

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek advice from your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your F Shares, G Shares or K Shares in the Company, you should send this document immediately to the purchaser or transferee or the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Downing TWO VCT plc

**(Incorporated in England and Wales under the Companies Act 1985
with registered number 05334418)**

Circular to Shareholders issued in connection with the proposed:

Voluntary winding-up of the Company

Notice of General Meeting

Your attention is drawn to the letter from the Chairman of the Company set out on pages 4 to 8 of this document which contains a unanimous recommendation to vote in favour of the resolutions to be proposed at the General Meeting to be held at 11.00 a.m. on 30 March 2021 notice of which is set out in Part 6 of this Circular.

Due to the circumstances surrounding the coronavirus pandemic, it will not be possible for Shareholders to attend the General Meeting in person. Shareholders are instead encouraged to vote by proxy. A Form of Proxy for use at the General Meeting is enclosed with this document. To be valid, the Form of Proxy must be completed and returned either by post or by hand or by email to d2@downing.co.uk so as to be received by Downing LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HD, not later than 48 hours (excluding weekends and public holidays) before the time of the General Meeting. Voting at the General Meeting will be conducted on a poll.

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Timetable

Latest time and date for receipt of Form of Proxy for General Meeting	11.00 a.m. on 26 March 2021
Record date/register of members closed	7.30 a.m. on 30 March 2021
Suspension of the listing of the Shares on the Official List	7.30 a.m. on 30 March 2021
General Meeting	11.00 a.m. on 30 March 2021
Expected date of cancellation of the listing of the Shares on the Official List	8.00 a.m. on 31 March 2021

Part 1: Definitions

"2006 Act"	the Companies Act 2006 (as amended)
"the Acts"	the Companies Acts as defined in s.2 of the 2006 Act and every other statute from time to time in force in the United Kingdom concerning companies insofar as the same applies to the Company or any re-enactment thereof for the time being in force
"Articles"	the articles of association of the Company, as amended from time to time
"C Shares(s) "	the former C shares of 0.1p each in the capital of the Company
"Circular"	this document
"Company"	Downing TWO VCT plc
"D Share(s)"	the former D shares of 0.1p each in the capital of the Company
"Directors" or "Board"	the board of Directors of the Company
"F Share(s)"	F shares of 0.1p each in the capital of the Company
"FCA"	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"Form of Proxy"	the form of proxy for use in connection with the General Meeting
"G Share(s)"	G shares of 0.1p each in the capital of the Company
"General Meeting"	the general meeting of the Company to be held at 11.00 a.m. on 30 March 2021 (or any adjournment thereof)
"HMRC"	Her Majesty's Revenue & Customs
"Investment Management Agreement"	the investment management and administration deed dated 19 January 2005 between the Company and the Investment Manager as amended by deeds of variation dated September 2008, 6 November 2009, 12 October 2011 and 7 January 2013 and 15 December 2015 and a deed of novation dated 15 December 2015
"Investment Manager"	Downing LLP (registered in England and Wales as a limited liability partnership with registered number OC341575 and authorised and regulated by the FCA, with registration number 545025)
"K Share(s)"	K Shares of 0.1p each in the capital of the Company
"Liquidators"	Anthony Batty and Hugh Francis Jesseman of Anthony Batty & Company of 3 Field Court, Gray's Inn, London WC1R 5EF
"Listing Rules"	the Listing Rules of the FCA
"NAV" or "Net Asset Value"	the net asset value per Share
"Net Assets"	gross assets less all liabilities (excluding contingent liabilities) of the Company
"Notice"	the notice of the General Meeting set out in Part 6 of this document
"Official List"	the Official List of the FCA
"Ordinary Share(s)"	the former ordinary shares of 1p each in the capital of the Company
"Proposals"	the proposals relating to the winding up of the Company to be implemented by the Resolutions
"Resolutions"	the resolutions to be proposed at the General Meeting, as set out in the Notice
"Share(s)"	F Shares and/or G Shares and/or K Shares, as applicable
"Shareholder(s)"	Holder(s) of Shares
"Supervisory Committee"	if the Proposals are approved, the committee of the Company (intended to comprise of current members of the Board) to oversee the investment management and administration activities of the Company in the formal winding up period
"VCT rules"	Part 6 Income Tax Act 2007 (as amended) and every other statute (including any orders,

regulations or other subordinate legislation made under them) for the time being in force concerning venture capital trusts

"VCT Winding Up Regulations"

the Venture Capital Trust (Winding up and Mergers) (Tax) Regulations 2004

"Venture Capital Trust"

a company which is, for the time being, approved as a venture capital trust under Section 259 Income Tax Act 2007 (as amended)

Part 2: Letter from the Chairman of the Company

Downing TWO VCT plc
(Registered No. 05334418)

Directors
Hugh Gillespie (Chairman)
Dennis Hale
Christopher McCann

Registered Office
St. Magnus House
3 Lower Thames Street
London EC3R 6HD

26 February 2021

Dear Shareholder,

Notice of General Meeting

1. Introduction

As Shareholders will be aware from the last Chairman's Statement in the half yearly report, the Board of Downing TWO VCT plc has been reviewing plans for the future of the Company. The relatively small size of the Company, with an unaudited NAV of £15.7 million as at 31 December 2020 and, under the current VCT rules, no likelihood of being able to raise any new funds, has led the Board to conclude that the best route for Shareholders is to use the VCT Winding Up Regulations to undertake an orderly winding-up of the Company. The reasons for this are set out below. This document sets out the Proposals to implement the winding up.

A General Meeting of the Company has been scheduled to take place on 30 March 2021 at which Shareholder approval for the Proposals will be sought.

The document also provides an update on the Company's three Share pools, including detail of some further provisions that the Board has considered are required on investments in the K Share pool.

2. Background

The Company was launched at the start of 2005, with its initial public share offer raising gross aggregate proceeds of £10.15 million for its Ordinary Share class during 2005. Ordinary Shareholders who invested in 2005 had a net cost of 60p per Ordinary Share following the receipt of income tax relief, at the time, of 40p per Ordinary Share. The investments in the Ordinary Share pool were sold, and net proceeds were distributed to Ordinary Shareholders during 2008 and 2009.

Five further share offers have since been undertaken for new C Shares, D Shares, F Shares, G Shares and K Shares with the C Share pool making its final distribution in March 2016 and the D Share pool making its final distribution in December 2017. The Ordinary Shares, C Shares and D Shares now no longer exist, and the Company now only has F Shares, G Shares and K Shares in issue. As at 31 December 2020, the remaining F Share, G Share and K Share pools of the Company held investments in companies with a total unaudited value of £11.7 million, plus net current assets (unaudited) of £4.0 million (being current assets, including cash, less current liabilities). Further details of these investments are set out in Part 3.

As at 31 December 2020, the Company had unaudited net assets of £15.7 million and an unaudited NAV and Total Return (NAV plus cumulative dividends paid) as follows:

	31 Dec 2020 Pence per Share
F' Share pool	
Net asset value per 'F' Share	18.0
Cumulative distributions per 'F' Share	72.0
Total return per 'F' Share	<u>90.0</u>
'G' Share pool	
Net asset value per 'G' Share	35.3
Cumulative distributions per 'G' Share	53.5
Total return per 'G' Share	<u>88.8</u>

'K' Share pool

Net asset value per 'K' Share	31.1
Cumulative distributions per 'K' Share	10.0
Total return per 'K' Share	<u>41.1</u>

An update on developments for each of the Share classes is presented in Part 3.

The Directors have decided to put forward proposals for the Company to take advantage of the procedure in the VCT Winding Up Regulations and enter a "VCT winding up period" in order that Shareholders can benefit from the reduced restrictions of the VCT rules and significant cost savings. Even though the Company still has a proportion of its investments to realise across the existing Share pools, the Directors believe it to be in the best interests of Shareholders that the "VCT winding up period" commences as soon as possible, as during that period the Company would no longer be restricted by most of the existing VCT rules. This will allow, for example, the delisting of the Company's Shares which is expected to bring significant cost savings. A "VCT winding up period" commences when the Company appoints a liquidator.

Resolutions relating to the appointment of the Liquidators require the approval of the Shareholders pursuant to the Insolvency Act 1986. Should the Resolutions be approved, the Company will seek then to cancel the listing of its Shares on the Official List.

The Investment Manager, Downing LLP, will continue to act in its existing role and seek to arrange exits from the remaining investments after the Liquidators have been appointed.

3. Current position

The refocussing of the VCT scheme by the UK Government in recent years has effectively made planned exit VCTs unviable. The Company was established as a "planned exit" VCT. The Board has, therefore, decided not to undertake any further fundraisings for the Company or create any new share classes. The Company will now seek to wind down all the existing Share classes and realise the investments as planned from the outset in an orderly manner and return proceeds to Shareholders.

Of the Company's three existing Share pools, the F Share and G Share pools are currently in their divestment phase after passing their five-year anniversary and are currently returning funds to Shareholders, with the K Share pool passing its fifth anniversary in October 2021. In line with the Company's strategy, cash is being steadily returned to Shareholders by way of dividends as and when divestments are made. This has resulted in the Company being reduced in size over recent years to £15.7 million in terms of Net Assets (unaudited) as at 31 December 2020. The impact of this is that the costs of running the Company, as a publicly quoted entity, have risen to a disproportionately high level in the view of the Board.

When reviewing the options, the Board gave consideration to the potential different interests of Shareholders holding different Share classes. However, with all classes either past or soon to reach the 5-year anniversary of the final allotment of Shares, the Board has concluded that there is negligible downside to any Shareholders and a number of benefits to commencing the formal winding up period as noted below.

Commencing a winding-up period of the Company brings the following benefits:

- Running costs will be significantly reduced from their current levels as the Company will take advantage of the ability to de-list the Company's Shares which creates significant cost savings.
- In a formal VCT winding up period, the usual VCT rules are relaxed which may allow extra flexibility in the management of the investments and potentially optimising value.

Shareholders in the K Share pool should note that if all Resolutions are passed, the Company is unlikely to pay any further dividends until after October 2021, after which time all Shareholders in the K Share pool will have held their Shares for five years. If a payment to Shareholders in the K Share pool is made prior to October 2021, this could lead to a partial clawback of income tax relief for some of those Shareholders holding K Shares.

The commencement of a formal VCT winding up period is not expected to have any detrimental impact on the plans to exit from the investments across all three of the Share pools and, with the running cost savings and relaxing of the VCT rules, the Board has concluded that the Proposals are in the best interests of Shareholders.

4. The Winding-up of the Company, the Appointment of the Liquidators, and the Cancellation of the Listing of the Shares on the Official List

For a VCT winding up period to commence, the VCT rules require that the Company is placed into members' voluntary liquidation. The Company's assets will then be realised and, after payment of its liabilities and deducting the costs of implementation, the net proceeds and other cash held by the Company will be distributed to the relevant class of Shareholders in accordance with the provisions of the Articles. The Board envisages that the process of realising the Company's remaining investments will take some time to ensure that value for Shareholders is maximised, particularly given the impact of the pandemic on some portfolio companies.

Trading in the Shares will be suspended at 7.30 a.m. on 30 March 2021 and, if the Resolutions are passed at the General Meeting, this will result in the cancellation of the listing of the Shares on the Official List, which is expected to take place at 8.00 a.m. on 31 March 2021 and the Shares ceasing to trade on the London Stock Exchange at that time.

It is proposed that William Antony Batty and Hugh Francis Jesseman of Antony Batty & Company LLP of 3 Field Court, Gray's Inn, London WC1R 5EF be appointed as liquidators of the Company. The winding-up of the Company will be a solvent winding-up in which it is intended that all creditors will be paid in full. The appointment of the Liquidators will become effective immediately upon the passing of the Resolutions. At this point, the powers of the Directors will cease and the Liquidators will assume responsibility for the winding-up of the Company, including the payment of fees, costs and expenses, the discharging of the liabilities of the Company and the distribution of the surplus assets to the relevant class of Shareholder. The Investment Manager will continue to provide investment management and administration services to the Company and be responsible for the day-to-day management of the assets and investments, under the terms of the Investment Management Agreement. A Supervisory Committee will be formed from previous Board members. The Supervisory Committee will make formal investment management recommendations, including asset disposals, to the Liquidators, who it is proposed will rely on such recommendations without being required to seek independent advice.

5. Running costs in liquidation

When the Company enters members' voluntary liquidation a number of running costs such as stock exchange fees, audit fees and other listing fees will be eliminated. Registrars fees and insurance costs should also reduce.

As previously reported to Shareholders, as a result of the very disappointing performance of the K Share portfolio, the Board has agreed with Downing LLP that no investment management fees in respect of the K Share pool will be charged after 31 December 2019. Investment Management fees in respect of the F Share and G Share pool will, following the winding-up, continue to be charged at the existing rate of 1.8% and 2.0% of net assets per annum respectively. Downing will also continue to provide a cap on running costs at the rate of 3.5% of net asset in respect of the F Share and G Share pools and 3.0% in respect of the K Share pool.

Downing LLP will also continue to provide administration services to the Company when it is in liquidation. Downing has agreed to reduce its fee to 50% of the current level, reducing from £67,206 to £33,603 per annum.

In order to ensure that the Company continues to operate in a similar manner to that which it has done for some time, it is intended that the current Chairman, Hugh Gillespie, and his fellow members of the Board will form a Supervisory Committee to oversee the investment management and administration activities. It is proposed that the Directors' remuneration will reduce by 50% from a total of £64,500 per annum to £32,250 per annum. It is intended that the Liquidators will act upon the recommendations of the Supervisory Committee and Investment Manager and that the Liquidators will not be required to seek any independent advice in respect of investment management matters.

If the Proposals are approved and the Liquidators are appointed, the timing of future distributions to Shareholders will be at the discretion of the Liquidators, who will be guided by the Supervisory Committee. The Liquidators have indicated that investment disposal proceeds in the case of the F Share and G Share pools, after costs, will be usually be distributed to Shareholders without any unreasonable delay. In the case of the K Share pool the first distribution in liquidation is not expected until after October 2021. Liquidators' fees are estimated at approximately £10,000 per annum plus VAT. If the liquidation were to take three years to complete, total liquidators' fees are estimated at £30,000 plus VAT.

Based on current net asset values, the total annual running costs of the Company in liquidation are estimated as follows:

	F Shares	G Shares	K Shares	Total
Investment management fee	£30,000	£159,000	-	£189,000
Other annual running costs	£23,000	£55,000	£41,000	£119,000
Total annual running costs	£53,000	£214,000	£41,000	£308,000

Pence per Share 0.5p 0.8p 0.3p

In liquidation, it is intended that the Company will continue to provide Shareholders with six-monthly updates and additional updates as and when there is news of significant realisations from the portfolio and distributions.

6. Taxation

If the Resolutions are passed at the General Meeting, the Company will notify HMRC that it is entering into members' voluntarily liquidation. The Company then has a three-year period in which the Company will continue to be treated as a Venture Capital Trust, allowing it to realise its assets in an orderly manner. During this period, any distributions made will be tax-free in the hands of Shareholders, provided that it is more than five years since the Shareholder subscribed for the Shares. Where a distribution is made before the fifth anniversary of the Share issue, there would be a clawback of the VCT income tax relief at 30% of the proceeds received. Of the Company's three existing Share pools, the F Share and G Share pools have passed their five-year anniversary, with the K Share pool passing the fifth anniversary of the last share issue in October 2021. Shareholders in the K Share pool should note that due to the above, if all Resolutions are passed, the Company is unlikely to pay any further dividend until after October 2021.

Subject to the above, for Shareholders who have availed themselves of the usual VCT tax reliefs, the Proposals are not expected to have any tax consequences. Shareholders who are in any doubt as to any applicable taxation consequences to them of the winding-up are advised to seek advice from a qualified independent financial adviser or tax specialist.

The information in this Circular relates to UK taxation applicable to the Company and its Shareholders and is based on current legislation and what is understood to be current HMRC practice. The statements above relate to persons who are absolute beneficial owners of the Shares and may not apply to certain classes of persons, such as dealers in securities. Such statements are given by way of general summary and do not constitute legal or tax advice to any Shareholder.

7. Investment portfolio and net asset value

The Board has reviewed the investment valuations as at 31 December 2020. The latest (unaudited) valuations are presented in Part 3 of this document.

The proposed appointment by the Company of the Liquidators is expected to have little impact on the process of realising the remaining portfolio. The Investment Manager will work towards exits on all remaining investments in order to return funds to Shareholders as soon as practicable while seeking to ensure that full value is extracted. The Supervisory Committee will work with the Liquidators and oversee this process.

8. Risk factors

If the Resolutions are not passed, the Company will continue to operate as it has done but running costs may have a larger proportionate impact as the size of the Company reduces and realisations may be more difficult to achieve within the current VCT rules.

If the Resolutions are passed, the process of seeking to realise the investments will continue, with proceeds being distributed to Shareholders in due course. The prevailing market conditions, timing of realisations and progress made by the Company's investments may result in holdings being realised at amounts below the last reported values.

Whilst the costs of the winding-up have been estimated, unforeseen actual costs may exceed the estimates.

9. General Meeting

A General Meeting of Downing TWO VCT plc has been convened for 11.00 a.m. on 30 March 2021.

In view of the ongoing restrictions in connection with the coronavirus pandemic, the Board has decided to hold the General Meeting as a closed meeting. For the safety of the Directors and the Investment Manager's executives, Shareholders, other than the Directors, will not be permitted to attend. Voting on the Resolutions will be conducted on a poll and based on valid proxy votes received before the General Meeting.

Shareholders are requested to vote on the Resolutions by submitting their Form of Proxy. Shareholders are also encouraged to submit questions by email to d2@downing.co.uk. Where practicable, the Board will seek to respond to points raised prior to the General Meeting or in the announcement of the General Meeting results.

At the General Meeting, Resolutions 1, 2 and 3 will be proposed as special resolutions, requiring the approval of not less than 75% of the votes cast. Resolutions 4 and 5 will be proposed as ordinary resolutions, requiring the approval of more than 50% of the votes cast.

The Resolutions, which are all conditional upon each other, upon which Shareholders are asked to vote at the General Meeting of the Company, are set out in full in the Notice on page 16 and are summarised below:

Resolution 1: The Company be wound up and the Liquidators appointed – Special Resolution

Shareholders are being asked whether they wish for the Company to be wound-up. For this to take place, the Liquidators must be appointed.

Resolution 2: That the Liquidators are authorised to distribute all net proceeds and other cash to Shareholders – Special Resolution

Shareholder approval must be obtained to authorise the Liquidators to realise the Company's assets and distribute the net proceeds and other cash to Shareholders.

Resolution 3: That the Liquidators be authorised to exercise the powers under the Insolvency Act 1986 – Special Resolution

Shareholder approval is being sought to allow the Liquidators to pay any creditors of the Company (in accordance with the provisions set out in Schedule 4, Part I of the Insolvency Act 1986).

Resolution 4: That the Liquidators be authorised to act on recommendations from the Supervisory Committee and the Investment Manager – Ordinary Resolution

The Liquidators will not be required to obtain independent advice in relation to the winding up of the portfolio and will not have any liability for acting on recommendations of the Supervisory Committee or the Investment Manager.

Resolution 5: Approval of the Liquidators remuneration on a time cost basis and authorisation to charge category 2 disbursements – Ordinary Resolution

Shareholder approval under the Insolvency Act 1986 must be obtained to allow for the payment of the Liquidators remuneration and expenses.

10. Action to be taken

Shareholders will find a Form of Proxy for the Company enclosed with this document for use at the General Meeting. Shareholders are asked to complete and return it in the prepaid envelope supplied to Downing LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HD, or by scanning a copy by email to d2@downing.co.uk so as to be received as soon as possible and, in any event, to arrive not later than 48 hours before the time of the General Meeting.

11. Recommendation

The Board considers that the Proposals are in the best interests of the Company and its Shareholders as a whole and the Board unanimously recommends Shareholders to vote in favour of the Resolutions to be proposed at the General Meeting, as the Directors intend to do in respect of their own beneficial holdings, which amount, in aggregate, to 5,175 F Shares, representing approximately 0.05% of the Company's issued share capital, 10,720 G Shares, representing approximately 0.04% of the issued share capital and 5,006 K Shares, representing approximately 0.03% of the issued share capital.

Yours sincerely

Hugh Gillespie

Chairman

Downing TWO VCT plc

Part 3: Latest Financial Position and Update

Investment portfolio and net asset value

The Board has reviewed the investment valuations as at the 31 December 2020.

	Unaudited 31 Dec 2020 Pence	Unaudited 30 Jun 2020 Pence	Audited 31 Dec 2019 Pence
F Share pool			
Net asset value per 'F' Share	18.0	18.8	24.7
Cumulative distributions per 'F' Share	<u>72.0</u>	<u>72.0</u>	<u>72.0</u>
Total return per 'F' Share	<u><u>90.0</u></u>	<u><u>90.8</u></u>	<u><u>96.7</u></u>
G Share pool			
Net asset value per 'G' Share	35.3	34.1	48.1
Cumulative distributions per 'G' Share	<u>53.5</u>	<u>53.5</u>	<u>51.5</u>
Total return per 'G' Share	<u><u>88.8</u></u>	<u><u>87.6</u></u>	<u><u>99.6</u></u>
K Share pool			
Net asset value per 'K' Share	31.1	36.6	58.2
Cumulative distributions per 'K' Share	<u>10.0</u>	<u>7.5</u>	<u>-</u>
Total return per 'K' Share	<u><u>41.1</u></u>	<u><u>44.1</u></u>	<u><u>58.2</u></u>

As at 31 December 2020, the unaudited investment portfolio of the separate Share classes within the Company are as follows:

	Valuation at 31 Dec 2020 £'000	% of portfolio by value	Movement in value since 30 June 2020
F Share Pool			
VCT qualifying and partially qualifying investments			
Downing Pub EIS ONE Limited	568	30.8%	46
Fresh Green Power Limited	278	15.1%	5
Atlantic Dogstar Limited	180	9.8%	-
Green Energy Production UK Limited	63	3.4%	(1)
Pearce and Saunders Limited	41	2.2%	(52)
VCT Non-qualifying investments			
Baron House Developments LLP	577	31.2%	(96)
London City Shopping Centre Limited	-	0.0%	-
Pearce and Saunders DevCo Limited	<u>-</u>	<u>0.0%</u>	<u>-</u>
	<u>1,707</u>	<u>92.5%</u>	<u><u>(98)</u></u>
Cash at bank and in hand	<u>139</u>	<u>7.5%</u>	
Total	<u><u>1,846</u></u>	<u><u>100.0%</u></u>	

	Valuation at 31 Dec 2020 £'000	% of portfolio by value	Movement in value since 30 June 2020
G Share Pool			
VCT qualifying and partially qualifying investments			
Atlantic Dogstar Limited	3,142	44.4%	-
Walworth House Pub Limited	1,177	16.6%	-
Downing Pub EIS ONE Limited	1,135	16.0%	91
Hermes Wood Pellets Limited	152	2.2%	-
Pearce and Saunders Limited	136	1.9%	-
Zora Energy Renewables Limited	20	0.3%	(29)
Ormsborough Limited	-	0.0%	-
Quadrate Catering Limited	-	0.0%	-
VCT Non-qualifying investments			
Baron House Developments LLP	1,312	18.6%	(218)
Quadrate Spa Limited	-	0.0%	-
London City Shopping Centre Limited	-	0.0%	-
	<u>7,074</u>	<u>100.0%</u>	<u>(156)</u>
Cash at bank and in hand	<u>1</u>	<u>0.0%</u>	
Total	<u>7,075</u>	<u>100.0%</u>	

	Valuation at 31 Dec 2020 £'000	% of portfolio by value	Movement in value since 30 June 2020
K Share Pool			
VCT qualifying and partially qualifying investments			
Apprise Pubs Limited	853	17.5%	(5)
Walworth House Pub Limited	442	9.1%	-
Pilgrim Trading Limited	350	7.2%	2
Exclusive Events Venues Limited	308	6.3%	(35)
SF Renewables (Solar) Limited	267	5.5%	(25)
Rockhopper Renewables Limited	222	4.6%	-
Garthcliff Shipping Limited	163	3.3%	(92)
Zora Energy Renewables Limited	9	0.2%	(14)
Ormsborough Limited	-	0.0%	-
Yamuna Renewables Limited	-	0.0%	-
Jito Trading Limited	-	0.0%	-
Ironhide Generation Limited	-	0.0%	(161)
Indigo Generation Limited	-	0.0%	(179)
VCT Non-qualifying investments			
Fenkle Street LLP	303	6.2%	(3)
London City Shopping Centre Limited	-	0.0%	-
	<u>2,917</u>	<u>59.9%</u>	<u>(512)</u>
Cash at bank and in hand	<u>1,952</u>	<u>40.1%</u>	
Total	<u>4,869</u>	<u>100.0%</u>	

The unaudited balance sheet of the Company as at 31 December 2020 is summarised as follows:

	'F' Shares £'000	'G' Shares £'000	'K' Shares £'000	Total £'000
Fixed assets				
Unquoted investments	1,707	7,074	2,917	11,698
Current assets				
Debtors	135	2,149	12	2,296
Cash at bank and in hand	139	1	1,952	2,092
	274	2,150	1,964	4,388
Creditors: amounts falling due within one year	(34)	(309)	3	(340)
Net current assets	240	1,841	1,967	4,048
Net assets	1,947	8,915	4,884	15,746
Capital and reserves				
Called up share capital	11	25	16	52
Capital redemption reserve	149	-	-	149
Special reserve	2,957	13,383	14,632	30,972
Share premium account	-	-	-	-
Revaluation reserve	(542)	(4,616)	(4,152)	(9,310)
Capital reserve – realised	(1,099)	(1,831)	(4,155)	(7,085)
Revenue reserve	471	1,954	(1,457)	968
Total equity shareholders' funds	1,947	8,915	4,884	15,746
Basic and diluted net asset value per share	18.0p	35.3p	31.1p	

Commentary

F Share pool

The process of realising investments and returning funds to F Shareholders is well advanced but has been significantly delayed by the pandemic. There have been no significant changes to the portfolio valuation since 30 June 2020. Plans for exiting the pool's two renewable energy assets are now again progressing and the Investment Manager is hopeful that prospects for exits at optimal value from the Share pool's hospitality sector assets will improve as the impact of the pandemic reduces, however it may now not be realistic to expect disposals of these investments to be achieved until 2022.

G Share pool

The process of realising investments and returning funds to G Shareholders is also underway but has stalled as a result of the pandemic. Most of the Share pool's remaining investments are focussed on the hospitality sector and previously formulated plans to exit have fallen through during. New plans will need to be developed as more normal business conditions start to return. There has been no significant movement in the valuation of the G Share portfolio since 30 June 2020, although NAV per Share has moved up slightly as a result of investment income.

K Share pool

The exit process for the K Share pool is scheduled to commence in 2021. The K Share pool has suffered from a number of significant problems within its portfolio companies. The Board has reviewed the portfolio at 31 December 2020 and made some valuation adjustments.

The most material movements have been in respect of two of the Indian Solar companies. Indigo Generation and Ironhide Generation have both been developing solar energy farms in India. Previously the projects had been severely hindered by a number of factors, which delayed their commissioning. These delays have now been extended by the pandemic and the resulting lockdown. Both companies are partly funded by debt and so the new delays have had an adverse impact on the value of the companies' equity. However, the primary factor in the valuation decrease has been the reduction in current and future prices that will be achieved from the sale of electricity. The current price and the rate of growth are materially below expectations and the market due diligence that was undertaken pre investment. Revised projections for these projects have resulted in the equity valuations now being written down to nil (further provisions of £161,000 in respect of Ironhide and £179,000 in respect of Indigo). The projects continue to be developed but given prevailing energy pricing there is limited potential for the equity value to recover.

A further negative movement has been in respect of Garthcliff Shipping Limited. Garthcliff owned a container vessel, which relocated to the South China Sea in late 2019 to seek profitable charter contracts. The Covid-19 outbreak resulted in massive disruption to usual business activity levels and the ship was unable to secure a charter contract. Without income to cover the ship's fixed holding costs the decision was then made to sell the ship. A sale was completed in September 2020 at the best price that could be obtained but at a large discount to the original cost. The company is now in the process of being wound up and the investment has been written down to the level of final expected proceeds. This results in a reduction of £92,000 from the previous valuation.

Unfortunately, as a result of the above, the overall performance of the K Share pool has continued to deteriorate, with the unaudited NAV falling by 3.0p per Share since 30 June 2020 after adjusting for the dividend paid in November 2020. It was clear previously that a significant number of the Share pool's investments faced various major difficulties. These investments have, perhaps unsurprisingly, proved susceptible to further damage arising from the pandemic.

The Board continues to ensure that the Investment Manager is doing everything that can reasonably be done to seek to recover value. As reported previously, the Board have agreed with the Investment Manager that no further investment management fees will be charged in respect of the K Share pool.

Part 4: Taxation

The information in this document relates to UK taxation applicable to the Company and its Shareholders and is based on current legislation and what is understood to be current HMRC practice.

The statements in this Circular in relation to taxation relate to persons who are absolute beneficial owners of the Shares and may not apply to certain classes of persons, such as dealers in securities. Such statements are given by way of general summary only and do not constitute legal or tax advice to any Shareholder.

Shareholders who are in any doubt as to any applicable taxation consequences to them of the winding-up should seek advice from a qualified independent financial adviser or tax specialist.

Part 5: Additional Information

1. Incorporation and Share Capital

Downing TWO VCT plc was incorporated in England and Wales as Downing Protected VCT II plc on 17 January 2005 as a public limited company. The Company changed its name to Downing Planned Exit VCT 2 plc on 8 December 2009 and Downing TWO VCT plc on 16 December 2013.

As at the date of this document, the issued share capital of the Company is as follows:

	F Shares of 0.1p each	G Shares of 0.1p each	K Shares of 0.1p each
Issued and fully paid - Number of Shares	10,810,859	25,281,571	15,718,154
Issued and fully paid – Nominal value	£10,810.86	£25,281,.57	£15,718.15

2. Directors and Disclosure of Directors' Interests

As at 25 February 2021, (being the last practicable date prior to the publication of this document), the interests of the Directors and their immediate families (including persons connected with them) were as follows:

	No. of F Shares	% of F Shares in issue	No. of G Shares	% of G Shares in issue	No. of K Shares	% of K Shares in issue
Directors						
Hugh Gillespie	-	-	4,900	0.02	5,006	0.03
Dennis Hale	5,175	0.05	5,820	0.02	-	-
Christopher McCann	-	-	-	-	-	-

Following the appointment of the Liquidators, it is planned that the Directors will form a Supervisory Committee to oversee the Investment Manager during the winding-up period.

3. Substantial Share interests

So far as the Company is aware, as at the date of this Circular, no party is directly or indirectly interested in 3% or more of the issued Share capital of the Company.

4. Material Contracts

4.1 Save in respect of the Investment Management Agreement, details of which are set out below, the Company has not entered into (i) any contract (not being a contract entered into in the ordinary course of business) within the two years preceding the date of publication of this Circular which is or may be material; or (ii) any other contract (not being a contract entered into in the ordinary course of business) which contains any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this Circular.

4.2 Under the Investment Management Agreement, the Investment Manager has agreed to provide investment management services to the Company for a fee (plus VAT if applicable) ("Annual Management Charges") of (i) 1.8% of the net assets attributable to the F Shares (ii) 2.0% of the net assets attributable to the G Shares and (ii) 2.0% of the net assets attributable to the K Shares and the Investment Manager has agreed to indemnify the Company against its annual running costs (including irrecoverable VAT) exceeding 3.5% of the net assets attributable to the F Shares and the G Shares and 3.0% of the net assets attributable to the K Shares.

The Investment Manager will also receive performance related incentive fees ("Performance Incentive Fees") subject to tax-free annual compound returns per Share class being achieved (the "Hurdle"). The Hurdle must continue to be met and cannot exceed 7.0p per Share.

In addition, the Investment Manager provides certain administration services to the Company for an annual index-linked fee (the "Administration fee") of up to £60,000 (currently £67,206) plus VAT (if applicable).

The Investment Management Agreement terminates if a liquidator is appointed.

Pursuant to an agreement dated 26 February 2021, the Company and the Investment Manager have agreed that (i) with effect from 31 December 2019, no Annual Management Charge will be paid to the Investment Manager in respect of the K Shares (ii) the Investment Management Agreement shall continue notwithstanding the Proposals, and that subject to the Proposals being approved shall terminate on the earlier of (a) 12 months notice from either side or (b) following payment of the final distribution to Shareholders (iii) that subject to the Proposals being approved, no Performance Incentive Fees will be paid to the Investment Manager and (iv) subject to the Proposals being approved, with effect from 1 April 2021, the Administration Fee will reduce by 50% from its current level.

5. Miscellaneous

- 5.1 The prevailing market conditions, timing of realisations of and progress made by the Company's holdings may result in holdings being realised at amounts below the last reported values. Whilst the costs of the winding-up have been estimated, unforeseen actual costs may exceed the estimates. The estimated total net return to each class of Shareholders from the winding-up is, therefore, uncertain.
- 5.2 The Liquidators have given and have not withdrawn their written consent to the inclusion in this document of each reference to their names in the form and context in which they appear.
- 5.3 The unaudited NAVs of the Company at 31 December 2020 were 18.0p per F Share, 35.3p per G Share and 31.1p per K Share.
- 5.4 The total costs of the winding-up will depend on the time taken to complete the realisation of the remaining investments. Assuming a steady reduction in net assets over a period of approximately 24 months, the running costs for the period of the liquidation are estimated to be approximately £481,000, £20,000 of which relate to the Liquidators' fees, split as follows:

	F Shares	G Shares	K Shares	Total
Investment management fee	£45,000	£237,000	-	£282,000
Other annual running costs	£33,000	£83,000	£83,000	£199,000
Total annual running costs	£78,000	£320,000	£83,000	£481,000
Pence per Share	0.7p	1.3p	0.5p	

6. Documents for Inspection

Copies of:

- 6.1 this document;
- 6.2 a letter from the Liquidators consenting to the inclusion in this document of each reference to their names; and
- 6.3 the audited report and accounts of the Company for the period ended 31 December 2019 and the unaudited half yearly report for the six months ended 30 June 2020,

are available for inspection on the Company's website www.downing.co.uk/d2

Part 6

Downing TWO VCT plc
(Registered No. 05334418)

Notice of General Meeting

Notice is hereby given that a General Meeting of Downing TWO VCT plc will be held at 11.00 a.m. on 30 March 2021 for the purpose of considering and, if thought fit, passing resolutions 1, 2 and 3 below as special resolutions and resolution 4 and 5 below as ordinary resolutions of the Company:

Special Resolutions

- 1** That, subject to the passing of the other Resolutions set out in this notice of general meeting, the Company be wound up voluntarily and William Antony Batty and Hugh Francis Jesseman of Antony Batty & Company LLP of 3 Field Court, Gray's Inn, London WC1R 5EF be and are hereby appointed liquidators for the purposes of such winding up ("Liquidators").
- 2** That, subject to the passing of the other Resolutions set out in this notice of general meeting, the Liquidators be and are hereby authorised to realise the Company's assets and, after payment of the Company's liabilities and the costs of implementation, to distribute in relation to each share class of the Company all the net proceeds and other cash to Shareholders in accordance with the Company's articles of association and that the amount to be received by each Shareholder will be by reference to the number of shares of the respective share class held.
- 3** That, subject to the passing of the other Resolutions set out in this notice of general meeting, the Liquidators be authorised under the provisions of Section 165(2) of the Insolvency Act 1986 to exercise the powers laid down in Schedule 4, Part 1 of the Insolvency Act 1986, including paying any class of creditor in full.

Ordinary Resolutions

- 4** That, subject to the passing of the other Resolutions set out in this notice of general meeting, the Liquidators be authorised to act on recommendations from the Supervisory Committee and the Investment Manager and will not be required to obtain independent advice in relation to the winding up the portfolio and will not have any liability for acting on recommendations of the Supervisory Committee or Investment Manager.
- 5** That, subject to the passing of the other Resolutions set out in this notice of general meeting, the remuneration of the Liquidators be fixed on the basis of time spent by them and members of their staff in attending to matters arising during the winding up of the company plus VAT, and that the Liquidators also be authorised to draw their category 2 disbursements plus VAT as detailed in the "Guide to Fees" set out in the Liquidators' website (www.antonybatty.com/insolvency-resources/).

For the purposes of these Resolutions, words and expressions defined in the Circular shall have the same meanings in these Resolutions, save where the context requires otherwise.

By order of the Board

Grant Whitehouse
Company Secretary
Downing TWO VCT plc
26 February 2021

Registered Office: St. Magnus House, 3 Lower Thames Street, London EC3R 6HD
Information regarding the General Meeting, including the information required by section 311A of the Act, is available from www.downing.co.uk.

Notes

- (a) As a result of the Government restrictions on movement and gatherings imposed as a result of the COVID-19 pandemic, members will not be allowed to attend the General Meeting.
- (b) Any member of the Company entitled to attend and vote at the General Meeting is entitled to appoint more than one proxy to exercise all or any of his rights to attend, speak and vote in his place on a poll provided that each proxy is appointed to a different Share or Shares. Such proxy need not be a member of the Company. A Form of Proxy is enclosed. Whilst ordinarily lodging a Form of Proxy does not preclude a member from attending and voting at the meeting, due to COVID-19 restrictions, no additional members over and above the quorum requirement will be able to attend the General Meeting on 30 March 2021. Members are therefore strongly encouraged to complete and return a Form of Proxy appointing the 'Chairman of the meeting' as their proxy to ensure their votes are included in the poll vote conducted on all resolutions. Any other appointed proxy will not be able to attend the General Meeting.
- (c) 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, 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD or electronically at d2@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote.
- (d) 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, 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD. 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 d2@downing.co.uk.
- In either case, the revocation notice must be received by Downing LLP before the General Meeting. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (e) directly below, the proxy appointment will remain valid.
- (e) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's Shares registered on the Register of Members of the Company as at 11.00 a.m. on 26 March 2021 or, in the event that the General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to vote at the said General Meeting in respect of such Shares registered in their name at the relevant time. Changes to entries on the Register of Members after 11.00 a.m. on 26 March 2021 or, in the event that the 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 vote at the General Meeting.
- (f) As at 9:00 a.m. on 25 February 2021, the Company's issued share capital comprised 10,810,859 F Shares, 25,281,571 G Shares and 15,718,154 K Shares and the total number of voting rights in the Company was 51,810,584. The website referred to above will include information on the number of Shares and voting rights.
- (g) 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 General Meeting (although see Note (b) above relating to attendance at the General Meeting);
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (h) 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.
- (i) 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 General Meeting.
- (j) Except as provided above, members who have general queries about the General Meeting should write to the Chairman at the registered office set out above.

