

Electra Kingsway VCT 2 Plc

Interim Report & Accounts

For the period 20 August 2004
(date of incorporation) to 31 March 2005

2005



Objective

The Company's objective is to maximise tax free income to shareholders from dividends and capital distributions. This will be achieved by investing in a portfolio of qualifying investments and in funds managed by Electra Partners.

Investment Strategy

The Company will seek to invest in a diversified portfolio of unquoted and AIM listed companies. Unquoted investments will typically be in companies that intend to float on a market within a two year period or those that have a well developed growth and cash generation strategy. Investments in start-up companies where levels of risk are unacceptably high, in particular the technology sector, will generally be avoided.



Contents

	Interim Report
2	Financial Highlights
3	Chairman's Statement
4	Investment Manager's Review
5	Portfolio Summary
	Accounts
6	Statement of Total Return
6	Reconciliation of Total Shareholders' Funds
7	Balance Sheet
8	Cash Flow Statement
9	Statement of Accounting Policies
10	Notes to the Accounts
	Additional Information
11	Contact Details

References in this Report to Electra Kingsway VCT 2 Plc have been abbreviated to 'the Company' or 'the Fund'. References to Electra Partners Group Limited and its subsidiaries, including the Investment Manager, Electra Quoted Management Limited, have been abbreviated to Electra Partners Group.

The financial information in this publication is unaudited and does not comprise Statutory Accounts.

Interim Report Financial Highlights

(unaudited)

Funds raised to 31 May 2005 £33.2m

31 March 2005

Net Asset Value per ordinary share 95.12p

Total Return per ordinary share (over the Company's initial NAV of 94.5p) 0.7%

Interim Report Chairman's Statement

I am pleased to present my first Interim Report as Chairman of Electra Kingsway VCT 2, following the launch of your company. It has been a busy year for the VCT market, with the introduction of 40% income tax relief leading to over 50 new funds being launched. Your Fund was one of only four VCTs to raise in excess of £30m in the 2004/2005 tax year. By the end of May 2005 it had raised £33.2m.

The Net Asset Value per ordinary share at 31 March 2005 was 95.1p, slightly above the net subscription price of 94.5p. In line with the strategy set out in the Prospectus dated 6 October 2004, the Investment Manager invested the majority of the funds into a fixed-income account, with the balance invested in Electra Investment Trust and Electra Active Management. The Investment Manager has now started to invest in qualifying companies. It is anticipated that this will take at least two years to complete. To date, five qualifying investments have been completed; details are in the Investment Manager's Review.

The Fund's strategy is to invest in a carefully selected portfolio of unquoted and AIM companies. Having this flexibility is important, as it allows the Investment Manager to invest where it sees the most attractive opportunities. By building a diversified portfolio and undertaking thorough due diligence, the Investment Manager aims to minimize the risks inherent in smaller venture capital investments. Furthermore, the Investment Manager intends to avoid early-stage companies, particularly in the technology sector and to focus on well established companies that are already in profit or close to cash breakeven.

The Fund has got off to a good start, and I look forward to reporting further progress at the year end.

Communication with Shareholders

The Company intends to communicate regularly with its investors. Accordingly, in addition to the Interim and Annual financial reports, shareholders will receive two newsletters a year which will provide further information on portfolio investments. All publications will also be available on the Investment Manager's website www.electraquoted.com. If a shareholder has a specific query in relation to buying and selling shares which cannot be satisfied by his own IFA then the Fund's corporate advisor, Downing Corporate Finance, has a telephone helpline, details of which are set out on page 11.

Rupert Pennant-Rea

28 June 2005

Interim Report Investment Manager's Review

The Fund has already completed investments in five qualifying companies, representing £2.9m in aggregate which is just over 12% of the qualifying target. Deal flow remains good and we expect to have completed a further two transactions by the end of July. It is interesting to note that the first four investments are unquoted companies as we perceive better value in this part of the market. AIM still has attractions and we are constantly reviewing investment opportunities. However the valuations placed on recent flotations have been expensive.

In line with the investment policy we have invested the remainder of the Fund in a fixed interest portfolio and in Electra Investment Trust and Electra Active Management. In particular Electra Investment Trust has performed well and we are already showing a small profit despite the weak market.

New qualifying investments

Gyro



The company is a specialist brand and marketing agency with a strong business-to-business technology focus. It has a blue chip client list with customers such as Oracle, Sun Microsystems and Sony. In February the company raised £2.5m to fund the buy-out of one of the two founders of the business who had not been active within the business for two years. The buy-out was part of a wider transaction which allowed a distribution of equity to newer members of the management team. Electra Kingsway VCT 2 invested £375,000 with Electra Kingsway VCT investing a further £375,000 for a combined equity holding of 6.8%.

Sanastro



The company is a business-to-business publisher specializing in the financial services market with two leading titles "Leasing Life" and "Motor Finance". In November the company raised £6.75m to acquire the Lafferty Group, a larger company that published 11 titles such as The Accountant, Retail Banker, and Bank Marketing International. The acquisition provides a number of synergies and provides a platform from which the company can continue to develop both organically and by further acquisitions. Electra Kingsway VCT 2 invested £600,000 with Electra Kingsway VCT investing a further £1m. The two Funds hold 7.6% and 12.7% respectively.

Keycom

Keycom provides telephone and broadband communication services to students who live in halls of residence. The company has contracts with over 23 universities covering over 30,000 student rooms. Students are large potential users of broadband services for both academic studies and leisure pursuits. The company has a strong pipeline of new universities and colleges which, combined with the underlying profitability of the broadband model, should lead

to a significant growth in group profits. Electra Kingsway VCT 2 invested £200,000 as part of a wider funding round with Electra Kingsway VCT and other institutional investors.

New investments since 31 March 2005

Amber



The company is a similar investment to Nectar Taverns which has been a successful investment undertaken by VCT in 2003. Amber is a company set up in conjunction with Honeycombe Leisure, an AIM listed pub company. The management team at Honeycombe will seek to build up a portfolio of freehold pubs based in the North West of England. The key is to find underperforming pubs and refurbish them and to provide better operating management. Electra Kingsway VCT 2 invested £750,000 with Electra Kingsway VCT investing a further £750,000 for a combined equity holding of 37.5%.

Find Portal



The company owns and operates the UK's leading internet financial services directory website, www.find.co.uk, which has the most complete A to Z listing of any UK directory website. The company was founded in 1996 and has demonstrated a successful record of profits growth. The key has been the rapid growth of online advertising and the attractiveness of the internet as a channel for marketing financial products. The company declared a profit of £1.2m in its last financial year. Electra Kingsway VCT 2 invested £1m with Electra Kingsway VCT investing £1m for a combined equity holding of 28%.

Outlook

In recent months the FTSE AIM Index has fallen as investors have become unsettled by the softening housing market and weak retail sales figures. This weakness is anticipated to continue into the summer and may lead to a slow down in the number of AIM flotations that have proliferated in the market in the last six months. In general, over the last six months, AIM flotations have tended to be overpriced as investor demand has been strong therefore we have tended to favour unquoted investments where valuations are more reasonable and less exposed to the volatility of the market.

Interim Report Portfolio Summary

(unaudited)

	Cost at 31 March 2005 £	Valuation at 31 March 2005 £	% of Portfolio by Value %
Qualifying Investments			
Gyro	375,000	375,000	5.74
Keycom	200,000	200,000	3.06
Sanastro	600,000	600,000	9.18
	1,175,000	1,175,000	17.98
Non Qualifying Investments			
Electra Investment Trust	3,089,841	3,290,000	50.32
Electra Active Management	2,000,000	2,072,560	31.70
	5,089,841	5,362,560	82.02
Cash	6,264,841	8,380,197	
Total		14,917,757	100.00

Interim Accounts Statement of Total Return

(unaudited) (incorporating the Revenue Account)

	Notes	Revenue £	Capital £	For the period 20 August 2004 to 31 March 2005 Total £
Unrealised gains on investments		–	272,719	272,719
Income	1	38,782	–	38,782
		38,782	272,719	311,501
Investment management fees		(21,399)	(64,198)	(85,597)
Other expenses		(129,170)	–	(129,170)
Return on Ordinary Activities before Taxation		(111,787)	208,521	96,734
Tax on ordinary activities		–	–	–
Return on Ordinary Activities after Taxation		(111,787)	208,851	96,734
Return to Shareholders per Ordinary Share	2	1.86p	3.46p	1.61p

The amounts dealt with in the Statement of Total Return are all derived from continuing activities.

No operations were acquired or discontinued in the period.

The notes on page 10 form part of these financial statements.

Accounts Reconciliation of Total Shareholders' Funds

	For the period 20 August 2004 to 31 March 2005 £
Total Return	96,734
Share issue expenses charged to Share Premium account	(854,142)
Ordinary shares issued	15,530,041
Preference shares issued	50,000
Movements in Total Shareholders' Funds	14,822,633
Total Shareholders' Funds at start of period	–
Total Shareholders' Funds	14,822,633

Interim Accounts Balance Sheet

(unaudited) As at 31 March 2005

	Notes	£	As at 31 March 2005 £
Fixed Assets			
Investments	3		6,537,560
Current Assets			
Debtors and prepayments		87,403	
Cash at bank		8,380,197	
			8,467,600
Current Liabilities			
Creditors: amounts falling due within one year			
Other creditors		161,277	
			161,277
Net Current Assets			
Total assets less current liabilities			8,306,323
Unsecured loan stock			21,250
Net Assets			
			14,822,633
Capital and Reserves			
Called-up share capital			205,300
Share premium			14,520,599
Realised capital losses			(64,198)
Unrealised capital losses			272,719
Revenue reserve			(111,787)
Total Equity Shareholders' Funds			
			14,822,633
Net Asset Value per Ordinary Share			
			95.12p

	As at 31 March 2005
Number of Ordinary Shares in issue at end of period	15,530,041

Interim Accounts Cash Flow Statement

(unaudited)

	£	For the period 20 August 2004 31 March 2005 £
Operating Activities		
Investment income received	10,803	
Bank deposit interest received	1,775	
Investment management fees paid	-	
Other cash payments	(53,489)	
Net Cash Outflow from Operating Activities		(40,911)
Investing Activities		
Acquisition of investments	(6,264,841)	
Net Cash Outflow from Investing Activities		(6,264,841)
Cash Outflow before Financing and Management of Liquid Resources		(6,305,752)
Financing		
Issue of ordinary shares	15,529,841	
Expenses of the issue of ordinary shares	(854,142)	
Issue of loan notes	10,250	
Net Cash Inflow from Financing		14,685,949
Increase in Cash for the Period		8,380,197

Interim Accounts Statement of Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below:

a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice (2003), 'Financial Statements of Investment Trust Companies'.

b) Valuation of investments

Listed investments and investments traded on AIM are stated at closing mid-market prices. Where quoted investments are subject to restrictions, an appropriate discount to the latest market price is applied having regard to the BVCA valuation guidelines (2003).

Unquoted investments and investments traded on OFEX are stated at Directors' valuation.

In valuing unlisted investments, the Directors follow a number of general principles in accordance with the latest BVCA guidelines.

Realised gains or losses on the disposal of investments are taken to the realised capital reserve. Unrealised gains or losses on the revaluation of investments are taken to the unrealised capital reserve.

c) Income

Dividends receivable from equity investments are brought into account on the ex-dividend date.

Fixed returns on non-equity investments and on debt securities are recognised on a time apportionment basis, which reflects the effective yield.

Interest receivable on cash deposits is accounted for on an accruals basis.

d) Expenses

All expenses are accounted for on an accruals basis and are charged through the revenue account, except as follows:

- expenses which are incidental to the acquisition of an investment are included in the cost of investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment;
- expenses incurred as a result of an issue of shares are allocated against the share premium account; and
- expenses relating to investment management and incentive fees, which are dealt with below.

e) Investment management and incentive fees

The investment management fees for the Investment Manager's services are charged 25% to the revenue account and 75% to the capital account. This is in line with the Board's long-term projections of returns from the investment portfolio of the Company. The incentive fee on realisations in the year is charged to the realised capital reserve and the incentive fee provision in respect of unrealised value growth in the portfolio is charged to the unrealised capital reserve.

f) Capital reserves

Gains and losses on the realisation of investments are accounted for in the realised capital reserve. Increases and decreases in the valuation of investments held at the period end are accounted for in the unrealised capital reserve.

g) Taxation

The charge for taxation is based on the net revenue for the period. Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are recoverable.

The tax effects of different items in the Statement of Total Return 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 period.

Interim Accounts Notes to the Accounts

1 Income

	For the period 20 August 2004 to 31 March 2005 £
Franked investment income	37,006
Bank interest	1,775
	38,781

2 Return to Shareholders per Ordinary Share

The revenue return per ordinary share is based on the net loss from ordinary activities after taxation of £111,787 and on 6,020,657 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The capital return per ordinary share is based on net capital gains of £208,521 and on 6,020,657 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

3 Investments

	Qualifying Investments		Non-qualifying Investments		Total £
	Traded on OFEX £	Unlisted £	Open-ended Investment Company £	Closed-ended Investment Company £	
Purchases at cost	200,000	975,000	2,000,000	3,089,841	6,264,841
Unrealised gains in period	–	–	72,560	200,159	272,719
Valuation at 31 March 2005	200,000	975,000	2,072,560	3,290,000	6,537,560
Cost at 31 March 2005	200,000	975,000	2,000,000	3,089,841	6,264,841
Unrealised gains at 31 March 2005	–	–	72,560	200,159	272,719
Valuation at 31 March 2005	200,000	975,000	2,072,560	3,290,000	6,537,560

Additional Information Contact Details

Electra Kingsway VCT 2 Plc

Board of Directors

Rupert Pennant-Rea (Chairman)
Michael Broke
David Donnelly
Nicholas Ross
David Sebire

Investment Manager and Administrator

Electra Quoted Management Limited †
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
Telephone +44 (0)20 7214 4200
www.electraquoted.com

Secretary and Registered Office †

Philip Dyke
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
Telephone +44 (0)20 7214 4200

Company Number

5210737

Registered Independent Auditors and VCT Advisers

PricewaterhouseCoopers LLP
Chartered Accountants
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Investor Enquiries and Fixed Income Investment Adviser

Downing Corporate Finance Limited
69 Eccleston Square
London
SW1V 1PJ
Telephone +44 (0)20 7411 4700
www.downing.co.uk

Registrar and Transfer Office

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Telephone +44 (0)8701 623131
www.capitaregistrars.com

Any change of address of a shareholder or other relevant amendment to shareholder details should be communicated to the Company's Registrar, Capita Registrars.

† New offices from June 2005





