

# Downing TWO VCT plc

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Half-Yearly Report  
for the six months  
ended 30 June 2019



# CHAIRMAN'S STATEMENT

## Introduction

I present the Half-Yearly Report for the six months ended 30 June 2019. The Company has a number of share pools, each of which is in a different stage in its planned exit life. Performance across the pools varies, and it is disappointing to have to report that there have been some negative developments in a number of investee companies within the 'K' Share pool.

A brief summary of each share pool is provided below.

## Net asset values and overview

### 'F' Share pool

The 'F' Share pool launched in 2012 and is currently in its realisation phase.

At 30 June 2019, the remaining net asset value ("NAV") was 30.6p per F Share, an increase of 1.9p (6.6%) over the period. Total Return (NAV plus dividends paid to date) is now 97.6p, compared to the original cost, net of income tax relief, of 70p per share.

The 'F' Share pool still holds 10 investments, although plans are being progressed for exits from each of them.

Following the period end, one further exit has been achieved. As a result, the 'F' Share pool will pay a further dividend of 5.0p per 'F' Share on 8 November 2019 to Shareholders on the register at 18 October 2019. This will bring total distributions to 72.0p and leave a remaining NAV of 25.6p.

The task of exiting from the remaining investments is dependent on third parties and it is therefore difficult to accurately estimate when this process will complete. However, the Investment Manager believes there are reasonable prospects for completion during the course of this year, with a final distribution to 'F' Shareholders expected to follow soon after.

### 'G' Share pool

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

At 30 June 2019, the pool held 12 investments and the net asset value ("NAV") was 63.2p per 'G' Share, which represents a net increase of 2.3p (3.8%) over the period, after adjusting for the dividends paid out. Total Return (NAV plus dividends paid to date) is now 100.7p, compared to the initial NAV, before income tax relief, of 100.0p (or original cost, net of income tax relief, which was typically between 70.0p and 75.0p, depending on costs).

There were two significant realisations over the period, which generated funds for a further dividend. A dividend of 14.0p will be paid on 8 November 2019, to Shareholders on the register at 18 October 2019. This will bring total distributions to 51.5p and leave a remaining NAV of 49.2p.

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

### 'K' Share pool

The 'K' Share pool raised funds in 2016 and the majority of these funds have now been invested. The target date to start realising investments is late 2021.

The 'K' Share portfolio has suffered from some significant issues during the period. Large provisions have been required against several of the pool's largest investments: Yamuna Renewables Limited, Ormsborough Limited and Jito Trading Limited. Further details are included in the 'K' Share Investment Manager's Report on pages 8 to 9. The Board is working with the Manager to ensure that appropriate action is taken to recover as much value as possible for 'K' Shareholders.

## CHAIRMAN'S STATEMENT (continued)

### Net asset values and overview (continued)

#### 'K' Share pool (continued)

At 30 June 2019, the share pool held 17 investments and had a net asset value ("NAV") and Total Return of 72.9p per K Share. This represents a net decrease of 18.4p (20.1%) over the period, compared to the initial NAV before income tax relief, of 100.0p (or original cost, net of income tax relief, which was typically between 70.0p and 75.0p, depending on costs).

### Dividends

As discussed above, dividends have been declared in respect of two of the share pools

'F' Shares	5.0p per share
'G' Shares	14.0p per share

Each of the above dividends will be paid on 8 November 2019 to Shareholders on the register at 18 October 2019.

No dividend is being declared in respect of the 'K' Share pool as the VCT regulations effectively prohibit dividends at this stage in the pool's life.

### Share buybacks

As announced in June 2019, the Company is now unlikely to make any further purchases of any of its share classes as the process of returning funds to the 'F' and 'G' Shareholders is now underway and the 'K' Shareholders are due to commence shortly.

No share buybacks in respect of any share class were undertaken during the period.

### Outlook

Over the remainder of the year, we expect to see further realisations made by the 'F' and 'G' Share pools, as the Manager seeks to maximise Shareholder returns. Shareholders should note that timing of the exit process can be difficult to predict, and could take some time to complete, as the Board are keen to see that full value is achieved for all investments.

In respect of the 'K' Share pool, focus is on working to recover as much value as possible from the portfolio companies in question, whilst nurturing the other investments such that they will eventually be well positioned to deliver successful exits.

I will update Shareholders on progress in my statement with the Annual Report to 31 December 2019.



**Hugh Gillespie**  
Chairman

6 September 2019

## INVESTMENT MANAGER'S REPORT

### 'F' SHARE POOL

As at 30 June 2019, the 'F' Share pool held 10 investments. Focus for the 'F' Share pool remains on the realisation of its investments and maximising Shareholder returns.

#### 'F' Share pool – Portfolio valuation

The majority of the investments remain valued at or above cost, with there being a small number of valuation movements in the period, which generated an uplift over opening value of £201,000.

The most significant increase in valuation was in respect of Baron House Developments LLP, a company created to fund the purchase of a property opposite Newcastle station, which qualifies under the BPR scheme. At the period end, an uplift of £192,000 was recognised, following improved trading and an uplift in the value of the hotel site.

#### Realisation plans

Following the period end, one of the 'F' Share pool's larger investments, Lambridge Solar Limited, the 9.0 MW ground mounted solar farm in Pedwardine, Lincolnshire, was exited and delivered a good return to the pool.

Plans are in place for the successful exit of the Antic portfolio of investments, including Pearce and Saunders Limited, Downing Pub EIS One Limited and Atlantic Dogstar Limited, which are expected to conclude following the publication of this report. Realisation plans for the remaining portfolio companies are in place although the exact timing of the final exits is dependent on transactions involving third parties.

#### Net asset value, results and dividend

At 30 June 2019, the net asset value ("NAV") for a holding of one 'F' Share was 30.6p, an increase of 1.9p (6.6%) over the period. Total Return (NAV plus dividends paid to date) is now 97.6p.

The gain on ordinary activities for the 'F' Shares, after taxation was £207,000 for the period, comprising a revenue gain of £6,000 and a capital gain of £201,000.

The Company will pay an interim dividend of 5.0p per 'F' Share on 8 November 2019, to 'F' Shareholders on the register at 18 October 2019.

#### Outlook

Focus for the 'F' Share pool remains on the realisation of its investments, with realisation plans in place for the final 10 investments held. However, Shareholders should note that any transactions are dependent on many external factors and hurdles in order to achieve a good return for 'F' Shareholders.

#### Downing LLP

6 September 2019

## SUMMARY OF INVESTMENT PORTFOLIO 'F' SHARE POOL

as at 30 June 2019

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
<b>VCT qualifying and partially qualifying investments</b>				
Pearce and Saunders Limited	497	671	-	20.3%
Downing Pub EIS One Limited	490	626	7	19.0%
Lambridge Solar Limited	500	605	-	18.3%
Atlantic Dogstar Limited	200	272	2	8.2%
Fresh Green Power Limited	189	210	-	6.4%
Apex Energy Limited	1,000	100	-	3.0%
Green Energy Production UK Limited	100	54	-	1.6%
<b>Non-qualifying investments</b>				
Baron House Developments LLP	481	673	192	20.4%
Pearce and Saunders DevCo Limited	46	46	-	1.4%
London City Shopping Centre Limited	66	-	-	0.0%
	<u>3,569</u>	<u>3,257</u>	<u>201</u>	<u>98.6%</u>
<b>Cash at bank and in hand</b>		<u>46</u>		<u>1.4%</u>
<b>Total</b>		<u>3,303</u>		<u>100.0%</u>

# INVESTMENT MANAGER'S REPORT

## 'G' SHARE POOL

The 'G' Share pool raised funds in 2013 and passed its five year anniversary in November 2018. The focus for the Share pool remains on the process of realising investments, as it looks to maximise Shareholder returns before the ultimate exit date.

### Investment activity

With the pool being in the realisation phase, no new investments are expected to take place. However, two full exits were made in the six months to 30 June 2019.

Hedderwick Limited, the owner of two freehold pubs located in Royston, Hertfordshire and Olney, Milton Keynes, was successfully exited during the period and generated proceeds of £1.4 million for the Share pool. This represented an uplift over cost of £144,000.

In addition, proceeds of £1.8 million were generated from the sale of Antelope Pub Limited, which owns a pub of the same name in Tooting, London. This represented a gain over cost of £51,000.

### 'G' Share pool – Portfolio valuation

The period to 30 June 2019 has seen a number of valuation movements, resulting in an unrealised gain of £236,000.

The majority of the uplift in the period related to Baron House Developments LLP, a company created to fund the purchase of a property opposite Newcastle station, which qualifies under the BPRA scheme. The valuation was uplifted by £437,000 following improved trading and an uplift in the value of the hotel site.

Atlantic Dogstar Limited, which owns a group of London pubs, was uplifted by £31,000 based on expected returns.

The valuation gains in the period were partially offset by provisions of £234,000 in Ormsborough Limited, the owner of several pubs and restaurants in Yorkshire. The investment has been reduced in value as a result of cost overruns on two of the company's pub developments.

### Net asset value

At 30 June 2019, the net asset value ("NAV") for a holding of one 'G' Share was 63.2p, which represents a net increase of 2.3p (3.8%) over the period. Total Return (NAV plus dividends paid to date) is now 100.7p.

### Results and dividend

The profit on ordinary activities for the 'G' Share pool, after taxation, for the period was £563,000, comprising a revenue profit of £202,000 and a capital gain of £361,000.

The Company will pay an interim dividend of 14.0p per 'G' Share on 8 November 2019, to Shareholders on the register at 18 October 2019.

### Outlook

Plans are now being progressed for the exit of all investments from the Share pool, following the passing of the five year anniversary at the end of 2018. Good progress is being made on the disposal of these investments, however, Shareholders should note that any exit is dependent on many third parties and external factors, in order to provide a good return for 'G' Shareholders.

### Downing LLP

6 September 2019

## SUMMARY OF INVESTMENT PORTFOLIO 'G' SHARE POOL

as at 30 June 2019

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
<b>VCT qualifying and partially qualifying investments</b>				
Atlantic Dogstar Limited	3,500	4,756	31	31.5%
Walworth House Pub Limited	1,330	1,330	-	8.8%
Downing Pub EIS One Limited	980	1,253	13	8.3%
Quadrate Catering Limited	1,450	1,196	-	7.9%
Pearce and Saunders Limited	193	193	-	1.3%
Hermes Wood Pellets Limited	1,000	152	-	1.0%
Apex Energy Limited	1,300	130	-	0.9%
Ormsborough Limited	500	117	(234)	0.8%
Zora Energy Renewables Limited	750	67	(11)	0.4%
<b>Non-qualifying investments</b>				
Baron House Developments LLP	1,093	1,530	437	10.1%
Quadrate Spa Limited	1,450	669	-	4.4%
London City Shopping Centre Limited	110	-	-	0.0%
	<u>13,656</u>	<u>11,393</u>	<u>236</u>	75.4%
<b>Cash at bank and in hand</b>		<u>3,714</u>		<u>24.6%</u>
<b>Total</b>		<u>15,107</u>		<u>100%</u>

G Shares

## SUMMARY OF INVESTMENT MOVEMENTS 'G' SHARE POOL

as at 30 June 2019

Disposals	Cost £'000	Market value at 01/01/19 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Hedderwick Limited	1,250	1,320	1,394	144	74
Antelope Pub Limited	1,760	1,760	1,811	51	51
	<u>3,010</u>	<u>3,080</u>	<u>3,205</u>	<u>195</u>	<u>125</u>



## INVESTMENT MANAGER'S REPORT 'K' SHARE POOL

The 'K' Share pool closed its fundraising in September 2016, having raised £16.2 million. The majority of these funds have been invested and the focus for the pool is on the deployment of the remaining cash and the close monitoring of the investee companies.

It is disappointing to report that the 'K' Share pool has suffered from difficulties in a number of its investments over the period. The required provisions have had a notable negative impact on the Total Return over the period which has been detailed below.

### Investment activity

With the 'K' Share pool entering the VCT qualification test at the start of the year, no new investments were made in the period. One partial exit completed, generating proceeds of £12,000 from the partial redemption of loan notes in Snow Hill Developments LLP.

The period to 30 June 2019 has seen a number of valuation provisions, resulting in an unrealised loss of £2.8 million.

As reported in the year end accounts, the most notable provision is in respect of Yamuna Renewables Limited, a wood pelleting plant in Gars am Kamp, Austria. Consumer demand has substantially reduced following warmer than expected weather. Additionally, production was halted following two serious fires at the facility. Downing is working with the management team to address these issues. The company is pursuing a business interruption and consequential loss insurance claim. However, as the business had not been operating for very long, this is unlikely to cover the real estimated losses. As the company has some borrowings, this may ultimately make it difficult to recover any value. The investment has been fully provided against as a result.

Jito Trading Limited, the operator of another wood pelleting plant in Weitra, Austria, has suffered partly as a result of the demand problem encountered by Yamuna, as discussed. The investment valuation has been reduced by £375,000, as a result of weaker trading and other concerns.

Ormsborough Limited, the owner of pubs and restaurants in Yorkshire, ran into difficulties in respect of several pub developments which it was undertaking. The investment partner and management company then went into administration, and subsequently we have identified some potentially fraudulent transactions which we are continuing to investigate. We have put a new management team in place but trading at the existing pubs has weakened. The investment has been reduced in value by £632,000 as a result. We continue to work with the new management team to seek to recover value.

Indigo Generation Limited and Ironhide Generation Limited are developing solar farms in India. Both plants were expected to complete this year, however due to monsoon season and issues acquiring grid connection, construction of the sites has been delayed, leading to a provision of £221,000 in each company.

The unrealised losses were partially offset by gains in the period totalling £57,000.

The majority of the gains in the period related to Fenkle Street LLP, which was uplifted by £41,000, as the impact of discounting the expected future cash flows unwinds over time.

### Net asset value, results and dividend

At 30 June 2019, the net asset value ("NAV") and Total Return for a holding of one 'K' Share was 72.9p, which represents a net decrease of 18.4p (20.1%) over the period. The loss on ordinary activities for the 'K' Share pool, after taxation, was £2.9 million for the period, comprising a revenue loss of £96,000 and a capital loss of £2.8 million.

## **INVESTMENT MANAGER'S REPORT 'K' SHARE POOL (continued)**

### **Outlook**

The provisions over the period experienced by the 'K' Share pool are disappointing to report. Shareholders should note that management have dedicated substantial resources to the portfolio companies in question and are seeking to develop plans to recover as much value as possible for investors.

### **Downing LLP**

6 September 2019

## SUMMARY OF INVESTMENT PORTFOLIO 'K' SHARE POOL

as at 30 June 2019

	Cost £'000	Valuation £'000	Unrealised (loss)/gain in period £'000	% of portfolio by value
<b>VCT qualifying investments</b>				
Apprise Pubs Limited	1,300	1,300	-	11.4%
Garthcliff Shipping Limited	1,300	1,300	-	11.4%
Jito Trading Limited	1,500	1,125	(375)	9.9%
Ironhide Generation Limited	736	515	(221)	4.6%
Indigo Generation Limited	736	515	(221)	4.6%
Rockhopper Renewables Limited	591	514	(77)	4.5%
Walworth House Pub Limited	500	500	-	4.4%
Exclusive Events Venues Limited	500	500	-	4.4%
Pilgrim Trading Limited	432	432	-	3.8%
SF Renewables (Solar) Limited	337	358	(30)	3.1%
Ormsborough Limited	1,400	316	(632)	2.8%
Zora Energy Renewables Limited	350	32	(5)	0.3%
Mosaic Spa and Health Clubs Limited	24	13	(13)	0.1%
Yamuna Renewables Limited	1,300	-	(1,300)	0.0%
<b>Non-qualifying investments</b>				
Fenkle Street LLP	287	335	41	2.9%
Snow Hill Developments LLP	31	47	16	0.4%
London City Shopping Centre Limited	15	-	-	0.0%
	<u>11,339</u>	7,802	<u>(2,817)</u>	68.6%
<b>Cash at bank and in hand</b>		<u>3,577</u>		<u>31.4%</u>
<b>Total</b>		<u>11,379</u>		<u>100%</u>

## SUMMARY OF INVESTMENT MOVEMENTS 'K' SHARE POOL

as at 30 June 2019

Disposals	Cost £'000	Market value at 01/01/19 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Snow Hill Developments LLP	12	12	12	-	-
	12	12	12	-	-

## UNAUDITED SUMMARISED BALANCE SHEET

as at 30 June 2019

	30 Jun 2019				30 Jun	31 Dec
	'F'	'G'	'K'	Total	2018	2018
	Shares	Shares	Shares	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Fixed assets</b>						
Unquoted investments	3,257	11,393	7,802	22,452	33,840	27,925
<b>Current assets</b>						
Debtors	80	1,255	103	1,438	895	1,328
Cash at bank and in hand	46	3,714	3,577	7,337	6,932	4,055
	126	4,969	3,680	8,775	7,827	5,383
Creditors: amounts falling due within one year	(75)	(392)	(27)	(494)	(437)	(448)
<b>Net current assets</b>	51	4,577	3,653	8,281	7,390	4,935
<b>Net assets</b>	3,308	15,970	11,455	30,733	41,230	32,860
<b>Capital and reserves</b>						
Called up share capital	11	25	16	52	77	52
Capital redemption reserve	149	-	-	149	124	149
Special reserve	4,274	18,194	16,213	38,681	26,729	38,471
Share premium account	-	-	-	-	16,170	-
Revaluation reserve	(561)	(2,263)	(3,537)	(6,361)	(12)	(3,911)
Capital reserve – realised	(1,033)	(1,220)	4	(2,249)	(2,252)	(2,250)
Revenue reserve	468	1,234	(1,241)	461	394	349
<b>Total equity shareholders' funds</b>	3,308	15,970	11,455	30,733	41,230	32,860
<b>Basic and diluted net asset value per:</b>						
'F' Share	30.6p				53.8p	28.7p
'G' Share		63.2p			81.4p	60.9p
'K' Share			72.9p		94.1p	91.3p

## STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019

	Called up share capital £'000	Capital redemption Reserve £'000	Special Reserve £'000	Share Premium Reserve £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000	Total £'000
<b>At 1 January 2018</b>	77	124	28,313	16,170	815	(2,252)	438	43,685
Total comprehensive income	-	-	-	-	(4,866)	896	366	(3,604)
Share premium cancellation	-	-	16,170	(16,170)	-	-	-	-
<b>Transactions with owners</b>								
Purchase of own shares	-	-	-	-	-	-	(55)	(55)
Transfer between reserves	-	-	(6,012)	-	140	5,872	-	-
Dividends paid	-	-	-	-	-	(6,766)	(400)	(7,166)
Cancellation of shares	(25)	25	-	-	-	-	-	-
<b>At 31 December 2018</b>	52	149	38,471	-	(3,911)	(2,250)	349	32,860
Total comprehensive income	-	-	-	-	(2,380)	141	112	(2,127)
<b>Transaction with owners</b>								
Purchase of own shares	-	-	-	-	-	-	-	-
Transfer between reserves	-	-	210	-	(70)	(140)	-	-
Dividends paid	-	-	-	-	-	-	-	-
<b>At 30 June 2019</b>	52	149	38,681	-	(6,361)	(2,249)	461	30,733

## INCOME STATEMENT

for the six months ended 30 June 2019

### Company Total

	Six months ended 30 Jun 2019			Six months ended 30 Jun 2018			Year ended 31 Dec 2018
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	619	16	635	948	-	948	1,621
Gains/(losses) on investments							
- realised	-	125	125	-	708	708	865
- unrealised	-	(2,380)	(2,380)	-	(832)	(832)	(4,866)
	619	(2,239)	(1,620)	948	(124)	824	(2,380)
Investment management fees	(289)	-	(289)	(383)	-	(383)	(711)
Other expenses	(123)	-	(123)	(138)	-	(138)	(254)
<b>Return/(loss) on ordinary activities before taxation</b>	207	(2,239)	(2,032)	427	(124)	303	(3,345)
Tax on total comprehensive income and ordinary activities	(95)	-	(95)	(55)	-	(55)	(259)
<b>Return/(loss) attributable to equity shareholders</b>	112	(2,239)	(2,127)	372	(124)	248	(3,604)
<b>Return per 'F' Share</b>	-	1.9p	1.9p	0.2p	3.0p	3.2p	(3.9p)
<b>Return per 'G' Share</b>	0.8p	1.4p	2.2p	1.9p	(0.1p)	1.8p	(8.6p)
<b>Return per 'K' Share</b>	(0.6p)	(17.8p)	(18.4p)	(0.9p)	(2.7p)	(3.6p)	(6.3p)

## INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2019

'F' Shares	Six months ended 30 Jun 2019			Six months ended 30 Jun 2018			Year ended 31 Dec 2018
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	76	-	76	118	-	118	177
Gains/(losses) on investments							
- realised	-	-	-	-	220	220	350
- unrealised	-	201	201	-	104	104	(780)
	76	201	277	118	324	442	(253)
Investment management fees	(24)	-	(24)	(58)	-	(58)	(97)
Other expenses	(19)	-	(19)	(39)	-	(39)	(43)
<b>Return/(loss) on ordinary activities before taxation</b>	33	201	234	21	324	345	(393)
Tax on total comprehensive income and ordinary activities	(27)	-	(27)	(1)	-	(1)	(31)
<b>Return/(loss) attributable to equity shareholders</b>	6	201	207	20	324	344	(424)



## INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2019

'G' Shares	Six months ended 30 Jun 2019			Six months ended 30 Jun 2018			Year ended 31 Dec 2018
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	491	-	491	778	-	778	1,307
Gains/(losses) on investments							
- realised	-	125	125	-	488	488	514
- unrealised	-	236	236	-	(508)	(508)	(3,325)
	<u>491</u>	<u>361</u>	<u>852</u>	<u>778</u>	<u>(20)</u>	<u>758</u>	<u>(1,504)</u>
Investment management fees	(148)	-	(148)	(200)	-	(200)	(369)
Other expenses	(55)	-	(55)	(56)	-	(56)	(129)
	<u>(148)</u>	<u>-</u>	<u>(148)</u>	<u>(200)</u>	<u>-</u>	<u>(200)</u>	<u>(369)</u>
	<u>(55)</u>	<u>-</u>	<u>(55)</u>	<u>(56)</u>	<u>-</u>	<u>(56)</u>	<u>(129)</u>
<b>Return/(loss) on ordinary activities before taxation</b>	<u>288</u>	<u>361</u>	<u>649</u>	<u>522</u>	<u>(20)</u>	<u>502</u>	<u>(2,002)</u>
Tax on total comprehensive income and ordinary activities	(86)	-	(86)	(33)	-	(33)	(178)
	<u>(86)</u>	<u>-</u>	<u>(86)</u>	<u>(33)</u>	<u>-</u>	<u>(33)</u>	<u>(178)</u>
<b>Return/(loss) attributable to equity shareholders</b>	<u>202</u>	<u>361</u>	<u>563</u>	<u>489</u>	<u>(20)</u>	<u>469</u>	<u>(2,180)</u>

## INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2019

'K' Shares	Six months ended 30 Jun 2019			Six months ended 30 Jun 2018			Year ended 31 Dec 2018
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	52	16	68	52	-	52	137
(Losses)/gains on investments							
- realised	-	-	-	-	-	-	1
- unrealised	-	(2,817)	(2,817)	-	(428)	(428)	(761)
	52	(2,801)	(2,749)	52	(428)	(376)	(623)
Investment management fees	(117)	-	(117)	(125)	-	(125)	(245)
Other expenses	(49)	-	(49)	(43)	-	(43)	(82)
<b>Loss on ordinary activities before taxation</b>	<b>(114)</b>	<b>(2,801)</b>	<b>(2,915)</b>	<b>(116)</b>	<b>(428)</b>	<b>(544)</b>	<b>(950)</b>
Tax on total comprehensive income and ordinary activities	18	-	18	(21)	-	(21)	(50)
<b>Loss attributable to equity shareholders</b>	<b>(96)</b>	<b>(2,801)</b>	<b>(2,897)</b>	<b>(137)</b>	<b>(428)</b>	<b>(565)</b>	<b>(1,000)</b>

## UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2019

	Note	30 Jun 2019				30 Jun	31 Dec
		'F'	'G'	'K'	Total	2018	2018
		Shares	Shares	Shares	Total	Total	Total
		£'000	£'000	£'000	£'000	£'000	
<b>Net cash (outflow)/inflow from operating activities</b>	<b>1</b>	(14)	185	(106)	65	224	(173)
<b>Cash flows from investing activities</b>							
Sale of investments		-	3,205	12	3,217	3,822	5,860
<b>Net cash inflow from investing activities</b>		-	3,205	12	3,217	3,822	5,860
<b>Net cash (outflow)/inflow before financing activities</b>		(14)	3,390	(94)	3,282	4,046	5,687
<b>Cash flows from financing activities</b>							
Equity dividend paid		-	-	-	-	(2,687)	(7,166)
Purchase of own shares		-	-	-	-	(16)	(55)
<b>Net cash outflow from financing activities</b>		-	-	-	-	(2,703)	(7,221)
<b>(Decrease)/increase in cash</b>	<b>2</b>	(14)	3,390	(94)	3,282	1,343	(1,534)

## NOTES TO THE UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2019

	30 Jun 2019				30 Jun	31 Dec
	'F'	'G'	'K'	Total	2018	2018
	Shares	Shares	Shares	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>1 Cash inflow/(outflow) from operating activities</b>						
Return/(loss) on ordinary activities before taxation	234	649	(2,915)	(2,032)	303	(3,345)
Corporation tax	(8)	-	-	(8)	(29)	(174)
(Gains)/losses on investments	(201)	(361)	2,817	2,255	124	4,001
(Increase)/decrease in other debtors	(26)	(92)	10	(108)	(128)	(562)
(Decrease)/increase in other creditors	(13)	(11)	(18)	(42)	(46)	(93)
Net cash (outflow)/inflow from operating activities	(14)	185	(106)	65	224	(173)
<b>2 Analysis of net funds</b>						
Beginning of period	60	324	3,671	4,055	5,589	5,589
Net cash (outflow)/inflow	(14)	3,390	(94)	3,282	1,343	(1,534)
End of period	46	3,714	3,577	7,337	6,932	4,055

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

### 1. General information

Downing TWO VCT plc (“the Company”) is a venture capital trust established under the legislation introduced in the Finance Act 1995 and is domiciled in the United Kingdom and incorporated in England and Wales.

### 2. Accounting policies - Basis of accounting

The unaudited half-yearly results cover the six months to 30 June 2019 and have been prepared in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued in February 2018 (“AIC SORP”) and in accordance with the accounting policies set out in the statutory accounts for the year ended 31 December 2018, which were prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (“FRS 102”).

3. All revenue and capital items in the Income Statement derive from continuing operations.
4. The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.
5. The comparative figures are in respect of the six-month period ended 30 June 2018 and the year ended 31 December 2018 respectively.

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 6. Dividends

Paid in period	Per share pence	Six months ended 30 June 2019			Year to 31 Dec 2018
		Revenue £'000	Capital £'000	Total £'000	Total £'000
<b>'F' Shares</b>					
Y/E Dec 2018 Interim	18.0p	-	-	-	1,946
Y/E Dec 2017 Final	19.0p	-	-	-	2,054
		<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000</u>
<b>'G' Shares</b>					
Y/E Dec 2018 Interim	10.0p	-	-	-	2,533
Y/E Dec 2017 Final	2.5p	-	-	-	633
		<u>-</u>	<u>-</u>	<u>-</u>	<u>3,166</u>

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

### 7. Basic and diluted return per share

	Weighted average number of shares in issue	Revenue return/(loss)		Capital return/(loss)	
		£'000	Per share	£'000	Per share
'F' Shares	10,810,859	6	0.0p	201	1.9p
'G' Shares	25,228,418	202	0.8p	361	1.4p
'K' Shares	15,734,429	<u>(96)</u>	<u>(0.6p)</u>	<u>(2,801)</u>	<u>(17.8p)</u>
		<u>112</u>		<u>(2,239)</u>	

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 8. Net asset value per share

	Shares in issue	Net asset value	
		£'000	Per share
'F' Shares	10,810,859	3,308	30.6p
'G' Shares	25,281,571	15,970	63.2p
'K' Shares	15,718,154	11,455	72.9p
		<u>30,733</u>	

### 9. Reserves

	Period ended 30 Jun 2019 £'000	Year ended 31 Dec 2018 £'000
Capital redemption reserve	149	149
Special reserve	38,681	38,471
Revaluation reserve	(6,361)	(3,911)
Capital reserve - realised	(2,249)	(2,250)
Revenue reserve	461	349
	<u>30,681</u>	<u>32,808</u>

The Special reserve, Capital reserve - realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £9,111,000 which are included in the calculation of distributable reserves. Total distributable reserves are £27,782,000 (31 Dec 2018: £30,544,000).

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

10. The fair value of investments is determined using the detailed accounting policy set out in the statutory accounts for the year ended 31 December 2018.

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

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

	Period ended				Year ended			
	Level 1	Level 2	Level 3	30 June 2019	Level 1	Level 2	Level 3	31 Dec 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	-	-	5,502	5,502	-	-	5,744	5,744
Unquoted equity	-	-	16,950	16,950	-	-	22,181	22,181
	-	-	22,452	22,452	-	-	27,925	27,925

11. The unaudited condensed financial statements set out herein do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The figures for the year ended 31 December 2018 have been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies; the Auditor's report on those financial statements was unqualified.
12. The Directors confirm that, to the best of their knowledge, the half-yearly financial statements have been prepared in accordance with the "Statement: Half-Yearly Financial Reports" issued by the UK Accounting Standards Board as well as in accordance with FRS 104 Interim Financial Reporting and the half-yearly financial report includes a fair review of the information required by:
- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.



## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 13. Risks and uncertainties

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

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

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

The Company's compliance with the VCT regulations is continually monitored by the Manager, who reports regularly to the Board on the current position. The Company has also reappointed Philip Hare and Associates LLP to provide regular reviews and advice in this area.

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

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

### 14. Going concern

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

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

15. Copies of the unaudited half-yearly report will be sent to Shareholders shortly. Further copies can be obtained from the Company's registered office or will be available for download from [www.downing.co.uk](http://www.downing.co.uk).

## SHAREHOLDER INFORMATION

### Performance summary

'F' Share pool	30 Jun	31 Dec	30 Jun
	2019	2018	2018
	Pence	Pence	Pence
Net asset value per 'F' Share	30.6	28.7	53.8
Cumulative distributions per 'F' Share	67.0	67.0	49.0
Total return per 'F' Share	<u>97.6</u>	<u>95.7</u>	<u>102.8</u>
<b>'G' Share pool</b>	<b>30 Jun</b>	<b>31 Dec</b>	<b>30 Jun</b>
	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>
Net asset value per 'G' Share	63.2	60.9	81.4
Cumulative distributions per 'G' Share	37.5	37.5	27.5
Total return per 'G' Share	<u>100.7</u>	<u>98.4</u>	<u>108.9</u>
<b>'K' Share pool</b>	<b>30 Jun</b>	<b>31 Dec</b>	<b>30 Jun</b>
	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>
Net asset value and Total Return per 'K' Share	<u>72.9</u>	<u>91.3</u>	<u>94.1</u>

### Forthcoming dividends

	'F' Shares	'G' Shares
Interim 2019 – Payable 8 November 2019	5.0p	14.0p

### Dividends

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

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

### Share scam warning

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

Further information can be found on Downing's website. If you have any concerns, please contact Downing on 020 7416 7780.

## SHAREHOLDER INFORMATION (continued)

### Shareholder Communications

Shareholders now have the opportunity to be notified when financial reports are available to view on Downing's website by letter or by email; alternatively you can elect to receive full hard copies via post. By default, notifications will be communicated by letter. If you wish to change your communications election at any time, please contact the registrar, Link Asset Services, whose details are on the back cover of this document.

### Share prices

The Company's share prices can be found on various financial websites. The share prices are also available on Downing's website ([www.downing.co.uk](http://www.downing.co.uk)).

	'F' Shares	'G' Shares	'K' Shares
TIDM/EPIC codes	DP2F	DP2G	DP2K
Latest share price (per share) (5 Sept 2019):	20.0p	53.8p	88.0p

### Notification of change of address

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

### Other information for Shareholders

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

**[www.downing.co.uk](http://www.downing.co.uk)**

If you have any queries regarding your shareholding in Downing TWO VCT plc, please contact the registrar on 0871 664 0324 or visit Link's website at [www.linkassetsservices.com](http://www.linkassetsservices.com) and click on "Shareholders and Investors".

**Directors**

Hugh Gillespie (Chairman)  
Dennis Hale  
Christopher McCann

**Company Secretary and Registered Office**

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Registered No. 5334418

**Investment and Administration Manager**

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Tel: 020 7416 7780

**Registrar**

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

[www.linkassetservices.com](http://www.linkassetservices.com)  
Tel: 0871 664 0324

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



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