

Downing TWO VCT plc

Half-Yearly Report
for the six months
ended 30 June 2018



CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the Half-Yearly Report for the six months ended 30 June 2018. The Company has a number of share pools, each of which is in a different stage in its planned exit life. Generally, progress has been satisfactory over the period for the share pools that have recently passed or are approaching their planned exit date.

Net asset values and overview

'F' Share pool

The 'F' Share pool launched in 2012 and began exiting from its investments earlier this year. In April the share class paid its first dividends in its realisation phase of 19.0p per share.

At 30 June 2018 the remaining net asset value ("NAV") was 53.8p per F Share, an increase of 3.2p (4.6%) over the period. Total Return (NAV plus dividends paid to date) is now 102.8p, compared to the original cost, net of income tax relief, of 70p per share.

The pool still holds 12 investments, but plans are being progressed for exits from each of them.

Since the period end one further exit has been achieved. As a result, the Share pool will pay a further dividend of 18.0p per 'F' Share on 9 November 2018. This will bring total distributions to 67.0p and leave a remaining NAV of 35.8p.

The task of exiting the remaining investments is likely to take some time to complete, although we expect significant progress to be made over the remainder of the year. The Manager does not, however expect to be in a position to make the final distribution until 2019.

'G' Share pool

The 'G' Share pool raised funds in 2013 and is now starting the main process of seeking to realise the investments to return funds to Shareholders.

At 30 June 2018, the pool held 15 investments and the net asset value ("NAV") was 81.4p per G Share which represents a net increase of 1.8p (2.2%) over the period after adjusting for the dividends paid out. Total Return (NAV plus dividends paid to date) is now 108.9p, compared to the original cost, before income tax relief, of 100.0p per share.

One significant investment was realised in the period, which generated funds for its first dividend in its realisation phase. A dividend of 10.0p will be paid on 9 November 2018 to shareholders on the register at 19 October 2018. This will bring total distributions to 37.5p and leave a remaining NAV of 71.4p.

The process of realising all of the investments in the portfolio will take some time. Plans are being pursued for exits from each of the investments, but the Manager estimates that it may take up to 12 months for the process to complete. The 'G' Share pool will however make further distributions as realisations are achieved.

'K' Share pool

The 'K' Share pool raised funds in 2016 and is continuing to build its initial investment portfolio. The target date to start realising investments is late 2021.

At 30 June 2018, the share pool held 18 investments and had a net asset value ("NAV") and Total Return of 94.1p per K Share. This represents a net decrease of 3.6p (3.7%) over the period. This deficit has arisen partly due to "cash drag" of holding uninvested funds during the investing period, and also from a provision that has been required against one investment.

The Investment Manager's Report on pages 3 to 9 will provide more detail on each of the share pools.

CHAIRMAN'S STATEMENT (continued)

Dividends

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

'F' Shares	18.0p per share
'G' Shares	10.0p per share

Each of the above dividends will be paid on 9 November 2018 to Shareholders on the register at 19 October 2018.

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

Share buybacks

The Company has a general policy in the first five years after the launch of a share class, of buying in its own shares that become available in the market for cancellation. Accordingly, the Company will currently buy 'K' Shares that become available in the market and will, subject to liquidity and regulatory constraints, buy at prices approximately equal to net asset value (i.e. with no discount). No further share buybacks in respect of the 'F' Shares and 'G' Shares are expected to take place.

During the period to 30 June 2018, the Company repurchased and subsequently cancelled 16,275 'K' Shares for an aggregate consideration of £15,868, being an average price of 97.5p per 'K' Share.

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

Outlook

Over the remainder of the year we expect to see significant headway made in realising most of the remaining investments in the 'F' Share pool as well as some initial disposals from the 'G' Share pool. As the process of realising investments usually includes transactions with third parties, timings can be unpredictable, and Shareholders should note that the exit process will take some time to complete. While the Manager is focusing on delivering exits in a timely manner, the Board is keen to see that full value is achieved for all investments, even if this may sometimes take longer to deliver.

In respect of the 'K' Share pool, we expect this to be a stable period with the Manager focusing on nurturing the investments such that they will be well positioned to deliver successful exits when the time comes.

I look forward to updating Shareholders on progress in my statement with the Annual Report to 31 December 2018 but will also communicate additionally with 'F' and 'G' Shareholders as and when there is news of further distributions.



Hugh Gillespie
Chairman

27 September 2018

INVESTMENT MANAGER'S REPORT 'F' SHARE POOL

As at 30 June 2018, the 'F' Share pool holds 12 investments and focus has now shifted to the process of realising its investments in order to return funds to 'F' Shareholders.

Investment activity

During the period, the full exit of Goonhilly Earth Station Limited completed and resulted in a good outcome for 'F' Shareholders, generating proceeds of £1.2 million and an uplift over cost of £216,000.

Partial disposals also completed in two of the smaller portfolio companies. There was a partial loan note redemption in the Scottish licensed leisure company, Fubar Stirling Limited, which generated a total gain over carrying value of £4,000.

There was also a partial loan note redemption in Fresh Green Power Limited, the domestic rooftop solar company, which was redeemed at par.

The majority of the portfolio investments remain valued at or above cost, with there being several valuation movements in the period which generated an uplift over opening value of £104,000.

The most significant increase in valuation was in Merlin Renewables Limited, the anaerobic digestion plant in Norfolk. In August 2018, the plant was exited with the carrying value uplifted to reflect the sale price at the period end.

An uplift of £20,000 was recognised in Atlantic Dogstar Limited, which owns a group of London pubs, following a revaluation of the sites.

Downing Pub EIS One Limited, which acquired the holdings of Pabulum Pubs Limited and Augusta Pub Company Limited in the prior year, was uplifted by £18,000 supported by independent valuations from industry specialists.

Other smaller movements in the portfolio included an uplift of £10,000 in Lambridge Solar Limited and £3,000 in Fresh Green Power Limited.

One valuation write down took place in the period. Green Energy Production UK Limited, the operator of rooftop solar assets in Lincolnshire, had a reduction in value of £24,000 following a period of recurring operational issues.

Realisation plans

The pool's second most significant investment holding is Merlin Renewables Limited, the anaerobic digestion plant in Norfolk. Following the period end, an exit was achieved which delivered a significant return to the pool.

Plans are in place for the successful exit of the remaining portfolio companies, however we anticipate that the exercise will take some time to complete in full.

Net asset value, results and dividend

At 30 June 2018, the net asset value ("NAV") for a holding of one 'F' Share was 53.8p, an increase of 3.2p (4.6%) over the period. Total Return (NAV plus dividends paid to date) is now 102.8p.

The gain on ordinary activities for the 'F' Shares, after taxation was £344,000 for the period, comprising a revenue profit of £20,000 and a capital gain of £324,000.

The Company will pay an interim dividend of 18.0p per 'F' Share on 9 November 2018 to 'F' Shareholders on the register at 19 October 2018.

Outlook

The focus for the 'F' Share portfolio remains on exiting from its remaining investments. Progress continues to be made however the exact timing of the final exits is dependent on transactions involving third parties.

Downing LLP

27 September 2018

SUMMARY OF INVESTMENT PORTFOLIO 'F' SHARE POOL

as at 30 June 2018

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
VCT qualifying and partially qualifying investments				
Apex Energy Limited	1,000	1,000	-	17.0%
Merlin Renewables Limited	500	718	77	12.2%
Downing Pub EIS One Limited	490	607	18	10.3%
Lambridge Solar Limited	500	605	10	10.3%
Pearce and Saunders Limited	497	497	-	8.5%
Atlantic Dogstar Limited	200	255	20	4.3%
Fresh Green Power Limited	189	231	3	3.9%
Green Energy Production UK Limited	100	76	(24)	1.3%
Fubar Stirling Limited	95	5	-	0.1%
Non-qualifying investments				
Baron House Developments LLP	481	481	-	8.2%
London City Shopping Centre Limited	66	66	-	1.1%
Pearce and Saunders DevCo Limited	46	46	-	0.8%
	<u>4,164</u>	<u>4,587</u>	<u>104</u>	78.0%
Cash at bank and in hand		<u>1,289</u>		<u>22.0%</u>
Total		<u>5,876</u>		<u>100.0%</u>

SUMMARY OF INVESTMENT MOVEMENTS 'F' SHARE POOL

as at 30 June 2018

Disposals	Cost £'000	Market value at 01/01/18 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Goonhilly Earth Station Limited	955	955	1,171	216	216
Fubar Stirling Limited	6	2	6	-	4
Fresh Green Power Limited	11	11	11	-	-
	<u>972</u>	<u>968</u>	<u>1,188</u>	<u>216</u>	<u>220</u>

INVESTMENT MANAGER'S REPORT 'G' SHARE POOL

The 'G' Share pool raised funds in 2013 and the focus for the Share pool now switches to the process of realising investments. The pool will make its first significant dividend in its realisation phase to investors on 9 November 2018.

Investment activity

During the period, there were no new investments, however one full exit was made in the six months to 30 June 2018.

Goonhilly Earth Station Limited, which operates a satellite earth station in Cornwall, generated proceeds of £2.6 million and an uplift over cost of £488,000.

The majority of investments remain valued at or above cost, however there were two significant reductions in value to Quadrate Spa Limited and Ormsborough Limited.

Quadrate Spa Limited owns and operates a health club business in The Cube complex in Birmingham. The company has been written down by £781,000 following poor performance.

Ormsborough Limited owns several pubs and restaurants across Yorkshire. The company has had a reduction in value of £159,000 due to overspend on recent developments.

The valuation uplifts in the period totalled £432,000, with the majority as a result of an uplift in value of Atlantic Dogstar Limited. The company owns a group of London pubs and following a revaluation of the sites, the carrying value has been increased by £357,000.

The other notable uplift in the period relates to Downing Pub EIS One Limited, which acquired the holdings of Pabulum Pubs Limited and Augusta Pub Company Limited in the prior year. The Company was uplifted by £36,000 supported by independent valuations from industry specialists.

Net asset value

At 30 June 2018, the net asset value ("NAV") for a holding of one 'G' Share was 81.4p, which represents a net increase of 1.8p (2.2%) over the period, after adjusting for the dividends paid out. Total Return (NAV plus dividends paid to date) is now 108.9p.

Results and dividend

The profit on ordinary activities for the 'G' Share pool, after taxation, for the period was £469,000, comprising a revenue profit of £489,000 and a capital loss of £20,000.

The Company will pay an interim dividend of 10.0p per 'G' Share on 9 November 2018 to 'G' Shareholders on the register at 19 October 2018.

Outlook

The focus for the 'G' Share portfolio is shifting towards exiting its investments as it reaches its five year anniversary in November 2018. Good progress is being made and the first major distribution to 'G' Shareholders of 10.0p per share will be paid on 9 November 2018.

Downing LLP

27 September 2018

SUMMARY OF INVESTMENT PORTFOLIO 'G' SHARE POOL

as at 30 June 2018

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
VCT qualifying and partially qualifying investments				
Atlantic Dogstar Limited	3,500	4,470	357	22.2%
Antelope Pub Limited	1,760	1,760	-	8.7%
Quadrate Catering Limited	1,450	1,450	-	7.2%
Walworth House Pub Limited	1,330	1,330	-	6.6%
Apex Energy Limited	1,300	1,300	-	6.5%
Downing Pub EIS One Limited	980	1,214	36	6.0%
Hermes Wood Pellets Limited	1,000	1,000	-	5.0%
Zora Energy Renewables Limited	750	750	-	3.7%
Ormsborough Limited	500	374	(159)	1.8%
Oak Grove Renewables Limited	420	252	21	1.3%
Pearce and Saunders Limited	193	193	-	1.0%
Non-qualifying investments				
Hedderwick Limited	1,250	1,320	18	6.6%
Baron House Developments LLP	1,093	1,093	-	5.4%
Quadrate Spa Limited	1,450	669	(781)	3.3%
London City Shopping Centre Limited	110	110	-	0.5%
	<u>17,086</u>	<u>17,285</u>	<u>(508)</u>	85.8%
Cash at bank and in hand		<u>2,852</u>		<u>14.2%</u>
Total		<u>20,137</u>		<u>100%</u>

SUMMARY OF INVESTMENT MOVEMENTS 'G' SHARE POOL

as at 30 June 2018

Disposals	Cost £'000	Market value at 01/01/18 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Goonhilly Earth Station Limited	2,146	2,146	2,634	488	488
	<u>2,146</u>	<u>2,146</u>	<u>2,634</u>	<u>488</u>	<u>488</u>

INVESTMENT MANAGER'S REPORT 'K' SHARE POOL

The 'K' Share pool closed its fundraising in September 2016, having raised £16.2 million. The process of investing the funds is well under way with £12.0 million invested in qualifying and non-qualifying investments. Focus now shifts to the close monitoring of investee companies and the deployment of the remaining cash in the pool.

Investment activity

Valuation movements during the period result in a total unrealised loss of £428,000, with one valuation uplift and one write down.

Ormsborough Limited owns several pubs and restaurants across Yorkshire. The 'K' Share pool provided further investment to the company towards the back end of 2017 to help the company continue their expansion. Following overspend on recent developments, the company has had a reduction in value of £430,000.

Net asset value, results and dividend

At 30 June 2018, the net asset value ("NAV") and Total Return for a holding of one 'K' Share was 94.1p, which represents a net decrease of 3.6p (3.7%) over the period.

The loss on ordinary activities for the 'K' Share pool, after taxation was £565,000 for the period, comprising a revenue loss of £137,000 and a capital loss of £428,000.

Outlook

The emphasis for the 'K' share pool now gradually shifts to the close monitoring of the Share pool's investments as we seek to optimise growth over the planned exit life. However, we also expect there to be a small number of further additions in order to utilise the remaining cash held by the Share pool.

Downing LLP

27 September 2018

SUMMARY OF INVESTMENT MOVEMENTS 'K' SHARE POOL

as at 30 June 2018

	Cost £'000	Valuation £'000	Unrealised (loss)/gain in period £'000	% of portfolio by value
VCT qualifying investments				
Jito Trading Limited	1,500	1,500	-	10.2%
Apprise Pubs Limited	1,300	1,300	-	8.8%
Garthcliff Shipping Limited	1,300	1,300	-	8.8%
Yamuna Renewables Limited	1,300	1,300	-	8.8%
Ormsborough Limited	1,400	1,012	(430)	6.9%
Managed Storage Services (1) Limited	1,000	1,000	-	6.8%
Ironhide Generation Limited	736	736	-	5.0%
Indigo Generation Limited	736	736	-	5.0%
Rockhopper Renewables Limited	591	591	-	4.0%
Walworth House Pub Limited	500	500	-	3.4%
Exclusive Events Venues Limited	500	500	-	3.4%
Pilgrim Trading Limited	432	432	-	2.9%
Zora Energy Renewables Limited	350	350	-	2.4%
SF Renewables (Solar) Limited	337	337	-	2.3%
Mosaic Spa and Health Clubs Limited	27	29	2	0.2%
Non-qualifying investments				
Fenkle Street LLP	287	287	-	1.9%
Snow Hill Developments LLP	43	43	-	0.3%
London City Shopping Centre Limited	15	15	-	0.1%
	<u>12,354</u>	<u>11,968</u>	<u>(428)</u>	81.2%
Cash at bank and in hand		<u>2,779</u>		<u>18.8%</u>
Total		<u>14,747</u>		<u>100%</u>

UNAUDITED SUMMARISED BALANCE SHEET

as at 30 June 2018

	30 Jun 2018					30 Jun 2017	31 Dec 2017
	'D' Shares £'000	'F' Shares £'000	'G' Shares £'000	'K' Shares £'000	Total £'000	Total £'000	Total £'000
Fixed assets							
Unquoted investments	-	4,587	17,285	11,968	33,840	39,356	37,786
Current assets							
Debtors	-	39	780	76	895	474	767
Cash at bank and in hand	12	1,289	2,852	2,779	6,932	6,981	5,589
	12	1,328	3,632	2,855	7,827	7,455	6,356
Creditors: amounts falling due within one year	(12)	(99)	(291)	(35)	(437)	(476)	(457)
Net current assets	-	1,229	3,341	2,820	7,390	6,979	5,899
Net assets	-	5,816	20,626	14,788	41,230	46,335	43,685
Capital and reserves							
Called up share capital	25	11	25	16	77	77	77
Capital redemption reserve	124	-	-	-	124	124	124
Special reserve	-	6,038	20,694	(3)	26,729	31,493	28,313
Share premium account	-	-	-	16,170	16,170	16,170	16,170
Revaluation reserve	(249)	424	199	(386)	(12)	360	815
Capital reserve – realised	-	(1,033)	(1,221)	2	(2,252)	(2,253)	(2,252)
Revenue reserve	100	376	929	(1,011)	394	364	438
Total equity shareholders' funds	-	5,816	20,626	14,788	41,230	46,335	43,685
Basic and diluted net asset value per:							
'D' Share	-					23.9p	-
'E' Share	-					0.1p	-
'F' Share		53.8p				70.0p	69.6p
'G' Share			81.4p			82.5p	82.1p
'K' Share				94.1p		98.4p	97.7p

STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018

	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
At 1 January 2017	95	106	33,666	16,170	(115)	(2,254)	289	47,957
Total comprehensive income	-	-	-	-	388	306	618	1,312
<i>Transactions with owners</i>								
Purchase of own shares	-	-	-	-	-	-	(24)	(24)
Transfer between reserves	-	-	(5,353)	-	542	5,256	(445)	-
Dividends paid	-	-	-	-	-	(5,560)	-	(5,560)
Cancellation of shares	(18)	18	-	-	-	-	-	-
At 31 December 2017	77	124	28,313	16,170	815	(2,252)	438	43,685
Total comprehensive income	-	-	-	-	(832)	708	372	248
<i>Transaction with owners</i>								
Purchase of own shares	-	-	-	-	-	-	(16)	(16)
Transfer between reserves	-	-	(1,584)	-	5	1,579	-	-
Dividends paid	-	-	-	-	-	(2,287)	(400)	(2,687)
At 30 June 2018	77	124	26,729	16,170	(12)	(2,252)	394	41,230

INCOME STATEMENT

for the six months ended 30 June 2018

Company Total

	Six months ended 30 Jun 2018			Six months ended 30 Jun 2017			Year ended 31 Dec 2017
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	948	-	948	719	34	753	1,808
Gains/(losses) on investments							
- realised	-	708	708	-	67	67	272
- unrealised	-	(832)	(832)	-	455	455	388
	948	(124)	824	719	556	1,275	2,468
Investment management fees	(383)	-	(383)	(445)	-	(445)	(886)
Other expenses	(138)	-	(138)	(150)	-	(150)	(282)
Return/(loss) on ordinary activities before taxation	427	(124)	303	124	556	680	1,300
Tax on total comprehensive income and ordinary activities	(55)	-	(55)	(24)	-	(24)	12
Return/(loss) attributable to equity shareholders	372	(124)	248	100	556	656	1,312
Return per 'D' Share	-	-	-	(0.2p)	1.0p	0.8p	0.9p
Return per 'E' Share	-	-	-	-	-	-	-
Return per 'F' Share	0.2p	3.0p	3.2p	0.8p	1.9p	2.7p	4.9p
Return per 'G' Share	1.9p	(0.1p)	1.8p	0.6p	0.9p	1.5p	3.6p
Return per 'K' Share	(0.9p)	(2.7p)	(3.6p)	(1.2p)	0.2p	(1.0p)	(1.3p)

INCOME STATEMENT (analysed by Share pool)
for the six months ended 30 June 2018

'D' Shares	Six months ended 30 Jun 2018			Six months ended 30 Jun 2017			Year ended 31 Dec 2017
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	-	-	-	9	34	43	46
Gains/(losses) on investments							
- realised	-	-	-	-	68	68	58
- unrealised	-	-	-	-	(4)	(4)	-
	-	-	-	9	98	107	104
Investment management fees	-	-	-	(19)	-	(19)	(32)
Other expenses	-	-	-	(15)	-	(15)	(25)
(Loss)/return on ordinary activities before taxation	-	-	-	(25)	98	73	47
Tax on total comprehensive income and ordinary activities	-	-	-	5	-	5	43
(Loss)/return attributable to equity shareholders	-	-	-	(20)	98	78	90

INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2018

'F' Shares	Six months ended 30 Jun 2018			Six months ended 30 Jun 2017			Year ended 31 Dec 2017
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	118	-	118	222	-	222	451
Gains on investments							
- realised	-	220	220	-	-	-	214
- unrealised	-	104	104	-	205	205	132
	118	324	442	222	205	427	797
Investment management fees	(58)	-	(58)	(68)	-	(68)	(137)
Other expenses	(39)	-	(39)	(43)	-	(43)	(77)
Return on ordinary activities before taxation	21	324	345	111	205	316	583
Tax on total comprehensive income and ordinary activities	(1)	-	(1)	(22)	-	(22)	(55)
Return attributable to equity shareholders	20	324	344	89	205	294	528

INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2018

'G' Shares	Six months ended 30 Jun 2018			Six months ended 30 Jun 2017			Year ended 31 Dec 2017
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	778	-	778	451	-	451	1,217
Gains/(losses) on investments							
- realised	-	488	488	-	-	-	-
- unrealised	-	(508)	(508)	-	229	229	215
	<u>778</u>	<u>(20)</u>	<u>758</u>	<u>451</u>	<u>229</u>	<u>680</u>	<u>1,432</u>
Investment management fees	(200)	-	(200)	(207)	-	(207)	(415)
Other expenses	(56)	-	(56)	(53)	-	(53)	(108)
	<u>(256)</u>	<u>-</u>	<u>(256)</u>	<u>(260)</u>	<u>-</u>	<u>(260)</u>	<u>(523)</u>
Return/(loss) on ordinary activities before taxation	522	(20)	502	191	229	420	909
Tax on total comprehensive income and ordinary activities	(33)	-	(33)	(37)	-	(37)	(3)
	<u>(33)</u>	<u>-</u>	<u>(33)</u>	<u>(37)</u>	<u>-</u>	<u>(37)</u>	<u>(3)</u>
Return/(loss) attributable to equity shareholders	489	(20)	469	154	229	383	906

INCOME STATEMENT (analysed by Share pool)

for the six months ended 30 June 2018

'K' Shares	Six months ended 30 Jun 2018			Six months ended 30 Jun 2017			Year ended 31 Dec 2017
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	52	-	52	37	-	37	94
(Losses)/gains on investments							
- realised	-	-	-	-	(1)	(1)	-
- unrealised	-	(428)	(428)	-	25	25	41
	52	(428)	(376)	37	24	61	135
Investment management fees	(125)	-	(125)	(151)	-	(151)	(302)
Other expenses	(43)	-	(43)	(39)	-	(39)	(72)
(Loss)/gain on ordinary activities before taxation	(116)	(428)	(544)	(153)	24	(129)	(239)
Tax on total comprehensive income and ordinary activities	(21)	-	(21)	30	-	30	27
(Loss)/gain attributable to equity shareholders	(137)	(428)	(565)	(123)	24	(99)	(212)

UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2018

	Note	30 Jun 2018				Total £'000	30 Jun	31 Dec
		'D' Shares £'000	'F' Shares £'000	'G' Shares £'000	'K' Shares £'000		2017	2017
Net cash (outflow)/inflow from operating activities	1	(10)	76	335	(177)	224	(36)	168
Cash flows from investing activities								
Purchase of investments		-	-	-	-	-	(1,972)	(8,904)
Sale of investments		-	1,188	2,634	-	3,822	2,806	11,448
Net cash inflow from investing activities		-	1,188	2,634	-	3,822	834	2,544
Net cash (outflow)/inflow before financing activities		(10)	1,264	2,969	(177)	4,046	798	2,712
Cash flows from financing activities								
Equity dividend paid		-	(2,054)	(633)	-	(2,687)	(2,253)	(5,560)
Purchase of own shares		-	-	-	(16)	(16)	(25)	(24)
Net cash outflow from financing activities		-	(2,054)	(633)	(16)	(2,703)	(2,278)	(5,584)
(Decrease)/increase in cash	2	(10)	(790)	2,336	(193)	1,343	(1,480)	(2,872)

NOTES TO THE UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2018

	30 Jun 2018					30 Jun	31 Dec
	'D'	'F'	'G'	'K'	Total	2017	2017
	Shares	Shares	Shares	Shares	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 Cash inflow/(outflow) from operating activities							
Return/(loss) on ordinary activities							
before taxation	-	345	502	(544)	303	680	1,300
Corporation tax	-	-	-	(29)	(29)	-	4
(Gains)/losses on investments	-	(324)	20	428	124	(522)	(660)
Decrease/(increase) in other debtors	-	84	(182)	(30)	(128)	(157)	(453)
(Decrease)/increase in other creditors	(10)	(29)	(5)	(2)	(46)	(37)	(23)
Net cash (outflow)/inflow from operating activities	(10)	76	335	(177)	224	(36)	168
2 Analysis of net funds							
Beginning of period	22	2,079	516	2,972	5,589	8,461	8,461
Net cash (outflow)/inflow	(10)	(790)	2,336	(193)	1,343	(1,480)	(2,872)
End of period	12	1,289	2,852	2,779	6,932	6,981	5,589

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. General information

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

2. Accounting policies - Basis of accounting

The unaudited half-yearly results cover the six months to 30 June 2018 and have been prepared in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued in February 2018 (“AIC SORP”) and in accordance with the accounting policies set out in the statutory accounts for the year ended 31 December 2017, which were prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (“FRS 102”).

3. All revenue and capital items in the Income Statement derive from continuing operations.
4. The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.
5. The comparative figures are in respect of the six month period ended 30 June 2017 and the year ended 31 December 2017 respectively.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

6. Dividends

Paid in period	Per share pence	Six months ended 30 June 2018			Year to 31 Dec 2017
		Revenue £'000	Capital £'000	Total £'000	Total £'000
'D' Shares					
Special 'D' 2017	23.88p	-	-	-	2,388
Special 'E' 2017	0.1p	-	-	-	15
Y/E Dec 2016 Final	13.5p	-	-	-	1,350
		<u>-</u>	<u>-</u>	<u>-</u>	<u>3,753</u>
'F' Shares					
Y/E Dec 2017 Final	19.0p	-	2,054	2,054	-
Y/E Dec 2016 Final	2.5p	-	-	-	271
Y/E Dec 2016 Interim	2.5p	-	-	-	270
		<u>-</u>	<u>2,054</u>	<u>2,054</u>	<u>541</u>
'G' Shares					
Y/E Dec 2017 Final	2.5p	400	233	633	-
Y/E Dec 2016 Final	2.5p	-	-	-	634
Y/E Dec 2016 Interim	2.5p	-	-	-	632
		<u>400</u>	<u>233</u>	<u>633</u>	<u>1,266</u>

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

7. Basic and diluted return per share

	Weighted average number of shares in issue	Revenue return/(loss)		Capital return/(loss)	
		£'000	Per share	£'000	Per share
'D' Shares	10,000,000	-	-	-	-
'E' Shares	14,950,000	-	-	-	-
'F' Shares	10,810,859	20	0.2p	324	3.0p
'G' Shares	25,528,664	489	1.9p	(20)	(0.1p)
'K' Shares	15,717,302	(137)	(0.9p)	(428)	(2.7p)
		<u>372</u>		<u>(124)</u>	

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

8. Net asset value per share

	Shares in issue	Net asset value	
		£'000	Per share
'D' Shares	10,000,000	-	-
'E' Shares	14,950,000	-	-
'F' Shares	10,810,859	5,816	53.8p
'G' Shares	25,328,571	20,626	81.4p
'K' Shares	15,718,154	14,788	94.1p
		<u>41,230</u>	

9. Reserves

	Period ended 30 Jun 2018 £'000	Year ended 31 Dec 2017 £'000
Capital redemption reserve	124	124
Special reserve	26,729	28,313
Share premium reserve	16,170	16,170
Revaluation reserve	(12)	815
Capital reserve - realised	(2,252)	(2,252)
Revenue reserve	394	438
	<u>41,153</u>	<u>43,608</u>

The Special reserve, Capital reserve - realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £1,827,000 which are included in the calculation of distributable reserves. Total distributable reserves are £23,044,000 (31 Dec 2017: £25,698,000).

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

10. The fair value of investments is determined using the detailed accounting policy set out in the statutory accounts for the year ended 31 December 2017.

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

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

	Period ended			Year ended	Period ended			Year ended
	Level 1	Level 2	Level 3	30 June 2018	Level 1	Level 2	Level 3	31 Dec 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	-	-	5,965	5,965	-	-	6,907	6,907
Unquoted equity	-	-	27,875	27,875	-	-	30,879	30,879
	-	-	33,840	33,840	-	-	37,786	37,786

11. The unaudited condensed financial statements set out herein do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The figures for the year ended 31 December 2017 have been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies; the Auditor's report on those financial statements was unqualified.
12. The Directors confirm that, to the best of their knowledge, the half-yearly financial statements have been prepared in accordance with the "Statement: Half-Yearly Financial Reports" issued by the UK Accounting Standards Board as well as in accordance with FRS 104 Interim Financial Reporting and the half-yearly financial report includes a fair review of the information required by:
- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

13. Risks and uncertainties

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

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

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

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

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

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

14. Going concern

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

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

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

SHAREHOLDER INFORMATION

Performance summary

'D' Share pool	30 Jun	31 Dec	30 Jun
	2018	2017	2017
	Pence	Pence	Pence
Net asset value per 'D' Share	-	-	23.9
Net asset value per 'E' Share	-	-	0.1
Cumulative distributions per 'D' Share	103.98	103.98	80.0
Total return per 'D' Share and 'E' Share	<u>103.98</u>	<u>103.98</u>	<u>104.0</u>
'F' Share pool	30 Jun	31 Dec	30 Jun
	2018	2017	2017
	Pence	Pence	Pence
Net asset value per 'F' Share	53.8	69.6	70.0
Cumulative distributions per 'F' Share	49.0	30.0	27.5
Total return per 'F' Share	<u>102.8</u>	<u>99.6</u>	<u>97.5</u>
'G' Share pool	30 Jun	31 Dec	30 Jun
	2018	2017	2017
	Pence	Pence	Pence
Net asset value per 'G' Share	81.4	82.1	82.5
Cumulative distributions per 'G' Share	27.5	25.0	22.5
Total return per 'G' Share	<u>108.9</u>	<u>107.1</u>	<u>105.0</u>
'K' Share pool	30 Jun	31 Dec	30 Jun
	2018	2017	2017
	Pence	Pence	Pence
Net asset value and Total Return per 'K' Share	<u>94.1</u>	<u>97.7</u>	<u>98.4</u>

Forthcoming dividends

	'F' Shares	'G' Shares
Interim 2018 – Payable 9 November 2018	18.0p	10.0p

Dividends

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

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

Terminology

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

Share scam warning

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

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

SHAREHOLDER INFORMATION (continued)

Shareholder Communications

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

Share prices

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

	'F' Shares DP2F	'G' Shares DP2G	'K' Shares DP2K
TIDM/EPIC codes			
Latest share price (per share) (26 Sept 2018):	25.0p	62.0p	95.0p

Trading shares

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

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

Notification of change of address

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

Other information for Shareholders

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

www.downing.co.uk

If you have any queries regarding your shareholding in Downing TWO VCT plc, please contact the registrar on 0871 664 0324 or visit Link's website at www.linkassetservices.com and click on "Products and Services" and then "Shareholders".

Directors

Hugh Gillespie (Chairman)
Dennis Hale
Christopher McCann

Company Secretary and Registered Office

Grant Whitehouse
St. Magnus House
3 Lower Thames Street
London EC3R 6HD

Registered No. 5334418

Investment and Administration Manager

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Tel: 020 7416 7780

Registrar

Link Asset Services
The Registry
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Kent BR3 4TU

www.linkassetservices.com

Tel: 0871 664 0324

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



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