

Electra Kingsway VCT

Newsletter

February 2004



Objective

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

Investment Strategy

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

Key Features

Unaudited net asset value per share at 31 December 2003* 109.8p

Portfolio Breakdown at 31 December 2003

Cash	£2.3m
Fixed income securities	£7.0m
Non-qualifying investments	£1.9m
Qualifying investments	£9.8m

Investments To Date

	Cost
April 2002	Advanced Medical Solutions £0.50m
2002 – 2004	Electra Active Management £1.25m
July 2002	Nectar Taverns £0.75m
October 2002	Signature Brands Group £0.75m
2002 – 2003	Centurion Electronics £0.70m
2002 – 2003	Electra Investment Trust £0.64m
2003 – 2004	Berkeley Morgan £0.83m
May 2003	BioProgress £0.30m
May 2003	Keycom £0.95m
July 2003	Online Travel £0.90m
November 2003	James & James £0.75m
November 2003	Media Square £0.60m
December 2003	Music Copyright Solutions £0.50m
December 2003	Immedia Broadcasting £0.28m
January 2004	Happy Times £0.75m
January 2004	Quadnetics £0.40m
	<hr/>
	£10.85m

* The unaudited valuation at 31 December 2003 was calculated on the basis of the asset valuation at 30 September 2003 adjusted to reflect income, expenses, the purchases and sales of investments up to 31 December 2003 and mid market valuations on 31 December 2003 in respect of quoted investments. On this basis, which excludes any revaluation of unquoted investments, the unaudited net asset value per share at 31 December 2003 was 109.80p.

Investment Review

Looking back to the March 2003 Newsletter, significant progress has been made by the Fund. Ten qualifying investments have been completed over the 12 month period, taking the total number of qualifying investments to 14.

This progress is a reflection of the good levels of deal flow engendered by the Electra Partners Investment Team, as well as their ability to process transactions effectively.

The Investment Manager has been consistent in its investment approach, seeking out established, cash flow positive businesses with a capacity for high growth. The more risky early stage opportunities have been avoided.

Certain investment themes have emerged firmly over the period. Firstly, four out of the six companies featured in this edition of the newsletter are in the media sector. This sector, in the Investment Manager's view, represents a promising opportunity to invest at modest valuations just as evidence begins to emerge of increasing levels of activity across the sector.

Secondly, the extent to which different business models are capable of handling significant growth is important. A number of the transactions featured, such as James & James, Media Square and Music Copyright Solutions, have a real chance of conducting successful buy and build strategies. Finally, in 2004 the smaller quoted company sector has continued its strong growth that it showed at the end of 2003. This therefore, gives good potential opportunities for successful exits for unquoted investments.

Overall, the Fund continues to progress well, as signified by a NAV that has appreciated steadily over the period from 31 March to 31 December 2003.

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

The financial information in this publication is unaudited and does not comprise Statutory Accounts. The Statutory Accounts for the year ended 30 September 2003 have been delivered to the UK Registrar of Companies and the Report of the Auditors on those accounts was unqualified.

February 2004

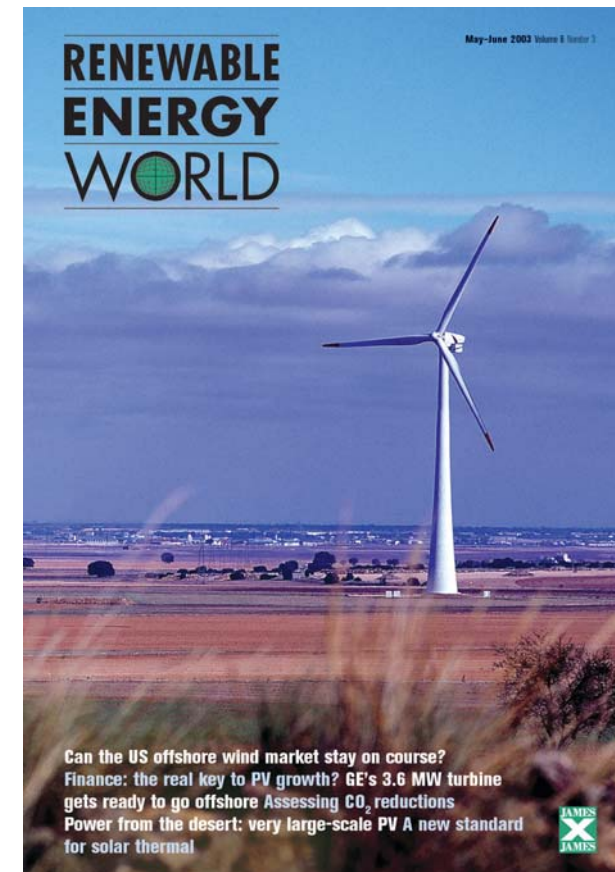
James & James



James & James is a business to business publisher of international environmental magazines and directories. It has established leading titles in certain energy, waste and conservation sectors.

Its core products are three bi-monthly, advertising-led magazines: Renewable Energy World, Co-Generation & On-site Power Generation and Waste Management World. The company was seeking finance to complete the acquisition of Earthscan, a publisher of academic and professional books on environmental change and sustainable development. The strategy is to build a dedicated international environmental publisher through further bolt-on acquisitions and organic growth.

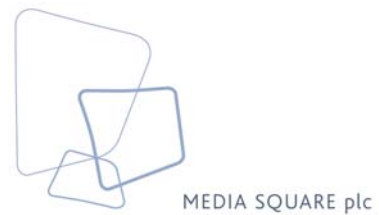
The Fund invested £750,000, for a 29.2% stake, to facilitate the acquisition of Earthscan and to provide working capital. The integration of Earthscan has started promisingly, although James & James remains in the early stages of its strategic development.



One of James & James' leading publications

Media Square

The company was set up in 2000 and floated on AIM in 2001. Its objective was to acquire a number of companies in the design/media consultancy market to achieve a degree of scale and exploit the resultant synergies.



Media Square has two divisions focusing on marketing communications consultancy and retail marketing production support. The communications consultancy division has just been integrated under the BANC brand and looks well placed to benefit from any upturn in the advertising sector. The retail marketing division is a growing, cash generative operation which is capitalising on the wishes of large retail organisations to outsource the photography production of their direct mailing catalogues. Media Square has proved it can cut costs and improve efficiencies compared with the in-house alternatives. This momentum has allowed the company to acquire similar, smaller competitors.

The buy-and-build strategy gave the Fund the chance to invest £600,000, for a 6.5% stake. This expansion capital enabled the company to complete the acquisition of Preprint in October 2003.

Preprint has performed well to date and Media Square have since bought Hudson Advertising as a further addition to its retail marketing operation.

Argos
brighter shopping
www.argos.co.uk

International advertising solutions for leading retail brands

making life colourful
Your new choice in beauty, wellness, menswear, accessories, homeware and gifts.

Cross border on-line communications

HUGO
HUGO Club
fragrance rules

Employee motivation & retention programmes

Chrysler
Send me

20% OFF
20% OFF
20% OFF
Excludes other deals

shishy caught
Iceland.com

Developing new channels for conventional retailers

The management would like to admit to giving sack-handers

One-to-one customer relationship development

DYNAMIC, EXPERIENCED, LIVELY, DEDICATED, TALENTED, FAST-MOVING, TEAM PLAYER, HUMANS WANTED.

"I know smack has messed me up. When I'm rattling bad I've even shared peoples needles. I've not got HIV or Hep C or anything, but I know Paul 18 Rotherham"

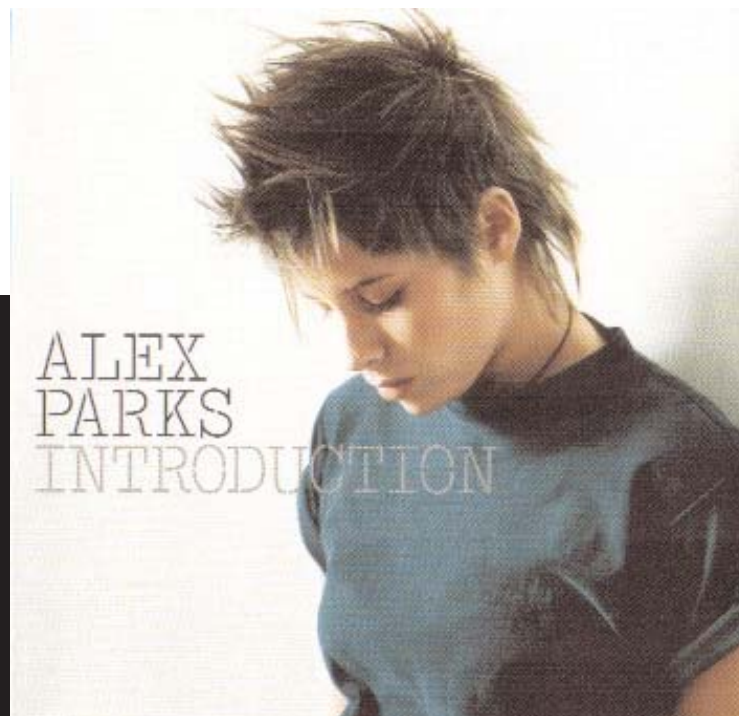


Music Copyright Solutions ('MCS')

MCS administers and owns music copyright. The company derives revenues by the collection and payment of music royalties, and the creation of rights by commissioning specific work. MCS focuses largely on products for film and TV production companies, such as Endemol and Chorion.

MCS is implementing a buy-and-build strategy within the UK independent music publishing market, a market that is very fragmented below a small number of major players such as EMI and Sony.

The company had raised £1.1m to acquire the administration rights of a rival, Palans, but had a shortfall of £900,000. Electra Kingsway VCT led a funding round, investing £500,000 to make up the difference. The Fund has a 12.1% stake. MCS is quoted on OFEX and plans to move to AIM in the first half of 2004. There are a number of copyrights and administration contracts that might become available to MCS over the next 12 months, and accordingly there is the potential to create the largest independent player in the UK over the medium term.



MCS control the music publishing of Endemol Entertainment. Amongst the copyrights controlled are those composed by Alex Parks – the winner of The Fame Academy.

Her album 'Introduction' sold 300,000 units (official figures) by Christmas 2003. All her songs on this album including the Top Ten winning song are published by MCS.



Happy Times

Happy Times is an owner/operator of three children's nurseries in South West London. It was seeking expansion capital to acquire a freehold site in Fulham and a further freehold site elsewhere in the London area. The market dynamics remain favourable, particularly in the affluent London boroughs where the supply of nursery care facilities lags behind demand.

Happy Times has differentiated itself from the competition by operating larger nurseries of typically over 100 places and providing high standards of child care. The Fund invested £750,000 as part of a £1.5m equity funding alongside £2.6m of debt finance. The company is unquoted and reported a historic loss before tax of £456,000 to 31 March 2003 with net liabilities of £66,511. The Fund has a 12.2% stake.



Immedia Broadcasting



The company designs and operates live radio stations providing tailored commercial programming to retail outlets. It provides two distinct services: a free radio proposition to CTN and convenience stores where advertising slots are sold to large confectionery and drinks companies; the second service is a bespoke radio station, tailored to meet the requirements of the client. The company has successfully operated a station for Lloyds Chemists and has a number of other potential contracts in the pipeline. There has been considerable interest in point of sale advertising, since a large proportion of purchasing decisions are often made in-store. Accordingly, radio advertising has the potential to increase in-store sales and, in the case of bespoke programming, provide a valuable communications tool.

The company listed on AIM in December 2003 and the Fund invested £275,000 for a 5.4% stake. The company declared a loss of £651,000 to 31 December 2002 with net assets of £26,106.

Kat (Katherine Orman), presenter of Newsagents Radio and Dixons Live



Quadnetics



Quadnetics is a market leader in the development and installation of CCTV networked video systems for a broad range of public utilities. The company has a large installed base of town centre systems currently operating on old analogue technology. The market has moved to digital technology and the company is anticipated to be a major beneficiary of the switch over, due to its R&D focused subsidiary, Synectics.

In January 2004, Quadnetics had the opportunity to acquire Look CCTV, which had carved out a profitable and growing niche providing CCTV on buses for transport operators. As well as providing great penetration of the bus market, through which Quadnetics hopes to sell its digital

systems, there are also material export opportunities for the enlarged business. The UK is a market leader in CCTV security systems and post September 11 there are significant export opportunities. The Look CCTV deal gave the Fund the opportunity to participate in an £8m funding round, investing £400,000 for a 1.5% stake.

Quadnetics is quoted on AIM and the strategy is to make use of this position to fund further bolt-on acquisitions should they become available.

NCP Control Room, Manchester



Shareholder Information

Shareholder Communications

Shareholder communications including Newsletters are available on the Investment Manager's website www.electraquoted.com.

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Past performance is no guarantee of future investment returns. The price of investments, and the income from them, can fall as well as rise. An investor may not get back the original amount invested. An investment in a VCT such as Electra Kingsway VCT, may carry a higher risk than many other forms of investment. Rates of tax relief may be changed by future legislation. Investments made by a VCT will normally be in companies where securities are not publicly traded or fully marketable and therefore may be difficult to realise. Loss of Inland Revenue VCT approval would be likely to reduce the value of the shares.

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