

Downing TWO VCT plc

Report & Accounts
for the year ended
31 December 2015



SHAREHOLDER INFORMATION

Share prices

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

	'D' Shares	'F' Shares	'G' Shares
TIDM/EPIC code:	DP2D	DP2F	DP2G
Latest share price (25 April 2016):	12.5p	70.0p	82.0p
	'E' Shares		
TIDM/EPIC code:	DP2E		
Latest share price (25 April 2016):	5.0p		

Dividends

Dividends will be paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's registrar, Capita Asset Services by calling 0871 664 0300 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday), or by writing to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Mandate forms can be downloaded from Capita's website (see below).

Selling shares

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

Share certificates

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

Notification of change of address

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

Financial calendar

15 June 2016	Annual General Meeting
24 June 2016	Final dividends paid
August 2016	Announcement of half yearly financial results

Other information for Shareholders

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

www.downing.co.uk

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

Share scam warning

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

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

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COMPANY INFORMATION

Registered number	5334418
Directors	Hugh Gillespie (Chairman) Dennis Hale Christopher McCann
Company Secretary and registered office	Grant Whitehouse Ergon House Horseferry Road London SW1P 2AL
Investment and Administration Manager	Downing LLP Ergon House Horseferry Road London SW1P 2AL Tel: 020 7416 7780 www.downing.co.uk
Auditor	BDO LLP 55 Baker Street London W1U 7EU
VCT status advisers	Philip Hare & Associates LLP Suite C – First Floor 4-6 Staple Inn London WC1V 7QH
Registrars	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday) www.capitaassetservices.com
Bankers	Bank of Scotland 33 Old Broad Street London BX2 1LB Royal Bank of Scotland London Victoria Branch 119/121 Victoria Street London SW1E 6RA

INVESTMENT OBJECTIVES

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

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

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

FINANCIAL HIGHLIGHTS

	31 Dec 2015 Pence	31 Dec 2014 Pence
'C' Share pool		
Net asset value per 'C' Share	53.9	98.6
Net asset value per 'A' Share	0.1	0.1
Cumulative distributions per 'C' Share	75.0	25.0
Adjusted for performance fee estimate	(7.6)	-
Total return per 'C' Share and 'A' Share	<u>121.4</u>	<u>123.7</u>
'D' Share pool		
Net asset value per 'D' Share	51.8	71.5
Net asset value per 'E' Share	0.1	0.1
Cumulative distributions per 'D' Share	49.5	22.5
Total return per 'D' Share and 'E' Share	<u>101.4</u>	<u>94.1</u>
'F' Share pool		
Net asset value per 'F' Share	71.9	75.8
Cumulative distributions per 'F' Share	20.0	15.0
Total return per 'F' Share	<u>91.9</u>	<u>90.8</u>
'G' Share pool		
Net asset value per 'G' Share	86.3	90.2
Cumulative distributions per 'G' Share	15.0	10.0
Total return per 'G' Share	<u>101.3</u>	<u>100.2</u>

Dividends paid since period end

'C' Shares – Special 2016	Paid 24 March 2016	30.6p
'A' Shares – Special 2016	Paid 24 March 2016	15.2p
'D' Shares – Final Dec 2015	Paid 24 March 2016	17.0p

Proposed dividends

'F' Shares – proposed Final Dec 2015	Payable 24 June 2016	2.5p
'G' Shares – proposed Final Dec 2015	Payable 24 June 2016	2.5p

FINANCIAL HIGHLIGHTS (continued)

Dividend history

Year end	Date paid	'C' Shares Pence per share	'A' Shares Pence per share	'D' Shares Pence per share	'F' Shares Pence per share	'G' Shares Pence per share
Final 2010	30 July 2010	5.0	-	-	-	-
Interim 2011	26 November 2010	-	-	2.5	-	-
Final 2011	15 July 2011	5.0	-	2.5	-	-
Interim 2012	25 November 2011	2.5	-	2.5	-	-
Final 2012	27 July 2012	2.5	-	2.5	-	-
Interim Jan 2013	30 November 2012	2.5	-	2.5	5.0	-
Final Jan 2013	19 July 2013	2.5	-	2.5	2.5	-
Interim Dec 2013	27 November 2013	2.5	-	2.5	2.5	5.0
Final Dec 2013	27 June 2014	2.5	-	2.5	2.5	2.5
Interim Dec 2014	12 December 2014	-	-	2.5	2.5	2.5
Final Dec 2014	20 March 2015	50.0	-	-	-	-
Final Dec 2014	19 June 2015	-	-	-	2.5	2.5
Interim Dec 2015	18 December 2015	-	-	27.0	2.5	2.5
Special 2016	24 March 2016	30.6	15.2	17.0	-	-
		105.6	15.2	66.5	20.0	15.0
		15.2				
'C' & 'A' Share Total		120.8				

DIRECTORS

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

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

Christopher McCann has been a non-executive director of a number of Downing VCTs. He is a Chartered Accountant and was vice chairman of the private equity manager, Bridgepoint Capital Limited, where he worked from 1987 to 2002. Prior to this he worked for the Barclays Bank Group. He has been a director or chairman of numerous private companies and the chairman of an AIM quoted company.

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

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the Annual Report for the year ended 31 December 2015. The Company currently has four share pools each of which are in different phases of their expected life.

Since the year end, the oldest remaining share pool, the 'C' Share pool, has completed the task of returning funds to Shareholders and has delivered an excellent final outcome. The 'D' Share pool has also recently commenced the process of returning funds to Shareholders although there is some way to go to complete the task. The other share pools are effectively fully invested and are not scheduled to start realising their investment portfolios for some time yet.

I would also like to welcome new 'K' Shareholders to the Company. The 'K' Share fundraising was launched in December 2015, but the first 'K' Shares were not allotted until after the year end and therefore have limited coverage in this Annual Report.

A brief summary of each share pool is provided below. More detailed reviews are provided in the Investment Manager's Report and Review of Investments on pages 7 to 36.

'C' Share pool

The Company's 'C' Shares were originally issued in 2008 and 2009. In line with the Company's planned exit strategy, the 'C' Share pool exited from most of its remaining investments in the year, which realised £5.7 million. As at the 31 December 2015, the 'C' Share pool held a portfolio of 2 investments with a total value of £748,000.

At 31 December 2015, the Net Asset Value ("NAV") of a combined holding of one 'C' Share and one 'A' Share stood at 54.0p, which represents an increase of 5.1% over the year after adjusting for the dividends of 50.0p per share paid in the year. Dividends paid to date total 75.0p.

Since the year end, realisations from the final two investments in Quadrate Spa Limited and Quadrate Catering Limited have been achieved, generating proceeds of £748,000. This resulted in the Company declaring final dividends of 30.6p per 'C' Share and 15.2p per 'A' Share which were paid on 24 March 2016, triggering a performance fee payable to the management team equivalent to 7.6p per 'C' Share (as set out in more detail within the Strategic Report on pages 39 to 40).

After providing for the performance fee, Total Return (cumulative dividends to date) will be 120.8p, compared to the initial cost, net of income tax relief of 70.0p. The Board believes that, considering the economic climate in which the Investment Manager had to realise much of the portfolio, this is an excellent return.

Following the final dividend, the task of returning funds to these Shareholders is considered to be complete and no further dividends are expected to be paid to 'C' Shareholders. Steps will be taken to wind up this share class in due course.

'D' Share pool

The 'D' Shares were originally issued in 2010 and at the year end held a portfolio of 13 investments with a total value of £4.4 million.

At 31 December 2015, the NAV of a combined holding of one 'D' Share and one 'E' Share stood at 51.9p, which represents an increase of 10.2% over the year after adjusting for the dividends of 27.0p per share paid in the year. Total Return (NAV plus cumulative dividends to date) is now 101.4p, compared to the initial NAV of 94.5p.

During the year, the Manager commenced the task of realising the pool's investment portfolio with a number of investments sold producing proceeds of £3.6 million.

These proceeds were distributed to 'D' Shareholders by way of dividend paid on 18 December 2015 (27.0p per 'D' share) and on 24 March 2016 (17.0p per 'D' Share). These returns bring total dividends paid since the launch of the share class to 66.5p per 'D' Share. Since the period end further investments have been realised generating an additional £1.5 million.

The 'D' Share pool now has five main investments remaining and work is ongoing to achieve good returns from each of them. The Manager is optimistic that the majority will be realised before the end of the year, although is cautious in respect of Aminghurst Limited where it appears possible that a full exit might take longer. The Board intends to pay further dividends as soon as a significant level of funds has been generated by further realisations.

'F' Share pool

The 'F' Share pool was launched in 2012 and now holds a portfolio of 23 investments with a total value of £7.4 million.

CHAIRMAN'S STATEMENT (continued)

'F' Share pool (continued)

At 31 December 2015, the 'F' Share NAV stood at 71.9p, which represents an increase of 1.5% over the year after adjusting for the dividends of 5.0p per share paid in the year. Dividends paid to date total 20.0p such that Total Return (NAV plus cumulative dividends to date) is now 91.9p, compared to the initial NAV of 94.5p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'F' Share on 24 June 2016 to Shareholders on the register at the close of business on 20 May 2016.

'G' Share pool

The 'G' Share pool was launched in 2013 and completed its initial investment phase this year. At 31 December 2015, the pool held 19 investments with a total value of £18.9 million.

At 31 December 2015, the 'G' Share NAV stood at 86.3p, which represents a small increase over the initial year of 1.2% after adjusting for the dividends of 5.0p per share paid in the year. Total Return (NAV plus cumulative dividends to date) is now 101.3p, compared to the initial NAV of 100.0p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'G' Share on 24 June 2016 to Shareholders on the register at the close of business on 20 May 2016.

Share buybacks

For share classes within the initial five year period, the Company operates a general policy of buying in its own shares for cancellation when any become available in the market. This policy is currently in place for the 'F' Shares and 'G' Shares. During this period, any such purchases will be undertaken at a price equal to the latest published NAV (i.e. at nil discount). Any buybacks are subject to regulatory restrictions and other factors such as the availability of liquid funds.

The Company is now unlikely to make any further purchases of 'D' Shares and 'E' Shares as the process of returning funds to those Shareholders is now underway. No purchases of 'C' Shares and 'A' Shares will be undertaken as the Shares now have negligible value and steps will be taken in due course to cancel these share classes.

Two purchases of 'G' Share were undertaken in the year. A total of 50,450 'G' Shares were purchased at an average price of 88.8p per share and were subsequently cancelled.

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

Board change

As I reported in my statement with the Half Yearly Report, Christopher McCann joined the Board as a non-executive Director on 28 August 2015.

Christopher is an experienced VCT director who is familiar with a number of the Company's investments. He also has extensive banking, corporate finance and unquoted investment management experience, including fifteen years at Bridgepoint Capital and is proving to be a valuable addition to the Board.

The Board now comprises three non-executive Directors which we believe is an appropriate number for a Company of this size.

Fundraising

The 'K' Share Offer for Subscription was launched on 15 December 2015. As at the date of this report, the Offer had raised gross proceeds £12.3 million which makes the 'K' Share pool of a sufficient size to build a suitable portfolio.

VCT Rules

As Shareholders may be aware, a number of potentially significant changes to the VCT rules were made in November 2015 and some further changes were announced in the Budget in March 2016. The new rules have introduced a limit on the age for most new investee companies of seven years, a lifetime cap of £15 million on the total amount of VCT and similar funding a company can receive and a ban on VCT funds being used by an investee company to acquire another trade or business. They have been brought in to bring the VCT scheme into line with the European Union's Risk Capital Guidelines. In addition, new restrictions on non-qualifying investments have been introduced and all investments into power generation businesses are now effectively banned.

The impact of the new rules on most of the share pools is expected to be minimal as they are not expecting to make any new investments. The new 'K' Share funds will however have to be invested under the new regulations. The Manager believes that, although these new restrictions will be significant and are unwelcome, it will still be possible to build a balanced portfolio of good quality investments and has already started to make progress to that end.

Annual General Meeting ("AGM")

The Company's ninth AGM will be held at Ergon House, Horseferry Road, London, SW1P 2AL at 10:30 a.m. on 15 June 2016.

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

CHAIRMAN'S STATEMENT (continued)

Outlook

Following the successful completion of the return of funds to 'C' Share pool investors, over the coming year, a significant proportion of the Investment Manager's activity will be on seeking to exit the remaining 'D' Share investments in a timely manner and at optimal value.

Investment activity is expected to be limited over the coming year in the 'F' Share pool and 'G' Share pool, which are now both fully invested and will not start seeking to unwind their portfolios until 2018. The Manager will continue to monitor those investments closely during the remaining period to maximize prospects for growth before the exit dates.

The task of investing the new 'K' Share funds is now underway and we expect to see a significant level of new investment activity over the year as a portfolio is built from scratch within the constraints of the new VCT rules.

Although there will be challenges faced by each share pool, generally we believe that the Company is well positioned to deliver satisfactory results to each group of Shareholders over the full life of their investment. I look forward to updating Shareholders of all share pools in my statement in the Half Yearly Report.



Hugh Gillespie
Chairman

25 April 2016

INVESTMENT MANAGER'S REPORT- 'C' SHARE POOL

Introduction

Soon after the year end, the 'C' Share pool completed the task of realising its investments and, on 24 March 2016, paid final dividends.

Final outcome

Over the life of their investment, investors in the 'C' Share pool received total dividends of 105.61p per 'C' Share and 15.22p per 'A' Share making a total return of 120.83p for an original investment of 100p (70p net of income tax relief.) This equates to a return of 9.8% per annum over the life of the investment, which we believe represents a very good return to Shareholders.

'C' Share pool - investment activity

Investment activity throughout the year was almost exclusively focussed on realisations. Total disposal proceeds of £5,671,000 were received in the year.

The sale of Atlantic Dogstar Limited, AEW Pubs No 1 Limited, East Dulwich Tavern Limited and Westow House Limited completed in January 2015, generating capital proceeds to the 'C' share pool of £2,400,000 as well as a dividend of £509,000. In total, this equates to a gain against original cost of £1.2 million.

Domestic Solar Limited, the installer of domestic solar panels across the UK, was sold and generated an uplift over original cost of £165,000 on proceeds of £665,000.

Redmed Limited, the Lincoln bar operator, generated proceeds of £610,000 which represented an uplift over original cost of £102,000.

Vermont Developments Limited sold a property development site in Salford, which was its only remaining asset, and generated proceeds for the 'C' Share pool of £156,000 and a gain against cost of £131,000.

The Thames Club Limited generated proceeds equivalent to its original cost of £500,000.

The £210,000 non-qualifying loan in Hoole Hall Country Club Holdings Limited was repaid at par.

Unfortunately, not all exit proceeds exceeded original cost and two were sold at discounts in order to provide liquidity within an acceptable timeframe. These included Future Biogas (SF) Limited which cost £697,000 and had proceeds of £442,000; and Mosaic Spa and Health Clubs Limited which cost £125,000 and had proceeds of £46,000.

The 3D Pub Co Limited which cost £267,000 and had proceeds of £233,000 and Ecosol Limited which cost £250,000 and had proceeds of £238,000 were both realised in the period at values marginally below cost due to underperformance of the investments.

Several smaller exits also completed including Honeycombe Pubs VCT Limited for £66,000, Chapel Street Services Limited, Chapel Street Food and Beverage Limited and Chapel Street Hotel Limited for a combined total of £105,000.

Quadrante Spa Limited and Quadrante Catering Limited were the last remaining investments and were sold in January 2016 at a value of £55,000 above original costs.

Outlook

We are very satisfied with the final performance of the 'C' Share pool. Following the payment of the final dividends on 24 March 2016, the 'C' Share pool now has negligible value and no further dividends are expected. In due course, steps will be taken to cancel the 'C' Share and 'A' Share classes.

Downing LLP

25 April 2016

REVIEW OF INVESTMENTS – ‘C’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2015:

‘C’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying investments and partially qualifying investments				
Quadrat Spa Limited*	364	381	17	10.2%
Quadrat Catering Limited	330	367	8	9.8%
	<u>694</u>	<u>748</u>	<u>25</u>	<u>20.0%</u>
Cash at bank and in hand		<u>2,995</u>	<u>25</u>	<u>80.0%</u>
Total investments		<u>3,743</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the year and the basis of valuation of the largest investments are set out on pages 9 to 11.

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

Summary of investment movements

Additions

VCT qualifying and partially qualifying investments	Cost £'000
Redmed Limited	158
Total ‘C’ Share pool	158

Disposals

	Cost £'000	MV at 01/01/15 † £'000	Disposal proceeds £'000	Gain/ (loss) against cost £'000	Total realised gain/(loss) during the year £'000
VCT qualifying and partially qualifying investments					
Domestic Solar Limited	500	560	665	165	105 **
Chapel Street Food and Beverage Limited	50	13	45	(5)	32
Chapel Street Services Limited	50	13	42	(8)	29
Ecosol Limited	250	213	238	(12)	25
The 3D Pub Co Limited	267	227	233	(34)	6
Redmed Limited*	508	609	610	102	1
Atlantic Dogstar Limited	663	1,260	1,260	597	-
Future Biogas (SF) Limited*	697	476	442	(255)	(34)
Mosaic Spa and Health Clubs Limited*	125	96	46	(79)	(50)
East Dulwich Tavern Limited	644	734	541	(103)	(193) **
Westow House Limited	429	606	338	(91)	(268) **
Non-qualifying investments					
Vermont Developments Limited	25	120	156	131	36
Chapel Street Hotel Limited	2	1	18	16	17
The Thames Club Limited	500	500	500	-	-
Hoole Hall Country Club Holdings Limited	210	210	210	-	-
Honeycombe Pubs VCT Limited	188	66	66	(122)	-
AEW Pubs No1 Limited	-	261	261	261	-
Westow House Pub No1 Limited	-	16	-	-	(16) **
East Dulwich Tavern Pub No1 Limited	-	30	-	-	(30) **
	<u>5,108</u>	<u>6,011</u>	<u>5,671</u>	<u>563</u>	<u>(340)</u>


† Adjusted for additions in the year


* Part-qualifying investment

** Disposal proceeds were supplemented by dividends totalling £517,000

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

Further details of the main investments:

Quadrate Spa Limited www.theclubandspabirmingham.co.uk	Cost at 31/12/15:	£364,000	Valuation at 31/12/15:	£381,000
	Date of first investment:	Aug 10	Valuation at 31/12/14:	£363,000
			Valuation method:	Net assets
	Investment comprises:			
	Ordinary shares:	£106,000	Proportion of equity held:	2%
	Loan stock:	£258,000	Proportion of loan stock held:	8%
Summary financial information from statutory accounts to 31 March*				
		2015	2014	
Net liabilities:		(£2,724,394)	(£1,748,733)	
<p>Quadrate Spa Limited has developed a spa and health club in the lower floors of a canal-side mixed-use building in Birmingham known as “The Cube”. The health club and spa opened for trading in January 2012 and continues to build towards maturity.</p>				

Quadrate Catering Limited www.mpwsteakhousebirmingham.co.uk	Cost at 31/12/15:	£330,000	Valuation at 31/12/15:	£367,000
	Date of first investment:	Aug 10	Valuation at 31/12/14:	£359,000
			Valuation method:	Net assets
	Investment comprises:			
	Ordinary shares:	£99,000	Proportion of equity held:	4%
	Loan stock:	£231,000	Proportion of loan stock held:	9%
Summary financial information from statutory accounts to 31 March				
		2015	2014	
Turnover:		£5,850,341	£5,739,615	
Operating profit/(loss):		£235,313	(£356,348)	
Net liabilities:		(£877,123)	(£8,213)	
<p>Quadrate Catering Limited has developed the top floor of a canal-side mixed-use building in Birmingham known as “The Cube” which opened as a Marco Pierre-White branded restaurant and bar in December 2011 and has traded well ever since.</p>				

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

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

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

Further details of the main investments:

Summary of loan stock interest income

Loan stock interest recognised in the year from the largest investments held by the 'C' Share pool	£'000
Quadrate Spa Limited	109
Quadrate Catering Limited	37
	<hr/>
	146
Receivable from other investments	144
	<hr/>
	290
	<hr/> <hr/>

Analysis of investments by investment type

The following shows the split of the 'C' Share pool's investment portfolio by type of instrument held at 31 December 2015:

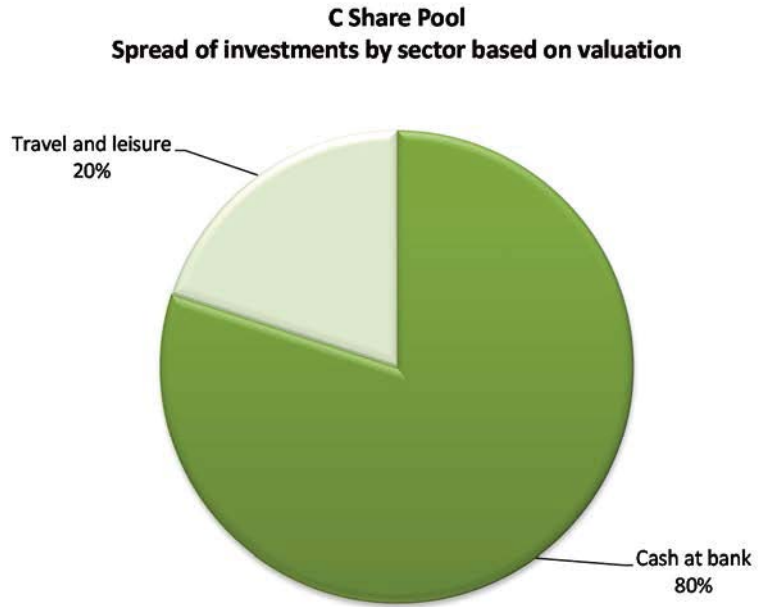
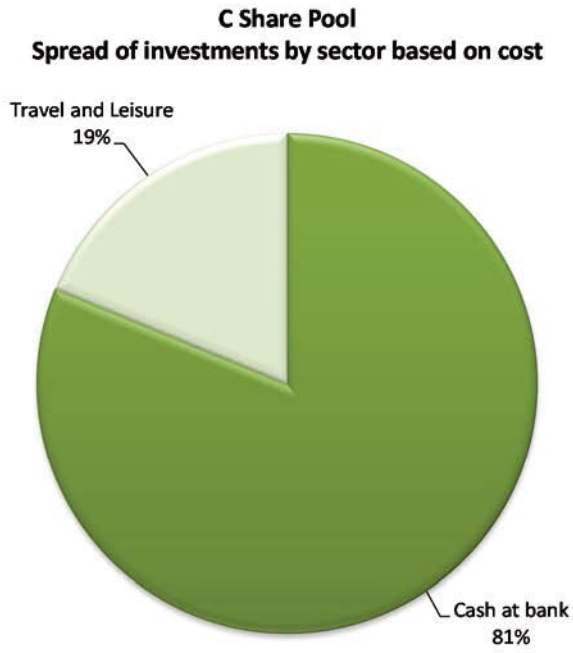
	Target portfolio split	Actual portfolio split 31 Dec 2015
Qualifying investments		
Loans to qualifying companies	50%	17%
Ordinary shares in qualifying companies	25%	3%
Non-qualifying investments (including cash at bank)	25%	80%
	<hr/>	<hr/>
	100%	100%
	<hr/> <hr/>	<hr/> <hr/>

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

Further details of the main investments:

Analysis of investments by commercial sector

The split of the ‘C’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2015) is as follows:



INVESTMENT MANAGER'S REPORT- 'D' SHARE POOL

Introduction

The 'D' Share pool holds investments in 13 companies and is fully invested. The focus this year has been on realisations and ten full exits have completed in the period. We are in the process of developing realisation plans for the remainder of the portfolio.

Net asset value and results

At 31 December 2015, the 'D' Share NAV stood at 51.8p and the 'E' Share NAV at 0.1p, giving a combined NAV of 51.9p. Total Return (NAV plus cumulative dividends to date) was 101.4p for a combined holding of one 'D' and one 'E' Share. This represents a net increase of 7.3p over the year (after adjusting for dividends paid during the year of 27.0p per 'D' Share), equivalent to an increase of 10.2%.

The return on ordinary activities for the 'D' Shares for the period was a gain of £723,000 (2014: loss £50,000) being a revenue profit of £339,000 (2014: £242,000) and a capital gain of £384,000 (2014: loss £292,000).

'D' Share pool - investment activity

Two small new investments completed in the period, Redmed Limited, the owner and operator of a bar in Lincoln for £194,000; and Future Biogas (SF) Limited, the operator of a biogas plant in Norfolk for £169,000.

Ten full exits occurred in the period generating proceeds of £2,900,000 and a realised gain over the opening 2015 valuation of £294,000.

Domestic Solar Limited, the installer of domestic solar panels across the UK, was sold and generated an uplift over original cost of £132,000 on proceeds of £532,000.

The investment in Alpha Schools Holdings Limited was realised in the period for £513,000, an uplift of £146,000 over original cost.

Liverpool Nurseries (Holdings) Limited generated proceeds of £427,000 and an uplift over the brought forward market value of £40,000, although marginally below original investment cost of £435,000.

Green Electricity Generation Limited was sold at an uplift over cost of £65,000 and generated proceeds of £315,000.

Other full exits in the period that generated proceeds above cost include: Slopingtactic Limited which cost £196,000 and had proceeds of £248,000; Progressive Energies Limited which cost £170,000 and had proceeds of £203,000; and Ridgeway Pub Company Limited which cost £137,000 and had proceeds £150,000.

The exit of West Tower Property Limited returned the original cost of £250,000 to the share pool.

Unfortunately not all exits exceeded original cost and some were sold at discounts due to performance issues. These included Ecosol Limited which cost £250,000 and had proceeds of £237,000 and Kilmarnock Monkey Bar Limited which had cost £42,000 and had proceeds of £25,000.

Partial exits totalling £650,000 also took place during the period. The most significant of these were Future Biogas (Reepham Road) Limited with proceeds equivalent to cost of £261,000 and Redmed Limited which cost £166,000 and received proceeds of £176,000.

'D' Share pool – portfolio valuation

The majority of the 'D' Share portfolio performed in line with expectations during the year. There were a small number of valuation movements which resulted in a net unrealised profit of £87,000.

Fenkle Street LLP, is a property development company based in Newcastle. The hotel is trading well and an uplift in the value of £98,000 has been recognised.

Quadrat Catering Limited and Quadrat Spa Limited were in an exit process at the period end date and have subsequently completed. The investments have been valued at the full amount of exit proceeds received which represented a total uplift of £81,000 across both companies.

Kidspace Adventures Holdings Limited, the owner of three well established children's play areas in Croydon, Romford and Epsom continues to perform well and an increase in the valuation of £17,000 has been recognised in the period.

Future Biogas (Reepham Road) Limited, the owner and operator of a biogas plant in Norfolk, has not performed in line with initial expectations and while the issues have now been resolved, performance to date is notably below plan. This has resulted in a decrease in the valuation of £65,000.

Small movements in value were also made on two investments: £47,000 decrease to Mosaic Spa and Health Clubs Limited; and a £7,000 uplift on Avon Solar Limited.

Outlook

The realisation of the 'D' share pool investments has continued well and exit plans for the remaining investments are progressing. We believe that there are good prospects for the majority of the remaining investment portfolio to be realised by the end of 2016, although we are cautious in respect of Aminghurst, where it may take more time to finally exit.

Downing LLP

25 April 2016

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2015:

‘D’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Quadrate Catering Limited	441	538	57	10.7%
Quadrate Spa Limited*	496	520	24	10.3%
Kidspace Adventures Holdings Limited	375	465	17	9.2%
Mosaic Spa and Health Clubs Limited*	521	346	(47)	6.9%
Westcountry Solar Solutions Limited	250	250	-	5.0%
Avon Solar Limited	210	218	7	4.3%
Future Biogas (Reepham Road) Limited	581	196	(65)	3.9%
Camandale Limited*	422	2	(1)	0.0%
	<u>3,296</u>	<u>2,535</u>	<u>(8)</u>	<u>50.3%</u>
Non-qualifying investments				
Aminghurst Limited	1,321	1,321	-	26.2%
Fenkle Street LLP	122	220	98	4.3%
Future Biogas (SF) Limited	169	169	-	3.4%
Commercial Street Hotel Limited	100	100	-	2.0%
Redmed Limited	27	24	(3)	0.5%
	<u>1,739</u>	<u>1,834</u>	<u>95</u>	<u>36.4%</u>
	<u>5,035</u>	<u>4,369</u>	<u>87</u>	<u>86.7%</u>
Cash at bank and in hand		<u>667</u>		<u>13.3%</u>
Total investments		<u>5,036</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out on pages 15 to 19.

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

Summary of investment movements

Additions

	Cost £'000
VCT qualifying and partially qualifying investments	
Mosaic Spa and Health Clubs Limited	46
Camandale Limited	8
Non-qualifying investments	
Redmed Limited	194
Future Biogas (SF) Limited	169
Total ‘D’ Share pool	<u>417</u>

Disposals

	Cost £'000	MV at 01/01/15 † £'000	Disposal proceeds £'000	Gain/ (loss) against cost £'000	Total realised gain/(loss) during the year £'000
VCT qualifying and partially qualifying investments					
Domestic Solar Limited	400	448	532	132	84 **
Alpha Schools Holdings Limited	367	438	513	146	75
Liverpool Nurseries (Holdings) Limited	435	387	427	(8)	40
Ecossol Limited	250	213	237	(13)	24
Ridgeway Pub Company Limited	137	126	150	13	24
Slopingtactic Limited	196	226	248	52	22
Progressive Energies Limited	170	190	203	33	13
Green Electricity Generation Limited	250	303	315	65	12
Future Biogas (Reepham Road) Limited	261	261	261	-	-
West Tower Property Limited	250	250	250	-	-
Camandale Limited*	102	35	28	(74)	(7)
Non-qualifying investments					
Redmed Limited	166	166	176	10	10
Aminghurst Limited	185	185	185	-	-
Kilmarnock Monkey Bar Limited	42	25	25	(17)	-
Total ‘D’ Share pool	<u>3,211</u>	<u>3,253</u>	<u>3,550</u>	<u>339</u>	<u>297</u>

† Adjusted for additions in the year

* Part-qualifying investment

** Disposal proceeds were supplemented by dividends totalling £7,000

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

Further details of the main investments:

Aminghurst Limited

www.gararock.co.uk



Cost at 31/12/15:	£1,321,000	Valuation at 31/12/15:	£1,321,000
Date of first investment:	May 10	Valuation at 31/12/14:	£1,507,000
		Valuation method:	Net assets

Investment comprises:

Loan stock:	£1,321,000	Proportion of loan stock held:	9%
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Summary financial information from statutory accounts to 31 December*

	2014	2013
Net liabilities:	(£4,991,312)	(£5,824,137)

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

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk



Cost at 31/12/15:	£441,000	Valuation at 31/12/15:	£538,000
Date of first investment:	Mar 11	Valuation at 31/12/14:	£481,000
		Valuation method:	Net assets

Investment comprises:

Ordinary shares:	£132,000	Proportion of equity held:	5%
Loan stock:	£309,000	Proportion of loan stock held:	19%

Summary financial information from statutory accounts to 31 March

	2014	2013
Turnover:	£5,850,341	£5,739,615
Operating profit	£235,313	£356,348
Net liabilities	(£877,123)	(£8,213)

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

Quadrate Spa Limited

www.theclubandspabirmingham.co.uk



Cost at 31/12/15:	£496,000	Valuation at 31/12/15:	£520,000
Date of first investment:	Aug 10	Valuation at 31/12/14:	£496,000
		Valuation method:	Net assets

Investment comprises:

Ordinary shares:	£144,000	Proportion of equity held:	3%
Loan stock:	£352,000	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 31 March*

	2015	2014
Net liabilities:	(£2,724,394)	(£1,748,733)

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

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

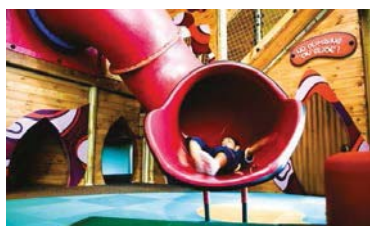
* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

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

Further details of the main investments:

Kidspace Adventures Holdings Limited

www.kidspaceadventures.com



Cost at 31/12/15:	£375,000	Valuation at 31/12/15:	£465,000
Date of first investment:	Aug 10	Valuation at 31/12/14:	£448,000
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£112,500	Proportion of equity held:	2%
Loan stock:	£262,500	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 31 January

	2015	2014
Turnover:	£5,978,963	£5,493,353
Operating profit:	£776,275	£647,287
Net assets:	£3,110,877	£2,852,603

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

Mosaic Spa and Health Clubs Limited

www.mosaicspaandhealth.co.uk



Cost at 31/12/15:	£521,000	Valuation at 31/12/15:	£346,000
Date of first investment:	Feb 11	Valuation at 31/12/14:	£347,000
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£135,000	Proportion of equity held:	5%
Loan stock:	£386,000	Proportion of loan stock held:	6%

Summary financial information from statutory accounts to 31 December

	2014	2013
Turnover:	£7,550,488	£7,086,539
Operating profit:	£97,480	£116,160
Net assets:	£1,589,588	£1,913,722

Mosaic Spa and Health Clubs Limited owns two spas and operates a spa and health club management company which trades under the name of Fitness Express. The company currently has 30 management contracts to provide gyms and spas to hotels, university and corporate clients.

Westcountry Solar Solutions Limited



Cost at 31/12/15:	£250,000	Valuation at 31/12/15:	£250,000
Date of first investment:	Aug 11	Valuation at 31/12/14:	£250,000
		Valuation method:	Discounted cash flow

Investment comprises:

Ordinary shares:	£75,000	Proportion of equity held:	6%
Loan stock:	£175,000	Proportion of loan stock held:	13%

Summary financial information from statutory accounts to 31 March*

	2014	2013
Net assets:	£73,038	£168,711

Westcountry Solar Solutions Limited has developed a portfolio of rooftop solar PV assets across the UK. The solar PV assets have been installed on school rooftops. The schools benefit from free electricity whilst the Company benefits from the Feed in Tariff scheme for the 25 year life of the assets. Any surplus electricity is sold to third party power off-takers.

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

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

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

Further details of the main investments:

Fenkle Street LLP



Cost at 31/12/15:	£122,000	Valuation at 31/12/15:	£220,000
Date of first investment:	Jun 10	Valuation at 31/12/14:	£122,000
		Valuation method:	Discounted cash flow

Investment comprises:			
Loan stock:	£122,000	Proportion of loan stock held:	11%

Summary financial information from consolidated statutory accounts to 30 June

	2014	2013
Turnover:	£146,766	£nil
Operating profit/(loss):	£324,119	(£56,115)
Net assets:	£2,247,582	£2,316,815

Fenkle Street LLP was created to fund the purchase of a property in central Newcastle and carry out its subsequent refurbishment, under the Business Premises Renovation Allowance (BPRA) scheme. The property has now been sold and the refurbishment completed, and the remaining loan is secured on the car park.

Avon Solar Energy Limited



Cost at 31/12/15:	£210,000	Valuation at 31/12/15:	£218,000
Date of first investment:	Sep 11	Valuation at 31/12/14:	£210,000
		Valuation method:	Discounted cash flow

Investment comprises:			
Ordinary shares:	£75,000	Proportion of equity held:	6%
Loan stock:	£135,000	Proportion of loan stock held:	12%

Summary financial information from consolidated statutory accounts to 31 July*

	2014	2013
Net assets:	£341,331	£355,602

Avon Solar Limited has developed a portfolio of 190 residential rooftop solar PV assets in the UK. The sites were commissioned in 2011 and 2012 and have locked into the Feed in Tariff scheme for the 25 year life of the assets. The solar assets provide free power to the homeowners and any surplus is exported into the National Grid.

Future Biogas (Reepham Road) Limited

www.futurebiogas.com



Cost at 31/12/15:	£581,000	Valuation at 31/12/15:	£196,000
Date of first investment:	Mar 11	Valuation at 31/12/14:	£522,000
		Valuation method:	Discounted cash flow

Investment comprises:			
Ordinary shares:	£320,000	Proportion of equity held:	3%
Loan stock:	£261,000	Proportion of loan stock held:	18%

Summary financial information from consolidated statutory accounts to 30 November*

	2014	2013
Net (liabilities)/assets:	(£791,814)	£473,943

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

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

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

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

Further details of the main investments:

Future Biogas (Spring Farm) Limited

www.futurebiogas.com



Cost at 31/12/15:	£169,000	Valuation at 31/12/15:	£169,000
Date of first investment:	May 10	Valuation at 31/12/14:	n/a
		Valuation method:	Discounted cash flow

Investment comprises:			
Loan stock:	£169,000	Proportion of loan stock held:	21%

Summary financial information from statutory accounts to 30 November*

	2014	2013
Net (liabilities)/assets:	(£899,500)	£414,596

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

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

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

Summary of loan stock interest income

Loan stock interest recognised in the year from the ten largest investments held by the ‘D’ Share pool	£’000
Aminghurst Limited	-
Quadrate Catering Limited	10
Quadrate Spa Limited	152
Kidspace Adventures Holdings Limited	31
Mosaic Spa and Health Clubs Limited	49
Westcountry Solar Solutions Limited	41
Fenkle Street LLP	8
Avon Solar Energies Limited	24
Future Biogas (Reepham Road) Limited	16
Future Biogas (SF) Limited	-
	<u>331</u>
Receivable from other investments	<u>213</u>
	<u>544</u>

Analysis of investments by investment type

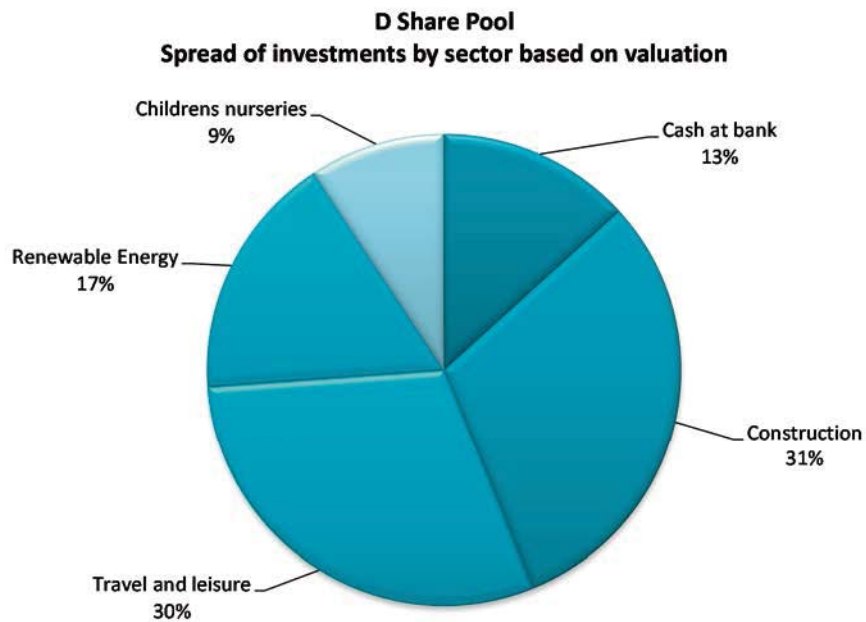
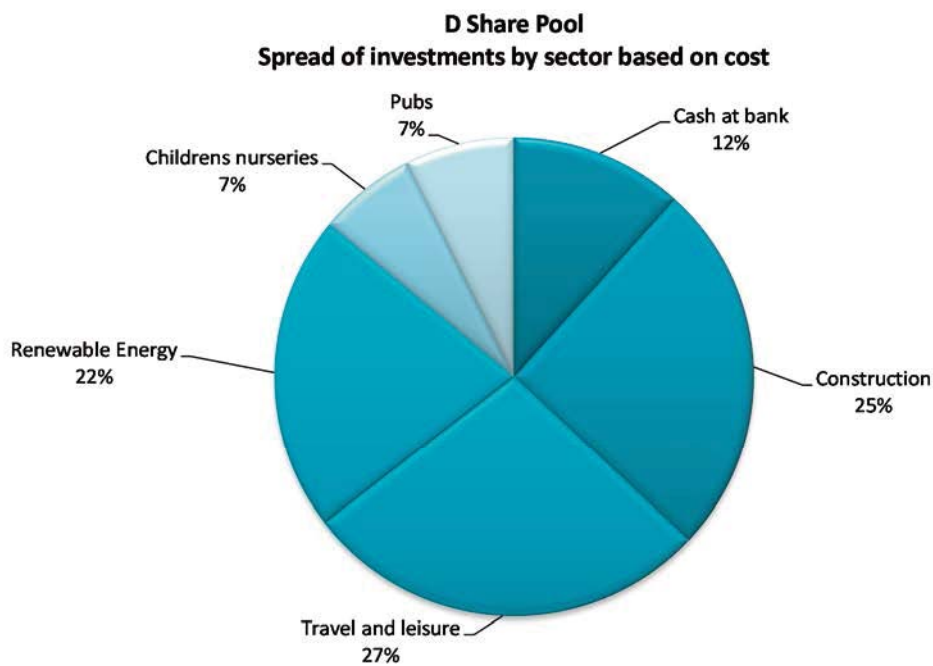
The following shows the split of the ‘D’ Share pool’s investment portfolio by type of instrument held at 31 December 2015:

	Target portfolio split	Actual portfolio split 31 Dec 2015
Qualifying investments		
Loans to qualifying companies	50%	36%
Ordinary shares in qualifying companies	25%	12%
Non-qualifying investments (including cash at bank)	25%	52%
	<u>100%</u>	<u>100%</u>

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

Analysis of investments by commercial sector

The split of the ‘D’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2015) is as follows:



INVESTMENT MANAGER'S REPORT- 'F' SHARE POOL

Introduction

The 'F' Share pool is fully invested in a portfolio focussed on asset backed businesses and those with predictable revenue streams. In the period, two new qualifying investments were made at a total cost of £1.2 million. Three qualifying follow on investments totalling £456,000 were also made.

Five non-qualifying investments were realised in the period, generating total proceeds of £583,000.

Net asset value and results

At 31 December 2015, the 'F' Share NAV stood at 71.9p. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 91.9p. This represents a net increase of 1.1p per share over the year (after adjusting for dividends paid during the year of 5.0p per Share), equivalent to an increase of 1.5%.

The return on ordinary activities for the 'F' Share pool for the year was a gain of £118,000 (2014: £87,000) being a revenue profit of £175,000 (2014: £98,000) and a capital loss of £57,000 (2014: £11,000).

'F' Share pool - investment activity

A new investment of £1,000,000 was made in Apex Energy Limited. The company is seeking to undertake the build and operation of electricity generation power plants.

£257,000 of non-qualifying loan was replaced with a qualifying investment in Pearce and Saunders Limited, the freehold pub company that operates three sites in south east London. A further £47,000 was also invested in a new company, Pearce and Saunders DevCo Limited that will be used to take advantage of a related development opportunity.

£200,000 was invested in Atlantic Dogstar Limited, the owner and operator of five London pubs.

A further qualifying investment of £65,000 was also made in Vulcan Renewables Limited.

Two further partially qualifying and non-qualifying investments were made in the period: Redmed Limited for £87,000 and London City Shopping Centre Limited for £23,000.

One full exit of a qualifying company occurred in the period: Tor Solar Limited, the operator of a solar farm in the south west of England, generating proceeds of £753,000 and a £73,000 profit over the original investment cost.

The partial exit of Redmed Limited generated proceeds of £329,000 in the period. This represented a small uplift of £10,000 over cost.

During the year, several realisations of non-qualifying loans were made: Hoole Hall Hotel Limited for £84,000; Dominions House Limited for £59,000; and The 3D Pub Co Limited for £55,000.

'F' Share pool – portfolio valuation

The majority of the 'F' Share pool investments have performed in line with expectations over the period and continue to be valued at original cost. There have however been several adjustments made which have resulted in a net unrealised loss of £136,000 in the year.

Following a further round of financing the valuation of Vulcan Renewables Limited was increased by £126,000.

Lambridge Solar Limited, the owner of a solar farm in Lincolnshire is performing well and the valuation has been increased by £43,000.

After third party valuations of the sites at two of our freehold London pub companies, Pabulum Pubs Limited and Augusta Pub Company Limited, the valuations were increased by £29,000 and £34,000 respectively.

Kidspace Adventures Holdings Limited, which owns three well established children's play areas in Croydon, Romford and Epsom continues to perform well. As a result the valuation has been increased by £11,000.

Unfortunately, these increases were offset by three value reductions. The pubs owned and operated by Pearce and Saunders Limited have experienced underperformance in the year and the valuation has been reduced by £248,000.

Performance at two of the Share pool's Scottish nightclubs, Fubar Stirling Limited and City Falkirk Limited has continued to operate below expectations and value reductions of £99,000 and £30,000 respectively have been made. Whilst we continue to work closely with the management of both clubs to bring trading back on track, it is clear that the depressed economic conditions in the region are a major contributing factor to the weak performance.

Outlook

The focus now for the 'F' Share portfolio is on close monitoring and support of the portfolio companies to ensure that prospects for growth are optimised in the period until the realisation process commences in 2018.

Downing LLP

25 April 2016

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2015:

‘F’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Apex Energy Limited	1,000	1,000	-	12.9%
Vulcan Renewables Limited	653	779	126	10.0%
Goonhilly Earth Station Limited	760	760	-	9.8%
Lambridge Solar Limited	500	543	43	7.0%
Merlin Renewables Limited	500	500	-	6.4%
Grasshopper 2007 Limited	378	378	-	4.9%
Augusta Pub Company Limited	290	324	34	4.2%
Kidspace Adventures Holdings Limited	250	310	11	4.0%
Pearce and Saunders Limited*	497	248	(248)	3.2%
Pabulum Pubs Limited	200	229	29	2.9%
Atlantic Dogstar Limited	200	200	-	2.6%
Fresh Green Power Limited	200	200	-	2.6%
City Falkirk Limited	422	177	(30)	2.3%
Fubar Stirling Limited	268	169	(99)	2.2%
Green Energy Production UK Limited	100	100	-	1.3%
Cheers Dumbarton Limited	48	17	-	0.2%
Redmed Limited*	18	13	(2)	0.0%
Lochrise Limited	13	-	-	0.0%
	<u>6,297</u>	<u>5,947</u>	<u>(136)</u>	<u>76.5%</u>
Non-qualifying investments				
Aminghurst Limited	839	839	-	10.8%
Baron House Developments LLP	481	481	-	6.2%
London City Shopping Centre Limited	66	66	-	0.9%
Pearce and Saunders DevCo Limited	46	46	-	0.6%
Southampton Hotel Developments Limited	298	-	-	0.0%
	<u>1,730</u>	<u>1,432</u>	<u>-</u>	<u>18.5%</u>
	<u>8,027</u>	<u>7,379</u>	<u>(136)</u>	<u>95.0%</u>
Cash at bank and in hand		<u>392</u>		<u>5.0%</u>
Total investments		<u>7,771</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out above and on pages 23 to 27.

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

Summary of investment movements

Additions

	Cost £'000
VCT qualifying and partially qualifying investments	
Apex Energy Limited	1,000
Pearce and Saunders Limited	304
Atlantic Dogstar Limited	200
Redmed Limited	87
Vulcan Renewables Limited	65
Non-qualifying investments	
Pearce and Saunders DevCo Limited	46
London City Shopping Centre Limited	23
Total ‘F’ Share pool	<u><u>1,725</u></u>

Disposals

	Cost £'000	MV at 01/01/15 † £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the year £'000
VCT qualifying and partially qualifying investments					
Tor Solar PV Limited	680	680	753	73	73
Redmed Limited*	319	323	329	10	6
Non-qualifying investments					
Pearce and Saunders Limited	257	257	257	-	- **
Aminghurst Limited	128	128	128	-	-
Hoole Hall Hotel Limited	84	84	84	-	-
Dominions House Limited	59	59	59	-	-
The 3D Pub Co Limited	55	55	55	-	-
Total ‘F’ Share pool	<u><u>1,582</u></u>	<u><u>1,586</u></u>	<u><u>1,665</u></u>	<u><u>83</u></u>	<u><u>79</u></u>

† Adjusted for additions in the year

* Part-qualifying investment

** Disposal proceeds were supplemented by dividends totalling £46,000

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

Further details of the main investments:

Apex Energy Limited



Cost at 31/12/15:	£1,000,000	Valuation at 31/12/15:	£1,000,000
Date of first investment:	Nov 15	Valuation at 31/12/14:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£1,000,000	Proportion of equity held:	20%

Summary financial information from statutory accounts: None filed

Apex Energy Limited is seeking to own and operate a standby electricity generation plant up to 20MW in capacity. The diesel plant, once operational, will provide electricity to the grid during periods of peak demand under the Capacity Markets Mechanism - a 15 year contract whereby the plant will receive contractual revenue for being available in addition to payments for the electricity supplied to the grid.

Aminghurst Limited

www.gararock.co.uk



Cost at 31/12/15:	£839,000	Valuation at 31/12/15:	£839,000
Date of first investment:	Sep 12	Valuation at 31/12/14:	£967,000
		Valuation method:	Net assets

Investment comprises:			
Loan stock:	£839,000	Proportion of loan stock held:	8%

Summary financial information from statutory accounts to 31 December*

	2014	2013
Net liabilities:	(£4,991,312)	(£5,824,137)

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

Vulcan Renewables Limited



Cost at 31/12/15:	£653,000	Valuation at 31/12/15:	£779,000
Date of first investment:	Apr 12	Valuation at 31/12/14:	£588,000
		Valuation method:	Discounted cash flow

Investment comprises:			
Ordinary shares:	£485,000	Proportion of equity held:	5%
Loan stock:	£168,000	Proportion of loan stock held:	4%

Summary financial information from statutory accounts to 30 November*

	2014	2013
Net assets:	£3,582,726	£3,108,553

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

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

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

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

Further details of the main investments:

Goonhilly Earth Station Limited

www.goonhilly.org



Cost at 31/12/15:	£760,000	Valuation at 31/12/15:	£760,000
Date of first investment:	Jan 14	Valuation at 31/12/14:	£760,000
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£532,000	Proportion of equity held:	19%
Loan stock:	£228,000	Proportion of loan stock held:	20%

Summary financial information from statutory accounts to 31 May*

	2014	2013
Net assets:	£2,269,128	£72,135

Goonhilly Earth Station Limited operates a satellite earth station in Cornwall, where they undertake satellite telemetry and control on behalf of satellite owners, offer radio astronomy facilities to a consortium of universities, and are developing data centre services and a training centre for satellite engineers.

Lambridge Solar Limited



Cost at 31/12/15:	£500,000	Valuation at 31/12/15:	£543,000
Date of first investment:	Jul 14	Valuation at 31/12/14:	£500,000
		Valuation method:	Discounted cash flow

Investment comprises:			
Ordinary shares:	£500,000	Proportion of equity held:	4%

Summary financial information from statutory accounts to 31 December*

	2014	2013
Net assets:	£7,309,665	£4,318,962

Lambridge Solar Limited owns a 9.0 MWp ground mounted photovoltaic system at Burton Pedwardine in Lincolnshire. The system was constructed by Lark Energy and was commissioned in February 2014. It qualifies for Renewable Obligations Certificates “ROCs” and receives 1.6 ROCs for every megawatt hour “MWh” of electricity generated. Provisional Acceptance Certificate “PAC” testing was undertaken in July 2014.

Merlin Renewables Limited



Cost at 31/12/15:	£500,000	Valuation at 31/12/15:	£500,000
Date of first investment:	Oct 14	Valuation at 31/12/14:	£500,000
		Valuation method:	Discounted cash flow

Investment comprises:			
Ordinary shares:	£500,000	Proportion of equity held:	5%

Summary financial information from statutory accounts to 30 November*

	2014	2013
Net assets:	£6,609,068	£4,396,579

Merlin Renewables Limited has developed a 2 MW gas injection anaerobic digestion plant in Norfolk with Future Biogas Limited. The plant completed construction in the final quarter of 2014. The plant is to be fed on maize which is being grown on nearby land and sold to the company for use in the plant. The anaerobic digestion qualifies to receive payments under the Renewable Heat Incentive for injecting bio-methane into the gas grid and electricity for Feed in Tariff income.

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

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

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

Further details of the main investments:

Baron House LLP



Cost at 31/12/15:	£481,000	Valuation at 31/12/15:	£481,000
Date of first investment:	Apr 12	Valuation at 31/12/14:	£481,000
		Valuation method:	Multiples
Investment comprises:			
Loan stock:	£481,000	Proportion of loan stock held:	10%

Summary financial information from statutory accounts to 31 March

	2015	2014
Turnover:	£7,942,876	£882,877
Operating profit/(loss):	£529,825	(£128,216)
Net assets:	£4,782,969	£4,712,868

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

Grasshopper 2007 Limited



Cost at 31/12/15:	£378,000	Valuation at 31/12/15:	£378,000
Date of first investment:	Mar 14	Valuation at 31/12/14:	£378,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£265,000	Proportion of equity held:	18%
Loan stock:	£113,000	Proportion of loan stock held:	18%

Summary financial information from statutory accounts to 26 January*

	2015	2014
Net liabilities:	(£642,447)	(£1,674,127)

The Grasshopper Inn is a public house near Westerham, Kent, operating as a traditional pub, restaurant, wedding venue and boutique hotel with 9 letting rooms. In March 2014 Downing VCTs invested £2.1 million into the business to refinance existing bank debt. Since we made our investment the Manager, Faucet Inn, has secured planning permission for an additional 25 bedrooms on site.

Augusta Pub Company Limited



Cost at 31/12/15:	£290,000	Valuation at 31/12/15:	£324,000
Date of first investment:	May 13	Valuation at 31/12/14:	£290,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£290,000	Proportion of equity held:	7%

Summary financial information from statutory accounts to 31 December*

	2014	2013
Net assets:	£4,300,354	£2,716,787

Augusta Pub Company Limited owns three freehold pubs in London. These are the Balham Bowls Club in Balham, The Forest Tavern in Forest Gate and No 23 Westow Hill in Crystal Palace. The first two sites are open for trading whilst No 23 is expected to open in the near future. Downing’s funds are invested alongside an existing and experienced operator, Antic London.

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

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

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

Further details of the main investments:

Kidspace Adventures Holdings Limited

www.kidspaceadventures.com



Cost at 31/12/15:	£250,000	Valuation at 31/12/15:	£310,000
Date of first investment:	Jan 12	Valuation at 31/12/14:	£299,000
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£75,000	Proportion of equity held:	1%
Loan stock:	£175,000	Proportion of loan stock held:	4%

Summary financial information from statutory accounts to 31 January

	2015	2014
Turnover:	£5,978,963	£5,493,353
Operating profit:	£776,275	£647,287
Net assets:	£3,110,877	£2,852,603

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

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

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

Summary of loan stock interest income

Loan stock interest recognised in the year from the ten largest investments held by the 'F' Share pool £'000

Apex Energy Limited	-
Aminghurst Limited	88
Vulcan Renewables Limited	47
Goonhilly Earth Station Limited	46
Lambridge Solar Limited	-
Merlin Renewables Limited	-
Baron House Developments LLP	-
Grasshopper 2007 Limited	14
Augusta Pub Company Limited	-
Kidspace Adventures Holdings Limited	21
	<hr/>
	216
Receivable from other investments	104
	<hr/>
	320
	<hr/> <hr/>

Analysis of investments by investment type

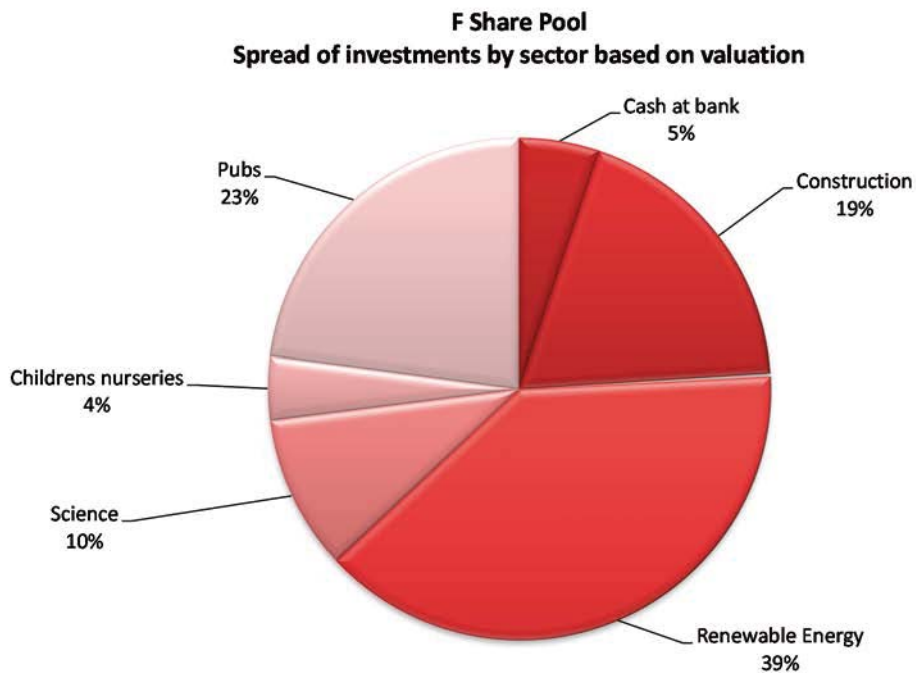
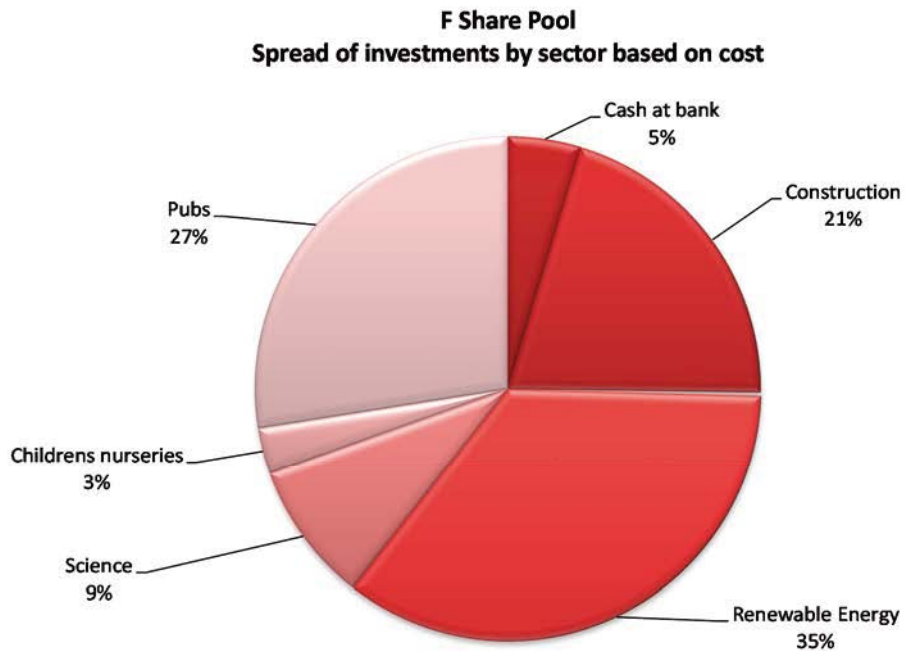
The following shows the split of the 'F' Share pool's investment portfolio by type of instrument held at 31 December 2015:

	Target portfolio split	Actual portfolio split 31 Dec 2015
Qualifying investments		
Loans to qualifying companies	50%	16%
Ordinary shares in qualifying companies	25%	60%
Non-qualifying investments (including cash at bank)	25%	24%
	<hr/>	<hr/>
	100%	100%
	<hr/> <hr/>	<hr/> <hr/>

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

Analysis of investments by commercial sector

The split of the ‘F’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2015) is as follows:



INVESTMENT MANAGER'S REPORT- 'G' SHARE POOL

Introduction

Over the course of the year, the 'G' Share pool has continued to build its qualifying portfolio and is fully qualifying as at 31 December 2015.

Net asset value and results

At 31 December 2015, the 'G' Share NAV stood at 86.3p. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 101.3p. This represents a net increase of 1.1p per Share over the year (after adjusting for dividends paid during the year of 5.0p per Share), equivalent to an increase of 1.2%.

The return on ordinary activities for the 'G' Share pool for the year was a gain of £286,000 (2014: £18,000) being a revenue profit of £257,000 (2014: £17,000) and a capital gain of £29,000 (2014: £1,000).

Investment activity

During the period the 'G' Share pool made seven new qualifying investments and two follow on investments at a total cost of £11,743,000. Of these investments, six were VCT qualifying and three were non-qualifying.

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

£3.5 million was invested in Atlantic Dogstar Limited in January 2015. The company owns and operates five freehold pubs in London.

The 'G' Share pool invested £1,977,000 in Kidspace Adventures Holdings Limited, which owns three well established children's play areas in Croydon, Romford and Epsom.

Antelope Pub Limited owns and operates a pub of the same name in Tooting, London. £1,760,000 has been invested in the company in the period.

A new investment of £1,300,000 was made in Apex Energy Limited. The company is seeking to undertake the build and operation of electricity generation power plants.

£1,250,000 has been invested in Hedderwick Limited. The company is seeking a wedding venue site requiring investment.

Oak Grove Renewables Limited operates an anaerobic digestion plant in Norfolk. £420,000 was invested in the company in the period.

In addition to the above, a number of non-qualifying investments were made in the form of secured loans.

These help to generate investment income on funds ahead of them being employed in VCT qualifying investments. The most significant of these was Hobbler's Heath Limited, which is building a children's adventure playground in Hounslow, West London. £1,325,000 has been invested in this company. £175,000 has also been invested in Redmed Limited, the owner and operator of a bar in Lincoln.

11 non-qualifying loans were fully or partially repaid in the period and generated total proceeds of £6,412,000. Of these 11, seven were repaid in full and generated total proceeds of £5,663,000.

Full repayment was made on Harrogate Street LLP of £1.4 million; Deeside Solar Farms Limited of £1.2 million; Woodbridge Solar Limited of £1.2 million; Vulcan Renewables Limited of £940,000, Future Biogas (SF) Limited of £525,000; Antelope Pub Limited of £300,000; and Dominions House Limited of £98,000.

The 'G' Share pool investments have performed in line with expectations over the period and the majority continue to be valued at original cost. Four companies had their valuation reviewed at the period end and generated a small uplift of £16,000 overall.

The most significant of these was a value reduction on Oak Grove Renewables Limited of £105,000 due to performance issues at the anaerobic digestion plant.

This was more than offset by good performance at two pub companies: Augusta Pub Company and Pabulum Pubs Limited. Both are performing ahead of plan and were uplifted by £68,000 and £58,000 respectively.

Outlook

Following the exits of a number of non-qualifying investments and the redeployment of this capital to qualifying investments, the 'G' Share portfolio now holds more than 70% of its funds in qualifying investments. Our focus has now shifted to close monitoring and support of the portfolio companies in order to nurture growth before the ultimate exit date.

Downing LLP

25 April 2016

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2015:

‘G’ Share pool	Cost £’000	Valuation £’000	Valuation movement in year £’000	% of portfolio
VCT qualifying and partially qualifying investments				
Atlantic Dogstar Limited	3,500	3,500	-	16.0%
Kidspace Adventures Holdings Limited	1,977	1,977	-	9.1%
Antelope Pub Limited	1,760	1,760	-	8.1%
Goonhilly Earth Station Limited	1,710	1,710	-	7.8%
Apex Energy Limited	1,300	1,300	-	6.0%
Hedderwick Limited	1,250	1,250	-	5.7%
Grasshopper 2007 Limited	1,050	1,050	-	4.8%
Augusta Pub Company Limited	580	648	68	3.0%
Pabulum Pubs Limited	400	458	58	2.1%
Oak Grove Renewables Limited	420	315	(105)	1.4%
Redmed Limited*	37	27	(5)	0.1%
	<u>13,984</u>	<u>13,995</u>	<u>16</u>	<u>64.1%</u>
Non-qualifying investments				
Hobblers Heath Limited	1,325	1,325	-	6.1%
Baron House Developments LLP	1,093	1,093	-	5.0%
Pub People Limited	873	873	-	4.0%
Aminghurst Limited	801	801	-	3.7%
Ludlow Taverns Limited	387	387	-	1.8%
Pearce and Saunders Limited	193	193	-	0.9%
London City Shopping Centre Limited	110	110	-	0.5%
Craft Beer Pub Co Limited	92	92	-	0.4%
	<u>4,874</u>	<u>4,874</u>	<u>-</u>	<u>22.4%</u>
	<u>18,858</u>	<u>18,869</u>	<u>16</u>	<u>86.5%</u>
Cash at bank and in hand		<u>2,967</u>		<u>13.5%</u>
Total investments		<u>21,836</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out above and on pages 31 to 35.

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

Summary of investment movements

Additions

	Cost £'000
VCT qualifying and partially qualifying investments	
Atlantic Dogstar Limited	3,500
Kidspace Adventures Holdings Limited	1,977
Antelope Pub Limited	1,760
Apex Energy Limited	1,300
Hedderwick Limited	1,250
Oak Grove Renewables Limited	420
Non-qualifying investments	
Hobblers Heath Limited	1,325
Redmed Limited	175
London City Shopping Centre Limited	36
Total ‘G’ Share pool	11,743

Disposals

	Cost £'000	MV at 01/01/15 [†] £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain during the year £'000
VCT qualifying and partially qualifying investments					
Redmed Limited*	638	644	657	19	13
Antelope Pubs Limited	300	300	300	-	-
Non-qualifying investments					
Pub People Limited	24	24	24	-	-
Aminghurst Limited	199	199	199	-	-
Ludlow Taverns Limited	33	33	33	-	-
Pearce and Saunders Limited	493	493	493	-	-
Dominions House Limited	98	98	98	-	-
Harrogate Street LLP	1,400	1,400	1,400	-	-
Future Biogas (SF) Limited	525	525	525	-	-
Woodbridge Solar Limited	1,200	1,200	1,200	-	-
Deeside Solar Farm Limited	1,200	1,200	1,200	-	-
Vulcan Renewables Limited	940	940	940	-	-
	7,050	7,056	7,069	19	13

[†] Adjusted for additions in the year

* Part-qualifying investment

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

Further details of the main investments:

Atlantic Dogstar Limited

www.anticlondon.com



Cost at 31/12/15:	£3,500,000	Valuation at 31/12/15:	£3,500,000
Date of first investment:	Jan 15	Valuation at 31/12/14:	n/a
		Valuation method:	Price of recent investment

Investment comprises:

Ordinary shares:	£2,450,000	Proportion of equity held:	40%
Loan stock:	£1,050,000	Proportion of loan stock held:	25%

Summary financial information from statutory accounts to 31 December*

	2014	2013
Net assets	£1,547,524	£1,219,130

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

Kidspace Adventures Holdings Limited

www.kidspaceadventures.com



Cost at 31/12/15:	£1,977,000	Valuation at 31/12/15:	£1,977,000
Date of first investment:	Oct 15	Valuation at 31/12/14:	n/a
		Valuation method:	Multiples

Investment comprises:

Ordinary ‘E’ shares:	£843,000	Proportion of ‘E’ equity held:	8%
Ordinary ‘F’ shares:	£541,000	Proportion of ‘F’ equity held:	9%
Loan stock:	£593,000	Proportion of loan stock held:	12%

Summary financial information from statutory accounts to 31 January

	2015	2014
Turnover:	£5,978,963	£5,493,353
Operating profit:	£776,275	£647,287
Net assets:	£3,110,877	£2,852,603

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

Antelope Pub Limited



Cost at 31/12/15:	£1,760,000	Valuation at 31/12/15:	£1,760,000
Date of first investment:	Mar 13	Valuation at 31/12/14:	£300,000
		Valuation method:	Price of recent investment

Investment comprises:

Ordinary shares:	£1,232,000	Proportion of equity held:	23%
Loan stock:	£528,000	Proportion of loan stock held:	45%

Summary financial information from statutory accounts to 31 December*

	2014	2013
Net assets:	£1,096,328	£1,091,792

Antelope Pub Limited owns and operates a freehold pub, The Antelope, in Tooting, South West London. Downing’s funds are invested alongside an existing and experienced operator, Antic London.

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

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

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

Further details of the main investments:

Goonhilly Earth Station Limited

www.goonhilly.org



Cost at 31/12/15:	£1,710,000	Valuation at 31/12/15:	£1,710,000
Date of first investment:	Jan 14	Valuation at 31/12/14:	£1,710,000
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary ‘C’ shares:	£17,000	Proportion of ‘C’ equity:	1%
Ordinary ‘D’ shares:	£1,180,000	Proportion of ‘D’ equity:	43%
Loan stock:	£513,000	Proportion of loan stock held:	45%

Summary financial information from statutory accounts to 31 December*

	2014	2013
Net assets:	£2,269,128	£72,135

Goonhilly Earth Station Limited operates a satellite earth station in Cornwall, where they undertake satellite telemetry and control on behalf of satellite owners, offer radio astronomy facilities to a consortium of universities, and are developing data centre services and a training centre for satellite engineers.

Hobblers Heath Limited



Cost at 31/12/15:	£1,325,000	Valuation at 31/12/15:	£1,325,000
Date of first investment:	Oct 15	Valuation at 31/12/14:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Loan stock:	£1,325,000	Proportion of loan stock held:	40%

Summary financial information from statutory accounts: None filed

Hobblers Heath Limited forms part of the Kidspace Group. The Downing VCTs invested £8.35 million in November 2015 to support the continued site roll out of their business, with the development of a fourth site, subject to a number of consents.

Apex Energy Limited



Cost at 31/12/15:	£1,300,000	Valuation at 31/12/15:	£1,300,000
Date of first investment:	Nov 15	Valuation at 31/12/14:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£1,300,000	Proportion of equity held:	26%

Summary financial information from statutory accounts: None filed

Apex Energy Limited is seeking to own and operate a standby electricity generation plant up to 20MW in capacity. The diesel plant, once operational, will provide electricity to the grid during periods of peak demand under the Capacity Markets Mechanism - a 15 year contract whereby the plant will receive contractual revenue for being available in addition to payments for the electricity supplied to the grid.

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

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

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

Further details of the main investments:

Hedderwick Limited



Cost at 31/12/15:	£1,250,000	Valuation at 31/12/15:	£1,250,000
Date of first investment:	Oct 15	Valuation at 31/12/14:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary Shares:	£875,000	Proportion of equity held:	50%
Loan stock:	£375,000	Proportion of loan stock held:	50%

Summary financial information from statutory accounts: None filed

Hedderwick Limited was set up to convert country houses into dedicated wedding venues. Whilst a number of opportunities have been considered, the company is yet to purchase its first site.

Baron House Developments LLP



Cost at 31/12/15:	£1,093,000	Valuation at 31/12/15:	£1,093,000
Date of first investment:	Apr 13	Valuation at 31/12/14:	£1,093,000
		Valuation method:	Multiples

Investment comprises:			
Loan stock:	£1,093,000	Proportion of loan stock held:	23%

Summary financial information from statutory accounts to 31 March

	2015	2014
Turnover:	£7,942,876	£882,877
Operating loss:	(£529,875)	(£128,216)
Net assets:	£4,782,969	£4,712,868

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

Grasshopper 2007 Limited



Cost at 31/12/15:	£1,050,000	Valuation at 31/12/15:	£1,050,000
Date of first investment:	Mar 14	Valuation at 31/12/14:	£1,050,000
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£735,000	Proportion of equity held:	50%
Loan stock:	£315,000	Proportion of loan stock held:	50%

Summary financial information from statutory accounts to 26 January*

	2014	2013
Net liabilities:	(£642,447)	(£1,674,127)

The Grasshopper Inn is a public house near Westerham, Kent, operating as a traditional pub, restaurant, wedding venue and boutique hotel with 9 letting rooms. In March 2014 Downing VCTs invested £2.1 million into the business to refinance existing bank debt. Since we made our investment, the Manager, Faucet Inn, has secured planning permission for an additional 25 bedrooms on site.

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

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

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

Further details of the main investments:

Pub People Holdings Limited
www.pubpeople.com



Cost at 31/12/15:	£873,000	Valuation at 31/12/15:	£873,000
Date of first investment:	Jul 13	Valuation at 31/12/14:	£897,000
		Valuation method:	Price of recent investment

Investment comprises:			
Loan stock:	£873,000	Proportion of loan stock held:	46%

Summary financial information from statutory accounts to 31 March

	2015	2014
Turnover:	£13,698,000	£12,928,000
Operating profit:	£433,000	£65,000
Net assets:	£3,537,000	£3,527,000

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

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

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

Summary of loan stock interest income

Loan stock interest recognised in the year from the ten largest investments held by the ‘G’ Share pool	£’000
Atlantic Dogstar Limited	224
Kidspace Adventures Holdings Limited	-
Goonhilly Earth Station Limited	43
Hobblers Heath Limited	128
Apex Energy Limited	-
Hedderwick Limited	-
Baron House Developments LLP	-
Grasshopper 2007 Limited	-
Pub People Limited	79
	<u>70</u>
	544
Receivable from other investments	<u>255</u>
	<u>799</u>

Analysis of investments by investment type

The following shows the split of the ‘G’ Share pool’s investment portfolio by type of instrument held at 31 December 2015:

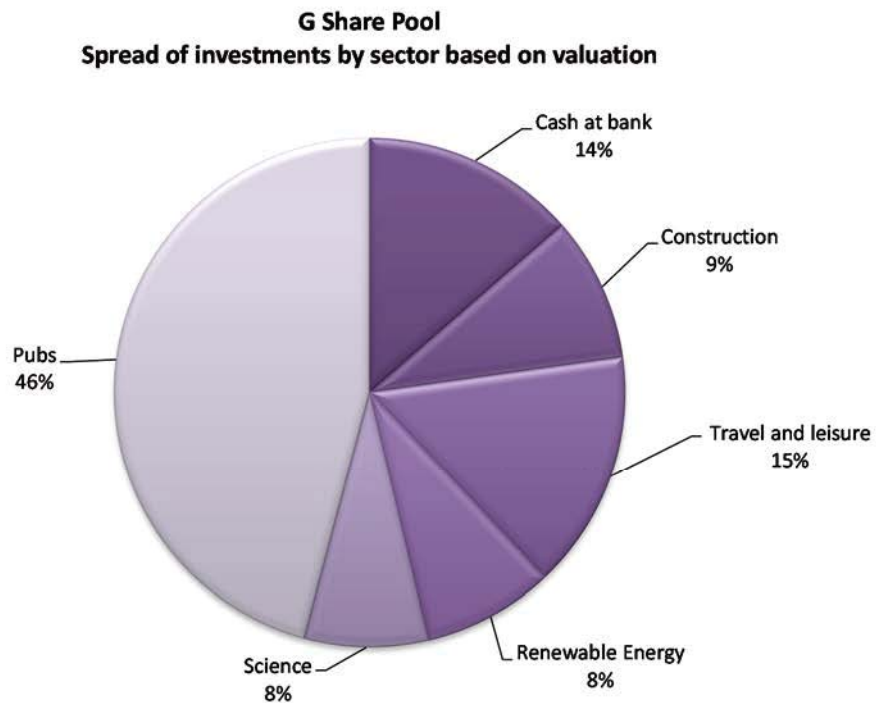
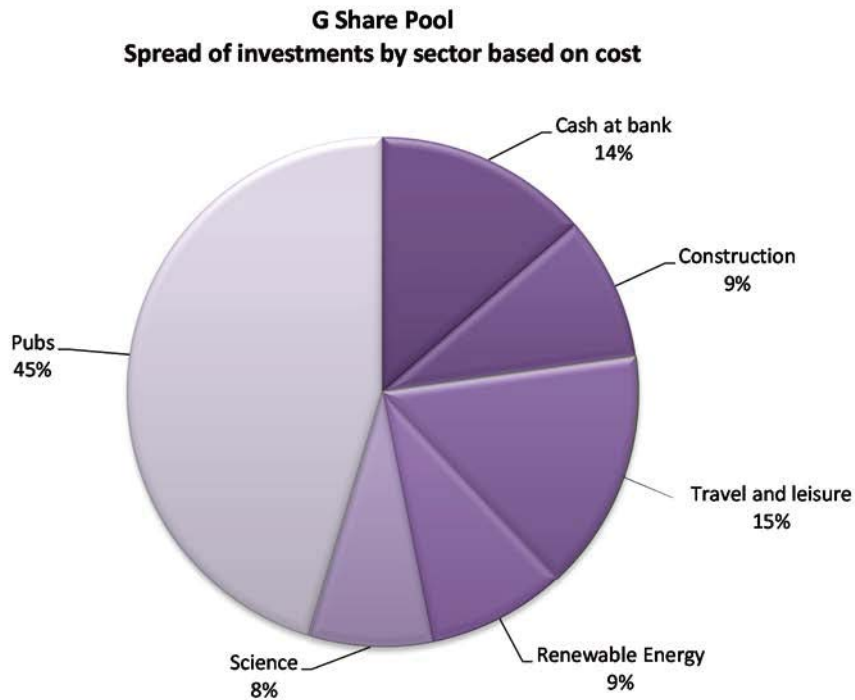
	Target Portfolio split	Actual Portfolio split 31 Dec 2015
Qualifying investments		
Loans to qualifying companies	50%	15%
Ordinary shares in qualifying companies	25%	49%
Non-qualifying investments (including cash at bank)	25%	36%
	<u>100%</u>	<u>100%</u>

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

Further details of the main investments:

Analysis of investments by commercial sector

The split of the ‘G’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2015) is as follows:



STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 31 December 2015. The Board have prepared this report in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Principal objectives and strategy

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

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

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

Business review and developments

'C' Share pool

The 'C' Share pool began the year with £6.6 million of investments and ended with £748,000 spread across a portfolio of two companies. Both of these investments were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the year was £372,000, comprising a revenue profit of £687,000 and a capital loss of £315,000.

'D' Share pool

The 'D' Share pool began the year with £7.1 million of investments and ended with £4.4 million spread across a portfolio of 13 companies. Eight of these, with a value of £2.5 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the year was £723,000, comprising a revenue profit of £339,000 and a capital gain of £384,000.

'F' Share pool

The 'F' Share pool began and ended the year with £7.4 million of investments spread across a portfolio of 23 companies. 18 of these investments, with a value of £5.9 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the year was £118,000, comprising a revenue profit of £175,000 and a capital loss of £57,000.

'G' Share pool

The 'G' share pool began the year with £14.2 million of investments and ended with £18.9 million of investments spread across a portfolio of 19 companies. 11 of these, with a value of £14.0 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the year was £286,000, comprising a revenue profit of £257,000 and a capital gain of £29,000.

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

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its objectives (as shown on page 2). The Board believes the Company's key performance indicators are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share (see financial highlights on page 2). In addition, the Board considers the Company's performance in relation to other VCTs.

Principal risks and uncertainties

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

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

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

STRATEGIC REPORT (continued)

Viability statement

In accordance with C.2.1 and C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have carried out a robust assessment of the principal risks facing the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has conducted this review for a period of three years from the balance sheet date as developments are considered to be reasonably foreseeable over this period.

The three year review considers the principal risks facing the Company which are summarised within note 18 as well as the Company's cash flows, dividend cover and VCT monitoring compliance over the period. The three year review makes assumptions about the level of investment activity, expenditure, dividends and share buybacks.

The Directors believe that the Company is well placed to manage its business risks successfully. Based on the results, the Board confirms that, taking into account the Company's current position and subject to the principal risks faced by the business, the Company will be able to continue in operation and meet its liabilities as they fall due for a period of at least three years from the balance sheet date.

Business model

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

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

Investment policy

Qualifying investments

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

Non-qualifying investments

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

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

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

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

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

Listing rules

In accordance with the Listing Rules:

- (i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds;
- (ii) the Company must not conduct any trading activity which is significant in the context of the Company; and
- (iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the Income Tax Act 2007.

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007. How the main regulations apply to the Company is summarised on the following page:

STRATEGIC REPORT (continued)

Investment policy (continued)

Venture Capital Trust Regulations (continued)

1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007);
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011;
3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);
4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment);
5. The Company's income for each financial year is derived wholly or mainly from shares and securities; and
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained.

Borrowings

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a maximum amount equal to 50% of the funds raised under its offers for subscription, of the aggregate amount paid on any shares issued by the Company together with any share premium thereon, currently equal to £10.0 million. There are no plans to utilise this ability at the current time.

Performance incentive fees

'C' Share pool and 'D' Share pool

The investments, other assets and liabilities of each share class are managed as separate pools and, accordingly, performance incentive arrangements are specific to each pool. No performance incentive will be payable until Shareholders:

- i) receive proceeds, by way of dividends/distributions/ share buybacks ("Total Proceeds"), of at least 100.0p per £1 invested; and
- ii) achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

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

Shareholders	97% of the first 100.0p of proceeds per £1 invested and 80% thereafter
Management	3% of the first 100.0p of proceeds and 20% thereafter.

If the above distribution would result in Shareholders receiving less than 100.0p per £1 invested or lower than a 7% compound return, the return to the Management Team will be reduced until Shareholders receive at least 100.0p per £1 invested and a 7% compound return. Management's share of the Total Proceeds will be subject to a cap at 1.25% of net assets per share pool per annum and will only be payable if the hurdle is achieved.

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

'F' Share pool

The Performance Incentive fee in respect of the 'F' Share pool will only become payable if 'F' Shareholders:

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

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

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

STRATEGIC REPORT (continued)

Performance incentive fees (continued)

'G' Share pool

The Performance Incentive fee in respect of the 'G' Share pool will only become payable if 'G' Shareholders:

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

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

Targets have not yet been met in respect of any share pool in the year ended 31 December 2015 and consequently no fees have been paid. However, following the period end, final dividends for the 'C' Share and 'A' Share classes were paid. The effective performance incentive paid to members of the management team was £544,000.

Environmental, social and human rights policy

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

Global greenhouse gas emissions

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

Directors and senior management

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

Future prospects

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

By order of the Board



Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

25 April 2016

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 December 2015.

Share capital

At the year end, the Company had in issue 7,126,194 'C' Shares of 0.1p each, 10,724,029 'A' Shares of 0.1p each, 10,000,000 'D' Shares of 0.1p each, 14,950,000 'E' Shares of 0.1p each, 10,822,154 'F' Shares of 0.1p each, and 25,386,546 'G' Shares of 0.1p each.

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

Assets attributable to the 'C' Shares and 'A' Shares ("C' Share pool"), the 'D' Shares and 'E' Shares ("D' Share pool") the 'F' Shares ("F' Share pool") and the 'G' Shares ("G' Share pool") are maintained as separate investment pools.

The Company has a general policy of buying in for cancellation its own shares that become available in the market.

During the year, the Company purchased 12,250 and 38,200 'G' Shares at a price of 90.0p and 88.4p per share, respectively. These shares were subsequently cancelled. No shares were purchased in the year to 31 December 2015 in respect of the 'C' Shares, 'D' Shares or 'F' Shares.

At the AGM that took place on 16 June 2015, the Company was authorised to make market purchases of its 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' Shares and 'G' Shares up to a limit of 1,061,802 'C' Shares, 1,597,880 'A' Shares, 1,490,000 'D' Shares, 2,227,550 'E' Shares, 1,612,501 'F' Shares and 3,790,112 'G' Shares which represented approximately 14.9% of the issued share capital of each share class respectively at the date of the AGM.

At the current date, authority remains for 1,061,802 'C' Shares, 1,597,880 'A' Shares, 1,490,000 'D' Shares, 2,227,550 'E' Shares, 1,612,501 'F' Shares and 3,782,595 'G' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 15 June 2016.

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

Results and dividends

	£'000	Pence per share
Return on ordinary activities after tax for the year ended 31 December 2015 split as:		
'C' Shares	372	5.2
'D' Shares	723	7.2
'F' Shares	118	1.1
'G' Shares	286	1.1
Total	<u>1,499</u>	

Distributions paid in respect of current year

20 March 2015 ('C' Shares)	3,562	50.0
19 June 2015 ('F' Shares)	270	27.0
19 June 2015 ('G' Shares)	635	2.5
18 December 2015 ('D' Shares)	2,700	27.0
18 December 2015 ('F' Shares)	270	2.5
18 December 2015 ('G' Shares)	635	2.5
	<u>8,072</u>	

Following the year end, final dividends of 30.61p per 'C' Share, 15.22p per 'A' Share and 17.0p per 'D' Share were paid on 24 March 2016 to Shareholders on the register at 4 March 2016.

Your Board is proposing to pay a final dividend of 2.5p per 'F' Share and 2.5p per 'G' Share payable on 24 June 2016 to Shareholders on the register at 20 May 2016.

Directors

The Directors of the Company during the year and their beneficial interests in the issued shares of Downing TWO VCT plc at 31 December 2014 and 31 December 2015 were as follows:

Directors		No. of shares	
		31 Dec 2015	31 Dec 2014
Hugh Gillespie	'C' Shares	5,250	5,250
	'A' Shares	5,250	5,250
	'G' Shares	4,900	4,900
Dennis Hale	'C' Shares	7,385	7,385
	'A' Shares	7,385	7,385
	'D' Shares	13,600	13,600
	'E' Shares	13,600	13,600
	'F' Shares	5,175	5,175
	'G' Shares	5,820	5,820
Christopher McCann		-	-

Christopher McCann was appointed as a Director on 28 August 2015.

REPORT OF THE DIRECTORS (continued)

Directors (continued)

Between 31 December 2015 and the date of this report the Directors' shareholdings changed by the addition of the following:

Director		No. of shares
Hugh Gillespie	'K' Shares	5,006

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

The terms of appointment of each of the directors are detailed in a letter of appointment dated February 2016. These agreements are for a period of three years and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

Investment and administration manager

During the year to 31 December 2015, the investment manager and administration manager agreements have been novated from Downing Managers 2 Limited to Downing LLP as explained in note 4 to the accounts.

Downing LLP ("DLLP") provides investment management services to the Company. DLLP is paid 1.35% of the 'C' and 'D' Share net assets per annum, 1.8% of the 'F' Share net assets per annum and 2.0% of the 'G' Share net assets per annum. Additionally, DLLP provides administration services to the Company for a fee of £55,000 (plus RPI adjustment) per annum.

The Board is satisfied with DLLP's approach and procedures in providing investment management services to the Company. The Directors have therefore concluded that the continuing appointment of DLLP as Investment Manager remains in the best interest of Shareholders.

The agreement is for a minimum term of three years with a twelve month notice period on either side at any time after two years following the commencement of the agreement.

The annual running costs of the Company, for the year, are also subject to a cap of 2.9% of net assets for the 'C' and 'D' Share pools, 3.5% of net assets for the 'F' and 'G' Share pools of the Company. Any excess costs over this cap are met by DLLP through a reduction in fees.

Trail commission

The Company has an agreement to pay trail commission annually, to Downing LLP, in connection with the funds raised under the offer for subscription. This is calculated at 0.25% of the net assets of the Company at each year end for the 'C' and 'D' Share pools and 0.5% for the 'F' Share pool.

VCT status

The Company has reappointed Philip Hare & Associates LLP (Philip Hare) to advise it on compliance with VCT requirements, including evaluation of investment opportunities and regular review of the portfolio. Although Philip Hare works closely with the Investment Manager, they report directly to the Board.

A summary of the VCT Regulations is included in the Company's Investment Policy shown on pages 38 and 39. Compliance with the main VCT Regulations for the year ended 31 December 2015 is summarised as follows:

1. The Company holds at least 70% of its investments in qualifying companies; 73.9%
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011; 34.7%
- 2a. At least 70% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised on or after 6 April 2011; 76.8%
3. At least 10% of each investment held in "eligible shares"; Complied
4. No investment constitutes more than 15% of the Company's portfolio; Complied
5. Income is derived wholly or mainly from shares and securities; and 94.7%
6. No more than 15% of the income from shares and securities is retained. 6.3%

Creditor payment policy

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

REPORT OF THE DIRECTORS (continued)

Substantial interests

As at 31 December 2015 and the date of this report, the Company had not been notified of any beneficial interest exceeding three per cent of any class of Share Capital.

Auditor

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

Annual General Meeting

The Annual General Meeting will be held at Ergon House, Horseferry Road, London, SW1P 2AL at 10:30 a.m. on 15 June 2016. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing these financial statements the Directors are required to:

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

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

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

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

Directors' statement pursuant to the Disclosure and Transparency Rules

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

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

Website publication

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

REPORT OF THE DIRECTORS (continued)

Corporate governance

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

Other matters

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

Statement as to disclosure of information to Auditor

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

By order of the Board



Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

25 April 2016

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Section 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to the Shareholders at the Annual General Meeting to be held on 15 June 2016.

Under the requirements of Section 497, the Company's Auditors are required to audit certain disclosures contained within the Report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 52 to 55.

Directors' remuneration policy

Below is the Company's remuneration policy. Shareholders approved this policy at the AGM in June 2014. In accordance with the regulations, Shareholders must vote on the remuneration policy, for the financial year commencing after the AGM, every three years or sooner if the Company wants to make changes to the policy. Therefore, the policy is expected to be put to Shareholders again at the AGM in 2017.

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

Directors' remuneration is calculated in accordance with the Company's Articles of Association as follows:

- (i) The Directors shall be paid out of the funds of the Company by way of fees for their services an aggregate sum not exceeding £100,000 per annum (excluding any performance incentive fees to which the Directors may be entitled from time to time). The Directors shall also receive by way of additional fees such further sums (if any) as the Company in General Meeting may from time to time determine. Such fees and additional fees shall be divided among the Directors in such proportion and manner as they may determine and in default of the determination equally.

- (ii) The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors including any expenses incurred in attending meetings of the Board or of Committees of the Board or General Meetings and if in the opinion of the Directors it is desirable that any of their number should make any special journeys or perform any special services on behalf of the Company or its business, such Director or Directors may be paid reasonable additional remuneration and expenses as the Directors may from time to time determine.

Service contracts

Each of the Directors is engaged under a letter of appointment or consultancy agreement for a fixed term of three years from the date of their appointment and thereafter on a three month rolling notice.

Directors' remuneration (audited)

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

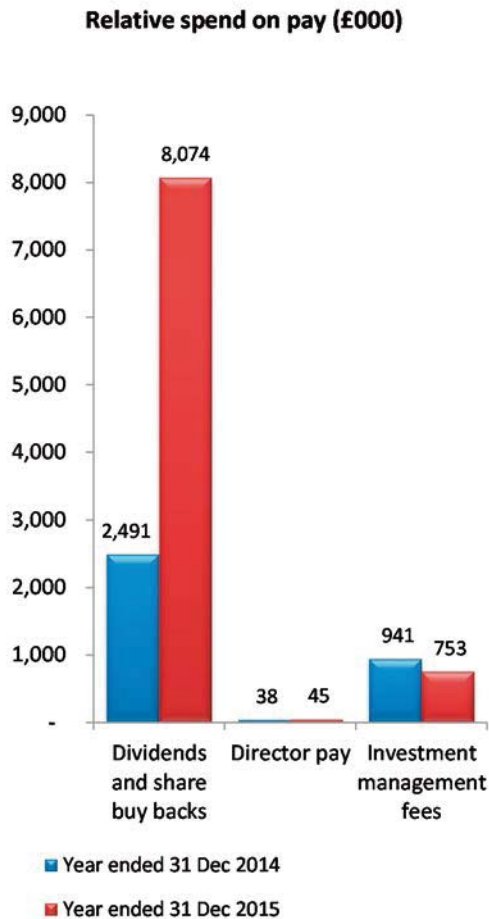
	Current annual fee £	Year ended 31/12/15 £	Year ended 31/12/14 £
Hugh Gillespie	25,000	25,000	24,150
Dennis Hale	12,500	12,500	11,458
Christopher McCann (app. 28 Aug 15)	20,000	6,667	-
	<u>57,500</u>	<u>44,167</u>	<u>35,608</u>

No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director. The Company does not have any share options in place.

DIRECTORS' REMUNERATION REPORT (continued)

Relative importance of spend on pay

The difference in actual spend between December 2014 and December 2015 on remuneration for all employees in comparison to distributions (dividends and share buy backs) and other significant spending are set out in the tabular graph below: -



Insurance cover

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

Performance graph

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

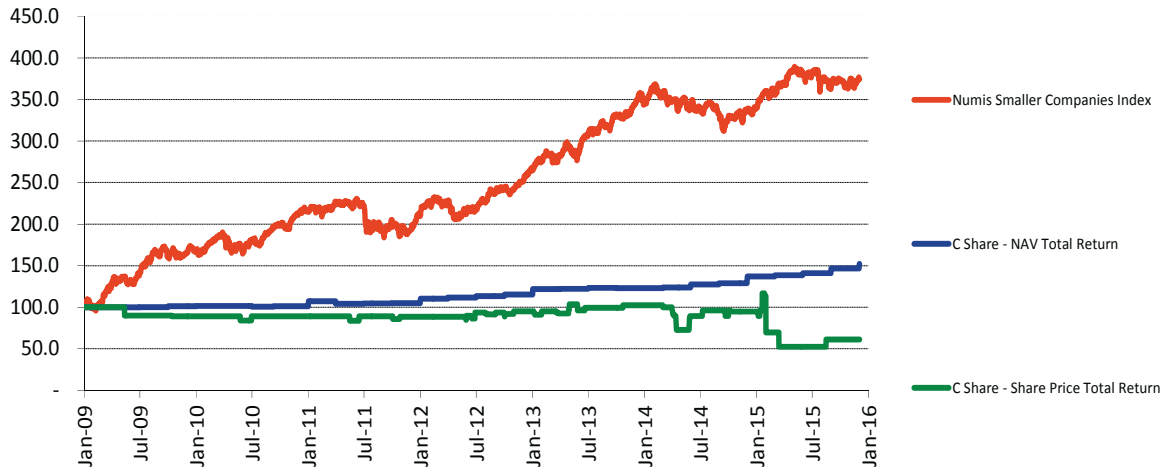
By order of the Board

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London
SW1P 2AL

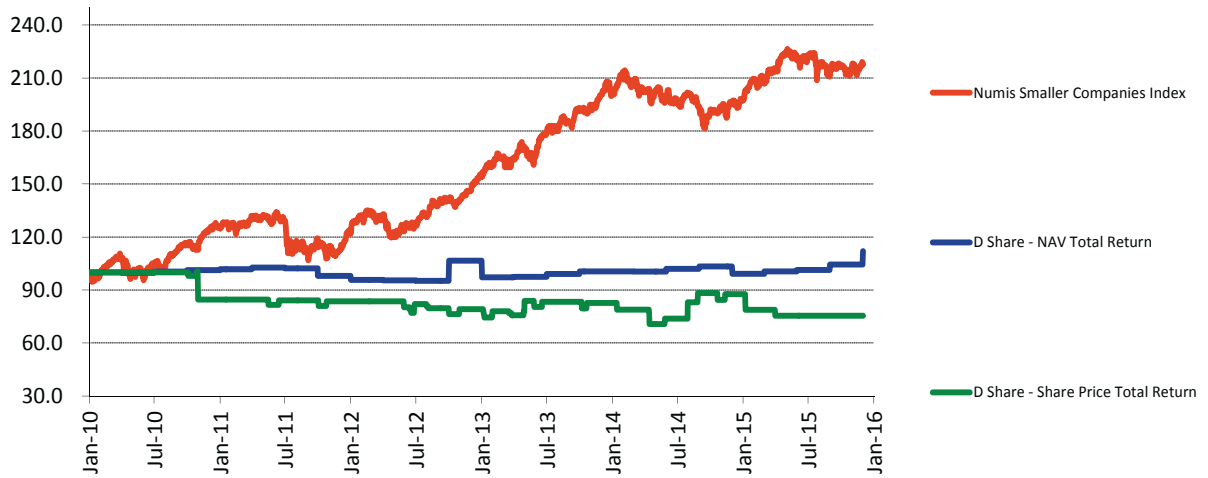
25 April 2016

DIRECTORS' REMUNERATION REPORT (continued)

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

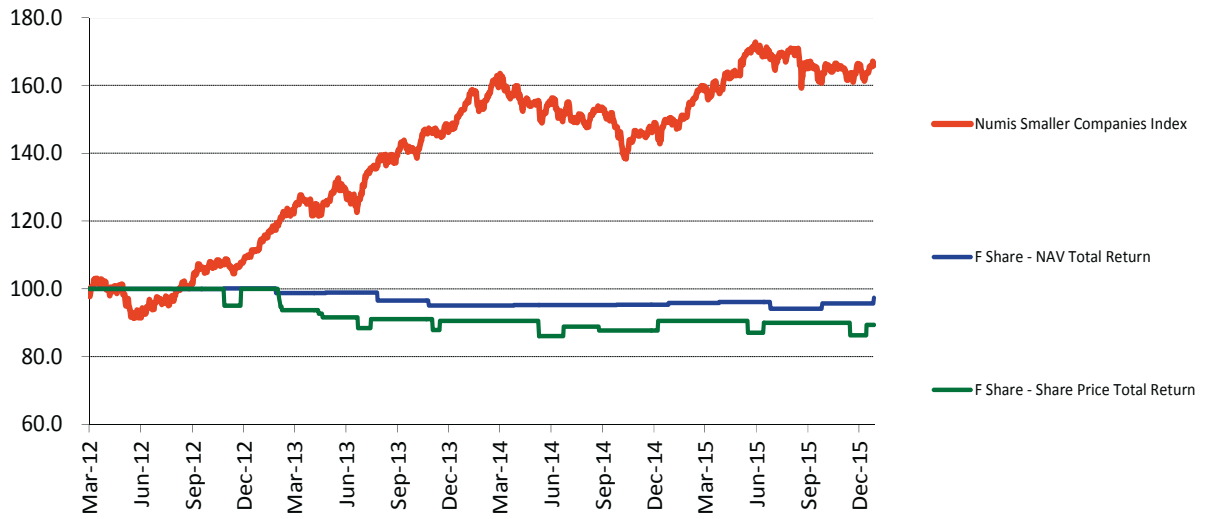


**Downing TWO VCT plc
'D' Share performance chart**

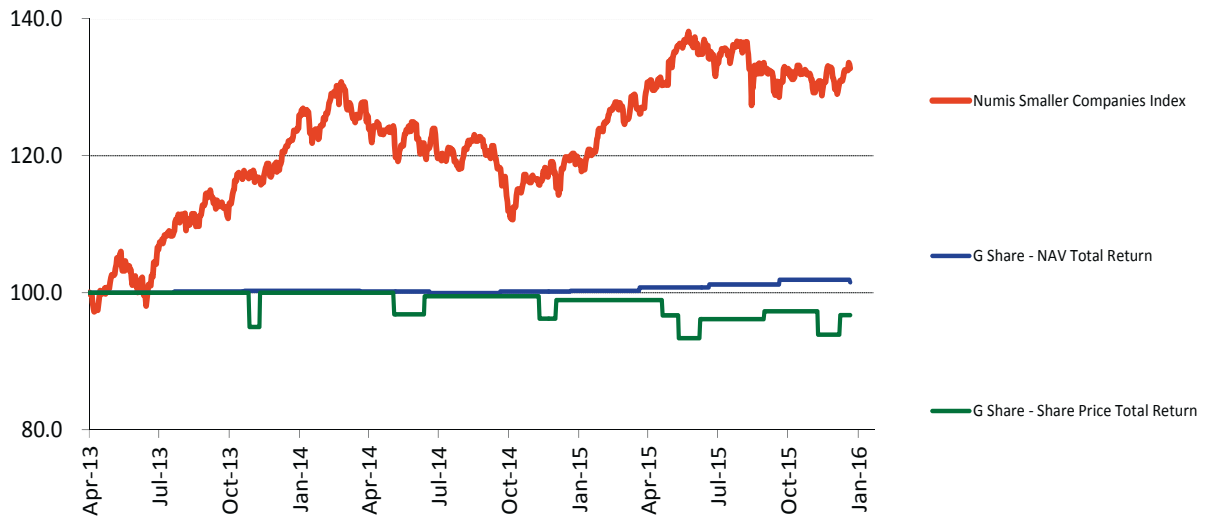


DIRECTORS' REMUNERATION REPORT (continued)

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



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



CORPORATE GOVERNANCE

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

The Board

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

In accordance with Company policy all of the Directors are offering themselves for re-election at the next AGM.

Full Board meetings take place quarterly and additional meetings are held as required to address specific issues including considering recommendations from the Investment Manager, making all decisions concerning the acquisition or disposal of investments, and reviewing, periodically, the terms of engagement and the performance of all third party advisers (including investment managers and administrators). The Board has a formal schedule of matters specifically reserved for its decision.

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

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

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

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

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

Audit Committee

The Audit Committee is responsible for:

- monitoring the Company's financial reporting;
- reviewing internal controls and risk management systems; and
- matters regarding audit and external auditors.

Financial Reporting

The Committee is responsible for reviewing, and agreeing the half-yearly and annual accounts (including those figures presented within) before they are presented to the Board for final approval.

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

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

Internal audit and control

The Committee has considered the need for an internal audit function and has concluded that at the present time this would not be appropriate for a company of this size and structure. The Committee seeks to satisfy themselves that there is a proper system and allocation of the responsibilities for the day-to-day monitoring of financial controls by receiving representations and information either upon request or voluntarily from the Manager. This is covered more fully under Internal Control.

Whistleblowing procedures

As the Company has no staff, other than Directors, there are no procedures in place in respect of C.3.5 of the UK Corporate Governance Code, relating to whistleblowing. The Audit Committee understands that the Manager has whistleblowing procedures in place.

External auditor

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

CORPORATE GOVERNANCE (continued)

Audit Committee (continued)

External auditor (continued)

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

Following assurances received from the Managers at the completion of the audit for the year to 31 December 2015, and taking discussions held with the engagement Partner at BDO LLP into consideration, the Committee has recommended they be re-appointed at the forthcoming AGM.

Non audit services

The Committee will approve the provision of ad-hoc work and maximum expected fee before being undertaken; to ensure the Auditor objectivity and independence are safeguarded.

Board and Committee meetings

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

	Board meetings attended (5 held)	Audit Committee meetings attended (2 held)	Nomination Committee meetings attended (1 held)
Hugh Gillespie	5/5	2/2	1/1
Dennis Hale	5/5	2/2	1/1
Christopher McCann*	3/3	1/1	n/a

*Appointed 28 August 2015

Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration due to each Director are set out in the Directors' Remuneration Report on page 45 and this is subject to Shareholder approval.

Nomination Committee

The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. The Committee meets as and when appropriate.

Christopher McCann was appointed as a Director on 28 August 2015.

Diversity policy

When considering a new appointment to the Board, the committee's responsibility is to ensure that Shareholders are safeguarded by appointing the most appropriate person for the position, (irrespective of

gender) giving due regard to past and present experience in the sectors in which the Company invests. The Company therefore does not have a specific diversity policy in place.

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by Shareholders during the course of the year, or to meet with major Shareholders if so requested.

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

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

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

Financial reporting

The Directors' statement of responsibilities for preparing the accounts is set out in the Report of the Directors on page 43, and a statement by the Auditor about their reporting responsibilities is set out in the Auditor's Report on page 52.

Internal control

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

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

- Review of quarterly reports from the Investment Manager on the portfolio of investments held, including additions and disposals;

CORPORATE GOVERNANCE (continued)

Internal control (continued)

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

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

Although the Board is ultimately responsible for safeguarding the assets of the Company, the Board has delegated, through written agreements, the day-to-day operation of the Company to Downing LLP.

Anti-bribery policy

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 4 to 6, the Investment Manager's Reports on pages 7, 13, 21 and 29, the Strategic Report on page 40 and the Report of the Directors on page 37. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Balance Sheet on page 59, the Cash Flow statement on page 63 and the Strategic Report on page 39. In addition, note 18 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources at the year end, and holds a diversified portfolio of investments. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason they believe that the Company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Compliance statement

The Listing Rules require the Board to report on compliance with the UK Corporate Governance Code provisions throughout the accounting year. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 December 2015 with the provisions set out in the UK Corporate Governance Code issued in September 2012.

- a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. In addition, the Company has no major Shareholders so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the Annual General Meeting. (B.4.1, B.4.2, E.1.1)
- b) Due to the size of the Board and nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)
- c) Non-executive Directors have consultancy agreements, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion, this does not make a substantive difference to the circumstances of the Company. (B.2.3)
- d) As the Company has had no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)



Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London
SW1P 2AL

25 April 2016

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

Our opinion on the financial statements

In our opinion the Downing TWO VCT plc financial statements for the year ended 31 December 2015, which have been prepared by the Directors in accordance with applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 (the Financial Reporting Standard applicable in the UK and Republic of Ireland):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

What our opinion covers

Our audit opinion covers the:

- Income Statement;
- Statement of Changes in Equity;
- Balance Sheet;
- Cash Flow Statement; and
- Related notes

Respective responsibilities of Directors and Auditor

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

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

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

Our approach

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the Investment Manager and Administration Manager and, the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement. Below are those risks which we considered to have the greatest impact on our audit strategy and our audit response.

Risk area	Audit response
<p>Valuation of investments: Valuation of investments is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the Company.</p>	<p>The valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines. The investments are held in a diverse range of entities and are valued using various valuation models as appropriate in each circumstance. For a sample of investments held, our audit procedures included:</p> <ul style="list-style-type: none"> • considering the appropriateness of the valuation methodology ensuring that it is in accordance with the International Private Equity and Venture Capital Valuation Guidelines; • reviewing and challenging the assumptions inherent in the valuation models by comparison to appropriate benchmark data; • Carefully examining the Investment Manager's assessment of maintainable earnings with reference to the investee's historic performance and current prospects; • assessing the appropriateness of discount rates and marketability discounts where applied in the model with reference to market data for comparable assets; and • assessing the impact of estimation uncertainty concerning these assumptions and the completeness of associated disclosures in the financial statements. <p>Where such investments were held in loans, we also considered wider economic and commercial factors that, in our judgement, could impact on the recoverability and valuation of those loans.</p> <p>Where appropriate we developed our own point estimate using alternative assumptions that could reasonably be applied. We considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.</p>
<p>Revenue recognition: Revenue consists largely of loan stock interest, dividends receivable from investee companies and interest earned on cash balances. Revenue recognition is considered to be a significant audit risk as it is the key driver of dividend returns to investors and there is judgement required in determining whether accrued income should be regarded as recoverable.</p>	<ul style="list-style-type: none"> • We assessed the design and the implementation of the controls relating to revenue recognition and we developed expectations for interest income receivable based on loan instruments and investigated any variations in amounts recognised to ensure they were valid; • We considered whether the accounting policy had been applied correctly by management in determining provisions against income where recovery is considered doubtful, considering management information relevant to the ability of the investee company to service the loan and the reasons for any arrears of loan interest; • We also reviewed the recognition and classification of any accrued income, considering the appropriateness of the classification of income between revenue and capital in the Income Statement; and • We also tested dividends receivable to cash received, as well as to supporting documentation and management accounts of the investee companies.

The Audit Committee's consideration of these key issues is set out on page 49.

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

Materiality in context

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to three levels of materiality, the quantum and purpose of which are tabulated below.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality	Assessing whether the financial statements as a whole present a true and fair view	<ul style="list-style-type: none">• The value of net assets• The level of judgement inherent in the valuation• The range of reasonable alternative valuations	660,000
Specific materiality – classes of transactions and balances which impact on net realised returns	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	<ul style="list-style-type: none">• Level of gross expenditure	50,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £7,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on the other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 50 to 51 of the Annual Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

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

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' Remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 51, in relation to going concern and set out on page 38 in relation to longer-term viability; and
- the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.



Vanessa-Jayne Bradley (Senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

25 April 2016

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

INCOME STATEMENT

for the year ended 31 December 2015

	Year ended 31 December 2015			Year ended 31 December 2014			
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	3	2,663	-	2,663	1,959	-	1,959
Gain on investments	10	-	41	41	-	227	227
		2,663	41	2,704	1,959	227	2,186
Investment management fees	4	(753)	-	(753)	(941)	-	(941)
Other expenses	5	(251)	-	(251)	(287)	-	(287)
Return on ordinary activities before tax		1,659	41	1,700	731	227	958
Tax on total comprehensive income and ordinary activities	7	(201)	-	(201)	(179)	-	(179)
Return attributable to equity shareholders		1,458	41	1,499	552	227	779
Basic and diluted return/(loss) per:							
'C' Share	9	9.6p	(4.4p)	5.2p	2.7p	7.4p	10.1p
'A' Share	9	-	-	-	-	-	-
'D' Share	9	3.4p	3.8p	7.2p	2.4p	(2.9p)	(0.5p)
'E' Share	9	-	-	-	-	-	-
'F' Share	9	1.6p	(0.5p)	1.1p	0.9p	(0.1p)	0.8p
'G' Share	9	1.0p	0.1p	1.1p	0.1p	-	0.1p

All Revenue and Capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. The total column within the Income Statement represents the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS 102"). The supplementary revenue and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 by the Association of Investment Companies ("AIC SORP").

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

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

INCOME STATEMENT (ANALYSED BY SHARE POOL)

for the year ended 31 December 2015

'C' Share pool

	Note	Year ended 31 December 2015			Year ended 31 December 2014		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		818	-	818	390	-	390
(Loss)/gain on investments		-	(315)	(315)	-	529	529
		818	(315)	503	390	529	919
Investment management fees		(57)	-	(57)	(89)	-	(89)
Other expenses		(35)	-	(35)	(48)	-	(48)
Return/(loss) on ordinary activities before tax		726	(315)	411	253	529	782
Tax on total comprehensive income and ordinary activities		(39)	-	(39)	(58)	-	(58)
Return/(loss) attributable to equity shareholders	9	687	(315)	372	195	529	724

'D' Share pool

	Note	Year ended 31 December 2015			Year ended 31 December 2014		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		560	-	560	467	-	467
Gain/(loss) on investments		-	384	384	-	(292)	(292)
		560	384	944	467	(292)	175
Investment management fees		(97)	-	(97)	(104)	-	(104)
Other expenses		(44)	-	(44)	(49)	-	(49)
Return/(loss) on ordinary activities before tax		419	384	803	314	(292)	22
Tax on total comprehensive income and ordinary activities		(80)	-	(80)	(72)	-	(72)
Return/(loss) attributable to equity shareholders	9	339	384	723	242	(292)	(50)

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

INCOME STATEMENT (ANALYSED BY SHARE POOL) (continued)
for the year ended 31 December 2015

'F' Share pool

	Note	Year ended 31 December 2015			Year ended 31 December 2014		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		409	-	409	424	-	424
Loss on investments		-	(57)	(57)	-	(11)	(11)
		409	(57)	352	424	(11)	413
Investment management fees		(144)	-	(144)	(184)	-	(184)
Other expenses		(74)	-	(74)	(98)	-	(98)
Return/(loss) on ordinary activities before tax		191	(57)	134	142	(11)	131
Tax on total comprehensive income and ordinary activities		(16)	-	(16)	(44)	-	(44)
Return/(loss) attributable to equity shareholders	9	175	(57)	118	98	(11)	87

'G' Share pool

	Note	Year ended 31 December 2015			Year ended 31 December 2014		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		876	-	876	678	-	678
Gain on investments		-	29	29	-	1	1
		876	29	905	678	1	679
Investment management fees		(455)	-	(455)	(564)	-	(564)
Other expenses		(98)	-	(98)	(92)	-	(92)
Return on ordinary activities before tax		323	29	352	22	1	23
Tax on total comprehensive income and ordinary activities		(66)	-	(66)	(5)	-	(5)
Return attributable to equity shareholders	9	257	29	286	17	1	18

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

BALANCE SHEET
as at 31 December 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Investments	10	31,365	35,236
Current assets			
Debtors	11	879	635
Cash at bank and in hand	17	7,021	10,047
		<u>7,900</u>	<u>10,682</u>
Creditors: amounts falling due within one year	12	<u>(532)</u>	<u>(568)</u>
Net current assets		<u>7,368</u>	<u>10,114</u>
Net assets		<u>38,733</u>	<u>45,350</u>
Capital and reserves			
Called up share capital	13	79	79
Capital redemption reserve	14	106	106
Special reserve	14	40,086	47,161
Share premium reserve	14	-	-
Revaluation reserve	14	(1,248)	(289)
Capital reserve – realised	14	(2,252)	(2,255)
Revenue reserve	14	1,962	548
Total equity shareholders' funds	15	<u>38,733</u>	<u>45,350</u>
Basic and diluted net asset value per Share:			
'C' Share	15	53.9p	98.6p
'A' Share	15	0.1p	0.1p
'D' Share	15	51.8p	71.5p
'E' Share	15	0.1p	0.1p
'F' Share	15	71.9p	75.8p
'G' Share	15	86.3p	90.2p

The financial statements on pages 56 to 81 were approved and authorised for issue by the Board of Directors on 25 April 2016 and were signed on its behalf by



Hugh Gillespie
Chairman
Company number: 5334418

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

BALANCE SHEET (ANALYSED BY SHARE POOL)
as at 31 December 2015

'C' Shares

	2015	2014
	£000	£000
Fixed assets		
Investments	748	6,576
Current assets		
Debtors	175	52
Cash at bank and in hand	2,995	514
	<u>3,170</u>	<u>566</u>
Creditors: amounts falling due within one year	<u>(75)</u>	<u>(108)</u>
Net current assets	<u>3,095</u>	<u>458</u>
Net assets	<u><u>3,843</u></u>	<u><u>7,034</u></u>

Capital and reserves

Called up share capital	13	18	18
Capital redemption reserve		106	106
Special reserve		2,743	5,745
Share premium reserve		-	-
Revaluation reserve		55	932
Capital reserve – realised		-	-
Revenue reserve		921	233
Total equity shareholders' funds	15	<u><u>3,843</u></u>	<u><u>7,034</u></u>

'D' Shares

	2015	2014
	£000	£000
Fixed assets		
Investments	4,369	7,119
Current assets		
Debtors	283	136
Cash at bank and in hand	667	81
	<u>950</u>	<u>217</u>
Creditors: amounts falling due within one year	<u>(133)</u>	<u>(174)</u>
Net current assets	<u>817</u>	<u>43</u>
Net assets	<u><u>5,186</u></u>	<u><u>7,162</u></u>

Capital and reserves

Called up share capital	13	25	25
Capital redemption reserve		-	-
Special reserve		5,205	7,566
Share premium reserve		-	-
Revaluation reserve		(667)	(712)
Capital reserve – realised		-	-
Revenue reserve		623	283
Total equity shareholders' funds	15	<u><u>5,186</u></u>	<u><u>7,162</u></u>

BALANCE SHEET (ANALYSED BY SHARE POOL) (continued)
as at 31 December 2015

'F' Shares

	2015	2014
	£000	£000
Fixed assets		
Investments	7,379	7,377
Current assets		
Debtors	131	145
Cash at bank and in hand	392	822
	<u>523</u>	<u>967</u>
Creditors: amounts falling due within one year	<u>(119)</u>	<u>(138)</u>
Net current assets	404	829
Net assets	<u>7,783</u>	<u>8,206</u>

Capital and reserves

Called up share capital	13	11	11
Capital redemption reserve		-	-
Special reserve		9,158	9,618
Share premium reserve		-	-
Revaluation reserve		(647)	(510)
Capital reserve – realised		(1,032)	(1,034)
Revenue reserve		293	121
Total equity shareholders' funds	15	<u>7,783</u>	<u>8,206</u>

'G' Shares

	2015	2014
	£000	£000
Fixed assets		
Investments	18,869	14,164
Current assets		
Debtors	290	302
Cash at bank and in hand	2,967	8,630
	<u>3,257</u>	<u>8,932</u>
Creditors: amounts falling due within one year	<u>(205)</u>	<u>(148)</u>
Net current assets	3,052	8,784
Net assets	<u>21,921</u>	<u>22,948</u>

Capital and reserves

Called up share capital	13	25	25
Capital redemption reserve		-	-
Special reserve		22,980	24,232
Share premium reserve		-	-
Revaluation reserve		11	1
Capital reserve – realised		(1,220)	(1,221)
Revenue reserve		125	(89)
Total equity shareholders' funds	15	<u>21,921</u>	<u>22,948</u>

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

	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
Year ended 31 December 2014								
At 1 January 2014	79	106	13,988	35,664	(516)	(2,255)	(4)	47,062
Gain on investments	-	-	-	-	227	-	-	227
Retained revenue	-	-	-	-	-	-	552	552
Transfer between reserves	-	-	33,173	(35,664)	-	2,491	-	-
Dividend paid	-	-	-	-	-	(2,491)	-	(2,491)
At 31 December 2014	79	106	47,161	-	(289)	(2,255)	548	45,350
Year ended 31 December 2015								
At 1 January 2015	79	106	47,161	-	(289)	(2,255)	548	45,350
(Loss)/gain on investments	-	-	-	-	(8)	49	-	41
Purchase of own shares	-	-	-	-	-	-	(44)	(44)
Retained revenue	-	-	-	-	-	-	1,458	1,458
Transfer between reserves	-	-	(7,075)	-	(951)	8,026	-	-
Dividend paid	-	-	-	-	-	(8,072)	-	(8,072)
At 31 December 2015	79	106	40,086	-	(1,248)	(2,252)	1,962	38,733

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

CASH FLOW STATEMENT

for the year ended 31 December 2015

		Year ended 31 December 2015				
	Note	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	Total £'000
Net cash inflow from operating activities	16	530	154	171	323	1,178
Cash flows from investing activities						
Purchase of investments	10	(158)	(417)	(1,725)	(11,743)	(14,043)
Sale of investments	10	5,671	3,550	1,665	7,069	17,955
Net cash inflow/(outflow) from investing activities		5,513	3,133	(60)	(4,674)	3,912
Net cash inflow/(outflow) before financing activities		6,043	3,287	111	(4,351)	(5,090)
Cash flows from financing activities						
Equity dividends paid	8	(3,562)	(2,700)	(540)	(1,270)	(8,072)
Purchase of own shares		-	-	-	(44)	(44)
Net cash outflow from financing activities		(3,562)	(2,700)	(540)	(1,314)	(8,116)
Increase/(decrease) in cash	17	2,481	587	(429)	(5,665)	(3,026)

		Year ended 31 December 2014				
Net cash inflow/(outflow) from operating activities	16	181	245	86	(108)	404
Cash flows from investing activities						
Purchase of investments		(650)	-	(2,181)	(8,272)	(11,103)
Sale of investments		371	143	1,189	2,564	4,267
Net cash (outflow)/inflow from investing activities		(279)	143	(992)	(5,708)	(6,836)
Net cash (outflow)/inflow before financing activities		(98)	388	(906)	(5,816)	(6,432)
Cash flows from financing activities						
Equity dividends paid	8	(178)	(499)	(541)	(1,272)	(2,490)
Net cash outflow from financing activities		(178)	(499)	(541)	(1,272)	(2,490)
Decrease in cash	17	(276)	(111)	(1,447)	(7,088)	(8,922)

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

NOTES TO THE ACCOUNTS

for the year ended 31 December 2015

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 Company has prepared its financial statements under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and in accordance with the Statement of Recommended Practice ("SORP") for investment trust companies and venture capital trusts issued by the Association of Investment Companies ("AIC") revised November 2014.

The Company implements new Financial Reporting Standards ("FRS") issued by the Financial Reporting Council when required.

This is the first year in which the Financial Statements have been prepared under FRS 102, however it has not been necessary to restate comparatives as the treatment previously applied aligns with the requirements of FRS 102. As a result, there are no reconciling differences between the previous financial reporting framework and the current financial reporting framework and the comparative figures represent the position under both current and previous financial reporting frameworks.

The financial statements are presented in Sterling (£).

Presentation of Income Statement

In order to better reflect the activities of a venture capital trust and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The return on ordinary activities is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Part 6 of the Income Tax Act 2007.

Investments

Venture capital investments are designated as "fair value through profit or loss" assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, with a view to selling after a period of time, in accordance with the Company's documented investment policy. The fair value of an investment upon acquisition is deemed to be cost. Thereafter investments are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEV") together with FRS 102 sections 11 and 12.

For unquoted investments, fair value is established using the IPEV guidelines. The valuation methodologies for unquoted entities used by the IPEV to ascertain the fair value of an investment are as follows:

- Price of recent investment;
- Multiples;
- Net assets;
- Discounted cash flows or earnings (of underlying business);
- Discounted cash flows (from the investment); and
- Industry valuation benchmarks.

The methodology applied takes account of the nature, facts and circumstances of the individual investment and uses reasonable data, market inputs, assumptions and estimates in order to ascertain fair value.

Gains and losses arising from changes in fair value are included in the Income Statement for the year as a capital item and transaction costs on acquisition or disposal of the investment are expensed. Where an investee company has gone into receivership, liquidation or administration (where there is little likelihood of recovery), the loss on the investment, although not physically disposed of, is treated as being realised.

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 December 2015

2. Accounting policies (continued)

Investments (continued)

It is not the Company's policy to exercise significant influence over investee companies. Therefore the results of these companies are not incorporated into the Income Statement except to the extent of any income accrued. This is in accordance with the SORP and FRS 102 sections 14 and 15 that does not require portfolio investments, where the interest held is greater than 20%, to be accounted for using the equity method of accounting.

Income

Dividend income from investments is recognised when the Shareholders' rights to receive payment has been established, normally the ex-dividend date.

Interest income is accrued on a time apportionment basis, by reference to the principal sum outstanding and at the effective rate applicable and only where there is reasonable certainty of collection in the foreseeable future.

Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Income Statement, all expenses have been presented as revenue items except as follows:

- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The Company has adopted the policy of allocating Investment Manager's fees 100% as revenue.
- Expenses and liabilities not specific to a share class are generally allocated pro rata to the net assets.
- Performance incentive fees arising from the disposal of investments are deducted as a capital item.

Taxation

The tax effects on different items in the Income Statement are allocated between capital and revenue on the same basis as the particular item to which they relate using the Company's effective rate of tax for the accounting year.

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

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

Other debtors and other creditors

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

Issue costs

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

3. Income

	2015	2014
	£'000	£'000
Income from investments		
Loan stock interest	1,952	1,782
Dividend income	570	-
	<u>2,522</u>	<u>1,782</u>
Other income		
Bank interest	76	143
Fee income	65	34
	<u>2,663</u>	<u>1,959</u>

4. Investment management fees

During the year, Downing Corporate Finance Limited exercised their option to purchase the entire legal and beneficial ownership of 2 ordinary shares of £1 each in the capital of Downing Managers 2 Limited for consideration of £1,000, which shares constitute the entire issued share capital of the Company. Immediately following this, the investment management and admin agreement was novated from Downing Managers 2 Limited to Downing LLP, resulting in Downing LLP becoming the investment manager.

Downing LLP ("DLLP"), provides management services in respect of the portfolio of venture capital investments. The management fee, which is charged to the Company, is based on an annual amount of 1.35% of the 'C' and 'D' share pool net assets, 1.8% of the 'F' share pool net assets and 2.0% of the 'G' share pool net assets. The Manager also provides administration services for a fee of £55,000 (plus RPI) per annum. Fees in relation to these services are shown within note 5.

	2015	2014
	£'000	£'000
Investment management fees	<u>753</u>	<u>941</u>

5. Other expenses

	2015	2014
	£'000	£'000
Administration services	58	59
Trail commission	61	103
Directors' remuneration	40	32
Social security costs	4	4
Auditor's remuneration for audit	20	19
Auditor's remuneration for non-audit services (taxation)	3	4
Other	65	66
	<u>251</u>	<u>287</u>

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

6. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the Directors' Remuneration Report on page 45. The Company had no employees (other than Directors) during the year. Costs in respect of these are referred to in note 5 above.

No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

7. Tax on ordinary activities

	2015	2014
	£'000	£'000
(a) Tax charge for year		
UK corporation tax	201	179
Charge for the year	<u>201</u>	<u>179</u>
(b) Factors affecting tax charge for the year		
Return on ordinary activities before taxation	<u>1,700</u>	<u>960</u>
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 20.2% (Year ended 31 Dec 2014: 21.4%)	344	206
Effects of:		
Gain on investments	(8)	(49)
Expenses disallowed for tax purposes	-	22
Adjustment in respect of prior year	(20)	-
Dividend income	<u>(115)</u>	<u>-</u>
	<u>201</u>	<u>179</u>

8. Dividends

	Year ended 31 December 2015			Year ended 31 December 2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by 'C' Share pool						
Y/e Dec 2014 Final – 50.0p	-	3,562	3,562	-	-	-
P/e Dec 2013 Final – 2.5p	-	-	-	-	178	178
	<u>-</u>	<u>3,562</u>	<u>3,562</u>	<u>-</u>	<u>178</u>	<u>178</u>
Paid post year end by 'C' Share pool						
Special 'C' 2016 – 30.6p	-	2,181	2,181	-	-	-
Special 'A' 2016 – 15.2p	-	1,632	1,632	-	-	-
	<u>-</u>	<u>3,813</u>	<u>3,813</u>	<u>-</u>	<u>-</u>	<u>-</u>
Proposed by 'C' Share pool						
Y/e Dec 2014 Final – 50.0p	-	-	-	-	3,563	3,563
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,563</u>	<u>3,563</u>
Paid by 'D' Share pool						
Y/e Dec 2015 Final – 27.0p	-	2,700	2,700	-	-	-
Y/e Dec 2014 Interim – 2.5p	-	-	-	-	250	250
P/e Dec 2013 Final – 2.5p	-	-	-	-	250	250
	<u>-</u>	<u>2,700</u>	<u>2,700</u>	<u>-</u>	<u>500</u>	<u>500</u>
Paid post year end by 'D' Share pool						
Y/e Dec 2015 Final – 17.0p	-	1,700	1,700	-	-	-
	<u>-</u>	<u>1,700</u>	<u>1,700</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

8. Dividends (continued)

	Year ended 31 December 2015			Year ended 31 December 2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by 'F' Share pool						
Y/e Dec 2015 Final – 2.5p	-	270	270	-	-	-
Y/e Dec 2014 Final – 2.5p	-	270	270	-	-	-
Y/e Dec 2014 Interim – 2.5p	-	-	-	-	271	271
P/e Dec 2013 Final – 2.5p	-	-	-	-	271	271
	<u>-</u>	<u>540</u>	<u>540</u>	<u>-</u>	<u>542</u>	<u>542</u>
Proposed by 'F' Share pool						
Y/e Dec 2015 Final – 2.5p	-	271	271	-	-	-
Y/e Dec 2014 Final – 2.5p	-	-	-	-	271	271
	<u>-</u>	<u>271</u>	<u>271</u>	<u>-</u>	<u>271</u>	<u>271</u>
Paid by 'G' Share pool						
Y/e Dec 2015 Final – 2.5p	-	635	635	-	-	-
Y/e Dec 2014 Final – 2.5p	-	635	635	-	-	-
Y/e Dec 2014 Interim – 2.5p	-	-	-	-	636	636
P/e Dec 2013 Final – 2.5p	-	-	-	-	636	636
	<u>-</u>	<u>1,270</u>	<u>1,270</u>	<u>-</u>	<u>1,272</u>	<u>1,272</u>
Proposed by 'G' Share pool						
Y/e Dec 2015 Final – 2.5p	-	636	636	-	-	-
Y/e Dec 2014 Final – 2.5p	-	-	-	-	636	636
	<u>-</u>	<u>636</u>	<u>636</u>	<u>-</u>	<u>636</u>	<u>636</u>

9. Basic and diluted return per share

	'C' Shares	'A' Shares	'D' Shares	'E' Shares	'F' Shares	'G' Shares
Revenue return (£'000)	<u>687</u>	<u>-</u>	<u>339</u>	<u>-</u>	<u>175</u>	<u>257</u>
Net capital loss for the year (£'000)	<u>(315)</u>	<u>-</u>	<u>384</u>	<u>-</u>	<u>(57)</u>	<u>29</u>
Weighted average number of shares in issue	<u>7,126,194</u>	<u>10,724,029</u>	<u>10,000,000</u>	<u>14,950,000</u>	<u>10,822,154</u>	<u>25,349,833</u>

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

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

	Unquoted investments £'000
Cost at 31 December 2014	35,525
Unrealised losses at 31 December 2014	(289)
Valuation at 31 December 2014	<u>35,236</u>
Movement in the year:	
Purchased at cost	14,043
Sale - proceeds	(17,955)
- realised gains on sales	49
Unrealised loss in the income statement	(8)
Valuation at 31 December 2015	<u><u>31,365</u></u>
Cost at 31 December 2015	32,613
Unrealised losses at 31 December 2015	(1,248)
Valuation at 31 December 2015	<u><u>31,365</u></u>

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

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

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

	Level a	Level b	Level c	2015	Level a	Level b	Level c	2014
	£'000	£'000	(ii)	£'000	£'000	£'000	(ii)	£'000
			£'000				£'000	
Loan notes	-	-	15,394	15,394	-	-	24,402	24,402
Unquoted equity	-	-	15,971	15,971	-	-	10,834	10,834
	-	-	<u>31,365</u>	<u>31,365</u>	-	-	<u>35,236</u>	<u>35,236</u>

Reconciliation of fair value for Level c (ii) financial instruments held at the year end:

	Loan notes £'000	Unquoted equity £'000	Total £'000
Balance at 1 January 2015	24,402	10,834	35,236
Movements in the Income Statement:			
Unrealised gain/(loss) in the Income Statement	367	(375)	(8)
Realised (loss)/gain in the Income Statement	(54)	103	49
	<u>24,715</u>	<u>10,562</u>	<u>35,277</u>
Purchases at cost	4,795	9,248	14,043
Sales proceeds	(14,116)	(3,839)	(17,955)
Balance at 31 December 2015	<u><u>15,394</u></u>	<u><u>15,971</u></u>	<u><u>31,365</u></u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

10. Investments (continued)

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

Changing one or more of the inputs to reasonable possible alternative valuation assumptions could result in a significant change in the fair value of the Level c (ii) investments. There is an element of judgement in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the Company's investments.

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

The Board and the Investment Manager believe that the valuations as at 31 December 2015 reflect the most appropriate assumptions at that date, giving due regard to all information available from each investee company. Consequently, the variation in the spread of reasonable, possible, alternative valuations is likely to be in the range set out in note 18.

An analysis of venture capital investments between equity and non-equity elements is set out on pages 11, 19, 27 and 35 within the Review of Investments.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

10. Investments (continued)

The following summary shows investments made by the Company in which other funds managed by Downing have also invested. Amounts shown are original cost of investments.

Company	Cost £'000	Equity held by other Downing Discretionary Funds Note 1	Equity held by Other Downing Funds Note 2
		%	%
Aminghurst Limited	2,962	-	-
Antelope Pub Limited	1,760	-	6.6
Apex Energy Limited	2,300	8.0	46.0
Atlantic Dogstar Limited	3,700	-	13.8
Augusta Pub Company Limited	870	-	13.8
Avon Solar Energy Limited	210	37.5	6.3
Baron House Developments LLP	1,574	-	-
Camandale Limited	422	10.3	19.4
Cheers Dumbarton Limited	48	36.3	31.7
City Falkirk Limited	422	36.3	31.8
Commercial Street Hotel Limited	100	18.9	47.8
Craft Beer Pub Co Limited	92	-	-
Fenkle Street LLP	122	19.1	20.3
Fresh Green Power Limited	200	3.1	9.3
Fubar Stirling Limited	268	36.3	31.8
Future Biogas (Reephram Road) Limited	581	18.6	21.9
Future Biogas (SF) Limited	169	15.3	24.2
Goonhilly Earth Station Limited	2,470	14.4	19.3
Grasshopper 2007 Limited	1,428	14.0	18.0
Green Energy Production UK Limited	100	3.1	9.3
Hedderwick Limited	1,250	-	50.0
Hobblers Heath Limited	1,325	-	-
Kidspace Adventures Holdings Limited	2,602	18.6	30.6
Lambridge Solar Limited	500	3.6	3.6
Lochrise Limited	13	36.3	31.7
London City Shopping Centre Limited	176	11.4	4.0
Ludlow Taverns Limited	388	-	-
Merlin Renewables Limited	500	5.2	5.2
Mosaic Spa and Health Clubs Limited	520	26.4	28.3
Oak Grove Renewables Limited	420	21.4	26.5
Pabulum Pubs Limited	600	-	4.8
Pearce and Saunders DevCo Limited	46	8.4	50.0
Pearce and Saunders Limited	690	8.4	50.0
Pub People Limited	873	-	-
Quadrate Catering Limited	770	-	43.6
Quadrate Spa Limited	859	9.0	42.4
Redmed Limited	82	13.8	16.1
Southampton Hotel Developments Limited	298	-	50.0
Vulcan Renewables Limited	653	25.0	23.3
Westcountry Solar Solutions Limited	250	37.5	6.3
	<u>32,613</u>		

Note 1: Other Downing Funds comprise Downing FOUR VCT plc which is managed under discretionary management agreements by Downing LLP. **Note 2:** Other Funds comprise Downing ONE VCT plc and Downing THREE VCT plc, which are self-managed funds where executives of Downing LLP are involved in the management.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

11. Debtors

	2015 £'000	2014 £'000
Prepayments and accrued income	879	635

12. Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Corporation tax	221	179
Other taxes and social security	3	2
Accruals and other creditors	308	387
	<u>532</u>	<u>568</u>

13. Called up share capital

	2015 £'000	2014 £'000
Issued, allotted, called up and fully-paid:		
7,126,194 (31 Dec 2014: 7,126,194) 'C' Shares of 0.1p each	7	7
10,724,029 (31 Dec 2014: 10,724,029) 'A' Shares of 0.1p each	11	11
10,000,000 (31 Dec 2014: 10,000,000) 'D' Shares of 0.1p each	10	10
14,950,000 (31 Dec 2014: 14,950,000) 'E' Shares of 0.1p each	15	15
10,822,154 (31 Dec 2014: 10,822,154) 'F' Shares of 0.1p each	11	11
25,386,546 (31 Dec 2014: 25,436,996) 'G' Shares of 0.1p each	25	25
	<u>79</u>	<u>79</u>

During the period, the Company repurchased 50,450 'G' Shares for an aggregate consideration of £44,793 being an average price of 88.8p per share, which represented 0.2% of the Company's issued 'G' Share Capital.

No 'C' Shares, 'D' Shares or 'F' Shares were repurchased during the year.

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

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

- Provided that the performance hurdle is met (i.e. for a shareholding comprising of one 'C' Share and one 'A' Share a total of at least £1 is distributed and a 7% compound return), distributions are made as 91% to 'C' Shares and 9% to 'A' Shares until an amount equivalent to the 100.0p for a shareholding comprising of one 'C' Share and one 'A' Share has been distributed; thereafter
- All distributions will be allocated pro-rata to the number of shares held.

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

13. Called up share capital (continued)

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

- Provided that the performance hurdle is met (i.e. for a shareholding comprising of one 'D' Share and one 'E' Share a total of at least £1 is distributed and a 7% compound return), distributions are made as 97% to the 'D' Shares and 3% to the 'E' Shares until an amount equivalent to 100.0p for a shareholding comprising one 'D' Share and one 'E' Share has been distributed; thereafter
- All distributions are made 80% to the 'D' Shares and 20% to the 'E' Shares.

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

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

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

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

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

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

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

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

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

14. Reserves

	2015	2014
	£'000	£'000
Capital redemption reserve	106	106
Special reserve	40,088	47,161
Revaluation reserve	(1,248)	(289)
Capital reserve – realised	(2,254)	(2,255)
Revenue reserve	1,962	548
	<u>38,654</u>	<u>45,271</u>

The Special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay capital distributions. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves. Revaluation reserve includes losses of £2,037,000 which are included in the calculation of distributable reserves. At 31 December 2015, total distributable reserves were £37,759,000 (31 Dec 2014: £43,325,000).

15. Basic and diluted net asset value per share

	Shares in issue		2015		2014	
	31 Dec 2015	31 Dec 2014	Net asset value	Net asset value	Net asset value	Net asset value
			per share	£'000	per share	£'000
'C' Shares	7,126,194	7,126,194	53.9p	3,832	98.6p	7,023
'A' Shares	10,724,029	10,724,029	0.1p	11	0.1p	11
'D' Shares	10,000,000	10,000,000	51.8p	5,171	71.5p	7,147
'E' Shares	14,950,000	14,950,000	0.1p	15	0.1p	15
'F' Shares	10,822,154	10,822,154	71.9p	7,783	75.8p	8,206
'G' Shares	25,386,546	25,436,996	86.3p	21,921	90.2p	22,948
				<u>38,733</u>		<u>45,350</u>

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

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

	Year ended 31 December 2015					Year ended 31 December 2014				
	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	Total £'000	'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	Total £'000
Return on ordinary activities before taxation	411	803	134	352	1,700	783	22	131	23	959
Corporation tax paid	(55)	(68)	(31)	(6)	(160)	(51)	(77)	(16)	(11)	(155)
Loss/(gain) on investments	315	(384)	57	(29)	(41)	(529)	292	11	(1)	(227)
(Increase)/decrease in prepayments and accrued income	(122)	(147)	14	12	(243)	(31)	(38)	(92)	(185)	(346)
(Decrease)/Increase in accruals and deferred income	(8)	(21)	(1)	2	(28)	1	9	19	(6)	23
(Decrease)/increase in amounts due to subsidiary undertaking	(11)	(29)	(2)	(8)	(50)	8	37	33	72	150
Net cash inflow/(outflow) from operating activities	<u>530</u>	<u>154</u>	<u>171</u>	<u>323</u>	<u>1,178</u>	<u>181</u>	<u>245</u>	<u>86</u>	<u>(108)</u>	<u>404</u>

17. Analysis of changes in cash during the year

	2015 £'000	2014 £'000
Beginning of year	10,047	18,969
Net cash outflow	<u>(3,026)</u>	<u>(8,922)</u>
End of year	<u>7,021</u>	<u>10,047</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

18. Financial instruments

The Company held the following categories of financial instruments at 31 December 2015:

	2015		2014	
	Cost	Value	Cost	Value
	£'000	£'000	£'000	£'000
Assets at fair value through profit or loss	32,613	31,365	35,525	35,236
Cash at bank	7,021	7,021	10,047	10,047
Total	39,634	38,386	45,572	45,283

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

The fair value of investments is determined using the detailed accounting policy as shown in note 2. The composition of the investments is set out in note 10.

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

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

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

- Investment risks
- Credit risk
- Liquidity risk

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

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

Investment risks

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

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

- Investment price risk
- Interest rate risk

Investment price risk

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

18. Financial instruments (continued)

At 31 December 2015, the unquoted portfolio was valued at £31,365,000 (31 Dec 2014: £35,236,000).

As many of the Company's unquoted investments are valued using revenue or earnings multiples of comparable companies or sectors, a change in the relevant market sectors could impact on the valuation of the equity investments held in the unquoted portfolio. As unquoted investments are typically structured as partly equity and partly loan notes, investment price risk of the unquoted investments is considered as a whole. A 10% movement in the price of these investments is considered to be a reasonable maximum level in a year and would have an effect as follows:

10% movement in unquoted investment valuations

	Impact on net assets £'000	2015 Impact on NAV per share Pence	Impact on net assets £'000	2014 Impact on NAV per share Pence
'C' Shares	75	5.4p	658	9.9p
'D' Shares	437	5.2p	712	7.2p
'F' Shares	738	7.2p	738	7.6p
'G' Shares	1,887	8.6p	1,416	9.0p

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

18. Financial instruments (continued)

Interest rate risk

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

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

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

	Average interest rate	Average period until maturity	2015 £'000	2014 £'000
Fixed rate	9.5%	629 days	15,394	24,338
Floating rate	0.5%		7,021	10,111
No interest rate			16,318	10,901
			<u>38,733</u>	<u>45,350</u>

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

NOTES TO THE ACCOUNTS (continued) for the year ended 31 December 2015

18. Financial instruments (continued)

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the year by £30,000 for the 'C' Share pool, £7,000 for the 'D' Share pool, £4,000 for the 'F' Share pool and £30,000 for the 'G' Share pool. As the Bank of England base rate stood at 0.5% per annum throughout the year, it is not believed that a reduction from this level is likely.

Credit risk

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

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

	2015 £'000	2014 £'000
Investments in loan stocks	15,394	24,402
Cash at bank	7,021	10,047
Interest, dividends and other receivables	856	626
	<u>23,271</u>	<u>35,075</u>

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

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

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

Of the investments in loan stock above, as at 31 December 2015 £4,954,000 relates to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is thus in arrears.

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. As the Company has a relatively low level of creditors, (£532,000, 2014: £568,000) and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. The Company always holds sufficient levels of funds as cash in order to meet expenses and other cash outflows as they arise. For these reasons, the Board believes that the Company's exposure to liquidity risk is minimal.

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2015

18. Financial instruments (continued)

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

The carrying value of loan stock investments held at fair value through the profit and loss account at 31 December 2015 as analysed by the expected maturity date is as follows:

As at 31 December 2015	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	2,994	1,033	175	3,880	-	8,082
Past due loan stock	5,043	454	468	1,347	-	7,312
	<u>8,037</u>	<u>1,487</u>	<u>643</u>	<u>5,227</u>	<u>-</u>	<u>15,394</u>

As at 31 December 2014	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	1,666	3,696	2,578	3,491	-	11,431
Past due loan stock	7,594	1,521	1,168	1,288	1,400	12,971
	<u>9,260</u>	<u>5,217</u>	<u>3,746</u>	<u>4,779</u>	<u>1,400</u>	<u>24,402</u>

As at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due comprised loan notes of £2,686,000, falling within the banding of less than one year, £454,000, falling within the banding of one to two years; £468,000 falling within the banding of two to three years and £1,347,000 falling within the banding of three to five years. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

Financial liabilities

The Company has no financial liabilities or guarantees, other than the creditors disclosed within the balance sheet (2014: none).

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 December 2015

19. Capital management

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

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

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

20. Contingencies, guarantees and financial commitments

At 31 December 2015 and 31 December 2014 the Company had no contingencies, guarantees or financial commitments.

21. Controlling party and related party transactions

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

22. Events after the end of the reporting period

Following the end of the reporting period, the remaining funds attributable to the 'C' Shares and 'A' Shares were distributed by way of dividends of 30.6p per 'C' Share and 15.2p per 'A' Share on 24 March 2016. This equated to a payment of £2.2 million to 'C' Shareholders and £1.6 million to 'A' Shareholders (including £544,000 on the 'A' Shares held by members of the management team). Following this, the 'C' Share pool will have negligible remaining value and is expected to be delisted and wound up in due course.

NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING TWO VCT PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Downing TWO VCT plc will be held at Ergon House, Horseferry Road, London, SW1P 2AL at 10:30 a.m. on 15 June 2016 for the transaction of the following business:

As **Ordinary Business**, to consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the Report of the Directors and Accounts of the Company for the year ended 31 December 2015, together with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To approve a final dividend of 2.5p per 'F' Share and 2.5p per 'G' Share.
4. To reappoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine the Auditor's remuneration.
5. To re-elect as Director, Hugh Gillespie, who retires in accordance with company policy and, being eligible, offers himself for re-election.
6. To re-elect as Director, Dennis Hale, who retires in accordance with company policy and, being eligible, offers himself for re-election.
7. To re-elect as Director, Christopher McCann, who retires in accordance with company policy and, being eligible, offers himself for re-election.

Special Resolution

8. THAT, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of 'C' shares of 0.1p each ("C' Shares"), 'A' shares of 0.1p each ("A' Shares"), 'D' shares of 0.1p each ("D' Shares"), 'E' shares of 0.1p each ("E' Shares"), 'F' Shares of 0.1p each ("F' Shares") and 'G' Shares of 0.1p each ("G' Shares") in the capital of the Company provided that:
 - (i) the maximum number of 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' Shares and 'G' Shares hereby authorised to be purchased is: 1,061,802, being 14.9 per cent. of the issued 'C' Shares; 1,597,880, being 14.9 per cent. of the issued 'A' Shares; 1,490,000, being 14.9 per cent. of the issued 'D' Shares; 2,227,550, being 14.9 per cent. of the issued 'E' Shares; 1,612,501, being 14.9 per cent. of the issued 'F' Shares; and 3,782,595, being 14.9 per cent. of the issued 'G' Shares at such time;
 - (ii) the minimum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or a 'G' Share is its respective nominal value;
 - (iii) the maximum price which may be paid for a 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or a 'G' Share, is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' Shares and 'G' Shares as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the 'C' Share, 'A' Share, 'D' Share, 'E' Share, 'F' Share or 'G' Share is contracted to be purchased;

NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING TWO VCT PLC (continued)

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

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

By order of the Board



Grant Whitehouse
Company Secretary

Registered Office
Ergon House
Horseferry Road
London
SW1P 2AL

25 April 2016

NOTICE OF THE ANNUAL GENERAL MEETING

Notes

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question; or
 - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, Ergon House, Horseferry Road, London, SW1P 2AL or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
- (c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:
- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, Ergon House, Horseferry Road, London, SW1P 2AL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
 - by sending an e-mail to proxy@downing.co.uk.
- In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 10:30 a.m. on 13 June 2016 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 10:30 a.m. on 13 June 2016 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

Notes (continued)

- (g) As at 9.00 a.m. on 25 April 2016, the Company's issued share capital comprised 10,724,029 'A' Shares, 7,126,194 'C' Shares, 10,000,000 'D' Shares, 14,950,000 'E' Shares, 10,822,154 'F' Shares, 25,386,546 'G' Shares, 11,954,428 'K' Shares and the total number of voting rights in the Company was 65,289,322. The website referred to above will include information on the number of shares and voting rights.
- (h) If you are a person who has been nominated under section 146 of the Act to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights; and
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.
- (l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

FORM OF PROXY

DOWNING TWO VCT PLC

For use at the Annual General Meeting of the above-named Company to be held on 15 June 2016, at Ergon House, Horseferry Road, London, SW1P 2AL at 10:30 a.m.

I/We* (in BLOCK CAPITALS please)

of
being the holder(s)* of 'C' Shares or 'D' Shares, 'F' Shares or 'G' Shares or 'K' Shares of 0.1p each in the capital of the above-named Company, hereby appoint the Chairman of the meeting (see note 1)

or.....

of.....
as my/our* proxy to attend for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held at Ergon House, Horseferry Road, London, SW1P 2AL on 15 June 2016 or at any adjournment thereof.

I/We* desire to vote on the resolutions as indicated in the appropriate column below.
Please indicate with an "X" how you wish your vote to be cast.

Details of the resolutions are set out in the Notice of the Annual General Meeting.

ORDINARY BUSINESS	FOR	AGAINST	WITHHELD
1. To receive and adopt the Directors' Report and Accounts.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve final dividend payments of 2.5p per 'F' Share and 2.5p per 'G' Share.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To reappoint the Auditor and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Hugh Gillespie as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Dennis Hale as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Christopher McCann as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SPECIAL BUSINESS			
8. To authorise the Company to make market purchases of its shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature(s) Date:.....2016

* Delete as appropriate

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

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



NOTES AND INSTRUCTIONS:

1. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
2. Delete "the Chairman of the meeting" if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.
3. Any alterations to the Form of Proxy should be initialled.
4. To be valid, this Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, Ergon House, Horseferry Road, London, SW1P 2AL not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in this Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, and be delivered at the meeting at which the demand is made.
5. In the case of a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised on that behalf.
6. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.
7. The completion and return of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting should you subsequently decide to do so. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.



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