

Downing TWO VCT PLC

Report & Accounts
for the year ended
31 December 2013

SHAREHOLDER INFORMATION

Company name

The Company changed its name to Downing TWO VCT plc on 17 December 2013. Previously the Company's name was Downing Planned Exit VCT 2 plc.

Share prices

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

	'C' Shares	'D' Shares	'F' Shares	'G' Shares
TIDM/EPIC code:	DP2C	DP2D	DP2F	DP2G
Latest share price (25 April 2014):	75.50p	62.50p	81.00p	95.00p
	'A' Shares	'E' Shares		
TIDM/EPIC code:	DP2A	DP2E		
Latest share price (25 April 2014):	5.03p	0.10p		

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).

Selling shares

The Company's shares can be bought and sold in the same way as any other company listed on the London Stock Exchange, using a stockbroker. Disposing of shares may have tax implications, so Shareholders are urged to contact their independent financial adviser before making a decision.

Share certificates

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

Notification of change of address

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

Financial calendar

17 June 2014	Annual General Meeting
27 June 2014	Final dividends paid
August 2014	Announcement of half yearly financial results

Other information for Shareholders

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

www.downing.co.uk

If you have any queries regarding your shareholding in Downing TWO VCT plc, please contact the registrar on the above number or visit Capita's website at www.capitaregistrars.com and click on "Shareholders and employees".

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.

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COMPANY INFORMATION

Registered number	5334418
Directors	Hugh Gillespie (Chairman) Dennis Hale
Company 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
Auditor	BDO LLP 55 Baker Street London W1U 7EU
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

INVESTMENT OBJECTIVES

Downing TWO VCT plc is a venture capital trust established under the legislation introduced in the Finance Act 1995. The Company's principal objectives are to:

- maintain VCT status to enable Shareholders to benefit from tax reliefs available on an investment in a VCT;
- reduce the risks normally associated with VCT investments;
- target a tax-free return to investors of at least 9% per annum (based on a cost of 70p per share net of income tax relief) over the life of the shares (expected to be approximately six years); and
- target an annual dividend of at least 5.0p per share.

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on page 38.

FINANCIAL HIGHLIGHTS

	31 Dec 2013	31 Jan 2013
	Pence	Pence
'C' Share pool		
Net asset value per 'C' Share	90.9	94.8
Net asset value per 'A' Share	0.1	0.1
Cumulative distributions per 'C' Share	22.5	17.5
Total return per 'C' Share and 'A' Share	<u>113.5</u>	<u>112.4</u>
'D' Share pool		
Net asset value per 'D' Share	77.0	79.7
Net asset value per 'E' Share	0.1	0.1
Cumulative distributions per 'D' Share	17.5	12.5
Total return per 'D' Share and 'E' Share	<u>94.6</u>	<u>92.3</u>
'F' Share pool		
Net asset value per 'F' Share	80.0	88.5
Cumulative distributions per 'F' Share	10.0	5.0
Total return per 'F' Share	<u>90.0</u>	<u>93.5</u>
'G' Share pool		
Net asset value per 'G' Share	95.1	n/a
Cumulative distributions per 'G' Share	5.0	n/a
Total return per 'G' Share	<u>100.1</u>	<u>n/a</u>

FINANCIAL HIGHLIGHTS (continued)

Proposed dividends

'C' Shares – proposed Final Dec 2013	Payable 27 June 2014	2.5p
'D' Shares – proposed Final Dec 2013	Payable 27 June 2014	2.5p
'F' Shares – proposed Final Dec 2013	Payable 27 June 2014	2.5p
'G' Shares – proposed Final Dec 2013	Payable 27 June 2014	2.5p

Dividend history

Period end	Date paid	'C' Shares Pence per share	'D' Shares Pence per share	'F' Shares Pence per share	'G' Shares Pence per share
Final 2010	30 July 2010	5.0	-	-	-
Interim 2011	26 November 2010	-	2.5	-	-
Final 2011	15 July 2011	5.0	2.5	-	-
Interim 2012	25 November 2011	2.5	2.5	-	-
Final 2012	27 July 2012	2.5	2.5	-	-
Interim Jan 2013	30 November 2012	2.5	2.5	5.0	-
Final Jan 2013	19 July 2013	2.5	2.5	2.5	-
Interim Dec 2013	27 November 2013	2.5	2.5	2.5	5.0
		<u>22.5</u>	<u>17.5</u>	<u>10.0</u>	<u>5.0</u>

DIRECTORS

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

Dennis Hale was previously an investment director of Financial Management Bureau Limited ("FMB"), a firm of independent financial advisers based in Cumbria. He was responsible for VCT research within FMB, whose clients have invested in VCTs since 1997. Prior to founding FMB in 1987, he worked for several life assurance companies. He was an Associate of the Institute of Actuaries and holds The Investment Management Certificate. He graduated from the University of Hull with a degree in Mathematics in 1974. He is also a director of a number of Downing VCTs.

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

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the Annual Report for the 11 month period ended 31 December 2013. The 'G' Share fundraising was undertaken during the period which has substantially increased the size of the Company. With two share pools still in their initial investment phase, the Company has also been an active investor during the period.

Change of name and change of year end

On 17 December 2013, the Company changed its name from Downing Planned Exit VCT 2 plc to Downing TWO VCT plc. The Company also changed its year end from 31 January to 31 December. This report therefore covers the 11 month period to 31 December 2013. These changes align the Company with other VCTs in the Downing stable.

Directorate

On 17 December 2013, Michael Robinson resigned from the Board in order that he could accept the appointment of independent non-executive chairman of Downing THREE VCT plc. The Board would like to thank Michael for his significant contribution since he joined the Board in 2010 and look forward to continuing to work with him in his new role. The Company currently has a Board comprising two non-executive directors and intends to appoint a replacement for Michael in due course.

Share pools

The Company now has four active share pools with total net assets of £47 million. Each of the share pools raised funds in different years and are, therefore, at various stages in their planned exit life.

A brief summary of each share pool is provided below. More detailed reviews are provided in the Investment Manager's Report and Review of Investments on pages 6 to 36.

'C' Share pool

The Company's 'C' Shares were originally issued in 2008 and 2009. The 'C' Share pool is effectively fully invested and holds a portfolio of 18 investments, of which 13 are VCT qualifying or partially qualifying.

There were a number of small investment valuation adjustments during the period which resulted in a minor net decrease in value, however, overall the portfolio performed satisfactorily, generating a reasonable level of investment income.

At 31 December 2013, the net asset value ("NAV") of a combined holding of one 'C' Share and one 'A' Share stood at 91.0p, an increase of 1.2% over the period after adding back dividends of 5.0p paid in the period. 'C' Share dividends paid to date total 22.5p such that Total Return (NAV plus cumulative dividends to date) is now 113.5p, compared to the initial NAV of 94.5p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'C' Share on 27 June 2014 to Shareholders on the register at the close of business on 16 May 2014.

'D' Share pool

The 'D' Shares were originally issued in 2010. The 'D' Share pool is now also effectively fully invested and holds a portfolio of 21 investments, of which 17 are qualifying or partially qualifying.

As with the 'C' Share pool, there were a number of small investment valuation movements in the period, with increases effectively cancelling out decreases. The portfolio produced a steady flow of investment income over the period and is generally making satisfactory progress.

At 31 December 2013, the NAV of a combined holding of one 'D' Share and one 'E' Share stood at 77.1p, an increase of 2.9% over the period after adding back dividends of 5.0p per share paid in the period. 'D' Share dividends paid to date total 17.5p such that Total Return (NAV plus cumulative dividends to date) is now 94.6p. Initial NAV was 94.5p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'D' Share on 27 June 2014 to Shareholders on the register at the close of business on 16 May 2014.

'F' Share pool

The 'F' Share pool was launched in 2012 and it still in its initial investment phase. At 31 December 2013, the pool held 13 VCT qualifying or partly qualifying investments and a further 8 non-qualifying investments, most of which are in the form of secured loans.

The 'F' Share portfolio suffered setbacks in respect of two investments during the period which has depressed overall performance. Despite this, the remainder of the portfolio has performed reasonably in line with plan and has the potential to make up lost ground as the investments mature.

CHAIRMAN'S STATEMENT (continued)

'F' Share pool (continued)

At 31 December 2013, the 'F' Share NAV stood at 80.0p, which represents a decrease of 3.9% over the period after adjusting for the dividends of 5.0p per share paid in the period. Dividends paid to date total 10.0p such that Total Return (NAV plus cumulative dividends to date) is now 90.0p, compared to the initial NAV of 94.5p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'F' Share on 27 June 2014 to Shareholders on the register at the close of business on 16 May 2014.

'G' Share pool

The 'G' Share offer for subscription was launched in January 2013 and closed in November 2013 having raised gross proceeds of £26.6 million. By 31 December 2013, the pool had completed the acquisition of 3 VCT qualifying or partly qualifying investments and a further 8 non-qualifying investments, most of which are secured loans.

It remains early days for all investments in the portfolio, but so far there have been no significant negative departures from plan.

At 31 December 2013, the 'G' Share NAV stood at 95.1p, which represents a small increase over the initial period after adjusting for the dividends of 5.0p per share paid in the period. Total Return (NAV plus cumulative dividends to date) is now 100.1p, compared to the initial NAV of 100.0p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'G' Share on 27 June 2014 to Shareholders on the register at the close of business on 16 May 2014.

Share buybacks

The Company operates a general policy of buying in its own shares for cancellation when any become available in the market. The current policy is to buy in 'D' Shares or 'E' Shares at approximately a 10% discount to the latest published NAV of those share classes. In respect of the 'F' Shares and 'G' Shares, in the initial years after issue, any such purchases will be undertaken at a price equal to the latest published NAV (i.e. at nil discount). The Company is now unlikely to make any further purchases of 'C' Shares and 'A' Shares as the process of returning funds to those Shareholders is expected to start later this year. All buybacks are subject to regulatory restrictions and other factors such as the availability of liquid funds.

During the period, the Company repurchased shares as follows:

Share class	Number	Average price	Total consideration
'C' Shares	5,162	85.5p	£4,414
'E' Shares	50,000	0.1p	£50
'G' Shares	92,000	100.0p	£92,461

A resolution to renew the authority for the Company to purchase its own shares will be proposed at the forthcoming AGM.

Annual General Meeting ("AGM")

The Company's eighth AGM will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10:30 a.m. on 17 June 2014.

One item of special business will be proposed at the AGM in connection with the authority for the Company to buy back shares as described above.

Outlook

During the latter part of the current financial year, the task of seeking realisations from the 'C' Share pool investments will commence in order to return funds to Shareholders. Although this process is generally challenging, the Manager is optimistic that a good proportion of exits can be achieved within the first 12 months of the process.

The realisation phase of the 'D' Share pool is scheduled to commence in April 2015. Over the next year, the Manager will be developing plans that can provide exits when the time comes.

The 'F' Share and 'G' Share pools are still both in their initial investment phase and the Manager expects to make a number of further VCT qualifying investments over the next year as they continue to build their investment portfolios.

Despite a small number of problem investments, overall the Board is satisfied with the investment portfolios across the various share pools and believes that general improvement in the outlook for the economy should assist in delivering satisfactory outcomes for each group of Shareholders.



Hugh Gillespie
Chairman

28 April 2014

INVESTMENT MANAGER'S REPORT- 'C' SHARE POOL

Introduction

The 'C' Share pool holds investments in 18 companies and is now fully invested. The majority of the 'C' Share pool investments have performed in line with expectations. There have, however, been a number of adjustments which resulted in a small overall fall in value.

Net asset value and results

At 31 December 2013, the 'C' Share NAV stood at 90.9p and the 'A' Share NAV at 0.1p, giving a combined NAV of 91.0p. Total Return (NAV plus cumulative dividends to date) was 113.5p for a combined holding of one 'C' and one 'A' Share. This represents a net increase of 1.1p over the period (after adjusting for dividends paid during the period of 5.0p per 'C' Share), equivalent to an increase of 1.2%.

The return on ordinary activities of the 'C' Share pool for the period was £78,000 (2013: £586,000), comprising a revenue profit of £165,000 (2013: £287,000) and a capital loss of £87,000 (2013: gain £299,000).

'C' Share pool - investment activity

During the year, the Company made two small follow on investments for a total of £83,000. There was also a transfer of £61,000 of Redmed Limited from the 'C' share pool to the 'F' share pool, being part of the £79,000 disposed of in total.

The Company sold its holding in Bijou Wedding Venues Limited, the exclusive wedding venue located in Chertsey, generating proceeds of £925,000.

'C' Share pool – portfolio valuation

The majority of the investments within the 'C' Share pool performed satisfactorily throughout the year and the values of several of these have been modestly uplifted at the year end. There have, however, also been a number of significant negative adjustments to value resulting in overall unrealised losses of £76,000.

The 3D Pub Co Limited owns two pubs in Surrey: The Jolly Farmers in Reigate; and The Fox Revived in Horley. Recent performance has been encouraging and the valuation has been increased by £40,000.

A £30,000 increase in value was recognised for Quadrate Catering Limited which owns the Marco Pierre White Steakhouse located in the iconic Cube building in Birmingham. Performance of the restaurant is ahead of projections.

Further increases in value were recognised in Westow House Limited, £9,000 and East Dulwich Tavern Limited, £21,000. These were partially offset by small reductions in value on Mosaic Spa and Health Clubs Limited, £20,000, and Redmed Limited £4,000.

Future Biogas (Spring Farm) Limited, the owner and operator of a biogas plant in Norfolk, has experienced significant operational issues which have resulted in unplanned downtime. The issues have now all been resolved; however, cumulative performance to date is notably below plan. This has resulted in a small decrease in the valuation of £42,000, although the investment remains valued above original cost.

Chapel Street Services Limited, Chapel Street Food and Beverage Limited and Chapel Street Hotel Limited were written down by £37,000, £37,000 and £1,000 respectively. The businesses all trade from the Hotel Indigo in Liverpool. Occupancy at the hotel has been lower than forecast as a result of stiff competition, and as a result each of the businesses is trading behind their original business plan.

A £35,000 write down in value was made to Honeycombe Pubs VCT Limited which owns a bar in Burnley, Lancashire. The pub is in the process of being sold and the reduced valuation reflects the anticipated net proceeds due on disposal.

Outlook

Although the British economy remains in a fragile state, we believe that the 'C' Share portfolio is reasonably resilient and will produce good results over the remaining planned life of the share pool.

We will be seeking to start returning funds to 'C' Shareholders later this year, being 5 years after the close of the 'C' Share offer, and have started planning investment realisations.

Downing Managers 2 Limited

28 April 2014

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2013:

‘C’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in period £'000	% of portfolio
VCT qualifying investments and partially qualifying investments				
Future Biogas (Spring Farm) Limited*	697	731	(42)	11.2%
Atlantic Dogstar Limited	438	728	-	11.1%
Domestic Solar Limited	500	560	-	8.6%
Redmed Limited	350	451	(4)	6.9%
Westow House Limited	304	427	9	6.5%
East Dulwich Tavern Limited	344	406	21	6.2%
Quadrate Spa Limited*	363	363	-	5.5%
Quadrate Catering Limited	330	359	30	5.5%
The 3D Pub Co Limited	267	227	40	3.5%
Ecosoll Limited	250	212	-	3.2%
Mosaic Spa and Health Clubs Limited*	125	105	(20)	1.7%
Chapel Street Food and Beverage Limited	50	13	(37)	0.2%
Chapel Street Services Limited	50	13	(37)	0.2%
	<u>4,068</u>	<u>4,595</u>	<u>(40)</u>	<u>70.3%</u>
Non-qualifying investments				
Hoole Hall Country Club Holdings Limited	581	581	-	8.8%
The Thames Club Limited	500	500	-	7.6%
Honeycombe Pubs VCT Limited	188	66	(35)	1.0%
Vermont Developments Limited	25	25	-	0.3%
Chapel Street Hotel Limited	2	1	(1)	0.0%
	<u>1,296</u>	<u>1,173</u>	<u>(36)</u>	<u>17.7%</u>
	<u>5,364</u>	<u>5,768</u>	<u>(76)</u>	<u>88.0%</u>
Cash at bank and in hand		<u>790</u>		<u>12.0%</u>
Total investments		<u>6,558</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the period and the basis of valuation of the ten largest investments are set out on pages 8 to 12.

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL (continued)**Summary of investment movements****Additions**

	Cost £'000
VCT qualifying investments and partially qualifying investments	
Future Biogas (Spring Farm) Limited*	70
Non-qualifying investments	
Honeycombe Pubs VCT Limited	13
Total ‘C’ Share pool	<u>83</u>

Disposals

	Cost £'000	MV at 01/02/13 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the period £'000
VCT qualifying investments					
Bijou Wedding Venues Limited	815	901	925	110	24
Non-qualifying investments					
Redmed Limited	79	79	79	-	-
	<u>894</u>	<u>980</u>	<u>1,004</u>	<u>110</u>	<u>24</u>

* Part-qualifying investment

† Adjusted for additions in the period

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

Further details of the main investments:

Future Biogas (Spring Farm) Limited

www.futurebiogas.com



Cost:	£697,455	Valuation at 31/12/13:	£730,673
Date of first investment:	May 10	Valuation at 31/01/13:	£702,689
		Valuation method:	Multiples

Investment comprises:

'B' Shares	£221,455	Proportion of 'B' equity held:	10.5%
Loan stock:	£476,000	Proportion of loan stock held:	14.4%

Summary financial information from statutory accounts to 31 May*

	2012	2011
Net assets:	£936,933	£406,757

Future Biogas owns and operates a 1.4MW self-contained biogas plant in Norfolk. Through an anaerobic digestion process biogas is produced which is used to generate electricity. The company benefits from the receipt of Feed-in Tariffs and payments for electricity exported to the National Grid.

Atlantic Dogstar Limited

www.anticlondon.com



Cost:	£438,480	Valuation at 31/12/13:	£728,055
Date of first investment:	Sep 09	Valuation at 31/01/13:	£728,055
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£138,180	Proportion of equity held:	12%
Loan stock:	£300,300	Proportion of loan stock held:	30%

Summary financial information from statutory accounts to 31 December*

	2012	2011
Net assets:	£942,321	£908,690

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

Hoole Hall Country Club Holdings Limited

www.theclubandspachester.co.uk



Cost:	£581,250	Valuation at 31/12/13:	£581,250
Date of first investment:	Dec 08	Valuation at 31/01/13:	£581,250
		Valuation method:	Net assets

Investment comprises:

Loan stock:	£581,250	Proportion of loan stock held:	10.5%
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Summary financial information from consolidated statutory accounts to 31 March

	2013	2012
Turnover:	£3,868,405	£3,667,723
Operating profit:	£815,077	£40,769
Net assets:	£2,846,600	£4,561,220

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.

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

Further details of the main investments:

Domestic Solar Limited
www.isis-solar.com



Cost:	£500,000	Valuation at 31/12/13:	£560,000
Date of first investment:	Mar 11	Valuation at 31/01/13:	£560,000
		Valuation method:	Discounted cash flow
Investment comprises:			
Ordinary shares:	£150,000	Proportion of equity held:	6%
Loan stock:	£350,000	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 March*

	2013	2012
Net assets:	£767,596	£304,711

Domestic Solar owns solar panels on residential rooftops throughout the south of England. The company has contracted with over 600 households who benefit from free electricity through an arrangement that allows Domestic Solar to receive the Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

The Thames Club Limited
www.thethamesclub.co.uk



Cost:	£500,000	Valuation at 31/12/13:	£499,900
Date of first investment:	Jun 09	Valuation at 31/01/13:	£499,900
		Valuation method:	Net assets
Investment comprises:			
Ordinary shares:	£100	Proportion of equity held:	5%
Loan stock:	£499,900	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 31 December*

	2012	2011
Net assets:	£880,557	£1,104,343

The Thames Club is a 33,000 sqft health and fitness club located in Staines. In 2010 the club underwent a £2m refurbishment followed by a subsequent re-launch. The club is now working to build membership.

Redmed Limited
www.homelincn.co.uk



Cost:	£350,000	Valuation at 31/12/13:	£450,909
Date of first investment:	May 11	Valuation at 31/01/13:	£533,750
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£105,000	Proportion of equity held:	9%
Loan stock:	£245,000	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 30 April*

	2013	2012
Net assets:	£1,152,240	£735,537

Redmed Limited owns and operates Home, a large entertainment venue with a restaurant, roof terrace and nightclub with six themed rooms and the Craft bar, both in Lincoln city centre. Home is located close to the University of Lincoln and was completely refurbished and successfully re-launched in October 2011.

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

Further details of the main investments:

Westow House Limited
www.anticlondon.com



Cost:	£303,750	Valuation at 31/12/13:	£426,769
Date of first investment:	Sep 09	Valuation at 31/01/13:	£417,656
		Valuation method:	Net assets

Investment comprises:			
Ordinary shares:	£91,125	Proportion of equity held:	12%
Loan stock:	£212,625	Proportion of loan stock held:	18%

Summary financial information from statutory accounts to 31 December*

	2012	2011
Net assets:	£723,765	£601,404

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.

East Dulwich Tavern Limited
www.anticlondon.com



Cost:	£344,250	Valuation at 31/12/13:	£406,215
Date of first investment:	Sep 09	Valuation at 31/01/13:	£385,560
		Valuation method:	Multiples

Investment comprises:			
Ordinary shares:	£103,275	Proportion of equity held:	12%
Loan stock:	£240,975	Proportion of loan stock held:	17%

Summary financial information from statutory accounts to 31 December*

	2012	2011
Net assets:	£701,676	£648,834

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.

Quadrate Spa Limited
www.theclubandspabirmingham.co.uk



Cost:	£363,174	Valuation at 31/12/13:	£363,174
Date of first investment:	Aug 10	Valuation at 31/01/13:	£363,174
		Valuation method:	Net assets

Investment comprises:			
Ordinary shares:	£105,120	Proportion of equity held:	4%
Loan stock:	£258,054	Proportion of loan stock held:	8%

Summary financial information from statutory accounts to 31 March

	2013	2012
Turnover:	£1,252,745	£224,365
Operating loss:	(£743,982)	(£577,040)
Net (liabilities)/assets:	(£905,264)	£130,560

Quadrate Spa Limited has developed a spa and health club in the lower floors of a canal-side mixed-use building in Birmingham known as “The Cube”. The health club and spa opened for trading in January 2012 and continues to build towards maturity.

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

Further details of the main investments:

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk



Cost:	£329,600	Valuation at 31/12/13:	£359,264
Date of first investment:	Aug 10	Valuation at 31/01/13:	£329,600
		Valuation method:	Net assets

Investment comprises:

Ordinary shares:	£98,880	Proportion of equity held:	4%
Loan stock:	£230,720	Proportion of loan stock held:	9%

Summary financial information from statutory accounts to 31 March

	2013	2012
Turnover:	£4,620,292	£1,035,382
Operating profit/(loss):	£307,199	(£276,926)
Net assets:	£228,489	£459,310

Quadrate Catering Limited has developed the top floor of a canal-side mixed-use building in Birmingham known as “The Cube” which opened as a Marco Pierre-White branded restaurant and bar in December 2011 and has traded well ever since.

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

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the period from the ten largest investments held by the ‘C’ Share pool

Future Biogas (Spring Farm) Limited	-
Atlantic Dogstar Limited	33
Hoole Hall Country Club Holdings Limited	43
Domestic Solar Limited	40
The Thames Club Limited	36
Redmed Limited	30
Westow House Limited	23
East Dulwich Tavern Limited	26
Quadrate Spa Limited	36
Quadrate Catering Limited	42
	<hr/>
	309
Receivable from other investments	24
	<hr/>
	333

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 December 2013:

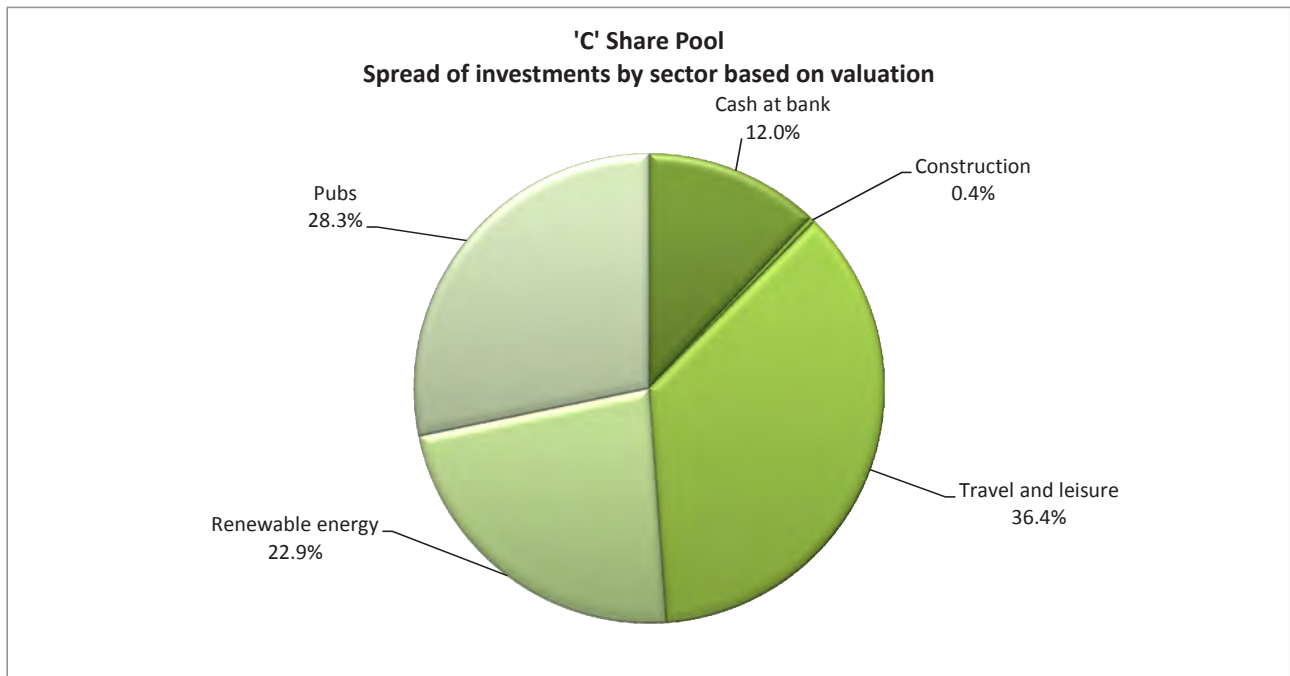
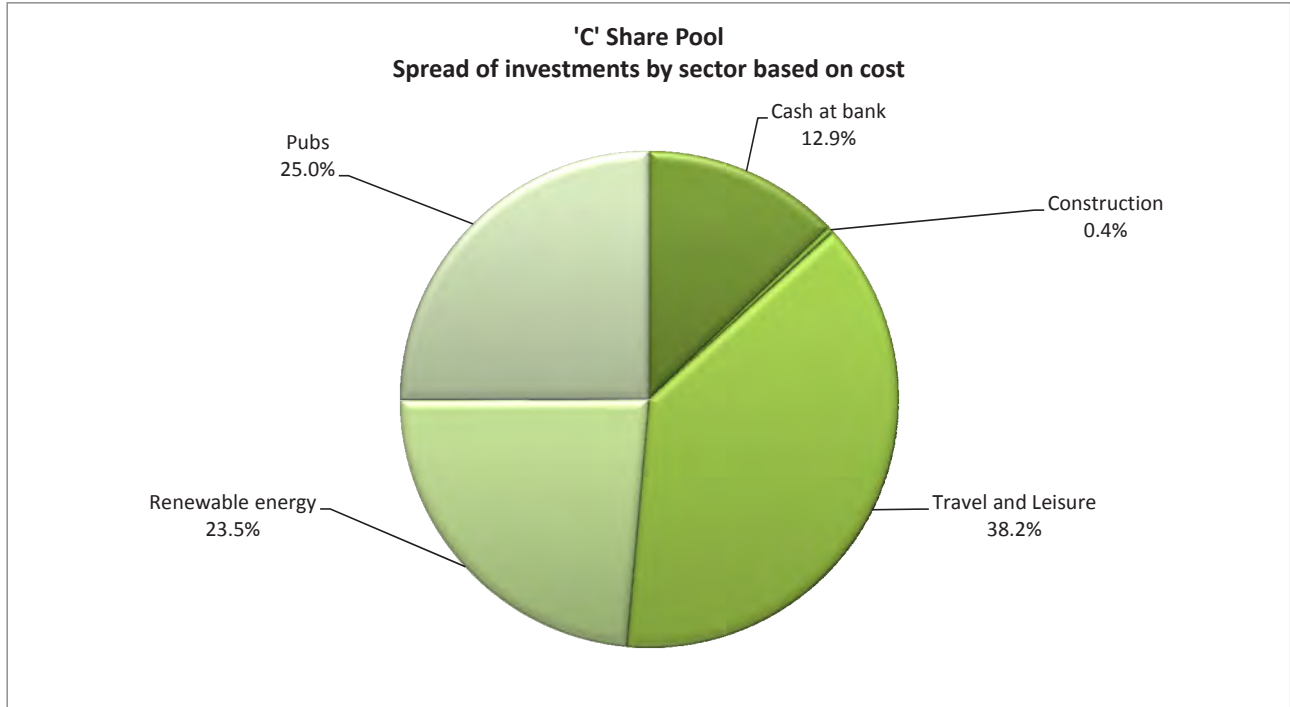
	Target portfolio split	Actual portfolio split 31 Dec 2013
Qualifying investments		
Loans to qualifying companies	50%	41%
Ordinary shares in qualifying companies	25%	28%
Non-qualifying investments (including cash at bank)	25%	31%
	<hr/>	<hr/>
	100%	100%

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

Further details of the main investments:

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 December 2013) is as follows:



INVESTMENT MANAGER'S REPORT- 'D' SHARE POOL

Introduction

The 'D' Share pool holds investments in 21 companies and is now fully invested. The portfolio has experienced continued stable performance with one new investment being made and relatively small movements in value.

Net asset value and results

At 31 December 2013, the 'D' Share NAV stood at 77.0p and the 'E' Share NAV at 0.1p, giving a combined NAV of 77.1p. Total Return (NAV plus cumulative dividends to date) was 94.6p for a combined holding of one 'D' and one 'E' Share. This represents a net increase of 2.3p over the period (after adjusting for dividends paid during the period of 5.0p per 'D' Share), equivalent to an increase of 2.9%.

The return on ordinary activities for the 'D' Shares for the period was a return of £229,000 (2013: £150,000) being a revenue profit of £235,000 (2013: £174,000) and a capital loss of £6,000 (2013: loss £24,000).

'D' Share pool - investment activity

During the year, the Company made a small number of investments totalling £136,000. A new investment of £42,000 in Kilmarnock Monkey Bar Limited was made, after one of the two pubs owned by Camandale was transferred into the Company. The Monkey Bar is now let to a third party manager, who pays a regular rent to the company. Additionally, a further investment of £94,000 was made into Future Biogas (Reepham Road) Limited.

In addition to the above, £500,000 of loan stock was transferred from the 'D' share pool to the 'G' share pool in Aminghurst Limited, the property development company in South Devon.

'D' Share pool – portfolio valuation

The majority of the 'D' Share portfolio performed in line with expectations during the year, there were a small number of valuation movements which resulted in a net unrealised loss of £6,000.

Green Electricity Generation Limited owns a portfolio of solar panels on the rooftops of domestic properties across the UK. The panels continue to generate income and have established a good track record, resulting in an uplift of £46,000.

A £40,000 increase in value was recognised for Quadrate Catering Limited which owns the Marco Pierre White Steakhouse located in the iconic Cube building in Birmingham. Performance of the restaurant is ahead of projections.

Kidspace Adventures Holdings Limited owns three well established children's play areas in Croydon, Romford and Epsom. The company continues to perform well and as such the valuation has been increased by £34,000.

Additionally, a small increase in value of £22,000 was recognised on Alpha Schools Holdings Limited to reflect that the business is performing to plan.

On the negative side, Mosaic Spa and Health Clubs Limited owns and manages two health clubs: The Shrewsbury Club, in Shrewsbury; and Holmer Park in Hereford. It also provides gym and spa management services to hotels, universities and corporate clients. Both Holmer Park and the Shrewsbury club have underperformed against expectations throughout the period and the value has been reduced by £88,000.

A £35,000 reduction in value was recognised for Liverpool Nurseries (Holdings) Limited. This cautionary reduction in value reflects that the business is performing behind budget.

A further reduction in value was recognised on Camandale Limited of £25,000 after one of the two pubs owned by the Company was transferred into a new investment, Kilmarnock Monkey Bar Limited. The new valuation of Camandale reflects the standalone valuation of the remaining pub, The Riverbank.

Outlook

After some setbacks in the portfolio, the 'D' share pool is now starting to show signs of improved performance with a number of valuation uplifts recognised for investments that are performing to plan. We are satisfied with progress and believe there is good potential for growth ahead of 2015, when the pool will start realising its investments.

Downing Managers 2 Limited

28 April 2014

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2013:

‘D’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in period £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Future Biogas (Reepham Road) Limited	842	842	-	10.9%
Quadrate Spa Limited*	496	496	-	6.4%
Quadrate Catering Limited	441	481	40	6.2%
Domestic Solar Limited	400	448	-	5.8%
Kidspace Adventures Holdings Limited	375	409	34	5.3%
Alpha Schools Holdings Limited	367	402	22	5.2%
Liverpool Nurseries (Holdings) Limited	435	400	(35)	5.2%
Mosaic Spa and Health Clubs Limited*	475	387	(88)	5.0%
Green Electricity Generation Limited	250	303	46	3.9%
Westcountry Solar Solutions Limited	250	250	-	3.2%
West Tower Property Limited	250	250	-	3.2%
Ecosol Limited	250	213	-	2.8%
Avon Solar Energy Limited	210	210	-	2.7%
Slopingtactic Limited	195	195	-	2.5%
Progressive Energies Limited	170	170	-	2.2%
Ridgeway Pub Company Limited	136	126	-	1.6%
Camandale Limited*	516	58	(25)	0.7%
	<u>6,058</u>	<u>5,640</u>	<u>(6)</u>	<u>72.8%</u>
Non-qualifying investments				
Aminghurst Limited	1,650	1,650	-	21.3%
Fenkle Street LLP	122	122	-	1.6%
Commercial Street Hotel Limited	100	100	-	1.3%
Kilmarnock Monkey Bar Limited	42	42	-	0.5%
	<u>1,914</u>	<u>1,914</u>	<u>-</u>	<u>24.7%</u>
	<u>7,972</u>	<u>7,554</u>	<u>(6)</u>	<u>97.5%</u>
Cash at bank and in hand		<u>192</u>		<u>2.5%</u>
Total investments		<u>7,746</u>		<u>100.0%</u>

* Part-qualifying investment

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

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

Summary of investment movements

Additions

	Cost £'000
VCT qualifying and partially qualifying investments	
Future Biogas (Reepham Road) Limited	94
Non-qualifying investments	
Kilmarnock Monkey Bar Limited	42
Total ‘D’ Share pool	<u>136</u>

Disposals

	Cost £'000	MV at 01/02/13 † £'000	Disposal proceeds £'000	Loss against cost £'000	Total realised gain during the period £'000
VCT qualifying and partially qualifying investments					
Avon Solar Energy Limited	40	40	40	-	-
Non-qualifying investments					
Aminghurst Limited	500	500	500	-	-
Camandale Limited	45	32	32	(13)	-
Liverpool Nurseries (Holdings) Limited	32	32	32	-	-
Total ‘D’ Share pool	<u>617</u>	<u>604</u>	<u>604</u>	<u>(13)</u>	<u>-</u>

† Adjusted for additions in the period

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

Further details of the main investments:

Aminghurst Limited

www.gararock.co.uk



Cost:	£1,650,000	Valuation at 31/12/13:	£1,650,000
Date of first investment:	May 10	Valuation at 31/01/13:	£2,150,000
		Valuation method:	Net assets

Investment comprises:

Loan stock:	£1,650,000	Proportion of loan stock held:	14%
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Summary financial information from statutory accounts to 31 December*

	2011	2010
Net liabilities:	(£6,848,030)	(£4,433,221)

Aminghurst is a property development company which owns the Gara Rock site in East Portlemouth, South Devon. All of the apartments and cottages have been completed and are currently being marketed for sale. The leisure facilities and restaurant are operational, while the hotel is likely to be offered for sale to hotel operators as a shell ready for fit-out.

Future Biogas (Reepham Road) Limited

www.futurebiogas.com



Cost:	£842,145	Valuation at 31/12/13:	£842,145
Date of first investment:	Mar 11	Valuation at 31/01/13:	£747,927
		Valuation method:	Cost reviewed for impairment

Investment comprises:

Ordinary shares:	£521,794	Proportion of equity held:	9%
Loan stock:	£320,351	Proportion of loan stock held:	13%

Summary financial information from statutory accounts to 30 September*

	2012	2011
Net assets:	£445,613	£58,022

Future Biogas (Reepham Road) Limited is the second renewable energy investment with our partner Future Biogas. The site is located in Norfolk and the business is currently in the final stages of constructing the new anaerobic digestion plant.

Quadrate Spa Limited

www.theclubandspabirmingham.co.uk



Cost:	£495,826	Valuation at 31/12/13:	£495,826
Date of first investment:	Aug 10	Valuation at 31/01/13:	£495,826
		Valuation method:	Net assets

Investment comprises:

Ordinary shares:	£143,580	Proportion of equity held:	6%
Loan stock:	£352,246	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 31 March

	2013	2012
Turnover:	£1,252,745	£224,365
Operating loss:	(£743,982)	(£577,040)
Net (liabilities)/assets:	(£905,264)	£130,560

Quadrate Spa Limited has developed a spa and health club in the lower floors of a canal-side mixed-use building in Birmingham known as “The Cube”. The health club and spa opened for trading in January 2012 and continues to build towards maturity.

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

Further details of the main investments:

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk



Cost:	£441,400	Valuation at 31/12/13:	£481,126
Date of first investment:	Aug 10	Valuation at 31/01/13:	£441,400
		Valuation method:	Net assets

Investment comprises:

Ordinary shares:	£132,420	Proportion of equity held:	6%
Loan stock:	£308,980	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 March

	2013	2012
Turnover:	£4,620,292	£1,035,382
Operating profit/(loss):	£307,199	(£276,926)
Net assets:	£228,489	£459,310

Quadrate Catering Limited has developed the top floor of a canal-side mixed-use building in Birmingham known as “The Cube” which opened as a Marco Pierre-White branded restaurant and bar in December 2011 and has traded well ever since.

Domestic Solar Limited

www.isis-solar.com



Cost:	£400,000	Valuation at 31/12/13:	£448,000
Date of first investment:	Mar 11	Valuation at 31/01/13:	£448,000
		Valuation method:	Discounted cash flow

Investment comprises:

Ordinary shares:	£120,000	Proportion of equity held:	6%
Loan stock:	£280,000	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 March*

	2013	2012
Net assets:	£767,596	£304,711

Domestic Solar owns solar panels on residential rooftops throughout the south of England. The company has contracted with over 600 households who benefit from free electricity through an arrangement that allows Domestic Solar to receive the Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

Kidspac Adventures Holdings Limited

www.kidspacadventures.com



Cost:	£375,000	Valuation at 31/12/13:	£408,750
Date of first investment:	Jan 12	Valuation at 31/01/13:	£375,000
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£112,500	Proportion of equity held:	4%
Loan stock:	£262,500	Proportion of loan stock held:	8%

Summary financial information from statutory accounts to 31 January

	2013
Turnover:	£4,305,765
Operating profit:	£144,245
Net assets:	£1,968,284

Kidspac Adventures Holdings Limited is the holding company of Kidspac Adventures Limited which owns two well established and profitable indoor children’s play centres in Croydon and Romford. The company has developed an adventure farm park called Hobbledown, located in Epsom Surrey, which opened in July 2012.

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

Further details of the main investments:

Alpha Schools (Holdings) Limited



Cost:	£366,667	Valuation at 31/12/13:	£402,417
Date of first investment:	May 11	Valuation at 31/01/13:	£380,417
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£110,000	Proportion of equity held:	4%
Loan stock:	£256,667	Proportion of loan stock held:	18%

Summary financial information from consolidated statutory accounts to 31 August

	2012	2011
Turnover:	£3,614,379	£658,746
Operating profit:	£586,417	£45,604
Net assets:	£908,073	£872,090

Alpha Schools is an independent primary school operator, which owns several sites and is run by an experienced head teacher. The company has recently purchased Ladymede School in Buckinghamshire.

Liverpool Nurseries (Holdings) Limited

www.thecottagedaynursery.com



Cost:	£434,887	Valuation at 31/12/13:	£399,877
Date of first investment:	Feb 12	Valuation at 31/01/13:	£466,812
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£140,044	Proportion of equity held:	15%
Loan stock:	£294,843	Proportion of loan stock held:	19%

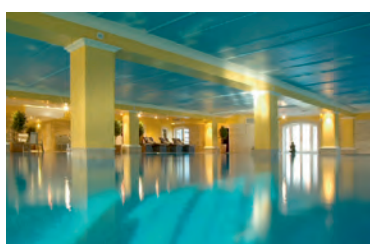
Summary financial information from consolidated statutory accounts to 31 December*

	2012
Net assets:	£599,998

Liverpool Nurseries operates three Children’s Day Nurseries based in Liverpool; ‘The Cottage Day Nursery’ in Fazakerley, which is registered for 88 children, and ‘The House Day Nursery’ in Crosby, which is registered for 154 children and ‘Greenbank Park Day Nursery’ in Greenbank which is registered for 116 children.

Mosaic Spa and Health Clubs Limited

www.mosaicspaandhealth.co.uk



Cost:	£475,000	Valuation at 31/12/13:	£387,250
Date of first investment:	Feb 11	Valuation at 31/01/13:	£475,000
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£135,000	Proportion of equity held:	5%
Loan stock:	£340,000	Proportion of loan stock held:	8%

Summary financial information from consolidated statutory accounts to 31 December

	2012	2011
Turnover:	£6,322,543	£5,054,488
Operating profit:	£15,330	£58,150
Net assets:	£2,390,291	£867,817

Mosaic Spa and Health Clubs Limited owns two spas and operates a spa and health club management company which trades under the name of Fitness Express. The Downing funds backed the existing experienced management team who started the business over 20 years ago. The company currently has 30 management contracts to provide gyms and spas to hotels, university and corporate clients. In December 2011, the business bought a health and tennis club known as The Shrewsbury Club and in October 2012 a second freehold health club was purchased known as Holmer Park.

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

Further details of the main investments:

Green Electricity Generation Limited

www.freesolarinstallations.net



Cost:	£250,000	Valuation at 31/12/13:	£302,500
Date of first investment:	May 11	Valuation at 31/01/13:	£257,500
		Valuation method:	Discounted cash flow

Investment comprises:

Ordinary shares:	£75,000	Proportion of equity held:	8%
Loan stock:	£175,000	Proportion of loan stock held:	13%

Summary financial information from statutory accounts to 30 June*

	2012
Net assets:	£450,735

Green Electricity Generation owns solar panels on the rooftops of over 200 domestic properties in the UK. The households benefit from free electricity whilst Green Electricity receive Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

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

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the period from the ten largest investments held by the ‘D’ Share pool

Aminghurst Limited	-
Future Biogas (Reepham Road) Limited	-
Quadrat Spa Limited	50
Quadrat Catering Limited	53
Domestic Solar Limited	32
Kidspace Adventures Holdings Limited	29
Alpha Schools (Holdings) Limited	25
Liverpool Nurseries (Holdings) Limited	31
Mosaic Spa and Health Clubs Limited	36
Green Electricity Generation Limited	21
	<hr/>
	277
Receivable from other investments	183
	<hr/>
	460
	<hr/> <hr/>

Analysis of investments by investment type

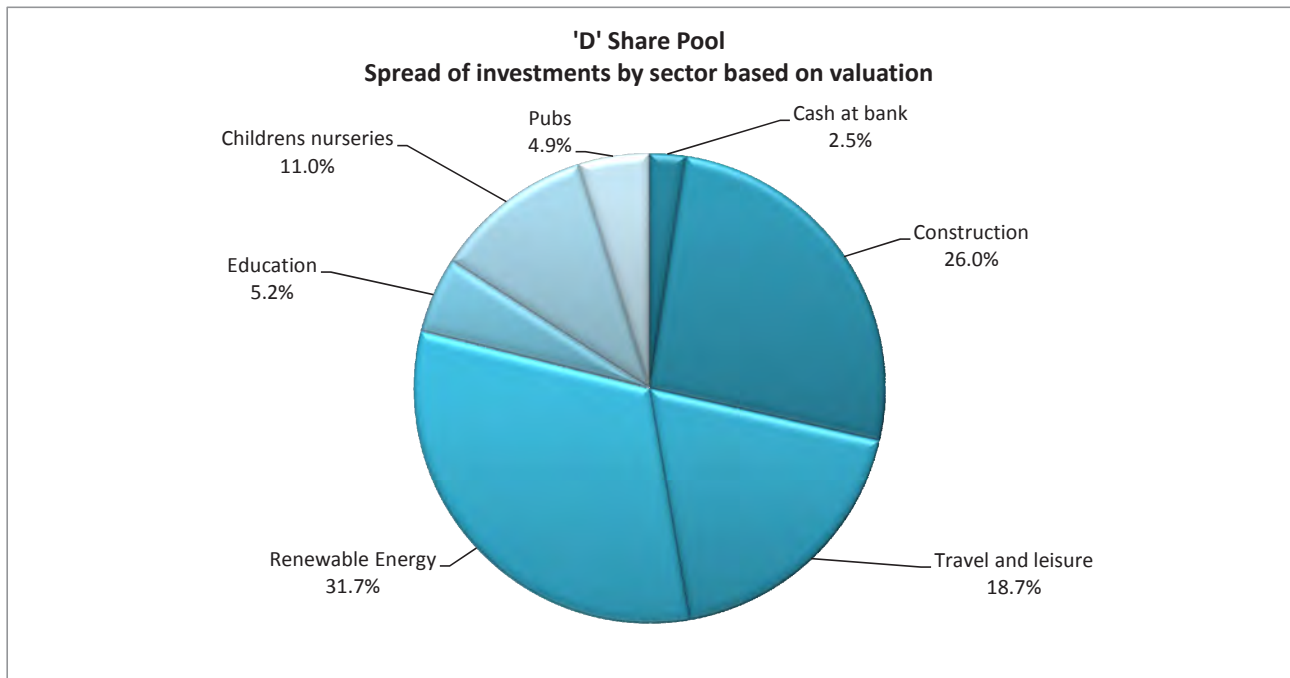
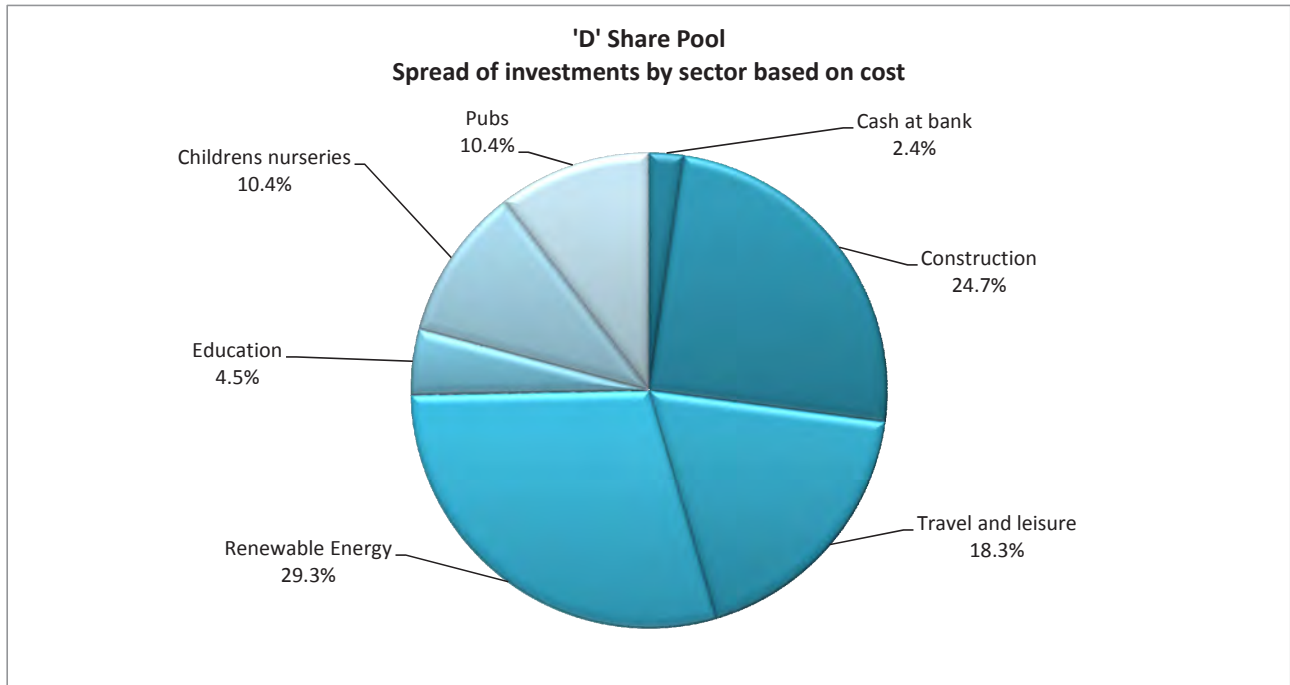
The following shows the split of the ‘D’ Share pool’s investment portfolio by type of instrument held at 31 December 2013:

	Target portfolio split	Actual portfolio split 31 Dec 2013
Qualifying investments		
Loans to qualifying companies	50%	49%
Ordinary shares in qualifying companies	25%	23%
Non-qualifying investments (including cash at bank)	25%	28%
	<hr/>	<hr/>
	100%	100%

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL

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 December 2013) is as follows:



INVESTMENT MANAGER'S REPORT- 'F' SHARE POOL

Introduction

The 'F' share pool has started to build a qualifying investment portfolio with a focus on asset backed businesses and those with predictable revenue streams. In the period, four new qualifying investments were made, as well as two non-qualifying investments, at a total cost of £2,052,000. Two follow on investments totalling £105,000 were also made in the period.

Net asset value and results

At 31 December 2013, the 'F' Share NAV stood at 80.0p. Total Return (NAV plus cumulative dividends to date) for shareholders who invested in the original share offer is now 90.0p. This represents a net decrease of 3.5p per share over the period (after adjusting for dividends paid during the period of 5.0p per Share), equivalent to a decrease of 3.9%.

The return on ordinary activities for the 'F' Share pool for the period was a loss of £371,000 (2013: £105,000) being a revenue profit of £33,000 (2013: loss £10,000) and a capital loss of £404,000 (2013: loss £95,000).

'F' Share pool - investment activity

In September 2013, a new investment totalling £644,000 was made in Pearce and Saunders Limited, a new freehold pub company that will be managed by the Antic London team.

In May 2013, the 'F' Share pool invested £311,000 in Redmed Limited to allow the company to complete the purchase and refurbishment of a high street bar in Lincoln city centre. The bar was refurbished and re-launched in September 2013 as Craft Bar & Kitchen. Since September, loan stock redemptions of £35,000 have been received, total investment cost is now £276,000.

£200,000 was invested in Pabulum Pubs Limited in April 2013 and a total of £290,000 invested in Augusta Pub Company Limited, both companies have purchased freehold pubs in London.

In July 2013, a £500,000 loan was made to Pub People Holdings Limited which owns and operates 50 pubs in the East Midlands. This non-qualifying investment is secured against five freehold pubs in the company's estate.

A £107,000 non-qualifying investment was made in Dominions House Limited in March 2013 in a building in Cardiff.

'F' Share pool – portfolio valuation

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

A full provision was made against Southampton Hotel Developments Limited following the contractor going into administration. With significant doubts as to whether any value can be recovered, the investment has been written down by £300,000 to nil.

Performance of the nightclub owned by City Falkirk Limited has unfortunately continued to operate below expectation and a further reduction in value of £96,000 has been made. We are working closely with the club's management in order to try to bring the trading back on track, however, it is clear that the depressed economic conditions are a major contributing factor to the weak performance.

A reduction of £31,000 has been made to Cheers Dumbarton Limited following a period of below budget trading. The company was set up to purchase the freehold trade and assets of Cheers nightclub in Dumbarton, Scotland.

On the positive side, Kidspace Adventures Holdings Limited, which owns three well established children's play areas in Croydon, Romford and Epsom, continues to perform well. As such the valuation has been increased by £23,000.

In total the portfolio produced unrealised losses of £404,000 in the year.

Outlook

The 'F' Share portfolio is still at a relatively early stage and the initial setbacks in the portfolio are disappointing. The focus for the coming year will be to identify further good quality qualifying investments to utilise remaining funds and to continue building a portfolio with good potential for growth over the next four years when the commencement of the realisations are planned.

Downing Managers 2 Limited

28 April 2014

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2013:

‘F’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in period £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Tor Solar PV Limited	680	680	-	7.9%
Pearce and Saunders Limited*	644	644	-	7.4%
Vulcan Renewables Limited	588	588	-	6.8%
Augusta Pub Company Limited	290	290	-	3.3%
Redmed Limited*	276	276	-	3.2%
Kidspace Adventures Holdings Limited	250	273	23	3.1%
Fubar Stirling Limited	268	268	-	3.1%
City Falkirk Limited	421	244	(96)	2.8%
Pabulum Pubs Limited	200	200	-	2.3%
Fresh Green Power Limited	200	200	-	2.3%
Green Energy Production UK Limited	100	100	-	1.2%
Cheers Dumbarton Limited	48	17	(31)	0.3%
Lochrise Limited	13	-	-	0.0%
	<u>3,978</u>	<u>3,780</u>	<u>(104)</u>	<u>43.7%</u>
Non-qualifying investments				
Aminghurst Limited	1,110	1,110	-	12.8%
Pub People Holdings Limited	500	500	-	5.8%
Baron House Developments LLP	481	481	-	5.5%
Hoole Hall Hotel Limited	265	265	-	3.1%
Dominions House Limited	107	107	-	1.2%
Retallack SurfPods Limited	98	98	-	1.1%
The 3D Pub Co Limited	55	55	-	0.6%
Southampton Hotel Developments Limited	300	-	(300)	0.0%
	<u>2,916</u>	<u>2,616</u>	<u>(300)</u>	<u>30.1%</u>
	<u>6,894</u>	<u>6,396</u>	<u>(404)</u>	<u>73.8%</u>
Cash at bank and in hand		<u>2,269</u>		<u>26.2%</u>
Total investments		<u>8,665</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the period and the basis of valuation of the ten largest investments are set out above, below and on pages 26 to 28.

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

Summary of investment movements

Additions

	Cost £'000
VCT qualifying and partially qualifying investments	
Pearce and Saunders Limited*	644
Redmed Limited*	311
Augusta Pub Company Limited	290
Pabulum Pubs Limited	200
Vulcan Renewables Limited	28
Non-qualifying investments	
Pub People Holdings Limited	500
Dominions House Limited	107
Retallack SurfPods Limited	77
Total ‘F’ Share pool	<u><u>2,157</u></u>

Disposals

	Cost £'000	MV at 01/02/13 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the period £'000
Non-qualifying investments					
Clareville St LLP	500	500	500	-	-
West Tower Holdings Limited	290	290	290	-	-
Retallack SurfPods Limited	228	228	228	-	-
Baron House Developments LLP	144	144	144	-	-
Redmed Limited	35	35	35	-	-
	<u>1,197</u>	<u>1,197</u>	<u>1,197</u>	<u>-</u>	<u>-</u>

† Adjusted for additions in the period

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

Further details of the main investments:

Aminghurst Limited

www.gararock.co.uk



Cost:	£1,110,000	Valuation at 31/12/13:	£1,110,000
Date of first investment:	Sep 12	Valuation at 31/01/13:	£1,110,000
		Valuation method:	Net Assets

Investment comprises:			
Loan stock:	£1,110,000	Proportion of loan stock held:	11%

Summary financial information from statutory accounts to 31 December*

	2012	2011
Net liabilities:	(£9,759,026)	(£6,848,030)

Aminghurst is a property development company which owns the Gara Rock site in East Portlemouth, South Devon. All of the apartments and cottages have been completed and are currently being marketed for sale. The leisure facilities and restaurant are operational, while the hotel is likely to be offered for sale to hotel operators as a shell ready for fit-out.

Tor Solar PV Limited

www.isis-solar.com



Cost:	£680,000	Valuation at 31/12/13:	£680,000
Date of first investment:	Mar 12	Valuation at 31/01/13:	£680,000
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£34	Proportion of equity held:	17%
		Proportion of preference shares held:	34%
Preference shares:	£476,000		
Loan stock:	£203,966	Proportion of loan stock held:	34%

Summary financial information from statutory accounts to 31 March*

	2013
Net assets:	£1,136,307

Tor Solar PV owns a portfolio of ground mounted solar panels on farms in the South West of the UK. Tor Solar PV receives Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

Pearce and Saunders Limited



Cost:	£644,000	Valuation at 31/12/13:	£644,000
Date of first investment:	Sep 13	Valuation at 31/01/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£193,200	Proportion of equity held:	23%
Loan stock:	£450,800	Proportion of loan stock held:	23%

Summary financial information from statutory accounts: None filed

Pearce & Saunders Ltd is a new freehold pub company that will be managed by the Antic London team and funded by the Downing VCTs. It was incorporated to acquire the freehold pubs of three South East London sites.

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

Further details of the main investments:

Vulcan Renewables Limited



Cost:	£588,000	Valuation at 31/12/13:	£588,000
Date of first investment:	Apr 12	Valuation at 31/01/13:	£560,000
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£420,000	Proportion of equity held:	5%
Loan stock:	£168,000	Proportion of loan stock held:	4%

Summary financial information from statutory accounts to 30 November*

	2012
Net assets:	£2,580,091

Vulcan Renewables is developing a 2.0MW maize fed biogas plant in near Doncaster. Through an Anaerobic Digestion process biogas is produced which is used to generate gas. The company benefits from the receipt of Feed-In Tariffs and payments for gas exported to the National Gas Grid.

Pub People Holdings Limited

www.pubpeople.com



Cost:	£500,000	Valuation at 31/12/13:	£500,000
Date of first investment:	Jul 13	Valuation at 31/01/13:	n/a
		Valuation method:	Cost as reviewed for impairment

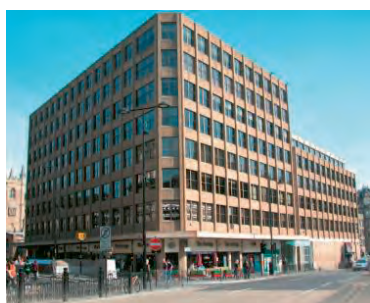
Investment comprises:			
Loan stock:	£500,000	Proportion of loan stock held:	26%

Summary financial information from consolidated statutory accounts to 31 March

	2013	2012
Turnover:	£11,497,000	£11,602,000
Operating profit:	£24,000	£24,000
Net assets:	£5,449,000	£5,599,000

Downing VCTs have invested £1.91m into Pub People by way of a non-qualifying loan. The funds were used to enable Pub People's management to acquire the shares owned by Downing EIS Funds in Pub People for £1.93m. Pub People own and operate more than 50 pubs in the East Midlands.

Baron House Developments LLP



Cost:	£481,000	Valuation at 31/12/13:	£481,000
Date of first investment:	Apr 12	Valuation at 31/01/13:	£625,000
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£481,000	Proportion of loan stock held:	10%

Summary financial information from statutory accounts to 31 March

	2013
Turnover:	-
Operating profit:	£181,649
Net assets:	£4,743,191

Baron House Developments was created to fund the purchase of a property opposite Newcastle station, which qualifies under the Business Premises Renovation Allowance (BPRA) scheme.

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

Further details of the main investments:

Augusta Pub Company Limited



Cost:	£290,000	Valuation at 31/12/13:	£290,000
Date of first investment:	May 13	Valuation at 31/01/13:	n/a
		Valuation method:	Multiples

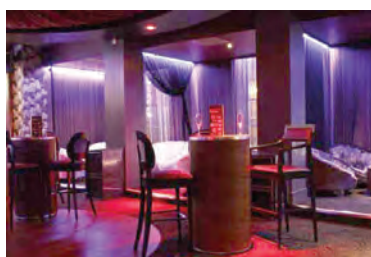
Investment comprises:			
Ordinary shares:	£290,000	Proportion of equity held:	12%

Summary financial information from statutory accounts: None filed

Augusta Pub Company was set up to purchase freehold pubs in London to be refurbished and managed by Anthony Thomas’s (“AT”) pub management company (Ron Con Limited) and will operate under the successful Antic London brand (“Antic London”).

Redmed Limited

www.homelincn.co.uk



Cost:	£276,250	Valuation at 31/12/13:	£276,250
Date of first investment:	May 13	Valuation at 31/01/13:	n/a
		Valuation method:	Multiples

Investment comprises:			
Ordinary shares:	£112,500	Proportion of equity held:	3%
Loan stock:	£163,750	Proportion of loan stock held:	8%

Summary financial information from statutory accounts to 30 April*

	2013	2012
Net assets:	£1,152,240	£735,537

Redmed Limited owns and operates ‘Home’ a large entertainment venue with a restaurant, roof terrace and nightclub with six themed rooms and the Craft bar, both in Lincoln city centre. The venue Home, which is located close to the University of Lincoln was completely refurbished and successfully relaunched in October 2011.

Kidspace Adventures Holdings Limited

www.kidspaceadventures.com



Cost:	£250,000	Valuation at 31/12/13:	£272,500
Date of first investment:	Jan 12	Valuation at 31/01/13:	£250,000
		Valuation method:	Multiples

Investment comprises:			
Ordinary shares:	£75,000	Proportion of equity held:	2%
Loan stock:	£175,000	Proportion of loan stock held:	5%

Summary financial information from statutory accounts to 31 January

	2013
Turnover:	£4,305,765
Operating profit:	£144,245
Net assets:	£1,968,284

Kidspace Adventures Holdings Limited is the holding company of Kidspace Adventures Limited which owns two well established and profitable indoor children’s play centres in Croydon and Romford. The company has developed an adventure farm park called Hobbledown, located in Epsom Surrey, which opened in July 2012.

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

Further details of the main investments:

Fubar Stirling Limited

www.fubarclub.info



Cost:	£268,091	Valuation at 31/12/13:	£268,077
Date of first investment:	Feb 12	Valuation at 31/01/13:	£268,077
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

‘A’ shares:	£14	Proportion of equity held:	7%
‘B’ shares:	£80,423	Proportion of equity held:	18%
Loan stock:	£187,654	Proportion of loan stock held:	14%

Summary financial information from statutory accounts to 28 February*

	2013
Net assets:	£578,674

Fubar Stirling Limited owns and operates the Fubar nightclub in Stirling Scotland. This freehold asset was purchased out of administration and is being run on a management contract by Lochrise Limited.

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

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the period from the ten largest investments held by the ‘F’ Share pool

£’000

Aminghurst Limited	-
Tor Solar PV Limited	-
Pearce and Saunders Limited	12
Vulcan Renewables Limited	20
Pub People Holdings Limited	19
Baron House Developments LLP	3
Augusta Pub Company Limited	-
Redmed Limited	13
Kidspace Adventures Holdings Limited	20
Fubar Stirling Limited	17
	<hr/>
	104
Receivable from other investments	108
	<hr/>
	212
	<hr/> <hr/>

Analysis of investments by investment type

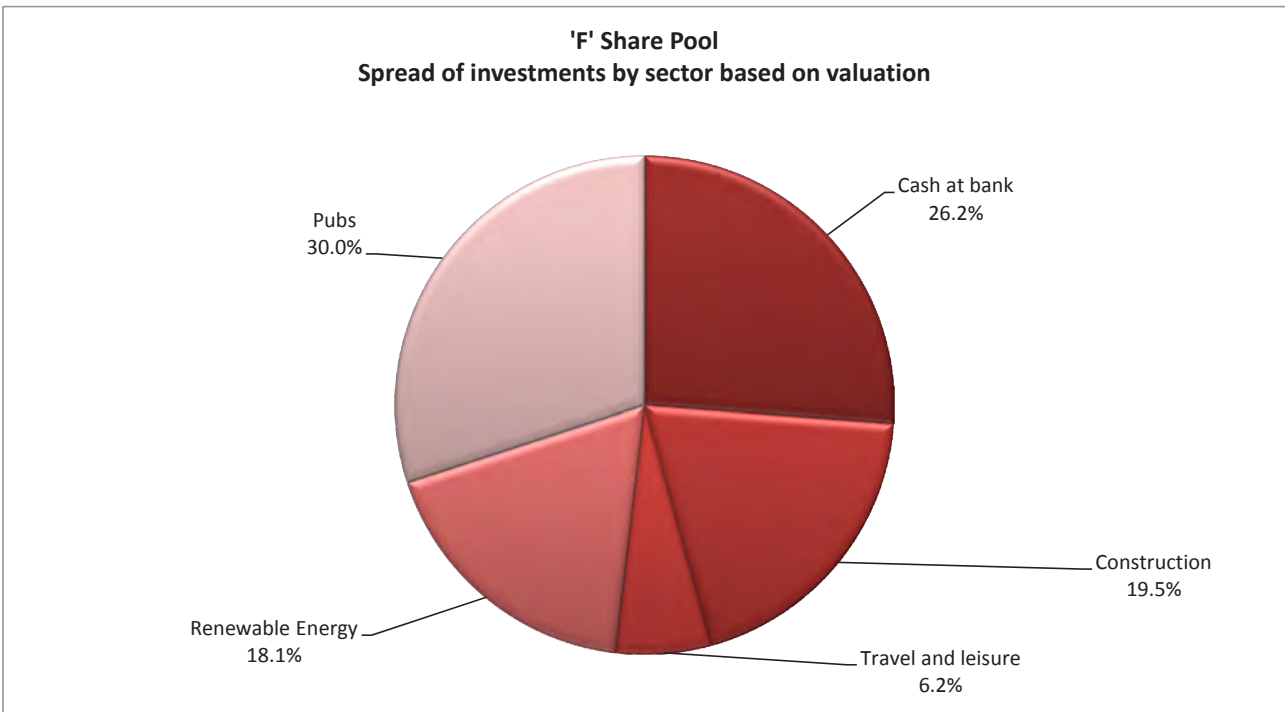
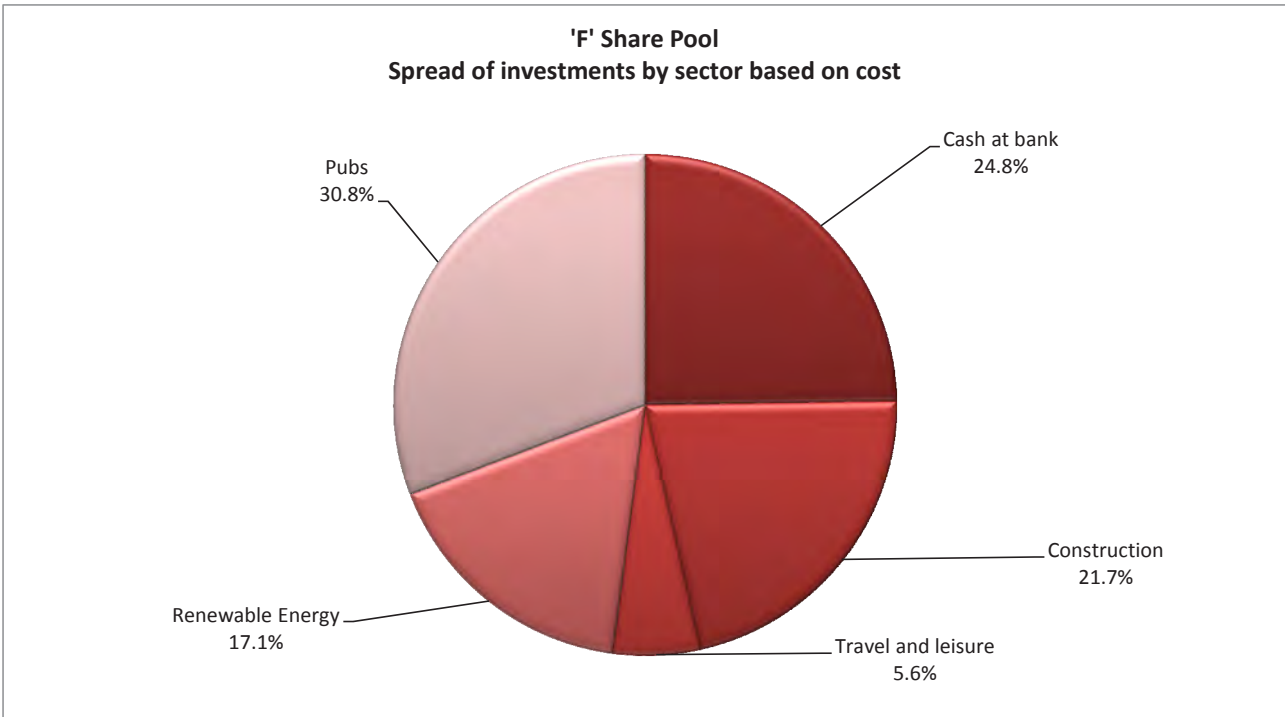
The following shows the split of the ‘F’ Share pool’s investment portfolio by type of instrument held at 31 December 2013:

	Target portfolio split 31 Dec 2014	Actual portfolio split 31 Dec 2013
Qualifying investments		
Loans to qualifying companies	50%	16%
Ordinary shares in qualifying companies	25%	24%
Non-qualifying investments (including cash at bank)	25%	60%
	<hr/>	<hr/>
	100%	100%
	<hr/> <hr/>	<hr/> <hr/>

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL

Analysis of investments by commercial sector

The split of the ‘F’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2013) is as follows:



F Shares

INVESTMENT MANAGER'S REPORT- 'G' SHARE POOL

Introduction

During the period, 21.9 million 'G' Shares were issued under the offer for subscription, generating gross proceeds of £26.6 million and net proceeds of £25.5 million after share issue costs. The task of investing these new funds is now underway.

Investment activity

During the 'G' Share pool's initial period, 11 new investments were made at a total cost of £8.5 million. Of these investments, two were VCT qualifying and one was part qualifying.

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

In May 2013, the 'G' Share pool initially invested £200,000 in Augusta Pub Company. This was followed in September 2013 with a further £1.88 million investment. This investment was used to purchase the freehold of a pub in London.

£500,000 was invested in May 2013 in Redmed Limited to allow it to complete the purchase and refurbishment of a high street bar in Lincoln city centre. The bar was refurbished and re-launched in September 2013 as Craft Bar & Kitchen.

£400,000 was invested in Pabulum Pubs Limited in April 2013 to purchase a freehold pub in London.

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

Harrogate Street LLP is refurbishing a building in Wigan to be a Premier Inn. The 'G' Share pool has invested £1,400,000 in this non-qualifying investment.

A non-qualifying investment of £1,093,000 in Baron House Developments LLP was transferred from other Downing VCTs during the period.

£1,000,000 of loan stock invested in Aminghurst Limited was transferred from other Downing funds. Aminghurst Limited is a property development company in South Devon.

In July 2013, a £911,000 loan was made to Pub People Holdings Limited which owns and operates over 50 pubs in the East Midlands. This non-qualifying investment is secured against five freehold pubs in the company's estate.

In September 2013, £493,000 was invested in Pearce and Saunders Limited to acquire three freehold pubs in South East London.

In July 2013, £400,000 of non-qualifying loan was invested in Snow Hill Developments, a Birmingham based hotel development.

£300,000 of non-qualifying investment was transferred from another Downing fund invested in the Antelope Pub Limited, a freehold pub in Tooting, South London.

£178,000 of non-qualifying investment was made in Dominions House Limited, a building development site in Cardiff.

One non-qualifying loan, West Tower Holdings Limited, which owned and operated a wedding venue, was purchased and sold in the period generating disposal proceeds of £1,020,000 against a holding cost and value of the same.

Net asset value and results

At 31 December 2013, the 'G' Share NAV stood at 95.1p. The 'G' Shares paid a first dividend of 5.0p per share in November 2013. Total Return (NAV plus cumulative dividends to date) for shareholders who invested in the original share offer is now 100.1p. This represents a net increase of 0.1p per Share against the capital price at launch of 100.0p per share (after adjusting for dividends paid during the period of 5.0p per Share), equivalent to an increase of 1%.

The return on ordinary activities for the 'G' Share pool for the period was a revenue profit of £39,000.

Outlook

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

Downing Managers 2 Limited

28 April 2014

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2013:

‘G’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in period £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Augusta Pub Company Limited*	1,780	1,780	-	7.4%
Redmed Limited	500	500	-	2.1%
Pabulum Pubs Limited	400	400	-	1.7%
	<u>2,680</u>	<u>2,680</u>	-	11.2%
Non-qualifying investments				
Harrogate Street LLP	1,400	1,400	-	5.8%
Baron House Developments LLP	1,093	1,093	-	4.5%
Aminghurst Limited	1,000	1,000	-	4.1%
Pub People Holdings Limited	911	911	-	3.8%
Pearce and Saunders Limited	493	493	-	2.0%
Snow Hill Developments LLP	400	400	-	1.7%
Antelope Pub Limited	300	300	-	1.2%
Dominions House Limited	178	178	-	0.7%
	<u>5,775</u>	<u>5,775</u>	-	23.8%
	<u>8,455</u>	<u>8,455</u>	-	35.0%
Cash at bank and in hand		<u>15,718</u>		<u>65.0%</u>
Total investments		<u>24,173</u>		<u>100.0%</u>

* Part-qualifying investment

All of the above investments and disposals shown below were additions during the period.

The movements in the portfolio during the period and the basis of valuation of the ten largest investments are set out above, below and on pages 32 to 35.

Summary of investment movements

Disposals

	Cost £'000	MV at 01/02/13 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the period £'000
Non-qualifying investments					
West Tower Holdings Limited	1,020	1,020	1,020	-	-
Augusta Pub Company Limited	300	300	300	-	-
	<u>1,320</u>	<u>1,320</u>	<u>1,320</u>	<u>-</u>	<u>-</u>

† Adjusted for additions in the period

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

Further details of the main investments:

Augusta Pub Company Limited

www.anticlondon.com



Cost:	£1,780,000	Valuation at 31/12/13:	£1,780,000
Date of first investment:	May 13	Valuation at 31/01/13:	n/a
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£580,000	Proportion of equity held:	25%
Loan stock:	£1,200,000	Proportion of loan stock held:	100%

Summary financial information from statutory accounts: None filed

Augusta Pub Company was set up to purchase freehold pubs in London to be refurbished and managed by Anthony Thomas's pub management company (Ron Con Limited) and will operate under the successful Antic London brand.

Harrogate Street LLP



Cost:	£1,400,000	Valuation at 31/12/13:	£1,400,000
Date of first investment:	Apr 13	Valuation at 31/01/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

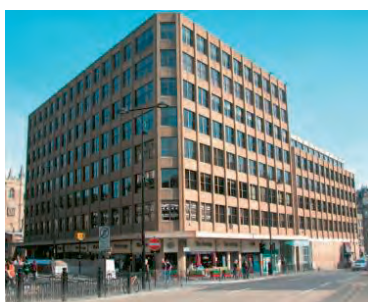
Loan stock:	£1,400,000	Proportion of loan stock held:	100%
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Summary financial information from statutory accounts to 31 March

	2013
Turnover:	-
Operating:	£1,750
Net assets:	£87,163

Harrogate Street LLP (the "Developer") is refurbishing a building in Wigan to be a Premier Inn. The Developer is a member of the LLP that owns the freehold of the building, which will be let to Premier Inn under a 20 year lease. The Developer will receive interest at 5.6% (initially rolling up) and 65% of the proceeds after settling outstanding debts when the building is sold (after 7 years of trading).

Baron House Developments LLP



Cost:	£1,093,000	Valuation at 31/12/13:	£1,093,000
Date of first investment:	Apr 13	Valuation at 31/01/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:

Loan stock:	£1,093,000	Proportion of loan stock held:	23%
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Summary financial information from statutory accounts to 31 March

	2013
Turnover:	-
Operating profit:	£181,649
Net assets:	£4,743,191

Baron House Developments was created to fund the purchase of a property opposite Newcastle station, which qualifies under the Business Premises Renovation Allowance (BPRA) scheme.

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

Further details of the main investments:

Aminghurst Limited
www.gararock.com



Cost:	£1,000,000	Valuation at 31/12/13:	£1,000,000
Date of first investment:	May 13	Valuation at 31/01/13:	n/a
		Valuation method:	Net assets

Investment comprises:			
Loan stock:	£1,000,000	Proportion of loan stock held:	10%

Summary financial information from statutory accounts to 31 December *		
	2012	2011
Net liabilities:	(£9,759,026)	(£6,848,030)

Aminghurst is a property development company which owns the Gara Rock site in East Portlemouth, South Devon. All of the apartments and cottages have been completed and are currently being marketed for sale. The leisure facilities and restaurant are operational, while the hotel is likely to be offered for sale to hotel operators as a shell ready for fit-out.

Pub People Holdings Limited
www.pubpeople.com



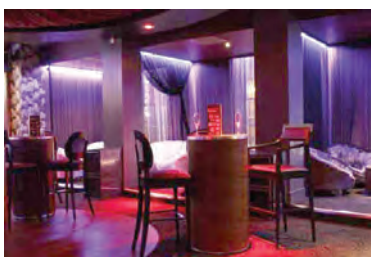
Cost:	£911,000	Valuation at 31/12/13:	£911,000
Date of first investment:	Jul 13	Valuation at 31/01/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£911,000	Proportion of loan stock held:	47%

Summary financial information from statutory accounts to 31 March		
	2013	2012
Turnover:	£9,759,364	£9,596,482
Operating profit:	£5,380,701	£5,284,803
Net assets:	£2,654,574	£2,566,364

Pub People own and operate more than 50 pubs in the East Midlands and the loan is secured, with first charge, over the 5 freeholds in the estate valued at more than £2.5 million.

Redmed Limited
www.homelincoln.co.uk



Cost:	£500,000	Valuation at 31/12/13:	£500,000
Date of first investment:	May 13	Valuation at 31/01/13:	n/a
		Valuation method:	Multiples

Investment comprises:			
Ordinary shares:	£225,000	Proportion of equity held:	14%
Loan stock:	£275,000	Proportion of loan stock held:	13%

Summary financial information from statutory accounts to 30 April*		
	2013	2012
Net assets:	£1,152,240	£735,537

Redmed Limited owns and operates Home, a large entertainment venue with a restaurant, roof terrace and nightclub with six themed rooms in Lincoln city centre. The venue, which is located close to the University of Lincoln was completely refurbished and re-launched in October 2011.

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

Further details of the main investments:

Pearce and Saunders Limited
www.anticlondon.com



Cost:	£492,800	Valuation at 31/12/13:	£492,800
Date of first investment:	Sep 13	Valuation at 31/01/13:	n/a
		Valuation method:	Cost as reviewed for impairment

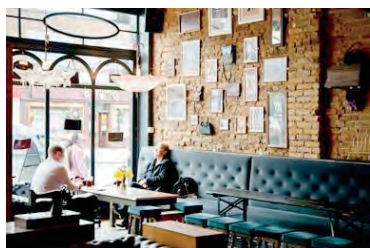
Investment comprises:			
Loan stock:	£492,800	Proportion of loan stock held:	25%

Summary financial information from statutory accounts: None filed

Pearce & Saunders Ltd is a new freehold pub company that will be managed by the Antic London team and funded by the Downing VCTs. It was incorporated to acquire the freehold pubs of three South East London sites; Jam Circus in Brockley, The Old Post Office in Eltham and The John Jakson in Wallington.

All sites are in need of refurbishments in order to be developed into the typical Antic London styled public house. It is expected that the sites will commence trade in the first half of 2014.

Pabulum Pubs Limited
www.anticlondon.com



Cost:	£400,000	Valuation at 31/12/13:	£400,000
Date of first investment:	Apr 13	Valuation at 31/01/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Ordinary shares:	£400,000	Proportion of equity held:	40%

Summary financial information from statutory accounts to 31 December*

	2012	2011
Net assets:	£2,340,537	None due

Pabulum was set up to purchase freehold pubs in London to be refurbished, operated and managed by Anthony Thomas' ("AT") former pub management company (Ron Con Limited), and operate under the successful Antic London brand ("Antic London").

Snow Hill Developments LLP
www.sanguine.com/holiday-inn-express-birmingham



Cost:	£400,000	Valuation at 31/12/13:	£400,000
Date of first investment:	Jul 13	Valuation at 31/01/13:	n/a
		Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£400,000	Proportion of loan stock held:	35%

Summary financial information from statutory accounts to 31 December

	2011
Turnover:	£nil
Operating loss:	£15,214
Net assets:	£15,121

Snow Hill Developments LLP was formed on 18 May 2011 as a limited liability partnership. It is a special purpose vehicle established to undertake a property development project close to Snow Hill in Birmingham under the Business Premises Renovation Allowance (BPRA) scheme.

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

Further details of the main investments:

Antelope Pub Limited

www.theantelopepub.com



Cost:	£300,000	Valuation at 31/12/13:	£300,000
Date of first investment:	Mar 13	Valuation at 31/01/13:	n/a
		Valuation method:	Multiples

Investment comprises:			
Loan stock:	£300,000	Proportion of loan stock held:	18%

Summary financial information from statutory accounts to 31 December

	2012	2011
Net assets:	£1,104,523	£1,012,765

The Antelope Pub is a public house in Tooting, South London. The company purchased the freehold interest from Punch Taverns and the leasehold interest from the operator (who is the investment partner) in 2010.

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

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the period from the ten largest investments held by the ‘G’ Share pool

Augusta Pub Company Limited	29
Harrogate Street LLP	58
Baron House Developments LLP	-
Aminghurst Limited	-
Pub People Holdings Limited	35
Redmed Limited	21
Pearce and Saunders Limited	13
Pabulum Pubs Limited	-
Snow Hill Developments LLP	15
Antelope Pub Limited	20
	<hr/>
	191
Receivable from other investments	40
	<hr/>
	231
	<hr/> <hr/>

Analysis of investments by investment type

The following shows the split of the ‘G’ Share pool’s investment portfolio by type of instrument held at 31 December 2013:

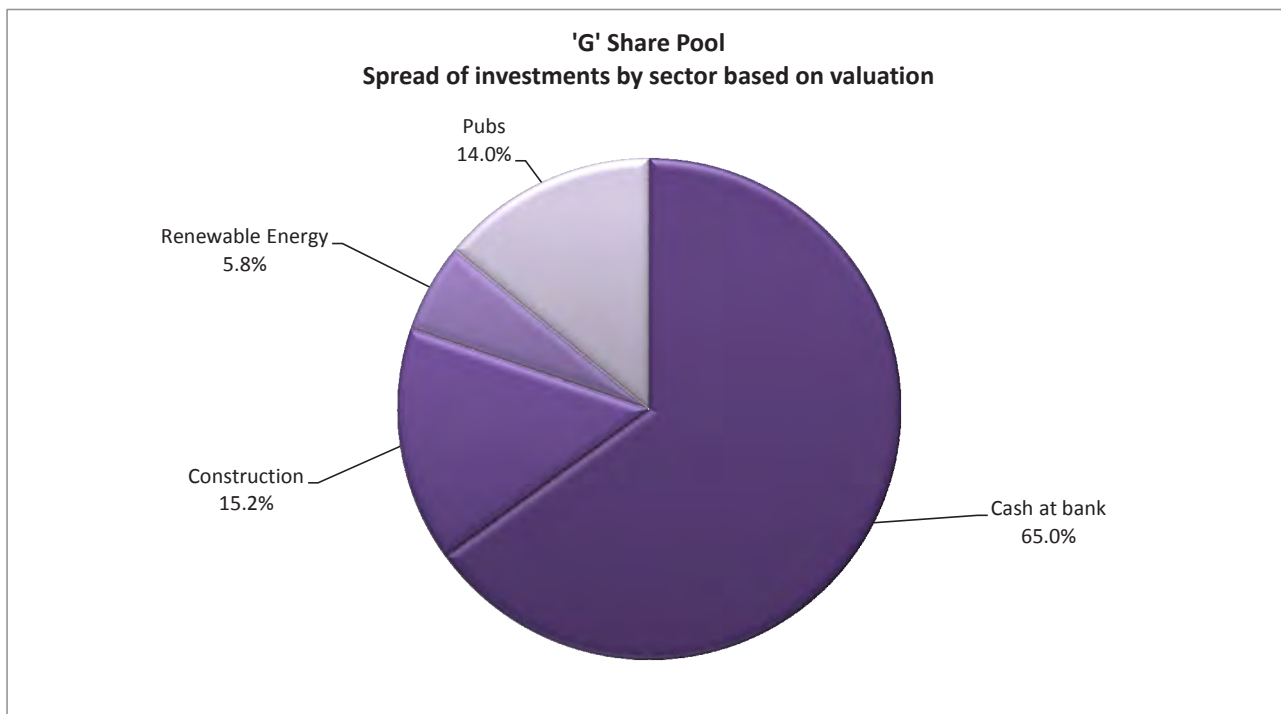
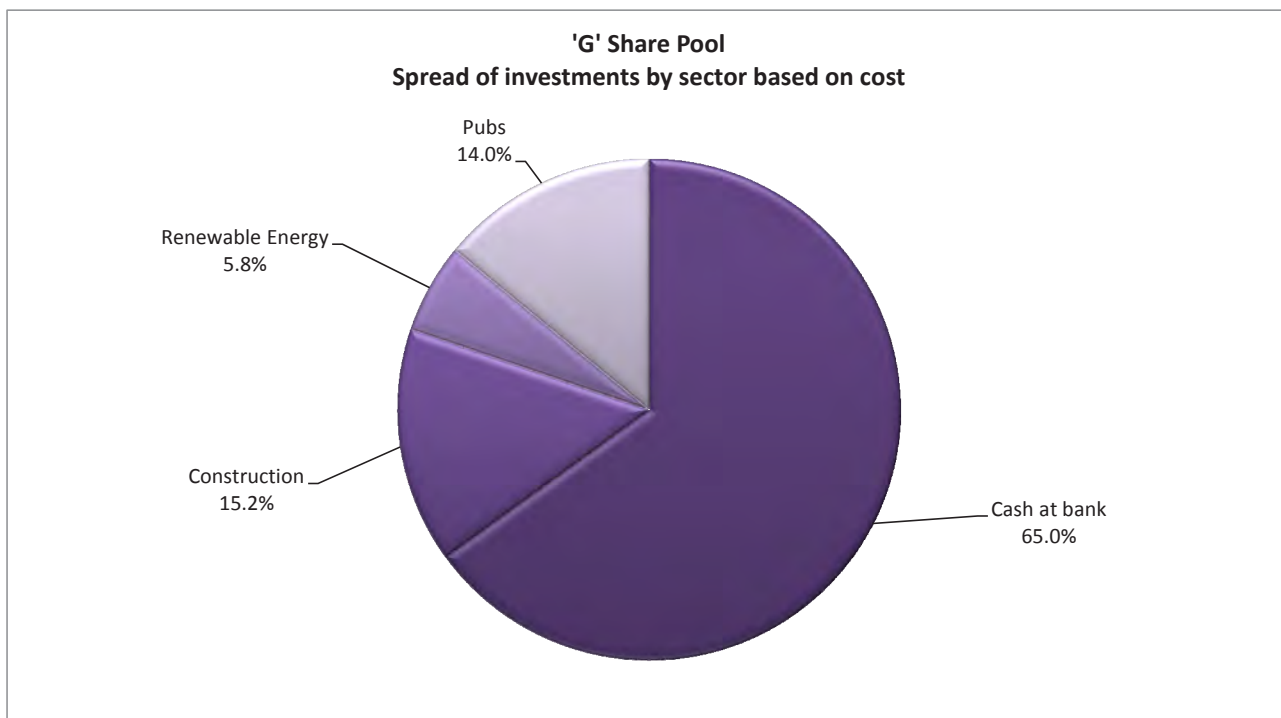
	Target portfolio split 31 Dec 2015	Actual portfolio split 31 Dec 2013
Qualifying investments		
Loans to qualifying companies	50%	1%
Ordinary shares in qualifying companies	25%	6%
Non-qualifying investments (including cash at bank)	25%	93%
	<hr/>	<hr/>
	100%	100%
	<hr/> <hr/>	<hr/> <hr/>

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

Further details of the main investments:

Analysis of investments by commercial sector

The split of the 'G' Share pool's venture capital investment portfolio by commercial sector (by cost and value at 31 December 2013) is as follows:



STRATEGIC REPORT

The Directors present the Strategic Report for the period ended 31 December 2013. The Board have prepared this report in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Principal objectives and strategy

The Company's principal objective is to provide shareholders with an attractive level of tax-free capital gains and income generated from a portfolio of investments in a range of different sectors.

The Company's strategy for achieving this objective is to:

- invest in a portfolio of venture capital investments across a range of differing sectors, primarily in the UK and EU and;
- comply with the VCT regulations to enable Shareholders to retain the initial income tax relief and ongoing tax reliefs.

Business review and developments

'C' Share pool

The 'C' Share pool began the period with £6.7 million of investments and ended with £5.8 million spread across a portfolio of 18 companies. 13 of these investments, with a value of £4.6 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the period was £78,000, comprising a revenue profit of £165,000 and a capital loss of £87,000.

'D' Share pool

The 'D' Share pool began the period with £8.0 million of investments and ended with £7.6 million spread across a portfolio of 21 companies. 17 of these, with a value of £5.6 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the period was £229,000, comprising a revenue profit of £235,000 and a capital loss of £6,000.

'F' Share pool

The 'F' Share pool began the period with £5.8 million of investments and ended with £6.4 million spread across a portfolio of 21 companies. 13 of these investments, with a value of £3.8 million, were VCT qualifying (or part qualifying).

The loss on ordinary activities after taxation for the period was £371,000, comprising a revenue profit of £33,000 and a capital loss of £404,000.

'G' Share pool

The 'G' Share pool began investing during the period. At the end of the period the pool held £8.5 million of investments spread across a portfolio of 11 companies. 3 of these, with a value of £2.7 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the period was £39,000, being purely a revenue profit.

The Company's business and developments during the period are reviewed further within the Chairman's Statement, Investment Managers reports and the Review of Investments for each share pool.

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its objectives (as shown on page 2). The Board believes the Company's key performance indicators are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share (see 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, market price, credit and liquidity risks, are summarised within note 17 to the financial statements.

In addition to these risks, the Company, as a fully listed company on the London Stock Exchange and as a Venture Capital Trust, operates in a complex regulatory environment and therefore faces a number of related risks. A breach of the VCT regulations could result in the loss of VCT status and consequent loss of tax reliefs currently available to Shareholders and the Company being subject to capital gains tax. Serious breaches of other regulations, such as the Listing Rules of the Financial Conduct Authority and the Companies Act 2006, could lead to suspension from the Stock Exchange and damage to the Company's reputation.

The Board reviews and agrees policies for managing each of these risks. They receive quarterly reports from the Manager which monitors the compliance of these risks, and places reliance on the Manager to give updates in the intervening periods. These policies have remained unchanged since the beginning of the financial period.

STRATEGIC REPORT (continued)

Business model

The company operates as a Venture Capital Trust to ensure its shareholders can benefit from tax reliefs available.

The business of the Company is to act as an investment company, investing in a portfolio which meets the conditions set within its Investment Policy, as shown below.

Investment policy

Qualifying investments

Qualifying investments comprise investments in UK trading companies that own substantial assets (over which a charge will be taken by the Company) or have predictable revenue streams from financially sound customers.

Non-qualifying investments

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

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

Secured loans will be secured on property or other assets. Fixed Income Securities will consist of bonds issued by the UK Government, major companies and institutions and will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated). Both Standard & Poor's and Moody's are independent rating agencies not registered in the EU.

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

Qualifying investments	75%
Non-qualifying investments	25%
	<u>100%</u>

Listing rules

In accordance with the Listing Rules:

- (i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds;
- (ii) the Company must not conduct any trading activity which is significant in the context of the Company; and

- (iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 Income Tax Act 2007.

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) for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011;
3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);
4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment);
5. The Company's income for each financial year is derived wholly or mainly from shares and securities; and
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained.

Performance incentive fees

'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

STRATEGIC REPORT (continued)

Performance incentive fees

'C' Share pool and 'D' Share pool (continued)

If the above distribution would result in Shareholders receiving less than 100.0p per £1 invested or lower than a 7% compound return, the return to the Management Team will be reduced until Shareholders receive at least 100.0p 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.

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.

'F' Share pool

The Performance Incentive fee in respect of the 'F' Share pool will only become payable if 'F' Shareholders: (i) receive Shareholder Proceeds of at least 100.0p per 'F' Share (excluding initial income tax relief); and (ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 3.0p per 'F' Share plus 20% above 100.0p per 'F' Share of the funds available (for distribution to 'F' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of the 'F' Share pool equivalent to 7.0p per 'F' Share (based on the number of 'F' Shares in issue at the close of the Offers).

For example, if the total funds available for distribution were 110.0p per 'F' Share, then the Performance Incentive would be 5.0p per 'F' Share (3.0p plus 20% x 10.0p), leaving Shareholder Proceeds of 105.0p per 'F' Share (assuming the Hurdles have been met and ignoring any benefit from corporation tax relief on the Performance Incentive). If the total funds available for distribution were instead 130.0p per 'F' Share, the Performance Incentive would be capped at 7.0p per 'F' Share, leaving Shareholder Proceeds of 123.0p per 'F' Share.

'G' Share pool

The Performance Incentive fee in respect of the 'G' Share pool will only become payable if 'G' Shareholders: (i) receive Shareholder Proceeds of at least 105.82p per 'G' Share (excluding initial income tax relief); and (ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 3.0p per 'G' Share plus 20% above 105.82p per 'G' Share of the funds available (for distribution to 'G' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of the 'G' Share pool equivalent to 7.0p per 'G' Share (based on the number of 'G' Shares in issue at the close of the Offers).

As the targets have not been met for any share pool, no fee is due to be paid for the period ended 31 December 2013. It will be recalculated for the year ended 31 December 2014, and annually thereafter, following approval of the audited accounts by the Shareholders.

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, of the aggregate amount paid on any shares issued by the Company together with any share premium thereon, currently equal to £10 million. There are no plans to utilise this ability at the current time.

Environmental, social and human rights policy

The Company seeks to conduct its affairs responsibly. Where appropriate, the Board take environmental, social and human rights factors into consideration when making investment decisions.

STRATEGIC REPORT (continued)

Global greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

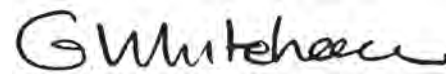
Directors and senior management

The Company does not have any employees, including senior management, other than the Board of two non-executive directors. Both directors are male.

Future prospects

The Company's future prospects are set out in the Chairman's Statement and Investment Manager's Report.

By order of the Board



Grant Whitehouse
Company Secretary
10 Lower Grosvenor Place
London SW1W 0EN

28 April 2014

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the period ended 31 December 2013.

Share capital

At the period end, the Company had in issue 7,126,194 'C' Shares of 0.1p each, 10,724,029 'A' Shares of 0.1p each, 10,000,000 'D' Shares of 0.1p each, 14,950,000 'E' Shares of 0.1p each, 10,822,154 'F' Shares of 0.1p each, and 25,436,996 'G' Shares of 0.1p each.

Only the holders of the 'C' Shares, 'D' Shares, 'F' Shares and 'G' Shares have voting rights, except where there are issues in respect of the variation of rights of the 'A' Shares and 'E' Shares. There are no other share classes in issue.

Assets attributable to the 'C' Shares and 'A' Shares ("C' Share pool"), the 'D' Shares and 'E' Shares ("D' Share pool") the 'F' Shares ("F' Share pool") and the 'G' Shares ('G' 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.

During the period, the Company repurchased 5,162 'C' Shares for an aggregate consideration of £4,414 being an average price of 85.5p per share and which represented 0.3% of the Company's issued 'C' Share capital. The Company repurchased 50,000 'E' Shares for an aggregate consideration of £50 being an average price of 0.01p per share and which represented 0.3% of the Company's issued 'E' Share capital. 92,000 'G' Shares were repurchased during the period for an aggregate consideration of £92,461 being an average price of £1 per share, which represented 0.3% of the Company's issued 'G' share capital. These shares were subsequently cancelled. No 'D' Shares or 'F' Shares were repurchased during the period.

At the AGM that took place on 5 July 2013, the Company was authorised to make market purchases of its 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares and 'F' Shares up to a limit of 1,062,572 'C' Shares, 1,597,880 'A' Shares, 1,490,000 'D' Shares, 2,235,000 'E' Shares, 1,612,501 'F' Shares and 3,036,074 'G' Shares which represented approximately 14.9% of the issued share capital of each share class respectively at the date of the AGM.

At the current date, authority remains for 1,062,572 'C' Shares, 1,597,880 'A' Shares, 1,490,000 'D' Shares, 2,185,000 'E' Shares, 3,036,074 'F' Shares and 3,036,074 'G' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 17 June 2014.

The minimum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or a 'G' Share is 0.1p, exclusive of all expenses, and the maximum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or a 'G' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations.

Results and dividends

	£'000	Pence per share
Return/(loss) on ordinary activities after tax for the period ended 31 December 2013 split as:		
'C' Shares	78	1.1
'D' Shares	229	2.3
'F' Shares	(371)	(3.4)
'G' Shares	39	0.2
Total	<u>(25)</u>	

Distributions paid in respect of current period

19 July 2013 ('C' Shares)	178	2.5
19 July 2013 ('D' Shares)	250	2.5
19 July 2013 ('F' Shares)	271	2.5
27 November 2013 ('C' Shares)	178	2.5
27 November 2013 ('D' Shares)	250	2.5
27 November 2013 ('F' Shares)	271	2.5
27 November 2013 ('G' Shares)	<u>1,272</u>	5.0
	<u>2,670</u>	

Your Board is proposing to pay a final dividend of 2.5p per 'C' Share, 2.5p per 'D' Share, 2.5p per 'F' Share and 2.5p per 'G' Share payable on 27 June 2014 to Shareholders on the register at 16 May 2014.

Directors

The Directors of the Company during the period and their beneficial interests in the issued shares of Downing TWO VCT plc at 31 January 2013 and 31 December 2013 were as follows:

Directors		No. of shares	
		31 Dec 2013	31 Jan 2013
Downing TWO VCT plc			
Hugh Gillespie	'C' Shares	5,250	5,250
	'A' Shares	5,250	5,250
	'G' Shares	4,900	-
Dennis Hale	'C' Shares	7,385	7,385
	'A' Shares	7,385	7,385
	'D' Shares	13,600	13,600
	'E' Shares	13,600	13,600
	'F' Shares	5,175	5,175
	'G' Shares	5,820	-
Michael Robinson (resigned 17 December 2013)		-	-

REPORT OF THE DIRECTORS (continued)

Directors (continued)

Between 31 December 2013 and the date of this report, there were no movements in the directors shareholdings.

In accordance with developments in corporate governance practice, the Board has decided that it is best practice for all Directors to retire at each Annual General Meeting and being eligible offer themselves for re-election. The Board recommends that Shareholders take into consideration each Director's considerable experience in VCTs and other areas, as shown in their respective biographies on page 3 together with the results for the period to date, in order to support the resolutions to re-appoint both Directors.

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

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 1.35% of the 'C' and 'D' Share net assets per annum, 1.8% of the 'F' Share net assets per annum and 2.0% of the 'G' 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 period, are also subject to a cap of 2.9% of net assets for the 'C' and 'D' Share pools, 3.5% of net assets for the 'F' and 'G' Share pools of the Company plus cumulative distributions. Any excess costs over this cap are met by DM2 through a reduction in fees.

Trail commission

The Company has an agreement to pay trail commission annually, to Downing LLP, in connection with the funds raised under the offer for subscription. This is calculated at 0.25% of the net assets of the Company at each year end.

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 period ended 31 December 2013 is summarised as follows:

1. The Company holds at least 70% of its investments in qualifying companies; 75.7%
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011; 34.2%
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;and 87.2%
6. No more than 15% of the income from shares and securities is retained. 7.8%

Creditor payment policy

The Company's payment policy is to pay creditors within thirty days of receipt of an invoice except where other terms have been agreed. The Company did not have any trade creditors at the period end.

REPORT OF THE DIRECTORS (continued)

Substantial interests

As at 31 December 2013 and the date of this report, the Company had not been notified of any beneficial interest exceeding 3 per cent of any class of Share Capital.

Auditor

A resolution proposing to reappoint BDO LLP as the Company's Auditor will be proposed at the forthcoming AGM.

Annual General Meeting

The Annual General Meeting will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10.30 a.m. on 17 June 2014. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

Directors' responsibilities statement

The Directors are responsible for preparing the Report of the Directors, the Directors' Remuneration Report, the Strategic Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). 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 these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, to disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on page 3, confirms that, to the best of each person's knowledge:

- that the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the management report included within the Report of the Directors, Strategic Report, Chairman's Statement, Investment Manager's Report and Review of Investments includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

Website publication

The directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the website of the Administration Manager (www.downing.co.uk) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

REPORT OF THE DIRECTORS (continued)

Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code September 2012 (www.frc.org.uk) is shown on pages 51 and 52.

Other matters

Information in respect of financial instruments and future developments which were previously disclosed within the Directors Report has been disclosed within the Strategic Report on pages 37 to 40.

Statement as to disclosure of information to Auditor

The Directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

By order of the Board



Grant Whitehouse
Company Secretary
10 Lower Grosvenor Place
London SW1W 0EN

28 April 2014

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Section 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to the Shareholders at the Annual General Meeting to be held on 17 June 2014.

Under the requirements of Section 497, the Company's Auditors are required to audit certain disclosures contained within the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 53 and 55.

Directors' remuneration policy

Below is the Company's remuneration policy. Shareholders will be asked to vote on this policy at the AGM on 17 June 2014. In accordance with new regulations, Shareholders must vote on the remuneration policy, for the financial year commencing after the AGM, every three years or sooner if the Company wants to make changes to the policy. Therefore, subject to Shareholder approval this policy will apply from 1 January 2015.

The Company's policy on Directors' remuneration is to seek to remunerate board members at a level appropriate for the time commitment required and degree of responsibility involved for a self-managed Venture Capital Trust, where all investment decisions are made by the Board and non-executive Directors are more closely involved with the investee companies than other similar VCTs.

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.

Directors' remuneration (audited)

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

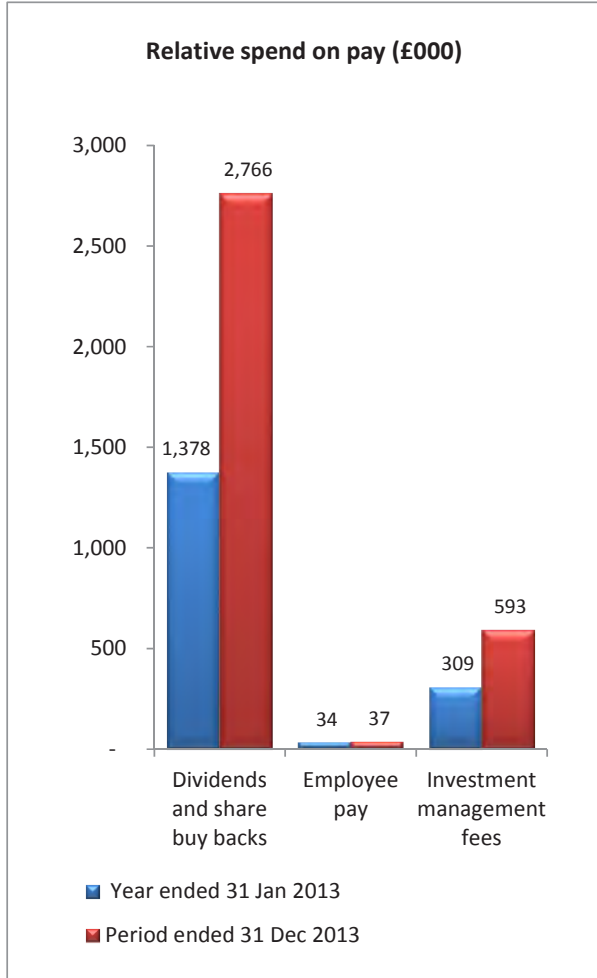
	Current annual fee £	Period ended 31/12/13 £	Year ended 31/01/13 £
Hugh Gillespie	15,000	13,750	12,500
Dennis Hale	12,500	11,458	10,000
Michael Robinson (resigned 17 Dec 13)	-	10,971	10,000
	<u>27,500</u>	<u>36,179</u>	<u>32,500</u>

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)

Relative importance of spend on pay

The difference in actual spend between January 2013 and December 2013 on remuneration for all employees in comparison to distributions (dividends and share buy backs) and other significant spending are set out in the tabular graph below: -



Insurance cover

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

Performance graph

The charts on the next page represents the 'C' Share pool, 'D' Share pool, 'F' Share pool and 'G' Share pool performance over the period since shares were first listed on the London Stock Exchange and compares the Total Return of the Company (Net Asset Value plus dividends) to a rebased Numis Smaller Companies Index including dividends reinvested. The Numis Smaller Companies Index has been chosen as a comparison as the Board considers it is the publicly available index which most closely matches the spread of investments held by the Company. It has been rebased to 100 at the launch date of each respective pool.

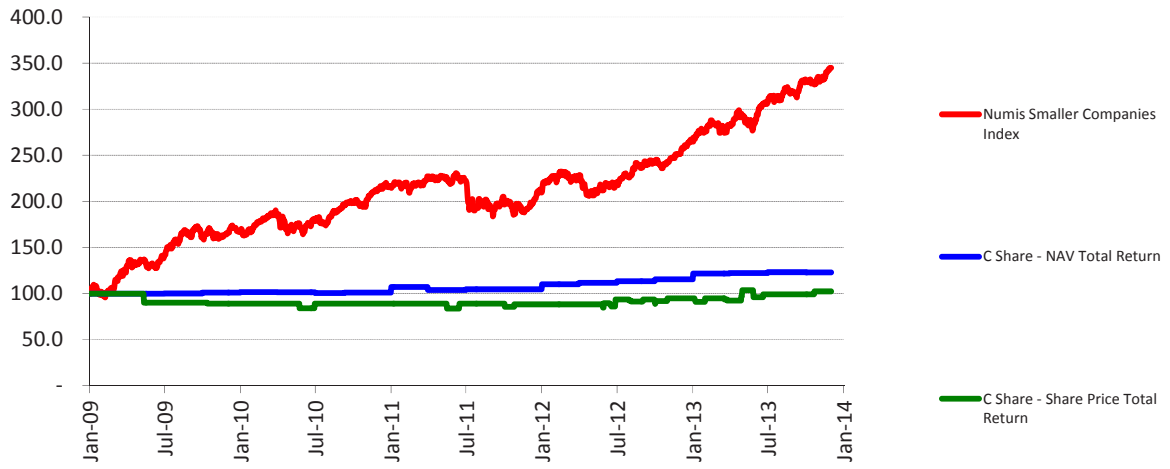
By order of the Board

Grant Whitehouse
 Company Secretary
 10 Lower Grosvenor Place
 London SW1W 0EN

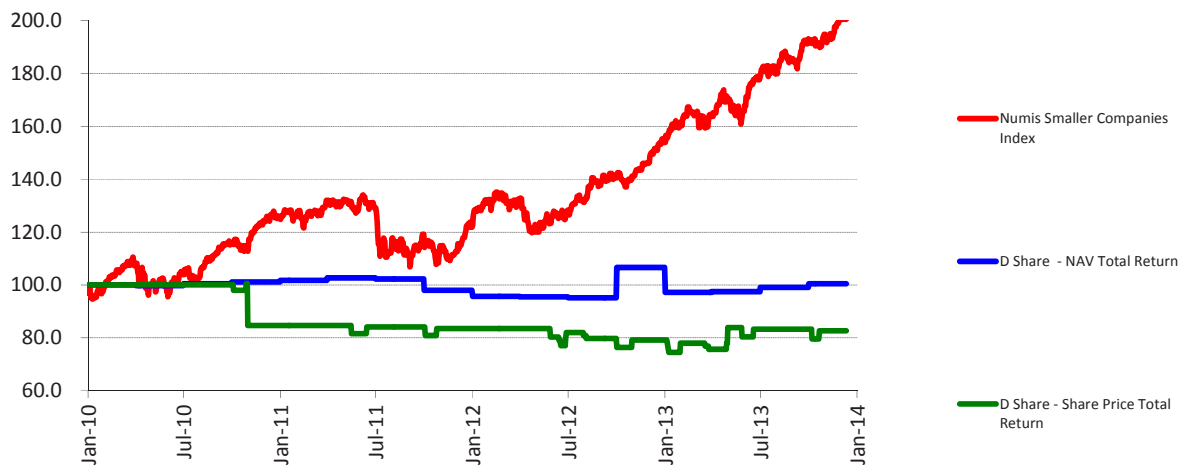
28 April 2014

DIRECTORS' REMUNERATION REPORT (continued)

**Downing TWO VCT plc
'C' Share performance chart**

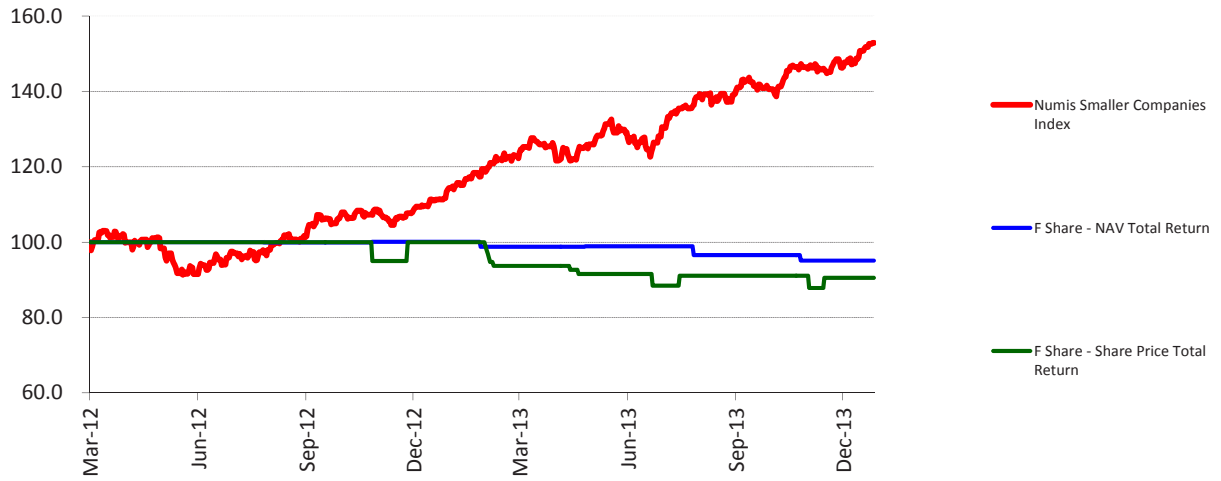


**Downing TWO VCT plc
'D' Share performance chart**

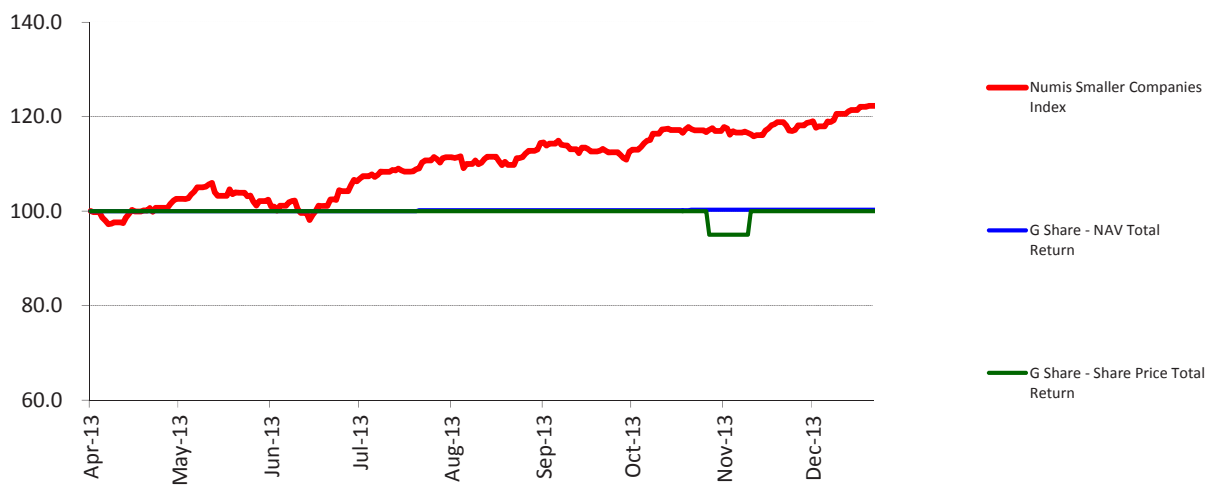


DIRECTORS' REMUNERATION REPORT (continued)

**Downing TWO VCT plc
'F' Share performance chart**



**Downing TWO VCT plc
'G' Share performance chart**



CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012, being the principles of good governance and the code of best practice, as set out in the annex to the Listing Rules of the UK Listing Authority.

The Board

The Company has a Board comprising two non-executive Directors. The Chairman and senior Director is Hugh Gillespie. Biographical details of both Board members (including significant other commitments of the Chairman) are shown on page 3.

In accordance with Company policy both of the Directors 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 reviewing, periodically, the terms of engagement and the performance of all third party advisers (including investment managers and administrators). The Board has a formal schedule of matters specifically reserved for its decision.

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

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

As the Company has a small Board of non-executive Directors, all three Directors sit on all Committees. The Chairman of each Committee is Hugh Gillespie. The Audit Committee normally meets twice yearly, and the Remuneration and Nomination Committees meet as required. All Committees have defined terms of reference and duties.

The Board has authority to make market purchases of the Company's own shares. This authority for up to 14.9% of the Company's issued share capital was granted at the last AGM. A resolution will be put to Shareholders to renew this authority at the forthcoming AGM.

The capital structure of the Company is disclosed on page 41 of the Report of the Directors.

Audit Committee

The Company has an Audit Committee comprising of Hugh Gillespie, as Chairman and Dennis Hale. This Committee has defined terms of reference and duties.

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 auditor, together with their remuneration, as well as a full review of the effectiveness of the Company's internal control and risk management systems.

In particular, the Committee reviews, challenges (where appropriate) and agrees the basis for the carrying value of the unquoted investments, as prepared by the Investment Manager, for presentation within the half-yearly and annual accounts.

The Committee also takes into careful consideration, comments on matters regarding valuation, revenue recognition and disclosures arising from the Report to the Audit Committee as part of the finalisation process for the Annual Accounts.

Any non-audit services provided by the Auditor are reviewed and approved by the Committee prior to being undertaken (such services being undertaken by a separate department to the Auditor), to ensure that Auditor objectivity and independence is safeguarded. In addition the Auditor confirms their independent status on an annual basis.

The Audit Committee met twice during the period. 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 part of its annual review procedures, the Committee has obtained sufficient assurance from their own evaluation, the audit feedback documentation and from correspondence and discussions with the engagement partner of BDO LLP.

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

CORPORATE GOVERNANCE (continued)

Audit committee (continued)

External auditor

The Committee reviews and agrees the audit strategy paper, presented by the Auditor in advance of the audit, which sets out the key risk areas to be covered during the audit and confirms their status on independence. The Committee confirms that the two main areas of risk for the period under review are the carrying value of investments and revenue recognition. The committees' consideration of these matters is set out in this report.

The Committee, after taking into consideration comments from the Investment Manager and Administration Manager, Downing LLP; regarding the effectiveness of the audit process; immediately before the conclusion of the annual audit, will recommend to the Board either the re-appointment or removal of the auditors.

Following assurances received from the Managers at the completion of the audit for the period to 31 December 2013, and taking discussions held with the engagement Partner at BDO LLP into consideration, the Committee has recommended they be re-appointed at the forthcoming AGM.

Board and Committee meetings

The following table sets out the Directors' attendance at the Board and Committee meetings held during the period.

	Board meetings attended (5 held)	Audit Committee meetings attended (2 held)
Hugh Gillespie	5	2
Dennis Hale	5	2
Michael Robinson (resigned 17 Dec 2013)	5	2

Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration due to each Director are set out in the Directors' Remuneration Report on page 45 and this is subject to Shareholder approval. The Committee did not meet during the period.

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.

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 period, or to meet with major Shareholders if so requested.

In addition to the formal business of the AGM, representatives of the Investment Manager and the Board are available to answer any questions a Shareholder may have.

Separate resolutions are proposed at the AGM on each substantially separate issue. The Manager collates proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. In order to comply with the UK Corporate Governance Code, proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called. The notice of the next AGM and proxy form can be found at the end of these financial statements.

The terms of reference of the Committees and the conditions of appointment of non-executive Directors are available to Shareholders on request.

Financial reporting

The Directors' statement of responsibilities for preparing the accounts is set out in the Report of the Directors on page 43, and a statement by the Auditor about their reporting responsibilities is set out in the Auditor's Report on page 54.

Internal control

The Board has adopted an Internal Control Manual ("Manual") for which they are responsible, which has been compiled in order to comply with the UK Corporate Governance Code. The Manual is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, which it achieves by detailing the perceived risks and controls to mitigate them. The Board reviews the perceived risks in line with relevant guidance on an annual basis and implements additional controls as appropriate.

CORPORATE GOVERNANCE (continued)

Internal control (continued)

The Board reviews a Risk Register on an annual basis. The main aspects of internal control in relation to financial reporting by the Board are as follows:

- Review of quarterly reports from the Investment Manager on the portfolio of investments held, including additions and disposals;
- Quarterly reviews by the Board of the Company's investments, other assets and liabilities, and revenue and expenditure and detailed review of unquoted investment valuations;
- Quarterly reviews by the Board of compliance with the venture capital trust regulations to retain status, including a review of half yearly reports from PwC;
- A separate review of the Annual Report and Half Yearly report by the Audit Committee prior to Board approval; and
- A review by the Board of all financial information prior to publication.

The Board is responsible for ensuring that the procedures to be followed by the advisers and themselves are in place, and they review the effectiveness of the Manual, based on the report from the Audit Committee, on an annual basis to ensure that the controls remain relevant and were in operation throughout the period.

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.

Anti-bribery policy

The Company operates an anti-bribery policy to ensure that it meets its responsibilities arising from the Bribery Act 2010. This policy can be found on the website maintained by the Manager at www.downing.co.uk.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 4 and 5, the Investment Manager's Reports on pages 6, 14, 22 and 30, the Strategic Report on page 37 and the Report of the Directors on page 41. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Balance Sheet on page 59, the Cash Flow statement on page 61 and the

Strategic Report on page 39. In addition, note 17 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 period 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.

Compliance statement

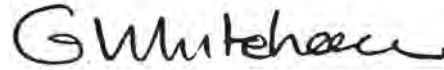
The Listing Rules require the Board to report on compliance with the UK Corporate Governance Code provisions throughout the accounting period. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 December 2013 with the provisions set out in the UK Corporate Governance Code issued in September 2012.

- a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. In addition, the Company has no major Shareholders so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the Annual General Meeting. (B.4.1, B.4.2, E.1.1)
- b) Due to the size of the Board and nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)

CORPORATE GOVERNANCE (continued)

Compliance statement (continued)

- c) Non-executive Directors have consultancy agreements, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion, this does not make a substantive difference to the circumstances of the Company. (B.2.3)
- d) As the Company has had no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)



Grant Whitehouse
Company Secretary
10 Lower Grosvenor Place
London SW1W 0EN

28 April 2014

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

We have audited the financial statements of Downing TWO VCT plc for the period ended 31 December 2013 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, 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).

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 December 2013 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement and an overview of the scope of our audit

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- The assessment of the carrying value of unquoted investments. This is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the funds, derived using those valuations.

We challenged the assumptions inherent in the Investment Manager's valuation of unquoted investments, including, where appropriate, revenue and earnings estimates, PE ratios, discount factors, cash flow projections and sensitivity analyses, and we assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements. We also considered wider economic and commercial factors that, in our judgement, could impact on the valuation of unquoted investments and we considered whether there was any permanent diminution in value in investments held that should be reported as realised losses.

We noted that the assessment of the unquoted valuations and whether losses in value are permanent (and therefore realised) is highly subjective. However, our audit procedures included, amongst others, reviewing the recent published trading statements for the unquoted investments and, for a sample of investments, considering the period over which significant falls in value below cost arose, as well as the apparent reasons and whether they were likely to be permanent.

- Appropriate revenue recognition. Revenue consists primarily of interest earned on loans to investee companies and dividends receivable from investee companies, is considered to be a significant risk as it is one of the key drivers of dividend returns to investors and there is judgement required in determining whether accrued income should be regarded as recoverable.

We considered the controls relating to revenue recognition and undertook testing of interest income by comparing actual income to expectations generated using the interest rates in the loan instruments while considering the ability of investee companies to pay interest being accrued. We also tested dividends receivable by reference to expectations set from prior periods and details reported in statutory and management accounts of the investee companies.

The Audit Committee's consideration of these matters is set out on page 50.

Purpose of this report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define planning materiality as the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £560,000. In determining this, we based our assessment on a percentage of gross investments which reflects the underlying level of precision within the valuation of the investment portfolio and the range of reasonably possible alternative valuations that could be expected to apply to the unquoted investments. On the basis of our risk assessment, together with our assessment of the company's control environment, our judgement was that performance materiality for the financial statements should be 75% of materiality, namely £420,000.

Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our materiality of £560,000 for the financial statements as a whole.

International Standards on Auditing (UK and Ireland) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality to apply to those classes of transactions and balances which impact on the costs and the net realised returns of the company. We determined materiality for this area to be £50,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £11,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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 Strategic Report and the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 49 to 52 with respect to 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

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

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

Matters on which we are required to report by exception (continued)

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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; or
- a Corporate Governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 51, 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 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

A handwritten signature in black ink that reads "BDO LLP". The letters are written in a cursive, slightly slanted style.

Stuart Collins (Senior statutory auditor)

for and on behalf of BDO LLP

Statutory auditor

London UK

28 April 2014

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

INCOME STATEMENT

for the period ended 31 December 2013

	Note	Period ended 31 December 2013			Year ended 31 January 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	1,451	-	1,451	1,149	-	1,149
(Loss)/gain on investments	9	-	(462)	(462)	-	175	175
		1,451	(462)	989	1,149	175	1,324
Investment management fees	3	(593)	-	(593)	(309)	-	(309)
Other expenses	4	(231)	(35)	(266)	(238)	-	(238)
Return/(loss) on ordinary activities before tax		627	(497)	130	602	175	777
Tax on ordinary activities	6	(155)	-	(155)	(151)	-	(151)
(Loss)/return attributable to equity shareholders		472	(497)	(25)	451	175	626
Basic and diluted return/(loss) per:							
'C' Share	8	2.3p	(1.2p)	1.1p	4.0p	4.2p	8.2p
'A' Share	8	-	-	-	-	-	-
'D' Share	8	2.4p	(0.1p)	2.3p	1.7p	(0.2p)	1.5p
'E' Share	8	-	-	-	-	-	-
'F' Share	8	0.3p	(3.7p)	(3.4p)	(0.1p)	(1.2p)	(1.3p)
'G' Share	8	0.2p	-	0.2p	n/a	n/a	n/a

All Revenue and Capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period. 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/loss as stated above and at historical cost.

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

INCOME STATEMENT (ANALYSED BY SHARE POOL)

for the period ended 31 December 2013

'C' Share pool

	Note	Period ended 31 December 2013			Year ended 31 January 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		347	-	347	537	-	537
(Loss)/gain on investments		-	(52)	(52)	-	299	299
		<u>347</u>	<u>(52)</u>	<u>295</u>	<u>537</u>	<u>299</u>	<u>836</u>
Investment management fees		(84)	-	(84)	(89)	-	(89)
Other expenses		(47)	(35)	(82)	(74)	-	(74)
Return/(loss) on ordinary activities before tax		<u>216</u>	<u>(87)</u>	<u>129</u>	<u>374</u>	<u>299</u>	<u>673</u>
Tax on ordinary activities		(51)	-	(51)	(87)	-	(87)
Return/(loss) attributable to equity shareholders	8	<u>165</u>	<u>(87)</u>	<u>78</u>	<u>287</u>	<u>299</u>	<u>586</u>

'D' Share pool

	Note	Period ended 31 December 2013			Year ended 31 January 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		463	-	463	433	-	433
Loss on investments		-	(6)	(6)	-	(24)	(24)
		<u>463</u>	<u>(6)</u>	<u>457</u>	<u>433</u>	<u>(24)</u>	<u>409</u>
Investment management fees		(98)	-	(98)	(110)	-	(110)
Other expenses		(53)	-	(53)	(89)	-	(89)
Return/(loss) on ordinary activities before tax		<u>312</u>	<u>(6)</u>	<u>306</u>	<u>234</u>	<u>(24)</u>	<u>210</u>
Tax on ordinary activities		(77)	-	(77)	(60)	-	(60)
Return/(loss) attributable to equity shareholders	8	<u>235</u>	<u>(6)</u>	<u>229</u>	<u>174</u>	<u>(24)</u>	<u>150</u>

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

INCOME STATEMENT (ANALYSED BY SHARE POOL) (continued)
for the period ended 31 December 2013

'F' Share pool

	Note	Period ended 31 December 2013			Year ended 31 January 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		261	-	261	179	-	179
Loss on investments		-	(404)	(404)	-	(95)	(95)
		261	(404)	(143)	179	(95)	84
Investment management fees		(153)	-	(153)	(110)	-	(110)
Other expenses		(59)	-	(59)	(75)	-	(75)
(Loss)/return on ordinary activities before tax		49	(404)	(355)	(6)	(95)	(101)
Tax on ordinary activities		(16)	-	(16)	(4)	-	(4)
(Loss)/return attributable to equity shareholders	8	33	(404)	(371)	(10)	(95)	(105)

'G' Share pool

	Note	Period ended 31 December 2013			Year ended 31 January 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		379	-	379	-	-	-
Gain on investments		-	-	-	-	-	-
		379	-	379	-	-	-
Investment management fees		(258)	-	(258)	-	-	-
Other expenses		(71)	-	(71)	-	-	-
Return on ordinary activities before tax		50	-	50	-	-	-
Tax on ordinary activities		(11)	-	(11)	-	-	-
Return attributable to equity shareholders	8	39	-	39	-	-	-

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

BALANCE SHEET
as at 31 December 2013

	As at 31 December 2013						As at 31 January 2013				
	Note	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	Total £'000
Fixed assets											
Investments	9	5,768	7,554	6,396	8,455	28,173	6,741	8,027	5,841	- 20,609	
Current assets											
Debtors	10	22	98	53	117	290	157	89	73	- 319	
Cash at bank and in hand	16	790	192	2,269	15,718	18,969	43	5	3,740	638 4,426	
		812	290	2,322	15,835	19,259	200	94	3,813	638 4,745	
Creditors: amounts falling due within one year	11	(92)	(133)	(57)	(88)	(370)	(171)	(139)	(80)	- (390)	
Net current assets/(liabilities)		720	157	2,265	15,747	18,889	29	(45)	3,733	638 4,355	
Net assets		6,488	7,711	8,661	24,202	47,062	6,770	7,982	9,574	638 24,964	
Capital and reserves											
Called up share capital	12	18	25	11	25	79	18	25	11	- 54	
Share capital to be issued	13	-	-	-	-	-	-	-	-	638 638	
Capital redemption reserve	13	106	-	-	-	106	106	-	-	- 106	
Special reserve	13	5,923	8,065	-	-	13,988	5,963	8,379	-	- 14,342	
Share premium reserve	13	-	-	10,160	25,504	35,664	-	-	10,160	- 10,160	
Revaluation reserve	13	403	(420)	(499)	-	(516)	566	(427)	(95)	- 44	
Capital reserve – realised	13	-	-	(1,034)	(1,221)	(2,255)	53	-	(492)	- (439)	
Revenue reserve	13	38	41	23	(106)	(4)	64	5	(10)	- 59	
Total equity shareholders' funds	14	6,488	7,711	8,661	24,202	47,062	6,770	7,982	9,574	638 24,964	
Basic and diluted net asset value per											
'C'/'D'/'F'/'G' Share	14	90.9p	77.0p	80.0p	95.1p		94.8p	79.7p	88.5p	n/a	
'A'/'E' Share	14	0.1p	0.1p	n/a	n/a		0.1p	0.1p	n/a	-	

The financial statements on pages 56 to 77 were approved and authorised for issue by the Board of Directors on 28 April 2014 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
for the period ended 31 December 2013

	Period ended 31 December 2013					Year ended 31 January 2013					
		'C'	'D'	'F'	'G'		'C'	'D'	'F'	'G'	Total
	Note	Share pool £'000	Share pool £'000	Share pool £'000	Share pool £'000	Total £'000	Share pool £'000	Share pool £'000	Share pool £'000	Share pool £'000	(incl. Ord Shares) £'000
Opening Shareholders' funds		6,770	7,982	9,574	638	24,964	6,570	8,332	1,178	-	16,085
Issue of shares		-	-	-	26,631	26,631	-	-	10,763	-	10,763
Share issue costs		-	-	-	(1,102)	(1,102)	-	-	(592)	-	(592)
Purchase of own shares		(4)	-	-	(94)	(98)	(28)	-	-	-	(28)
Movement in share capital to be issued		-	-	-	(638)	(638)	-	-	(1,178)	638	(540)
Total recognised return/(loss) for the period		78	229	(371)	39	(25)	586	150	(105)	-	626
Dividends paid	7	(356)	(500)	(542)	(1,272)	(2,670)	(358)	(500)	(492)	-	(1,350)
Closing Shareholders' funds		<u>6,488</u>	<u>7,711</u>	<u>8,661</u>	<u>24,202</u>	<u>47,062</u>	<u>6,770</u>	<u>7,982</u>	<u>9,574</u>	<u>638</u>	<u>24,964</u>

The Ordinary Share pool had opening Shareholders funds of £5,000 at 1 February 2012. These were eliminated when the class was cancelled during the prior year.

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

CASH FLOW STATEMENT

for the period ended 31 December 2013

	Period ended 31 December 2013					Year ended 31 January 2013					
	Note	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	Total £'000
Net cash inflow from operating activities	15	276	281	36	10	603	358	240	(3)	-	595
Taxation											
Corporation tax paid		(90)	(62)	(5)	-	(157)	(49)	(32)	-	-	(81)
Capital expenditure											
Purchase of investments	9	(83)	(136)	(2,157)	(9,775)	(12,151)	(80)	(1,477)	(6,497)	-	(8,054)
Sale of investments	9	1,004	604	1,197	1,320	4,125	27	1,272	561	-	1,860
Net cash (outflow)/inflow from capital expenditure		921	468	(960)	(8,455)	(8,026)	(53)	(205)	(5,936)	-	(6,194)
Equity dividends paid	7	(356)	(500)	(542)	(1,272)	(2,670)	(358)	(500)	(492)	-	(1,350)
Net cash (outflow)/inflow before financing		751	187	(1,471)	(9,717)	(10,250)	(102)	(497)	(6,431)	-	(7,030)
Financing											
Purchase of own shares	13	(4)	-	-	(94)	(98)	(28)	-	-	-	(28)
Proceeds from share issue	13	-	-	-	25,993	25,993	-	-	9,585	-	9,585
Share issue costs	13	-	-	-	(1,102)	(1,102)	-	-	(592)	-	(592)
Share capital to be issued		-	-	-	-	-	-	-	-	638	638
Raised on behalf of related fund		-	-	-	-	-	-	-	(1,178)	-	(1,178)
Net cash inflow/(outflow) from financing		(4)	-	-	24,797	24,793	(28)	-	7,815	638	8,425
Increase/(decrease) in cash	16	747	187	(1,471)	15,080	14,543	(130)	(497)	1,384	638	1,395

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

NOTES TO THE ACCOUNTS

for the period ended 31 December 2013

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 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 Financial Reporting Council when required.

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 period as a capital item and transaction costs on acquisition or disposal of the investment are expensed. Where an investee company has gone into receivership, liquidation or administration (where there is little likelihood of recovery), the loss on the investment, although not physically disposed of, is treated as being realised.

It is not the Company's policy to exercise significant influence over investee companies. Therefore the results of these companies are not incorporated into the Income Statement except to the extent of any income accrued. This is in accordance with the SORP 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 in the foreseeable future.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

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.
- Expenses and liabilities not specific to a Share class are generally allocated pro rata to the net assets.
- Performance incentive fees arising from the disposal of investments are deducted as a capital item.

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. Deferred taxation is not discounted.

Other debtors, other creditors and loan notes

Other debtors (including accrued income), other creditors and loan notes are included within the accounts at amortised cost.

Issue costs

Issue costs in relation to the shares issued for each share class have been deducted from the share premium account for the relevant share class.

2. Income

	Period ended 31 Dec 2013 £'000	Year ended 31 Jan 2013 £'000
Income from investments		
Loan stock interest	1,236	1,060
Dividend income	12	26
	<u>1,248</u>	<u>1,086</u>
Other income		
Bank interest	194	40
Fee income	9	23
	<u>1,451</u>	<u>1,149</u>

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

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 1.35% of the 'C' and 'D' pool net assets, 1.8% of the 'F' pool net assets and 2.0% of the 'G' pool net assets. The Manager also provides administration services for a fee of £55,000 per annum. Fees in relation to these services are shown within note 4.

	Period ended 31 Dec 2013 £'000	Year ended 31 Jan 2013 £'000
Investment management fees	<u>593</u>	<u>309</u>

4. Other expenses

	Period ended 31 Dec 2013 £'000	Year ended 31 Jan 2013 £'000
Administration services	48	52
Trail commission	52	61
Directors' remuneration	37	33
Social security costs	2	1
Auditor's remuneration for audit	14	14
Auditor's remuneration for non-audit services (taxation)	5	7
Other	<u>73</u>	<u>70</u>
	<u>231</u>	<u>238</u>

The 'C' and 'D' Share pool annual running costs of the Company, for the period, are subject to a cap of 2.9% of the net of each respective share pool. The 'F' and 'G' Share pools are subject to an annual running costs cap of 3.5% each.

5. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the Directors' Remuneration Report on page 45. The Company had no employees (other than Directors) during the period. 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.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

6. Tax on ordinary activities

	Period ended 31 Dec 2013 £'000	Year ended 31 Jan 2013 £'000
(a) Tax charge for period		
UK corporation tax	155	151
Charge for the period	<u>155</u>	<u>151</u>
(b) Factors affecting tax charge for the period		
Return on ordinary activities before taxation	<u>130</u>	<u>777</u>
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 23.2% (Year ended 31 Jan 2013: 24.2%)	30	188
Effects of:		
Loss/(gain) on investments	107	(42)
Marginal rate relief	-	(1)
Expenses disallowed for tax purposes	20	17
Adjustment in respect of prior year	1	(5)
Dividend income	(3)	(6)
	<u>155</u>	<u>151</u>

7. Dividends

	Period ended 31 December 2013			Year ended 31 January 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by 'C' Share pool						
P/e Dec 2013 Interim – 2.5p	141	37	178	-	-	-
Y/e Jan 2013 Final – 2.5p	50	128	178	-	-	-
Y/e Jan 2013 Interim – 2.5p	-	-	-	179	-	179
2012 Final – 2.5p	-	-	-	-	179	179
	<u>191</u>	<u>165</u>	<u>356</u>	<u>179</u>	<u>179</u>	<u>358</u>
Proposed by 'C' Share pool						
P/e Dec 2013 Final – 2.5p	-	178	178	-	-	-
Y/e Jan 2013 Final – 2.5p	-	-	-	50	128	178
	<u>-</u>	<u>178</u>	<u>178</u>	<u>50</u>	<u>128</u>	<u>178</u>
Paid by 'D' Share pool						
P/e Dec 2013 Interim – 2.5p	199	51	250	-	-	-
Y/e Jan 2013 Final – 2.5p	-	250	250	-	-	-
Y/e Jan 2013 Interim – 2.5p	-	-	-	80	170	250
2012 Final – 2.5p	-	-	-	-	250	250
	<u>199</u>	<u>301</u>	<u>500</u>	<u>80</u>	<u>420</u>	<u>500</u>
Proposed by 'D' Share pool						
P/e Dec 2013 Final – 2.5p	-	250	250	-	-	-
Y/e Jan 2013 Final – 2.5p	-	-	-	-	250	250
	<u>-</u>	<u>250</u>	<u>250</u>	<u>-</u>	<u>250</u>	<u>250</u>

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

7. Dividends (continued)

	Period ended 31 December 2013			Year ended 31 January 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by 'F' Share pool						
P/e Dec 2013 Interim – 2.5p	-	271	271	-	-	-
Y/e Jan 2013 Final – 2.5p	-	271	271	-	-	-
Y/e Jan 2013 Interim – 5.0p	-	-	-	-	492	492
	<u>-</u>	<u>542</u>	<u>542</u>	<u>-</u>	<u>492</u>	<u>492</u>
Proposed by 'F' Share pool						
P/e Dec 2013 Final – 2.5p	-	271	271	-	-	-
Y/e Jan 2013 Final – 2.5p	-	-	-	-	271	271
	<u>-</u>	<u>271</u>	<u>271</u>	<u>-</u>	<u>271</u>	<u>271</u>
Paid by 'G' Share pool						
P/e Dec 2013 Interim – 5.0p	51	1,221	1,272	-	-	-
	<u>51</u>	<u>1,221</u>	<u>1,272</u>	<u>-</u>	<u>-</u>	<u>-</u>
Proposed by 'G' Share pool						
P/e Dec 2013 Final – 2.5p	-	636	636	-	-	-
	<u>-</u>	<u>636</u>	<u>636</u>	<u>-</u>	<u>-</u>	<u>-</u>

8. Basic and diluted return per share

	'C' Shares	'A' Shares	'D' Shares	'E' Shares	'F' Shares	'G' Shares
Revenue return (£'000)	<u>165</u>	<u>-</u>	<u>235</u>	<u>-</u>	<u>33</u>	<u>39</u>
Net capital loss for the period (£'000)	<u>(87)</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>(404)</u>	<u>-</u>
Weighted average number of shares in issue	<u>7,158,889</u>	<u>10,724,029</u>	<u>10,000,000</u>	<u>14,950,000</u>	<u>8,157,698</u>	<u>18,612,060</u>

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

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

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

	Unquoted investments £'000
Cost at 31 January 2013	20,565
Unrealised gains at 31 January 2013	44
Valuation at 31 January 2013	<u>20,609</u>
Movement in the period:	
Purchased at cost	12,151
Sale - proceeds	(4,125)
- realised gains on sales	24
Loss in the income statement	(486)
Valuation at 31 December 2013	<u><u>28,173</u></u>
Cost at 31 December 2013	28,687
Unrealised losses at 31 December 2013	(514)
Valuation at 31 December 2013	<u><u>28,173</u></u>

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

The Company also owns 100% of the issued ordinary share capital of Downing Managers 2 Limited with an attributable cost of £2.

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

- Level 1 Reflects financial instruments quoted in an active market;
- Level 2 Reflects financial instruments that have prices that are observable either directly or indirectly; and
- Level 3 Reflects financial instruments that are not based on observable market data (unquoted equity investments and loan note investments).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	31 Dec 2013 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	31 Jan 2013 £'000
Loan notes	-	-	21,280	21,280	-	-	15,467	15,467
Unquoted equity	-	-	6,893	6,893	-	-	5,142	5,142
	<u>-</u>	<u>-</u>	<u>28,173</u>	<u>28,173</u>	<u>-</u>	<u>-</u>	<u>20,609</u>	<u>20,609</u>

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

	Loan notes £'000	Unquoted equity £'000	Total £'000
Balance at 1 February 2013	15,467	5,142	20,609
Movements in the Income Statement:			
Unrealised (loss)/gain in the Income Statement	(470)	(16)	(486)
Realised (loss)/gain in the Income Statement		24	24
Purchases at cost	10,028	2,123	12,151
Loan stock converted to shares	(167)	167	-
Sales proceeds	(3,770)	(355)	(4,125)
Balance at 31 December 2013	<u>21,088</u>	<u>7,085</u>	<u>28,173</u>

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

9. Investments (continued)

There is an element of judgement in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to certain of the VCT's investments.

FRS 29 requires disclosure to be made of the possible effect of changing one or more of the inputs to reasonable possible alternative valuation assumptions where this would result in a significant change in the fair value of the Level 3 investments. There is an element of judgement in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the Company's investments.

The basis of valuation of the investments was unchanged during the period.

The Board and the Investment Manager believe that the valuations as at 31 December 2013 reflect the most appropriate assumptions at that date, giving due regard to all information available from each investee company. Consequently, the variation in the spread of reasonable, possible, alternative valuations is likely to be in the range set out in note 17.

An analysis of venture capital investments between equity and non-equity elements is set out on pages 12, 20, 28 and 35 within the Review of Investments.

Results of the subsidiary undertaking for the period ended 31 December 2013

	Country of registration	Nature of Business	Turnover £'000	Profit before tax £'000	Net assets £'000
Downing Managers 2 Limited	England and Wales	Investment Manager	644	4	28

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.

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

	31 Dec 2013 £'000	31 Jan 2013 £'000
Prepayments and accrued income	<u>290</u>	<u>319</u>

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

11. Creditors: amounts falling due within one year

	31 Dec 2013	31 Jan 2013
	£'000	£'000
Amounts due to subsidiary undertaking	93	121
Corporation tax	155	156
Other taxes and social security	3	3
Other creditors	58	71
Accruals and deferred income	61	39
	<u>370</u>	<u>390</u>

12. Called up share capital

	31 Dec 2013	31 Jan 2013
	£'000	£'000
Issued, allotted, called up and fully-paid:		
7,126,194 (31 Jan 2013: 7,131,356) 'C' Shares of 0.1p each	7	7
10,724,029 (31 Jan 2013: 10,724,029) 'A' Shares of 0.1p each	11	11
10,000,000 (31 Jan 2013: 10,000,000) 'D' Shares of 0.1p each	10	10
14,950,000 (31 Jan 2013: 15,000,000) 'E' Shares of 0.1p each	15	15
10,822,154 (31 Jan 2013: 10,822,154) 'F' Shares of 0.1p each	11	11
25,436,996 (31 Jan 2013: nil) 'G' Shares of 0.1p each	25	-
	<u>79</u>	<u>54</u>

Between 15 March 2013 and 6 November 2013, a total of 25,436,996 'G' Shares were issued for £1 per share pursuant to the Offer for Subscription dated 10 January 2013. The aggregate consideration of the shares was £26,631,000 which excludes costs of £1,102,000.

During the period, the Company repurchased 5,162 'C' Shares for an aggregate consideration of £4,414 being an average price of 85.5p per share and which represented 0.3% of the Company's issued 'C' Share capital. The Company repurchased 50,000 'E' Shares for an aggregate consideration of £50 being an average price of 0.01p per share and which represented 0.3% of the Company's issued 'E' Share capital. 92,000 G Shares were repurchased during the year for an aggregate consideration of £92,461 being an average price of £1 per share, which represented 0.3% of the Company's issued 'G' share capital. These shares were subsequently cancelled.

No 'D' Shares or 'F' Shares were repurchased during the period.

The Company's capital is managed in accordance with its investment policy as shown in the Strategic Report on page 38, in pursuit of its principal investment objectives as stated on page 2.

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.

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.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

12. Called up share capital (continued)

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.

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

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

- receive Shareholder Proceeds of at least 100.0p per 'F' Share (excluding initial income tax relief); and
- achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the 'F' Share pool Hurdles are met, the Performance Incentive will be 3.0p per 'F' Share plus 20% above 100.0p per 'F' Share of the funds available (for distribution to 'F' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of each Company equivalent to 7.0p per 'F' Share (based on the number of 'F' Shares in issue at the close of the Offers).

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

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

- receive Shareholder Proceeds of at least 105.82p per 'G' Share (excluding initial income tax relief); and
- achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the 'G' Share pool Hurdles are met, the Performance Incentive will be 3.0p per 'G' Share plus 20% above 105.82p per 'G' Share of the funds available (for distribution to 'G' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of each Company equivalent to 7.0p per 'G' Share (based on the number of 'G' Shares in issue at the close of the Offers).

13. Reserves

	Share capital to be issued £'000	Capital redemption reserve £'000	Special reserve £'000	Share premium reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000
At 1 February 2013	638	106	14,342	10,160	44	(439)	59
Shares repurchased	-	-	(4)	-	-	-	(94)
Issue of new shares	(638)	-	-	26,606	-	-	-
Share issue costs	-	-	-	(1,102)	-	-	-
(Loss)/gain on investments	-	-	-	-	(486)	24	-
Capital expenses	-	-	-	-	-	(35)	-
Retained revenue	-	-	-	-	-	-	472
Transfer between reserves	-	-	(350)	-	(74)	424	-
Dividend paid	-	-	-	-	-	(2,229)	(441)
At 31 December 2013	-	106	13,988	35,664	(516)	(2,255)	(4)

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

13. Reserves (continued)

	Share capital to be issued £'000	Capital redemption reserve £'000	Special reserve £'000	Share premium reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000
Split between:							
'C' Share pool							
At 1 February 2013	-	106	5,963	-	566	53	64
Shares repurchased	-	-	(4)	-	-	-	-
(Loss)/gain on investments	-	-	-	-	(76)	24	-
Capital expenses	-	-	-	-	-	(35)	-
Retained revenue	-	-	-	-	-	-	165
Transfer between reserves	-	-	(36)	-	(87)	123	-
Dividend paid	-	-	-	-	-	(165)	(191)
At 31 December 2013	-	106	5,923	-	403	-	38
'D' Share pool							
At 1 February 2013	-	-	8,379	-	(427)	-	5
Loss on investments	-	-	-	-	(6)	-	-
Retained revenue	-	-	-	-	-	-	235
Transfer between reserves	-	-	(314)	-	13	301	-
Dividend paid	-	-	-	-	-	(301)	(199)
At 31 December 2013	-	-	8,065	-	(420)	-	41
'F' Share pool							
At 1 February 2013	-	-	-	10,160	(95)	(492)	(10)
Loss on investments	-	-	-	-	(404)	-	-
Retained revenue	-	-	-	-	-	-	33
Transfer between reserves	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	(542)	-
At 31 December 2013	-	-	-	10,160	(499)	(1,034)	23
'G' Share pool							
At 1 February 2013	638	-	-	-	-	-	-
Shares repurchased	-	-	-	-	-	-	(94)
Issue of new shares	(638)	-	-	26,606	-	-	-
Share issue costs	-	-	-	(1,102)	-	-	-
Retained revenue	-	-	-	-	-	-	39
Dividend paid	-	-	-	-	-	(1,221)	(51)
At 31 December 2013	-	-	-	25,504	-	(1,221)	(106)

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 £1,445,000 which are included in the calculation of distributable reserves. At 31 December 2013, total distributable reserves were £10,438,000 (31 Jan 2013: £14,411,000).

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

14. Basic and diluted net asset value per share

	Shares in issue		31 Dec 2013		31 Jan 2013	
	31 Dec 2013	31 Jan 2013	Net asset value per share	£'000	Net asset value per share	£'000
'C' Shares	7,126,194	7,131,356	90.9p	6,477	94.8p	6,759
'A' Shares	10,724,029	10,724,029	0.1p	11	0.1p	11
'D' Shares	10,000,000	10,000,000	77.0p	7,696	79.7p	7,967
'E' Shares	14,950,000	15,000,000	0.1p	15	0.1p	15
'F' Shares	10,822,154	10,822,154	80.0p	8,661	88.5p	9,574
'G' Shares	25,436,996	-	95.1p	24,202	-	-
Share capital to be issued				-		638
				<u>47,062</u>		<u>24,964</u>

The 'C' Share pool, 'D' Share pool, 'F' Share pool and 'G' 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

	Period ended 31 December 2013					Year ended 31 January 2013			
	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool	Total £'000	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	Total £'000
Return/(loss) on ordinary activities before taxation	129	306	(355)	50	130	673	210	(101)	782
Loss/(gain) on investments	52	6	404	-	462	(299)	24	95	(180)
Decrease/(increase) in repayments and accrued income	135	(9)	20	(117)	29	(43)	10	(73)	(106)
Increase/(decrease) in accruals and deferred income	(4)	(10)	(3)	25	8	2	6	39	47
(Decrease)/increase in amounts due to subsidiary undertaking	(36)	(12)	(30)	52	(26)	25	(10)	37	52
Net cash inflow/(outflow) from operating activities	<u>276</u>	<u>281</u>	<u>36</u>	<u>10</u>	<u>603</u>	<u>358</u>	<u>240</u>	<u>(3)</u>	<u>595</u>

16. Analysis of changes in cash during the period

	31 Dec 2013 £'000	31 Jan 2013 £'000
Beginning of period/year	4,426	3,031
Net cash inflow	<u>14,543</u>	<u>1,395</u>
End of period/year	<u>18,969</u>	<u>4,426</u>

NOTES TO THE ACCOUNTS (continued)

for the period ended 31 December 2013

17. Financial instruments

The Company's financial instruments comprise investments held at fair value through profit and loss, being equity and loan stock investments in unquoted companies; loans and receivables, being cash deposits and short term debtors; and financial liabilities, being creditors arising from its operations. The main purpose of these financial instruments is to generate cashflow and revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors and does not use any derivatives.

The fair value of investments is determined using the detailed accounting policy as shown in note 1. The composition of the investments is set out in note 9.

The fair value of cash deposits and short term debtors and creditors equates to their carrying value in the Balance Sheet.

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

The Company's investment activities expose the Company to a number of risks associated with financial instruments and the sectors in which the Company invests. The principal financial risks arising from the Company's operations are:

- Investment risks
- Credit risk
- Liquidity risk

The Board regularly reviews these risks and the policies in place for managing them. There have been no significant changes to the nature of the risks that the Company is exposed to over the period and there have also been no significant changes to the policies for managing those risks during the period.

The risk management policies used by the Company in respect of the principal financial risks and a review of the financial instruments held at the period end are provided below:

Investment risks

As a VCT, the Company is exposed to investment risks in the form of potential losses and gains that may arise on the investments it holds in accordance with its investment policy. The management of these investment risks is a fundamental part of investment activities undertaken by the Investment Manager and overseen by the Board. The Manager monitors investments through regular contact with management of investee companies, regular review of management accounts and other financial information and attendance at investee company board meetings. This enables the Manager to manage the investment risk in respect of individual investments. Investment risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

The key investment risks to which the Company is exposed are:

- Investment price risk
- Interest rate risk

Investment price risk

Investment price risk arises from uncertainty about the valuation of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through changes in the fair value of unquoted investments that it holds.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

17. Financial instruments (continued)

At 31 December 2013, the unquoted portfolio was valued at £28,173,000 (31 Jan 2013: £20,609,000).

As the majority of the Company's investments are 'asset-backed', a fall in share prices generally would have a lesser impact on the valuation of the portfolio. A 10% movement in the valuations of all of the investments held by the Company would have an effect as follows:

10% movement in unquoted investment valuations	31 Dec 2013		31 Jan 2013	
	Impact on net assets £'000	Impact on NAV per share Pence	Impact on net assets £'000	Impact on NAV per share Pence
'C' Shares	577	9.2p	674	9.5p
'D' Shares	755	7.7p	803	8.0p
'F' Shares	640	8.0p	584	5.8p
'G' Shares	845	9.5p	-	-

The sensitivity analysis for unquoted valuations above assumes that each of the sub-categories of financial instruments (ordinary shares and loan stocks) held by the Company produces an overall movement of 10%. Shareholders should note that equal correlation between these sub-categories is unlikely to be the case in reality, particularly in the case of loan stock instruments. Where share prices are falling, the equity instrument could fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to investment price risk in isolation.

Interest rate risk

The Company accepts exposure to interest rate risk on floating-rate financial assets through the effect of changes in prevailing interest rates. The Company receives interest on its cash deposits at a rate agreed with its bankers. Investments in loan stock attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

There are three categories in respect of interest which are attributable to the financial instruments held by the Company as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise certain loan note investments.
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate or LIBOR and comprise cash at bank and liquidity fund investments and certain loan note investments.
- "No interest rate" assets do not attract interest and comprise equity investments and debtors.

	Average interest rate	Average period until maturity	31 Dec 2013 £'000	31 Jan 2013 £'000
Fixed rate	9.8%	842 days	21,215	15,380
Floating rate	0.5%		19,033	4,514
No interest rate			6,814	5,070
			<u>47,062</u>	<u>24,964</u>

The Company monitors the level of income received from fixed and floating rate assets and, if appropriate, may make adjustments to the allocation between the categories, in particular, should this be required to ensure compliance with the VCT regulations.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

17. Financial instruments (continued)

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the period by £11,000 for the 'C' Share pool, £2,000 for the 'D' Share pool, £23,000 for the 'F' Share pool, £157,000 for the 'G' Share pool. As the Bank of England base rate stood at 0.5% per annum throughout the period, it is not believed that a reduction from this level is likely.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan stock in investee companies, cash deposits and debtors.

The Company's financial assets that are exposed to credit risk are summarised as follows:

	31 Dec 2013	31 Jan 2013
	£'000	£'000
Investments in loan stocks	21,280	15,467
Cash and cash equivalents	18,969	4,426
Interest, dividends and other receivables	229	266
	<u>40,478</u>	<u>20,159</u>

The Manager manages credit risk in respect of loan stock with a similar approach as described under "Investment risks" above. In addition the credit risk is partially mitigated by registering floating charges over the assets of certain investee companies. The strength of this security in each case is dependent on the nature of the investee company's business and its identifiable assets. Similarly the management of credit risk associated with interest, dividends and other receivables is covered within the investment management procedures.

Cash is mainly held by Bank of Scotland plc and Royal Bank of Scotland plc, both of which are A-rated financial institutions and both also ultimately part-owned by the UK Government. Consequently, the Directors consider that the credit risk associated with cash deposits is low.

There have been no changes in fair value during the period that are directly attributable to changes in credit risk.

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. As the Company has a relatively low level of creditors, (£370,000) and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. The Company always holds sufficient levels of funds as cash in order to meet expenses and other cash outflows as they arise. For these reasons, the Board believes that the Company's exposure to liquidity risk is minimal.

The Company's liquidity risk is managed by the Investment Manager in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

17. Financial instruments (continued)

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

The carrying value of loan stock investments held at fair value through the profit and loss account at 31 December 2013 as analysed by the expected maturity date is as follows:

As at 31 December 2013	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	1,491	1,746	2,296	2,367	1,400	9,300
Past due loan stock	6,047	2,918	522	2,493	-	11,980
	7,538	4,664	2,818	4,860	1,400	21,280

As at 31 January 2013	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	1,172	2,813	282	3,277	625	8,169
Past due loan stock	4,134	55	1,755	1,354	-	7,298
	5,306	2,868	2,037	4,631	625	15,467

Of the loan stock classified as "past due" above, £8,243,000 relates to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is thus in arrears. As at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due comprised loan notes of £2,310,000, falling within the banding of less than one year, £2,918,000, falling within the banding of one to two years; £522,000 falling within the banding of two to three years; and £2,493,000 falling within the banding of three to five years. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

Of the loan stock classified as "past due" above, £3,737,000 relates to the principal of loan notes where the principal has passed its maturity date. As at the balance sheet date, the extent to which the principal is past its maturity date giving rise to the classification of the loan notes as past due falls within the banding of nil to six months past due. Notwithstanding that the principal has passed its maturity date, the Directors do not consider that the loan note itself has been impaired. Of this amount, £nil has been redeemed since the period end.

NOTES TO THE ACCOUNTS (continued)
for the period ended 31 December 2013

18. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and to provide an adequate return to Shareholders by allocating its capital to assets commensurately with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (as measured under the tax legislation) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed. The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

Although, as the investment policy implies, the Board would consider levels of gearing, there are no current plans to do so. It regards the net assets of the Company as the Company's capital, as the level of liabilities is small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous period.

19. Contingencies, guarantees and financial commitments

At 31 December 2013 and 31 January 2013 the Company had no contingencies, guarantees or financial commitments.

20. 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 period ended 31 December 2013, £593,000 (31 Jan 2013: £309,000) was payable to DM2 in respect of investment management fees. Additionally, DM2 provides accounting, secretarial and administrative services for an annual fee of £48,125 (31 Jan 2013: £51,882). At the period end a balance of £93,000 (31 Jan 2013: £121,000) was due to DM2.

21. Controlling party

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

NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING TWO VCT PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Downing TWO VCT plc will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10.30 a.m. on 17 June 2014 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 period ended 31 December 2013, together with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report and Remuneration Policy.
3. To approve a final dividend of 2.5p per 'C' Share, 2.5p per 'D' Share, 2.5p per 'F' Share and 2.5p per 'G' Share.
4. To reappoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine the Auditor's remuneration.
5. To re-elect as Director, Hugh Gillespie, who retires in accordance with company policy and, being eligible, offers himself for re-election.
6. To re-elect as Director, Dennis Hale, who retires in accordance with company policy and, being eligible, offers himself for re-election.

Special Resolution

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 'C' shares of 0.1p each ("C' Shares"), 'A' shares of 0.1p each ("A' Shares"), 'D' shares of 0.1p each ("D' Shares"), 'E' shares of 0.1p each ("E' Shares"), 'F' Shares of 0.1p each ("F' Shares") and 'G' Shares of 0.1p each ("G' Shares") in the capital of the Company provided that:
 - (i) the maximum number of 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' and 'G' Shares hereby authorised to be purchased is: 1,062,572, being 14.9 per cent. of the issued 'C' Shares; 1,597,880, being 14.9 per cent. of the issued 'A' Shares; 1,490,000, being 14.9 per cent. of the issued 'D' Shares; 2,185,000, being 14.9 per cent. of the issued 'E' Shares; 3,036,074, being 14.9 per cent. of the issued 'F' Shares; and 3,036,074, being 14.9 per cent. of the issued 'G' Shares at such time;
 - (ii) the minimum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or a 'G' Share is its respective nominal value;
 - (iii) the maximum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or a 'G' Share, is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' Shares and 'G' 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 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or 'G' Share is contracted to be purchased;

NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING TWO VCT PLC

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

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

By order of the Board



Grant Whitehouse
Company Secretary

Registered Office
10 Lower Grosvenor Place
London SW1W 0EN

28 April 2014

NOTICE OF THE 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 LLP, 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 LLP, 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 LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 10.30 a.m. on 17 June 2014 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 10.30 a.m. on 17 June 2014 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.

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

Notes (continued)

- (g) As at 9.00 a.m. on 28 April 2014, the Company's issued share capital comprised 10,724,029 'A' Shares, 7,126,194 'C' Shares, 10,000,000 'D' Shares, 14,950,000 'E' Shares, 10,822,154 'F' Shares, 25,436,996 'G' Shares and the total number of voting rights in the Company was 53,385,344. 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; and
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out 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 TWO VCT PLC

For use at the Annual General Meeting of the above-named Company to be held on 17 June 2014, at 10 Lower Grosvenor Place, London SW1W 0EN at 10.30 a.m.

I/We*(in BLOCK CAPITALS please)

of
 being the holder(s)* of 'C' Shares or 'D' Shares, 'F' Shares or 'G' 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 17 June 2014 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report and Remuneration Policy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve a final dividend payment of 2.5p per 'C' Share, 2.5p per 'D' Share, 2.5p per 'F' Share and 2.5p per 'G' Share.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To reappoint the Auditor and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Hugh Gillespie as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Dennis Hale as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SPECIAL BUSINESS			
7. To authorise the Company to make market purchases of its shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature(s) Date:.....2014

* Delete as appropriate

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

PLEASE RETURN TO DOWNING LLP IN THE PRE-PAID ENVELOPE PROVIDED



NOTES AND INSTRUCTIONS:

1. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
2. Delete “the Chairman of the meeting” if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.
3. Any alterations to the Form of Proxy should be initialled.
4. To be valid, this Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in this Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, 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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