Downing TWO VCT PLC

Report & Accounts
for the year ended
31 January 2011

Downing

SHAREHOLDER INFORMATION

	31 Jan 2011 Pence	31 Jan 2010 Pence
'C' Shares		
Net asset value per 'C' Share	92.8	95.9
Net asset value per 'A' Share	0.1	0.1
Cumulative distributions per 'C' Share	5.0	-
Total return per 'C' Share and 'A' Share	97.9	96.0
'D' Shares		
Net asset value per 'D' Share	93.5	94.4
Net asset value per 'E' Share	0.1	0.1
Cumulative distributions per 'D' Share	2.5	-
Total return per 'D' Share and 'E' Share	96.1	94.5

The Ordinary Shares now have negligible remaining value.

Proposed Dividends

'C' Shares - Proposed Final 2011	Payable 15 July 2011	5.0p
'D' Shares – Proposed Final 2011	Payable 15 July 2011	2.5p

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, Capita Registrars, by calling 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday), or by writing to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Mandate forms can be downloaded from Capita's website (see below).

Share prices

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

	'C' Shares	'A' Shares	'D' Shares	'E' Shares
TIDM/EPIC Code:	DP2C	DP2A	DP2D	DP2E
Latest share price (26 May 2011):	84.0p per share	5.0p per share	85.5p per share	0.1p per share

The Ordinary Shares are currently still listed but now have negligible value and are expected to be delisted in due course.

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 name, "Downing Protected VCT II plc", remain valid.

Financial calendar

7 July 2011	Annual General Meeting
September 2011	Announcement of half yearly financial results

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 financial statements, share price 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 the above number or visit Capita's website at www.capitaregistrars.com and click on "Shareholders".

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downing planned exit VCT 2

COMPANY INFORMATION

Registered number	5334418
Directors	Hugh Gillespie (Chairman) Dennis Hale Michael Robinson
Secretary and registered office	Grant Whitehouse 10 Lower Grosvenor Place London SW1W 0EN
Investment and Administration Manager	Downing Managers 2 Limited 10 Lower Grosvenor Place London SW1W 0EN Tel: 020 7416 7780 www.downing.co.uk
Auditors	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
VCT status advisers	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday) www.capitaregistrars.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

Share Scam Warning

We have become 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 under "Existing Investments". If you have any concerns, please contact Downing on 020 7416 7780.

INVESTMENT OBJECTIVES

Downing Planned Exit VCT 2 plc is a venture capital trust established under the legislation introduced in the Finance Act 1995. The Company's principal objectives (in respect of the 'C' and 'D' Shares) 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 5p per share.

The detailed investment policy adopted to achieve the investment objectives is set out in the Report of the Directors on page 18.

FINANCIAL HIGHLIGHTS

(All "pence per share")	Year ended 31 Jan 11 'C' & 'A' pools	'D' & 'E' pools	Year ended 31 Jan 10 'C' & 'A' pools	'D' & 'E' pools
Net asset value	92.9	93.6	96.0	94.5
Total distributions paid since launch	5.0	2.5	-	-
Total return	97.9	96.1	96.0	94.5

The Ordinary shares now have negligible value.

Dividend history

'C' Shares

Year end	Date paid	Pence per share
Final 2010	30 July 2010	5.0

'D' Shares

Year end	Date paid	Pence per share
Interim 2011	25 November 2010	2.5

Ordinary Shares

	Pence per share
Total dividends paid	90.417

DIRECTORS

Hugh Gillespie (Chairman) is non-executive chairman of a number of Downing VCTs and a non-executive director of Burgess Group plc. He was formerly a director of Hill Samuel Bank Limited and non-executive director or chairman of a number of public companies.

Dennis Hale was, until recently, 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 a number of Downing VCTs.

Michael Robinson has over 25 years' experience in the private equity industry. He spent 25 years at 3i plc, where he was latterly a director managing a large portfolio of equity investments. He qualified as a chartered accountant with Deloitte Haskins & Sells in 1979 and is also a non-executive director of Hedgelane Limited and a pension trustee of its defined benefit pension plan, The Consortium CARE Pension Scheme. He was appointed on 30 September 2010.

All the Directors are non-executive.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present my report of the year ended 31 January 2011. It has been a busy year for the Company, with the completion of the 'D' Share fundraising and significant progress made in investing funds in both the 'C' Share and 'D' Share pools.

'C' Share pool

Portfolio activity

The 'C' Share pool made six VCT qualifying investments during the year at a cost of £1.2 million. Several of the new investments were in the pub and hotel/leisure sectors although the largest investment was a renewable energy project which has helped to diversify the portfolio.

At the year end, approximately 41% of the pool's funds were invested in VCT qualifying investments. A further £0.6 million was invested in non-qualifying investments.

The investment valuations have been reviewed by the Board at the year end. The Board concluded that it was appropriate to hold all the 'C' Share pool investments at values equivalent to original cost as none had shown any significant deviation from plan.

Net asset value, results and dividends

At 31 January 2011 the 'C' Share NAV stood at 92.8p and the 'A' Share NAV at 0.1p, giving a combined NAV of 92.9p. Total Return (NAV plus cumulative dividends to date) was 97.9p for one combined 'C' and one 'A' Share.

The total return on ordinary activities for the 'C' Shares for the year was £139,000 relates wholly to revenue items.

In accordance with its policy, the Board is proposing to pay a dividend of 5p per 'C' Share on 15 July 2011 to Shareholders on the register at the close of business on 17 June 2011.

'D' Share pool

In March 2010 the Offer for subscription for the 'D' Share pool closed being fully subscribed and having raised net proceeds of £9.45 million.

Portfolio activity

The 'D' Share pool made five VCT qualifying investments during the year at a total cost of £1.1 million. The share pool also took advantage of a number of opportunities to make non-qualifying investments which help the fund to reduce the "cash drag" which can arise when running costs exceed the level of income that can be produced from holding a substantial proportion of the pool's funds as cash deposits at the very low interest rates currently available. It also made thirteen non-qualifying investments, which were made at a total cost of £5.7 million, during the year.

As with the 'C' Share pool, no investments have experienced any significant deviations from plan to date and the Directors have concluded that they should all be valued at amounts equal to original cost at the year end.

Net asset value, results and dividends

At 31 January 2011 the 'D' Share NAV stood at 93.5p and the 'E' Share NAV at 0.1p, giving a combined NAV of 93.6p. Total Return (NAV plus cumulative dividends to date) was 96.1p for one combined 'D' and one 'E' Share, an increase of 1.6% over the initial NAV (net of issue costs).

The total return on ordinary activities for the 'D' Shares for the year was £154,000 relating wholly to revenue items.

In accordance with its stated policy, the Board is proposing to pay a dividend of 2.5p per 'D' Share on 15 July 2011 to Shareholders on the register at the close of business on 17 June 2011.

Ordinary Share pool

The Ordinary Shares originally issued by the Company in 2004/05 still exist, but the task of returning funds to these Shareholders is considered to be complete and no further dividends are expected to be paid to Ordinary Shareholders. Steps will be taken to wind up this share class in due course.

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 year for cancellation.

The Board expects to undertake any buybacks in respect of the 'C' Shares/'A' Shares and 'D' Shares/'E' Shares at approximately a 10% discount to the latest published NAV of those share classes, subject to regulatory restrictions and other factors such as availability of liquid funds. No buybacks in respect of the Ordinary Shares will be undertaken.

Annual General Meeting

The Company's sixth Annual General Meeting will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 11:00 a.m. on 7 July 2011.

One item of special business is proposed in respect of the authority to make market purchases of shares.

CHAIRMAN'S STATEMENT

Outlook

In spite of exhortations from the Government and the press, the banks continue to be slow to lend to small businesses. This gives the Manager the chance to build the VCT-qualifying portfolio of both the 'C' Share and the 'D' Share pools in order to meet their respective deadlines, the first of which is January 2012. We hope to see a flow of good quality opportunities.

Hugh Gillespie
Chairman

27 May 2011

INVESTMENT MANAGER'S REPORT

Introduction

The Company has three share pools, each at different phases of their investment cycles. The 'C' Share pool currently holds investments in 17 companies and the 'D' Share pool completed its fundraising and started building its investment portfolio in 2011. The Ordinary Share pool has effectively realised all of its investments and only has one small investment remaining.

Investment activity

'C' Share pool

In its first full year of operation the 'C' Share pool invested £2.5m across 11 companies and disposed of four non-qualifying investments at cost of £0.9m, bringing the total invested in the pool since September 2009 to £5.9m. During the year the Company invested £0.9m in Future Biogas (SF) Limited, a 1.4MWh self-contained biogas plant in Norfolk, £0.4m in Urban and Country Leisure Limited, a period restaurant and bar located in the centre of Warwick and £0.3m in Quadrate Catering Limited which is due to open a Marco Pierre White restaurant in "The Cube", a large mixed use building in the centre of Birmingham. The portfolio held 41% of qualifying investments at year end and is making good progress towards the 70% threshold. The 'C' Share pool generated £367,000 of income and £139,000 of net profit in the year.

D Share pool

The 'D' Share pool closed in March 2010, having raised £10.0m gross. During the year the Company made investments of £7.5m and disposals of £0.1m. At year end the investment portfolio was valued at £7.4m with £2.0m of cash which will be used to fund future investments in 2011/2012. The Company invested £2.0m in Aminghurst Limited, a property development company which is developing a large plot of land in East Portlemouth, Devon, £1.0m in Woolmer Properties Limited which is refurbishing a large family house in Chelsea and £0.6m in Fenkle Street LLP which owns a large freehold office building in Newcastle. The portfolio held 12% of qualifying investments at year end which is expected to increase in 2011 as we make progress towards the 70% threshold. The 'D' Share pool generated £470,000 of income and £154,000 of net profit in the year.

Portfolio valuation

The 'C' Share portfolio was valued at the year end and there were no movements in value. The 'D' Share portfolio has only recently been invested and is currently valued at cost.

Outlook

The general economic conditions in the UK are expected to see a modest improvement in 2011 and the continued lack of traditional funding is likely to mean that the Company will continue to have ample opportunities to invest in good quality businesses in the coming year. The Company will continue to expand its current 'D' Share portfolio to provide the core of its income and growth and focus on finding qualifying investments for the 'C' Share pool as we begin exiting from some of the non-qualifying investments. The Company is focused on achieving its target returns through these challenging economic times and will seek to return funds to 'C' Share investors in 2013-2014 and 'D' Share investors in 2014-2015.

Downing Managers 2 Limited

27 May 2011

REVIEW OF INVESTMENTS

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 January 2011:

'C' Share pool	Cost £000	Valuation £000	Valuation movement in year £000	% of portfolio
Bijou Wedding Venues Limited**	1,215	1,215	-	18.4%
Hoole Hall Country Club Holdings Limited*	1,206	1,206	-	18.3%
Future Biogas (SF) Limited**	930	930	-	14.1%
The Thames Club Limited*	500	500	-	7.6%
East Dulwich Tavern Limited	344	344	-	5.2%
Westow House Limited	304	304	-	4.6%
Quadrate Catering Limited**	290	290	-	4.3%
The 3D Pub Co Limited	267	267	-	4.0%
Quadrate Spa Limited**	258	258	-	3.9%
Honeycombe Pubs VCT plc*	175	175	-	2.7%
Atlantic Dogstar Limited	162	162	-	2.5%
Chapel Street Hotel (2008) LLP*	63	63	-	1.0%
Chapel Street Food and Beverage Limited	50	50	-	0.8%
Chapel Street Services Limited	50	50	-	0.8%
Vermont Developments Limited*	25	25	-	0.4%
Commercial Street Hotel Limited*	12	12	-	0.2%
Chapel Street Hotel Limited*	3	3	-	0.0%
	5,854	5,854	-	88.8%
Cash at bank and in hand		741		11.2%
Total investments		6,595		100.0%

*Non qualifying investment
**Partially qualifying investment

REVIEW OF INVESTMENTS (continued)

'D' Share pool	Cost £000	Valuation £000	Valuation movement in year £000	% of portfolio
Aminghurst Limited*	2,000	2,000	-	21.3%
Woolmer Properties Limited*	994	994	-	10.6%
Fenkle Street LLP*	635	635	-	6.8%
Edison House Limited	595	595	-	6.3%
Lullingstone Limited	577	577	-	6.1%
Camandale Limited**	531	531	-	5.6%
Quadrate Catering Limited**	436	436	-	4.7%
Quadrate Spa Limited**	386	386	-	4.1%
Looe Road Student Accommodation	301	301	-	3.2%
Retallack Surfpods Limited*	250	250	-	2.7%
Slopingtactic Limited**	196	196	-	2.1%
The Kirkhouse Limited*	175	175	-	1.9%
Ridgeway Pub Company Limited	137	137	-	1.5%
Hoi Polloi Pub Co Limited*	100	100	-	1.1%
Fenkle Street Developments LLP*	32	32	-	0.3%
Commercial Street Hotel Limited	18	18	-	0.2%
	7,363	7,363	-	78.5%
Cash at bank and in hand		2,019		21.5%
Total investments		9,382		100.0%

Ordinary Share pool	Cost £	Valuation £	Valuation movement in year £	% of portfolio
Tancred Trading Limited	5	5	-	100%
Cash at bank and in hand		-		-
Total investments		5		100%

*Non qualifying investment
**Partially qualifying investment

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out on pages 8 to 16.

REVIEW OF INVESTMENTS (continued)

Summary of investment movements

Additions

	Cost £'000
'C' Share pool	
Future Biogas (SF) Limited**	930
Urban and Country Leisure Limited*	385
Quadrate Catering Limited**	290
The 3D Pub Co Limited	267
Quadrate Spa Limited**	258
Bijou Wedding Venues Limited**	200
Chapel Street Food and Beverage Limited	50
Chapel Street Services Limited	50
Commercial Street Hotel Limited*	12
Quadrate Hotel Limited*	12
Chapel Street Hotel Limited*	3
Total 'C' Share pool	2,457
'D' Share pool	
Aminghurst Limited*	2,000
Woolmer Properties Limited*	994
Fenkle Street LLP*	635
Edison House Limited*	595
Lullingstone Limited*	577
Camandale Limited**	531
Quadrate Catering Limited**	436
Quadrate Spa Limited**	386
Looe Road Student Accommodation*	301
Retallack Surfpods Limited*	250
Slopingtactic Limited**	196
The Kirkhouse Limited*	175
Ridgeway Pub Company Limited**	155
Hoi Polloi Pub Co Limited*	100
Towson Trading Limited*	100
Fenkle Street Developments LLP*	32
Commercial Street Hotel Limited*	18
Quadrate hotel Limited*	18
Total 'D' Share pool	7,499
Total	9,956

Disposals

	Cost £'000	MV at 01/02/10 £000	Disposal proceeds £'000	(Loss) / gain against cost £'000	Total realised (loss)/ gain during the year £'000
'C' Share pool					
Urban and Country Leisure Limited*	385	n/a	385	-	-
Lilliput Development LLP*	328	328	328	-	-
Uno Developments Limited*	182	182	182	-	-
Quadrate Hotel Limited*	12	n/a	12	-	-
	907	510	907	-	-
'D' Share pool					
Towson Trading Limited*	100	n/a	100	-	-
Quadrate hotel Limited*	18	n/a	18	-	-
Ridgeway Pub Company Limited**	18	n/a	18	-	-
	136	n/a	136	-	-
	1,043	510	1,043	-	-

* Non qualifying investment
** Partially qualifying investment

REVIEW OF INVESTMENTS (continued)

Further details of the ten largest investments held by the 'C' Share pool:

Bijou Wedding Venues Limited

Cost:	£1,215,000	Valuation at 31/01/11:	£1,215,000
Date of first investment:	Sept 2009	Valuation at 30/01/10:	£1,015,000
		Valuation method:	Net assets
Investment comprises:			
Ordinary Shares:	£200,000	Proportion of equity held:	14%
Loan Stock:	£1,015,000	Proportion of loan stock held:	29%
Summary financial information from statutory accounts to 31 December 2009:		Turnover:	n/a
		Operating loss:	n/a
		Net assets:	£1,084,339

Bijou Wedding Venues Limited purchased Botleys Mansion, located in Chertsey, Surrey, from the administrator for £3.55m in September 2009. It is a Grade 2 listed building which was refurbished in 2010. The company operates as a dedicated wedding venue.

www.bijouweddingvenues.co.uk

Hoole Hall Country Club Holdings Limited

Cost:	£1,206,000	Valuation at 31/01/11:	£1,206,250
Date of first investment:	Dec 2008	Valuation at 30/01/10:	£1,206,250
		Valuation method:	Net assets
Investment comprises:			
Ordinary Shares:	£-	Proportion of equity held:	-
Loan Stock:	£1,206,250	Proportion of loan stock held:	16%
Summary financial information from statutory accounts to 31 March 2010:		Turnover:	£2,923,359
		Operating loss:	£1,757,862
		Net liabilities:	£4,732,857

Hoole Hall Country Club is set on a ten acre site on the edge of Hoole, near Chester. It comprises a Victorian mansion, a large conservatory and a modern extension. The property has undergone an extensive refurbishment and consists of a conference and banqueting centre and a Marco Pierre White bar and grill.

www.theclubandspachester.co.uk

Future Biogas (SF) Limited

Cost:	£930,000	Valuation at 31/01/11:	£930,000
Date of first investment:	May 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Price of recent investment
Investment comprises:		Proportion of equity held:	11%
Ordinary Shares:	£174,000	Proportion of loan stock held:	25%
Loan Stock:	£756,000		
Summary financial information from statutory accounts:			None filed

Future Biogas (SF) Limited is developing a 1.4MWh self-contained biogas plant in Norfolk. The company farms its own maize on nearby land which is fed into the biogas plant. Through an Anaerobic Digestion process biogas is produced which will be used to generate electricity which is then sold on. Under the Feed-In Tariffs introduced in April 2010 by the UK Government for small scale renewable energy operations, the minimum payment for electricity produced from renewable sources is fixed for 20 years with an annual increase in line with the Retail Prices Index.

www.futurebiogas.com

REVIEW OF INVESTMENTS (continued)

Further details of the ten largest investments held by the 'C' Share pool:

The Thames Club Limited

Cost:	£499,900	Valuation at 31/01/11:	£499,900
Date of first investment:	Jun 2009	Valuation at 30/01/10:	£500,000
		Valuation method:	Net assets
Investment comprises:			
Ordinary Shares:	£100	Proportion of equity held:	5%
Loan Stock:	£499,900	Proportion of loan stock held:	13%
Summary financial information from statutory accounts to 31 December 2009:		Turnover:	£1,339,727
		Operating loss:	£274,957
		Net assets:	£1,460,364

The Thames Club is a 33,000 sq ft health and fitness club located in Staines. In 2010 the club underwent a £2m refurbishment followed by a subsequent re-launch, and now has over 2,500 members.

www.thethamesclub.co.uk

East Dulwich Tavern Limited

Cost:	£344,250	Valuation at 31/01/11:	£344,250
Date of first investment:	Sept 2009	Valuation at 30/01/10:	£344,250
		Valuation method:	Net assets
Investment comprises:			
Ordinary Shares:	£103,275	Proportion of equity held:	12%
Loan Stock:	£240,975	Proportion of loan stock held:	30%
Summary financial information from statutory accounts:			None filed

The East Dulwich Tavern is a public house in south London. The company purchased the freehold interest from Punch Taverns and the leasehold interest from the operator (who is the investment partner) in 2009. The pub recently upgraded their kitchen in order to provide a greater food offering.

www.antic-ltd.com/edt

Westow House Limited

Cost:	£303,750	Valuation at 31/01/11:	£303,750
Date of first investment:	Sept 2009	Valuation at 30/01/10:	£303,750
		Valuation method:	Net assets
Investment comprises:			
Ordinary Shares:	£91,125	Proportion of equity held:	12%
Loan Stock:	£212,625	Proportion of loan stock held:	30%
Summary financial information from statutory accounts:			None filed

Westow House Limited is a public house in south London. The company purchased the freehold interest from Punch Taverns and the leasehold interest from the operator (who is the investment partner) in 2009. The company is in the process of moving the kitchen from the basement to the ground floor which will allow an improved food offering to be provided.

www.antic-ltd.com/westowhouse

REVIEW OF INVESTMENTS (continued)

Further details of the ten largest investments held by the 'C' Share pool:

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk

Cost:	£290,440	Valuation at 31/01/11:	£290,440
Date of first investment:	Aug 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£44,520	Proportion of equity held:	3%
Loan Stock:	£245,920	Proportion of loan stock held:	8%
Summary financial information from statutory accounts:			None filed

Quadrate Catering Limited is currently developing the top floor of a canal-side mixed-use building in Birmingham known as "The Cube" which will open as a Marco Pierre White branded restaurant in autumn 2011.

The 3D Pub Co Limited

www.thejollyfarmersreigate.co.uk

Cost:	£266,667	Valuation at 31/01/11:	£266,667
Date of first investment:	Sept 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£80,000	Proportion of equity held:	7%
Loan Stock:	£186,667	Proportion of loan stock held:	14%
Summary financial information from statutory accounts:			None filed

3D Pub Co Limited owns two pubs based in Surrey, The Jolly Farmer in Reigate and The Fox Revived in Horley. The company backed an experienced management team with strong front and back-of-house experience. Management has been operating The Jolly Farmer for five years and The Fox Revived since September 2009. The pubs, which are prominent premises in an affluent part of the country, are operated as food-led destination venues.

Quadrate Spa Limited

www.theclubandspabirmingham.co.uk

Cost:	£257,560	Valuation at 31/01/11:	£257,560
Date of first investment:	Aug 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£39,480	Proportion of equity held:	8%
Loan Stock:	£218,080	Proportion of loan stock held:	8%
Summary financial information from statutory accounts:			None filed

Quadrate Spa Limited is currently developing 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 is due to open for trading in the autumn of 2011.

Honeycombe Pubs VCT Limited

Cost:	£175,002	Valuation at 31/01/11:	£175,000
Date of first investment:	Jul 2009	Valuation at 30/01/10:	£175,000
		Valuation method:	Net Assets
Investment comprises:			
Ordinary Shares:	£2	Proportion of equity held:	17%
Loan Stock:	£175,000	Proportion of loan stock held:	50%
Summary financial information from statutory accounts to 30 April 2010		Turnover:	n/a
		Operating loss	n/a
		Net liabilities:	£426,735

Honeycombe Pubs VCT Limited owns the freehold to a pub based in Burnley, Lancashire. The pub is currently leased to the manager.

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

REVIEW OF INVESTMENTS (continued)

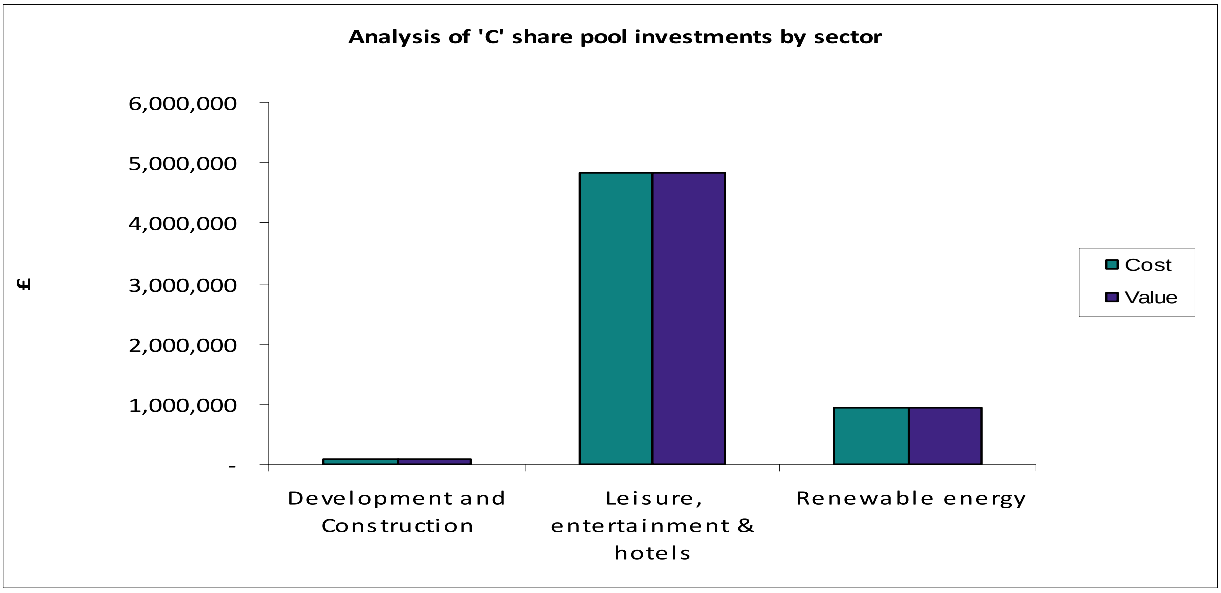
Further details of the ten largest investments held by the 'C' Share pool:

Summary of loan stock interest income

Loan stock interest recognised in year from the ten largest investments held by the 'C' Share pool	**£'000**
Bijou Wedding Venues Limited	24
Hoole Hall Country Club Holdings Limited	104
Future Biogas (SF) Limited	25
The Thames Club Limited	5
East Dulwich Tavern Limited	29
Westow House Limited	26
Quadrate Catering Limited	3
The 3D Pub Co Limited	7
Quadrate Spa Limited	3
Honeycombe Pubs VCT plc	14
	240
Receivable from other investments	121
	361

Analysis of investments by commercial sector

The split of the 'C' Share pool's venture capital investment portfolio by commercial sector (by cost and value at 31 January 2011) is as follows:



Analysis of investments by investment type

The following shows the split of the 'C' Share pool's investment portfolio by type of instrument held at 31 January 2011:

	Target Portfolio split at Jan 2011	**Actual Portfolio split 31 Jan 2011**
Qualifying investments		
Loans to qualifying companies	50%	28%
Ordinary shares in qualifying companies	25%	13%
Non-qualifying investments (including cash at bank)	25%	59%
	100%	100%

REVIEW OF INVESTMENTS (continued)

Further details of the ten largest investments held by the 'D' Share pool:

Aminghurst Limited

www.gararock.co.uk

Cost:	£2,000,000	Valuation at 31/01/11:	£2,000,000
Date of first investment:	May 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£-	Proportion of equity held:	-%
Loan Stock:	£2,000,000	Proportion of loan stock held:	28%
Summary financial information from statutory accounts to 30 November 2009:		Turnover:	n/a
		Operating profit:	n/a
		Net assets:	£223,130

Aminghurst is a property development company owning a site in East Portlemouth in South Devon. The company is working with Coastal Constructor Ltd (formerly Richstone Contracting) to build a hotel/apartment project which will be completed in 2011.

Woolmer Properties Limited

Cost:	£994,363	Valuation at 31/01/11:	£994,363
Date of first investment:	Mar 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£-	Proportion of equity held:	-%
Loan Stock:	£994,363	Proportion of loan stock held:	32%
Summary financial information from statutory accounts:			None filed

Woolmer Properties Limited is currently renovating and extending a large family house in Chelsea, London, which is expected to complete and be sold by the end of 2011. The Company's loan is secured by a first charge over the freehold of the property.

Fenkle Street LLP

Cost:	£635,000	Valuation at 31/01/11:	£635,000
Date of first investment:	Jun 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£-	Proportion of equity held:	-%
Loan Stock:	£635,000	Proportion of loan stock held:	12%
Summary financial information from statutory accounts:			None filed

Fenkle Street LLP was created to fund the purchase of a property in central Newcastle, which qualifies under the Business Premises Renovation Allowance (BPRA) scheme. The company purchased the freehold office building in central Newcastle for £7m and has obtained planning permission for a 148 bedroom hotel within the building and has agreed a Hotel Indigo franchise with InterContinental Hotels Group.

REVIEW OF INVESTMENTS (continued)

Further details of the ten largest investments held by the 'D' Share pool:

Edison House Limited

Cost:	£595,500	Valuation at 31/01/11:	£595,500
Date of first investment:	May 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£-	Proportion of equity held:	-%
Loan Stock:	£595,500	Proportion of loan stock held:	25%
Summary financial information from statutory accounts:			None filed

Edison House Limited acquired a six storey office block situated between Edgware Road and Marylebone in May 2010. The building was acquired for £4.5m and is coming to the end of an extensive refurbishment. Completion of the build is expected in the first half of 2011.

Lullingstone Limited

Cost:	£576,633	Valuation at 31/01/11:	£576,633
Date of first investment:	Apr 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£-	Proportion of equity held:	-%
Loan Stock:	£576,633	Proportion of loan stock held:	25%
Summary financial information from statutory accounts:			None filed

Lullingstone Limited is currently renovating and extending a mews house in Knightsbridge, London, which is expected to complete in 2011. The Company's loan is secured by a first charge over the freehold property.

Camandale Limited

Cost:	£531,250	Valuation at 31/01/11:	£531,250
Date of first investment:	Aug 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£102,000	Proportion of equity held:	5%
Loan Stock:	£429,250	Proportion of loan stock held:	15%
Summary financial information from statutory accounts:			None filed

Camandale is the holding company for two pub/restaurants in Kilmarnock, Scotland - The Riverbank and The Monkey Bar. The Riverbank was bought out of administration in August 2010 and the Monkey Bar was an existing asset within the operator's portfolio of pubs. The investment was made in August 2010.

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk

Cost:	£435,660	Valuation at 31/01/11:	£435,660
Date of first investment:	Aug 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£66,780	Proportion of equity held:	3%
Loan Stock:	£368,880	Proportion of loan stock held:	12%
Summary financial information from statutory accounts:			None filed

Quadrate Catering Limited is currently developing the top floor of a canal-side mixed-use building in Birmingham known as "The Cube" which will open as a Marco Pierre White branded restaurant in autumn 2011.

downing planned exit VCT 2

REVIEW OF INVESTMENTS (continued)

Further details of the ten largest investments held by the 'D' Share pool:

Quadrate Spa Limited

www.theclubandspabirmingham.co.uk

Cost:	£386,340	Valuation at 31/01/11:	£386,340
Date of first investment:	Aug 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£59,220	Proportion of equity held:	11%
Loan Stock:	£327,120	Proportion of loan stock held:	12%
Summary financial information from statutory accounts:			None filed

Quadrate Spa Limited is currently developing 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 is due to open for trading in the autumn of 2011.

Looe Road Student Accommodation

Cost:	£301,047	Valuation at 31/01/11:	£301,047
Date of first investment:	Mar 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£-	Proportion of equity held:	-%
Loan Stock:	£301,047	Proportion of loan stock held:	32%%
Summary financial information from statutory accounts:			None filed

Looe Road Student Accommodation is developing and building a new student apartment scheme in Exeter which will comprise 33 self contained apartment studios when complete. The property is expected to be finished in the first half of 2011.

Retallack Surfpods Limited

www.retallackresort.co.uk

Cost:	£250,000	Valuation at 31/01/11:	£250,000
Date of first investment:	Apr 2010	Valuation at 30/01/10:	n/a
		Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary Shares:	£-	Proportion of equity held:	-%
Loan Stock:	£250,000	Proportion of loan stock held:	25%
Summary financial information from statutory accounts:			None filed

Retallack Surfpods Limited is an investment into a scheme to develop letting apartments on an existing Cornish holiday park, Retallack Resort and Spa. The scheme comprises 24 one-bedroom lakeside apartments at the heart of the resort. The development will complete in early 2011, when the Company will fully exit the investment.

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.

downing planned exit VCT 2

REVIEW OF INVESTMENTS (continued)

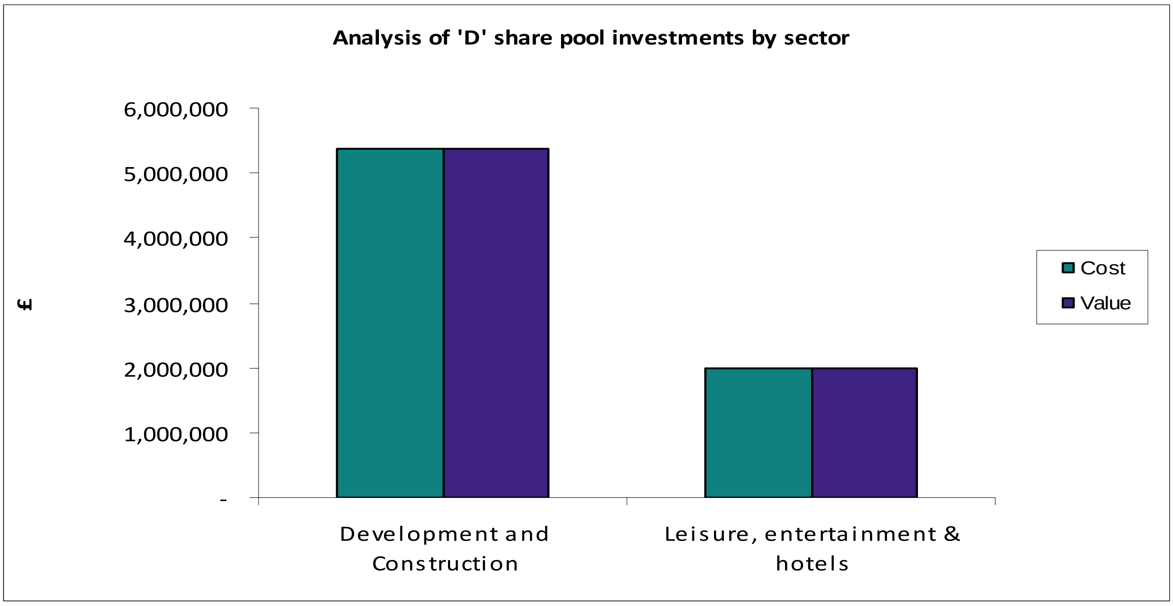
Further details of the ten largest investments held by the 'D' Share pool:

Summary of loan stock interest income

Loan stock interest recognised in year from the ten largest investments held by the 'D' Share pool	**£'000**
Aminghurst Limited	128
Woolmer Properties Limited	28
Fenkle Street LLP	-
Edison House Limited	-
Lullingstone Limited	16
Camandale Limited	23
Quadrate Catering Limited	5
Quadrate Spa Limited	4
Looe Road Student Accommodation	53
Retallack Surfpods Limited	30
	287
Receivable from other investments	150
	437

Analysis of investments by commercial sector

The split of the 'D' Share pool's venture capital investment portfolio by commercial sector (by cost and value at 31 January 2011) is as follows:



Analysis of investments by investment type

The following shows the split of the 'D' Share pool's investment portfolio by type of instrument held at 31 January 2011:

	Target Portfolio split at Jan 2011	**Actual Portfolio split 31 Jan 2011**
Qualifying investments		
Loans to qualifying companies	50%	8%
Ordinary shares in qualifying companies	25%	4%
Non-qualifying investments (including cash at bank)	25%	88%
	100%	100%

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 January 2011.

Principal activity and status

The Directors have received provisional approval to act as a Venture Capital Trust from HM Revenue and Customs and have continued to meet the standards set out by the Revenue.

The Company revoked its status as an investment company on 21 October 2008 in order to pay a capital dividend, but the Directors consider that the Company has conducted its affairs in a manner to enable it to comply with Part 6 of the Income Tax Act 2007.

The Company has no employees (other than the Directors). Downing Managers 2 Limited, the wholly owned subsidiary, has two executive directors and five employees.

Business review

The Company's business and developments during the year are reviewed in the Chairman's Statement, Investment Manager's Report and Review of Investments.

Share capital

Pursuant to the Offers for Subscription contained in the Prospectus dated 6 November 2009, the Company issued 6.3 million 'D' Shares and 6.3 million 'E' Shares and raised net proceeds of £5.9 million during the year ended 31 January 2011.

The Company has six classes of shares, being Ordinary Shares of 1p each, 'C' Shares of 0.1p each, 'A' Shares of 0.1p each, 'D' Shares of 0.1p each, 'E' Shares of 0.1p each and Deferred Shares of 0.1p each. Assets attributable to the Ordinary Shares ('Ordinary Share pool') and the 'C' Shares and 'A' Shares ("'C' Share pool") and the 'D' Shares and 'E' Shares ("'D' Share pool") are maintained as separate investment pools.

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 year for cancellation.

At the last Annual General Meeting on 27 July 2010, Directors were granted the authority to make market purchases of up to 14.9% of the issued share capital of the Company. A resolution to renew this authority will be put to Shareholders at the next Annual General Meeting.

Results and dividends

	£'000	Pence per share
Return on ordinary activities after tax for the year ended 31 January 2011 split as:		
Ordinary shares	-	-
'C' Shares	139	1.9
'D' Shares	154	1.7
	293	3.6
Distributions paid in respect of current year		
30 July 2010 ('C' Shares)	359	5.0
25 November 2010 ('D' Shares)	250	2.5
	609	7.5

Your Board is proposing to pay a final revenue dividend of 5p per 'C' Share payable on 15 July 2011 and 2.5p per 'D' Share payable on 15 July 2011 to Shareholders on the register at 17 June 2011.

Performance incentive fees

Ordinary Share pool

The performance incentive scheme is in no longer in place in respect of the Ordinary pool.

'C' Share pool and 'D' Share pool

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.

No performance incentive fee will be payable until Shareholders:

i) receive proceeds, by way of dividends/ distributions/ share buybacks ("Total Proceeds"), of at least 100p per £1 invested; and
ii) achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

Subject to these conditions being met Total Proceeds will be distributed as follows:

Shareholders	97% of the first 100p of proceeds per £1 invested and 80% thereafter
Management	3% of the first 100p of proceeds and 20% thereafter

If the above distribution would result in Shareholders receiving less than 100p per £1 invested or lower than a 7% compound return, the return to the Management Team will be reduced until Shareholders receive at least 100p per £1 invested and a 7% compound return. Management's share of the Total Proceeds will be subject to a cap at 1.25% of net assets per share pool per annum and will only be payable if the hurdle is achieved.

REPORT OF THE DIRECTORS (continued)

Performance incentive fees (continued)

The maximum performance incentive is limited to an amount equivalent to 1.25% of net assets per annum per share pool (the "Cap"). If, in any accounting period, the performance incentive payable is less than the Cap then the shortfall shall be aggregated to the Cap in respect of the following accounting period and so on until fully utilised.

As the targets have not been met for either share pool, no fee is due to be paid for the year ended 31 January 2011. It will be recalculated for the year ended 31 January 2012, and annually thereafter, following approval of the audited accounts by the Shareholders.

Directors

The Directors of the Company during the year and their beneficial interests in the issued shares of Downing Planned Exit VCT 2 plc or Downing Planned Exit VCT 3 plc at 31 January 2010 and 31 January 2011 and at the date of this report were as follows:

		No. of shares		
Directors		**At the date of this report**	**31 Jan 2011**	**31 Jan 2010**
Downing Planned Exit VCT 2 plc				
Hugh Gillespie	Ords	-	-	-
	'C' Shares	5,250	5,250	5,250
	'A' Shares	5,250	5,250	5,250
Dennis Hale	Ords	10,450	10,450	10,450
	'C' Shares	7,385	7,385	7,385
	'A' Shares	7,385	7,385	7,385
	'D' Shares	13,600	8,400	8,400
	'E' Shares	13,600	8,400	8,400
Michael Robinson		-	-	n/a
Chris Kay	Ords	n/a	n/a	12,510
	'C' Shares	n/a	n/a	11,550
	'A' Shares	n/a	n/a	11,550
Downing Planned Exit VCT 3 plc				
Hugh Gillespie	Ords	5,000	5,000	5,000
	'D' Shares	5,237	5,237	5,237
	'E' Shares	5,237	5,237	5,237
Dennis Hale		-	-	-
Chris Kay		n/a	n/a	-
Michael Robinson		-	-	n/a

Downing Planned Exit VCT 2 plc and Downing Planned Exit VCT 3 plc were launched under one prospectus with investors being allotted shares in one Company or the other. The Directors, therefore, feel it is appropriate to present their holdings in both companies.

Dennis Hale retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election. The remainder of the Board feel that he has made valuable contributions during the term of his appointment and remains committed to his role. The Board therefore recommends that Shareholders re-elect him at the forthcoming Annual General Meeting. Michael Robinson also offers himself for re-election at the first AGM following his appointment.

The terms of appointment of Hugh Gillespie and Dennis Hale are detailed in a letter of appointment dated 19 January 2005. The terms of appointment of Michael Robinson are detailed in a letter of appointment dated 30 September 2010. These agreements are for a period of three years and thereafter are terminable on 3 months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires. Chris Kay resigned as a Director on 30 September 2010.

Insurance cover

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

Investment Policy

Qualifying investments

Qualifying investments comprise investments in UK trading companies which own substantial assets or have contracts over which the VCT takes a charge to provide security on its investments.

Non-qualifying investments

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

- Property loans secured on property or other assets and/or
- Fixed income securities.

Property loans will be secured on property or other assets. Fixed income securities will consist mainly of bonds issued by the UK Government, major companies and institutions and will have credit ratings of not less than A minus/A3.

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

Qualifying Investments	
Loans to Qualifying Companies	50%
Ordinary shares in Qualifying Companies	25%
Non-Qualifying Investments	25%
	100%

REPORT OF THE DIRECTORS (continued)

Investment Policy (continued)

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 as follows:

1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007);

2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital);

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;

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; and

7. A maximum unit size of £1 million in each VCT-qualifying investment (per tax year).

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 funds raised under its offers for subscription less the total amount paid for repurchasing its own shares, currently equal to £5.0 million. There are no plans to utilise this ability at the current time.

Investment and administration manager

Downing Managers 2 Limited ("DM2") provides investment management services to the Company. DM2 is a wholly owned subsidiary of the Company and is paid 1% of Ordinary Share net assets per annum and 1.35% of the 'C' and 'D' Share net assets per annum. Additionally, DM2 provides administration services to the Company for a fee of £47,500 (plus RPI adjustment) per annum.

The Board is satisfied with DM2's approach and procedures in providing investment management services to the Company. The Directors have therefore concluded that the continuing appointment of DM2 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 2.5% of net assets for the Ordinary Share pool, and 2.9% of net assets for the 'C' and 'D' Share pools, of the Company plus cumulative distributions. Any excess costs over this cap are met by DM2 through a reduction in fees.

VCT status

The Company has retained PricewaterhouseCoopers LLP ("PwC") to advise it on compliance with VCT requirements, including evaluation of investment opportunities and regular review of the portfolio. Although PwC 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 above. Compliance with the main VCT Regulations for the year ended 31 January 2011 is summarised as follows:

1. The Company holds at least 70% of its investments in qualifying companies	99.5%
2. At least 30% of the Company's qualifying investments in "eligible shares"	100.0%
3. At least 10% of each investment held in "eligible shares"	Complied
4. No investment constitutes more than 15% of the Company's portfolio	Complied
5. Income is derived wholly or mainly from shares and securities	98.2%
6. No more than 15% of the income from shares and securities is retained	13.7%
7. A maximum unit size of £1 million in each VCT-qualifying investment (per tax year).	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 had trade creditors of £nil at the year end.

REPORT OF THE DIRECTORS (continued)

Environmental and social policy

As a VCT with all of its executive and administrative activities delegated to third parties, the Company does not have a policy on either environmental or social and community issues.

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 Shareholder Information page).

In addition, the Board considers the Company's performance in relation to other VCTs.

Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, liquidity and marketability risks, are summarised within note 18 to the financial statements.

In addition to these risks, the Company, as a fully listed company on the London Stock Exchange 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 Services Authority and the Companies Act, 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 Managers which monitor the compliance of these risks, and place reliance on the Managers to give updates in the intervening periods. These policies have remained unchanged since the beginning of the financial period.

Substantial interests

As at 31 January 2011 and the date of this report, the Company had not been notified of any beneficial interest exceeding 3 per cent of the issued Ordinary Share capital, 'C' Share capital or 'D' Share capital.

Auditors

A resolution to re-appoint PKF (UK) LLP as Auditors to the Company will be proposed at the forthcoming AGM.

Annual General Meeting

The Annual General Meeting will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 11:00 a.m. on 7 July 2011. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Report of the Directors, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable 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 and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements, and the Directors' Remuneration Report, comply with the requirements of 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.

REPORT OF THE DIRECTORS (continued)

Statement of Directors' responsibilities (continued)

The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company included on the Manager's websites. 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 are listed on page 1, confirms that, to the best of each person's knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and result of the Company; and

- the management report contained within the Report of the Directors, Chairman's Statement, Investment Manager's Report and the 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.

Electronic publication

The financial statements are published on www.downing.co.uk.

Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's Combined Code on Corporate Governance June 2008 (www.frc.org.uk) is shown on pages 24 to 26.

Statement as to disclosure of information to Auditors

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 Auditors are 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 Auditors.

By order of the Board

G Whitehouse

Grant Whitehouse
Secretary
10 Lower Grosvenor Place
London
SW1W 0EN

27 May 2011

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Section 420 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 7 July 2011.

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 Auditors' Report on page 27.

Directors' remuneration policy

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 has entered into a consultancy agreement for a fixed term of three years from the date of their appointment and thereafter on a three month rolling notice.

Loan notes

The Directors of the Company and members of the Investment Management Team subscribed for loan notes upon which interest is payable at a rate of 4% per annum. The interest payable was as follows:

	Interest received 2011 £	Interest received 2010 £	Proportion of loan notes held
Hugh Gillespie	n/a	10	2.5%
Dennis Hale	n/a	10	2.5%
Chris Kay	n/a	40	10.0%
Investment Management Team	n/a	332	85.0%
	-	392	100.0%

The loan notes were redeemed during the year ended 31 January 2010.

Performance incentive fees

No performance incentive fees were due in respect of the year ended 31 January 2011.

Directors' remuneration (audited)

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

	Current annual fee £	Year ended 31/01/11 £	Year ended 31/01/10 £
Hugh Gillespie	9,000	9,000	9,260
Dennis Hale	7,500	7,500	7,760
Chris Kay	n/a	5,000	7,760
Michael Robinson	7,500	2,500	n/a
	24,000	24,000	24,780

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.

DIRECTORS' REMUNERATION REPORT (continued)

Insurance cover

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

Performance graph

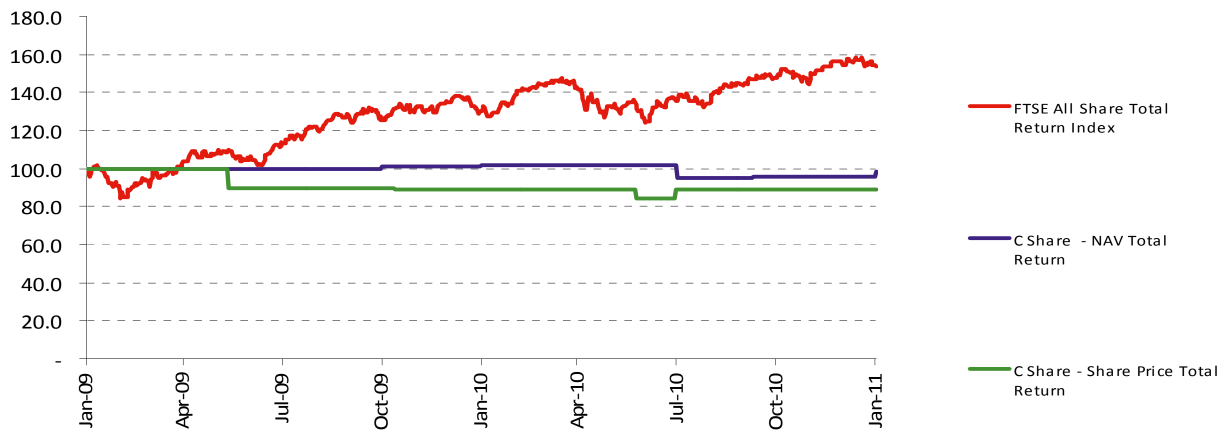
The chart below represents the Ordinary Share pool's, 'C' Share pool's and 'D' Share pool's performance over the period since shares were first listed on the London Stock Exchange and compares the Total Return of the Company (Net Asset Value plus dividends) to a rebased FTSE All-Share Index including dividends reinvested. The FTSE All-Share 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 February 2005, the launch date.

By order of the Board

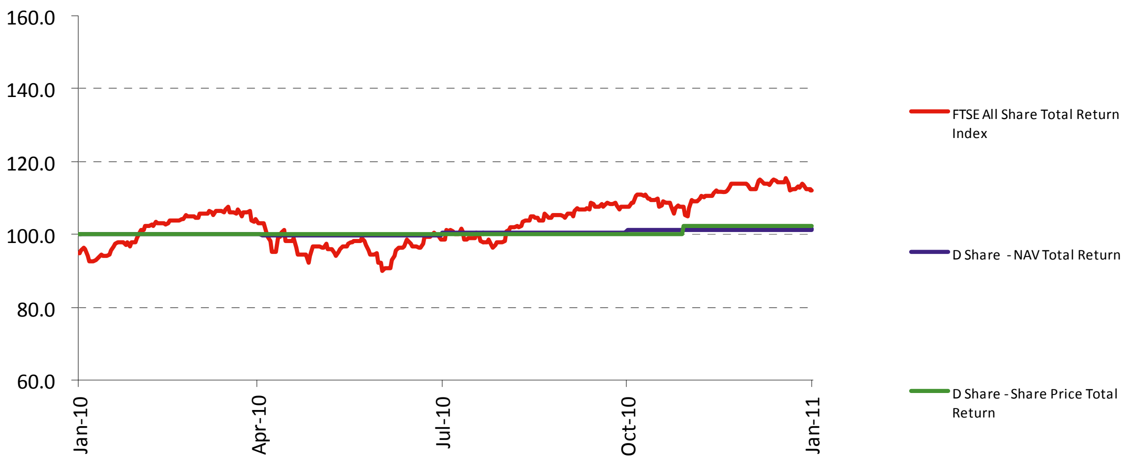
Grant Whitehouse
Secretary
10 Lower Grosvenor Place
London
SW1W 0EN

27 May 2011

Downing Planned Exit VCT 2 plc
C Share performance chart



Downing Planned Exit VCT 2 plc
D Share performance chart



CORPORATE GOVERNANCE

The Directors support the relevant principles of the Combined Code issued in June 2008, being the principles of good governance and the code of best practice, as set out in Section 1 of the Combined Code annexed to the Listing Rules of the FSA.

The Board

The Company has a Board comprising three non-executive Directors. The Chairman and senior Director is Hugh Gillespie. Biographical details of all Board members (including significant other commitments of the Chairman) are shown on page 2.

Directors are subject to re-election at the first AGM after their appointment and by rotation thereafter. In accordance with the Combined Code, Dennis Hale and Michael Robinson are offering 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 reviews, periodically, the terms of engagement (including investment managers and administrators) and the performance of all third party advisers. The Board has a formal schedule of matters specifically reserved for its decision.

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

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

As the Company has a small Board of non-executive Directors, all three Directors sit on all Committees. The Chairman of each Committee is Hugh Gillespie. The Audit Committee 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 17.

Audit Committee

The Audit Committee is responsible for reviewing the half yearly and annual accounts before they are presented to the Board, the terms of appointment of the auditors, together with their remuneration, as well as a full review of the effectiveness of the Company's internal control and risk management systems.

Any non-audit services provided by the auditors are reviewed and approved by the Committee prior to being undertaken, to ensure that auditor objectivity and independence is safeguarded.

The Audit Committee met twice during the year. The Committee reviewed the internal financial controls and concluded that they remained appropriate. They also considered the need for an internal audit function and concluded that due to the size of the Company this would not be an appropriate function.

As the Company has no staff, other than the Directors, there are no procedures in place in respect of C3.4 of the Combined Code, relating to whistle blowing. The Audit Committee understands that the Investment Manager and Administration Manager have whistle blowing procedures in place.

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)	Remuneration Committee meetings attended (1 held)
Hugh Gillespie	4	2	1
Dennis Hale	4	2	1
Michael Robinson	1	-	-
Chris Kay	3	2	1

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 22 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.

CORPORATE GOVERNANCE (continued)

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 Administrator 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 Combined 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 20, and a statement by the Auditors about their reporting responsibilities is set out in the Auditors' Report on page 27.

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 Combined 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 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 Managers 2 Limited.

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 3 and 4, the Investment Manager's Report on page 5 and the Report of the Directors on page 20. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow statement on page 32 and the Directors' Report on page 19. In addition, notes 17 to 19 to the financial statements include 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 Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. 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.

Share capital

The company has six classes of authorised share capital; Ordinary Shares, 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares and Deferred Shares. The rights and obligations attaching to those shares, including the power of the Company to buy back shares and details of any significant shareholdings, are set out on page 17 of the Report of the Directors.

CORPORATE GOVERNANCE (continued)

Compliance statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting year. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 January 2011 with the provisions set out in Section 1 of the Combined Code.

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. Also 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. (A5-1, A3-3)

b) Due to the size of the Board and the 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 (A6, A7-2).

c) The Company does not have any independent Directors as defined by the Combined Code as a result of other directorships of companies managed by the same investment management team. The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code. (A3-2, A3-3). (Consequently the composition of the Audit Committee does not comply with B2-1 and C3-1.)

d) Non-executive Directors' contracts are on three months' rolling notice following an initial three year fixed term, 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 (B1-6).

G Whitehouse

Grant Whitehouse
Secretary
10 Lower Grosvenor Place
London
SW1W 0EN

27 May 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING PLANNED EXIT VCT 2 PLC

We have audited the financial statements of Downing Planned Exit VCT 2 plc for the year ended 31 January 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications in our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2011 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion 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;
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 25, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

PKF (UK) LLP

Stuart Collins
Senior Statutory Auditor
For and on behalf of PKF (UK) LLP
Statutory Auditor
London UK

27 May 2011

INCOME STATEMENT
for the year ended 31 January 2011

	Note	Year ended 31 January 2011 Revenue £'000	Capital £'000	Total £'000	Year ended 31 January 2010 Revenue £'000	Capital £'000	Total £'000
Income	**2**	837	-	837	307	-	307
Losses on investments	**9**	-	-	-	-	(50)	(50)
		837	-	837	307	(50)	257
Investment management fees	**3**	(211)	-	(211)	(69)	-	(69)
Other expenses	**4**	(214)	-	(214)	(178)	(499)	(677)
Return/ (loss) on ordinary activities before tax		412	-	412	60	(549)	(489)
Tax on ordinary activities	**6**	(119)	-	(119)	(16)	-	(16)
Return/ (loss) attributable to equity shareholders		293	-	293	44	(549)	(505)
Basic and diluted return/ (loss) per:							
Ordinary Share	**8**	-	-	-	(0.6p)	(5.5p)	(6.1p)
'C' Share	**8**	1.9p	-	1.9p	1.5p	-	1.5p
'A' Share	**8**	-	-	-	0.1p	-	0.1p
'D' Share	**8**	1.7p	-	1.7p	-	-	-
'E' Share	**8**	-	-	-	-	-	-

All Revenue and Capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. The total column within the Income Statement represents the profit and loss account of the Company.

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

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

INCOME STATEMENT (ANALYSED BY SHARE POOL)
for the year ended 31 January 2011

'C' Share pool

	Year ended 31 January 2011			Year ended 31 January 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	367	-	367	276	-	276
Gains on investments	-	-	-	-	-	-
	367	-	367	276	-	276
Investment management fees	(90)	-	(90)	(59)	-	(59)
Other expenses	(138)	-	(138)	(100)	-	(100)
Return on ordinary activities before tax	139	-	139	117	-	117
Tax on ordinary activities	-	-	-	(16)	-	(16)
Return attributable to equity shareholders	139	-	139	101	-	101

'D' Share pool

	Year ended 31 January 2011			Year ended 31 January 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	470	-	470	-	-	-
Gains on investments	-	-	-	-	-	-
	470	-	470	-	-	-
Investment management fees	(121)	-	(121)	-	-	-
Other expenses	(76)	-	(76)	-	-	-
Return on ordinary activities before tax	273	-	273	-	-	-
Tax on ordinary activities	(119)	-	(119)	-	-	-
Return attributable to equity shareholders	154	-	154	-	-	-

Ordinary Share pool

	Year ended 31 January 2011			Year ended 31 January 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	-	-	-	31	-	31
Losses on investments	-	-	-	-	(50)	(50)
	-	-	-	31	(50)	(19)
Investment management fees	-	-	-	(10)	-	(10)
Other expenses	-	-	-	(78)	(499)	(577)
Loss on ordinary activities before tax	-	-	-	(57)	(549)	(606)
Tax on ordinary activities	-	-	-	-	-	-
Loss attributable to equity shareholders	-	-	-	(57)	(549)	(606)

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

BALANCE SHEET
as at 31 January 2011

	Notes	2011 'C' Share pool £'000	2011 'D' Share pool £'000	2011 Total (incl. Ord Shares) £'000	2010 'C' Share pool £'000	2010 'D' Share pool £'000	2010 Total (incl. Ord Shares) £'000
Fixed assets							
Investments	9	5,854	7,363	13,222	4,304	-	4,309
Current assets							
Debtors	10	165	232	397	70	-	70
Cash at bank and in hand		741	2,019	2,760	2,624	6,424	9,048
		906	2,251	3,157	2,694	6,424	9,118
Creditors: amounts falling due within one year	11	(97)	(255)	(352)	(115)	(2,923)	(3,038)
Net current assets		809	1,996	2,805	2,579	3,501	6,080
Net assets		6,663	9,359	16,027	6,883	3,501	10,389
Capital and reserves							
Called up share capital	12	18	25	143	18	12	130
Capital redemption reserve	13	4	-	6	4	-	6
Special reserve	13	6,497	9,305	15,802	-	-	-
Share premium account	13	-	-	-	6,766	3,489	10,255
Revaluation reserve	13	-	-	-	-	-	-
Capital reserve – realised	13	-	-	-	-	-	-
Revenue reserve	13	144	29	76	95	-	(2)
Total equity shareholders' funds		6,663	9,359	16,027	6,883	3,501	10,389
Basic and diluted net asset value per							
Ordinary Share	14	-	-	0.1p	-	-	0.1p
'C'/'D' Share	14	92.8p	93.5p	-	95.9p	94.4p	-
'A'/'E' Share	14	0.1p	0.1p	-	0.1p	0.1p	-

The Ordinary Share pool is now so small as to be immaterial and as such is not analysed separately above. It is, however, included in the total column.

The financial statements on pages 28 to 44 were approved and authorised for issue by the Board of Directors on 27 May 2011 and were signed on its behalf by

Hugh Gillespie
Chairman
Company number: 5334418

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Notes	Year ended 31 January 2011 'C' Share pool £'000	Year ended 31 January 2011 'D' Share pool £'000	Year ended 31 January 2011 Total (incl. Ord Shares) £'000	Year ended 31 January 2010 'C' Share pool £'000	Year ended 31 January 2010 'D' Share pool £'000	Year ended 31 January 2010 Total (incl. Ord Shares) £'000
Opening shareholders' funds		6,883	3,501	10,389	2,631	-	6,283
Issue of shares		-	6,301	6,301	4,386	3,704	8,090
Share issue costs	**13**	-	(347)	(347)	(232)	(203)	(435)
Purchase of own shares		-	-	-	(3)	-	(3)
Total recognised return/ (loss) for the year		139	154	293	101	-	(505)
Distributions	**7**	(359)	(250)	(609)	-	-	(3,041)
Closing shareholders' funds		6,663	9,359	16,027	6,883	3,501	10,389

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

CASH FLOW STATEMENT
for the year ended 31 January 2011

	Notes	Year ended 31 January 2011 'C' Share pool £'000	'D' Share pool £'000	Total £'000	Year ended 31 January 2010 'C' Share pool £'000	'D' Share pool £'000	Total (incl. Ord Shares) £'000
Net cash inflow from operating activities	**15**	42	177	219	(34)	-	(703)
Taxation							
Corporation tax paid		(16)	-	(16)	(1)	-	(54)
Capital expenditure							
Purchase of investments	9	(2,457)	(7,499)	(9,956)	(7,142)	-	(7,347)
Sale of investments	9	907	136	1,043	2,838	-	6,789
Net cash outflow from capital expenditure		(1,550)	(7,363)	(8,913)	(4,304)	-	(558)
Equity dividends paid	**7**	(359)	(250)	(609)	-	-	(3,041)
Net cash outflow before financing		(1,883)	(7,436)	(9,319)	(4,339)	-	(4,356)
Financing							
Proceeds from share issue		-	3,449	3,449	4,390	6,556	10,946
Share issue costs		-	(418)	(418)	(241)	(132)	(373)
Purchase of own shares		-	-	-	(7)	-	(7)
Net cash inflow from financing		-	3,031	3,031	4,142	6,424	10,566
(Decrease)/ increase in cash	**16**	(1,883)	(4,405)	(6,288)	(197)	6,424	6,210

The Ordinary share pool is now so small as to be immaterial and as such is not analysed separately in the comparative above. It is, however, included in the total column. There were no cash flow movements with respect to the Ordinary Share pool in the current year.

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

NOTES TO THE ACCOUNTS

for the year ended 31 January 2011

1. Accounting policies

Basis of accounting

The Company has prepared its financial statements under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" revised January 2009 ("SORP").

The financial statements are prepared under the historical cost convention except for the certain financial instruments measured at fair value and on the basis that it is not necessary to prepare consolidated accounts as explained in note 9.

The Company implements new Financial Reporting Standards ("FRS") issued by the Accounting Standards Board when required. No new standards were issued for implementation for the year under review. The Association of Investment Companies issued a new SORP in January 2009 which has been adopted for these financial statements.

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 net revenue 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 FRS26.

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.

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.

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 that does not require portfolio investments 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.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

1. Accounting policies (continued)

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.

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 period.

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

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

2. Income

	2011 £'000	2010 £'000
Income from investments		
Loan stock interest	797	290
	797	290
Other income		
Bank interest	40	17
	837	307

3. Investment management fees

The Company's subsidiary undertaking, Downing Managers 2 Limited ("DM2"), 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 1.0% of the Ordinary pool net assets and 1.35% of the 'C' and 'D' pool net assets. The Manager also provides administration services for a fee of £47,500 (plus RPI) per annum. Fees in relation to these services are shown within note 4.

	2011 £'000	2010 £'000
Investment management fees	211	69

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

4. Other expenses

	2011 £'000	2010 £'000
Administration services	48	44
Trail commission	16	17
Directors' remuneration	24	24
Social security costs	1	1
Auditors' remuneration for audit	14	13
Auditors' remuneration for non-audit services (taxation)	1	1
Redemption of loan notes (Performance Incentive fees)	-	499
Other	110	78
	214	677

The Ordinary, 'C' and 'D' Share pool annual running costs of the Company, for the year, are subject to a cap of 2.5%, 2.9% and 2.9% respectively of the net assets of the Company plus cumulative distributions.

5. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the Directors' Remuneration Report on page 22.

The Company had no employees (other than Directors) during the year. Costs in respect of these are referred to in note 4 above. No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

6. Tax on ordinary activities

	2011 £'000	2010 £'000
(a) **Tax charge for year**		
UK corporation tax	119	16
Charge for the year	119	16
(b) **Factors affecting tax charge for the year**		
Return/(loss) on ordinary activities before taxation	412	(489)
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 28% (2010: 21%)	115	(103)
Effects of:		
Losses on investments	-	11
Marginal rate relief	(5)	-
Expenses disallowed for tax purposes	9	108
	119	16

7. Dividends

	Year ended 31 January 2011			Year ended 31 January 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by Ordinary Share pool						
2010 Final- 1.417p	-	-	-	-	142	142
2010 Interim- 8.0p	-	-	-	-	800	800
2010 Interim- 21.0p	-	-	-	-	2,099	2,099
	-	-	-	-	3,041	3,041
Paid by 'C' Share pool						
2010 Final - 5.0p	90	269	359	-	-	-
Paid by 'D' Share pool						
2011 Interim- 2.5p	125	125	250	-	-	-

The 'C' Share pool has proposed a final dividend for the year ended 31 January 2011 of 5.0p per share.
The 'D' Share pool has proposed a final dividend for the year ended 31 January 2011 of 2.5p per share.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

8. Basic and diluted return per share

	Ordinary Shares	'C' Shares	'A' Shares	'D' Shares	'E' Shares
Revenue return (£'000)	-	139	-	154	-
Weighted average number of shares in issue	9,994,968	7,166,806	10,754,329	9,222,208	14,222,208
Net capital gain for the financial year (£'000)	-	-	-	-	-
Weighted average number of shares in issue	9,994,968	7,166,806	10,754,329	9,222,208	14,222,208

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

9. Investments
"Fair value through profit or loss" assets

	Unquoted investments £'000
Cost at 31 January 2010	4,309
Unrealised gains/ (losses) at 31 January 2010	-
Valuation at 31 January 2010	4,309
Movement in the year:	
Purchased at cost	9,956
Sale - proceeds	(1,043)
- realised gains/ (losses) on sales	-
Gains/ (losses) in the income statement	-
Valuation at 31 January 2011	13,222
Cost at 31 January 2011	13,222
Unrealised gains/ (losses) at 31 January 2011	-
Valuation at 31 January 2011	13,222

An analysis of venture capital investments between equity and non-equity elements is set out on pages 12 and 16 within the Review of Investments.

Analysis by class of shares is set out on pages 6 and 7 within the review of investments.

Further details about the composition, maturity and key valuation sensitivities underlying the investment portfolio are set out in notes 17 and 18.

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

The Company also owns 100% of the issued Ordinary Share capital of Downing Managers 2 Limited with an attributable cost of £2. Results of the subsidiary undertaking for the year ended 31 January 2011 were as follows:

	Country of registration	Nature of Business	Turnover £'000	Profit before tax £'000	Net assets £'000
Downing Managers 2 Limited	England and Wales	Investment Manager	259	2	14

This subsidiary undertaking has not been consolidated as its exclusion does not materially alter the group's accounts. The financial statements therefore present information about the Company as an individual undertaking and not about its group.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

9. Investments (continued)

Downing Corporate Finance Limited, a company in which Nicholas Lewis and Tony McGing (directors of DM2) are directors and shareholders, has been granted an option to acquire the entire share capital of DM2 at any time after 1 February 2009 for an amount equal to the net asset value of DM2 at the time of exercise.

10. Debtors

	2011 £'000	2010 £'000
Prepayments and accrued income	397	70

11. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Unalloted shares	-	2,852
Trade creditors	-	71
Amounts due to subsidiary undertaking	67	19
Corporation tax	119	16
Other taxes and social security	3	3
Other creditors	147	60
Accruals and deferred income	16	17
	352	3,038

12. Called up share capital

	2011 £'000	2010 £'000
Authorised:		
40,000,000 Ordinary Shares of 1p each	400	400
30,000,000 'C' Shares of 0.1 p each	30	30
41,087,523 'A' Shares of 0.1p each	41	41
30,000,000 D Shares of 0.1p each	30	30
45,000,000 E Shares of 0.1p each	45	45
3,912,477 Deferred Shares	4	4
	550	550
Issued, Allotted, called up and fully-paid:		
9,994,968(2010: 9,994,968) Ordinary Shares of 1p each	100	100
7,166,806 (2010: 7,166,806) 'C' Shares of 0.1p each	7	7
10,754,329 (2010: 10,754,329) 'A' Shares of 0.1p each	11	11
10,000,000 (2010: 3,699,349) 'D' Shares of 0.1p each	10	4
15,000,000 (2010: 8,699,349) 'E' Shares of 0.1p each	15	8
	143	130

The Deferred Shares were redeemed on 3 November 2009.

No shares were repurchased in the year.

Any distributions or returns of capital from the assets attributable to the 'C' Shares and 'A' Shares ("'C' Share pool") shall be made on the following basis between the holders of the 'C' Shares and 'A' Shares:

- Provided that the performance hurdle is met (i.e. for a shareholding comprising of one 'C' Share and one 'A' Share a total of at least £1 is distributed and a 7% compound return), distributions are made as 91% to 'C' Shares and 9% to 'A' Shares until an amount equivalent to the 100p for a shareholding comprising of one 'C' Share and one 'A' Share has been distributed; thereafter
- All distributions will be allocated pro-rata to the number of shares held.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

12. Called up share capital (continued)

Before the 'C' Share pool performance hurdle is met, distributions and returns of capital from the 'C' Share pool will be made to the holders of 'C' Shares and the holders of 'A' Shares in proportion of 999 to 1 respectively being pro rata to the amount subscribed for the shares. Once the 'C' Share pool Hurdle is met, all distributions will be to the holders of the 'C' Shares until the above split of distributions is achieved.

Between 1 February 2010 and 12 April 2010, 6,300,651 'D' Shares of 0.1p each were issued at 99.9p per share and 6,300,651 'E' Shares of 0.1p each were issued at 0.1p per share pursuant to the offer for subscription by way of a prospectus. The aggregate consideration for the shares was £6,301,000 which excludes issue costs of £347,000. The holders of the 'E' Shares are not entitled to vote at any meeting, save where the resolution put to the meeting of Shareholders is to amend any provision of the Articles relating to the rights of the 'E' Shares or where a takeover offer has been made and remains open to acceptance.

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

- Provided that the performance hurdle is met (i.e. for a shareholding comprising of one 'D' Share and one 'E' Share a total of at least £1 is distributed and a 7% compound return), distributions are made as 97% to the 'D' Shares and 3% to the 'E' Shares until an amount equivalent to the 100p for a shareholding comprising one 'D' Share and one 'E' Share has been distributed; thereafter
- All distributions are made 80% to the 'D' Shares and 20% to the 'E' Shares.

Before the 'D' Share pool performance hurdle is met, distributions and returns of capital from the 'D' Share pool will be made to the holders of 'D' Shares and the holders of 'E' Shares in proportion of 999 to 1 respectively being pro rata to the amount subscribed for the shares. Once the 'D' Share pool Hurdle is met, all distributions will be to the holders of the 'D' Shares until the above split of distributions is achieved.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

13. Reserves

	Capital redemption reserve £'000	Special reserve £'000	Share premium £'000	Capital reserve - realised £'000	Revaluation reserve £'000	Revenue reserve £'000	Total £'000
At 1 February 2010	6	-	10,255	-	-	(2)	10,259
Issue of new shares	-	-	6,288	-	-	-	6,288
Share issue costs	-	-	(347)	-	-	-	(347)
Retained revenue	-	-	-	-	-	293	293
Transfer between reserves	-	16,196	(16,196)	-	-	-	-
Distributions paid	-	(394)	-	-	-	(215)	(609)
At 31 January 2011	6	15,802	-	-	-	76	15,884

Split between:

Ordinary Share pool

	Capital redemption reserve £'000	Special reserve £'000	Share premium £'000	Capital reserve - realised £'000	Revaluation reserve £'000	Revenue reserve £'000	Total £'000
At 1 February 2010	2	-	-	-	-	(97)	(95)
At 31 January 2011	2	-	-	-	-	(97)	(95)

'C' Share pool

	Capital redemption reserve £'000	Special reserve £'000	Share premium £'000	Capital reserve - realised £'000	Revaluation reserve £'000	Revenue reserve £'000	Total £'000
At 1 February 2010	4	-	6,766	-	-	95	6,865
Retained revenue	-	-	-	-	-	139	139
Transfer between reserves	-	6,766	(6,766)	-	-	-	-
Distributions paid	-	(269)	-	-	-	(90)	(359)
At 31 January 2011	4	6,497	-	-	-	144	6,645

'D' Share pool

	Capital redemption reserve £'000	Special reserve £'000	Share premium £'000	Capital reserve - realised £'000	Revaluation reserve £'000	Revenue reserve £'000	Total £'000
At 1 February 2010	-	-	3,489	-	-	-	3,489
Issue of new shares	-	-	6,288	-	-	-	6,288
Share issue costs	-	-	(347)	-	-	-	(347)
Retained revenue	-	-	-	-	-	154	154
Transfer between reserves	-	9,430	(9,430)	-	-	-	-
Distributions paid	-	(125)	-	-	-	(125)	(250)
At 31 January 2011	-	9,305	-	-	-	29	9,334

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. Revaluation reserve includes losses of £nil which are included in the calculation of distributable reserves. At 31 January 2011, total distributable reserves were £15,878,000.

On 14 July 2010, the 'C' Share premium was cancelled following receipt of court approval. The amount standing to the share premium account on 30 November 2009 for the 'C' Share premium has therefore been transferred to the Special Reserve.

On 22 July 2010, the 'D' Share premium was cancelled following receipt of court approval. The amount standing to the share premium account on 6 November 2009 for the 'D' Share premium has therefore been transferred to the Special Reserve.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

14. Basic and diluted net asset value per share

	Shares in Issue		2011 Net asset value		2010 Net asset value	
	2011	2010	per share	£'000	per share	£'000
Ordinary Shares	9,994,968	9,994,968	0.1p	5	0.1p	5
'C' Shares	7,166,806	7,166,806	92.8p	6,652	95.9p	6,872
'A' Shares	10,754,329	10,754,329	0.1p	11	0.1p	11
'D' Shares	10,000,000	3,699,349	93.5p	9,344	94.4p	3,493
'E' Shares	15,000,000	8,699,349	0.1p	15	0.1p	8
				16,027		10,389

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

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

	2011 'C' Share pool £'000	2011 'D' Share pool £'000	2011 Total (incl. Ord Shares) £'000	2010 'C' Share pool £'000	2010 'D' Share pool £'000	2010 Total (incl. Ord Shares) £'000
Return/(loss) on ordinary activities before taxation	139	273	412	101	-	(505)
Losses on investments	-	-	-	-	-	50
Increase in prepayments and accrued income	(95)	(232)	(327)	(70)	-	(39)
Decrease in other creditors	-	-	-	-	-	(33)
Increase/(decrease) in accruals and deferred income	(10)	96	86	(76)	-	(132)
(Decrease)/increase in amounts due to subsidiary undertaking	8	40	48	11	-	(44)
Net cash inflow/(outflow) from operating activities	42	177	219	(34)	-	(703)

16. Analysis of changes in cash during the year

	2011 £'000	2010 £'000
Beginning of year	9,048	2,838
Net cash (outflow)/inflow	(6,288)	6,210
End of year	2,760	9,048

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

17. Financial instruments and derivatives

The Company's financial instruments comprise investments in unquoted companies, cash loans & receivables (including cash at bank and debtors) and other financial liabilities. Investments are designated as "fair value through profit and loss". The main purpose of these investments is to generate revenue and capital appreciation for the Company's members.

The fair value of investments is determined using the detailed accounting policy as shown in note 1.

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

The Company has not entered into any derivative transactions.

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

Level 1 Reflects financial instruments quoted in an active market (listed fixed interest investments, and investments quoted on the Main Market and investments quoted on AIM);

Level 2 Reflects financial instruments that have prices that are observable either directly or indirectly (AIM quoted investments which have a discount applied in accordance with the accounting policy);

Level 3 Reflects financial instruments that are not based on observable market data (unquoted equity investments and loan note investments).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2011 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2010 £'000
Loan notes	-	-	11,855	11,855	-	-	3,861	3,861
Unquoted equity	-	-	1,367	1,367	-	-	448	448
	-	-	13,222	13,222	-	-	4,309	4,309

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

	£'000
Balance at 31 January 2010	4,309
Movements in the income statement:	
Unrealised losses in the income statement	-
Realised losses in the income statement	-
	-
Purchases at cost	9,956
Sales proceeds	(1,043)
Balance at 31 January 2011	13,222

Interest rate risk profile of financial assets and financial liabilities

There are four levels of interest which are attributable to the financial instruments as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise loan note investments;
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate and comprise cash at bank and loan note investments;
- "No interest rate" assets do not attract interest and comprise equity investments, loans and receivables (excluding cash at bank) and other financial liabilities.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

17. Financial instruments and derivatives (continued)

	Average interest rate	Average period until maturity	2011 £'000	2010 £'000
Fixed rate	10.9%	995 days	11,680	3,686
Floating rate	0.8%	-	2,935	9,223
No interest rate			1,764	518
			16,379	13,427

Financial liabilities
The Company has no financial liabilities or guarantees other than as stated in the Balance Sheet.

Currency exposure
As at 31 January 2011, the Company had no foreign currency exposures.

Borrowing facilities
The Company had no committed borrowing facilities as at 31 January 2011.

18. Principal financial risks

As a VCT, the majority of the Company's assets are represented by financial instruments which are held as part of the investment portfolio. In order to ensure continued compliance with relevant VCT regulation and to be in a position to deliver the long term capital growth, which is part of the Company's investment objective, the Board is very much aware of the need to manage and mitigate the risks associated with these financial instruments.

The management of these risks starts with the application of a clear investment policy which has been developed by the Board who are experienced investment professionals. Furthermore, the Board has appointed an experienced Investment Manager to whom they have communicated the Company's investment objectives and whose remuneration is linked to the achievement of those objectives. The Investment Manager reports regularly to the Board on performance, and to facilitate the direct Board involvement with key decisions, on whether or not to invest, disinvest and the nature, terms and the security of investments being made. Further information about the VCT's investment policy is set out in the Report of the Directors on pages 18 to 19.

In assessing the risk profile of its investment portfolio, the Board has identified two principal classes of financial instrument which are analysed within note 17. All investments are "fair value through the profit and loss account".

In addition to its investment portfolio, the VCT maintains a cash position. Cash is mainly held by Bank of Scotland plc and Royal Bank of Scotland plc. The Directors consider that the risk profile associated with cash deposits is low and thus the carrying value in the financial statements is a close approximation of the fair value.

The Board has reviewed the Company's financial risk profile. Despite the fact that there has been a clear deterioration in the economic climate, the Board has concluded that, as a result of the manner in which the Company structures its investments so as to try to reduce downside risk, the Company's exposure to financial risk has not changed significantly since the previous year.

The main risks arising from the Company's financial instruments are interest rate, market risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the financial year. A review of the specific financial risks faced by the Company is presented below.

Market risk
Market risk arises from uncertainty about fair values or future cash flows of financial instruments because of changes in market prices. This is a fundamental aspect of investing in unquoted companies and one which is regularly assessed by the Board and the Investment Manager.

Market price risk
The Company has no holdings in any listed or quoted equities at the year end. As such it has no direct exposure to substantial movements experienced by stock markets. The Company generally structures its investments such that the majority of any losses are initially borne by its investment partners. Therefore the Company has reduced its exposure to a fall in the value of the businesses in which it invests and any underlying assets held by those businesses, such that it has a charge over substantial assets of the underlying business. The sensitivity of the investments to a 10% increase or decrease in valuation would be an increase or decrease in total return of £1,322,000 (2010: £430,000) and an increase or decrease in net asset value of the same amount or 8% (2010: 4%).

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

18. Principal financial risks (continued)

Interest rate risk

The Company's investment portfolio includes floating rate and fixed rate financial instruments, the fair values of which are influenced by differing degrees to changes in market price. Generally, unless the risk profile attaching to the loan note changes, the fair value of variable and floating rate investments is unlikely to alter materially. The fair value of fixed rate investments would, theoretically, increase as base rates fall. However, as a result of the structuring of the Company's investments, the fixed rate investments (loan notes) have strict redemption and transferability conditions and, therefore, any theoretical uplift in fair value would not be a fair reflection of the realisable value of this class of investment.

The Company's future cash flows can be influenced by changes in interest rates resulting in an increase or decrease in income from investments linked to the base rate, and by the credit worthiness of the borrowers of the funds. The maximum exposure to this risk amounts to the value of variable and floating rate assets of £2.9 million (2010: £9.2 million). Sensitivity has been tested by the impact on the NAV over a one year period of a fall in the base rate to nil, being the largest possible fall. The estimated impact on performance and NAV is not deemed significant. The impact is summarised below.

Movement in base rate

	Risk exposure at 31 Jan 2011 £'000	Impact on NAV £'000	Impact on NAV per share Pence	Risk exposure at 31 Jan 2010 £'000	Impact on NAV £'000	Impact on NAV per share £'000
Ordinary shares pool						
Fall to 0%	-	-	-	-	-	-
Increase by 4%	-	-	-	-	-	-
'C' Shares pool						
Fall to 0%	1,152	(4)	(0.06p)	3,037	(11)	(0.2p)
Increase by 4%	1,152	32	0.50p	3,037	93	1.3p
'D' Shares pool						
Fall to 0%	2,003	(7)	(0.07p)	6,424	(32)	(0.7p)
Increase by 4%	2,003	60	0.60p	6,424	202	5.6p

Credit risk

Credit risk is the risk that the counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company's financial assets that are exposed to credit risk are summarised as follows:

	2011 £'000	2010 £'000
Investments in loan stocks	11,855	3,861
Cash and cash equivalents	2,760	9,048
Interest and other receivables	392	66
Total	15,007	12,975

Credit risk in respect of investments in liquidity funds is minimised by investing in AA-, or better, rated funds.

Investments in loan stocks comprise a fundamental part of the Company's venture capital investments and are managed within the main investment management procedures. The Company's policy is to invest in businesses with substantial assets, with security being taken over the assets of the business.

Cash is mainly held by Bank of Scotland plc and Royal Bank of Scotland plc, consequently the Directors consider that the risk profile associated with cash deposits is low.

Interest, dividends and other receivables are predominantly covered within the investment management procedures.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 January 2011

18. Principal financial risks (continued)

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. As the Company only ever has a very low level of creditors being £352,000 (2010: £187,000), holds significant cash balances and no borrowings, the Board believes that the Company's exposure to liquidity risk is low.

Although the Company's investments are not held to meet the Company's liquidity requirements, the table below shows a maturity analysis of the assets, representing the length of time that it could take the Company to realise assets if it was required to do so.

As at 31 January 2011	Not later than 1 month £'000	Between 1 and 3 months £'000	Between 3 months and 1 year £'000	Between 1 and 5 years £'000	Past due £'000	Total £'000
Loan note investments	-	667	3,895	3,907	3,386	11,855
Unquoted equity	-	-	-	1,367	-	1,367
Accrued loan note income		392	-	-		392
	-	1,059	3,895	5,274	3,386	13,614

Three of the past due financial assets, as shown above, relate to loan note investments on which interest is overdue. Otherwise all would fall between three months and one year. The investments are still deemed recoverable, in full, by the Investment Manager.

19. Management of capital

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to continue to provide returns for Shareholders.

The requirements of the Venture Capital Trust Regulations and the fact that the Company has a policy of not having any borrowings mean that there is limited scope to manage the Company's capital structure. However, to the extent it is possible, the Company can maintain or adjust its capital structure by adjusting the amount of dividends paid to Shareholders, purchasing its own shares or issuing new shares.

As the Company has a low level of liabilities, the Board considers the Company's net assets to be its capital.

The Company does not have any externally imposed capital requirements.

There has been no change in the objectives, policies or processes for managing capital from the previous year.

20. Contingencies, guarantees and financial commitments

At 31 January 2011, the Company had no contingencies, guarantees or financial commitments.

21. Related party transactions

Downing Managers 2 Limited ("DM2"), a wholly owned subsidiary, is the Company's Investment Manager. Details of the agreement with DM2 are included in Note 3. During the year ended 31 January 2011, £211,000 (2010: £69,000) was payable to DM2. Additionally, DM2 provides accounting, secretarial and administrative services for an annual fee of £47,500 (plus VAT and RPI) per annum. During the year ended 31 January 2011, £47,500 (2010: £44,000) was due in respect of administration fees. At the year end a balance of £67,000 (2010: £19,000) was due to DM2.

Downing Corporate Finance Limited, a company of which Nicholas Lewis and Tony McGing are directors, was owed £nil in commission on share allotments at the year-end (2010: £71,000).

22. Controlling party

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

NOTICE OF THE SIXTH ANNUAL GENERAL MEETING OF DOWNING PLANNED EXIT VCT 2 PLC

NOTICE IS HEREBY GIVEN that the sixth Annual General Meeting of Downing Planned Exit VCT 2 plc will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 11:00 a.m. on 7 July 2011 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 January 2011, together with the report of the Auditors thereon.

2. To approve the Directors' Remuneration Report.

3. To approve a final dividend of 5.0p per 'C' Share and 2.5p per 'D' Share.

4. To re-appoint PKF (UK) LLP as Auditors 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.

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

6. To re-elect as Director, Michael Robinson, who retires and, being eligible, offers himself for re-election.

As **Special Business**, to consider and, if thought fit, pass the following resolutions:

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 Ordinary shares of 1p each ("Ordinary Shares"), 'C' shares of 0.1p each ("'C' Shares"), 'A' shares of 0.1p each ("'A' Shares"), 'D' shares of 0.1p each ("'D' Shares") and 'E' shares of 0.1p each ("'E' Shares") in the capital of the Company provided that:

   (i) the maximum number of Ordinary Shares, 'C' Shares, 'A' Shares, 'D' Shares and 'E' Shares hereby authorised to be purchased is 1,489,250, being 14.99 per cent. of the issued Ordinary Shares; 1,067,854, being 14.99 per cent. of the issued 'C' Shares; 1,602,395, being 14.99 per cent. of the issued 'A' Shares; 1,490,000, being 14.99 per cent. of the issued 'D' Shares; and 2,235,000, being 14.99 per cent. of the issued 'E' Shares at such time;

   (ii) the minimum price which may be paid for an Ordinary Share, 'C' Share, 'A' Share, 'D' Share or an 'E' Share is its respective nominal value;

   (iii) the maximum price which may be paid for an Ordinary Share, 'C' Share, 'A' Share, 'D' Share or an 'E' Share, is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the Ordinary Shares, 'C' Shares, 'A' Shares, 'D' Shares and 'E' 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 Ordinary Share, 'C' Share, 'A' Share, 'D' Share or 'E' Share is contracted to be purchased;

   (iv) the Company may make a contract to purchase Ordinary Shares, 'C' Shares, 'A' Shares, 'D' Shares and 'E' Shares 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 Ordinary Shares, 'C' Shares, 'A' Shares, 'D' Shares and 'E' 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
Secretary

Registered Office
10 Lower Grosvenor Place
London
SW1W 0EN
27 May 2011

NOTICE OF THE SIXTH ANNUAL GENERAL MEETING (continued)

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 Management Services Limited, 10 Lower Grosvenor Place, London SW1W 0EN 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 Management Services Limited, 10 Lower Grosvenor Place, London SW1W 0EN. 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 Management Services Limited 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 (Saturday and Public Holidays excluded) 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 5 July 2011 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 5 July 2011 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.

(g) As at 9:00 a.m. on 27 May 2011, the Company's issued share capital comprised 9,994,968 Ordinary Shares, 10,754,329 'A' Shares, 7,166,806 'C' Shares, 10,000,000 'D' Shares and 15,000,000 'E' Shares and the total number of voting rights in the Company was 52,916,103. The website referred to above 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;
- 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 above.

(l) Members may not use any electronic address provided either in this notice of 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 PLANNED EXIT VCT 2 PLC

For use at the Annual General Meeting of the above-named Company to be held on 7 July 2011, at 10 Lower Grosvenor Place, London SW1W 0EN at 11:00 a.m.

I/We* ………(in BLOCK CAPITALS please)

of ………
being the holder(s)* of ordinary shares of 1p each or 'C' Shares or 'D' 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 10 Lower Grosvenor Place, London SW1W 0EN on 7 July 2011 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 approve a final dividend payment of 5.0p per 'C' Share and 2.5p per 'D' Share.			
4. To re-appoint the Auditors and authorise the Directors to determine the Auditor's remuneration.			
5. To re-elect Dennis Hale as a Director.			
6. To re-elect Michael Robinson as a Director.			
SPECIAL BUSINESS			
7. To authorise the Company to make market purchases of its shares.			

Signature(s) ……………………………………………………………………………………. Date:……………………………………………………………………………

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

* Delete as appropriate

NOTES AND INSTRUCTIONS:

1. Any member of the Company entitled to attend and vote at the 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 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 Management Services Limited, 10 Lower Grosvenor Place, London SW1W 0EN not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the 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, and 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.

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Business Reply
Licence Number
RRJU-YLYH-CTJK

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Downing Planned Exit VCT 2 plc
c/o Downing Management Services Limited
10 Lower Grosvenor Place
London
SW1W 0EN

Second Fold

First Fold