Electra Kingsway VCT 2 Plc

Report & Accounts

30 September 2007

2007

Contents

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". References to Electra Quoted Management Limited have been abbreviated to "Electra Quoted Management".

Annual Review **Investment Strategy**

Investment Objective

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

Investment Strategy

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

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

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

Qualifying Investments

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

Annual Review Financial Highlights

Year ended 30 September	2007	2006
Net assets	£34.2m	£36.9m
Net asset value per ordinary share	100.8p	108.0p
Dividend paid per ordinary share	1.5p	1.0p
Cumulative Return to Shareholders since Launch		
Dividends paid per ordinary share	2.5p	1.0p
Net asset value plus dividends paid per ordinary share	103.3p	109.0p

Annual Review Chairman's Statement

Overview

As at 30 September 2007 the net asset value was 100.8p per ordinary share. Including dividends paid to date, this represents an overall uplift of 9.3% since your Fund began in 2004. However, in the 12 months to end-September 2007 there was a fall of 5.2%, mainly due to a decline in the AIM portfolio and two write-downs of unquoted companies. The portfolio now has a broad range of investments, the majority of which are unquoted.

By 30 September 2007, the Company had met the VCT qualification requirements.

Portfolio Activity

A number of new investments were made during the year, mostly in unquoted companies where the Investment Manager has identified good growth potential underpinned by a strong management team. The Fund has benefited from the co-investment arrangements with Electra Kingsway VCT Plc and Electra Kingsway VCT 3 Plc, which have allowed it to invest in larger, more profitable companies with good underlying controls. A good recent example was the investment in Fin Machine Company, a manufacturer of capital equipment to the motor industry, where the three Electra Kingsway VCTs committed a total of £5.5 million.

In general, progress in the portfolio has been satisfactory, despite the weakness of the AIM holdings. A number of investee companies have reported good underlying trading, and this has been reflected in higher valuations for some of the unquoted companies. More details of these and new investments made in the year are in the Investment Manager's Review.

Dividends

During the year an interim dividend of 1.5p per ordinary share was paid to shareholders on 7 August 2007, bringing the total dividend since inception to 2.5p per ordinary share.

The Board has declared an interim dividend of 1.0p per ordinary share, in respect of the year to 30 September 2008. It will be paid on 14 March 2008 to ordinary shareholders on the Register of Members at the close of business on 1 February 2008.

Share Buybacks

The Company has an arrangement to buy back shares at a 10% discount to the last published net asset value per share, subject to a limit approved by shareholders. If an investor wants to sell shares back to the Company, he or she should contact the Investment Manager. During the year the Company bought 226,125 of its own ordinary shares for cancellation.

C share Issue

A £25 million C share issue was approved by shareholders at an Extraordinary General Meeting held on 18 October 2007. This will increase the diversity of the portfolio, allow the Investment Manager to continue to invest in larger unquoted companies, and spread the Fund's running costs borne by shareholders. The Investment Manager will be marketing this issue until April 2008. Interested shareholders should contact the Investment Manager.

March 2007 Budget

The 2007 Budget made further changes to VCT rules, which will have some impact on the industry's future funding. Although none of the changes affect your existing Fund, the legislation's two main changes limit future VCTs to investing in companies with gross assets of less than £7 million and fewer than 50 employees.

The Investment Manager

In 2007, the investment management team established a limited liability partnership ("LLP") called Acuity Capital LLP ("Acuity Capital"), which is owned by members of the management team. The team is in negotiations to acquire from the Electra Partners Group a majority interest in Electra Quoted Management, the Investment Manager of the Company. The Board believes that this will be beneficial to shareholders as it will assist the Investment Manager to incentivise existing employees and recruit high calibre individuals to the team. Acuity Capital will maintain close ties with the Electra Partners Group, which will have a minority shareholding in Acuity Capital.

In order to reflect the formation of Acuity Capital LLP, the Board recommends to shareholders that the name of your Fund be changed to Acuity VCT 2 Plc. A special resolution proposing this name change will be put to shareholders at the forthcoming AGM.

Outlook

Markets are now much more volatile than they were earlier in the year, and economic prospects more uncertain. This makes the Investment Manager's job harder, and will test the quality of the Fund's portfolio.

Rupert Pennant-Rea
Chairman
23 January 2008

Annual Review Investment Manager's Review

Investment Overview

During the period under review a further £14.6 million was invested in qualifying companies which ensured that the Company met its 70% investment qualification target. By value, over 75% of the qualifying investments are in unquoted companies where the Investment Manager has identified growth opportunities. In particular, a number of companies have been acquired on the basis of buy and build opportunities within fragmented market sectors. An example of this is Munro Global which, since our original investment, has acquired and integrated two further companies. Whilst the majority of the Fund's investments are unquoted, two AIM investments were made in the year in profitable companies trading on low valuation multiples. With the current global financial uncertainty the AIM market has become increasingly volatile as investors have sought safer and more liquid blue chip stocks.

Performance

During the year the main portfolio uplifts were in two unquoted companies that were increased in value in line with improving fundamentals. These were Gyro and Munro Global. Gyro International is a specialist brand and marketing agency with a strong business-to-business focus. The company is trading strongly and is now rated as the leading B to B agency in the UK. Munro Global, a market research company, completed the acquisition and integration of two companies and continues to consolidate in a fragmented sector. The main decreases in the unquoted portfolio were Conquest Business Media and Defaqto. Conquest Business Media was written off despite a new management team trying to turn the business around. Trading remained difficult and in a tightening credit market, the company lost the support of its bank. The decrease in Defaqto's valuation was made to reflect a change in its strategy which we have fully supported, as we believe it will result in a better positioned and ultimately more valuable company.

Among the AIM investments, Jelf continued to move ahead but Hill Station and Worthington Nicholls both disappointed. Hill Station required additional funding to ensure it had sufficient working capital and Worthington Nicholls, despite having performed strongly post flotation, became a casualty of poor internal controls and overtrading. We took some profits, however the shares have since fallen sharply as confidence evaporated. Management changes have been implemented which should enable confidence to be restored.

New Investments

During the year the Fund invested in the following qualifying companies:

Factory Media specialises in action sports magazines in areas that include surfing, snowboarding and BMX biking. The strategy behind the company is to build up a portfolio of action sports titles and to enhance the company's digital platform.

Zamano is a leading provider of mobile services in the UK, Australia and Ireland. It enables business partners to deliver mobile content and interactivity via 3G, SMS, MMS, WAP and IVR. It provides a highly scalable and robust messaging platform, connecting into all UK, Irish and Australian operators, a range of highly interactive mobile applications and powerful reporting tools. We had followed the company as a potential unquoted investment however the board eventually opted to float on AIM.

Emote Games is a specialist cross platform publisher of interactive gaming content. Founder & CEO Morgan O'Rahilly is one of the gaming industry's most respected executives, having previously been CEO of Ifone, the UK's most successful mobile games publisher. The video games industry is entering another cycle of growth driven by new games hardware releases from Microsoft, Nintendo and Sony. Within the industry one of the fastest growing segments is networked gaming, where players have the ability to play against each other remotely using the internet and mobile networks.

Target is one of the UK's leading television distributors with an established international infrastructure. The UK independent TV production sector has become more attractive as recent legislative changes have increased the IP rights available to independent producers. These changes have acted as a catalyst for consolidation within the sector as companies have developed more diversified rights portfolios and sought increased economies of scale.

Mount Engineering floated on AIM in 2007. The company specialises in the manufacture and supply of thread converting adaptors and reducers that are "Ex Certified", which means that they have been certified for use in potentially explosive or hazardous areas. The products provide a method of insulating and protecting electrical wiring and installations in hazardous areas such as oil refineries where a stray spark from an electrical installation could have severe consequences.

Sport Media Group sells digital media content through mobile telephones via the internet to mobile customers of major UK network operators and users of leading UK internet key search engines. In 2007 the company acquired Sport Newspapers which made strong commercial logic as it merged a content provider with a strong digital distribution platform.

Acrobat Group is an established vehicle set up to acquire and exploit music master rights. Master rights are created when a composition is recorded and are usually assigned to the financier of the recording for the life of copyright (typically 95 years). Owners of master rights, most often record companies, are entitled to royalties from the sales of their recordings (via CD or digital download) as well as clearance fees for the use of recordings in audio-visual productions. They also derive revenues from licensing recordings for exploitation by third parties.

The Fin Machine Company was a transaction completed after the year end. The company is a market leading manufacturer and supplier of capital equipment used to manufacture heat exchangers in the automotive industry. The company has shown good historic growth rates and has a significant further opportunity in the air conditioning market. The transaction was structured as a Buy-in Management Buy-out with the management team having a significant equity holding.

Annual Review **Portfolio Summary**

	Cost at 30 September 2007 £'000	Valuation at 30 September 2007 £'000	Valuation Movement in year ended 30 September 2007 £'000	% of Portfolio by Value
Top Qualifying Investments				
Gyro International Limited	1,375	3,508	1,163	10.8
Defaqto Group Limited	2,150	2,926	(1,349)	9.0
Munro Global Limited	1,615	2,083	468	6.4
Factory Media Limited	1,925	1,925	-	5.9
Acrobat Group Limited	1,000	1,000	-	3.1
Target Entertainment Group Limited	1,000	1,000	-	3.1
Kingsway Software Limited	1,000	1,000	-	3.1
Kingsway Retail Limited	1,000	1,000	-	3.1
Kingsway Media Limited	1,000	1,000	-	3.1
Kingsway Generalist Limited	1,000	1,000	-	3.1
Kingsway Business Services Limited	1,000	1,000	-	3.1
Kingsway Publishing Limited	1,000	1,000	-	3.1
Other qualifying investments	7,986	5,679	(2,773)	17.4
	23,051	24,121	(2,491)	74.3
Non-Qualifying Investments				
Electra Private Equity Plc	3,089	5,628	1,106	17.3
Electra Active Management Plc	3,141	2,718	(168)	8.4
	6,230	8,346	938	25.7
	29,281	32,467	(1,553)	100.0
Other Assets				
Liquidity Funds		345		
Cash		1,548		
		1,893		
Total		**34,360**		

Annual Review Investment Manager

The Fund's investments are managed by Electra Quoted Management which is a subsidiary of Electra Partners Group. 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 an established 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 four VCT fund pools, Electra Kingsway VCT Plc Ordinary Share pool, Electra Kingsway VCT Plc C Share pool, Electra Kingsway VCT 2 Plc and Electra Kingsway VCT 3 Plc Ordinary Share Pools ("the Electra Kingsway VCTs") it can use for co-investment. This allows each fund to spread its investment risk and gain access to larger investments than it could do on its own. Where a co-investment opportunity arises between the Company and one or more of the other funds, the Company will invest in an agreed and consistent proportion, on the same terms and in the same securities as the funds with which it co-invests. Costs associated with any such investment will be borne by each fund pro-rata to its investment.

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

- Other than as set out below, investments will be allocated between the Company and the other Electra Kingsway VCTs by reference to the size of each fund and to each fund's available cash resources.
- Where an opportunity arises for a second or subsequent round of investment in a company in which one of the 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 Company, Electra Kingsway VCT Plc or Electra Kingsway VCT 3 Plc maintain their status as a HMRC approved VCT, or in the interests of balancing their portfolios. A different basis may also be necessary to meet the requirements of potential investee companies. In these cases the Directors use their judgement.

Annual Review **Top Qualifying Investments**

Gyro International Limited		**Year ended October**	**2006**
Cost	£1,375,000		£'m
Valuation	£3,508,000	Sales	24.8
Basis of Valuation	Earnings multiple	Profit before tax	1.5
Equity held	7.71%	Retained profit	1.0
Business	Business to business agency	Net assets	5.8

Defaqto Group Limited		**Year ended March**	**2007**
Cost	£2,150,000		£'m
Valuation	£2,926,000	Sales	4.7
Basis of Valuation	Earnings multiple	Loss before tax	(6.2)
Equity held	17.28%	Retained loss	(6.2)
Business	Financial product data provider	Net liabilities	(6.2)

Munro Global Limited		**Period from 11 August to 28 February**	**2006**
Cost	£1,615,000		£'m
Valuation	£2,083,000	Sales	0.0
Basis of Valuation	Earnings multiple	Profit before tax	0.0
Equity held	24.79%	Retained profit	0.0
Business	Market research company	Net assets	0.0

The company has changed its accounting reference date and the most recent set of accounts are not yet available.

Factory Media Limited		**Period from 15 June to 31 December**	**2006**
Cost	£1,925,000		£'m
Valuation	£1,925,000	Sales	0.6
Basis of Valuation	Recent purchase price	Loss before tax	(0.1)
Equity held	24.99%	Retained loss	(0.1)
Business	Sports publishing company	Net assets	0.5

Annual Review **Top Qualifying Investments**

Acrobat Group Limited		Year ended December	2006
Cost	£1,000,000		£'m
Valuation	£1,000,000	Sales	0.0
Basis of Valuation	Recent purchase price	Profit before tax	0.0
Equity held	21.20%	Retained profit	0.0
Business	Games production finance, trying to buy master rights	Net liabilities	0.0

The company was dormant during the period to 31 December 2006 and its most recent set of accounts have yet to be published.

Target Entertainment Limited		Year ended December	2006
Cost	£1,000,000		£'m
Valuation	£1,000,000	Sales	10.3
Basis of Valuation	Recent purchase price	Loss before tax	(0.3)
Equity held	13.33%	Retained loss	(0.4)
Business	Television company	Net liabilities	(1.8)

Target Entertainment Group Limited is the parent company of Target Entertainment Limited and has not yet produced any annual accounts.

Kingsway Software Limited		
Cost	£1,000,000	**No audited accounts yet produced**
Valuation	£1,000,000	
Basis of Valuation	Recent purchase price	
Equity held	33.3%	
Business	A software company	

Kingsway Retail Limited		
Cost	£1,000,000	**No audited accounts yet produced**
Valuation	£1,000,000	
Basis of Valuation	Recent purchase price	
Equity held	33.3%	
Business	A retail company	

Annual Review **Top Qualifying Investments**

Kingsway Media Limited		
Cost	£1,000,000	**No audited accounts yet produced**
Valuation	£1,000,000	
Basis of Valuation	Recent purchase price	
Equity held	33.3%	
Business	A media company	

Kingsway Generalist Limited		
Cost	£1,000,000	**No audited accounts yet produced**
Valuation	£1,000,000	
Basis of Valuation	Recent purchase price	
Equity held	33.3%	
Business	A manufacturing company	

Kingsway Publishing Limited		
Cost	£1,000,000	**No audited accounts yet produced**
Valuation	£1,000,000	
Basis of Valuation	Recent purchase price	
Equity held	33.3%	
Business	A publishing company	

Kingsway Business Services Limited		
Cost	£1,000,000	**No audited accounts yet produced**
Valuation	£1,000,000	
Basis of Valuation	Recent purchase price	
Equity held	33.3%	
Business	A business services company	

Annual Review Top Qualifying Investments

Note:-

In many cases, a qualifying investment is made substantially in the form of loan notes which both carry a high interest rate and are treated as debt for statutory audit purposes. Shareholders should therefore be advised that the investee companies may report both retained losses and net liabilities as a result of the structure of the investment. The Kingsway Companies were set up specifically to invest in qualifying investments.

Equity held percentages are calculated on an undiluted basis.

Year ended financial figures of investee companies are derived from the latest available financial statements of each investee company audited by respective company auditors except Munro Global Ltd and Acrobat Group Ltd. The financial figures for these companies which are exempt from filing audited accounts are derived from unaudited accounts filed with Companies House.

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

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 and a Director of Go-Ahead and a number of other companies. He is Chairman of the Nomination Committee.

Michael Broke*

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 and Co. Previous directorships have included Stalwart Group (Chairman) (now known as GE Life Group), Aspen Healthcare Holdings (Chairman) and Ashbourne Group.

David Donnelly*

Appointed a Director on 7 September 2004.

He is CEO of FF&P Private Equity and Chairman of Caithness Petroleum. Previously he was Chairman of Gordon House Asset Management, whose team joined Fleming Family & Partners in 2004. Previous directorships have included Highland Participants, 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

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*

Appointed a Director on 7 September 2004.

He is a Chartered Accountant with extensive industrial and corporate finance experience. Previous chairmanships have included Bridport, PTS and Clearspeed Technology. He is Chairman of PegasusBridge Fund Management 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.

* 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 2007 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 policy

A review of the Company's objective and investment policy is detailed on page 2.

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 4 and 5 respectively.

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

Performance

A detailed review of performance during the year is contained in the Investment Manager's Review on page 5.

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 3 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 24.

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 Report of the Directors on page 19 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 Investment Manager aims to limit the risk attaching to the portfolio as a whole by careful selection and timely redistribution of investments in accordance with the Company's investment policy, and by monitoring the spread of holdings in terms of financing stage and industry sector. The Board reviews the investment portfolio with the Investment Manager on a regular basis.

The key risks facing the Company include Credit Risk, Market Price Risk, Interest Rate Risk, Liquidity Risk and Regulatory Risk, as further detailed in Note 19 of the Notes to the Accounts. The Portfolio Summary on page 7 demonstrates the application of the Company's Investment Policy.

Share Capital

At the Extraordinary General Meeting of the Company held on 18 October 2007 (the "EGM"), shareholders approved an increase in the authorised capital of the Company from £600,000 to £1,125,000 by the creation of 25 million C Shares of 1 penny each, 25 million ordinary shares of 1 penny each and 25 million deferred shares of 0.1 pence each. The current authorised share capital of the Company is £1,125,000 divided into 85 million ordinary shares of 1p each, 25 million C shares of 1p each and 25 million deferred shares of 0.1p each. The rights and obligations attaching to the ordinary shares, C shares and deferred shares are set out in the Company's Articles of Association.

Authority to make Market Purchases of Shares

At the Annual General Meeting of the Company held on 26 March 2007, authority was given to make market purchases of up to 3,401,917 of the Company's issued ordinary share capital.

At the EGM of the Company, authority was given to make market purchases of ordinary shares and/or C shares provided that such authority is limited to the purchase of 10 per cent. of the issued share capital of the Company following the issue of all C shares to be issued in connection with the two offers for subscription of up to 25 million C shares of 1p each, (the "Offers"), further details of which were contained in the Circular to Shareholders dated 24 September 2007.

To date no C shares have been issued and accordingly no C shares have been purchased under this authority.

During the year under review the Company made the following purchases of its own ordinary shares in the market.

Under the authority granted by shareholders at the Annual General Meeting held in March 2007:

Ordinary Shares purchased for cancellation	Date of Purchase	Percentage of issued Capital at Time of Purchase	Buyback Price per Ordinary Share
46,850	9 August 2007	0.14%	107.0p
45,625	30 March 2007	0.10%	97.0p

Under the authority granted by shareholders at the Annual General Meeting held in March 2006:

Ordinary Shares purchased for cancellation	Date of Purchase	Percentage of issued Capital at Time of Purchase	Buyback Price per Ordinary Share
133,650	13 March 2007	0.39%	97.0p

The Company does not hold any shares in treasury.

Accordingly, at 30 September 2007 a total of 33,926,696 ordinary shares of 1p each were in issue.

Results and Dividend

Revenue returns attributable to shareholders amounted to £483,000 (2006: £806,000). The Directors recommend the payment of an interim dividend of 1.0p per ordinary share, for the year to 30 September 2008, which will be paid on 14 March 2008 to shareholders on the Register of Members at the close of business on 1 February 2008. An interim dividend of £510,000 was paid in the year (2006: £342,000).

Post Balance Sheet Events

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

Sales:		£ Cost
25 October 2007	Electra Active Management Plc	1,158,000
29 October 2007	Kingsway Generalist Limited Loan Notes	900,000

Purchase:		£ Cost
30 October 2007	The Fin Machine Company	2,150,000

Directors

The current Directors of the Company are listed on page 15. Mr RL Pennant-Rea, Mr MHA Broke, Mr DJ Donnelly, Mr NRW Ross and Mr DJ Sebire all served as Directors throughout the financial year ended 30 September 2007. No other person was a Director of the Company during any part of the year under review. Mr RL Pennant-Rea and Mr NRW Ross will retire at the Annual General Meeting in 2008 and, being eligible, offer themselves for re-election. Short biographical details of all the Directors are provided on page 15. Following performance appraisals of all of the Directors, details of which are to be found in the Corporate Governance Statement on page 20, 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 2008 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. No director bought or sold any ordinary shares of the Company during the year under review. There have been no changes in the interests of any of the Directors in the ordinary shares of the Company between 1 October 2007 and 23 January 2008. No options over shares in the capital of the Company have been granted to the Directors.

	30 September 2007 Ordinary Shares of 1p each	1 October 2006 Ordinary Shares of 1p each
RL Pennant-Rea	102,000	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 £6,332 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 2008.

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 23 January 2008 the Directors had not been notified of any interests in 3% or more of 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 2008. A separate resolution will be proposed at the Annual General Meeting in 2008 authorising the Directors to fix the remuneration of the Auditors.

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.

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 2007 was one day.

Investment Manager

Electra Quoted Management was the Investment Manager of the Company during the year under review. The Board regularly reviews the performance of the Investment Manager and as a result believes the continuing appointment of the Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 6 October 2004, later superseded by an updated management agreement dated 18 October 2007. 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%

Running expenses of the Fund are capped at 3.6% of the net asset value of 30 September. Any excess will be reduced against the management fee payable to the Investment Manager.

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 financial year's 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 12 of the accounts. At 30 September 2007, there was no amount due under this incentive scheme.

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 27 February 2008. In addition to the ordinary business, the following special business will be considered:

Authority to make Market Purchases of Shares: Resolution 7

A Special Resolution will be proposed at the Annual General Meeting to be held on 27 February 2008 ("AGM") to renew, for one year, the Board's authority to make market purchases of ordinary shares and/or C shares provided that such authority is limited to the purchase of 10 per cent. of the issued ordinary share capital of the Company immediately prior to the passing of the resolution and/or up to 10 per cent. of the issued C share capital immediately following the closure of the Offers, 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 they be cancelled and not held as treasury shares.

The Directors do not intend to use this authority to purchase shares unless this would result in an increase in the net asset value per ordinary and/or C share as applicable and would be in the best interests of shareholders generally. The Directors recommend shareholders to vote in favour of this Special Resolution.

Change of name of the Company: Resolution 8

With the proposed buyout of the Investment Manager by its management team, the name of the Investment Manager will change to Acuity Capital Management Limited. As a consequence, it is proposed that a corresponding change is made to the name of the Company. A Special Resolution will be proposed at the AGM to change the name of the Company from Electra Kingsway VCT 2 Plc to Acuity VCT 2 Plc. Subject to the passing of the resolution, the change of name will be effective on the issue of a certificate on incorporation on change of name by the Registrar of Companies. The change of the Company's name will not in any way affect the rights attaching to the shares in the capital of the Company, nor affect the rights or obligations of the Company in relation to third parties.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB
23 January 2008

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

Name of Director	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.

The Board of Directors

The Board, which meets regularly, comprised five Directors at 30 September 2007, all of whom were non-executive. All of the Directors who held office at 30 September 2007, 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 Committees is 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 15.

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 RL Pennant-Rea and Mr NRW Ross will retire at the Annual General Meeting to be held in 2008 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 Electra Quoted Management's website.

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 Quoted Management 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 Quoted Management 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. The Committee met once during the year when it was agreed that Mr DJ Sebire be paid an additional £5,000 per annum in respect of further duties undertaken in relation to the production of the Report and Accounts. The Committee has written terms of reference which are available on Electra Quoted Management's website. 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 Electra Quoted Management's website. 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 Quoted Management. 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.

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 after it has been dealt with on a show of hands.

The Chairman and 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 is 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 Financial Reporting Council's 'Internal Control : Revised 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 2007. 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 Quoted Management, the Company's system of internal control mainly comprises the monitoring of services provided by Electra Quoted Management, 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 Quoted Management 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 Quoted Management's system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Quoted Management's 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 Quoted Management as follows:

- The Board reviews the terms of the management agreement and receives regular reports from Electra Quoted Management executives.

- The Board reviews the certificates provided by Electra Quoted Management 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 Quoted Management to vote on its behalf.

Electra Quoted Management'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 Quoted Management'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 Accounts

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the accounts 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 accounts and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounts 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 accounts, 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 accounts comply with the applicable UK Accounting Standards, subject to any material departures disclosed and explained in the accounts;
- prepare the Company's accounts 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 accounts.

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 accounts 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 accounts of the Company are published on www.electraquoted.com which is a website maintained by the Company's Investment Manager, Electra Quoted Management. Legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in other jurisdictions.

Accounts Directors' Remuneration Report

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.

The Committee met once during the year when it was agreed that Mr DJ Sebire be paid an additional £5,000 per annum in respect of further duties undertaken in relation to the production of the Company's Report and Accounts. The current annual fee rates are £20,000 for the Chairman and Mr DJ Sebire 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 amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2008 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.

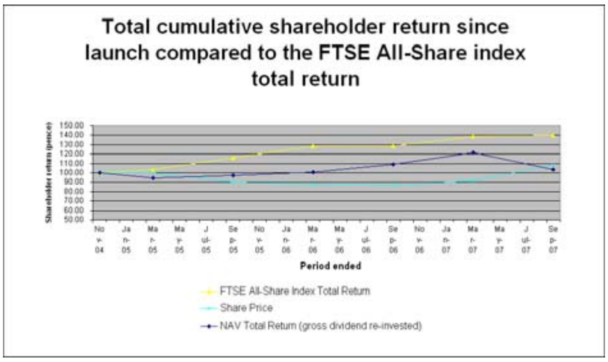
Performance Graph

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 that 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 2007 £'000	For the year ended 30 September 2006 £'000
RL Pennant-Rea (Chairman & highest paid Director)	20	20
MHA Broke	15	15
DJ Donnelly	15	15
NRW Ross	-	-
DJ Sebire	18	15
Total	68	65

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 (2006: £30,000) 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
23 January 2008

Accounts Independent Auditors' Report

To the Members of Electra Kingsway VCT 2 Plc

We have audited the accounts of Electra Kingsway VCT 2 Plc for the year ended 30 September 2007 which comprise the Income Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Total Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These accounts 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 accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts 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 accounts give a true and fair view and whether the accounts 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 Report of the Directors is consistent with the accounts. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and in the 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 2003 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 accounts. The other information comprises only the Financial Highlights, Chairman's Statement, the Investment Manager's Review, Portfolio Summary, Co-investment Arrangements, Top Qualifying Investments, the Report of the Directors, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. 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 accounts 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 accounts, 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 accounts 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 accounts and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2007 and of its net loss and cash flows for the period then ended;
- the accounts 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 Report of the Directors' is consistent with the accounts.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

23 January 2008

Accounts Income Statement

	Notes	For the year ended 30 September 2007 Revenue £'000	Capital £'000	Total £'000	For the year ended 30 September 2006 Revenue £'000	Capital £'000	Total £'000
Realised gains on investments		-	325	325	-	-	-
Unrealised (losses)/gains on investments		-	(1,553)	(1,553)	-	3,936	3,936
Investment income	1	1,221	-	1,221	1,324	-	1,324
		1,221	(1,228)	(7)	1,324	3,936	5,260
Investment management fees	2	(243)	(730)	(973)	(209)	(626)	(835)
Other expenses	3	(350)	-	(350)	(309)	-	(309)
		(593)	(730)	(1,323)	(518)	(626)	(1,144)
Net Return/(Loss) on Ordinary Activities before Taxation		628	(1,958)	(1,330)	806	3,310	4,116
Tax on ordinary activities	5	(145)	145	-	-	-	-
Net Return/(Loss) on Ordinary Activities after Taxation		483	(1,813)	(1,330)	806	3,310	4,116
Basic and Diluted Return/(Loss) per Ordinary Share	7	1.4p	(5.3)p	(3.9)p	2.3p	9.7p	12.0p

The total column of this statement represents the Company's Income Statement, prepared in accordance with UK GAAP. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The notes on pages 30 to 45 form part of these accounts.

Accounts Reconciliation of Movements in Total Shareholders' Funds

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Total Loss on Ordinary Activities after Taxation	(1,330)	4,116
Repurchase of Ordinary Shares	(224)	(29)
Dividends on Ordinary Shares	(510)	(342)
Deferred share issue expense	(622)	-
Movements in Total Shareholders' Funds	**(2,686)**	**3,745**
Total Shareholders' Funds at start of year	36,891	33,146
Total Shareholders' Funds	34,205	36,891

Statement of Total Recognised Gains and Losses

			For the year ended 30 September 2007			For the year ended 30 September 2006
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net Return on Ordinary Activities after Taxation	483	(1,813)	(1,330)	806	3,310	4,116
Total recognised gains for the year	483	(1,813)	(1,330)	806	3,310	4,116
Prior year adjustment	-	-	-	-	(83)	(83)
Total recognised gains since last annual report	483	(1,813)	(1,330)	806	3,227	4,033

Accounts Balance Sheet

	Notes	As at 30 September 2007		As at 30 September 2006	
		£'000	£'000	£'000	£'000
Fixed Assets					
Investments held at fair value	8		32,467		21,031
Current Assets					
Debtors	9	672		397	
Other investments	10	345		15,695	
Cash at bank	18	1,548		157	
			2,565		16,249
Current Liabilities					
Creditors: amounts falling due within one year	11		270		368
Net Current Assets			2,295		15,881
Total assets less current liabilities			34,762		36,912
Creditors: amounts falling due after more than one year	12		557		21
Net Assets			34,205		36,891
Capital and Reserves					
Called-up share capital	14		340		342
Special reserve	15		30,937		31,958
Capital redemption reserve	15		2		-
Realised capital reserve	15		(997)		(925)
Revenue reserve	15		737		589
Unrealised capital reserve	15		3,186		4,927
Total Equity Shareholders' Funds			34,205		36,891
Net Asset Value per ordinary share			100.8p		108.0p

	As at 30 September 2007	As at 30 September 2006
Number of Ordinary Shares in issue at end of year	33,926,696	34,152,821

The information on pages 30 to 45 forms part of these accounts.

The accounts on pages 26 to 45 were approved and authorised for issue by the Board of Directors on 23 January 2008 and were signed on their behalf by:

RL Pennant-Rea, Chairman

Accounts Cash Flow Statement

	Notes	For year ended 30 September 2007 £'000	For year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000	For the year ended 30 September 2006 £'000
Operating Activities					
Investment income received		831		1,001	
Bank deposit interest received		34		6	
Investment management fees paid		(1,079)		(790)	
Other cash payments		(260)		(273)	
Net Cash Outflow from Operating Activities	17		(474)		(56)
Capital Expenditure and Financial investment					
Purchase of investments	8	(14,609)		(5,340)	
Sale of investments		1,946		-	
Net Cash Outflow from Capital Expenditure and Financial Investment			(12,663)		(5,340)
Equity Dividends Paid	6		(510)		(342)
Cash Outflow before Financing and Management of Liquid Resources			(13,647)		(5,738)
Management of Liquid Resources					
Sale of current asset investments		15,350		5,605	
Net Cash Inflow from Management of Liquid Resources			15,350		5,605
Financing					
Share issue expenses			(88)		-
Repurchase of ordinary shares			(224)		(41)
Net Cash Outflow from Financing			(312)		(41)
Increase/(Decrease)in Cash for the year	18		1,391		(174)

Basis of Accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with the United Kingdom law, United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the revised Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies' (SORP) issued in December 2005 by the Association of Investment Companies (formerly the Association of Investment Trust Companies).

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 capital reserves and unrealised gains are transferred to the unrealised capital 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 net return in 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 (25%) and capital (75%) 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, the Company's Articles prohibit the distribution of 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 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 unquoted 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 column.

Quoted Investments

Quoted investments are stated at the last traded bid price on the balance sheet date.

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

Fair Value represents the amount at 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 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 Earnings Before Interest and Tax multiple applied to current year's earnings where these can be estimated 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 the 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 unquoted investments is calculated in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which became effective from 1 January 2005.

The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy and information about the Company is provided internally on this basis to the entity's key management personnel.

The valuation policies are set out below:

- Primary valuation methods, namely, earnings multiples, price of a recent investment or net asset basis, are normally used in determining fair value; and
- Fair values determined by earnings multiples are calculated using the following approach;
    - o apply a multiple that is appropriate and reasonable to maintainable earnings of the Company to derive the Enterprise Value;
    - o adjust the Enterprise Value derived above for surplus assets or excess liabilities and other relevant factors to derive a revised Enterprise Value;
    - o deduct from the Enterprise Value all amounts relating to financial instruments ranking ahead of the highest ranking instrument of the Company in a liquidation in order to derive the Gross Attributable Enterprise Value;
    - o apply an appropriate Marketability Discount to the Gross Attributable Enterprise Value derived above in order to derive the Net Attributable Enterprise Value; and
    - o apportion the Net Attributable Enterprise Value appropriately between the relevant financial instruments.

Earnings multiples that are used include price earnings ("P/E"), earnings before interest and tax ("EBIT") and earnings before interest, tax, depreciation and amortisation ("EBITDA").

The Marketability Discount relates to the investment rather than to the underlying business. It is therefore applied at the level at which the Company begins to participate in the Enterprise Value of the investee company. In determining the Marketability Discount, all relevant factors will be considered, including proximity to exit or influence of the Company over the timing of a realisation, and a discount in the range of 10% to 30% will be applied.

Maintainable earnings are defined as earnings figures that can be relied upon. This can mean the use of historical figures, but, where reliable, forecast earnings figures can be used.

- In circumstances where the valuation of an investment by earnings is deemed inappropriate, the use of a net asset basis may be considered. Under this method, the net asset value will be computed and will be taken as the Enterprise Value.
- Where a recent investment or transaction has been made in an investee company by an independent third party, then the cost of this transaction may be used as an indication of value, although only for a limited period following the date of the transaction.
- Where the realisation of an investment is imminent and the price of the transaction has been substantially agreed, the most likely valuation will involve the use of a simple discount to the expected realisation proceeds.
- In the case of valuing loan notes primary valuation techniques which are used to value equity instruments as described above have been adopted with priority of allocation of net enterprise value.

Accounts Statement of Accounting Policies

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 is based on fair value.

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 accounted for 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.

A commission is payable at the rate of 0.25% of the net assets over a period of 10 years, from the inception of the fund, to the underwriter for the issue of shares. These are discounted to the present value and charged against share premium account as share issue expenses. The discounted amount is split between creditors amount falling due within one year and amount falling due after one year. Any difference between the actual payment and discounted value is taken to the income statement.

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 and are capped at 3.6% of net asset value. 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 net revenue return on ordinary activities after taxation in the Income Statement is taken to the revenue 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.

Foreign Currency

The Company does not hold any assets or liabilities denominated in foreign currencies at the year end. The functional currency used on the preparation of these consolidated accounts is pounds sterling which is also the presentation currency. The functional currency is the currency in which the company operates and it reflects the economic substance of the underlying events and circumstances of the Company.

1. Income

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Franked investment income	160	192
Income from liquidity funds	533	838
Unfranked investment income	494	288
Interest from bank deposits	34	6
	1,221	1,324

2. Investment Manager's Fees

			For the year ended 30 September 2007			For the year ended 30 September 2006
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management Fees to:						
Electra Quoted Management	243	730	973	209	626	835

The Management Fee includes irrecoverable VAT of £145,000 (2006: £124,000)

Electra Quoted Management also received an administration fee of £65,000 (2006:£60,000) net of VAT, which increases each year in line with the Retail Price Index. The administration fee is included in the other expenses of £350,000 (2006: 309,000) in Note 3.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 6 October 2004, later superceded by an updated management agreement dated 18 October 2007. 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 the investment in Electra Active Management which is 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%

Running expenses of the Fund are capped at 3.6% of the net asset value as of 30 September. Any excess will be reduced against the management fee payable to the Investment Manager.

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 12 of the accounts.

At 30 September 2007 there was no amount due under the Incentive Schemes.

3. Other Expenses

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Directors' remuneration	68	65
Employer's NIC	4	3
IFA trail commission (at rate of 0.25% per annum of net assets)	-	92
Auditors' Fees – audit	27	24
Auditors' Fees – non-audit*	6	5
Bad debt (write-off of accrued interest)	91	-
Administration expenses	154	120
	350	309

* Non audit fees related to tax services provided by PwC

Bad debt expense relates to accrued interest from loans in investee companies that your Company believes will no longer be received.

4. 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 24.

The Company had no employees or employee costs in 2007 (2006: nil).

5. Taxation on Ordinary Activities

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Analysis of charge in the year		
Current tax:		
UK corporation tax at 19.5% (2006: 19%)	-	-
Total Current Tax	-	-
Factors affecting tax charge for the year:		
Revenue return on ordinary activities before tax	628	806
Revenue return at corporate tax rate	123	153
Effects of:		
Dividend income not subject to tax	(31)	(196)
Expenses not deductible for tax purposes	-	18
Tax relief on fees charged to Capital account	(145)	(119)
Unutilised tax losses arising in year	53	144
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 is no unprovided deferred tax liability at 30 September 2007. There has been no recognition of a deferred tax asset £197,000 (2006: £251,000) for tax losses arising in the year as Directors do not anticipate them being used.

6. Dividend

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Interim dividend paid of 1.5p (2006: 1.0p) per ordinary share	510	342

7. Return per Ordinary Share

The revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £483,000 (2006: £806,000) and on 34,052,752 (2006: 34,170,612) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The capital loss per ordinary share is based on net capital losses of £1,813,000 (2006: £3,310,000) and on 34,052,752 (2006: 34,170,612) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The total loss per ordinary share is based on the net (loss)/revenue from ordinary activities after taxation of (£1,330,000) (2006: £4,116,000) and on 34,052,752 (2006: 34,170,612) 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.

8. Investments

	Qualifying Investments			Non-qualifying Investments		
As at 30 September 2007	Traded on PLUS £'000	Unquoted £'000	Traded on AIM £'000	Open-ended Investment Company £'000	Closed-ended Investment Company £'000	Total £'000
Cost at 1 October 2006	296	6,250	2,008	4,000	3,550	16,104
Unrealised gains/(losses) at 1 October 2006	(120)	3,095	628	(323)	1,647	4,927
Valuation at 1 October 2006	176	9,345	2,636	3,677	5,197	21,031
Purchases at cost	200	12,618	1,791	-	-	14,609
Sales at 1 October 2006 valuation	-	-	(155)	(790)	(675)	(1,620)
Unrealised gains/(losses) in year	(57)	(1,209)	(1,224)	(169)	1,106	(1,553)
Valuation at 30 September 2007	319	20,754	3,048	2,718	5,628	32,467
Cost at 30 September 2007	495	18,869	3,687	3,141	3,089	29,281
Unrealised gains/(losses) At 30 September 2007	(176)	1,885	(639)	(423)	2,539	3,186
Valuation at 30 September 2007	319	20,754	3,048	2,718	5,628	32,467

Further details of investments are provided in the Portfolio Summary on page 7 of the Annual Review and significant interests in the investee companies are disclosed in Note 13 of the Notes to the Accounts.

As at 30 September 2006	Qualifying Investments: Traded on PLUS £'000	Qualifying Investments: Unquoted £'000	Qualifying Investments: Traded on AIM £'000	Non-qualifying Investments: Open-ended Investment Company £'000	Non-qualifying Investments: Closed-ended Investment Company £'000	Total £'000
Cost at 1 October 2005	200	3,475	-	4,000	3,090	10,765
Unrealised gains/(losses) at 1 October 2005	-	-	-	185	806	991
Valuation at 1 October 2005	200	3,475	-	4,185	3,896	11,756
Purchases at cost	96	2,775	2,008	-	460	5,339
Unrealised gains/(losses) in year	(120)	3,095	628	(508)	841	3,936
Valuation at 30 September 2006	176	9,345	2,636	3,677	5,197	21,031
Cost at 30 September 2006	296	6,250	2,008	4,000	3,550	16,104
Unrealised gains/(losses) At 30 September 2006	(120)	3,095	628	(323)	1,647	4,927
Valuation at 30 September 2006	176	9,345	2,636	3,677	5,197	21,031

9. Debtors

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Amounts due within one year:		
Accrued interest	663	389
Receivables on Loan Stocks issued	8	8
Other debtors	1	-
	672	397

10. Other Investments

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Liquidity Funds:		
JP Morgan Sterling Liquidity Fund	125	8,525
Scottish Widows Investment Partnership Limited Global Liquidity Fund	220	7,170
	345	15,695

The market value of the Liquidity Funds is £345,000 (2006: £15,695,000). The funds are invested with JP Morgan and Scottish Widows earning a floating rate of interest, at an effective interest rate of 5.9%, and are accessible immediately.

11. Creditors: amounts falling due within one year

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Due to Electra Quoted Management	115	242
Deferred share issue expense	88	-
Accrued expenses	60	60
Other creditors	7	66
	270	368

12. Creditors: amounts falling due after one year

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Deferred share issue expense	536	-
Unsecured 4% Loan Notes (21,000 Loan Notes £1 each):		
Issued and fully paid up at 30 September 2007	21	21
	557	21

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 2 to the accounts.

Deferred share issue expense relates to the discounted value of commission payable over a period of ten years from the start of the Fund at a rate of 0.25% of the net assets.

13. Significant Interests

At 30 September 2007 the Company held significant investments, amounting to 3% or more of the equity capital in the following companies:-

	Equity Investment (Ordinary Shares) £'000	Investment Loan Stock and Preference Shares £'000	Total Investments £'000	Percentage of Investee Company's Total Equity %
Kingsway Software Limited	100	900	1,000	33.3
Kingsway Retail Limited	100	900	1,000	33.3
Kingsway Media Limited	100	900	1,000	33.3
Kingsway Generalist Limited	100	900	1,000	33.3
Kingsway Business Services Limited	100	900	1,000	33.3
Kingsway Publishing Limited	100	900	1,000	33.3
Munro Global Limited	162	1,454	1,616	25.0
Ma Hubbards Limited	225	525	750	25.0
Acrobat Group Limited	382	618	1,000	21.2
Defaqto Group Limited	215	1,935	2,150	17.3
Amber Taverns Limited	225	525	750	16.5
Emote Games Limited	114	114	228	14.0
Target Entertainment Group Limited	533	467	1,000	13.3
Gyro International Limited	413	962	1,375	7.7
Sanastro Plc	600	-	600	7.6
Hill Station Plc	908	375	1,283	6.2
Factory Media Limited	193	1,732	1,925	5.8
Keycom Plc	200	296	496	4.5
Mount Engineering Plc	391	-	391	4.4

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 fair value as part of its investment portfolio.

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

14. Called Up Share Capital

	Number	2007 £'000	Number	2006 £'000
Authorised:				
Ordinary Shares of 1p each	60,000,000	600	60,000,000	600
Issued:				
At 1 October	34,152,821	342	34,184,910	342
Ordinary Shares of 1p each issued during the year	-	-	-	-
Ordinary Shares of 1p each repurchased during the year	(226,125)	(2)	(32,089)	-
At 30 September 2007	33,926,696	340	34,152,821	342

At the Extraordinary General Meeting of the Company held on 18 October 2007, authority was given to make market purchases of ordinary shares and / or C shares provided that such authority is limited to the purchase of 10 per cent. of the issued share capital of the Company following the issue of all C shares to be issued in connection with the Offers of C shares as defined in the Circular to Shareholders dated 24 September 2007 ("the Circular") and as further defined in the Circular.

During the year under review the Company made the following purchases of its own ordinary shares in the market under the authority granted by shareholders at the Annual General Meeting held in March 2007:

Ordinary shares purchased for cancellation	Date of Purchase	Percentage of Issued Capital at Time of Purchase	Buyback Price per Ordinary Share
46,850	9 August 2007	0.14%	107.0p
45,625	30 March 2007	0.10%	97.0p

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

Ordinary shares purchased for cancellation	Date of Purchase	Percentage of Issued Capital at Time of Purchase	Buyback Price per Ordinary Share
133,650	13 March 2007	0.39%	97.0p

The Company does not hold any shares in treasury.

As at 30 September 2007, a total of 33,926,696 ordinary shares of 1p each of the Company were in issue.

15. Reserves

As at 30 September 2007	Special Reserve (Distributable) £'000	Capital Redemption Reserve (Non Distributable) £'000	Realised Capital Reserve (Non Distributable) £'000	Unrealised Capital Reserve (Non Distributable) £'000	Revenue Reserve (Distributable) £'000
At October 2006 (see note 1)	31,958	-	(925)	4,927	589
Other expenses net of taxation	-	-	-	-	-
Gain on disposal of investments	-	-	325	-	-
Increase/(decrease) in unrealised appreciation	-	-	-	(1,553)	-
Unrealised appreciation at 1 October 2006 on investments realised in year	-	-	188	(188)	-
Investment management fees charged to capital account (net of taxation)	-	-	(585)	-	-
Shares repurchased in year	(224)	2	-	-	-
Net revenue/(loss) for the financial year	-	-	-	-	483
Deferred share issue expenses	(797)	-	-	-	175
Dividend payments	-	-	-	-	(510)
At 30 September 2007	30,937	2	(997)	3,186	737

As at 30 September 2006	Share Premium Accounts (Non-distributable) £'000	Special Reserve (Distributable) £'000	Capital Redemption Reserve (Non Distributable) £'000	Realised Capital Reserve (Non Distributable) £'000	Unrealised Capital Reserve (Non Distributable) £'000	Revenue Reserve (Distributable) £'000
At October 2005	31,976	-	-	(299)	991	135
Transfer to Special Reserve	(31,976)	31,976	-	-	-	-
Investment management fees charged to capital account (net of taxation)	-	-	-	(626)	-	-
Increase in unrealised appreciation	-	-	-	-	3,936	-
Unrealised appreciation at 1 October 2006 on investments realised in year	-	-	-	-	-	-
Shares repurchased in year	-	(18)	-	-	-	(11)
Net revenue/(loss) for the year	-	-	-	-	-	465
At 30 September 2006	-	31,958	-	(925)	4,927	589

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.

16. Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets at 30 September 2007 of 34,205,000 (2006: 36,891,000), and on 33,926,696 (2006: 34,152,821) 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.

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

	For the year ended September 2007 £'000	For the year ended September 2006 £'000
Net revenue/(loss) on ordinary activities before taxation	628	806
Investment management fees charged to capital	(730)	(626)
(Increase)/Decrease in debtors	(275)	(317)
Increase/(Decrease) in creditors and accruals	(97)	81
Net cash (outflow)/inflow from operating activities	(474)	(56)

18. Analysis of Changes in Cash

	For the year ended September 2007 £'000	For the year ended September 2006 £'000
At beginning of the year	157	330
Net cash (outflow)/inflow	1,391	(173)
At 30 September	1,548	157

Included within the cash balance there is a committed cash amount of £1,400,000, split between fixed deposit investments in Target (£1,000,000) and Acrobat (£400,000). This cash is held at Barclays bank and is accessible immediately.

19. 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 fixed interest securities, its equity and non-equity investments and profit and loss account may be affected by interest rate movements. Due to the short time to maturity of some of the Company's fixed investments, it may not be possible to re-invest in assets which provide the same rates as those currently held.

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 risk profile of the Company's financial assets at 30 September 2007 was:

	Financial Assets on which no Interest Paid £'000	Fixed Financial Assets £'000	Variable Financial Assets £'000	Total £'000	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	18,063	-	-	18,063	-	-
Non-equity stock	-	771	-	771	-	-
Loan stock	-	13,633	-	13,633	8.0	4.0
Liquidity Funds	-	-	345	345	5.9	-
Cash	-	-	1,548	1,548	-	-
Debtors	672	-	-	672	-	-
Total	18,735	14,403	1,893	35,032	-	-

The only financial liabilities at 30 September 2007 were creditors of £270,000 and unsecured redeemable Loan Notes of £21,000 (2006: £21,250) which carry a 4% coupon and deferred share issue expense payable of £536,000.

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

	Financial Assets on which no Interest Paid £'000	Fixed Rate Financial Assets £'000	Variable Rate Financial Assets £'000	Total £'000	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	16,226	-	-	16,226	-	-
Non-equity shares	656	-	-	656	-	-
Loan stock	-	4,018	131	4,149	10.2	4.1
Liquidity Funds	-	-	15,695	15,695	4.7	-
Cash	-	-	157	157	-	-
Debtors	397	-	-	397	-	-
Total	17,279	4,018	15,983	37,280	-	-

The only financial liabilities at 30 September 2006 are creditors of £270,000 and unsecured redeemable loan notes of £21,000 which carry a 4% coupon.

20. Post Balance Sheet Events

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

30 October 2007	The Fin Machine Company Limited	£2,150,000	Equity £569,000 Loan Stock £431,000 Fixed Deposit £1,150,000 (to be invested in 2008)
22 January 2008	Hill Station Plc	£172,500	Equity

21. Geographical Analysis

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

22. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments of the Company at 30 September 2007 (2006: £nil).

23. Transactions with the Manager

During the year ended 30 September 2007 the Company paid £1,139,000 (2006: £860,000) to Electra Quoted Management, the Investment Manager. At 30 September 2007, the Company owed £115,000 (2006: £242,000) to the Investment Manager. Details of the Investment Manager's fee arrangements are included in Note 2.

Notice of Annual General Meeting

Notice is hereby given that the third Annual General Meeting of Electra Kingsway VCT 2 Plc will be held on 27 February 2008 at 10.30am or, if later, immediately following the conclusion of the Annual General Meeting of Electra Kingsway VCT Plc, to be held at 10.00am 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 6 will be proposed as Ordinary Resolutions and Resolutions 7 and 8 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 2007.

2 To approve the Directors' Remuneration Report for the year ended 30 September 2007.

3 To re-elect Mr RL Pennant-Rea as a Director of the Company.

4 To re-elect Mr NRW Ross 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.

Special Business

7 THAT the Company be and is hereby generally and unconditionally authorised for the purpose of section 166 of the Companies Act 1985 to make market purchases (as defined in section 163 of that Act) of ordinary shares of one penny each and/or C shares of one penny each (if such shares are in issue), provided that:

i) the maximum number of ordinary shares hereby authorised to be purchased is 3,392,669 or such lesser number of shares as is equal to 10 per cent. of the total number of ordinary shares in issue as at the date of the passing of this resolution and the maximum number of C shares hereby authorised to be purchased (if such shares are in issue) is equal to 10 per cent. of the issued C share capital immediately following the closure of the offers for subscription of up to 25 million C shares in the capital of the Company;

ii) the minimum price (exclusive of expenses) which may be paid for an ordinary share or for a C share shall be 1 penny;

iii) the maximum price (excluding expenses) which the Company may pay for each ordinary share or C share cannot be more than the higher of:

- 105% of the average market value of an ordinary share or C share for the five business days prior to the day the purchase is made;
- the value of an ordinary share or C share calculated on the basis of the higher of the price quoted for: (a) the last independent trade of; or (b) the highest current independent bid for, any number of the ordinary shares or C shares on the trading venue where the purchase is carried out;

iv) unless renewed, the authority hereby conferred shall expire on the earlier of 27 May 2009 or the conclusion of the Company's Annual General Meeting in 2009 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares or C shares which will or may be completed or executed wholly or partly after such expiry.

8 THAT the name of the Company be changed to Acuity VCT 2 Plc.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB
23 January 2008

Notes

A A member entitled to attend and vote at the meeting convened by the above Notice is entitled to appoint one or more proxies to exercise all or any of the rights of the member to attend and speak and vote in their place. A 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, P.O. Box 25, 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 25 February 2008 (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 Short biographical details of all of the Directors are contained in the Report & Accounts for the year ended 30 September 2007 on page 15.

F If you are a person nominated to enjoy information rights in respect of the Company pursuant to section 146 of the Companies Act 2006, you should be aware that you may have a right under an agreement between yourself and the member who nominated you to be appointed, or to have someone else appointed, as a proxy entitled to attend and speak and vote at the Meeting. You are advised to contact the member who nominated you for further information on this and the procedure for appointing any such proxy. If you have no right to be appointed, or to have someone else appointed, as a proxy for the Meeting, or you do not wish to exercise such right, you may still have the right under an agreement between yourself and the member who nominated you to give instructions to the member as to the exercise of voting rights at the Meeting. You are advised to contact the member who nominated you for further information of this.

G The total number of issued Ordinary Shares in the Company on 23 January 2008, which is the latest practicable date before the publication of this document, is 33,926,696.

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.