

**Electra Kingsway VCT**

# **Newsletter**

August 2002



## Key Features

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Last reported (unaudited) NAV per share at 31 March 2002:	94p
Portfolio Breakdown (unaudited) at 31 March 2002	
Cash:	£3.33m
Fixed interest securities:	£8.10m

## Investments

	Cost
April 2002 Advanced Medical Solutions	£0.50m
May 2002 Electra Active Management	£0.25m
July 2002 Nectar Taverns	£0.75m

## Shareholder Communication:

Electra Kingsway VCT intends to maintain clear channels of communication with shareholders. As well as interim and annual reports from the Company, the Investment Manager will send out frequent newsletters. These will also be available on the Investment Manager's website: [www.electraquoted.com](http://www.electraquoted.com).

## Timetable:

December 2002:	Announcement of Final Results for the period ending 30 September 2002
Spring 2003:	First Quarter Newsletter

## Investment Review

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Since the launch of the Company in October 2001 the NAV has remained broadly unchanged, reflecting the large proportion of the portfolio invested in bonds and the cautious investment approach of the management team. In the same period the FTSE All-Share Index has fallen by 11.1%.

Although the weakness in equity markets presents an excellent investment opportunity, we have maintained our disciplined focus on investing in qualifying companies that are established businesses offering a much lower risk profile. This is borne out in our first two qualifying investments, Advanced Medical Solutions, and Nectar Taverns, which are profiled on the following pages.

In accordance with the strategy set out in the prospectus, an initial investment of £0.25 million was also made in Electra Active Management, a fund managed by Electra Partners.

In general, we continue to have a high quality dealflow and we believe we are well placed to take advantage of current market conditions. We look forward to reporting on additional qualifying investments in future correspondence.

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# Advanced Medical Solutions

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Advanced Medical Solutions (AMS) is a Cheshire based company which specialises in the manufacture of woundcare products for the hospital and retail markets. This is often in partnership with global healthcare companies, such as Johnson & Johnson and Novartis.

The 'value added' is AMS's ability to produce moist wound dressings, often from complex alginate or silver fibre compounds, whose properties heal wounds more quickly and decrease the chances of infection or scarring. In April AMS had the opportunity to acquire Medlogic, a Plymouth based company which manufactures liquid wound sealants. The acquisition was seen as complementary to the Group's existing products and offered a tremendous growth opportunity. Glues are replacing traditional methods of wound closure such as suturing and staples as they are proving easier to apply and give a better cosmetic finish.



Wide range of wound dressings

Medlogic laboratories



Electra Kingsway VCT invested £0.5 million in a £4 million round of financing which facilitated the Medlogic acquisition and provided some further headroom for working capital. The company was valued at £8 million pre new money which included cash on the balance sheet of £5 million and tax losses of £7 million. The key to the investment decision however, was that the company was forecast to move to a trading cash breakeven position in the first quarter of 2004. In the past AMS had been too concerned with top line growth but the current management team have made a priority of achieving cash breakeven.



AMS Board

Medlogic liquid wound sealants applicator



AMS is quoted on the AIM market and a recent research note published by the company's broker is forecasting turnover of £13.3 million and pre tax profits of £0.5 million to December 2003. The company is now well positioned to exploit its portfolio of intellectual property and to grow by forging further commercial partnerships with major healthcare companies.

## Nectar Taverns

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Honeycombe Leisure is a quoted company specialising in the acquisition and management of managed public houses in the North West of England. The company had grown through acquisition but recently had become constrained by debt after a significant portfolio acquisition. In conjunction with the management, Electra Partners worked on an innovative scheme to fund future pub acquisitions without recourse to the quoted company's balance sheet.



A Nectar Tavern

Nectar Taverns  
Clive Preston & Brian Waldman





The Royal, Runcorn

A new company, Nectar Taverns, was established and funded with £4 million of equity and £7.5 million of debt finance from the Bank of Scotland. Electra Kingsway VCT invested £0.75 million in the transaction.

The strategy is to acquire approximately fifteen pubs in the North West of England over a two year period.

Value would be created by improving the returns in each unit through stronger management, new reporting systems and improved beer purchasing terms. All site acquisitions and subsequent management would be undertaken by the Honeycombe team who in return would take a performance related management fee. The process is underpinned by the independent board of Nectar Taverns who are also incentivised to maximise value on exit. This exit is likely to be via an auction process after three years.

The key attraction of the investment is that it is a leveraged asset backed deal, with good cashflow, using an existing management team with good local knowledge and a successful track record in buying managed pubs.



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