

Acuity VCT 2 Plc Half Yearly Report

For the six months ended 31 March 2008



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References in this Report to Acuity VCT 2 Plc (formerly Electra Kingsway VCT 2 Plc) have been abbreviated to 'the Company' or 'the Fund'. References to Acuity Capital Management Limited (formerly Electra Quoted Management Limited) have been abbreviated to Acuity Capital Management.

The unaudited half yearly financial statements for the six months ended 31 March 2008 do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The figures for the year ended 30 September 2007 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditors' report on those financial statements under Section 235 of the Companies Act 1985 was unqualified.

Half Yearly Report Investment Strategy

Investment Objective

The Company's objective is to achieve long term capital gains and tax free dividends to its shareholders. This will be achieved by investing the majority of the Company's Funds in a portfolio of qualifying investments. Venture Capital Trusts allow investors significant tax benefits provided that the Fund complies with the VCT investment rules. These rules are designed to encourage venture capital investment in smaller companies.

Investment Strategy

The strategy is to invest in a portfolio of qualifying unquoted and AIM listed companies which are well diversified by sector focus. As these investments mature, the Investment Manager will seek to sell them at a capital profit and distribute the uplift as a dividend. The original capital will be reinvested into new qualifying companies. This strategy should ensure long term capital growth and a regular flow of dividends to shareholders.

The Fund will co-invest alongside the other Acuity VCTs, which will enable shareholders to participate in larger unquoted transactions, which tend to have a lower risk profile than smaller venture capital investments. The majority of unquoted investments are structured in such a way as to give the Fund downside protection with significant voting rights.

The Fund will also invest up to 30% of its assets in a combination of two managed funds: Electra Private Equity and Electra Active Management. These funds enable further portfolio diversification.

Qualifying Investments

Qualifying companies tend to be small companies that have higher risk profiles than larger well established companies. The Investment Manager seeks to reduce the risk of investing in these by selecting companies that are well managed and have a proven and sustainable business plan. Investments are also selected on the basis of their potential to deliver long term capital growth. This often entails building companies through organic growth and bolt on acquisitions. The holding period for investment is typically five years after which time it would be hoped to achieve a profitable exit.

Half Yearly Report Financial Highlights

(unaudited)

Six months ended 31 March	2008	2007
Net Assets	£31.2m	£41.0m
Net Asset Value per ordinary share	93.1p	120.7p
Dividend paid per ordinary share	1.0p	1.0p
Cumulative Value of Ordinary Shares since Launch		
Dividends paid per ordinary share	3.5p	1.0p
Net Asset Value plus dividends paid per ordinary share	96.6p	121.7p

Half Yearly Report Chairman's Statement

Results

In the six months to 31 March 2008, the Net Asset Value per ordinary share fell by 7.6%, which compares to a decline of 12% in the AIM market and 18% in the Fledgling index. As at 31 March 2008, the NAV was 93.1p per ordinary share; including dividends paid and due to be paid, this represents an adjusted NAV of 96.6p, marginally ahead of its value when your Fund began in 2004.

In the period under review, a total of £3m was invested in qualifying companies. These included unquoted investments in the Fin Machine Company, a specialist engineering company; Brand Acquisitions, a wholesaler of men's fashion clothes; and Red Reef Media, a specialist publishing company. The main disposal in the period was Gyro International, a brand advertising agency, which was sold for 2.2 times what your Fund paid for it, producing an internal rate of return of 40% a year. The qualifying portfolio comprises 19 investments, most of them unquoted companies with good long term potential. For several of these investments, the key to boosting their value is not just organic growth but also bolt-on acquisitions – a “buy and build” approach that can benefit from cost savings and other advantages of greater scale.

Dividend

The Board has approved the payment of an interim dividend of 1.0p per ordinary share. This will be paid on 11 July 2008 to ordinary shareholders on the Register of Members at the close of business on 30 May 2008. This brings the total dividends paid to 4.5p per share and is part of the Fund's objective to distribute tax free dividends to shareholders.

VCT Qualifying Status

In September 2007 the Fund passed the key test, which is to have 70% of its net assets invested in qualifying companies. Since that period the Fund has continued to meet all the required VCT qualification tests.

Share Buyback Policy

The Company operates a share buyback facility for its shareholders due to limited liquidity in the secondary market. The Board has undertaken an evaluation of this buyback policy taking into account the long term investment objectives of the Fund and the interests of all shareholders. The Board is of the opinion that it is important to maintain this facility, but acknowledges that it can benefit those shareholders electing to sell at the expense of the long term shareholders in the Fund. Therefore, in order to balance the needs of all shareholders, the Board is increasing the discount to the last published Net Asset Value at which the Company buys back shares for cancellation from 10% to 15%. Shareholders should note that if they wish to sell their shares back to the Company for cancellation they should seek independent advice and use a stockbroker, authorised and regulated by the FSA, who will contract with a marketmaker on their behalf. Further

details on how to sell your shares can be found on the Investment Manager's website.

Acuity Capital LLP

In February 2008, Acuity Capital LLP, a limited liability partnership established by the current investment management team, acquired the Company's Investment Manager, Electra Quoted Management. On acquisition, Electra Quoted Management changed its name to Acuity Capital Management. The investment team are now the majority owners of the management company, which should enhance their continuity and commitment and make it easier to recruit other experienced managers. Electra Partners Group has a minority stake in Acuity Capital LLP and still provides support services. Following this change, a resolution was passed by shareholders at the Company's AGM in February 2008 to change the name of your Company to Acuity VCT 2.

Change of Auditors

As we were not able to arrive at a mutually agreeable fee for the audit, PricewaterhouseCoopers LLP have resigned as auditors for the year ending 30 September 2008. The Board has duly appointed KPMG LLP as auditors to the Company.

Outlook

So far the Fund has performed satisfactorily in difficult markets. The current portfolio seems well placed to deliver good longer term returns and as the Fund is not yet fully invested, it can still take advantage of better priced investment opportunities.

Rupert Pennant-Rea, Chairman
20 May 2008

Half Yearly Report Investment Manager's Review

Performance

In the period the Net Asset Value per ordinary share declined by 7.6% which compares with much larger declines in the UK stockmarket. The Fund has an overall 25% exposure to companies and funds which are quoted on the market. This weighting is comprised largely of the investments in Electra Private Equity and Electra Active Management which are used as sources of liquidity for qualifying investments. The Fund also has a low weighting of 11% in AIM companies which is in line with our strategy to focus on the unquoted market where we see better opportunities for building long term value. The AIM market has not only fallen in the period but has also seen a significant decline in the number of new issues and a marked deterioration in trading volumes. It will take some time for confidence to be restored. We remain cautious in committing any further funds to AIM investments.

The qualifying investment portfolio saw uplifts in Factory Media, Munro Global and Zamano which were, however, offset by declines in Defaqto, Ma Hubbards and Hill Station. Factory Media, a publisher of active sports magazines, has made good progress in developing its online community website www.mpora.com, achieving record levels of visitors. Munro Global, a market research specialist, is growing steadily both organically and through acquisition. Since we invested in the company in 2006, it has successfully integrated three acquisitions. Zamano, a mobile technology platform, completed the acquisition of Red Circle and reported strong organic growth on the back of the growing market for mobile text messaging and games. Defaqto, in spite of identifying strong growth in the IFA market, was decreased in value in line with comparative market valuations. Hill Station and Ma Hubbards both reported difficult trading conditions.

Portfolio Activity

There were three new unquoted investments added to the portfolio in the period. The first of these was the Fin Machine Company, a specialist manufacturer of machines for the assembly of fan cooling systems within the automotive industry. The company has a strong competitive position within its market. Recent legislation introduced into the US, governing the environmental efficiency of air conditioning and refrigeration units has presented the company with significant growth opportunities. If these new markets adopt the same cooling technology used in the automotive industry it will lead to significant energy and cost savings. The Fin Machine Company is therefore well positioned to apply its technology to a significantly larger market. In total the three Acuity VCTs invested £5.5 million in the transaction.

Brand Acquisitions was established to acquire the Peter Werth clothing brand which specialises in men's knitwear and casual wear aimed at the 18 to 35 age group. The strategy of the company is to expand Peter Werth into a lifestyle brand covering wholesale, concession and retail

sales. This strategy will be complemented by adding further brands that exploit the company's existing design, sourcing, sales and distribution infrastructure. We are backing a buy in team with considerable retail experience, particularly in brand development and acquisitions. The three Acuity VCTs committed funding of £4.5m to facilitate the acquisition.

Red Reef Media was set up to acquire TNT Magazine Group, a business aimed at the growing Antipodean and South African community in the UK. The TNT magazine is one of the pioneers in free distribution with 700 unique distribution points. Known as the 'bible' for Antipodeans, it reports news and sport as well as providing information on travel, jobs and accommodation. The strategy going forward is to offer a complete marketing solution for its targeted advertisers by fully developing the TNT brand across digital platforms. Acuity Capital committed £3.4m of equity capital to support the growth development plans of the company.

During the period we completed the disposal of Gyro, a digital advertising agency, at a gain of 2.2 times our original investment. The company was sold to a US venture capitalist who is seeking to use the company as a platform for a wider European consolidation.

Deal Flow

Overall it has been a good period for deal flow and we have continued to see a number of interesting investment opportunities. As yet we have seen no evidence that the decline in the equity markets has impacted materially the volume and quality of our deal flow. The much talked about credit crunch has had a negative impact on the large MBO transactions leading to a significant fall in transaction activity. However this has yet to filter down fully to the smaller MBO sector partly because the leverage multiples are more conservative and also because the banks are less reliant on syndicating small business lending to the commercial markets. Overall the weakening economic environment provides good buying opportunities as we expect vendors' pricing expectations to lower in response to the prevailing economic climate.

Half Yearly Report Portfolio Summary

(unaudited)

	Cost at 31 March 2008 £'000	Valuation at 31 March 2008 £'000	*Performance in period ended 31 March 2008 £'000	% of Portfolio by Value %
Qualifying Investments:				
Factory Media	1,925	2,374	449	9.36
Defaqto (Find Portal)	2,150	2,328	(598)	9.18
Munro Global	1,615	2,239	157	8.83
Target Group	1,000	1,000	–	3.94
Acrobat	1,000	1,000	–	3.94
Kingsway Software	1,000	1,000	–	3.94
Kingsway Media	1,000	1,000	–	3.94
The Fin Machine Company	1,000	1,000	–	3.94
Brand Acquisitions	1,000	1,000	–	3.94
Zamano	750	937	148	3.69
Kingsway Business Services	820	820	–	3.23
Amber Taverns	750	774	24	3.05
Hill Station	1,456	693	(291)	2.73
Jelf	250	590	28	2.33
Red Reef Media	588	588	–	2.32
Emote Games	471	471	–	1.86
Mount Engineering	391	413	45	1.63
Ma Hubbards	750	367	(383)	1.45
Sport Media Group	500	267	(207)	1.05
Sanastro	600	256	46	1.01
Keycom	495	203	(117)	0.80
Worthington Nicholls	889	156	(262)	0.61
Kingsway Retail	100	50	(50)	0.20
Kingsway Generalist	100	50	(50)	0.20
	20,600	19,576	(1,061)	77.17
Non-Qualifying Investments:				
Electra Private Equity	2,582	4,441	(263)	17.51
Electra Active Management	1,983	1,349	(367)	5.32
	4,565	5,790	(630)	22.83
Total	25,165	25,366	(1,691)	100.00

* This reflects unrealised gains/(losses) in investments for the period 1 October 2007 to 31 March 2008

Half Yearly Report Co-investment Arrangements

Co-investment Arrangements with other Acuity VCTs

The Directors welcome the fact that the Investment Manager has four VCT fund pools, Acuity VCT Plc Ordinary Share pool (formerly Electra Kingsway VCT Plc Ordinary Share pool), Acuity VCT Plc C Share Plc (formerly Electra Kingsway VCT Plc C Share pool), Acuity VCT 2 Plc (formerly Electra Kingsway VCT 2 Plc) and Acuity VCT 3 Plc (formerly Electra Kingsway VCT 3 Plc) (together “the Acuity VCTs”) it can use for co-investment. This allows each fund 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 one or more of the other funds, the Company will invest in an agreed and consistent proportion, on the same terms and in the same securities as the funds 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 Board has adopted a set of guidelines on its co-investment arrangements with the Acuity VCTs and the Investment Manager as follows:-

- Other than as set out below, investments will be allocated between the Company and the other Acuity VCTs by reference to the size of each fund and to each fund’s available cash resources.
- Where an opportunity arises for a second or subsequent round of investment in a company in which one of the Acuity 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 Acuity 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 Acuity 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 Company, Acuity VCT Plc

or Acuity VCT 3 Plc maintain their status as a 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. In these cases the Directors use their judgement.

Half Yearly Report Business Review and Responsibility Statement

Current and Future Development

A review of the main features of the six months to 31 March 2008 is contained in the Chairman's Statement and the Investment Manager's Review on pages 4 and 5 respectively.

The Board regularly reviews the development and strategic direction of the Company. The Board's main focus continues to be on the Company's long-term investment return. Attention is paid to the integrity and success of the investment process and on factors which may have an impact on this approach. Due regard is given to the marketing and promotion of the Company, including effective communication with shareholders and other external parties.

A detailed review of performance during the six months to 31 March 2008 is contained in the Investment Manager's Review on page 5.

Risk Management

As the Company's investments are focused on unquoted companies and AIM quoted companies, which by their nature, entail a higher level of risk and lower liquidity than investments in large quoted companies, the Investment Manager aims to limit the risk attaching to the portfolio as a whole by careful selection and timely redistribution of investments in accordance with the Company's investment policy, and by monitoring the spread of holdings in terms of financing stage and industry sector. The Board reviews the investment portfolio with the Investment Manager on a regular basis.

The principal risks faced by the Company are Credit Risk, Market Price Risk, Interest Rate Risk, Liquidity Risk and Regulatory Risk as further detailed in Note 19 of the Notes to the Accounts in the Company's Annual Report and Accounts to 30 September 2007. This Business Review also refers, where appropriate, to specific risks and uncertainties and these should be viewed in conjunction with the principal risks.

Responsibility Statement of the Directors in respect of the Half Yearly Financial Report

We confirm to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with the Statement *Half Yearly Financial Reports* issued by the UK Accounting Standards Board;
- The interim management report includes a fair review of the information required by:
 - a) 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
 - b) 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.

By order of the Board of Directors
Rupert Pennant-Rea
Chairman
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
20 May 2008

Half Yearly Accounts Income Statement

	For the six months ended 31 March 2008 (unaudited)			For the six months ended 31 March 2007 (unaudited)			For the year ended 30 September 2007 (audited)			
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Realised (losses)/gains on investments		-	(223)	(223)	-	196	196	-	325	325
Unrealised (losses)/gains on investments		-	(1,691)	(1,691)	-	4,181	4,181	-	(1,553)	(1,553)
Income	2	243	-	243	684	-	684	1,221	-	1,221
		243	(1,914)	(1,671)	684	4,377	5,061	1,221	(1,228)	(7)
Investment management fees		(123)	(368)	(491)	(136)	(409)	(545)	(243)	(730)	(973)
Other expenses		(144)	-	(144)	(266)	-	(266)	(350)	-	(350)
		(267)	(368)	(635)	(402)	(409)	(811)	(593)	(730)	(1,323)
Net Return/(Loss) on Ordinary Activities before Taxation		(24)	(2,282)	(2,306)	282	3,968	4,250	628	(1,958)	(1,330)
Tax on ordinary activities		-	-	-	-	-	-	(145)	145	-
Net Return/(Loss) on Ordinary Activities after Taxation		(24)	(2,282)	(2,306)	282	3,968	4,250	483	(1,813)	(1,330)
Basic and diluted return/(loss) to Shareholders per share	3	(0.1)p	(6.9)p	(6.9)p	0.8p	11.6p	12.5p	1.4p	(5.3)p	(3.9)p

The total column of this statement represents the Company's Income Statement, prepared in accordance with UK GAAP. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discounted in the year. A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The notes on page 13 form part of these financial statements.

Half Yearly Accounts Reconciliation of Movements in Total Shareholders' Funds

	For the six months ended 31 March 2008 (unaudited) £'000	For the six months ended 31 March 2007 (unaudited) £'000	For the year ended 30 September 2007 (audited) £'000
Total Return on Ordinary Activities after Taxation	(2,306)	4,250	(1,330)
Dividends on Ordinary Shares	(337)	–	(510)
Repurchase of Ordinary Shares	(370)	(174)	(224)
Deferred share issue expense	–	–	(622)
Movements in Total Shareholders' Funds	(3,013)	4,076	(2,686)
Total Shareholders' Funds as at 1 October	34,205	36,891	36,891
Total Shareholders' Funds at end of the period	31,192	40,967	34,205

Half Yearly Accounts Cash Flow Statement

	For the six months ended 31 March 2008 (unaudited)		For the six months ended 31 March 2007 (unaudited)		For the year ended 30 September 2007 (audited)	
	£'000	£'000	£'000	£'000	£'000	£'000
Operating Activities						
Investment income received	197		444		831	
Bank deposit interest received	8		3		34	
Investment management fees paid	(618)		(504)		(1,079)	
Other cash payments	(221)		(213)		(260)	
Net Cash Outflow from Operating Activities		(634)		(270)		(474)
Capital Expenditure and Financial Investment						
Purchases of investments	(3,003)		(4,389)		(14,609)	
Sales of investments	8,200		352		1,946	
Net Cash Inflow/(Outflow) from Capital Expenditure and Financial Investment		5,197		(4,037)		(12,663)
Equity Dividends Paid		(337)		–		(510)
Cash Inflow/(Outflow) before Financing and Management of Liquid Resources		4,226		(4,307)		(13,647)
Management of Liquid Resources						
(Purchases)/Sales of current asset investments		(1,845)		4,400		15,350
Net Cash (Outflow)/Inflow from Management of Liquid Resources		(1,845)		4,400		15,350
Financing						
Share issue expenses	–		–		(88)	
Repurchase of ordinary shares	(345)		(130)		(224)	
Net Cash Outflow from Financing		(345)		(130)		(312)
Increase/(Decrease) in Cash for the Period		2,036		(37)		1,391

Half Yearly Accounts Notes to the Accounts

1 Accounting Policies

The principal accounting policies remain unchanged from the year ended 30 September 2007, apart from a presentational change to the reserves, whereby changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, are treated as realised. Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in December 2005, is consistent with the requirements of UKGAAP, the Directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

2 Income

	For the six months ended 31 March 2008 (unaudited) £'000	For the six months ended 31 March 2007 (unaudited) £'000	For the year ended 30 September 2007 (audited) £'000
Franked investment income	106	540	160
Income from liquidity funds	24	–	533
Unfranked investment income	95	141	494
Interest from bank deposits	18	3	34
	243	684	1,221

3 Return per Ordinary Share

The revenue return/(loss) per ordinary share is based on the net revenue/(loss) from ordinary activities after taxation of £(24,000) (31.03.2007: £282,000; 30.09.2007: £483,000) and on 33,264,836 (31.03.2007: 34,145,227; 30.09.2007: 34,052,752) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The capital return/(loss) per ordinary share is based on net capital losses of £(2,282,000) (31.03.2007: £3,968,000; 30.09.2007: £(1,813,000)) and on 33,264,836 (31.03.2007: 34,145,227; 30.09.2007: 34,052,752) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The total loss per ordinary share is based on the net (loss)/revenue from ordinary activities after taxation of £(2,306,000) (31.03.2007: £4,250,000; 30.09.2007: £(1,330,000)) and on 33,264,836 (31.03.2007: 34,145,227; 30.09.2007: 34,052,752) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

There is no difference between the basic and diluted return per ordinary share because the Company has no potentially dilutive shares in issue.

4 Share Buy-Backs

For the Half Year ended 31 March 2008 the Company bought back 411,162 ordinary shares in accordance with its stated buyback policy. The shares were bought back at an average price of 90 pence.

5 Dividends

The interim dividend of £337,000 was the payment of the declared dividend at 30 September 2007. The dividend was paid on 14 March 2008 to ordinary shareholders on the Register of Members at the close of business on 1 February 2008.

Additional Information Contact Details

Acuity VCT 2 Plc (formerly Electra Kingsway VCT 2 Plc)

Board of Directors

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

Investment Manager and Administrator

Acuity Capital Management Limited
(formerly Electra Quoted Management Limited)
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
Telephone +44 (0)20 7306 3901
www.acuitycapital.co.uk
Enquiries – info@acuitycapital.co.uk

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

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG
Telephone + 44 (0)131 222 2000

Registrar and Transfer Office

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield, HD8 0GA
Telephone (UK): 0871 664 0300 (calls cost 10p per minute plus network extras)
Telephone (Overseas): +44 208 639 3399
Email: ssd@capitaregistrars.com
Web: 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.

