'000
Income	3	1,590	31	1,621	1,774	34	1,808
(Loss)/gain on investments	10	-	(4,001)	(4,001)	-	660	660
		1,590	(3,970)	(2,380)	1,774	694	2,468
Investment management fees	4	(711)	-	(711)	(886)	-	(886)
Other expenses	5	(254)	-	(254)	(282)	-	(282)
(Loss)/return on ordinary activities before tax		625	(3,970)	(3,345)	606	694	1,300
Tax on total comprehensive income and ordinary activities	7	(259)	-	(259)	12	-	12
(Loss)/return for the year attributable to equity shareholders		366	(3,970)	(3,604)	618	694	1,312
Basic and diluted (loss)/return per:							
'D' Share	9	-	-	-	-	0.9p	0.9p
'F' Share	9	0.1p	(4.0p)	(3.9p)	1.7p	3.2p	4.9p
'G' Share	9	2.5p	(11.1p)	(8.6p)	2.7p	0.9p	3.6p
'K' Share	9	(1.7p)	(4.6p)	(6.3p)	(1.6p)	0.3p	(1.3p)

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 the profit and loss, there were no differences between the return/loss as stated above and historical cost.

* The comparative Income Statement as at 31 December 2017 includes the 'D' Share pool which has subsequently been cancelled.

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

INCOME STATEMENT (ANALYSED BY SHARE POOL)
for the year ended 31 December 2018

'D' Share pool

	Note	Year ended 31 December 2018 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 2017 Revenue £'000	Capital £'000	Total £'000
Income		-	-	-	12	34	46
Gain on investments		-	-	-	-	58	58
		-	-	-	12	92	104
Investment management fees		-	-	-	(32)	-	(32)
Other expenses		-	-	-	(25)	-	(25)
Return/(loss) on ordinary activities before tax		-	-	-	(45)	92	47
Tax on total comprehensive income and ordinary activities		-	-	-	43	-	43
Return/(loss) attributable to equity shareholders		-	-	-	(2)	92	90

'F' Share pool

	Note	Year ended 31 December 2018 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 2017 Revenue £'000	Capital £'000	Total £'000
Income		177	-	177	451	-	451
(Loss)/gain on investments		-	(430)	(430)	-	346	346
		177	(430)	(253)	451	346	797
Investment management fees		(97)	-	(97)	(137)	-	(137)
Other expenses		(43)	-	(43)	(77)	-	(77)
(Loss)/return on ordinary activities before tax		37	(430)	(393)	237	346	583
Tax on total comprehensive income and ordinary activities		(31)	-	(31)	(55)	-	(55)
(Loss)/return attributable to equity shareholders	**9**	6	(430)	(424)	182	346	528

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

INCOME STATEMENT (ANALYSED BY SHARE POOL) (continued)
for the year ended 31 December 2018

'G' Share pool

		Year ended 31 December 2018			Year ended 31 December 2017		
	Note	**Revenue £'000**	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Income		1,307	-	1,307	1,217	-	1,217
(Loss)/gain on investments		-	(2,811)	(2,811)	-	215	215
		1,307	(2,811)	(1,504)	1,217	215	1,432
Investment management fees		(369)	-	(369)	(415)	-	(415)
Other expenses		(129)	-	(129)	(108)	-	(108)
(Loss)/return on ordinary activities before tax		809	(2,811)	(2,002)	694	215	909
Tax on total comprehensive income and ordinary activities		(178)	-	(178)	(3)	-	(3)
(Loss)/return attributable to equity shareholders	9	631	(2,811)	(2,180)	691	215	906

'K' Share pool

		Year ended 31 December 2018			Year ended 31 December 2017		
	Note	**Revenue £'000**	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Income		106	31	137	94	-	94
(Loss)/gain on investments		-	(760)	(760)	-	41	41
		106	(729)	(623)	94	41	135
Investment management fees		(245)	-	(245)	(302)	-	(302)
Other expenses		(82)	-	(82)	(72)	-	(72)
(Loss)/return on ordinary activities before tax		(221)	(729)	(950)	(280)	41	(239)
Tax on total comprehensive income and ordinary activities		(50)	-	(50)	27	-	27
(Loss)/return attributable to equity shareholders	9	(271)	(729)	(1,000)	(253)	41	(212)

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

BALANCE SHEET
as at 31 December 2018

	Note	2018 £'000	2017 £'000*
Fixed assets			
Investments	**10**	27,925	37,786
Current assets			
Debtors	**11**	1,328	767
Cash at bank and in hand		4,055	5,589
		5,383	6,356
Creditors: amounts falling due within one year	**12**	(448)	(457)
Net current assets		4,935	5,899
Net assets		32,860	43,685
Capital and reserves			
Called up share capital	**13**	52	77
Capital redemption reserve	**14**	149	124
Special reserve	**14**	38,471	28,313
Share premium reserve	**14**	-	16,170
Revaluation reserve	**14**	(3,911)	815
Capital reserve – realised	**14**	(2,250)	(2,252)
Revenue reserve	**14**	349	438
Total equity shareholders' funds	**15**	32,860	43,685
Basic and diluted net asset value per Share:			
'F' Share	**15**	28.7p	69.6p
'G' Share	**15**	60.9p	82.1p
'K' Share	**15**	91.3p	97.7p

The financial statements on pages 51 to 77 were approved and authorised for issue by the Board of Directors on 25 April 2019 and were signed on its behalf by:

Hugh Gillespie
Chairman
Company number: 5334418

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

* The comparative Balance Sheet at 31 December 2017 includes the 'D' Share pool which has subsequently been cancelled.

BALANCE SHEET (ANALYSED BY SHARE POOL)
as at 31 December 2018

'D' Shares

	Note	2018 £000	2017 £000
Fixed assets			
Investments		-	-
Current assets			
Debtors		-	1
Cash at bank and in hand		-	22
		-	23
Creditors: amounts falling due within one year		-	(22)
Net current assets		-	1
Net assets		-	1
Capital and reserves			
Called up share capital	**13**	-	25
Capital redemption reserve		-	124
Revaluation reserve		-	(249)
Revenue reserve		-	101
Total equity shareholders' funds	**15**	-	1

'F' Shares

	Note	2018 £000	2017 £000
Fixed assets			
Investments		3,057	5,451
Current assets			
Debtors		53	123
Cash at bank and in hand		60	2,079
		113	2,202
Creditors: amounts falling due within one year		(68)	(127)
Net current assets		45	2,075
Net assets		3,102	7,526
Capital and reserves			
Called up share capital	**13**	11	11
Capital redemption reserve		149	-
Special reserve		4,274	7,876
Revaluation reserve		(761)	316
Capital reserve – realised		(1,033)	(1,033)
Revenue reserve		462	356
Total equity shareholders' funds	**15**	3,102	7,526

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

BALANCE SHEET (ANALYSED BY SHARE POOL) (continued)
as at 31 December 2018

'G' Shares

	Note	2018 £000	2017 £000
Fixed assets			
Investments		14,237	19,939
Current assets			
Debtors		1,162	598
Cash at bank and in hand		324	516
		1,486	1,114
Creditors: amounts falling due within one year		(317)	(263)
Net current assets		1,169	851
Net assets		15,406	20,790
Capital and reserves			
Called up share capital	**13**	25	25
Special reserve		17,999	20,440
Revaluation reserve		(2,429)	707
Capital reserve – realised		(1,221)	(1,221)
Revenue reserve		1,032	839
Total equity shareholders' funds	**15**	15,406	20,790

'K' Shares

	Note	2018 £000	2017 £000
Fixed assets			
Investments		10,631	12,396
Current assets			
Debtors		113	45
Cash at bank and in hand		3,671	2,972
		3,784	3,017
Creditors: amounts falling due within one year		(63)	(45)
Net current assets		3,721	2,972
Net assets		14,352	15,368
Capital and reserves			
Called up share capital	**13**	16	16
Share premium reserve		-	16,170
Special reserve		16,198	(3)
Revaluation reserve		(721)	41
Revenue reserve		(1,145)	(858)
Capital reserve realised		4	2
Total equity shareholders' funds	**15**	14,352	15,368

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

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Note	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 2017		95	106	33,666	16,170	(115)	(2,254)	289	47,957
Total comprehensive income		-	-	-	-	388	306	618	1,312
Transactions with owners									
Purchase of own shares		-	-	-	-	-	-	(24)	(24)
Transfers between reserves*		-	-	(5,353)	-	542	5,256	(445)	-
Dividends paid	**8**	-	-	-	-	-	(5,560)	-	(5,560)
Cancellation of shares		(18)	18	-	-	-	-	-	-
At 31 December 2017		77	124	28,313	16,170	815	(2,252)	438	43,685
Total comprehensive income		-	-	-	-	(4,866)	896	366	(3,604)
Share premium cancellation	**14**	-	-	16,170	(16,170)	-	-	-	-
Transactions with owners									
Purchase of own shares		-	-	-	-	-	-	(55)	(55)
Transfers between reserves*		-	-	(6,012)	-	140	5,872	-	-
Dividends paid	**8**	-	-	-	-	-	(6,766)	(400)	(7,166)
Cancellation of shares		(25)	25	-	-	-	-	-	-
At 31 December 2018		52	149	38,471	-	(3,911)	(2,250)	349	32,860

* A transfer of £140,000 (2017: £542,000) representing previously recognised unrealised gains on disposal of investments during the year ended 31 December 2018 has been made from the Revaluation Reserve to the Capital Reserve-realised. A transfer of £5.9 million (2017: £5.3 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. In 2017 a transfer of £445,000 was made from Capital Reserve – realised to Revenue reserve to reconcile the D Share pool reserves.

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

CASH FLOW STATEMENT
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 'F' Share pool £'000	'G' Share pool £'000	'K' Share pool £'000	Total £'000
Net cash (outflow)/inflow from operating activities	**16**	(5)	120	(288)	(173)
Cash flows from investing activities					
Proceeds from sale of investments	**10**	1,964	2,892	1,004	5,860
Net cash inflow from investing activities		1,964	2,892	1,004	5,860
Net cash inflow before financing activities		1,959	3,012	716	5,687
Cash flows from financing activities					
Equity dividends paid	**8**	(4,000)	(3,166)	-	(7,166)
Purchase of own shares		-	(38)	(17)	(55)
Net cash (outflow) from financing activities		(4,000)	(3,204)	(17)	(7,221)
(Decrease)/increase in cash		(2,041)	(192)	699	(1,534)
Cash and cash equivalents at start of year		2,101	516	2,972	5,589
Cash and cash equivalents at end of year		60	324	3,671	4,055
Cash and cash equivalents comprise					
Cash at bank and in hand		60	324	3,671	4,055
Total cash and cash equivalents		60	324	3,671	4,055

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

CASH FLOW STATEMENT (continued)
for the year ended 31 December 2018

		Year ended 31 December 2017				
	Note	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	'K' Share pool £'000	Total £'000
Net cash (outflow)/inflow from operating activities	**16**	(34)	141	381	(320)	168
Cash flows from investing activities						
Purchase of investments	**10**	-	(684)	(1,416)	(6,804)	(8,904)
Proceeds from sale of investments	**10**	2,440	2,786	1,873	4,349	11,448
Net cash inflow/(outflow) from investing activities		2,440	2,102	457	(2,455)	2,544
Net cash inflow/(outflow) before financing activities		2,406	2,243	838	(2,775)	2,712
Cash flows from financing activities						
Equity dividends paid	**8**	(3,753)	(541)	(1,266)	-	(5,560)
Purchase of own shares		-	-	(20)	(4)	(24)
Net cash (outflow)/inflow from financing activities		(3,753)	(541)	(1,286)	(4)	(5,584)
(Decrease)/increase in cash		(1,347)	1,702	(448)	(2,779)	(2,872)
Cash and cash equivalents at start of year		1,369	377	964	5,751	8,461
Cash and cash equivalents at end of year		22	2,079	516	2,972	5,589
Cash and cash equivalents comprise						
Cash at bank and in hand		22	2,079	516	2,972	5,589
Total cash and cash equivalents		22	2,079	516	2,972	5,589

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

NOTES TO THE ACCOUNTS
for the year ended 31 December 2018

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. 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.

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.

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.

2. Accounting policies (continued)

Investments (continued)

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.

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 years 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.

2. Accounting policies (continued)

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 Total £'000	Capital Total £'000	2018 Total £'000	2017 Total £'000
Income from investments				
Loan stock interest	1,555	-	1,555	1,665
LLP profit distributions	-	31	31	34
	1,555	31	1,586	1,699
Other income				
Bank interest	7	-	7	38
Fee income	28	-	28	71
	1,590	31	1,621	1,808

4. Investment management fees

Downing LLP ("DLLP"), 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 'G' and 'K' share pool net assets. The Manager also provides administration services for a fee of £60,000 (plus RPI) per annum. Fees in relation to these services are shown within note 5.

	2018 £'000	2017 £'000
Investment management fees	711	886

5. Other expenses

	2018 £'000	2017 £'000
Administration services	64	61
Trail commission	15	37
Directors' remuneration	64	65
Social security costs	2	2
Auditor's remuneration for audit	22	22
Auditor's remuneration for non-audit services (taxation)	-	3
Other	87	92
	254	282

The 'F' and 'G' Share pools are subject to an annual running costs cap of 3.5% of net assets each and the 'K' Share pool is subject to an annual running costs cap of 3.0% of net assets.

6. Directors' remuneration

The Directors of the Company are considered to be the only Key Management Personnel. Details of remuneration are given in the Directors' Remuneration Report on page 38. 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

	2018 £'000	2017 £'000
(a) Tax charge for the year		
UK corporation tax	259	(12)
Charge for the year	259	(12)
(b) Factors affecting tax charge for the year		
(Loss)/return on ordinary activities before taxation	(3,345)	1,300
Tax charge calculated on (loss)/return on ordinary activities before taxation at the applicable rate of 19.0% (Year ended 31 Dec 2017: 19.2%)	(637)	250
Effects of:		
Loss/(gain) on investments	762	(127)
LLP profit distributions	90	(4)
Expenses disallowed for tax purposes	2	3
Adjustment in respect of prior year	68	(118)
Excess management fees carried forward on which deferred tax asset is not recognised	-	(16)
LLP trading losses utilised	(26)	-
	259	(12)

8. Dividends

	Year ended 31 December 2018			Year ended 31 December 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by 'F' Share pool						
Y/e Dec 2018 Interim – 18.0p	-	1,946	1,946	-	-	-
Y/e Dec 2017 Final – 19.0p	-	2,054	2,054	-	-	-
Y/e Dec 2016 Final – 2.5p	-	-	-	-	271	271
Y/e Dec 2016 Interim – 2.5p	-	-	-	-	270	270
	-	4,000	4,000	-	541	541
Proposed by 'F' Share pool						
Y/e Dec 2017 Final – 19.0p	-	-	-	-	2,054	2,054
	-	-	-	-	2,054	2,054

8. Dividends (continued)

	Year ended 31 December 2018			Year ended 31 December 2017		
	Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Paid by 'G' Share pool						
Y/e Dec 2018 Interim – 10.0p	-	2,533	2,533	-	-	-
Y/e Dec 2017 Final – 2.5p	400	233	633	-	-	-
Y/e Dec 2016 Final – 2.5p	-	-	-	-	634	634
Y/e Dec 2016 Interim – 2.5p	-	-	-	-	632	632
	400	2,766	3,166	-	1,266	1,266
Proposed by 'G' Share pool						
Y/e Dec 2017 Final – 2.5p	-	-	-	400	233	633
	-	-	-	400	233	633

9. Basic and diluted return per share

	'F' Shares	'G' Shares	'K' Shares
Revenue return/(loss) (£'000)	6	631	(271)
Per share (pence)	0.1p	2.5p	(1.7p)
Net capital loss for the year (£'000)	(430)	(2,811)	(729)
Per share (pence)	(4.0p)	(11.1p)	(4.6p)
Total loss after taxation (£'000)	(424)	(2,180)	(1,000)
Per share (pence)	(3.9p)	(8.6p)	(6.3p)
Weighted average number of shares in issue	10,810,859	25,228,418	15,699,892

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 31 December 2017	36,970
Unrealised gains at 31 December 2017	816
Valuation at 31 December 2017	37,786
Movement in the year:	
Sale - proceeds	(5,860)
- realised gains on sales	865
Unrealised losses in the income statement	(4,866)
Valuation at 31 December 2018	27,925
Cost at 31 December 2018	31,834
Unrealised losses at 31 December 2018	(3,909)
Valuation at 31 December 2018	27,925

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).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2018 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2017 £'000
Loan notes	-	-	5,744	5,744	-	-	6,907	6,907
Unquoted equity	-	-	22,181	22,181	-	-	30,879	30,879
	-	-	27,925	27,925	-	-	37,786	37,786

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 2018	6,907	30,879	37,786
Movements in the Income Statement:			
Unrealised (losses)/gains in the Income Statement	(211)	(4,655)	(4,866)
Realised gains in the Income Statement	5	860	865
	6,701	27,084	33,785
Sales proceeds	(957)	(4,903)	(5,860)
Balance at 31 December 2018	5,744	22,181	27,925

10. Investments (continued)

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 2018 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 2018 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
Apex Energy Limited	EC3R 6HD	'G' Share pool	Ordinary 'A' Shares	1,299,998	26.0%
Zora Energy Renewables Limited	YO8 6EL	'G' Share pool	Ordinary 'B' Shares	750,000	31.3%

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 the original costs of investments.

Company	Cost	Equity held by Other Downing Discretionary Funds Note 1	Equity held by Other Downing Funds Note 2
	£'000	%	%
Antelope Pub Limited	1,760	11.4	-
Apex Energy Limited	2,300	54.0†	-
Apprise Pubs Limited	1,300	-	-
Atlantic Dogstar Limited	3,700	13.8	-
Baron House Developments LLP	1,574	-	-
Commercial Street Hotel Limited	-	14.5	25.7
Downing Pub EIS One Limited	1,470	7.9	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	1,300	8.0	-
Green Energy Production UK Limited	100	6.2	6.2
Hedderwick Limited	1,250	50.0	-
Hermes Wood Pellets Limited	1,000	15.2	-
Indigo Generation Limited	736	25.6	19.2
Ironhide Generation Limited	736	25.6	19.2
Jito Trading Limited	1,500	20.0	50.0
Lambridge Solar Limited	500	7.2	-
London City Shopping Centre Limited	191	15.4	7.3
Mosaic Spa and Health Clubs Limited	24	29.9	24.1
Ormsborough Limited	1,900	15.9	-
Pearce and Saunders DevCo Limited	46	27.8	37.1
Pearce and Saunders Limited	690	27.8	37.1
Pilgrim Trading Limited	432	30.0	60.0†
Quadrate Catering Limited	1,450	22.4	39.5
Quadrate Spa Limited	1,698	33.4	34.2
Rockhopper Renewables Limited	591	21.6	16.2
SF Renewables (Solar) Limited	337	7.8	5.9
Snow Hill Developments Limited	43	100†	-
Walworth House Pub Limited	1,830	-	-
Yamuna Renewables Limited	1,300	12.0	25.0
Zora Energy Renewables Limited	1,100	54.2†	-
	31,834		

Details of the equity held by Downing TWO VCT plc as at 31 December 2018 are included within the review of investments on pages 9 to 28.

Note 1: Other Downing Discretionary Funds comprise Downing THREE 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 is a self-managed fund where executives of Downing LLP are involved in the management.

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

11. Debtors

	2018 £'000	2017 £'000
Prepayments and accrued income	1,328	767

12. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Corporation tax	191	106
Other taxes and social security	2	3
Accruals and deferred income	255	348
	448	457

13. Called up share capital

	2018 £'000	2017 £'000
Issued, allotted, called up and fully-paid:		
Nil (31 Dec 2017: 10,000,000) 'D' Shares of 0.1p each*	-	10
Nil (31 Dec 2017: 14,950,000) 'E' Shares of 0.1p each*	-	15
10,810,859 (31 Dec 2017: 10,810,859) 'F' Shares of 0.1p each	11	11
25,281,571 (31 Dec 2017: 25,328,571) 'G' Shares of 0.1p each	25	25
15,718,154 (31 Dec 2017: 15,734,429) 'K' Shares of 0.1p each	16	16
	52	77

During the period, the Company repurchased 47,000 'G' Shares and 16,275 'K' Shares for an aggregate consideration of £38,070 and £15,868 respectively, being an average price of 81.0p per 'G' share and 97.5p per 'K' share, which represented 0.2% of the Company's issued 'G' Share Capital and 0.1% of the Company's issued 'K' Share Capital. These shares were subsequently cancelled.

No 'F' Shares were repurchased during the year.

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.

* On 11 July 2018, the 'D' Shares and 'E' Shares were converted into deferred shares and subsequently cancelled and delisted.

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).

13. Called up share capital (continued)

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

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

- receive Shareholder Proceeds of at least 105.82p per 'G' 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 'G' Share pool Hurdles are met, the Performance Incentive will be 3.0p per 'G' Share plus 20% above 105.82p per 'G' Share of the funds available (for distribution to 'G' 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 'G' Share (based on the number of 'G' Shares in issue at the close of the Offers).

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

The Performance Incentive fee in respect of the 'K' Shares will only become payable if 'K' Shareholders:

- have the opportunity to receive Shareholder Proceeds of at least 100p per 'K' 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 the investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 20% of the aggregate excess on any amounts distributed by the Company in excess of 100p per 'K' Share (calculated before 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) equivalent to 6.0p per 'K' Share (based on the number of 'K' Shares in issue at the close of the Offer).

14. Reserves

	2018 £'000	2017 £'000
Capital redemption reserve	149	124
Special reserve	38,471	28,313
Share premium reserve	-	16,170
Revaluation reserve	(3,911)	815
Capital reserve – realised	(2,250)	(2,252)
Revenue reserve	349	438
	32,808	43,608

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 £6,026,000 which are included in the calculation of distributable reserves. At 31 December 2018, total distributable reserves were £30,544,000 (31 Dec 2017: £25,968,000).

Share premium account
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. In August 2018, the balances on the Share Premium account were cancelled and added to the special reserve, contributing an additional £16.2 million to 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;
- expenses, together with the related taxation effect, charged in accordance with the above accounting policies; and
- dividends paid to equity shareholders.

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		2018		2017	
	31 Dec 2018	31 Dec 2017	Net asset value per share	Net asset value £'000	Net asset value per share	Net asset value £'000
'D' Shares	-	10,000,000	-	-	-	1
'E' Shares	-	14,950,000	-	-	-	-
'F' Shares	10,810,859	10,810,859	28.7p	3,102	69.6p	7,526
'G' Shares	25,281,571	25,328,571	60.9p	15,406	82.1p	20,790
'K' Shares	15,718,154	15,734,429	91.3p	14,352	97.7p	15,368
				32,860		43,685

The 'D' Share pool, 'F' Share pool, 'G' Share pool and 'K' Share pool are treated as separate investment pools. Within the 'D' Share pool the Directors allocate the assets and liabilities of the Company between the 'D' Shares and 'E' Shares such that each share class has sufficient net assets to represent its dividend and return of capital rights.

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

Year ended 31 December 2018

	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	'K' Share pool £'000	Total £'000
Loss on ordinary activities before taxation	-	(393)	(2,002)	(950)	(3,345)
Corporation tax paid	-	(41)	(104)	(29)	(174)
Losses on investments	-	430	2,811	760	4,001
Decrease/(increase) in prepayments and accrued income	-	70	(565)	(67)	(562)
(Decrease)/increase in accruals and deferred income	-	(71)	(20)	(2)	(93)
Net cash (outflow)/inflow from operating activities	-	(5)	120	(288)	(173)

Year ended 31 December 2017

	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	'K' Share pool £'000	Total £'000
Return/(loss) on ordinary activities before taxation	47	583	909	(239)	1,300
Corporation tax paid	(3)	1	6	-	4
(Gains) on investments	(58)	(346)	(215)	(41)	(660)
Decrease/(increase) in prepayments and accrued income	2	(97)	(314)	(44)	(453)
(Decrease)/increase in accruals and deferred income	(22)	-	(5)	4	(23)
Net cash (outflow)/inflow from operating activities	(34)	141	381	(320)	168

17. Financial instruments

The Company held the following categories of financial instruments at 31 December 2018:

	Cost £'000	2018 Value £'000	Cost £'000	2017 Value £'000
Assets at fair value through profit or loss	31,834	27,925	36,970	37,786
Other financial assets /(liabilities)	1,061	1,061	402	402
Cash at bank	4,055	4,055	5,589	5,589
Total	36,950	33,041	42,961	43,777

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 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 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 2018, the unquoted portfolio was valued at £27,925,000 (31 Dec 2017: £37,786,000). A breakdown of the unquoted portfolio by valuation method used is as follows:

	2018 £'000	2017 £'000
Price of recent investment	8,715	20,874
Multiples	12,098	14,741
Discounted cash flows or earnings (of underlying business)	652	1,806
Discounted cash flows (from the investment)	6,460	365
	27,925	37,786

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 valuations 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. A 10% movement in the price of these investments is considered to be a reasonable maximum level in a year and would have an effect as follows:

10% movement in unquoted investment valuations

	2018 Impact on net assets £'000	2018 Impact on NAV per share Pence	2017 Impact on net assets £'000	2017 Impact on NAV per share Pence
'F' Shares	306	2.9p	545	7.0p
'G' Shares	1,428	6.1p	1,994	8.2p
'K' Shares	1,063	9.1p	1,240	9.8p

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 movement of 10%. 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.

17. Financial instruments (continued)

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**	**2018 £'000**	**2017 £'000**
Fixed rate	22.6%	344 days	5,743	6,907
Floating rate	0.6%		4,054	5,590
No interest rate			23,063	31,188
			32,860	43,685

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 £600 for the 'F' Share pool, £3,000 for the 'G' Share pool and £37,000 for the 'K' Share pool. The Bank of England base rate increased from 0.5% per annum to 0.75% per annum in August 2018. 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:

	2018 £'000	2017 £'000
Investments in loan stocks	5,744	6,907
Cash at bank	4,055	5,589
Interest, dividends and other receivables	1,318	753
	11,117	13,249

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 2018 as analysed by the expected maturity date is as follows:

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	1,576	903	399	280	-	3,158
Past due loan stock	1,716	-	870	-	-	2,586
	3,292	903	1,269	280	-	5,744

As at 31 December 2017	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	1,050	193	903	1,549	-	3,695
Past due loan stock	1,638	1,574	-	-	-	3,212
	2,688	1,767	903	1,549	-	6,907

Of the loan stock classified as "past due" above, as at the balance sheet date, £870,000, falling within the banding of two to three 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. Of the £2,586,000, the remaining £1,716,000 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, (£448,000, 2017: £457,000) 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 (2017: 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% (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 year.

19. Contingencies, guarantees and financial commitments

At 31 December 2018 and 31 December 2017 the Company had no contingencies, guarantees or financial commitments.

20. Controlling party and related party transactions

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, in February 2019, a fire occurred at the plant owned by Yamuna Renewables Limited, which is an investment held by the 'K' Share pool. The facility has been brought back to full operational capability and an insurance claim is being pursued, but the interruption in supply during the key season trading period has impacted customer confidence which is likely to take time to rebuild. A provision against the valuation may be required when the impact has been fully assessed. By way of illustration, a provision of 25% against the previous carrying value would equate to a write down of £325,000, equivalent to 2.1 pence per share, in the 'K' Share pool.

NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING TWO VCT PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Downing TWO VCT plc will be held at St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD at 11.00 a.m. on 5 June 2019 for the transaction of the following business:

As **Ordinary Business**, to consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the Report of the Directors and Accounts of the Company for the year ended 31 December 2018, together with the report of the Auditor thereon.

2. To approve the Directors' Remuneration Report.

3. To reappoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine the Auditor's remuneration.

4. To re-elect as Director, Hugh Gillespie, who retires in accordance with company policy and, being eligible, offers himself for re-election.

5. To re-elect as Director, Dennis Hale, who retires in accordance with company policy and, being eligible, offers himself for re-election.

6. To re-elect as Director, Christopher McCann, who retires in accordance with company policy and, being eligible, offers himself for re-election.

Special Resolutions

7. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of 'F' Shares of 0.1p each ("'F' Shares"), 'G' Shares of 0.1p each ("'G' Shares") and 'K' shares of 0.1p each ("K' Shares") in the capital of the Company provided that:

   (i) the maximum number of 'F' Shares, 'G' Shares and 'K' Shares hereby authorised to be purchased is: 1,610,818, being 14.9 per cent. of the issued 'F' Shares; 3,773,957, being 14.9 per cent. of the issued 'G' Shares; and 2,344,430, being 14.9 per cent. of the issued 'K' Shares at such time;

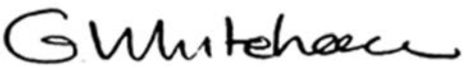
   (ii) the minimum price which may be paid for a 'F' Share, 'G' Share or a 'K' Share is its respective nominal value;

   (iii) the maximum price which may be paid for a 'F' Share, 'G' Share or a 'K' Share, is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the 'F' Shares, 'G' Shares and 'K' Shares as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the 'F' Share, 'G' Share or 'K' Share is contracted to be purchased;

(iv) the Company may make a contract to purchase an 'F' Share, a 'G' Share or a 'K' Share under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of 'F' Shares, 'G' Shares and 'K' Shares in pursuance of any such contract;

and this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution or, if earlier, on the expiry of 15 months from the passing of this resolution.

By order of the Board



Grant Whitehouse
Company Secretary

Registered Office
St. Magnus House
3 Lower Thames Street
London
EC3R 6HD

25 April 2019

NOTICE OF THE ANNUAL GENERAL MEETING

Notes

(a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

(b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.

(c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:
- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
- by sending an e-mail to proxy@downing.co.uk.

In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.

(d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.

(e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

(f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 11.00 a.m. on 31 May 2019 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 11.00 a.m. on 31 May 2019 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

Notes (continued)

(g) As at 9.00 a.m. on 25 April 2019, the Company's issued share capital comprised 10,810,859 'F' Shares, 25,281,571 'G' Shares and 15,718,154 'K' Shares and the total number of voting rights in the Company was 51,810,584. The Company website, www.downing.co.uk will include information on the number of shares and voting rights.

(h) If you are a person who has been nominated under section 146 of the Act to enjoy information rights ("Nominated Person"):

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights; and
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

(i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

(j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

(k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out on page 80.

(l) Members may not use any electronic address provided either in this notice of the Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

FORM OF PROXY

DOWNING TWO VCT PLC

For use at the Annual General Meeting of the above-named Company to be held on 5 June 2019, at Downing LLP, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD at 11.00 a.m.

I/We*.. (in BLOCK CAPITALS please)

of ....
being the holder(s)* of 'F' Shares or 'G' Shares or 'K' Shares of 0.1p each in the capital of the above-named Company, hereby appoint the Chairman of the meeting (see note 1)

or..

of..
as my/our* proxy to attend for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held at St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD on 5 June 2019 or at any adjournment thereof.

I/We* desire to vote on the resolutions as indicated in the appropriate column below.
Please indicate with an "X" how you wish your vote to be cast.

Details of the resolutions are set out in the Notice of the Annual General Meeting.

ORDINARY BUSINESS	**FOR**	**AGAINST**	**WITHHELD**
1. To receive and adopt the Directors' Report and Accounts.	☐	☐	☐
2. To approve the Directors' Remuneration Report.	☐	☐	☐
3. To reappoint the Auditor and authorise the Directors to determine their remuneration.	☐	☐	☐
4. To re-elect Hugh Gillespie as a Director.	☐	☐	☐
5. To re-elect Dennis Hale as a Director.	☐	☐	☐
6. To re-elect Christopher McCann as a Director.	☐	☐	☐
SPECIAL BUSINESS			
7. To authorise the Company to make market purchases of its shares.	☐	☐	☐

Signature(s) .... **Date:**...2019

* Delete as appropriate

If you are unable to attend the AGM and wish to put any comments to the Board, please use the box below.

PLEASE RETURN TO DOWNING LLP IN THE PRE-PAID ENVELOPE PROVIDED, OR E-MAIL A SCANNED COPY OF THE SIGNED FORM TO PROXY@DOWNING.CO.UK

NOTES AND INSTRUCTIONS:

1. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.

2. Delete "the Chairman of the meeting" if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.

3. Any alterations to the Form of Proxy should be initialled.

4. To be valid, this Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in this Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.

5. In the case of a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised on that behalf.

6. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.

7. The completion and return of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting should you subsequently decide to do so. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.

8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

Downing

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3 Lower Thames Street
London EC3R 6HD

020 7416 7780
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www.downing.co.uk

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