Electra Kingsway VCT 2 Plc

Report & Accounts

30 September 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 and non-qualifying investments.

Investment Strategy

The Company will seek to invest in a diversified portfolio of unquoted and AIM quoted 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

Annual Review

2 Financial Highlights

3 Chairman's Statement

4 Investment Manager's Review

5 Portfolio Summary

6 Investment Manager

7 Co-investment Arrangements

8 Ten Largest Qualifying Investments

Company information

11 Contact Details

12 Board of Directors

Accounts

13 Report of the Directors

17 Corporate Governance

20 Statement of Directors' Responsibilities

21 Directors' Remuneration Report

22 Independent Auditors' Report

23 Income Statement

23 Statement of Total Recognised Gains and Losses

24 Reconciliation of Total Shareholders' Funds

25 Balance Sheet

26 Cash Flow Statement

27 Statement of Accounting Policies

30 Notes to the Accounts

Annual General Meeting

39 Notice of Annual General Meeting

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 and references to Electra Quoted Management Limited have been abbreviated to Electra Quoted Management.

Annual Review Financial Highlights

Year ended 30 September	2006	2005 Restated
Net assets	£36.9m	£33.1m
Net asset value per share	108.02p	96.96p
Dividend paid per share	1.00p	-

Cumulative return to shareholders since launch		
Dividends paid per share	1.00p	-
Net asset value plus dividends paid per share	109.02p	96.96p

Annual Review Chairman's Statement

Results

It has been a year of good progress for the Fund. The Net Asset Value at the year end was 108.02p per share, compared with the 94.5p starting NAV. The rate of investment remains on track, with £8.6m invested in qualifying companies and a further £4.3m invested since the year end. The number of new deals under consideration is high, and the Fund is on course to meet its qualification deadline in September 2007.

Investment portfolio

Although it is still early days in the life of the Fund, the initial qualifying investments are showing good early progress and are satisfactorily diversified. As between unquoted and AIM stocks, the portfolio is currently on target for a 70:30 split. Investments in unquoted companies are favoured over AIM companies as the entry valuation multiples tend to be lower and more due diligence can be conducted. In addition the investments are structured with more downside protection with the Investment Manager usually taking a board seat. The AIM market offers some significant challenges for investors mainly due to the high volatility.

Dividends

The dividend policy 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 declared an interim dividend of 1p per ordinary share, which was paid to shareholders on 4 August 2006.

Shareholder communication

The Company will communicate regularly with its investors through both the interim and annual reports, and through regular newsletters and transaction updates. Further information can be obtained from the Investment Manager's website at www.electraquoted.com. If shareholders have any enquiries in relation to dividend cheques, share certificates and changes of address, they should be addressed in writing to the Registrar, whose details are set out on page 11.

Budget changes

Investors may be aware the Chancellor has introduced new legislation on the VCT industry, which came into effect on 5 April 2006. Most of the changes have no impact on this Fund as they relate to new monies raised in 2006 and beyond. One change was introduced retrospectively and concerns the use of non-interest bearing accounts to meet the 70% investment test after year three. I am pleased to report that the Investment Manager has never had to resort to such arrangements, and the Fund is on track to meet its investment objectives.

Outlook

The Fund has started well, with several qualifying investments trading well and offering good upside potential. The Investment Manager reports a strong potential deal pipeline, therefore the Board remains confident of the outlook.

Rupert Pennant-Rea, Chairman

24 January 2007

Investment Overview

The net asset value at 30 September was 108.02p per share which, when including the dividend paid to date, represents an uplift of 15.4% over the initial net asset value of the Fund. The Fund invested £8.6m in qualifying investments and £7.6m in non-qualifying investments in line with the investment policy set out in the Prospectus. The balance of the Fund was held in liquidity funds, which will be drawn down as further qualifying investments are made. One of the key investment targets for the Fund is to ensure that 70% is invested in qualifying investments by the end of the third year. Including investments that have been made since the year end, and the level of activity within the Investment Manager's deal pipeline, the Fund remains on target to reach this level.

Performance

Within the qualifying portfolio, 11 investments have been made of which eight are unquoted companies and three are AIM quoted. Both portfolios have performed well to date, with the overall qualifying portfolio up 42.1%. Within the unquoted portfolio the main upside has come from Gyro International and Find Portal which were both written up in value in response to synergistic acquisitions, improving operating performance and comparative market valuations. Gyro International is a specialist brand and marketing agency with a strong business to business focus and represents a wide range of blue chip companies including Oracle, Sun Microsystems, Sony and MCI. Find Portal owns and operates one of the UK's leading financial services directory websites. The key to the potential for the company is the rapid growth in online advertising, particularly for financial products. There has been significant activity in the comparison website marketplace, with some extremely high valuations being paid for such companies due to the scalability of the model.

Among the AIM holdings the best performer was Worthington Nicholls, which rose 39% in response to good underlying trading and a good synergistic acquisition. Jelf Group, a financial consultancy, also rose strongly in the period, up 70%. Hill Station experienced an extremely volatile period rising strongly and then giving up most of the gains as the company announced integration delays. Following the year end, additional funds were invested to ensure the company had sufficient working capital throughout its integration period.

New Investments

Jelf Group is an independent full service financial consultancy working primarily with businesses. It 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 stake of 1.9%.

Find Portal owns and operates one of the UK's leading internet financial services directory websites, which has the most complete A to Z listing of any UK directory website. The company was incorporated in 2005 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 for the marketing of financial products. In September 2006 the company completed the bolt-on acquisition of Defaqto a company which provides an online service to the IFA market. In total the Fund has invested £2.15m alongside Electra Kingsway VCT 3. The carrying value of the investment was increased to reflect the improvement in profitability and the high prices being paid for other comparison websites.

Munro Global specialises in providing market research services in the UK with offices in London and Newcastle. The transaction was a management buy-in and the vendor was the retiring founder. The investment provides both the opportunity for promoting new initiatives for organic growth and also further acquisitions as the market research industry is generally very fragmented. For the year ended February 2006, Munro Global's sales were in excess of £6 million. The Fund invested £875,000 alongside Electra Kingsway VCT 3. Each fund holds a stake of 24.95%.

Worthington Nicholls installs and maintains air conditioning units in the UK hotel and retail markets. The company successfully floated on AIM in June 2006, raising £7.5 million of new money to fund acquisitions and £12.5 million of replacement capital to reduce the founding family's holding. Soon after its flotation, the company announced the acquisition of Project Air, a specialist installer of air conditioning systems to the retail sector. Given the timing of this recent acquisition, its full impact will be seen in the year ending September 2007. Due to the shortage of qualified air conditioning providers, the company had already contracted an estimated 100% and 50% respectively of its 2006 and 2007 turnover at flotation. The future of the company is linked to European Union legislation enforcing air conditioning standards and the age of the UK's hotel and retail estate. On flotation, the Fund invested £1,000,000 alongside Electra Kingsway VCT 3. Each fund holds a stake of 3.08%.

Conquest Business Media is a leading UK business-to-business publisher concentrating in the manufacturing and related sectors. The company publishes *The Manufacturer* and *British Industry* in the UK as well as *US Manufacturer* in the US. The development of the brand has enabled the company to diversify into conferences and exhibitions, although over 85% of revenues are from publishing. The transaction was a management buyout and the Fund had invested £750,000 alongside Electra Kingsway VCT Plc. Each fund holds a stake of 21.7%.

Hill Station is a super premium brand dairy ice cream company that merged with Granelli and Loseley to form a larger ice cream manufacturer serving the own label and branded market. The key was that four manufacturing facilities would be consolidated into the existing Loseley operations in Cwmbran in South Wales. Hill Station was listed on AIM in 2004 and the Fund alongside Electra Kingsway VCT Plc invested £1.5m for a combined 16% interest in the company. After the year end, the Fund invested a further £375,000 to provide additional working capital.

Outlook

The Fund has got off to a promising start with some good early investment performance and remains on target to reach its 70% investment qualification by the end of September 2007.

Annual Review Portfolio Summary

	Cost at 30 September 2006 £	Performance in year ended 30 September 2006 £	Valuation at 30 30 September 2006 £	% of Portfolio by Value %
Qualifying Investments				
Find Portal	2,150,000	2,124,985	4,274,985	20.32
Worthington Nicholls	1,000,000	390,000	1,390,000	6.61
Gyro International	375,000	969,979	1,344,979	6.40
Munro Global	875,000	-	875,000	4.16
Hill Station	758,085	63,174	821,259	3.90
Amber Taverns	750,000	-	750,000	3.57
Ma Hubbards	750,000	-	750,000	3.57
Conquest Business Media	750,000	-	750,000	3.57
Sanastro	600,000	-	600,000	2.85
Jelf Group	250,160	174,640	424,800	2.02
Keycom	296,000	(120,000)	176,000	0.84
	8,554,245	3,602,778	12,157,023	57.81
Non Qualifying Investments				
Electra Private Equity	3,550,253	841,588	5,197,500	24.71
Electra Active Management	4,000,000	(508,441)	3,676,683	17.48
	7,550,253	333,147	8,874,183	42.19
	16,104,498	3,935,925	21,031,206	100.00
Other Assets				
Liquidity Funds			15,695,000	
Cash			156,731	
			15,851,731	
Total			**36,882,937**	

Annual Review Investment Manager

The Fund's investments are managed by Electra Quoted Management Limited which is a subsidiary of Electra Partners Group Limited. Electra Quoted Management was established in 1981 and is authorised and regulated by the Financial Services Authority.

Electra Quoted Management has considerable expertise in quoted and unquoted investments and has a well developed deal flow, including unquoted company proposals that originate from its own contacts and network, pre-float finance opportunities and broker led AIM flotations.

Electra Quoted Management is also the Investment Manager of Electra Kingsway VCT Plc, Electra Kingsway VCT 3 Plc and Electra Active Management Plc.

The Investment Manager has established an Investment Committee comprising four executives, which is chaired by Hugh Mumford, a senior executive of Electra Partners Group. The Investment Committee meets as required to consider and review investment proposals.

Co-investment Arrangements with other Electra Kingsway VCTs

The Directors welcome the fact that the Investment Manager has three VCT funds ("the 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 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 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.

Annual Review Ten Largest Qualifying Investments

(Information on the following investments is extracted from their latest audited accounts)

Find Portal		**Year ended May**	**2006**
Cost	£2,150,000		£'m
Valuation	£4,274,985	Sales	3.0
Basis of Valuation	Fair Value	Loss before tax	(1.4)
Equity held	17.28%	Retained loss	(1.4)
Business	An internet financial directory	Net liabilities	(0.7)

Worthington Nicholls		**Year ended September**	**2005**
Cost	£1,000,000		£'m
Valuation	£1,390,000	Sales	10.1
Basis of Valuation	Bid market price (AIM)	Loss before tax	(0.8)
Equity held	3.08%	Retained loss	(0.7)
Business	Air conditioning contractor	Net assets	0.8

Gyro International		**Year ended October**	**2005**
Cost	£375,000		£'m
Valuation	£1,344,979	Sales	13.3
Basis of Valuation	Fair Value	Profit before tax	0.2
Equity held	4.00%	Retained loss	(0.1)
Business	Business to business creative agency	Net assets	3.8

Munro Global		**Year ended February**	**2006**
Cost	£875,000		£'m
Valuation	£875,000	Sales	6.1
Basis of Valuation	Price of recent investment	Profit before tax	0.2
Equity held	24.95%	Retained profit	0.1
Business	Market research company	Net assets	0.7

Annual Review Ten Largest Qualifying Investments

Hill Station		**15 months ending July**	**2005**
Cost	£758,085		£'m
Valuation	£821,259	Sales	1.2
Basis of Valuation	Bid market price (AIM)	Loss before tax	(0.8)
Equity held	8.0%	Retained loss	(0.7)
Business	Ice cream manufacturer	Net assets	0.8

Conquest Business Media		**Year ended December**	**2005**
Cost	£750,000		£'m
Valuation	£750,000	Sales	6.0
Basis of Valuation	Price of recent investment	Loss before tax	(0.2)
Equity held	21.70%	Retained loss	(0.2)
Business	Business to business publishing	Net liabilities	(1.0)

Amber Taverns		**Period ended April**	**2006**
Cost	£750,000		£'m
Valuation	£750,000	Sales	0.9
Basis of Valuation	Price of recent investment	Loss before tax	(0.4)
Equity held	16.50%	Retained loss	(0.4)
Business	Acquisition of portfolio of managed pubs in NE England	Net assets	1.0

Ma Hubbards		**Year ended April**	**2006**
Cost	£750,000		£'m
Valuation	£750,000	Sales	2.3
Basis of Valuation	Price of recent investment	Loss before tax	(0.3)
Equity held	25.00%	Retained loss	(0.3)
Business	Acquisition of portfolio of managed pubs in the Midlands	Net assets	0.5

Annual Review Ten Largest Qualifying Investments

Sanastro		Year ended November	2005
Cost	£600,000		£'m
Valuation	£600,000	Sales	5.0
Basis of Valuation	Price of recent investment	Profit before tax	0.3
Equity held	7.6%	Retained profit	0.2
Business	Publisher of financial newsletters	Net assets	7.4

Jelf Group		Year ended November	2005
Cost	£250,160		£'m
Valuation	£424,800	Sales	11.5
Basis of Valuation	Bid market price (AIM)	Profit before tax	1.0
Equity held	0.96%	Retained profit	0.7
Business	Regional IFA network	Net assets	4.4

Company 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.

Company Information Board of Directors

Rupert Pennant-Rea, Chairman

Aged 59, was appointed a Director on 7 September 2004.

He is a former Deputy Governor of the Bank of England and Editor of The Economist. He is currently Chairman of Henderson Plc and a Director of British American Tobacco and a number of other companies. He is Chairman of the Nomination Committee.

***Michael Broke**

Aged 70, was appointed a Director on 7 September 2004.

He is currently executive Chairman of Stockley Park Consortium. He was until recently a non-executive Director of Chelsfield, having joined the Board in October 1987 as Managing Director. He was Chief Executive of Stockley from January 1984 to June 1987 and prior to that a Director of J Rothschild & Co. Previous directorships have included Stalwart Group (Chairman) (now known as GE Life Group), Aspen Healthcare Holdings (Chairman) and Ashbourne Group.

***David Donnelly**

Aged 58, was appointed a Director on 7 September 2004.

He is CEO of FF&P Private Equity. Previously he was Chairman of Gordon House Asset Management, whose team joined Fleming Family & Partners in 2004. Previous directorships have included Highland Participants plc, an oil and gas exploration company (Chairman and Chief Executive), and R&W Hawthorn Leslie & Co (Executive Director), a publicly quoted shipbuilding and repair company. He was formerly a member of the London Stock Exchange. He is Chairman of the Remuneration Committee.

Nicholas Ross

Aged 44, was appointed a Director on 7 September 2004.

He joined Electra Quoted Management in 1993 after several years in investment analysis and fund management. He has been responsible for the launch of Electra Active Management and the three Electra Kingsway VCT funds. He is a Director of Electra Quoted Management, Electra Active Management and all three Electra Kingsway VCT funds. He also sits on a number of investee company boards.

***David Sebire**

Aged 63, was appointed a Director on 7 September 2004.

He is a Chartered Accountant with extensive industrial and corporate finance experience. Until 1999 he was Chairman of Bridport and of PTS Group. He is non-executive Chairman of Clearspeed Technology and a number of private companies. He has been nominated the Senior Independent Director under the Combined Code on Corporate Governance and is additionally Chairman of the Audit Committee.

All Directors are also Directors of Electra Kingsway VCT Plc

* Member of the Audit, Remuneration and Nomination Committees

To the Members of Electra Kingsway VCT 2 Plc

The Directors present the audited Accounts of the Company for the year ended 30 September 2006 and their Report on its affairs.

Investment Company Status

Throughout the year under review the Company was an investment company as defined under Section 266 of the Companies Act 1985.

VCT Status

HM Revenue and Customs has granted the Company approval under Section 842AA ICTA as a VCT, the approval being effective from the first day on which the Company's ordinary shares were listed on the London Stock Exchange (being 3 December 2004). The Board directs the affairs of the Company to enable it to maintain approval as a VCT.

Business Review

Objective and investment strategy

The Company has specialised in investing in unquoted companies and AIM quoted companies since 2004. The Company's principal 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 and non-qualifying investments.

In addition, the investment strategy sets out that the Company will seek to invest in a diversified portfolio of unquoted and AIM quoted companies. Unquoted investments will typically be in companies that intend to float on a market within a two year period or 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.

Current and future development

A review of the main features of the year is contained in the Chairman's Statement and the Investment Manager's Review on pages 3 and 4 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.

Performance

A detailed review of performance during the year is contained in the Investment Manager's Review on page 4.

A number of performance measures are considered by the Board and the Manager in assessing the Company's success in achieving its objectives.

The key performance indicators ('KPIs') used to measure the progress and performance of the Company are established industry measures and are as follows:

- The movement in net asset value per ordinary share
- The movement in share price
- The movement of net asset value and share price performance compared to the FTSE All-Share index

Details of the KPIs are shown on the Financial Highlights on page 2 and through a graph comparing the Company's total return on a share price and net asset value basis over the period since shares were first issued with the FTSE All-Share Index total return over the same period as set out in the Directors' Remuneration Report on page 21.

The Board recognises that it is in the long term interests of shareholders to reduce discount volatility and believes that the prime driver of discounts over the longer term is performance. As outlined in the Directors' Report on page 14, the Board intends to seek renewal of its share buy-back authority.

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 Directors aim to limit the risk attaching to the portfolio as a whole by careful selection and timely redistribution of investments, 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 key risks facing the Company include Credit Risk, Market Price Risk, Interest Rate Risk, Liquidity Risk and Regulatory Risk, as further detailed in Note 20 of the Notes to the Accounts.

Share Capital

The current authorised share capital of the Company is £600,000 divided into 60,000,000 ordinary shares of 1p each.

During the year under review the Company made the following purchases of its own shares in the market under the authority granted by shareholders at the Annual General Meeting held in March 2006:

Shares Purchased for Cancellation	Date of Purchase	Percentage of Issued Capital at Time of Purchase	Price per Share
12,089	31 March 2006	0.04%	87.5p
20,000	18 July 2006	0.06%	89.5p

The Company does not hold any shares in treasury.

As at 30 September 2006, a total of 34,152,821 ordinary shares of 1p each of the Company were in issue.

Authority to Make Market Purchases of Shares

At the Annual General Meeting of the Company held on 13 March 2006, authority was given to make market purchases of up to 3,418,491 of the Company's issued ordinary share capital. During the period to 30 September 2006 a total of 32,089 ordinary shares were purchased under this authority and accordingly at 30 September 2006 authority remained to purchase a further 3,386,402 ordinary shares.

A Special Resolution will be proposed at the Annual General Meeting to be held on 26 March 2007 to renew, for one year, the Board's authority to buy up to 3,415,282 of the Company's ordinary shares, or such lesser number of shares as is equal to 10% of the total number of ordinary shares in issue as at the date of the passing of the resolution, subject to the constraints set out in the Special Resolution. Should any shares be purchased under this authority, it is the intention of the Board that such shares be cancelled.

The Directors believe that the renewal of the Board's authority to purchase shares, as detailed above, is in the best interests of shareholders as a whole. The Directors recommend shareholders to vote in favour of this special resolution.

Renewal of Authority to Allot Shares and Disapply Pre-emption Rights

At the Annual General Meeting in 2007 an Ordinary Resolution will be proposed to renew the authority conferred upon the Directors by written resolution dated 23 September 2004 to allot additional shares, up to an aggregate nominal amount of £113,842, representing one third of the Company's current issued share capital. This authority will expire either at the conclusion of the Annual General Meeting of the Company in 2008 or, if earlier, on the expiry of 15 months from the passing of the resolution.

It is standard practice for most public companies to renew this authority to allot shares annually. The Directors are seeking to renew this authority to provide them with the ability to make further small share issues if considered suitable. Otherwise, the Directors have no present intention of exercising this authority.

A Special Resolution will be proposed at the Annual General Meeting in 2007 seeking to renew the authority conferred upon the Directors by written resolution dated 23 September 2004 to issue equity securities of the Company for cash without the application of the pre-emption rights provided by the Companies Act 1985. The authority contained in this Resolution will be limited to the allotment of equity securities up to an aggregate nominal value of £17,076 in the circumstances specified in the Special Resolution and will expire either at the conclusion of the Annual General Meeting of the Company in 2008, or, if earlier, on the expiry of 15 months from the passing of the resolution.

Results and Dividend

Revenue returns attributable to shareholders amounted to £806,177 (2005: £147,234). The Directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2006. An interim dividend of £341,728 was paid in the year (2005: £nil).

Post Balance Sheet Events

The Fund has made the following investments since the year end:

October 2006	Gyro International Limited	£1,000,000
October 2006	Zamano Plc	£750,000
November 2006	Factory Media Limited	£1,924,999
November 2006	Hill Station Plc	£375,000
December 2006	Conquest Business Media Limited	£225,000

Directors

The current Directors of the Company are listed on page 12. Mr RL Pennant-Rea, Mr MHA Broke, Mr DJ Donnelly, Mr NRW Ross and Mr DJ Sebire all served as Directors throughout the year ended 30 September 2006. No other person was a Director of the Company during any part of the year under review. Mr MHA Broke, who attained the age of 70 years on 9 March 2006, will retire at the Annual General Meeting in 2007 and, being eligible, offer himself for re-election. In addition, Mr DJ Donnelly will retire at the Annual General Meeting in 2007 and, being eligible, offer himself for re-election. Short biographical details of all the Directors are provided on page 12. Following performance appraisals of all of the Directors, details of which are to be found in the Corporate Governance Statement on page 17, the Board considers that the performance of each Director retiring at the Annual General Meeting and offering himself for re-election continues to be effective and that each Director continues to show commitment to his role. Accordingly, the Board recommends that those Directors retiring at the Annual General Meeting in 2007 and offering themselves for re-election be re-elected.

Directors' Interests

The beneficial interests of the Directors in the ordinary shares of the Company are shown below. Save as disclosed, no Director had any notifiable interest in the securities of the Company. There have been no changes in the interests of any of the Directors in the ordinary shares of the Company between 1 October 2006 and 24 January 2007. No options over shares in the capital of the Company have been granted to the Directors.

	30 September 2006 Ordinary Shares of 1p each	1 October 2005 Ordinary Shares of 1p each
RL Pennant-Rea	102,500	102,500
MHA Broke	61,500	61,500
DJ Donnelly	-	-
NRW Ross*	103,100	103,100
DJ Sebire	-	-

* NRW Ross also has an interest in £5,250 of the 4% loan notes issued by the Company.

Directors' Remuneration Report

An Ordinary Resolution to approve the Directors' Remuneration Report will be put to the Annual General Meeting in 2007.

Contracts with Directors

No Director has a service contract with the Company. As a result of his employment with Electra Partners Group, Mr NRW Ross is deemed to have an interest in the Management Contract between the Company and Electra Quoted Management.

Substantial Shareholders

At 24 January 2007 the Directors had not been notified of any interests of 3% or more in the Company's issued share capital.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as Auditors to the Company will be proposed at the Annual General Meeting in 2007. A separate resolution will be proposed at the Annual General Meeting authorising the Directors to fix the remuneration of the Auditors.

Creditor Payment Policy

The Company agrees the terms of payment with its suppliers when agreeing the terms of each agreement. Suppliers are aware of the terms of payment and the Company abides by the terms of payment. The Company's average creditor payment at 30 September 2006 was one day.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 6 October 2004. The agreement is for an initial period of five years and thereafter until terminated by not less than one year's notice. Fees are paid quarterly in arrears, as a percentage of net assets (less a rebate of fees suffered in investments in funds managed by Electra Quoted Management), at the following annual rates:

Period ended 30 June 2005	1.5%
Year ended 30 June 2006	2.0%
Year ended 30 June 2007 and thereafter	2.5%

Incentive Schemes

Certain employees of, and persons engaged in, the business of the Investment Manager, will be entitled to receive a performance fee based upon returns to shareholders. The incentives are designed to encourage significant dividend payments to shareholders and a Net Asset Value performance that would equate to a historic top decile industry ranking, before any performance fee payment is made. Therefore, if, by the end of a financial year, distributions of 30p per share have been declared and if the Performance Value, which is equal to the Net Asset Value plus distributions, at that date exceeds 130p per share, then the beneficiaries will be entitled to an incentive equal to 20% of the excess of such Performance Value over 100p per share. If, on a subsequent financial year end, the performance of the Company falls short of the performance of the Company on the previous financial year end, the beneficiaries will not be entitled to any incentive. If, on a subsequent financial year end, the performance of the Company exceeds the previous performance of the Company, the beneficiaries will be entitled to 20% of such excess. To give effect to this performance fee, Loan Notes have been issued by the Company to certain employees of, and persons engaged in, the business of the Investment Manager. No Loan Notes have been issued directly to the Investment Manager. Further details of the terms of the Loan Notes are set out in Note 13 of the Financial Statements.

Going Concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Accounts as the Company has adequate resources to continue in operational existence for the foreseeable future.

Annual General Meeting

The Annual General Meeting of the Company will be held on 26 March 2007.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB

24 January 2007

The Directors confirm that during the year under review the Company has complied with Section 1 of the Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council in July 2003.

Directors' Attendance at Scheduled Meetings of the Board and Committees of the Board

Number of Meetings	Scheduled Board	Audit Committee
Rupert Pennant-Rea	3	n/a
Michael Broke	3	2
David Donnelly	3	2
Nicholas Ross	3	n/a
David Sebire	3	2

In addition a number of Directors attended further Board meetings at short notice to address specific issues.

The Board of Directors

The Board, which meets regularly, comprised five Directors at 30 September 2006, all of whom were non-executive. All of the Directors who held office at 30 September 2006, apart from Mr NRW Ross, have been considered by the Board to be independent from the Investment Manager. The Board has nominated Mr DJ Sebire as the Senior Independent Director.

All of the Directors of the Company are also Directors of Electra Kingsway VCT Plc which was launched in 2001 and which is also managed by Electra Quoted Management. The Board has particularly considered the question of the independence of each Director in light of the Code's provisions on that subject.

The Board believes that each of the Company's Directors, apart from Mr NRW Ross, continues to be wholly independent under the Code notwithstanding their cross-directorships detailed above. Independence is a state of mind and the character and judgement which accompany this are distinct from and in the Board's opinion are not compromised by having cross directorships with other Directors.

The Board has agreed a schedule of matters reserved for its specific approval, which includes a regular review of the Company's Management Agreement with Electra Quoted Management, together with the monitoring of the performance thereunder. The Management Agreement sets out the matters over which Electra Quoted Management has authority in accordance with the policies and directions of the Board. The Board Meetings consider as appropriate such matters as overall strategy, investment performance, share price performance, share price discount and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The number of scheduled meetings of the Board and the Audit Committee are shown in the table above. All of the Directors attended the Annual General Meeting.

The Board receives information that it considers to be sufficient and appropriate to enable it to discharge its duties. Each Director receives board papers several days in advance of each scheduled Board meeting and is able to consider in detail the Company's performance and any issues to be discussed at the relevant meeting.

The Directors believe that the Board has the balance, skills and experience which enable it to provide effective strategic leadership and proper governance of the Company. Information about the Directors including their relevant experience can be found on page 12.

Performance Appraisal

The Board carried out a formal appraisal process of its own and of its Committees' operations and performance during the year. This was implemented by means of questionnaires circulated to Directors, the results of which were then reviewed by the Board. Issues covered included board composition, meeting arrangements and communication. The process was considered by the Board to be constructive in identifying areas for improving the functioning and performance of the Board and of its Committees. The Board concluded that its performance and that of its Committees was satisfactory.

The Chairman carried out a formal appraisal of each of the Directors during the year and the Board, under the leadership of the Senior Independent Director, similarly appraised the Chairman. Relevant matters considered included the attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution made by the relevant Director. As a result of this process, the Chairman has confirmed that the performance of each of the Directors being proposed for re-election continues to be effective and that each of them continues to show commitment to his role. The Senior Independent Director has also confirmed the continuing effectiveness and commitment of the Chairman.

Re-election of Directors

In accordance with either the Code's provisions or the Company's Articles Mr MHA Broke and Mr DJ Donnelly will retire at the Annual General Meeting to be held in 2007 and offer themselves for re-election.

Independent Professional Advice

Individual Directors may seek independent professional advice in furtherance of their duties at the Company's expense within certain parameters. All Directors have access to the advice and services of the Company Secretary. Any appointment or removal of the Company Secretary would be a matter for consideration by the entire Board.

The Audit Committee

The Board has an Audit Committee established in compliance with the Code. It comprises all the Directors, other than the Chairman of the Board and Mr NRW Ross, with Mr DJ Sebire as Chairman of the Committee. The Board has taken note of the suggestion that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in this respect. Its authority and duties are clearly defined in its written terms of reference which are available on request.

The Committee's responsibilities include:

- monitoring and reviewing the integrity of the financial statements, the internal financial controls, and the independence, objectivity and effectiveness of the external auditors;
- making recommendations to the Board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement;
- developing and implementing the Company's policy on the provision of non-audit services by the external auditors;
- reviewing the arrangements in place within Electra Partners Group whereby their staff may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company;
- considering annually whether there is a need for the Company to have its own internal audit function.

The Committee has reviewed the provision of non-audit services by the external auditors and believes them to be cost effective and not an impediment to the external auditors' objectivity and independence. The non-audit services include the provision of a monitoring service to ensure the Company complies with VCT legislation. It has been agreed that all non-audit work, to be carried out by the external auditors, must be approved by the Audit Committee and that any special projects must be approved in advance.

Internal Audit

Following the review carried out by the Audit Committee as to whether there is a need for the Company to have its own internal audit function, the Board has considered and continues to believe that the internal control systems in place within Electra Partners Group provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

The Remuneration Committee

During the year the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross, with Mr DJ Donnelly as Chairman of the Committee. It was not deemed necessary to hold any meeting of the Committee during the year. The Committee has written terms of reference which are available on request. Full details of its role are set out in the Directors' Remuneration Report.

The Nomination Committee

The Nomination Committee meets on an ad hoc basis to consider suitable candidates for appointment as Director. It comprises all the Directors apart from Mr NRW Ross, with Mr RL Pennant-Rea as Chairman. It was not deemed necessary to hold any meeting of the Committee during the course of the year. The Committee has written terms of reference which are available on request. The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill board vacancies to maintain a balanced Board.

Letters of appointment, which specify the terms of appointment, are issued to new Directors.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee and which includes being briefed fully about the Company by the Chairman and senior executives of Electra Partners Group. Following appointment, Directors continue to receive other relevant training and advice as necessary to enable them to discharge their duties.

The Company's Relationship with its Shareholders

The Company places great importance on communication with the Company's shareholders. In addition to the Annual and Interim Reports shareholders are sent regular newsletters from the Investment Manager.

At the Annual General Meeting all shareholders are welcome to attend and have the opportunity to put questions to the Board.

The notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. A separate resolution is proposed on each substantially separate issue including the annual report and accounts. All proxy votes are counted and, except where a poll is called, the Chairman indicates the level of proxies lodged for each resolution and the balance for and against the resolution after it has been dealt with on a show of hands.

The Chairman and the Senior Independent Director can always be contacted either through the Company Secretary or care of the Company's registered office at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB.

Internal Control

The Code requires the Directors to review the effectiveness of the Company's system of internal control and report to shareholders that they have done so. The Code extended the earlier reporting requirements and now includes financial, operational and compliance controls and risk management.

The Board confirms that it has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and has continued since the year end and up to the date of this Report. It is reviewed at regular intervals by the Board and accords with the guidance set out in 'Internal Control: Guidance for Directors on the Combined Code'.

The Board is responsible for the Company's system of internal control and it has reviewed its effectiveness for the year ended 30 September 2006. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Since investment management, custody of assets and all administrative services are provided or arranged for the Company by Electra Partners Group, the Company's system of internal control mainly comprises the monitoring of services provided by Electra Partners Group, including the operating controls established by them, to ensure they meet the Company's business objectives. The key elements designed to provide effective internal control for the Company are as follows:

- Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data including management accounts, revenue projections, analyses of transactions and performance comparisons.
- Investment Strategy – Agreement by the Board of the Company's investment strategy and authorisation and monitoring of all large investments.
- Management Agreements – The Board regularly monitors the performance of Electra Partners Group to ensure that the Company's assets and affairs are managed in accordance with the guidelines determined by the Board.
- Investment Performance – The investment transactions and performance of the Company's assets and affairs are managed in accordance with the guidelines determined by the Board.
- Management Systems – Electra Partners Group system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Partners Group compliance department monitors compliance with the Financial Services Authority rules.

The Board keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of key controls of Electra Partners Group as follows:

- The Board reviews the terms of the management agreement and receives regular reports from Electra Partners Group executives.
- The Board reviews the certificates provided by Electra Partners Group on a six monthly basis, verifying compliance with documented controls.
- Custodians are required to produce on a regular basis a report (available for review by the Directors) on their internal controls and their operations, including a report by an independent firm of accountants.

Voting Policy

The Company's investee companies are principally a mixture of quoted and unquoted companies in which the Company is a significant shareholder and the Company is usually a party to all issues requiring shareholder approval. The Company has given discretionary voting power to Electra Partners Group to vote on its behalf.

Electra Partners Group's voting policy as agent for the Company has adopted and applies the Statement of Principles drawn up by the Institutional Shareholders Committee when it considers these in its reasonable judgement to best serve the financial interests of the Company's shareholders. Electra Partners Group's voting policy has been reviewed and endorsed by the Board.

Accounts Statement of Directors' Responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Company's Financial Statements comply with the applicable UK Accounting Standards, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Company's Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Company's Financial Statements comply with the Companies Act 1985 and the Directors' Remuneration Report complies with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and that each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors submit this report in accordance with the requirements of Schedule 7A of the Companies Act 1985. An Ordinary Resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting. The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such.

Remuneration Committee

During the year under review, the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross. Mr DJ Donnelly was Chairman of the Remuneration Committee throughout the year.

It was not deemed necessary to hold any meetings of the Committee during the year. There was no change to the remuneration of the Directors during the year. The current annual fees rates are £20,000 for the Chairman and £15,000 for each of the other Directors apart from Mr NRW Ross who receives no remuneration from the Company. The Company has not been provided with advice or services by any person in respect of Directors' remuneration during the year.

Policy on Directors' Remuneration

In accordance with the Articles of Association of the Company, the aggregate remuneration of the Directors may not exceed £100,000 per annum or such higher amount as may from time to time be determined by an Ordinary Resolution of the Company. Subject to this overall limit, the Remuneration Committee's policy is that remuneration of non-executive Directors should be sufficient to attract and retain the Directors needed to oversee the Company and reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2007 and subsequent years. Non-executive Directors are not eligible to receive bonuses, pension benefits, share options and other benefits.

Directors' Service Contracts

None of the Directors has a service contract with the Company. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors to compensation for loss of office.

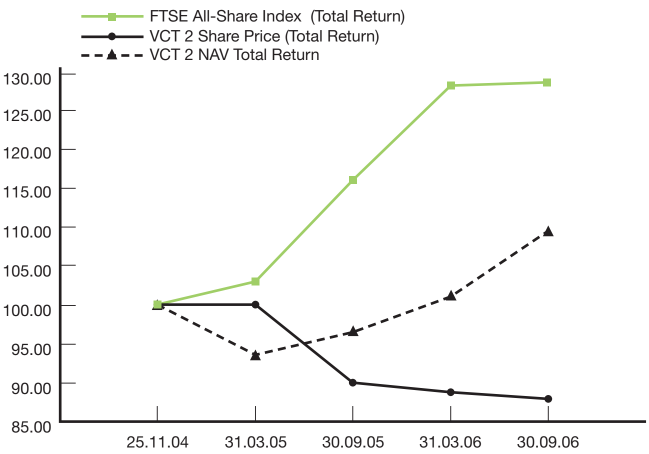
Performance Graph

The graph below shows the Company's performance being measured in terms of its Total Shareholder Return and its Net Asset Value per share since the date on which the shares were first issued, being 25 November 2004, against the Total Shareholder Return of the FTSE All-Share Index.

The graph has incorporated the change in net asset value per share because changes in net asset value per share relative to the FTSE All-Share Index are an important indicator of the performance of the Company's assets.

The Directors consider that since the Company invests in a broad range of commercial sectors, the FTSE All-Share Index is the most appropriate index against which to compare the Company's performance.

Electra Kingsway VCT 2 Share Price Total Return v Electra Kingsway VCT 2 Net Asset Value v FTSE All Share Index (Total Return)



Directors' Remuneration for the Year (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	For the year ended 30 September 2006 £	For the period from 20 August 2004 to 30 September 2005 £
RL Pennant-Rea	20,000	20,000
(Chairman & highest paid Director)		
MHA Broke	15,000	15,000
DJ Donnelly	15,000	15,000
NRW Ross	-	-
DJ Sebire	15,000	15,000
Total	65,000	65,000

As an executive of Electra Partners Group, NRW Ross has an interest in the Management Contract between the Company and Electra Quoted Management. £30,000 (2005: £50,000) of his remuneration is estimated to be in respect of the duties he undertakes for the Company.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House
65 St Paul's Churchyard, London EC4M 8AB

24 January 2007

Independent Auditors' Report

To the Members of Electra Kingsway VCT 2 Plc

We have audited the Financial Statements of Electra Kingsway VCT 2 Plc for the year ended 30 September 2006 which comprise the Income Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Total Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this Report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and Investment Manager's Review that is cross referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Chairman's Statement, the Investment Manager's Review and other parts of the Annual Review, the Report of the Directors, the unaudited part of the Directors' Remuneration Report, and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of the Company's affairs as at 30 September 2006 and of its profit and cash flows for the year then ended;
- the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
24 January 2007

Notes:

a The maintenance and integrity of the Electra Quoted Management website is the responsibility of the Investment Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

b Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Accounts Income Statement

Year ended 30 September 2006

	Notes	For the year ended 30 September 2006			For the period 20 August 2004 to 30 September 2005 Restated		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains on investments		–	3,935,925	3,935,925	–	990,783	990,783
Income	2	1,323,893	–	1,323,893	557,765	–	557,765
		1,323,893	3,935,925	5,259,818	557,765	990,783	1,548,548
Investment management fees	3	(208,797)	(626,390)	(835,187)	(99,517)	(298,551)	(398,068)
Other expenses	4	(308,919)	–	(308,919)	(311,014)	–	(311,014)
		(517,716)	(626,390)	(1,144,106)	(410,531)	(298,551)	(709,082)
Return on Ordinary Activities before Taxation		806,177	3,309,535	4,115,712	147,234	692,232	839,466
Tax on ordinary activities	6	–	–	–	–	–	–
Return on Ordinary Activities after Taxation		806,177	3,309,535	4,115,712	147,234	692,232	839,466
Dividend per share 1p (2005: nil)	7	(341,728)	–	(341,728)	–	–	–
Transfer to reserves		464,449	3,309,535	3,773,984	147,234	692,232	839,466
Basic and diluted return to Shareholders per Ordinary Share	8	2.36p	9.68p	12.04p	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 pages 30 to 38 form part of these Financial Statements.

Statement of Total Recognised Gains and Losses

Year ended 30 September 2006

	Notes	For the year ended 30 September 2006			For the period 20 August 2004 to 30 September 2005 Restated		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Return on Ordinary Activities after Taxation		806,177	3,309,535	4,115,712	147,234	692,232	839,466
Total recognised gains for the year		806,177	3,309,535	4,115,712	147,234	692,232	839,466
Prior year adjustment	1	-	(83,011)	(83,011)	-	-	-
Total recognised gains since last annual report		806,177	3,226,524	4,032,701	147,234	692,232	839,466

Accounts Reconciliation of Total Shareholders’ Funds

Year ended 30 September 2006

	For the year ended 30 September 2006 £	For the period 20 August 2004 to 30 September 2005 Restated £
Total Return on Ordinary Activities after Taxation	4,115,712	839,466
Share issue expenses charged to Share Premium account	–	(1,880,960)
Ordinary shares issued	–	34,199,456
Repurchase of ordinary shares	(28,480)	(12,437)
Dividends on ordinary shares	(341,728)	–
Movements in Total Shareholders’ Funds	3,745,504	33,145,525
Total Shareholders’ Funds at start of year (previously £33,228,536 before deducting prior year adjustment of £83,011)	33,145,525	–
Total Shareholders’ Funds	36,891,029	33,145,525

Accounts Balance Sheet

As at 30 September 2006

	Notes	2006 £	2006 £	2005 Restated £	2005 Restated £
Fixed Assets					
Investments held at fair value	**9**		21,031,206		11,755,624
Current Assets					
Debtors	**10**	397,153		79,910	
Other investments	**11**	15,695,000		21,300,000	
Cash at bank		156,731		330,414	
			16,248,884		21,710,324
Current Liabilities					
Creditors: amounts falling due within one year	**12**	367,811		299,173	
			367,811		299,173
Net Current Assets			15,881,073		21,411,151
Total assets less current liabilities			36,912,279		33,166,775
Creditors: amounts falling due after more than one year	**13**		21,250		21,250
Net Assets			36,891,029		33,145,525
Capital and Reserves					
Called-up share capital	**15**		341,528		341,849
Share premium	**16**		-		31,976,502
Special reserve	**16**		31,958,601		-
Capital redemption reserve	**16**		466		145
Realised capital reserve	**16**		(924,941)		(298,551)
Unrealised capital reserve	**16**		4,926,708		990,783
Revenue reserve	**16**		588,667		134,797
Total Equity Shareholders' Funds			36,891,029		33,145,525
Net Asset Value per Ordinary Share	**17**		108.02p		96.96p

	2006	2005
Number of Ordinary Shares in issue at end of year	34,152,821	34,184,910

The information on pages 27 to 38 forms part of these Financial Statements.
The Financial Statements on pages 23 to 38 were approved by the Board of Directors on 24 January 2007 and were signed on its behalf by:

RL Pennant-Rea, Chairman

Accounts Cash Flow Statement

For the year ended 30 September 2006

	Notes		For the year ended 30 30 September 2006		For the period 20 August 2004 to 30 September 2005 Restated
		£	£	£	£
Operating Activities					
Investment income received		1,000,765		413,242	
Bank deposit interest received		5,884		64,613	
Investment management fees paid		(790,355)		(228,000)	
Other cash payments		(272,674)		(194,346)	
Net Cash (Outflow)/Inflow from Operating Activities	18		(56,380)		55,509
Investing Activities					
Acquisition of investments	9	(5,339,657)		(10,764,841)	
Net Cash Outflow from Investing Activities			(5,339,657)		(10,764,841)
Equity Dividends Paid			(341,728)		–
Cash Outflow before Financing and Management of Liquid Resources			(5,737,765)		(10,709,332)
Management of Liquid Resources					
Sale/(Purchases) of current asset investments		5,605,000		(21,300,000)	
Net Cash Inflow/(Outflow) from Management of Liquid Resources			5,605,000		(21,300,000)
Financing					
Issue of ordinary shares		-		34,199,456	
Expenses of the issue of ordinary shares		-		(1,880,960)	
Repurchase of ordinary shares		(40,918)		-	
Issue of loan notes		-		21,250	
Net Cash (Outflow)/Inflow from Financing			(40,918)		32,339,746
(Decrease)/Increase in Cash in the Period	19		(173,683)		330,414

Accounts Statement of Accounting Policies

Basis of Accounting

The accounts have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards in the United Kingdom.

In order to reflect the activities of an investment company, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In analysing total income between capital and revenue returns, the Directors have followed the guidance contained in the Statement of Recommended Practice for investment trusts issued by the Association of Investment Trust Companies in December 2005 (the "SORP").

The recommendations of the SORP which have been followed include:

- Realised and unrealised profits or losses arising on the revaluation or disposal of investments classified as held at fair value through profit and loss should be shown in the capital column of the income statement. Realised gains are taken to the realised reserves and unrealised gains are transferred to the unrealised reserves.
- Returns on any share or debt security for a fixed amount (whether in respect of dividends, interest or otherwise) should be shown in the revenue column of the income statement. The total of the revenue column of the income statement is taken to the revenue reserve.
- The Board should determine whether the indirect costs of generating capital gains should also be shown in the capital column of the income statement.

If the Board decides that this should be so, the management fee should be allocated between revenue and capital in accordance with the Board's expected long term split of returns, and other expenses should be charged to capital only to the extent that a clear connection with the maintenance or enhancement of the value of investments can be demonstrated.

In accordance with the Company's status as a UK investment company under Section 266 of the Companies Act 1985, net capital return may not be distributed by way of dividend.

The Accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets.

Following an application to the High Court in 2006 a special reserve was created from a reduction in the share premium account. The special reserve is utilised to facilitate a share buy back programme and to eliminate realised losses transferred from the income statement.

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

Investments

Purchases and sales of quoted investments are recognised on the trade date where a contract exists whose terms require delivery within a timeframe determined by the relevant market. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional. Investments are designated at fair value through profit and loss (described in the Accounts as investments held at fair value) and are subsequently measured at reporting dates at fair value. The fair value of direct unquoted investments is calculated in accordance with the Principles of Valuation of Investments below. Changes in the fair value of investments are recognised in the income statement through the capital account.

Quoted Investments

Quoted investments are stated at the last traded bid price on the balance sheet date without discount.

Unquoted Investments

Unquoted investments are held at fair value as fixed asset investments. The fair value is calculated in accordance with International Private Equity and Venture Capital Guidelines issued in March 2005 following the methodology outlined below.

Principles of Valuation of Investments

General

In valuing investments, the Directors follow the principles recommended in the International Private Equity and Venture Capital Valuation Guidelines issued in March 2005. The Directors have also adopted the requirements of FRS 26 'Financial Instruments Measurement' which has led to a restatement of comparative figures as set out in Note 1. Investments are valued at Fair Value at the reporting date.

Fair Value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. In estimating Fair Value, the Directors use a methodology which is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio. Methodologies are applied consistently from one period to another except where a change results in a better estimate of Fair Value. Because of the inherent uncertainties in estimating the value of private equity investments, the Directors exercise due caution in applying the various methodologies. The Directors are however wary of applying excessive caution.

Unquoted Investments

The principal methodologies applied in valuing unquoted investments including PLUS investments (a UK market focussed on small and medium companies which the Directors do not regard as an active market with sufficient liquidity) include the following:

- Earnings multiple
- Price of recent investment
- Net assets

In applying the Earnings Multiple methodology, the Directors apply a market based multiple that is appropriate and reasonable to the maintainable earnings of the company. In the majority of cases the Enterprise Value of the underlying business is derived by the use of an Earnings Before Interest and Tax multiple applied to current year's earnings where these can be forecast with a reasonable degree of certainty and are deemed to represent the best estimate of maintainable earnings. Where this is not the case, historic earnings will generally be used in their place.

Where a recent investment has been made, either by the Company or by a third party in one of Company's investments, this price will be used as the estimate of Fair Value for a period of up to one year from the date on which the investment was made. One of the principal methodologies, as above, may be used at any time if this is deemed to provide a better assessment of the Fair Value of the investment.

The Fair Value of an investment in a company will be arrived at through the following process:

- The Enterprise Value of the underlying business will be calculated using one of the above methodologies;
- The Enterprise Value of the underlying business will then be adjusted for surplus assets or excess liabilities to arrive at an Enterprise Value for the company; and
- The valuation of the Company's investment will be calculated from the Enterprise Value for the company after deduction of prior ranking debt and other financial instruments and an appropriate marketability discount.

In terms of the marketability discount, this will normally be in the range of 10-30% (in steps of 5%) applied to the Enterprise Value of the company after deducting prior ranking debt and other financial instruments.

The amount of the marketability discount is a question of judgement and will reflect several factors including the ability of the Company to influence the timing and nature of any realisation. Where the Company has the ability to influence an exit, or is part of a syndicate of like-minded investors who initiate the exit, a marketability discount will normally be applied. This may vary according to market and investee company circumstances. Where the likelihood of an exit is high, the discount is likely to be lower. Where there is no ability to initiate an exit and exit is not under discussion, the discount is likely to be higher. In cases where no exit is contemplated by controlling shareholders, the investment may be valued by discounting the cash flow from the investment itself.

Although the Company holds more than 20% of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio. Accordingly, and as permitted by FRS 9 'Associates and Joint Ventures', their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of the holdings represent investments in associated undertakings.

Under FRS 2 'Accounting for Subsidiary Undertakings' control is presumed to exist when the parent owns, directly or indirectly more than half of the voting power by a number of means. The company does not hold more than 50% of the equity of any of the companies within the portfolio. In addition, it does not control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

Income

Dividends receivable from equity investments are brought into account on the ex-dividend date or, where no ex-dividend date is quoted, are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity investments and on debt securities are recognised on a time apportionment basis, which reflects the effective yield. Where there is reasonable doubt that a return, which falls within the accounting period, will actually be received by the Company, the recognition of the return is deferred until the reasonable doubt has been removed.

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

Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except for expenses in connection with the disposal of fixed asset investments, which are deducted from the disposal proceeds of the investment, and investment management and incentive fees which are dealt with below.

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.

Revenue and Capital Reserves

The revenue return in the Income Statement is taken to the revenue reserve.

Gains and losses on the realisation of investments are taken to 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.

Taxation

The tax effects of different items in the Income Statement 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.

Due to the Company's status as a venture capital trust and the continued intention to meet the conditions required to comply with Section 842AA of the Income and Corporation Taxes Act 1988, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises.

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.

Dividends Payable

Dividend distributions to shareholders are recognised as a liability in the year in which they are paid in respect of interim dividends or when approved by members in respect of final dividends.

1. Restatement of Unrealised Capital Reserves and Net Assets as at 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:-

Reconciliation of Unrealised Capital Reserve

	As at 30 September 2005 £
Unrealised capital reserve previously reported	1,073,794
Adjustment as required by adoption of FRS 26	(83,011)
Unrealised capital reserve as restated	990,783

Reconciliation of changes to Net Asset Value

	As at 30 September 2005 £
Net assets previously reported	33,228,536
Adjustment as required by adoption of FRS 26	(83,011)
Net assets as restated	33,145,525

2. Income

	For the year ended 30 September 2006 £	For the period 20 August 2004 to 30 September 2005 £
Franked investment income	1,030,183	493,152
Unfranked investment income	287,826	-
Interest from bank deposits	5,884	64,613
	1,323,893	557,765

3. Investment Manager’s Fees

	For the year ended 30 September 2006 £			For the period 20 August 2004 to 30 September 2005 £		
	Revenue	Capital	Total	Revenue	Capital	Total
Electra Quoted Management	208,797	626,390	835,187	99,517	298,551	398,068

The Management Fee includes irrecoverable VAT of £124,390 (2005: £59,286).

Electra Quoted Management also received an administration fee of £60,000 (2005: £56,082) net of VAT, which increases each year in line with RPI. The administration fee is included in the administration expenses of £120,400 in Note 4.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 6 October 2004. The agreement is for an initial period of five years and thereafter until terminated by not less than one year's notice to expire at any time after the initial period. Fees are paid quarterly in arrears, as a percentage of net assets (less a rebate of fees suffered in investments in funds managed by Electra Quoted Management), at the following annual rates:

Period ended 30 June 2005	1.5%
Year ended 30 June 2006	2.0%
Year ended 30 June 2007 and thereafter	2.5%

Incentive Schemes

Certain employees of, and persons engaged in, the business of the Investment Manager, will be entitled to receive a performance fee based upon returns to shareholders. The incentives are designed to encourage significant dividend payments to shareholders and a NAV performance that would equate to a historic top decile industry ranking, before any performance fee payment is made. Therefore, if by the end of a financial year, distributions of 30p per share have been declared and if the Performance Value, which is equal to the Net Asset Value plus distributions, at that date exceeds 130p per share, then the beneficiaries will be entitled to an incentive equal to 20% of the excess of such Performance Value over 100p per share. If, on a subsequent financial year end, the performance of the Company falls short of the performance of the Company on the previous financial year end, the beneficiaries will not be entitled to any incentive. If, on a subsequent financial year end, the performance of the Company exceeds the previous performance of the Company, the beneficiaries will be entitled to 20% of such excess. To give effect to this performance fee, Loan Notes have been issued by the Company to certain employees of, and persons engaged in, the business of the Investment Manager. No Loan Notes have been issued directly to the Investment Manager. Further details of the terms of the Loan Notes are set out in Note 13 of the Financial Statements.

At 30 September 2006 there was no amount due under the Incentive Schemes.

4. Other Expenses

	For the year ended 30 September 2006 £	For the period 20 August 2004 to 30 September 2005 £
Directors' remuneration	65,000	65,000
Employer's NIC	3,416	3,429
IFA trail commission (at rate of 0.25% per annum)	91,903	83,280
Auditors' fees - audit	23,500	21,150
Auditors' fees – non-audit	4,700	16,156
Administration expenses	120,400	121,999
	308,919	311,014

5. Directors' Remuneration

Details of Directors' remuneration are shown in the table in the "Directors' Remuneration for the Year" section of the Directors' Remuneration Report on page 21.

The Company had no employees or employee costs in 2006 (2005: £nil).

6. Taxation on Ordinary Activities

	For the year ended 30 September 2006 £	For the period 20 August 2004 to 30 September 2005 £
Analysis of charge in the year		
Current tax:		
UK corporation tax at 19%	-	-
Total Current Tax	-	-
Factors affecting tax charge for the year:		
Revenue return on ordinary activities before tax	806,177	147,234
Revenue return at corporate tax rate	153,174	27,974
Effects of:		
Dividend income not subject to tax	(195,735)	(93,699)
Expenses not deductible for tax purposes	17,462	15,823
Tax relief on fees charged to Capital account	(119,014)	(56,725)
Unutilised tax losses arising in year	144,113	106,627
Total Current Tax	-	-

In light of the Company's status as a venture capital trust and the Directors' intention to continue to meet the conditions necessary to obtain such approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

There has been no recognition of a deferred tax asset £250,740 (Restated 2005: £106,627) for tax losses arising in the year as the Directors do not anticipate them being used.

7. Dividend

	For the year ended 30 September 2006 £	For the period 20 August 2004 to 30 September 2005 £
Interim dividend paid of 1.0p (2005: nil) per ordinary share	341,728	-

8. Return per Ordinary Share

The revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £806,177 (2005: £147,234) and on 34,170,612 (2005: 18,430,338) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The capital return per ordinary share is based on net capital gains of £3,309,535 (2005: £692,232) and on 34,170,612 (2005: 18,430,338) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The total return per ordinary share is based on the net revenue from ordinary activities after taxation of £4,115,712 (2005: £839,466) and on 34,170,612 (2005: 18,430,338) 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.

9. Investments

	Qualifying Investments			Non-qualifying Investments		
	Traded on PLUS £	**Unquoted** £	**Traded on AIM** £	**Open-ended Investment Company** £	**Closed-ended Investment Company** £	**Total** £
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	200,000	3,475,000	-	4,185,124	3,895,500	11,755,624
Purchases at cost	96,000	2,775,000	2,008,245	-	460,412	5,339,657
Unrealised (losses)/gains in year	(120,000)	3,094,964	627,814	(508,441)	841,588	3,935,925
Valuation at 30 September 2006	176,000	9,344,964	2,636,059	3,676,683	5,197,500	21,031,206
Cost at 30 September 2006	296,000	6,250,000	2,008,245	4,000,000	3,550,253	16,104,498
Unrealised (losses)/gains at 30 September 2006	(120,000)	3,094,964	627,814	(323,317)	1,647,247	4,926,708
Valuation at 30 September 2006	176,000	9,344,964	2,636,059	3,676,683	5,197,500	21,031,206

Further details of investments are provided in the Portfolio Summary on page 5 of the Annual Review and significant interests in the investee companies are disclosed in note 14 of the Notes to the Accounts.

10. Debtors

	2006 £	**2005** £
Amounts due within one year:		
Accrued income	397,153	79,910
	397,153	79,910

11. Other Investments

	2006 £	**2005** £
Liquidity Funds	15,695,000	21,300,000
	15,695,000	21,300,000

The market value of the Liquidity Funds is £15,695,000 (2005: £21,300,000).

12. Creditors: amounts falling due within one year

	2006 £	2005 £
Other creditors	126,348	116,670
Due to Electra Quoted Management	241,463	170,066
Outstanding settlements on share repurchases	-	12,437
	367,811	299,173

13. Creditors: amounts falling due after one year

	2006 £	2005 £
Unsecured 4% Loan Notes:		
Authorised	35,000	35,000
Unissued	(13,750)	(13,750)
Issued at 30 September	21,250	21,250

The Loan Notes are redeemable at par in certain circumstances including the termination of the Investment Management Agreement with the Investment Manager. They carry a 4% coupon paid on 30 September each year and also the right to additional payments under the terms of the incentive schemes set out in Note 3 to the Financial Statements.

14. Significant Interests

At 30 September 2006 the Company held significant investments, amounting to 3% or more of the equity capital in the following companies:-

	Equity Investment (Ordinary Shares) £	Investment Loan Stock and Preference Shares £	Total Investments £	Percentage of Investee Company's Total Equity £
Find Portal Limited	215,394	1,934,606	2,150,000	17.28
Worthington Nicholls Plc	1,000,000	-	1,000,000	3.08
Munro Global Limited	87,500	787,500	875,000	24.95
Hill Station Plc	758,085	-	758,085	8.00
Amber Taverns Limited	225,000	525,000	750,000	16.50
Conquest Business Media Limited	75,000	675,000	750,000	21.70
Ma Hubbards Limited	225,000	525,000	750,000	25.00
Sanastro Plc	600,000	-	600,000	7.60
Gyro International Limited	112,500	262,500	375,000	4.00
Keycom Plc	200,000	96,000	296,000	4.46

It is considered that, as permitted by FRS 9 "Associates and Joint Ventures", the above investments are held as part of an investment portfolio and that, accordingly, their value to the Company lies in their marketable value as part of its portfolio.

In view of this, it is not considered that the above represent investments in associated undertakings. The above companies are incorporated in the United Kingdom.

15. Called Up Share Capital

	Number	2006 £	Number	2005 £
Authorised:				
Ordinary Shares of 1p each:	60,000,000	600,000	60,000,000	600,000
	60,000,000	600,000	60,000,000	600,000
Issued:				
At 1 October 2005	34,184,910	341,849	-	-
Ordinary Shares of 1p each issued during the year	-	-	34,199,456	341,994
Ordinary Shares of 1p each repurchased during the year	(32,089)	(321)	(14,546)	(145)
At 30 September 2006	34,152,821	341,528	34,184,910	341,849

The current authorised share capital of the Company is £600,000 divided into 60,000,000 ordinary shares of 1p each.

During the year under review the Company made the following purchases of its own shares in the market under the authority granted by shareholders at the Annual General Meeting in March 2006:

Shares Purchased for Cancellation	Date of Purchase	Percentage of Issued Capital at Time of Purchase	Price per Share
12,089	31 March 2006	0.04%	87.5p
20,000	18 July 2006	0.06%	89.5p

The Company does not hold any shares in treasury.

As at 30 September 2006, a total of 34,152,821 ordinary shares of 1p each of the Company were in issue.

16. Reserves

	Share Premium Account (Non distributable) £	Special Reserve (Distributable) £	Capital Redemption Reserve (Non distributable) £	Realised Capital Reserve (Non distributable) £	Unrealised Capital Reserve (Non distributable) £	Revenue Reserve (Distributable) £
At 1 October 2005 (see note 1)	31,976,502	-	145	(298,551)	990,783	134,797
Transfer to Special reserve	(31,976,502)	31,976,502	-	-	-	-
Shares repurchased in year	-	(17,901)	321	-	-	(10,579)
Increase in unrealised appreciation	-	-	-	-	3,935,925	-
Other expenses net of taxation	-	-	-	(626,390)	-	-
Retained net revenue for the year	-	-	-	-	-	464,449
At 30 September 2006	-	31,958,601	466	(924,941)	4,926,708	588,667

During the year ended 30 September 2006 the Fund received Court approval to set up a Special Reserve which is treated as a distributable reserve out of which repurchases of ordinary shares can be made. It can also be used to eliminate losses on the Realised Capital Reserve and the Revenue Reserve.

17. Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets at 30 September 2006, and on 34,152,821 (2005: 34,184,910) ordinary shares, being the number of ordinary shares in issue on that date.

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

18. Reconciliation of Net Revenue on Ordinary Activities Before Taxation to Net Cash (Outflow)/Inflow from Operating Activities

	For the year ended September September 2006 £	For the period 20 August 2004 30 September 2005 £
Net revenue on ordinary activities before taxation	806,177	147,234
Investment management fees charged to capital	(626,390)	(298,551)
Increase in debtors	(317,243)	(79,910)
Increase in creditors and accruals	81,076	286,736
Net cash (outflow)/inflow from operating activities	(56,380)	55,509

19. Analysis of Changes in Cash

	2006 £	2005 £
At beginning of the year	330,414	-
Net cash (outflow)/inflow	(173,683)	330,414
At 30 September	156,731	330,414

20. Financial Instruments

The Company's financial instruments comprise:

- Equity and non-equity shares, units in an open-ended investment company and shares in a closed-ended investment company that are held in accordance with the Company's investment objective.
- Cash, liquid resources and debtors and creditors that arise directly from the Company's operations.

It is not the Company's policy to trade in financial instruments or derivatives. The main risks arising from the Company's financial instruments are due to fluctuations in market prices and interest rates. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below:

Key Risks

Credit Risk: Failure by counter-parties to deliver securities which the Company has paid for, or pay for securities which the Company has delivered.

Market Price Risk: Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements.

The investments in equity and fixed interest stocks of unquoted and AIM quoted companies the Company holds are thinly traded and as such the prices are more volatile than those of more widely traded securities. In addition, the ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers. The ability of the Company to purchase or sell investments is also constrained by the requirements set down for venture capital trusts.

Interest Rate Risk: The Company's assets include liquidity funds, the values of which are regularly reviewed by the Board, as referred to above. The Company does not use derivative instruments to hedge against interest rate risk.

Liquidity Risk: The Company has significant investments in unquoted companies and AIM quoted companies which are inherently illiquid.

Regulatory Risk: Failure by the Company to adhere with regulations could result in the Company losing its listing and/or shareholders losing the taxation advantages of holding VCT shares.

Management of Risks

Credit Risk: All transactions are settled on the basis of delivery against payment.

Market Price Risk: The Board manages the market price risk inherent in the Company's portfolio by maintaining an appropriate spread of market risk, and by ensuring full and timely access to relevant information from the Investment Manager. The Investment Committee reviews the investment performance and financial results, as well as compliance with the Company's objectives. The Board seeks to ensure that an appropriate proportion of the Company's portfolio is invested in cash and readily realisable securities, which are sufficient to meet any funding commitments that may arise. The Company does not use derivative instruments to hedge against market risk.

Interest Rate Risk: The Company's assets include liquidity funds, the values of which are regularly reviewed by the Board, as referred to above. The Company does not use derivative instruments to hedge against interest rate risk.

Liquidity Risk: The Company manages its liquid investments to ensure sufficient cash is available to meet contractual commitments and also seeks to have cash generally available to meet other short-term financial needs.

Regulatory Risk: The Board receives and reviews regular reports from the Investment Manager on its controls in place to prevent non-compliance of the Company with rules and regulations.

The interest rate risk profile of the Company's financial assets at 30 September 2006 was:

	Financial Assets on which no Interest Paid £	Fixed Financial Assets £	Variable Financial Assets £	Total £	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	16,225,600	-	-	16,225,600	-	-
Non-equity shares	656,250	-	-	656,250	-	-
Loan stock	-	4,018,106	131,250	4,149,356	10.2	4.1
Liquidity Funds	-	-	15,695,000	15,695,000	-	-
Cash	-	-	156,731	156,731	-	-
Debtors	397,153	-	-	397,153	-	-
Total	17,279,003	4,018,106	15,982,981	37,280,090	-	-

The only financial liabilities at 30 September 2006 are creditors of £367,811 and unsecured redeemable loan notes of £21,250 which carry a 4.00% coupon.

The interest rate risk profile of the Company's financial assets at 30 September 2005 was:

	Financial Assets on which no Interest Paid £	Fixed Financial Assets £	Variable Financial Assets £	Total £	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	9,543,518	-	-	9,543,518	-	-
Non-equity shares	656,250	-	-	656,250	-	-
Loan stock	-	1,424,606	131,250	1,555,856	10.5	4.7
Liquidity Funds	-	-	21,300,000	21,300,000	-	-
Cash	-	-	330,414	330,414	-	-
Debtors	79,910	-	-	79,910	-	-
Total	10,279,678	1,424,606	21,761,664	33,465,948	-	-

The only financial liabilities at 30 September 2005 are creditors of £299,173 and unsecured redeemable loan notes of £21,250 which carry a 4.00% coupon.

21. Post Balance Sheet Events

The Fund has made the following investments since the year end:

October 2006	Gyro International Limited	£1,000,000
October 2006	Zamano Plc	£750,000
November 2006	Factory Media Limited	£1,924,999
November 2006	Hill Station Plc	£375,000
December 2006	Conquest Business Media Limited	£225,000

22. Geographical Analysis

The operations of the Company are wholly in the United Kingdom.

23. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments of the Company at 30 September 2006 (2005: £nil).

24. Transactions with the Manager

During the year ended 30 September 2006 the Company paid £860,495 (2005: £293,897) to Electra Quoted Management, the Investment Manager. At 30 September 2006, the Company owed £241,463 (2005: £170,066) to the Investment Manager. Details of the Investment Manager's fee arrangements are included in Note 3.

Notice is hereby given that the second Annual General Meeting of Electra Kingsway VCT 2 Plc will be held on 26 March 2007 at the later of 1.30pm or the conclusion of the Annual General Meeting of Electra Kingsway VCT Plc to be held at 1.00pm on the same day at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB for the purpose of considering and, if thought fit, passing the following Resolutions (of which, Resolutions 1 to 7 will be proposed as Ordinary Resolutions and Resolutions 8 and 9 will be proposed as Special Resolutions):

Ordinary Business

1 To receive, consider and adopt the Reports of the Directors and Auditors and the Company's Accounts for the year ended 30 September 2006.

2 To approve the Directors' Remuneration Report for the year ended 30 September 2006.

Special Notice having been received of the intention to propose Resolution 3 as an ordinary resolution:

3 That Mr MHA Broke, who attained the age of 70 years on 9 March 2006, be re-elected as a Director of the Company.

4 To re-elect Mr DJ Donnelly as a Director of the Company.

5 To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

6 To authorise the Directors to fix the remuneration of the Auditors.

7 THAT for the purposes of section 80 of the Companies Act 1985 (the "Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 80):

(a) the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities up to a maximum nominal amount of £113,842 to such persons and at such times and on such terms as they think proper during the period expiring at the conclusion of the Company's Annual General Meeting in 2008 or if later, 15 months from the passing of this resolution; and

(b) the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution,

so that all previous authorities of the Directors pursuant to the said section 80 be and are hereby revoked.

Special Business

8 THAT, subject to the passing of Resolution 7, the Directors be and are empowered in accordance with section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash, pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Act) by that resolution, as if section 89(1) of the Act did not apply to the allotment, provided that the power conferred by this resolution shall be limited to:

(a) the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in connection with the laws of, or requirements of any recognised regulatory body or stock exchange in, any territory; and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value not exceeding £17,076,

and this power, unless renewed, shall expire at the conclusion of the Company's Annual General Meeting in 2008 or, if later, 15 months from the passing of this resolution but shall extend to the making, before such expiry, of an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

9 THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Act (as amended and in force from time to time) to make market purchases (within the meaning of Section 163 (3) of the Act) of ordinary shares of 1 pence each, provided that:

i) the maximum number of ordinary shares of 1p each hereby authorised to be purchased is 3,415,282 or such lesser number of shares as is equal to 10% of the total number of ordinary shares in issue as at the date of the passing of this resolution;

ii) the minimum price which may be paid for an ordinary share shall be 1 penny;

iii) the maximum price, which may be paid for an ordinary share, shall be an amount equal to 105%

of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;

iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors); and

v) unless renewed, the authority hereby conferred shall expire on the earlier of 26 June 2008 or the conclusion of the Company's Annual General Meeting in 2008 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB
24 January 2007

Notes

A Any member of the Company who is entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. Such proxy need not be a member of the Company.

B A Form of Proxy is provided. To be effective, the Form of Proxy and any power of attorney under which it is executed (or a duly certified copy of such power) must reach the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR, not less than 48 hours before the time of the Meeting or adjourned Meeting or (in the case of a poll taken otherwise than at or on the same day as the Meeting or adjourned Meeting) for the taking of the poll at which it is to be used. Completion and return of the Form of Proxy will not prevent a member from attending and voting at the Meeting.

C In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those holders of ordinary shares entered on the register of members of the Company as at 6.00pm on 24 March 2007 (the "Specified Time") shall be entitled to attend and vote at the Meeting in respect of the number of ordinary shares registered in their name at that time. Changes to entries on the register of members after the Specified Time shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

D If the Meeting is adjourned to a time not more than 48 hours after the Specified Time applicable to the original Meeting, that time will also apply for the purposes of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period, then to be so entitled, members must be entered on the Company's register of members at a time which is not more than 48 hours before the time fixed for the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice.

E The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the close of the Annual General Meeting, and will be available at the place of the Annual General Meeting for 15 minutes prior to and during the Meeting:

- the Register of Directors' Interests in the share capital of the Company maintained in accordance with Section 325 of the Companies Act 1985; and
- the Articles of Association of the Company.

F Short biographical details of Mr MHA Broke and Mr DJ Donnelly are contained in the Report & Accounts for the year ended 30 September 2006 on page 12.

If you have sold or otherwise transferred all your Shares in Electra Kingsway VCT 2 Plc, you should pass this document and other relevant accompanying documents, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was made, for transmission to the purchaser or transferee.