

Downing TWO VCT PLC

—
Half-Yearly Report for
the six months ended
31 July 2011

SHAREHOLDER INFORMATION

Performance summary

| 'C' Share pool | 31 Jul 2011 | 31 Jan 2011 | 31 Jul 2010 |
|---|------------------------|------------------------|------------------------|
| | pence | pence | pence |
| Net asset value per 'C' Share | 88.6 | 92.8 | 90.0 |
| Net asset value per 'A' Share | 0.1 | 0.1 | 0.1 |
| Cumulative distributions per 'C' Share | 10.0 | 5.0 | 5.0 |
| Total return per 'C' Share and 'A' Share | <u>98.7</u> | <u>97.9</u> | <u>95.1</u> |
| 'D' Share pool | 31 Jul 2011 | 31 Jan 2011 | 31 Jul 2010 |
| | pence | pence | pence |
| Net asset value per 'D' Share | 91.5 | 93.5 | 94.8 |
| Net asset value per 'E' Share | 0.1 | 0.1 | 0.1 |
| Cumulative distributions per 'D' Share | 5.0 | 2.5 | - |
| Total return per 'D' Share and 'E' Share | <u>96.6</u> | <u>96.1</u> | <u>94.9</u> |
| Ordinary Share pool | 31 Jul 2011 | 31 Jan 2011 | 31 Jul 2010 |
| | pence | pence | pence |
| Net asset value per Ordinary Share | 0.1 | 0.1 | 0.1 |
| Cumulative distributions per Ordinary Share | 90.4 | 90.4 | 90.4 |
| Total return per Ordinary Share | <u>90.5</u> | <u>90.5</u> | <u>90.5</u> |

Forthcoming Dividends

| | | |
|---------------------------|--------------------------|---------------------|
| 'C' Shares – Interim 2011 | Payable 25 November 2011 | pence 2.5 |
| 'D' Shares – Interim 2011 | Payable 25 November 2011 | 2.5 |

Dividends

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

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

Terminology

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

Shareholder information is continued on the inside back cover

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present my report for the six months ended 31 July 2011. The Company has continued to have a high level of investment activity and has made good progress towards the VCT qualification targets for the main share pools.

'C' Share pool

Net asset value

At 31 July 2011, the NAV per 'C' Share stood at 88.6p and per 'A' Share at 0.1p, producing a combined total of 88.7p. This is a small increase of 0.8p (0.8%) since the previous year end of 31 January 2011 (after adjusting for dividends of 5.0p per 'C' Share paid during the period). Total return (NAV plus cumulative dividends paid) was 98.7p per 'C' Share and 'A' Share at 31 July 2011.

Results and dividend

The profit on ordinary activities for the 'C' Shares after taxation for the period was £55,000, relating wholly to a revenue surplus.

The Company will pay an interim dividend of 2.5p per 'C' Share, on 25 November 2011, to 'C' Shareholders on the register at 4 November 2011.

Portfolio activity

The 'C' Share pool made £1.3 million of new qualifying and part-qualifying investments during the period. Brief details of the main new qualifying investments are as follows:

Domestic Solar (ISIS) Limited

A partially qualifying investment of £500,000 was made to provide funds for the installation and operation of domestic solar rooftop arrays.

Redmed Limited

A £350,000 qualifying investment was made in a company which owns the Annexe nightclub in Lincoln city centre.

Mosaic Spa and Health Club Limited

A partially qualifying investment of £125,000 was made in this company which trades under the name "Fitness Express" and has contracts to provide management to gyms and spas for hotels, universities and corporate clients.

The share pool made a further non-qualifying property loan to Hoole Hall Country Club early in the period which was repaid (along with the existing property loan) later in the period. In total, £1.9 million of non-qualifying investments were realised (all at amounts equal to original cost) in order to provide funds for the new qualifying investments described above.

Portfolio valuation

The Board has reviewed the portfolio of investments at the period end and is satisfied that there have not been any significant departures from plan which impact on the value of the investments. Accordingly, all investments continue to be held at valuations equal to original cost.

'D' Share pool

Net asset value

At 31 July 2011, the NAV per 'D' Share stood at 91.5p and per 'E' Share at 0.1p, producing a combined total of 91.6p. This is a small increase of 0.5p (0.5%) since the previous year end of 31 January 2011 (after adjusting for dividends of 2.5p per 'D' Share paid during the period). Total return (NAV plus cumulative dividends paid) was 96.6p per 'D' Share and 'E' Share at 31 July 2011.

CHAIRMAN'S STATEMENT (continued)

'D' Share pool (continued)

Results and dividend

The profit on ordinary activities for the 'D' Shares, after taxation, for the period was £59,000, comprising a revenue gain of £192,000 and a capital loss of £133,000.

In accordance with the policy set out in the 'D' Share prospectus, the Company will pay an interim dividend of 2.5p per 'D' Share, on 25 November 2011, to 'D' Shareholders on the register at 4 November 2011.

Portfolio activity

The Company made seven qualifying investments (of which four had non-qualifying elements) at a total cost of £2.6 million during the period. Brief details of the main new investments are as follows:

Future Biogas (Reepham Road) Limited

A partially qualifying investment of £748,000 was made to fund an anaerobic digestion plant, which will be used to generate electricity.

Gingerbread Pre-School Limited

A partially qualifying investment of £551,000 was made in the company which operates children's day nurseries.

Domestic Solar (ISIS) Limited

A partially qualifying investment of £400,000 was made to provide funds for the installation and operation of domestic solar rooftop arrays.

Alpha Schools Holdings Limited

A qualifying investment of £367,000 was made into a company that owns and operates private preparatory schools.

Green Electricity Generation Limited and Progressive Energies Limited

Two qualifying investments of £250,000 and £170,000 were made in companies which generate electricity through the installation of solar systems on domestic rooftops.

Mosaic Spa and Health Club Limited

A partially qualifying investment of £125,000 was made, alongside the 'C' Share pool as described above.

The pool also made several new non-qualifying property loans during the period and realised a number of existing non-qualifying investments to provide funds for the new qualifying investments described above.

Portfolio valuation

The Board has reviewed the investments portfolio at the period end and made one adjustment to the previous carrying values. Camandale Limited owns and operates two pubs in Kilmarnock: The Riverbank and The Monkey Bar. The Monkey Bar is trading significantly below our expectations and, as a result, a provision of £133,000 has been made against the investment. The Board is satisfied that it is appropriate to continue to hold all other investments at values equal to original cost.

Ordinary Share pool

As has been stated previously, although the Ordinary Shares are still in existence, the task of returning funds to Ordinary Shareholders is complete and no further dividends are expected to be paid on the Ordinary Shares. Steps will be taken to wind up this share class in due course.

CHAIRMAN'S STATEMENT (continued)

Share buybacks

In order to provide liquidity in the market for Shareholders who need to sell all or part of their holdings, the Company operates a share buyback policy in respect of its 'A' Shares, 'C' Shares, 'D' Shares and 'E' Shares. The current policy is to undertake share buybacks at a price equivalent to approximately a 10% discount to the latest published NAV. The Board reviews this discount level from time to time.

The Company does not intend to buy in any further Ordinary Shares for cancellation.

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

Risks and uncertainties

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

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

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

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

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

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

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.

Outlook

Over the remainder of the year, we expect to see further progress in building the qualifying investment portfolios for both active share pools. Trading conditions remain very testing, but the continuing failure of the banks to support small businesses provides the Company with a good pipeline of investment opportunities, of which the Company will seek to take advantage.



Hugh Gillespie
Chairman

30 September 2011

UNAUDITED SUMMARISED BALANCE SHEET

as at 31 July 2011

| | 31 Jul 2011 | | | 31 Jul 2010 | 31 Jan 2011 |
|--|---------------------|---------------------|-------------------------------|----------------------|----------------------|
| | 'C' Shares | 'D' Shares | Total (incl Ord Shares) | Total | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fixed assets | | | | | |
| Unquoted investments | 5,804 | 7,965 | 13,774 | 10,120 | 13,222 |
| Current assets | | | | | |
| Debtors | 405 | 724 | 1,129 | 121 | 397 |
| Cash at bank and in hand | 263 | 751 | 1,014 | 5,948 | 2,760 |
| | <u>668</u> | <u>1,475</u> | <u>2,143</u> | <u>6,069</u> | <u>3,157</u> |
| Creditors: amounts falling due within one year | <u>(112)</u> | <u>(272)</u> | <u>(384)</u> | <u>(231)</u> | <u>(352)</u> |
| Net current assets | <u>556</u> | <u>1,203</u> | <u>1,759</u> | <u>5,838</u> | <u>2,805</u> |
| Net assets | <u><u>6,360</u></u> | <u><u>9,168</u></u> | <u><u>15,533</u></u> | <u><u>15,958</u></u> | <u><u>16,027</u></u> |
| Capital and reserves | | | | | |
| Called up share capital | 18 | 25 | 143 | 143 | 143 |
| Capital redemption reserve | 4 | - | 6 | 6 | 6 |
| Special reserve | 6,282 | 9,205 | 15,487 | 15,837 | 15,802 |
| Share premium account | - | - | - | - | - |
| Revaluation reserve | - | (133) | (133) | - | - |
| Capital reserve – realised | - | - | - | - | - |
| Revenue reserve | <u>56</u> | <u>71</u> | <u>30</u> | <u>(28)</u> | <u>76</u> |
| Total equity Shareholders' funds | <u><u>6,360</u></u> | <u><u>9,168</u></u> | <u><u>15,533</u></u> | <u><u>15,958</u></u> | <u><u>16,027</u></u> |
| Basic and diluted net asset value per: | | | | | |
| Ordinary Share | - | - | 0.1p | 0.1p | 0.1p |
| 'C' Share | 88.6p | - | - | 90.0p | 92.8p |
| 'A' Share | 0.1p | - | - | 0.1p | 0.1p |
| 'D' Share | - | 91.5p | - | 94.8p | 93.5p |
| 'E' Share | - | 0.1p | - | 0.1p | 0.1p |

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 31 July 2011 | | | 31 Jul 2010 | 31 Jan 2011 |
|---|---------------|---------------|-------------------------------|----------------|----------------|
| | 'C' Shares | 'D' Shares | Total (incl Ord Shares) | Total | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Opening Shareholders' funds | 6,663 | 9,359 | 16,027 | 10,389 | 10,389 |
| Issue of shares | - | - | - | 6,301 | 6,301 |
| Share issue costs | - | - | - | (347) | (347) |
| Purchase of own shares | - | - | - | - | - |
| Total recognised gains/(losses) for the year | 55 | 59 | 114 | (26) | 293 |
| Distributions | <u>(358)</u> | <u>(250)</u> | <u>(608)</u> | <u>(359)</u> | <u>(609)</u> |
| Closing Shareholders' funds | <u>6,360</u> | <u>9,168</u> | <u>15,533</u> | <u>15,958</u> | <u>16,027</u> |

INCOME STATEMENT

for the six months ended 31 July 2011

| Company Total | Six months ended 31 Jul 2011 | | |
|---|------------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 |
| Income | 573 | - | 573 |
| Net loss on investments - realised | - | - | - |
| - unrealised | - | (133) | (133) |
| | <u>573</u> | <u>(133)</u> | <u>440</u> |
| Investment management fees | (102) | - | (102) |
| Provision against loan stock interest previously recognised | - | - | - |
| Other expenses | (110) | - | (110) |
| Return on ordinary activities before taxation | <u>361</u> | <u>(133)</u> | <u>228</u> |
| Taxation | (114) | - | (114) |
| Return attributable to equity Shareholders | <u>247</u> | <u>(133)</u> | <u>114</u> |
| Basic and diluted return | | | |
| 'C' Share | 0.8p | - | 0.8p |
| 'A' Share | - | - | - |
| 'D' Share | 1.9p | (1.3p) | 0.6p |
| 'E' Share | - | - | - |
| 'C' Shares | | | |
| Income | 160 | - | 160 |
| Net loss on investments - realised | - | - | - |
| - unrealised | - | - | - |
| | <u>160</u> | <u>-</u> | <u>160</u> |
| Investment management fees | (44) | - | (44) |
| Provision against loan stock interest previously recognised | - | - | - |
| Other expenses | (36) | - | (36) |
| Return on ordinary activities before taxation | <u>80</u> | <u>-</u> | <u>80</u> |
| Taxation | (25) | - | (25) |
| Return attributable to equity Shareholders | <u>55</u> | <u>-</u> | <u>55</u> |
| 'D' Shares | | | |
| Income | 413 | - | 413 |
| Net loss on investments - realised | - | - | - |
| - unrealised | - | (133) | (133) |
| | <u>413</u> | <u>(133)</u> | <u>280</u> |
| Investment management fees | (58) | - | (58) |
| Provision against loan stock interest previously recognised | - | - | - |
| Other expenses | (74) | - | (74) |
| Return on ordinary activities before taxation | <u>281</u> | <u>(133)</u> | <u>148</u> |
| Taxation | (89) | - | (89) |
| Return attributable to equity Shareholders | <u>192</u> | <u>(133)</u> | <u>59</u> |

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

| Six months ended 31 Jul 2010 | | | Year ended 31 Jan 2011 | |
|------------------------------|------------------|----------------|------------------------|--|
| Revenue £'000 | Capital £'000 | Total £'000 | Total £'000 | |
| 221 | - | 221 | 837 | |
| - | - | - | - | |
| - | - | - | - | |
| <u>221</u> | <u>-</u> | <u>221</u> | <u>837</u> | |
| (104) | - | (104) | (211) | |
| (53) | - | (53) | - | |
| (90) | - | (90) | <u>(214)</u> | |
| (26) | - | (26) | 412 | |
| - | - | - | (119) | |
| <u>(26)</u> | <u>-</u> | <u>(26)</u> | <u>293</u> | |
| (0.9p) | - | (0.9p) | 1.9p | |
| - | - | - | - | |
| 0.4p | - | 0.4p | 1.7p | |
| - | - | - | - | |
| 82 | - | 82 | 367 | |
| - | - | - | - | |
| - | - | - | - | |
| <u>82</u> | <u>-</u> | <u>82</u> | <u>367</u> | |
| (46) | - | (46) | (90) | |
| (53) | - | (53) | - | |
| (46) | - | (46) | <u>(138)</u> | |
| (63) | - | (63) | 139 | |
| - | - | - | - | |
| <u>(63)</u> | <u>-</u> | <u>(63)</u> | <u>139</u> | |
| 139 | - | 139 | 470 | |
| - | - | - | - | |
| - | - | - | - | |
| <u>139</u> | <u>-</u> | <u>139</u> | <u>470</u> | |
| (58) | - | (58) | (121) | |
| - | - | - | - | |
| (44) | - | (44) | <u>(76)</u> | |
| 37 | - | 37 | 273 | |
| - | - | - | (119) | |
| <u>37</u> | <u>-</u> | <u>37</u> | <u>154</u> | |

UNAUDITED CASH FLOW STATEMENT

for the six months ended 31 July 2011

| | Notes | Six months ended | | | Six months | Year ended |
|--|----------|------------------|---------------|-------------------------------|----------------------|-------------|
| | | 31 Jul 2011 | | | ended | 31 Jan 2011 |
| | | 'C' Shares | 'D' Shares | Total (incl Ord Shares) | 31 Jul 2010 Total | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Net cash (outflow)/inflow from operating activities | 1 | (170) | (283) | (453) | 40 | 219 |
| Taxation | | | | | | |
| Corporation tax paid | | - | - | - | - | (16) |
| Capital expenditure | | | | | | |
| Purchase of investments | | (1,914) | (3,407) | (5,321) | (6,139) | (9,956) |
| Sale of investments | | 1,964 | 2,672 | 4,636 | 327 | 1,043 |
| Net cash outflow from capital expenditure | | 50 | (735) | (685) | (5,812) | (8,913) |
| Equity dividends paid | | (358) | (250) | (608) | (359) | (609) |
| Net cash outflow before financing | | (478) | (1,268) | (1,746) | (6,131) | (9,319) |
| Financing | | | | | | |
| Proceeds from share issue | | - | - | - | 3,449 | 3,449 |
| Share issue costs | | - | - | - | (418) | (418) |
| Purchase of own shares/loan notes | | - | - | - | - | - |
| Net cash inflow from financing | | - | - | - | 3,031 | 3,031 |
| Decrease in cash | 2 | (478) | (1,268) | (1,746) | (3,100) | (6,288) |

Notes to the cash flow statement:

1 Cash inflow from operating activities and returns on investments

| | | | | | |
|---|-------|-------|-------|------|-------|
| Return on ordinary activities before taxation | 80 | 148 | 228 | (26) | 412 |
| Losses on investments | - | 133 | 133 | - | - |
| (Increase)/decrease in other debtors | (240) | (492) | (732) | (51) | 86 |
| (Decrease)/increase in other creditors | (10) | (72) | (82) | 117 | (279) |
| Net cash (outflow)/inflow from operating activities | (170) | (283) | (453) | 40 | 219 |

2 Analysis of net funds

| | | | | | |
|---------------------|-------|---------|---------|---------|---------|
| Beginning of period | 741 | 2,019 | 2,760 | 9,048 | 9,048 |
| Net cash outflow | (478) | (1,268) | (1,746) | (3,100) | (6,288) |
| End of period | 263 | 751 | 1,014 | 5,948 | 2,760 |

SUMMARY OF INVESTMENT PORTFOLIO

as at 31 July 2011

'C' Share pool

| | Cost | Valuation | Unrealised gain/(loss) in period | % of portfolio by value |
|--|--------------|--------------|----------------------------------|-------------------------|
| | £'000 | £'000 | £'000 | |
| Venture capital investments | | | | |
| Qualifying investments | | | | |
| Bijou Wedding Venues Limited* | 815 | 815 | - | 13.4% |
| Future Biogas (SF) Limited* | 727 | 727 | - | 12.0% |
| Domestic Solar (ISIS) Limited* | 500 | 500 | - | 8.2% |
| Atlantic Dogstar Limited | 429 | 429 | - | 7.1% |
| Redmed Limited | 350 | 350 | - | 5.8% |
| East Dulwich Tavern Limited | 344 | 344 | - | 5.7% |
| Westow House Limited | 304 | 304 | - | 5.0% |
| Quadrate Catering Limited* | 290 | 290 | - | 4.8% |
| The 3D Pub Co Limited | 267 | 267 | - | 4.4% |
| Quadrate Spa Limited* | 258 | 258 | - | 4.3% |
| Mosaic Spa and Health Club Limited* | 125 | 125 | - | 2.1% |
| Chapel Street Services Limited | 50 | 50 | - | 0.8% |
| Chapel Street Food and Beverage Limited | 50 | 50 | - | 0.8% |
| Non-qualifying investments | | | | |
| Hoole Hall Country Club Holdings Limited | 581 | 581 | - | 9.6% |
| The Thames Club Limited | 500 | 500 | - | 8.2% |
| Honeycombe Pubs VCT Limited | 175 | 175 | - | 2.9% |
| Vermont Developments Limited | 25 | 25 | - | 0.4% |
| Commercial Street Hotel Limited | 12 | 12 | - | 0.2% |
| Chapel Street Hotel Limited | 2 | 2 | - | 0.0% |
| | <u>5,804</u> | <u>5,804</u> | <u>-</u> | <u>95.7%</u> |
| Cash at bank and in hand | | <u>263</u> | | <u>4.3%</u> |
| 'C' Share pool - Total | | <u>6,067</u> | | <u>100%</u> |

*Partially qualifying investment

SUMMARY OF INVESTMENT PORTFOLIO

as at 31 July 2011

'D' Share pool

| | Cost | Valuation | Unrealised gain/(loss) in period | % of portfolio by value |
|---------------------------------------|--------------|--------------|----------------------------------|-------------------------|
| | £'000 | £'000 | £'000 | |
| Venture capital investments | | | | |
| Qualifying investments | | | | |
| Future Biogas (Reepham Road) Limited* | 748 | 748 | - | 8.6% |
| Gingerbread Pre-School Limited* | 551 | 551 | - | 6.3% |
| Quadrate Catering Limited* | 436 | 436 | - | 5.0% |
| Domestic Solar (ISIS) Limited* | 400 | 400 | - | 4.6% |
| Camandale Limited* | 531 | 398 | (133) | 4.6% |
| Quadrate Spa Limited* | 386 | 386 | - | 4.4% |
| Alpha Schools Holdings Limited | 367 | 367 | - | 4.2% |
| Green Electricity Generation Limited | 250 | 250 | - | 2.9% |
| Slopingtactic Limited | 195 | 195 | - | 2.2% |
| Progressive Energies Limited | 170 | 170 | - | 2.0% |
| Ridgeway Pub Company Limited* | 137 | 137 | - | 1.6% |
| Mosaic Spa and Health Club Limited* | 125 | 125 | - | 1.4% |
| Non-qualifying investments | | | | |
| Aminghurst Limited | 2,000 | 2,000 | - | 23.0% |
| Lullingstone Limited | 647 | 647 | - | 7.4% |
| Looe Road Student Accommodation | 350 | 350 | - | 4.0% |
| Retallack Surfpoes Limited | 250 | 250 | - | 2.9% |
| Kirkhouse Limited | 175 | 175 | - | 2.0% |
| Fenkle Street LLP | 147 | 147 | - | 1.7% |
| Kidspace Adventures Limited | 135 | 135 | - | 1.5% |
| Hoi Polloi Pub Co Limited | 80 | 80 | - | 0.9% |
| Commercial Street Hotel Limited | 18 | 18 | - | 0.2% |
| | <u>8,098</u> | <u>7,965</u> | <u>(133)</u> | <u>91.4%</u> |
| Cash at bank and in hand | | <u>751</u> | | <u>8.6%</u> |
| 'D' Share pool - Total | | <u>8,716</u> | | <u>100%</u> |

* Partially qualifying investment

SUMMARY OF INVESTMENT MOVEMENTS

for the six months ended 31 July 2011

'C' Share pool additions

| Qualifying investments | £'000 |
|--|--------------|
| Domestic Solar (ISIS) Limited* | 500 |
| Redmed Limited | 350 |
| Atlantic Dogstar Limited | 267 |
| Mosaic Spa and Health Club Limited* | 125 |
| Future Biogas (SF) Limited* | 47 |
| Non-qualifying investments | |
| Hoole Hall Country Club Holdings Limited | 625 |
| Total | 1,914 |

'C' Share pool disposals

| | Cost | Market value at 01/02/11 | Disposal Proceeds | Gain/ (loss) against cost | Total realised gain/ (loss) |
|--|--------------|--------------------------|-------------------|---------------------------|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Non-qualifying investments | | | | | |
| Hoole Hall Country Club Holdings Limited | 1,250 | 1,250 | 1,250 | - | - |
| Bijou Wedding Venues Limited | 400 | 400 | 400 | - | - |
| Future Biogas (SF) Limited | 250 | 250 | 250 | - | - |
| Chapel Street Hotel (2008) LLP | 63 | 63 | 63 | - | - |
| Chapel Street Hotel Limited | 1 | 1 | 1 | - | - |
| Total | 1,964 | 1,964 | 1,964 | - | - |

* Partially qualifying investment

SUMMARY OF INVESTMENT MOVEMENTS

for the six months ended 31 July 2011 (continued)

'D' Share pool additions

| Qualifying investments | £'000 |
|---------------------------------------|--------------|
| Future Biogas (Reepham Road) Limited* | 748 |
| Gingerbread Pre-School Limited* | 551 |
| Domestic Solar (ISIS) Limited* | 400 |
| Alpha Schools Holdings Limited | 367 |
| Green Electricity Generation Limited | 250 |
| Progressive Energies Limited | 170 |
| Mosaic Spa and Health Club Limited* | 125 |
| Non-qualifying investments | |
| Manor Capital Limited | 375 |
| Kidspace Adventures Limited | 135 |
| Woolmer Properties Limited | 93 |
| Edison House Limited | 73 |
| Lullingstone Limited | 71 |
| Looe Road Student Accommodation | 49 |
| Total | 3,407 |

'D' Share pool disposals

| | Cost | Market value at 01/02/11 | Disposal Proceeds | Gain/ (loss) against cost | Total realised gain/ (loss) |
|-----------------------------------|--------------|--------------------------|-------------------|---------------------------|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Non-qualifying investments | | | | | |
| Woolmer Properties Limited | 1,088 | 1,088 | 1,088 | - | - |
| Edison House Limited | 669 | 669 | 669 | - | - |
| Fenkle Street LLP | 488 | 488 | 488 | - | - |
| Manor Capital Limited | 375 | 375 | 375 | - | - |
| Fenkle Street Developments LLP | 32 | 32 | 32 | - | - |
| Hoi Polloi Pub Co Limited | 20 | 20 | 20 | - | - |
| Total | 2,672 | 2,672 | 2,672 | - | - |

* Partially qualifying investment

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

- The unaudited half-yearly results cover the six months to 31 July 2011 and have been prepared in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" revised January 2009 ("SORP") and in accordance with the accounting policies set out in the statutory accounts for the year ended 31 January 2011, which were prepared under UK Generally Accepted Accounting Practice ("UK GAAP").
- All revenue and capital items in the Income Statement derive from continuing operations.
- The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.
- The comparative figures are in respect of the six-month period ended 31 July 2010 and the year ended 31 January 2011 respectively.

5. Dividends

| | Date | Per share pence | Six months ended 31 July 2011 | | | Year ended 31 Jan 2011 |
|---------------------|-----------|--------------------|----------------------------------|------------------|----------------|---------------------------|
| | | | Revenue £'000 | Capital £'000 | Total £'000 | Total £'000 |
| Paid in year | | | | | | |
| 'C' Shares | | | | | | |
| 2010 Final | 30 Jul 10 | 5.0p | - | - | - | 359 |
| 2011 Final | 15 Jul 11 | 5.0p | 143 | 215 | 358 | - |
| | | | <u>143</u> | <u>215</u> | <u>358</u> | <u>359</u> |
| 'D' Shares | | | | | | |
| 2011 Interim | 26 Nov 10 | 2.5p | - | - | - | 250 |
| 2011 Final | 15 Jul 11 | 2.5p | 150 | 100 | 250 | - |
| | | | <u>150</u> | <u>100</u> | <u>250</u> | <u>250</u> |

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

6. Basic and diluted return per share

| | 'C' Shares | 'A' Shares | 'D' Shares | 'E' Shares |
|--|---------------|---------------|---------------|---------------|
| Revenue return per share based on: Net revenue after taxation (£'000) | 55 | - | 192 | - |
| Weighted average number of Ordinary Shares in issue | 7,166,806 | 1,0754,329 | 10,000,000 | 15,000,000 |
| Capital return/(loss) per share based on: Net capital gain for the financial year (£'000) | - | - | (133) | - |
| Weighted average number of Ordinary Shares in issue | 7,166,806 | 1,0754,329 | 10,000,000 | 15,000,000 |

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

7. Net asset value per share

| | Shares in issue | Net asset value per share | |
|-----------------|-----------------|---------------------------------|---------------|
| | | | £'000 |
| Ordinary Shares | 9,994,968 | 0.1p | 5 |
| 'C' Shares | 7,166,806 | 88.5p | 6,354 |
| 'A' Shares | 10,754,329 | 0.1p | 6 |
| 'D' Shares | 10,000,000 | 91.5p | 9,159 |
| 'E' Shares | 15,000,000 | 0.1p | 9 |
| | | | <u>15,533</u> |

8. Reserves

| | Capital redemption reserve £'000 | Special reserve £'000 | Revenue reserve £'000 | Capital reserve - realised £'000 | Revaluation reserve £'000 |
|--------------------------------------|---|-----------------------------|-----------------------------|---|---------------------------------|
| At 1 February 2011 | 6 | 15,802 | 76 | - | - |
| Issue of shares | - | - | - | - | - |
| Share issue costs | - | - | - | - | - |
| Net losses on investments | - | - | - | - | (133) |
| Expenses capitalised | - | - | - | - | - |
| Distributions paid | - | - | (293) | (315) | - |
| Transfer between reserves | - | (315) | - | 315 | - |
| Retained net revenue for the year | - | - | 247 | - | - |
| At 31 July 2011 | <u>6</u> | <u>15,487</u> | <u>30</u> | <u>-</u> | <u>(133)</u> |

The Special reserve, Capital reserve-realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £133,000 which are included in the calculation of distributable reserves. Total distributable reserves are £15,384,000.

9. The unaudited condensed financial statements set out herein do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The figures for the year ended 31 January 2011 have been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies; the auditors' report on those financial statements was unqualified.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

- 10.** The Directors confirm that, to the best of their knowledge, the half-yearly financial statements have been prepared in accordance with the “Statement: Half-Yearly Financial Reports” issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by:
- (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.
- 11.** Copies of the unaudited half-yearly report will be sent to Shareholders shortly. Further copies can be obtained from the Company’s Registered Office or will be available for download from www.downing.co.uk.

SHAREHOLDER INFORMATION (continued)

Share Scam Warning

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

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

Share price

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

| | 'C' Shares DP2C | 'D' Shares DP2D | Ordinary Shares DPV2 |
|---|--------------------|--------------------|----------------------------|
| TIDM/EPIC codes | | | |
| Latest share price (29 September 2011): | 79.0p per share | 79.5p per share | 1.55p per share |
| | 'A' Shares DP2A | 'E' Shares DP2E | |
| TIDM/EPIC codes | | | |
| Latest share price (29 September 2011): | 5.0p per share | 0.1p per share | |

Trading shares

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

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

Notification of change of address

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

Other information for Shareholders

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

www.downing.co.uk

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

Directors

Hugh Gillespie (Chairman)
Dennis Hale
Michael Robinson

Company Secretary and Registered Office

Grant Whitehouse
10 Lower Grosvenor Place
London SW1W 0EN

Registered No. 5334413

Investment and Administration Manager

Downing Managers 2 Limited
10 Lower Grosvenor Place
London SW1W 0EN

www.downing.co.uk
Tel: 020 7416 7780

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

www.capitaregistrars.com
Tel: 0871 664 0324

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