

Downing TWO VCT PLC

Half-Yearly Report for
the six months ended
31 July 2012

SHAREHOLDER INFORMATION

Performance summary

'C' Share pool	31 Jul 2012	31 Jan 2012	31 Jul 2011
	Pence	Pence	Pence
Net asset value per 'C' Share	90.8	91.5	88.6
Net asset value per 'A' Share	0.1	0.1	0.1
Cumulative distributions per 'C' Share	15.0	12.5	10.0
Total return per 'C' Share and 'A' Share	<u>105.9</u>	<u>104.1</u>	<u>98.7</u>
'D' Share pool	31 Jul 2012	31 Jan 2012	31 Jul 2011
	Pence	Pence	Pence
Net asset value per 'D' Share	80.2	83.2	91.5
Net asset value per 'E' Share	0.1	0.1	0.1
Cumulative distributions per 'D' Share	10.0	7.5	5.0
Total return per 'D' Share and 'E' Share	<u>90.3</u>	<u>90.8</u>	<u>96.6</u>
'F' Share pool	31 Jul 2012	31 Jan 2012	31 Jul 2011
	Pence	Pence	Pence
Net asset value per 'F' Share	<u>94.4</u>	<u>n/a</u>	<u>n/a</u>

Forthcoming dividends

		Pence
'C' Shares – Interim 2013	Payable 30 Nov 2012	2.5
'D' Shares – Interim 2013	Payable 30 Nov 2012	2.5
'F' Shares – Interim 2013	Payable 30 Nov 2012	5.0

Dividends

Dividends are paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose, (forms can be downloaded from www.capitaregistrars.com/shareholders/information).

Queries relating to dividends and requests for mandate forms should be directed to the Company's registrar, Capita Registrars, on 0871 664 0324 (calls cost 10p per minute plus network extras, lines open Monday to Friday 8:30am to 5:30pm), or in writing to the address on the back cover of this document.

Terminology

Throughout this report, the term "'C' Share(s)" has been used to refer to the pool of assets allocated to the 'C' Shares and 'A' Shares combined. Similarly, the term "'D' Share(s)" has been used to refer to the pool of assets allocated to the 'D' Shares and 'E' Shares combined.

Shareholder information is continued on the inside back cover

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present my report for the six months ended 31 July 2012. The Company's 'C' Share and 'D' Share pools have now completed their investment phase and so have seen little investment activity in the period. This is in contrast to the new 'F' Share pool which has continued to raise new funds and has been a very active investor during the period.

Fundraising

As at 31 July 2012, the 'F' Share offer for subscription with its sister company, Downing Planned Exit VCT 3 plc, had raised gross proceeds of approximately £18 million or £8.9 million per company. The offer has been extended from the original closing date and will now close on 28 September 2012.

Net asset values

'C' Share pool

At 31 July 2012, the net asset value ("NAV") for a combined holding of one 'C' Share and one 'A' Share was 90.9p, an increase of 1.8p (2.0%) over the period. Total Return (NAV plus dividends paid to date) is now 105.9p for a combined holding.

'D' Share pool

At 31 July 2012, the net asset value ("NAV") for a combined holding of one 'D' Share and one 'E' Share was 80.3p, a decrease of 0.5p (0.6%) over the period. Total Return (NAV plus dividends paid to date) is now 90.3p for a combined holding.

'F' Share pool

At 31 July 2012, the net asset value ("NAV") per 'F' Share was 94.4p, a decrease of 0.1p from the initial NAV after issue costs.

Full reviews for each share pool are covered in the specific Investment Manager's Reports on pages 3 to 10.

Dividends

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

'C' Shares	2.5p per share
'D' Shares	2.5p per share
'F' Shares	5.0p per share

Each of these dividends will be paid on 30 November 2012 to Shareholders on the register at 2 November 2012.

Ordinary Share pool

The Company's original share pool, the Ordinary Share pool, completed returning funds to Shareholders in 2010. Proposals to wind up the Ordinary Shares were approved by Shareholders at a meeting on 25 July 2012 and they have now been cancelled.

Share buybacks

The Company has a general policy of buying in, for cancellation, its own shares that become available in the market. No shares were purchased in the period for cancellation.

The current policy is that the Company will buy in any 'C' Shares, 'A' Shares, 'D' Shares or 'E' Shares at approximately a 10% discount to the latest published NAV of those share classes. In respect of the 'F' Shares, any such purchases will be undertaken at a price equal to the latest published NAV (i.e. at nil discount) until 1 October 2016. Buybacks are subject to regulatory restrictions and other factors such as availability of liquid funds.

CHAIRMAN'S STATEMENT

Outlook

With approximately two years to go until the 'C' Share pool seeks to start realising investments and returning funds to shareholders, and three years in the case of the 'D' Share pool, any new investment activity by these pools is now expected to be very limited.

The 'C' Share portfolio has reasonable prospects for continuing to make further progress as it moves towards the exit date. The 'D' Share portfolio has suffered from specific issues with two investments. These have now stabilised although some value has been lost. The Board is satisfied with the remainder of the 'D' Share portfolio and believes there are reasonable prospects for NAV growth from here.

It is early days for the 'F' Share pool and the process of building the investment portfolio has some way to go. The Manager reports that it is continuing to see a steady flow of promising investment opportunities so we should expect a significant level of activity over the remainder of the year.



Hugh Gillespie
Chairman

26 September 2012

INVESTMENT MANAGER'S REPORT

'C' SHARE POOL

Investment activity

The 'C' Share pool is now fully qualifying; accordingly, no new qualifying investments were made during the period.

The majority of the 'C' Share portfolio has performed well during the first half of the year with a net valuation uplift of £76,000 recognised at the interim stage.

At the interim stage, the 'C' Share pool commissioned independent valuations for Atlantic Dogstar Limited, East Dulwich Tavern Limited and Westow House Limited which all operate pubs in South London. The valuations resulted in uplifts in value of £50,000, £41,000 and £64,000 respectively. All three pubs are performing well and are significantly surpassing their original business plans.

A £79,000 write down in value was made to Honeycombe Pubs VCT Limited which owns a bar in Burnley, Lancashire. An independent valuation was commissioned which indicated that the value of the property had fallen below the loan stock cost and a reduction in value was recognised.

Details of the 'C' Share pool portfolio and investment activity during the period are shown on the following page.

Net asset value

At 31 July 2012, the NAV per 'C' Share stood at 90.8p and per 'A' Share at 0.1p, producing a combined total of 90.9p. This is an increase of 1.8p (2.0%) since the previous year end of 31 January 2012 (after adjusting for dividends of 2.5p per 'C' Share paid during the period). Total return (NAV plus cumulative dividends paid) was 105.9p per 'C' Share and 'A' Share at 31 July 2012.

Results and dividend

The profit on ordinary activities for the 'C' Shares, after taxation, for the period was £128,000, comprising a revenue profit of £52,000 and a capital profit of £76,000.

The Company will pay an interim dividend of 2.5p per 'C' Share, on 30 November 2012, to 'C' Shareholders on the register at 2 November 2012.

Outlook

We are pleased with the progress made by the 'C' Share portfolio to date and believe that there is potential for further growth before we start to seek realisations and commence returning funds to Shareholders in 2014. Trading conditions do, however, remain challenging for most businesses and therefore close monitoring of all portfolio companies will remain a priority.

Downing LLP

26 September 2012

SUMMARY OF INVESTMENT PORTFOLIO 'C' SHARE POOL

as at 31 July 2012

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
Qualifying investments				
Bijou Wedding Venues Limited	815	884	-	13.6%
Future Biogas (SF) Limited	627	703	-	10.8%
Atlantic Dogstar Limited	429	654	50	10.0%
Domestic Solar Limited*	500	500	-	7.7%
Redmed Limited*	438	437	-	6.7%
Westow House Limited	304	395	64	6.1%
East Dulwich Tavern Limited	344	385	41	5.9%
Quadratrate Catering Limited	330	330	-	5.1%
Quadratrate Spa Limited*	323	323	-	5.0%
Eccossol Limited	250	250	-	3.8%
The 3D Pub Co Limited	267	187	-	2.9%
Mosaic Spa and Health Clubs Limited*	125	125	-	1.9%
Chapel Street Services Limited	50	50	-	0.8%
Chapel Street Food and Beverage Limited	50	50	-	0.8%
Non-qualifying investments				
Hoole Hall Country Club Holdings Limited	581	581	-	8.9%
The Thames Club Limited	500	500	-	7.7%
Honeycombe Pubs VCT Limited	175	96	(79)	1.5%
Vermont Developments Limited	25	25	-	0.4%
Commercial Street Hotel Limited	2	2	-	0.0%
	<u>6,135</u>	<u>6,477</u>	<u>76</u>	<u>99.6%</u>
Cash at bank and in hand		<u>38</u>		<u>0.4%</u>
Total		<u>6,515</u>		<u>100.0%</u>

SUMMARY OF INVESTMENT MOVEMENTS 'C' SHARE POOL

for the six months ended 31 July 2012

Additions	£'000
Quadratrate Spa Limited*	<u>13</u>

* Partially qualifying investment

INVESTMENT MANAGER'S REPORT

'D' SHARE POOL

Investment activity

The 'D' Share pool made two new qualifying investments (including partially qualifying investments or investments that will become qualifying in due course) and two non-qualifying investments during the period at a total cost of £1,167,000, details of which are set out below.

A further investment of £125,000 was made in Kidspace Adventure Holdings Limited, to redevelop an indoor and outdoor children's play centre known as Hobbledown Farm, which opened in July 2012.

In February 2012, a £467,000 non-qualifying investment was made in Liverpool Nurseries Holdings Limited to purchase the assets of one of the Company's existing investments, Gingerbread Pre-Schools (UK) Limited, after the original investment encountered some difficulties and went into administration. As part of the reorganisation, the existing manager and investment partner has been dismissed. A new manager has been appointed and the nurseries are now starting to make progress. A loss against cost of £181,000 arose on the reorganisation.

A £150,000 non-qualifying loan was made to Aminghurst Limited to fund the continued build of the hotel and apartment development near Salcombe, Devon.

The majority of the 'D' Share pool investments have performed in line with expectations over the period and continued to be valued at original cost. There have, however, been two adjustments.

An uplift in value of £13,750 was recognised on the Alpha Schools Holdings Limited, an independent primary school operator, to reflect that the business is performing well and in line with expectations.

A further reduction in value was made to Camandale Limited which owns two pubs, The Riverbank and The Monkey Bar, located in Kilmarnock, Scotland. The Monkey Bar was closed in January 2012 and no buyer has yet been found for the property. The Riverbank, which remains open, is still not performing to expectations and, accordingly, a cautionary £46,000 write down in value was made at the interim.

In total, the portfolio produced net unrealised capital losses of £31,500 for the six months.

Details of the 'D' Share pool portfolio and investment activity during the period are shown in the following pages.

Net asset value

At 31 July 2012, the NAV per 'D' Share stood at 80.2p and per 'E' Share at 0.1p, producing a combined total of 80.3p. This is a small decrease of 0.5p (0.6%) since the previous year end of 31 January 2012 (after adjusting for dividends of 2.5p per 'D' Share paid during the period). Total return (NAV plus cumulative dividends paid) was 90.3p per 'D' Share and 'E' Share at 31 July 2012.

INVESTMENT MANAGER'S REPORT

'D' SHARE POOL (continued)

Results and dividend

The loss on ordinary activities for the 'D' Shares, after taxation, for the period was £52,000, comprising a revenue loss of £20,000 and a capital loss of £32,000.

The Company will pay an interim dividend of 2.5p per 'D' Share, on 30 November 2012, to 'D' Shareholders on the register at 2 November 2012.

Outlook

The problems with Camandale and Gingerbread Pre-Schools have been a setback for the pool. After a period of intensive management of both investments, these businesses have now been brought under control and we do not expect to see any further loss of value. The remainder of the 'D' Share portfolio is still at a relatively early stage, but we are satisfied with progress to date and believe there is good potential for growth ahead of 2015, when the pool will seek to start realising its investments.

Downing LLP

26 September 2012

SUMMARY OF INVESTMENT PORTFOLIO 'D' SHARE POOL

as at 31 July 2012

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
Qualifying investments				
Future Biogas (Reepham Road) Limited*	748	748	-	9.2%
Quadrate Catering Limited	441	441	-	5.4%
Quadrate Spa Limited*	436	436	-	5.4%
Domestic Solar Limited*	400	400	-	4.9%
Alpha Schools (Holdings) Limited	367	381	14	4.7%
Kidspac Adventures Holdings Limited*	375	375	-	4.6%
Mosaic Spa and Health Club (Shrewsbury) Limited	350	350	-	4.3%
Avon Solar Energy Limited	250	250	-	3.1%
Ecosol Limited	250	250	-	3.1%
Green Electricity Generation Limited	250	250	-	3.1%
Westcountry Solar Solutions Limited	250	250	-	3.1%
Slopingtactic Limited	195	195	-	2.4%
Progressive Energies Limited	170	170	-	2.1%
Ridgeway Pub Company Limited	136	136	-	1.7%
Mosaic Spa and Health Clubs Limited*	125	125	-	1.5%
Camandale Limited*	561	113	(46)	1.4%
Non-qualifying investments				
Aminghurst Limited	2,150	2,150	-	26.4%
Liverpool Nurseries (Holdings) Limited	467	467	-	5.7%
Retallack SurfPods Limited	250	250	-	3.1%
Fenkle Street LLP	147	147	-	1.8%
Kidspac Adventures Limited	135	135	-	1.7%
Commercial Street Hotel Limited	100	100	-	1.2%
	<u>8,553</u>	<u>8,119</u>	<u>(32)</u>	<u>99.9%</u>
Cash at bank and in hand		<u>10</u>		<u>0.1%</u>
Total		<u>8,129</u>		<u>100.0%</u>

* Partially qualifying investment

SUMMARY OF INVESTMENT MOVEMENTS 'D' SHARE POOL

for the six months ended 31 July 2012

Additions	£'000
Qualifying investments	
Kidspace Adventures Holdings Limited*	125
Quadrat Spa Limited*	17
Non-qualifying investments	
Liverpool Nurseries (Holdings) Limited	467
Liverpool Nurseries (House) Limited	203
Aminghurst Limited	150
Liverpool Nurseries (Greenbank) Limited	138
Liverpool Nurseries(Cottage) Limited	67
Total	1,167

	Cost £'000	Market value at 01/02/12** £'000	Disposal proceeds £'000	Loss against cost £'000	Total realised gain/ (loss) £'000
Disposals					
Qualifying investments					
Gingerbread Pre-Schools (UK) Limited	576	395	395	(181)	-
Non-qualifying investments					
Liverpool Nurseries (House) Limited	203	203	203	-	-
Liverpool Nurseries (Greenbank) Limited	138	138	138	-	-
Liverpool Nurseries(Cottage) Limited	67	67	67	-	-
Hoi Polloi Pub Co Limited	60	60	60	-	-
Total	1,044	863	863	(181)	-

* Partially qualifying investment

** Adjusted for purchases in the year

INVESTMENT MANAGER'S REPORT 'F' SHARE POOL

During the period, 8.9 million 'F' Shares were issued under the offer for subscription, generating net proceeds of £8.4 million after share issue costs. The task of investing these new funds is now underway.

Investment activity

During the 'F' Share pool's initial period, 13 new investments were made at a total cost of £4.4 million. Of these investments, five were VCT qualifying.

Brief details of the largest of these qualifying investments (or investments that will become qualifying in due course) are as follows:

£816,000 was invested in Tor Solar PV Limited which owns a portfolio of solar panels on farms in the south west of the UK.

Three investments were made in City Falkirk Limited, Fubar Stirling Limited and Cheers Dumbarton Limited totalling £737,000. Each of these companies owns and operates a Scottish nightclub. The clubs are managed by Lochrise Limited which is associated with the Castle Leisure Group, an experienced operator in the region.

A £560,000 investment was made in Vulcan Renewables Limited which is developing a 2MW gas injection biogas plant near Doncaster. Through an anaerobic digestion process, biogas is produced which is used to generate electricity. The company benefits from the receipt of Feed-in Tariffs and payments for electricity exported to the National Gas Grid.

£200,000 was invested in Fresh Green Power Limited and £100,000 was invested in Green Energy Production Limited. Both companies install, own and manage solar panels on domestic rooftops. Both businesses benefit from the receipt of Feed-in Tariffs from solar energy generation.

In addition to the above, a number of non-qualifying investments were made in the form of secured loans. These helped to generate investment income on funds ahead of them being employed in VCT qualifying investments.

At this early stage, the investment portfolio has a disproportionately high exposure to a small number of business sectors. This has resulted from investment opportunities that have presented themselves and we expect the portfolio to become more diversified and better balanced as the task of investing funds continues.

Results and dividend

At 31 July 2012, the net asset value ("NAV") per 'F' Share stood at 94.4p, compared to an initial NAV of 94.5p, a fall of 0.1p (0.1%).

The loss on ordinary activities for the 'F' Shares, after taxation, for the period was £8,000, relating wholly to a revenue loss.

In accordance with the policy set out in the 'F' Share prospectus, the Company will pay an interim dividend of 5.0p per 'F' Share on 30 November 2012 to 'F' Shareholders on the register at 2 November 2012.

Outlook

The task of building the 'F' Share investment portfolio is at an early stage but we are satisfied with the progress made to date in investing the funds. The general economic climate remains challenging, but we continue to see good quality deal flow which we believe will allow us to build a portfolio which can deliver the targeted returns to Shareholders over the life of the pool.

Downing LLP

26 September 2012

SUMMARY OF INVESTMENT PORTFOLIO 'F' SHARE POOL

as at 31 July 2012

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
Qualifying investments				
Tor Solar PV Limited*	816	816	-	9.0%
Vulcan Renewables Limited	560	560	-	6.2%
City Falkirk Limited*	421	421	-	4.6%
Fresh Green Power Limited	200	200	-	2.2%
Green Energy Production UK Limited	100	100	-	1.1%
Non-qualifying investments				
Baron House Developments LLP	625	625	-	6.9%
Clareville Street LLP	500	500	-	5.5%
Holdland House Developments Ltd	300	300	-	3.3%
West Tower Holdings Limited	290	290	-	3.2%
Fubar Stirling Limited	268	268	-	3.0%
Kidspace Adventures Holdings Limited	250	250	-	2.8%
Cheers Dumbarton Limited	48	48	-	0.5%
Lochrise Limited	13	13	-	0.1%
	<u>4,391</u>	<u>4,391</u>	<u>-</u>	<u>48.4%</u>
Cash at bank and in hand		<u>4,677</u>		<u>51.6%</u>
Total		<u>9,068</u>		<u>100.0%</u>

* Partially qualifying investment

All of the above investments were additions in the period.

Disposals	Cost £'000	Market value at 01/02/12** £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Non-qualifying investments					
Baron House Developments LLP	75	75	75	-	-

** Adjusted for purchases in the year

UNAUDITED SUMMARISED BALANCE SHEET

as at 31 July 2012

	31 Jul 2012				31 Jul	31 Jan
	'C'	'D'	'F'	Total	2011	2012
	Shares	Shares	Shares	(inc	Total	Total
	£'000	£'000	£'000	Ords)	(inc	(inc
				£'000	Ords)	Ords)
					£'000	£'000
Fixed assets						
Unquoted investments	6,477	8,119	4,391	18,987	13,774	14,240
Current assets						
Debtors	112	26	26	164	1,129	213
Cash at bank and in hand	38	10	4,677	4,725	1,014	3,031
	150	36	4,703	4,889	2,143	3,244
Creditors: amounts falling due within one year	(108)	(125)	(689)	(922)	(384)	(1,399)
Net current assets	42	(89)	4,014	3,967	1,759	1,845
Net assets	6,519	8,030	8,405	22,954	15,533	16,085
Capital and reserves						
Called up share capital	18	25	9	152	143	143
Share capital to be issued	-	-	-	-	-	1,178
Capital redemption reserve	4	-	-	6	6	6
Special reserve	5,996	8,730	-	14,726	15,487	15,155
Share premium account	-	-	8,404	8,404	-	-
Revaluation reserve	343	(616)	-	(273)	(133)	(317)
Capital reserve – realised	53	-	-	48	-	53
Revenue reserve	105	(109)	(8)	(109)	30	(133)
Total equity shareholders' funds	6,519	8,030	8,405	22,954	15,533	16,085
Basic and diluted net asset value per:						
'C' Share	90.8p				88.6p	91.5p
'A' Share	0.1p				0.1p	0.1p
'D' Share		80.2p			91.5p	83.2p
'E' Share		0.1p			0.1p	0.1p
'F' Share			94.4p		n/a	n/a

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 July 2012				31 Jul	31 Jan
	'C'	'D'	'F'	Total	2011	2012
	Shares	Shares	Shares	(inc	Total	Total
	£'000	£'000	£'000	Ords)	(inc	(inc
				£'000	Ords)	Ords)
					£'000	£'000
Opening Shareholders' funds	6,570	8,332	1,178	16,085	16,027	16,027
Issue of shares	-	-	8,903	8,903	-	-
Share issue costs	-	-	(490)	(490)	-	-
Total recognised gains/ (losses) for the year	128	(52)	(8)	63	114	(83)
Share capital to be issued	-	-	(1,178)	(1,178)	-	1,178
Dividends	(179)	(250)	-	(429)	(608)	(1,037)
Closing Shareholders' funds	<u>6,519</u>	<u>8,030</u>	<u>8,405</u>	<u>22,954</u>	<u>15,533</u>	<u>16,085</u>

INCOME STATEMENT

for the six months ended 31 July 2012

Company Total (including Ordinary Share pool)

	Six months ended 31 Jul 2012			Six months ended 31 Jul 2011			Year ended 31 Jan 2012
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	295	-	295	573	-	573	676
Gains/(losses) on investments							
- realised	-	(5)	(5)	-	-	-	53
- unrealised	-	44	44	-	(133)	(133)	(317)
	295	39	334	573	(133)	440	412
Investment management fees	(145)	-	(145)	(102)	-	(102)	(211)
Other expenses	(110)	-	(110)	(110)	-	(110)	(199)
Return on ordinary activities before taxation	40	39	79	361	(133)	228	2
Taxation	(16)	-	(16)	(114)	-	(114)	(85)
Return attributable to equity shareholders	24	39	63	247	(133)	114	(83)
Return per 'C' Share	0.7p	1.1p	1.8p	0.8p	-	0.8p	6.2p
Return per 'A' Share	-	-	-	-	-	-	-
Return per 'D' Share	(0.2p)	(0.3p)	(0.5p)	1.9p	(1.3p)	0.6p	(5.3p)
Return per 'E' Share	-	-	-	-	-	-	-
Return per 'F' Share	(0.1p)	-	(0.1p)	n/a	n/a	n/a	n/a

A Statement of Total Recognised Gains and Losses has not been prepared as all gains/losses are recognised in the Income Statement as noted above.

INCOME STATEMENT

for the six months ended 31 July 2012

'C' Shares

	Six months ended 31 Jul 2012			Six months ended 31 Jul 2011			Year ended 31 Jan 2012
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	151	-	151	160	-	160	337
Gains on investments							
- realised	-	-	-	-	-	-	53
- unrealised	-	76	76	-	-	-	267
	<u>151</u>	<u>76</u>	<u>227</u>	<u>160</u>	<u>-</u>	<u>160</u>	<u>657</u>
Investment management fees	(44)	-	(44)	(44)	-	(44)	(88)
Other expenses	(39)	-	(39)	(36)	-	(36)	(74)
	<u>(83)</u>	<u>-</u>	<u>(83)</u>	<u>(80)</u>	<u>-</u>	<u>(80)</u>	<u>(162)</u>
Return on ordinary activities before taxation	68	76	144	80	-	80	495
Taxation	(16)	-	(16)	(25)	-	(25)	(51)
	<u>(16)</u>	<u>-</u>	<u>(16)</u>	<u>(25)</u>	<u>-</u>	<u>(25)</u>	<u>(51)</u>
Return attributable to equity shareholders	52	76	128	55	-	55	444

INCOME STATEMENT

for the six months ended 31 July 2012

'D' Shares

	Six months ended 31 Jul 2012			Six months ended 31 Jul 2011			Year ended 31 Jan 2012
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	85	-	85	413	-	413	339
Losses on investments							
- realised	-	-	-	-	-	-	-
- unrealised	-	(32)	(32)	-	(133)	(133)	(584)
	85	(32)	53	413	(133)	280	(245)
Investment management fees	(56)	-	(56)	(58)	-	(58)	(123)
Other expenses	(49)	-	(49)	(74)	-	(74)	(125)
Return on ordinary activities before taxation	(20)	(32)	(52)	281	(133)	148	(493)
Taxation	-	-	-	(89)	-	(89)	(34)
Return attributable to equity shareholders	(20)	(32)	(52)	192	(133)	59	(527)

INCOME STATEMENT

for the six months ended 31 July 2012

'F' Shares

	Six months ended 31 Jul 2012			Six months ended 31 Jul 2011			Year ended 31 Jan 2012
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	59	-	59	-	-	-	-
Gains on investments							
- realised	-	-	-	-	-	-	-
- unrealised	-	-	-	-	-	-	-
	<u>59</u>	<u>-</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment management fees	(45)	-	(45)	-	-	-	-
Other expenses	(22)	-	(22)	-	-	-	-
	<u>(8)</u>	<u>-</u>	<u>(8)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss on ordinary activities before taxation	(8)	-	(8)	-	-	-	-
Taxation	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss attributable to equity shareholders	(8)	-	(8)	-	-	-	-

UNAUDITED CASH FLOW STATEMENT

for the six months ended 31 July 2012

	Note	31 Jul 2012				31 Jul	31 Jan
		'C' Shares £'000	'D' Shares £'000	'F' Shares £'000	Total (inc Ords) £'000	Total (inc Ords) £'000	Total (inc Ords) £'000
Net cash inflow/(outflow) from operating activities	1	57	62	655	774	(453)	353
Taxation							
Corporation tax paid		-	-	-	-	-	(119)
Capital expenditure							
Purchase of investments		(13)	(1,167)	(4,466)	(5,646)	(5,321)	(8,469)
Sale of investments		-	863	75	938	4,636	7,187
Net cash outflow from capital expenditure		<u>(13)</u>	<u>(304)</u>	<u>(4,391)</u>	<u>(4,708)</u>	<u>(685)</u>	<u>(1,282)</u>
Equity dividends paid		<u>(179)</u>	<u>(250)</u>	<u>-</u>	<u>(429)</u>	<u>(608)</u>	<u>(1,037)</u>
Net cash outflow before financing		<u>(135)</u>	<u>(492)</u>	<u>(3,736)</u>	<u>(4,363)</u>	<u>(1,746)</u>	<u>(2,085)</u>
Financing							
Proceeds from share issue		-	-	7,725	7,725	-	-
Share issue costs		-	-	(490)	(490)	-	-
Share capital to be issued		-	-	-	-	-	1,178
Raised for/paid to a related fund		-	-	(1,178)	(1,178)	-	1,178
Net cash inflow from financing		<u>-</u>	<u>-</u>	<u>6,057</u>	<u>6,057</u>	<u>-</u>	<u>2,356</u>
(Decrease)/increase in cash	2	<u>(135)</u>	<u>(492)</u>	<u>2,321</u>	<u>1,694</u>	<u>(1,746)</u>	<u>271</u>
Notes to the cash flow statement:							
1 Cash inflow from operating activities and returns on investments							
Return on ordinary activities before taxation		144	(52)	(8)	79	228	2
(Gains)/losses on investments		(76)	32	-	(39)	133	264
Decrease/(increase) in other debtors		2	72	(26)	48	(732)	184
(Decrease)/increase in other creditors		(13)	10	689	686	(82)	(97)
Net cash inflow/(outflow) from operating activities		<u>57</u>	<u>62</u>	<u>655</u>	<u>774</u>	<u>(453)</u>	<u>353</u>
2 Analysis of net funds							
Beginning of period		173	502	2,356	3,031	2,760	2,760
Net cash (outflow)/inflow		(135)	(492)	2,321	1,694	(1,746)	271
End of period		<u>38</u>	<u>10</u>	<u>4,677</u>	<u>4,725</u>	<u>1,014</u>	<u>3,031</u>

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

- The unaudited half-yearly results cover the six months to 31 July 2012 and have been prepared in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" revised January 2009 and in accordance with the accounting policies set out in the statutory accounts for the year ended 31 January 2012, which were prepared under UK Generally Accepted Accounting Practice.
- All revenue and capital items in the Income Statement derive from continuing operations.
- The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.
- The comparative figures are in respect of the six month period ended 31 July 2011 and the year ended 31 January 2012 respectively.
- Dividends**

Paid in year	Per share pence	Six months ended 31 July 2012		Year ended 31 Jan 2012	
		Revenue £'000	Capital £'000	Total £'000	Total £'000
'C' Shares					
2011 Final	5.0p	-	-	-	358
2012 Interim	2.5p	-	-	-	179
2012 Final	2.5p	-	179	179	-
		<u>-</u>	<u>179</u>	<u>179</u>	<u>537</u>
'D' Shares					
2011 Final	2.5p	-	-	-	250
2012 Interim	2.5p	-	-	-	250
2012 Final	2.5p	-	250	250	-
		<u>-</u>	<u>250</u>	<u>250</u>	<u>500</u>

No dividends have been paid or declared in respect of the 'A' Shares, 'E' Shares or 'F' Shares.

6. Basic and diluted return per share

	'C' Shares	'A' Shares	'D' Shares	'E' Shares	'F' Shares
Revenue return per share based on:					
Net revenue after taxation (£'000)	52	-	(20)	-	(8)
Capital return/(loss) per share based on:					
Net capital gain for the financial year (£'000)	76	-	(32)	-	-
Weighted average number of shares in issue	7,166,806	10,754,329	10,000,000	15,000,000	6,560,140

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

7. Net asset value per share

	Shares in issue	Net asset value per share	Net asset value £'000
'C' Shares	7,166,806	90.8p	6,508
'A' Shares	10,754,329	0.1p	11
'D' Shares	10,000,000	80.2p	8,015
'E' Shares	15,000,000	0.1p	15
'F' Shares	8,902,699	94.4p	8,405
Ordinary Shares *	9,994,968	-	-
			<u>22,954</u>

* The Ordinary Shares have been cancelled since the period end.

8. Reserves

	Capital redemption reserve £'000	Share premium reserve £'000	Special reserve £'000	Revenue reserve £'000	Capital reserve - realised £'000	Revaluation reserve £'000
At 1 February 2012	6	-	15,155	(133)	53	(317)
Issue of shares	-	8,894	-	-	-	-
Share issue costs	-	(490)	-	-	-	-
Net (loss)/gain on investments	-	-	-	-	(5)	44
Expenses capitalised	-	-	-	-	-	-
Dividends paid	-	-	-	-	(429)	-
Transfer between reserves	-	-	(429)	-	429	-
Retained revenue	-	-	-	24	-	-
At 31 July 2012	<u>6</u>	<u>8,404</u>	<u>14,726</u>	<u>(109)</u>	<u>48</u>	<u>(273)</u>

The Special reserve, Capital reserve - realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £607,000 which are included in the calculation of distributable reserves. Total distributable reserves are £14,058,000 (£14,411,000 at 31 January 2012).

9. The unaudited condensed financial statements set out herein do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The figures for the year ended 31 January 2012 have been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies; the Auditor's report on those financial statements was unqualified.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

10. The Directors confirm that, to the best of their knowledge, the half-yearly financial statements have been prepared in accordance with the “Statement: Half-Yearly Financial Reports” issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by:

- a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

11. Risks and uncertainties

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

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

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

The Company’s compliance with the VCT regulations is continually monitored by the Manager, who reports regularly to the Board on the current position. The Company has also appointed PricewaterhouseCoopers to provide regular reviews and advice in this area.

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

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

12. Going concern

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

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

13. Copies of the unaudited half-yearly report will be sent to Shareholders shortly. Further copies can be obtained from the Company’s registered office or will be available for download from www.downing.co.uk.

SHAREHOLDER INFORMATION (continued)

Share scam warning

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

Further information can be found on Downing’s website under “Existing Investments”. If you have any concerns, please contact Downing on 020 7416 7780.

Share prices

The Company’s share prices can be found on various financial websites. The share prices are also available on Downing’s website (www.downing.co.uk).

	‘C’ Shares DP2C	‘D’ Shares DP2D	‘F’ Shares DP2F
TIDM/EPIC codes			
Latest share price (25 September 2012):	76.00p per share	70.50p per share	100.00p per share

	‘A’ Shares DP2A	‘E’ Shares DP2E
TIDM/EPIC codes		
Latest share price (25 September 2012):	5.03p per share	0.10p per share

Trading shares

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

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

Notification of change of address

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

Other information for Shareholders

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

www.downing.co.uk

If you have any queries regarding your shareholding in Downing Planned Exit VCT 2 plc, please contact the registrar on 0871 664 0324 or visit Capita’s website at www.capitaregistrars.com and click on “Shareholders and employees”.

Directors

Hugh Gillespie (Chairman)
Dennis Hale
Michael Robinson

Company Secretary and Registered Office

Grant Whitehouse
10 Lower Grosvenor Place
London SW1W 0EN

Registered No. 5334418

Investment and Administration Manager

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Tel: 020 7416 7780

Registrar

Capita Registrars
The Registry
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Beckenham
Kent BR3 4TU

www.capitaregistrars.com

Tel: 0871 664 0324

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