

Downing TWO VCT PLC

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Half-Yearly Report for
the six months ended
30 June 2014

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the Half-Yearly Report for the six months ended 30 June 2014. Investment performance throughout the period has been generally satisfactory, with the strongest results coming from the more mature portfolios that are starting to approach their planned exit date.

Net asset values and overview

'C' Share pool

At 30 June 2014, the net asset value ("NAV") for a combined holding of one 'C' Share and one 'A' Share was 91.7p, an increase of 3.2p (3.5%) over the period. Total Return (NAV plus dividends paid to date) is now 116.7p for a combined holding. This compares to the original cost, net of income tax relief, of 70p per share.

The fifth anniversary of the close of the 'C' Share fundraising offer falls in September 2014 and the process of disposing of investments in order to return funds to 'C' Shareholders can then begin. The Manager is already progressing a number of transactions which may lead to exits from a significant proportion of the portfolio. The exact timing of when exits will be achieved is difficult to predict, but we are optimistic that the Company will be in a position to make a significant return of capital payment to 'C' Shareholders in early 2015.

'D' Share pool

At 30 June 2014, the net asset value ("NAV") for a combined holding of one 'D' Share and one 'E' Share was 76.1p, an increase of 1.5p (1.9%) over the period. Total Return (NAV plus dividends paid to date) is now 96.1p for a combined holding, compared to the original cost, net of income tax relief, of 70p per share.

The initial five year period for 'D' Shareholders comes to an end in April 2015, when the task of realising the 'D' Share investments will commence. As plans are less well developed than for the 'C' Share pool, it is more difficult to make estimates about when capital might be returned to 'D' Shareholders, but the Board believes it is realistic to expect the first major payment to be made during 2015.

'F' Share pool

At 30 June 2014, the net asset value ("NAV") for a holding of one 'F' Share was 77.8p, an increase of 0.3p (0.4%) over the period. Total Return (NAV plus dividends paid to date) is now 90.3p, compared to the original cost, net of income tax relief, of 70p per share.

The task of building the qualifying 'F' Share portfolio is now close to completion. It is expected that a small number of additional qualifying investments will be made and, if necessary, will be funded by disposals from the non-qualifying investments currently held. The exit process for the 'F' Share pool is not due to commence until 2018.

'G' Share pool

At 30 June 2014, the net asset value ("NAV") for a holding of one 'G' Share was 92.4p. This represents a small fall of 0.2p (0.2%) over the period after adjusting for the dividends paid out and arises from a small excess of cost over income. Total Return (NAV plus dividends paid to date) is now 99.9p, compared to the initial NAV of 100.0p.

It is still early days for the 'G' Share pool but several qualifying investments have already been completed, alongside a core of non-qualifying investments which helps to reduce the "cash drag" that can arise with uninvested funds.

A full review for each share pool is covered in the specific Investment Manager's Reports on pages 3 to 12.

CHAIRMAN'S STATEMENT (continued)

Dividends

In line with the Company's stated policies, interim dividends will be paid as follows:

'D' Shares	2.5p per share
'F' Shares	2.5p per share
'G' Shares	2.5p per share

Each of the above dividends will be paid on 12 December 2014 to Shareholders on the register at 21 November 2014.

In respect of the 'C' Shares, the Board has decided not to declare the usual dividend at this time, but will monitor the investment disposals from the 'C' Share pool over the coming month and intends to make a significant distribution early in 2015.

Share buybacks

The Company has a general policy of buying in its own shares that become available in the market for cancellation. No shares were purchased in the six month period to 30 June 2014.

The current policy is that the Company will buy 'D' Shares and 'E' Shares at approximately a 10% discount to the latest published NAV and 'F' Shares and 'G' Shares at a nil discount.

Now that the 'C' Share pool is approaching the time when capital will start to be returned to Shareholders, the Board is unlikely to support any further buybacks of 'C' and 'A' Shares. The Board believes that the fairest way to manage liquid funds during this process is to keep realisation proceeds intact and distribute them to all 'C' Shareholders by way of dividends rather than utilising some funds on share buybacks. For this same reason, the Board also expects to cease supporting 'D' Share buybacks in March 2015.

Outlook

With the share pools at different stages in their lives, the Investment Manager will have a number of different tasks over the remainder of the year.

The exit process for the 'C' Share pool may provide some challenges but early indications are that there is a good chance that the task can be completed effectively and reasonably quickly. Potential plans for the exits from 'D' Share pool investments are also likely to be developed later in the period.

The task of continuing to build the investment portfolio will continue for the 'F' Share and 'G' Share pool, whilst close monitoring of all existing investments will remain a high priority.

The Board is also considering creating a further share class and undertaking a new fundraising later in the year. This will help to maintain the size of the Company once 'C' Share funds start being returned and will therefore contribute to keeping running costs at a low level.

The next Annual Report is expected to be published in April 2015. Prior to that I expect to communicate with Shareholders in respect of the new fundraising proposals, and also with 'C' Shareholders about the first return of capital payment.



Hugh Gillespie
Chairman

28 August 2014

INVESTMENT MANAGER'S REPORT

'C' SHARE POOL

Investment activity and performance

The main task of investing the 'C' Share pool fund was completed some time ago and so investment activity during the period was limited. An opportunity to invest further funds in three existing investments to repay bank debt was taken with a further £300,000 being invested in East Dulwich Tavern Limited, £225,000 in Atlantic Dogstar Limited and £125,000 in Westow House Limited.

The majority of the 'C' Share pool investments have performed in line with expectations over the period, with no change in valuation. However, there have been several valuation adjustments which resulted in a net valuation increase of £154,000.

An increase in value of £55,000 in Future Biogas (SF) Limited was recognised to reflect the fact that the operational issues that were initially experienced have now been resolved and performance has significantly improved.

Westow House Limited owns the Westow House, a pub in Crystal Palace, South London. A £50,000 increase in the valuation was recognised at the period end to reflect the continued performance beyond the original business plan.

Atlantic Dogstar Limited owns two pubs in London: The Dogstar in Brixton and The Clapton Hart in Clapton. The Dogstar's performance, in particular, has supported an increase in value of £33,000.

There were also several smaller uplifts including: £13,000 on Vermont Developments Limited; and £3,000 on East Dulwich Tavern Limited.

Details of the 'C' Share pool portfolio and investment activity during the period are shown in the following pages.

Net asset value

At 30 June 2014, the net asset value ("NAV") for a combined holding of one 'C' Share and one 'A' Share was 91.7p, an increase of 3.2p (3.5%) over the period. Total Return (NAV plus dividends paid to date) is now 116.7p for a combined holding.

Results

The profit on ordinary activities for the 'C' Shares, after taxation, for the period was £228,000, comprising a revenue profit of £74,000 and a capital profit of £154,000.

Outlook

Our focus with the 'C' Share portfolio has now turned to exits and a significant number of realisations plans are being progressed. We are optimistic that investment exits can be achieved in a timely manner and at values equal to or in excess of current carrying value.

Although it will take some time to exit from all investments, we are working on plans that should result in a number of exits by the end of the year such that the Company will be in a position to pay a significant distribution early in 2015.

Downing LLP

28 August 2014

SUMMARY OF INVESTMENT PORTFOLIO 'C' SHARE POOL

as at 30 June 2014

	Cost £'000	Valuation £'000	Unrealised gain in period £'000	% of portfolio by value
Qualifying investments				
Atlantic Dogstar Limited	663	986	33	14.9%
Future Biogas (SF) Limited*	697	786	55	11.8%
East Dulwich Tavern Limited	644	709	3	10.7%
Westow House Limited	429	602	50	9.1%
Domestic Solar Limited	500	560	-	8.4%
Redmed Limited	350	451	-	6.8%
Quadratrate Spa Limited*	363	363	-	5.5%
Quadratrate Catering Limited	330	359	-	5.4%
The 3D Pub Co Limited	267	227	-	3.4%
Ecosol Limited	250	212	-	3.2%
Mosaic Spa and Health Clubs Limited*	125	105	-	1.6%
Chapel Street Food and Beverage Limited	50	13	-	0.2%
Chapel Street Services Limited	50	13	-	0.2%
Non-qualifying investments				
Hoole Hall Country Club Holdings Limited	581	581	-	8.8%
The Thames Club Limited	500	500	-	7.5%
Honeycombe Pubs VCT Limited	188	66	-	1.0%
Vermont Developments Limited	25	38	13	0.5%
Chapel Street Hotel Limited	2	1	-	0.0%
	<u>6,014</u>	<u>6,572</u>	<u>154</u>	<u>99.0%</u>
Cash at bank and in hand		<u>65</u>		<u>1.0%</u>
Total		<u><u>6,637</u></u>		<u><u>100%</u></u>

SUMMARY OF INVESTMENT MOVEMENTS 'C' SHARE POOL

for the six months ended 30 June 2014

Additions	£'000
Qualifying investments	
East Dulwich Tavern Limited	300
Atlantic Dogstar Limited	225
Westow House Limited	125
Total	<u><u>650</u></u>

* Partially qualifying investment

INVESTMENT MANAGER'S REPORT

'D' SHARE POOL

Investment activity and performance

The 'D' Share pool has already completed its main investment phase and accordingly no new qualifying investments were made during the period.

The majority of the 'D' Share pool investments have performed in line with expectations over the period, with no change in valuation. There have, however, been a small number of adjustments which have resulted in a total valuation increase of £55,000.

Kidspace Adventures Holdings Limited is the holding company of Kidspace Adventures Limited which owns three children's play centres. Continued good performance at all three sites has resulted in an increase in value of £40,000.

The valuation of Slopingtactic Limited was increased by £30,000. The company is the owner and operator of the Lamb and Lion freehold public house in York. The business has performed consistently ahead of projections.

Continued good yields from the solar arrays owned by Progressive Energies Limited, a domestic solar installer and operator, has supported an increase in valuation of £10,000.

On the negative side, a £14,000 reduction in value was recognised for Liverpool Nurseries (Holdings) Limited as the business is performing a little behind budget. A small reduction of £11,000 was also made in the value of Camandale Limited, the owner of The Riverbank pub in Kilmarnock, Scotland, which continues to struggle to perform.

Details of the 'D' Share pool portfolio and investment activity during the period are shown in the following pages.

Net asset value

At 30 June 2014, the net asset value ("NAV") for a combined holding of one 'D' Share and one 'E' Share was 76.1p, an increase of 1.5p (1.9%) over the period. Total Return (NAV plus dividends paid to date) is now 96.1p for a combined holding.

Results and dividend

The profit on ordinary activities for the 'D' Shares, after taxation, for the period was £153,000 comprising a revenue profit of £98,000 and a capital profit of £55,000.

The Company will pay an interim dividend of 2.5p per 'D' Share, on 12 December 2014, to 'D' Shareholders on the register at 21 November 2014.

Outlook

After some early setbacks, the 'D' Share portfolio is now making progress. We believe there is potential for further growth ahead of 2015, when the pool will seek to start realising its investments in order to return funds to Shareholders.

Downing LLP

28 August 2014

SUMMARY OF INVESTMENT PORTFOLIO 'D' SHARE POOL

as at 30 June 2014

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
Qualifying investments				
Future Biogas (Reepham Road) Limited	842	842	-	10.9%
Quadrate Spa Limited*	496	496	-	6.4%
Quadrate Catering Limited	441	481	-	6.2%
Kidspace Adventures Holdings Limited	375	449	40	5.8%
Domestic Solar Limited	400	448	-	5.8%
Alpha Schools (Holdings) Limited	367	402	-	5.2%
Mosaic Spa and Health Clubs Limited*	475	387	-	5.0%
Liverpool Nurseries (Holdings) Limited	435	386	(14)	5.0%
Green Electricity Generation Limited	250	303	-	3.9%
Westcountry Solar Solutions Limited	250	250	-	3.2%
West Tower Property Limited	250	250	-	3.2%
Slopingtactic Limited	195	225	30	2.9%
Ecosol Limited	250	212	-	2.8%
Avon Solar Energy Limited	210	210	-	2.7%
Progressive Energies Limited	170	180	10	2.3%
Ridgeway Pub Company Limited	136	126	-	1.6%
Camandale Limited*	516	47	(11)	0.6%
Non-qualifying investments				
Aminghurst Limited	1,650	1,650	-	21.4%
Fenkle Street LLP	122	122	-	1.6%
Commercial Street Hotel Limited	100	100	-	1.3%
Kilmarnock Monkey Bar Limited	42	42	-	0.6%
	<u>7,972</u>	<u>7,608</u>	<u>55</u>	<u>98.4%</u>
Cash at bank and in hand		<u>125</u>		<u>1.6%</u>
Total		<u>7,733</u>		<u>100%</u>

* Partially qualifying investment

'D' Shares

INVESTMENT MANAGER'S REPORT

'F' SHARE POOL

Investment activity and performance

The 'F' Share pool continued building its qualifying portfolio during the period and completed two new qualifying investments. Details of the new qualifying investments are as follows:

£760,000 was invested in Goonhilly Earth Station Limited in January 2014. The company operates a large satellite communications site in Cornwall. The investment provided funding to allow the Company to secure a long lease on its site and will now develop a space science centre.

In March 2014, the 'F' Share pool invested £378,000 in Grasshopper 2007 Limited. The company operates The Grasshopper Inn, a public house near Westerham, Kent, which is run as a traditional pub, restaurant and wedding venue.

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, however, there have been two adjustments.

Kidspace Adventures Holdings Limited is the holding company of Kidspace Adventures Limited which owns three children's play centres. Continued good performance at all three sites has resulted in an increase in value of £26,000.

City Falkirk Limited, which owns a large nightclub in Falkirk, Scotland, has struggled to deliver the anticipated trading performance since it was first acquired in March 2012. A further reduction of £38,000 was made to the value during the period.

In total, the portfolio produced net unrealised capital losses of £12,000 in the period.

Details of the 'F' Share pool portfolio and investment activity during the period are shown in the following pages.

Net asset value

At 30 June 2014, the net asset value ("NAV") for a holding of one 'F' Share was 77.8p, an increase of 0.3p (0.4%) over the period. Total Return (NAV plus dividends paid to date) is now 90.3p.

Results and dividend

The return on ordinary activities for the 'F' Shares, after taxation, for the period was £24,000, comprising a revenue profit of £36,000 and a capital loss of £12,000.

The company will pay an interim dividend of 2.5p per 'F' Share, on 12 December 2014 to 'F' Shareholders on the register at 21 November 2014.

Outlook

The 'F' Share portfolio is still at a relatively early stage, but has suffered from some initial setbacks which have been disappointing. We are seeking to identify further good quality qualifying investments to utilise remaining funds and produce a portfolio with good potential for growth over the next three or so years before the commencement of the exit process.

Downing LLP

28 August 2014

SUMMARY OF INVESTMENT PORTFOLIO 'F' SHARE POOL

as at 30 June 2014

	Cost £'000	Valuation £'000	Unrealised gain/(loss) in period £'000	% of portfolio by value
Qualifying investments				
Goonhilly Earth Station Limited	760	760	-	9.0%
Tor Solar PV Limited	680	680	-	8.0%
Vulcan Renewables Limited	588	588	-	7.6%
Pearce and Saunders Limited *	644	644	-	6.9%
Grasshopper 2007 Limited	378	378	-	4.5%
Kidspace Adventures Holdings Limited	250	299	26	3.5%
Augusta Pub Company Limited	290	290	-	3.4%
Fubar Stirling Limited	268	268	-	3.2%
Redmed Limited	250	250	-	3.0%
City Falkirk Limited	421	206	(38)	2.4%
Fresh Green Power Limited	200	200	-	2.4%
Pabulum Pubs Limited	200	200	-	2.4%
Green Energy Production UK Limited	100	100	-	1.2%
Cheers Dumbarton Limited	48	17	-	0.2%
Lochrise Limited	13	-	-	0.0%
Non-qualifying investments				
Aminghurst Limited	1,110	1,110	-	13.1%
Pub People Limited	500	500	-	5.9%
Baron House Developments LLP	481	481	-	5.7%
Hoole Hall Hotel Limited	265	265	-	3.1%
Dominions House Limited	107	107	-	1.3%
3D Pub Company Limited	55	55	-	0.6%
London City Shopping Centre Limited	43	43	-	0.5%
Redmed Limited	26	26	-	0.3%
Southampton Hotel Developments Limited	300	-	-	0.0%
	<u>7,977</u>	<u>7,467</u>	<u>(12)</u>	88.2%
Cash at bank and in hand		<u>995</u>		<u>11.8%</u>
Total		<u>8,462</u>		<u>100.0%</u>

* Partially qualifying investment

SUMMARY OF INVESTMENT MOVEMENTS 'F' SHARE POOL

as at 30 June 2014

Additions	£'000
Qualifying investments	
Goonhilly Earth Station Limited	760
Grasshopper 2007 Limited	378
Non-qualifying investments	
London City Shopping Centre Limited	43
Total	<u>1,181</u>

Disposals	Cost £'000	Market value at 01/01/14 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Non-qualifying investments					
Retallack Limited	98	98	98	-	-
	<u>98</u>	<u>98</u>	<u>98</u>	<u>-</u>	<u>-</u>

* adjusted for purchases made in the period

INVESTMENT MANAGER'S REPORT

'G' SHARE POOL

Investment activity and performance

The 'G' Share pool is in the early stages of building its qualifying portfolio and completed four new qualifying investments during the period as follows:

£1,710,000 was invested in Goonhilly Earth Station Limited in January 2014. The company operates a large satellite communications site in Cornwall. The investment provided funding to allow the Company to secure a long lease on its site and will now develop a space science centre.

In March 2014, the 'G' Share pool invested £1,050,000 in Grasshopper 2007 Limited. The company operates The Grasshopper Inn, a public house near Westerham, Kent, which is run as a traditional pub, restaurant and wedding venue.

Several non-qualifying investments were also completed in the period as follows:

In March 2014, £662,000 was invested in Craft Beer Pub Co Limited. This non-qualifying secured loan was made to help fund the purchase of The Pensioner's public house in Southampton.

Another non-qualifying secured loan of £525,000 was made to Future Biogas (SF) Limited. The company owns and operates a 1.4MW self-contained biogas plant in Norfolk.

During the period, two existing non-qualifying loan stock investments were repaid. £1,200,000 from Augusta Pub Company Limited and £400,000 from Snow Hill Developments Limited.

The 'G' Share pool investments have performed in line with expectations over the period and continue to be valued at original cost.

Net asset value

At 30 June 2014, the net asset value ("NAV") for a holding of one 'G' Share was 92.4p which represents a small decrease of 0.2p (0.2%) over the period after adjusting for the dividends paid out. Total Return (NAV plus dividends paid to date) is now 99.9p, compared to the initial NAV of 100.0p.

Results and dividend

The loss on ordinary activities for the 'G' Shares, after taxation, for the period was £73,000, comprising a revenue loss of £74,000 and a capital profit of £1,000.

The company will pay an interim dividend of 2.5p per 'G' Share, on 12 December 2014, to 'G' Shareholders on the register at 21 November 2014.

Outlook

The task of building the 'G' Share investment portfolio is at an early stage but we are satisfied with the progress made to date in investing the funds. The improving economic climate, combined with the good quality deal flow which we are seeing, should assist us in building a portfolio which can deliver the targeted returns to Shareholders over the life of the pool.

Downing LLP

28 August 2014

SUMMARY OF INVESTMENT PORTFOLIO 'G' SHARE POOL

as at 30 June 2014

	Cost £'000	Valuation £'000	Unrealised gain in period £'000	% of portfolio by value
Qualifying investments				
Goonhilly Earth Station Limited	1,710	1,710	-	7.3%
Grasshopper 2007 Limited	1,050	1,050	-	4.5%
Augusta Pub Company Limited	580	580	-	2.5%
Redmed Limited	500	501	1	2.1%
Pabulum Pubs Limited	400	400	-	1.7%
Non-qualifying investments				
Harrogate Street LLP	1,400	1,400	-	5.9%
Baron House Developments LLP	1,093	1,093	-	4.6%
Aminghurst Limited	1,000	1,000	-	4.2%
Pub People Limited	911	911	-	3.9%
Craft Beer Pub Co Limited	662	662	-	2.8%
Future Biogas (SF) Limited	525	525	-	2.2%
Pearce and Saunders Limited	493	493	-	2.1%
Antelope Pub Limited	300	300	-	1.3%
Dominions House Limited	178	178	-	0.8%
London City Shopping Centre Limited	72	72	-	0.3%
	<u>10,874</u>	<u>10,875</u>	<u>1</u>	<u>46.2%</u>
Cash at bank and in hand		<u>12,686</u>		<u>53.8%</u>
Total		<u><u>23,561</u></u>		<u><u>100%</u></u>

SUMMARY OF INVESTMENT MOVEMENTS 'G' SHARE POOL

as at 30 June 2014

Additions	£'000
Qualifying investments	
Goonhilly Earth Station Limited	1,710
Grasshopper 2007 Limited	1,050
Non-qualifying investments	
Craft Beer Pub Co Limited	662
Future Biogas (SF) Limited	525
London City Shopping Centre Limited	72
Total	4,019

Disposals	Cost £'000	Market value at 01/01/14 £'000	Disposal proceeds £'000	Gain against cost £'000	Total realised gain £'000
Non-qualifying investments					
Augusta Pub Company Limited	1,200	1,200	1,200	-	-
Snow Hill Developments LLP	400	400	400	-	-
	1,600	1,600	1,600	-	-

UNAUDITED SUMMARISED BALANCE SHEET

as at 30 June 2014

	30 Jun 2014					31 Jul 2013	31 Dec 2013
	'C'	'D'	'F'	'G'	Total	Total	
	Shares	Shares	Shares	Shares	Total	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	
Fixed assets							
Unquoted investments	6,572	7,608	7,467	10,875	32,522	26,400	28,173
Current assets							
Debtors	56	92	97	190	435	350	290
Cash at bank and in hand	65	125	995	12,686	13,871	19,676	18,969
	<u>121</u>	<u>217</u>	<u>1,092</u>	<u>12,876</u>	<u>14,306</u>	<u>20,026</u>	<u>19,259</u>
Creditors: amounts falling due within one year	(156)	(211)	(144)	(258)	(769)	(555)	(370)
Net current assets/(liabilities)	<u>(35)</u>	<u>6</u>	<u>948</u>	<u>12,618</u>	<u>13,537</u>	<u>19,471</u>	<u>18,889</u>
Net assets	<u>6,537</u>	<u>7,614</u>	<u>8,415</u>	<u>23,493</u>	<u>46,059</u>	<u>45,871</u>	<u>47,062</u>
Capital and reserves							
Called up share capital	18	25	11	25	79	76	79
Share capital to be issued	-	-	-	-	-	245	-
Capital redemption reserve	106	-	-	-	106	106	106
Special reserve	5,744	7,815	9,890	24,868	48,317	13,945	13,988
Share premium account	-	-	-	-	-	32,097	35,664
Revaluation reserve	557	(365)	(511)	1	(318)	(200)	(516)
Capital reserve – realised	-	-	(1,034)	(1,221)	(2,255)	(709)	(2,255)
Revenue reserve	112	139	59	(180)	130	311	(4)
Total equity shareholders' funds	<u>6,537</u>	<u>7,614</u>	<u>8,415</u>	<u>23,493</u>	<u>46,059</u>	<u>45,871</u>	<u>47,062</u>
Basic and diluted net asset value per:							
'C' Share	91.6p					93.2p	90.9p
'A' Share	0.1p					0.1p	0.1p
'D' Share		76.0p				78.9p	77.0p
'E' Share		0.1p				0.1p	0.1p
'F' Share			77.8p			84.0p	80.0p
'G' Share				92.4p		100.1p	95.1p

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30 June 2014					31 Jul 2013	31 Dec 2013
	'C'	'D'	'F'	'G'	Total	Total	
	Shares £'000	Shares £'000	Shares £'000	Shares £'000	Total £'000	Total £'000	
Opening Shareholders' funds	6,488	7,711	8,661	24,202	47,062	24,964	24,964
Issue of shares	-	-	-	-	-	22,884	26,631
Share issue costs	-	-	-	-	-	(925)	(1,102)
Purchase of own shares	-	-	-	-	-	(4)	(98)
Total recognised gains/(losses) for the period	228	153	24	(73)	332	44	(638)
Share capital to be issued	-	-	-	-	-	(393)	(25)
Dividends	(179)	(250)	(270)	(636)	(1,335)	(699)	(2,670)
Closing Shareholders' funds	<u>6,537</u>	<u>7,614</u>	<u>8,415</u>	<u>23,493</u>	<u>46,059</u>	<u>45,871</u>	<u>47,062</u>

INCOME STATEMENT

for the six months ended 30 June 2014

Company Total

	Six months ended 30 Jun 2014			Six months ended 31 Jul 2013			Period ended 31 Dec 2013
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	928	-	928	808	-	808	1,451
Gains/(losses) on investments							
- realised	-	-	-	-	-	-	24
- unrealised	-	198	198	-	(258)	(258)	(486)
	928	198	1,126	808	(258)	550	989
Investment management fees	(534)	-	(534)	(297)	-	(297)	(593)
Other expenses	(189)	-	(189)	(120)	-	(120)	(266)
Return/(loss) on ordinary activities before taxation	205	198	403	391	(258)	133	130
Taxation	(71)	-	(71)	(89)	-	(89)	(155)
Return/(loss) attributable to equity shareholders	134	198	332	302	(258)	44	(25)
Return per 'C' Share	1.0p	2.2p	3.2p	1.6p	(0.7p)	0.9p	1.1p
Return per 'A' Share	-	-	-	-	-	-	-
Return per 'D' Share	1.0p	0.5p	1.5p	1.5p	0.2p	1.7p	2.3p
Return per 'E' Share	-	-	-	-	-	-	-
Return per 'F' Share	0.3p	(0.1p)	0.2p	0.2p	(2.9p)	(2.7p)	(3.4p)
Return per 'G' Share	(0.3p)	0.0p	(0.3p)	0.1p	0.0p	0.1p	0.2p

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

INCOME STATEMENT

for the six months ended 30 June 2014

'C' Shares	Six months ended 30 Jun 2014			Six months ended 31 Jul 2013			Period ended 31 Dec 2013
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	168	-	168	220	-	220	347
Gains/(losses) on investments							
- realised	-	-	-	-	-	-	24
- unrealised	-	154	154	-	(49)	(49)	(76)
	<u>168</u>	<u>154</u>	<u>322</u>	<u>220</u>	<u>(49)</u>	<u>171</u>	<u>295</u>
Investment management fees	(44)	-	(44)	(46)	-	(46)	(84)
Other expenses	(25)	-	(25)	(26)	-	(26)	(82)
Return/(loss) on ordinary activities before taxation	<u>99</u>	<u>154</u>	<u>253</u>	<u>148</u>	<u>(49)</u>	<u>99</u>	<u>129</u>
Taxation	(25)	-	(25)	(31)	-	(31)	(51)
Return/(loss) attributable to equity shareholders	<u><u>74</u></u>	<u><u>154</u></u>	<u><u>228</u></u>	<u><u>117</u></u>	<u><u>(49)</u></u>	<u><u>68</u></u>	<u><u>78</u></u>
'D' Shares	Six months ended 30 Jun 2014			Six months ended 31 Jul 2013			Period ended 31 Dec 2013
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	210	-	210	274	-	274	463
Gains/(losses) on investments							
- realised	-	-	-	-	-	-	-
- unrealised	-	55	55	-	25	25	(6)
	<u>210</u>	<u>55</u>	<u>265</u>	<u>274</u>	<u>25</u>	<u>299</u>	<u>457</u>
Investment management fees	(53)	-	(53)	(54)	-	(54)	(98)
Other expenses	(25)	-	(25)	(28)	-	(28)	(53)
Return on ordinary activities before taxation	<u>132</u>	<u>55</u>	<u>187</u>	<u>192</u>	<u>25</u>	<u>217</u>	<u>306</u>
Taxation	(34)	-	(34)	(44)	-	(44)	(77)
Return attributable to equity shareholders	<u><u>98</u></u>	<u><u>55</u></u>	<u><u>153</u></u>	<u><u>148</u></u>	<u><u>25</u></u>	<u><u>173</u></u>	<u><u>229</u></u>

INCOME STATEMENT

for the six months ended 30 Jun 2014

'F' Shares	Six months ended 30 Jun 2014			Six months ended 31 Jul 2013			Period ended 31 Dec 2013
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	232	-	232	149	-	149	261
Losses on investments							
- realised	-	-	-	-	-	-	-
- unrealised	-	(12)	(12)	-	(234)	(234)	(404)
	232	(12)	220	149	(234)	(85)	(143)
Investment management fees	(107)	-	(107)	(86)	-	(86)	(153)
Other expenses	(62)	-	(62)	(35)	-	(35)	(59)
Return/(loss) on ordinary activities before taxation	63	(12)	51	28	(234)	(206)	(355)
Taxation	(27)	-	(27)	(9)	-	(9)	(16)
Return/(loss) attributable to equity shareholders	36	(12)	24	19	(234)	(215)	(371)
'G' Shares							Period ended 31 Dec 2013
							Total £'000
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	318	-	318	165	-	165	379
Gains on investments							
- realised	-	-	-	-	-	-	-
- unrealised	-	1	1	-	-	-	-
	318	1	319	165	-	165	379
Investment management fees	(330)	-	(330)	(111)	-	(111)	(258)
Other expenses	(77)	-	(77)	(31)	-	(31)	(71)
(Loss)/return on ordinary activities before taxation	(89)	1	(88)	23	-	23	50
Taxation	15	-	15	(5)	-	(5)	(11)
(Loss)/return attributable to equity shareholders	(74)	1	(73)	18	-	18	39

UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2014

	Note	30 Jun 2014					31 Jul	31 Dec
		'C'	'D'	'F'	'G'	Total	Total	
		Shares £'000	Shares £'000	Shares £'000	Shares £'000	£'000	£'000	
Net cash inflow from operating activities	1	103	183	81	23	389	438	603
Taxation								
Corporation tax paid		-	-	-	-	-	-	(157)
Capital expenditure								
Purchase of investments		(650)	-	(1,181)	(4,019)	(5,850)	(8,834)	(12,151)
Sale of investments		-	-	98	1,600	1,698	2,707	4,125
Net cash outflow from capital expenditure		(650)	-	(1,083)	(2,419)	(4,152)	(6,127)	(8,026)
Equity dividends paid		(178)	(250)	(271)	(636)	(1,335)	(699)	(2,670)
Net cash outflow before financing		(725)	(67)	(1,273)	(3,032)	(5,098)	(6,388)	(10,250)
Financing								
Purchase of own shares		-	-	-	-	-	(4)	(98)
Proceeds from share issue		-	-	-	-	-	22,883	25,993
Share issue costs		-	-	-	-	-	(925)	(1,102)
Share capital to be issued		-	-	-	-	-	(393)	-
Net cash inflow from financing		-	-	-	-	-	21,561	24,793
(Decrease)/increase in cash	2	(725)	(67)	(1,273)	(3,032)	(5,098)	15,173	14,543

NOTES TO THE UNAUDITED CASH FLOW STATEMENT

for the six months ended 30 June 2014

	30 Jun 2014					31 Jul	31 Dec
	'C'	'D'	'F'	'G'	Total	2013	2013
	Shares	Shares	Shares	Shares	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 Cash inflow from operating activities and returns on investments							
Return on ordinary activities							
before taxation	253	187	51	(88)	403	133	130
Losses/(gains) on investments	(154)	(55)	12	(1)	(198)	258	462
(Increase)/decrease in other debtors	(34)	6	(44)	(74)	(146)	(32)	29
Increase/(decrease) in other creditors	5	7	(3)	21	30	20	8
Increase/(decrease) in amounts due to subsidiary undertaking	33	38	64	165	300	59	(26)
Net cash inflow from operating activities	103	183	80	23	389	438	603
2 Analysis of net funds							
Beginning of period	790	192	2,268	15,718	18,969	4,426	4,426
Net cash (outflow)/inflow	(725)	(67)	(1,273)	(3,032)	(5,098)	15,173	14,543
End of period	65	125	995	12,686	13,871	19,599	18,969

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. The unaudited half-yearly results cover the six months to 30 June 2014 and have been prepared in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” revised January 2009 and in accordance with the accounting policies set out in the statutory accounts for the 11 month period ended 31 December 2013, which were prepared under UK Generally Accepted Accounting Practice.
2. All revenue and capital items in the Income Statement derive from continuing operations.
3. The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.
4. The comparative figures are in respect of the six month period ended 31 July 2013 and the 11 month period ended 31 December 2013 respectively.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

5. Dividends

Paid in period	Per share pence	Six months ended 30 June 2014			Period to 31 Dec 2013
		Revenue £'000	Capital £'000	Total £'000	Total £'000
'C' Shares					
P/E Dec 2013 Final	2.5p	-	179	179	-
P/E Dec 2013 Interim	2.5p	-	-	-	178
Y/E Jan 2013 Final	2.5p	-	-	-	178
		-	179	179	356
'D' Shares					
P/E Dec 2013 Final	2.5p	-	250	250	-
P/E Dec 2013 Interim	2.5p	-	-	-	250
Y/E Jan 2013 Final	2.5p	-	-	-	250
		-	250	250	500
'F' Shares					
P/E Dec 2013 Final	2.5p	-	270	270	-
P/E Dec 2013 Interim	2.5p	-	-	-	271
Y/E Jan 2013 Final	2.5p	-	-	-	271
		-	270	270	542
'G' Shares					
P/E Dec 2013 Final	2.5p	-	636	636	-
P/E Dec 2013 Interim	2.5p	-	-	-	636
		-	636	636	636

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

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

6. Basic and diluted return per share

	Weighted average number of shares in issue	Revenue return/(loss)		Capital return/(loss)	
		Per		Per	
		£'000	share	£'000	share
'C' Shares	7,126,194	74	1.0p	154	2.2p
'A' Shares	10,724,029	-	-	-	-
'D' Shares	10,000,000	98	1.0p	55	0.5p
'E' Shares	14,950,000	-	-	-	-
'F' Shares	10,822,154	36	0.3p	(12)	(0.1p)
'G' Shares	25,436,996	(74)	(0.3p)	1	(0.0p)
		<u>134</u>		<u>198</u>	

7. Net asset value per share

	Shares in issue	Net asset value	
		per share	£'000
'C' Shares	7,126,194	91.6p	6,526
'A' Shares	10,724,029	0.1p	11
'D' Shares	10,000,000	76.0p	7,599
'E' Shares	14,950,000	0.1p	15
'F' Shares	10,822,154	77.8p	8,415
'G' Shares	25,436,996	92.4p	23,493
			<u>46,059</u>

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

8. Reserves

	Capital redemption reserve £'000	Share premium reserve £'000	Special reserve £'000	Revenue reserve £'000	Capital reserve - realised £'000	Revaluation reserve £'000
At 1 January 2014	106	35,664	13,988	(4)	(2,255)	(516)
Net gain on investments	-	-	-	-	-	198
Share premium cancellation	-	(35,664)	35,664	-	-	-
Dividends paid	-	-	-	-	(1,335)	-
Transfer between reserves	-	-	(1,335)	-	1,335	-
Retained revenue	-	-	-	134	-	-
At 30 June 2014	106	-	48,317	130	(2,255)	(318)

On 26 March 2014, the share premium account that arose on the issue of the 'F' Shares and 'G' Shares was cancelled following the granting of court approval. The Special reserve, Capital reserve - realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £1,508,000 which are included in the calculation of distributable reserves. Total distributable reserves are £47,045,000 (£10,438,000 at 31 December 2013).

9. The unaudited condensed financial statements set out herein do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The figures for the 11 month period ended 31 December 2013 have been extracted from the financial statements for that period, which have been delivered to the Registrar of Companies; the Auditor's report on those financial statements was unqualified.
10. The Directors confirm that, to the best of their knowledge, the half-yearly financial statements have been prepared in accordance with the "Statement: Half-Yearly Financial Reports" issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by:
- 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)

11. Risks and uncertainties

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

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

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

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

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

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

12. 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.

13. 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

'C' Share pool	30 Jun 2014	31 Dec 2013	31 Jul 2013
	Pence	Pence	Pence
Net asset value per 'C' Share	91.6	90.9	93.2
Net asset value per 'A' Share	0.1	0.1	0.1
Cumulative distributions per 'C' Share	25.0	22.5	20.0
Total return per 'C' Share and 'A' Share	<u>116.7</u>	<u>113.5</u>	<u>113.3</u>
'D' Share pool	30 Jun 2014	31 Dec 2013	31 Jul 2013
	Pence	Pence	Pence
Net asset value per 'D' Share	76.0	77.0	78.9
Net asset value per 'E' Share	0.1	0.1	0.1
Cumulative distributions per 'D' Share	20.0	17.5	15.0
Total return per 'D' Share and 'E' Share	<u>96.1</u>	<u>94.6</u>	<u>94.0</u>
'F' Share pool	30 Jun 2014	31 Dec 2013	31 Jul 2013
	Pence	Pence	Pence
Net asset value per 'F' Share	77.8	80.0	84.0
Cumulative distributions per 'F' Share	12.5	10.0	7.5
Total return per 'F' Share	<u>90.3</u>	<u>90.0</u>	<u>91.5</u>
'G' Share pool	30 Jun 2014	31 Dec 2013	31 Jul 2013
	Pence	Pence	Pence
Net asset value per 'G' Share	92.4	95.1	100.1
Cumulative distributions per 'G' Share	7.5	5.0	-
Total return per 'G' Share	<u>99.9</u>	<u>100.1</u>	<u>100.1</u>

Forthcoming dividends

	'C' Shares	'D' Shares	'F' Shares	'G' Shares
Interim 2014 – Payable 12 December 2014	Nil	2.5p	2.5p	2.5p

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.capitaassetservices.com/shareholders/information).

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

Terminology

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

Share scam warning

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

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

Share 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).

	‘C’ Shares DP2C	‘D’ Shares DP2D	‘F’ Shares DP2F	‘G’ Shares DP2G
TIDM/EPIC codes				
Latest share price (per share) (22 August 2014):	70.0p	56.0p	77.0p	92.0p

	‘A’ Shares DP2A	‘E’ Shares DP2E
TIDM/EPIC codes		
Latest share price (per share) (22 August 2014):	5.0p	5.0p

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 close periods (when the Company is prohibited from buying in shares) and details of the price at which the Company has bought in shares. Contact details are shown on the back cover of this document.

Notification of change of address

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

Other information for Shareholders

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

www.downing.co.uk

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

Directors

Hugh Gillespie (Chairman)

Dennis Hale

Company Secretary and Registered Office

Grant Whitehouse

Ergon House

Horseferry Road

London SW1P 2AL

Registered No. 5334418

Investment and Administration Manager

Downing Managers 2 Limited

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Registrar

Capita Asset Services

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

www.capitaassetservices.com

Tel: 0871 664 0324

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