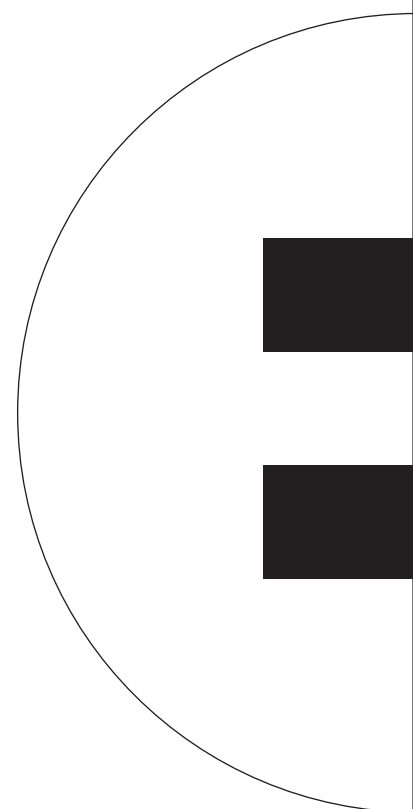


Electra Kingsway VCT 2 Plc

Interim Report & Accounts

31 March 2006

2006



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.



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References to 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.

The financial information in this publication is unaudited and does not comprise Statutory Accounts. The Statutory Accounts for the period ended 30 September 2005 have been delivered to the UK Registrar of Companies and the Report of the Auditors on those accounts was unqualified.

Interim Report Financial Highlights

(unaudited)

Six months ended 31 March	2006	(Restated) 2005
Net assets	£34.4m	£14.7m
Net asset value per ordinary share	100.70p	94.67p

An interim dividend of 1p per ordinary share will be paid on 4 August 2006, to shareholders on the Company's Register of Members at close of business on 7 July 2006.

Interim Report Chairman's Statement

Results

I am pleased to present the interim results for the six months to 31 March 2006 and to report that good progress has been made on all fronts. The Net Asset Value (NAV) per share has risen to 100.7p from the initial starting value of 94.5p and, although it is still early days in the life of the Fund, the investments made so far are generally performing well. At the period end, nine qualifying investments had been made, of which seven are unquoted companies. This reflects the Investment Manager's current view that better value can be found in the unquoted marketplace and that many AIM flotations tend to be overvalued. The main focus of the Fund's investment policy is on profitable unquoted companies where it is possible to add value through leveraged finance and initiatives such as "bolt-on" acquisitions.

The rise in the NAV in the period was due to increases in valuations of three qualifying portfolio companies – Jelf, Gyro and Hill Station, and a good performance from Electra Private Equity. The pipeline of potential new deals remains healthy.

Dividends

The aim of the Fund is to distribute surplus income and capital profits in the form of tax free dividends. In line with this policy, the Board has approved an interim dividend of 1p per ordinary share, which will be paid on 4 August 2006 to shareholders on the Register of Members at the close of business on 7 July 2006. This dividend arises from part of the income surplus generated during the period.

VCT Qualifying Status

Your Board continues to monitor the Company's VCT qualification status. I am pleased to report that all of the required tests in the period were met.

New Accounting Policies

The Company complies with new UK financial reporting standards which are reflected in these interim accounts for the first time. The most obvious change is that your Company's portfolio is now valued at the bid price of each holding, that is, the price at which shares can be sold. Until now, your Company has followed valuation/accounting convention and used a mid market price. The comparative historic figures in this report have been restated to reflect this accounting change.

Share Buybacks

As set out in the Prospectus, the Company operates a share buyback scheme. During the six-month period, a total of 12,089 of the Company's own shares were acquired for cancellation at an average price of 87.5p per share. Shareholders wishing to take advantage of the share buyback programme should contact the investor helpline, maintained by Downing Corporate Finance, on 020 7411 4700.

March 2006 Budget

In March 2006, the Chancellor announced various changes to VCT legislation, most of which affect new VCTs raised in the 2006/7 tax year and beyond.

Outlook

The economic climate provides a good platform for smaller companies, although some areas of the stock market look overvalued. The portfolio is well positioned, the pipeline of potential new investments is encouraging, and the prospects for the Fund are good.

Rupert Pennant-Rea, Chairman

20 June 2006

Interim Report Investment Manager's Review

At the period end the Fund comprised nine qualifying investments, two investments in Electra Private Equity and Electra Active Management with the balance of the Fund held in fixed interest deposit accounts. As new qualifying investments are made the Fund will draw down on the cash deposits so that by the end of the three year investment period the cash balance will be minimal. The majority of the qualifying investments made to date are unquoted companies as we find that the valuations are often more favourable and we can add more value through financial leverage and corporate acquisitions. A key part of our investment strategy is to add value through acquisitions and to do this we have to ensure that the relevant management team are up to the task and are actively supported by a good team of non executives.

Given that the Fund is still in the early stages of its investment period and that unquoted investments tend to be held at cost within the first year, there were few valuation changes in the portfolio. These included Hill Station, which is an AIM listed company, whose shares rose sharply after we invested. In addition we wrote up the carrying value of Gyro in response to strong trading. The other valuation changes were Jelf, whose AIM price rose, and Electra Private Equity which reported a significant valuation uplift.

New Investments

Hill Station

The company is a manufacturer of premium branded ice cream which competes alongside Haagen-Dazs and Green & Black. In late 2005 the company sought funding to acquire two significantly larger ice cream manufacturers, Granelli and Loseley. The strategy was to integrate the three companies into one manufacturing site, which would enable significant cost savings and synergies. The company recently announced that this integration process was progressing well and that it was on target to meet its forecasts. The Fund invested £758,085 alongside Electra Kingsway VCT for a combined equity stake of 16.0%.

Conquest Business Media

The company specialises in business-to-business publishing. Its core magazines are *The Manufacturer*, *The Manufacturer US* and *British Industry*. The business was founded in 1996 and is located in Norwich. The Fund invested £750,000 alongside Electra Kingsway VCT for a 43.4% combined equity stake in the company.

Jelf Group

The company is an independent full service financial consultancy working primarily with businesses. Jelf provides insurance, healthcare, financial services and commercial financial solutions. In 2004 it floated on AIM in order to achieve additional scale through acquisitions. In 2006, after reporting good progress, the company sought to raise further monies to finance the acquisition of a larger company. The Fund invested £250,160 alongside Electra Kingsway VCT 3 for a combined equity stake of 3.8%.

Co-investment Arrangements with other Electra Kingsway VCTs

The Directors welcome the fact that the Investment Manager has three VCT funds (“Electra Kingsway VCTs”) it can use for co-investment. This allows the Company to spread its investment risk and gain access to larger investments than it could do on its own. Where a co-investment opportunity arises between the Company and either or both of the other two funds, the Company will invest in an agreed and consistent proportion on the same terms and in the same securities as the Electra Kingsway VCTs with which it co-invests. Costs associated with any such investment will be borne by each fund pro-rata to its investment.

In more detail, the Company’s Board has adopted a set of guidelines on its co-investment arrangements with the Electra Kingsway VCTs and the Investment Manager as follows:-

- Other than as set out below, investments will be allocated between the Company and the Electra Kingsway VCTs on a pro-rata basis by reference to each fund’s available cash resources.
- Where an opportunity arises for a second or subsequent round of investment in a company in which the Company or one of the Electra Kingsway VCTs has invested at an earlier stage, the fund holding the existing investment will have a preferential right to take up any pro-rata entitlement it may have in the new financing round. The amount it invests on this basis will not be taken into account in determining its co-investment share thereafter.
- The Company will make an investment in which one or more of the Electra Kingsway VCTs have existing investments only when the Board considers that to be in the best interests of the Company.
- Any potential conflict of interest in a proposed investment by one or more of the Electra Kingsway VCTs will be referred by the Investment Manager to the Board of the Company and the other relevant Boards.
- In the event of a possible conflict of interest between the Investment Manager and the Company, the matter will be decided by those directors who are independent of the Investment Manager.

The Board of the Company acknowledges that the Investment Manager may occasionally recommend an allocation of investments on a different basis from the one described above. For example, an exception may be made to ensure that one or more of the Electra Kingsway VCTs maintain their status as an HMRC approved VCT, or in the interests of balancing their portfolios. A different basis may also be necessary to meet the requirements of potential investee companies.

Interim Report Portfolio Summary

(unaudited)

	Cost at 31 March 2006 £	Valuation at 31 March 2006 £	% of Portfolio by Value %
Qualifying Investments			
Hill Station	758,085	1,326,649	8.62
Find Portal	1,000,000	1,000,000	6.50
Amber Taverns	750,000	750,000	4.87
Ma Hubbards	750,000	750,000	4.87
Conquest Business Media	750,000	750,000	4.87
Gyro	375,000	657,960	4.27
Sanastro	600,000	600,000	3.90
Jelf Group	250,160	379,960	2.47
Keycom	296,000	176,000	1.14
	5,529,245	6,390,569	41.51
Non Qualifying Investments			
Electra Private Equity	3,550,253	4,974,200	32.31
Electra Active Management	4,000,000	4,029,479	26.18
	7,550,253	9,003,679	58.49
Cash	13,079,498	15,394,248	100.00
		19,739,824	
Total		35,134,072	

Interim Accounts Income Statement

	Notes	For the six months ended 31 March 2006 (unaudited)			Restated For the period 20 August 2004 to 31 March 2005 (unaudited)			Restated For the period 20 August 2004 to 30 September 2005 (unaudited)		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains on investment		- 1,323,967	1,323,967		-	152,673	152,673	-	990,783	990,783
Income	2	520,456	-	520,456	38,782	-	38,782	557,765	-	557,765
		520,456	1,323,967	1,844,423	38,782	152,673	191,455	557,765	990,783	1,548,548
Investment management fees		(100,161)	(300,273)	(400,434)	(21,399)	(64,198)	(85,597)	(99,517)	(298,551)	(398,068)
Other expenses		(167,571)	-	(167,571)	(129,170)	-	(129,170)	(311,014)	-	(311,014)
Return on Ordinary Activities before Taxation		252,724	1,023,694	1,276,418	(111,787)	88,475	(23,312)	147,234	692,232	839,466
Tax on ordinary activities		-	-	-	-	-	-	-	-	-
Return on Ordinary Activities after Taxation		252,724	1,023,694	1,276,418	(111,787)	88,475	(23,312)	147,234	692,232	839,466
Return to Shareholders per Ordinary Share 3		0.74p	2.99p	3.73p	(1.86)p	1.47p	(0.39)p	0.80p	3.75p	4.55p

The amounts dealt with in the Income Statement are all derived from continuing activities.

No operations were acquired or discontinued in the period.

The notes on page 11 to 12 form part of these financial statements.

Accounts Reconciliation of Total Shareholders' Funds

	For the six months ended 31 March 2006 (unaudited) £	Restated For the period 20 August 2004 to 31 March 2005 (unaudited) £	Restated For the period 20 August 2004 to 30 September 2005 (unaudited) £
Total Return	1,276,418	(23,312)	839,466
Share issue expenses charged to Share Premium account	-	(854,142)	(1,880,960)
Ordinary shares issued	-	15,530,041	34,199,456
Preference shares issued	-	50,000	-
Repurchase of ordinary shares	(10,579)	-	(12,437)
Movements in Total Shareholders' Funds	1,265,839	14,702,587	33,145,525
Total Shareholders' Funds at start of period as restated	33,145,525	-	-
Total Shareholders' Funds	34,411,364	14,702,587	33,145,525

Interim Accounts Cash Flow Statement

	For the six months ended 31 March 2006 (unaudited)		For the period 20 August 2004 to 31 March 2005 (unaudited)		For the period 20 August 2004 to 30 September 2005 (audited)	
	£	£	£	£	£	£
Operating Activities						
Investment income received	521,018		10,803		413,242	
Bank deposit interest received	3,618		1,775		64,613	
Investment management fees paid	(391,849)		–		(228,000)	
Other cash payments	(156,672)		(53,489)		(194,346)	
Net Cash (Outflow)/Inflow from Operating Activities		(23,885)		(40,911)		55,509
Investing Activities						
Acquisition of investments	(1,854,268)		(6,264,841)		(10,764,841)	
Net Cash Outflow from Investing Activities		(1,854,268)		(6,264,841)		(10,764,841)
Cash Outflow before Financing and Management of Liquid Resources						
		(1,878,153)		(6,305,752)		(10,709,332)
Financing						
Issue of ordinary shares	–		15,529,841		34,199,456	
Expenses of the issue of ordinary shares	–		(854,142)		(1,880,960)	
Repurchase of ordinary shares	(12,437)		–		–	
Issue of loan notes	–		10,250		21,250	
Net Cash (Outflow)/Inflow from Financing		(12,437)		14,685,949		32,339,746
(Decrease)/Increase in Cash for the Period		(1,890,590)		8,380,197		21,630,414

Interim Accounts Statement of Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current 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 (2005), 'Financial Statements of Investment Trust Companies'.

b) Valuation of investments

Listed investments and investments traded on AIM are stated at closing bid prices. Previously all investments were valued using closing mid market prices. Comparative figures have been restated accordingly. The impact of this restatement on the previously reported Net Asset Value of the Company is set out in Note 1.

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 International Private Equity and Venture Capital ("IPEVC") valuation 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. The impact of the move from using mid market prices to bid prices is set out in Note 1.

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 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 period 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 Restatement of Unrealised Capital Reserves and Net Assets as at 31 March 2005 and 30 September 2005.

FRS 26 "Financial Instruments Measurement" requires investments to be valued at bid price rather than mid market price.

A reconciliation of reserves incorporating the adjustments required by the adoption of FRS 26 is illustrated below:-

	As at 31 March 2005 £	As at 30 September 2005 £
Reconciliation of unrealised capital reserves		
Unrealised capital reserves previously reported at period end	272,719	1,073,794
Adjustment as required by adoption of FRS 26	(120,046)	(83,011)
Unrealised capital reserves as restated	152,673	990,783
Reconciliation of net assets		
Net assets previously reported at period end	14,822,633	33,228,536
Adjustment as required by adoption of FRS 26	(120,046)	(83,011)
Net assets as restated	14,702,587	33,145,525

2. Income

	For the six months ended 31 March 2006 (unaudited) £	For the period 20 August 2004 to 31 March 2005 (unaudited) £	For the period 20 August 2004 to 30 September 2005 (unaudited) £
Franked investment income	516,838	37,007	493,152
Interest from bank deposits	3,618	1,775	64,613
	520,456	38,782	557,765

3. Return to Shareholders per Ordinary Share

The revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £252,724 (31.03.2005: loss of £111,787 and 30.09.2005: £147,234) and on 34,184,843 (31.03.2005: 6,020,657 and 30.09.2005: 18,430,338) 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 £1,023,694 (31.03.2005: £88,475 and 30.09.2005: £692,232) and on 34,184,843 (31.03.2005: 6,020,657 and 30.09.2005: 18,430,338) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Interim Accounts Notes to the Accounts

4. Investments

	Qualifying Investments			Non-qualifying Investments		Total £
	Traded on OFEX £	Unlisted £	Traded on AIM £	Open-ended Investment Company £	Closed-ended Investment Company £	
Cost at 1 October 2005	200,000	3,475,000	–	4,000,000	3,089,841	10,764,841
Unrealised gains at 1 October 2005 (restated)	–	–	–	185,124	805,659	990,783
Valuation at 1 October 2005 (restated)	200,000	3,475,000	–	4,185,124	3,895,500	11,755,624
Purchases at cost	96,000	750,000	1,008,245	–	460,412	2,314,657
Unrealised gains/(losses) in period	(120,000)	282,960	698,364	(155,645)	618,288	1,323,967
Valuation at 31 March 2006	176,000	4,507,960	1,706,609	4,029,479	4,974,200	15,394,248
Cost at 31 March 2006	296,000	4,225,000	1,008,245	4,000,000	3,550,253	13,079,498
Unrealised gains/(losses) at 31 March 2006	(120,000)	282,960	698,364	29,479	1,423,947	2,314,750
Valuation at 31 March 2006	176,000	4,507,960	1,706,609	4,029,479	4,974,200	15,394,248

Additional Information Contact Details

Electra Kingsway VCT 2 Plc

Board of Directors

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

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

