

Electra Kingsway VCT

Newsletter

August 2003



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

Last reported NAV per share at 31 March 2003 93.6p

Portfolio Breakdown at 31 March 2003

Cash	£4.2m
Fixed income securities	£7.9m
Non-qualifying investments	£1.0m
Qualifying investments	£2.6m

Investments To Date

		Cost
April 2002	Advanced Medical Solutions	£0.50m
May/Dec 02/Jun 2003	Electra Active Management	£0.70m
July 2002	Nectar Taverns	£0.75m
October 2002	Signature Brands Group	£0.75m
November 2002	Centurion Electronics	£0.50m
Dec 02/Mar 2003	Electra Investment Trust	£0.64m
April/Aug 2003	Berkeley Morgan	£0.74m
May 2003	BioProgress	£0.30m
May 2003	Keycom	£0.75m
July 2003	Online Travel	£0.90m
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		£6.53m

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 period ended 30 September 2002 have been delivered to the UK Registrar of Companies and the Report of the Auditors on those accounts was unqualified.

Investment Review

The last Chairman's Statement in respect of the six months to 31 March 2003 forecast a busy investment period for Electra Partners, with a number of potential investments close to completion. Since 31 March 2003 the number of qualifying investments has doubled from four to eight. These investments have taken place against the backdrop of increasing confidence for the prospects of smaller companies within the UK. The end of the Iraqi conflict and the SARS outbreak in the Far East, together with an improvement in the economic climate in the UK, have pushed the FTSE SmallCap Index up by 36% in the four months to 31 July 2003.

Electra Partners continues to adopt a conservative approach to the many financing opportunities received, maintaining a strong bias for established, prudently financed companies requiring expansion rather than start-up capital. Online Travel Corporation, for example, possesses a strong balance sheet and has been a public company for four years. BioProgress raised £5m through its admission to AIM in May, and is now benefiting from a robust financial base. The period between identifying a prospective transaction and the completion of a qualifying investment is often lengthy. Berkeley Morgan was first appraised last September, yet the final tranche of this transaction was only completed in August 2003.

The Fund has maintained a healthy and risk-averse balance in its non-qualifying investments, with the majority in bonds and cash, but with an increasing exposure to the diversified portfolio of Electra Investment Trust and the value-based Electra Active Management.

The Investment Manager looks forward to reporting on additional qualifying investments in the next Annual Report & Accounts.

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Berkeley Morgan

Berkeley Morgan is an independent financial intermediary which was founded by Jon Pardoe, the current Chairman and largest shareholder, in 1991. Under his direction, the group has grown steadily, reporting healthy levels of pre-tax profit in each of the last five years. Berkeley Morgan now comprises nine operating entities as a result of a number of recent acquisitions. Over the last year, the business has been rationalised into two operating divisions. The Investment Division is the amalgamation of three IFA businesses, specialising in pensions, mortgages and a company providing compliance and training to IFAs. The Protection Division comprises four IFA groups providing a range of products including health insurance, general insurance and life assurance.

The management team have demonstrated a consistent ability to control expenses and costs, which has been of benefit to the business in the period since 2000 as stock markets declined and the costs of regulating the products sold by IFAs increased. These factors have created a difficult operating environment for most IFA firms and the Investment Manager anticipated, at the time of investment, that the 2003 results of



BERKELEY
MORGAN
GROUP PLC

Berkeley Morgan may reflect such difficulties. The IFA market remains fragmented and consolidation is likely to continue for the next few years, potentially providing a healthy exit opportunity for the Fund.

The Fund invested £741,000 in a transaction that entailed a buy-back of shares by the company and the issue of new shares to the Fund. The Investment Manager has secured a non-executive position on the board, to assist the management team in enhancing shareholder value.

BioProgress

BioProgress is engaged in the research, development and marketing of a film used to coat tablets and liquid capsules for the pharmaceutical and health products markets.

The company's key technology is a coating material made from a derivative of wood pulp. This material has not previously been used as a film or coating. Its core properties are that it is ingestible and can be manufactured to any width and strength. This provides a number of advantages over traditional gelatin coating. Gelatin is made from animal renderings, has possible health concerns relating to BSE and is unacceptable to certain religious groups. Manufacturing gelatin is complicated, time consuming and expensive. The company anticipates that if tablet coating were adopted by the industry as a replacement for gelatin, the potential returns could be considerable.

BioProgress was originally listed on the Over The Counter market in the US, although most of its operations are based in the UK.

In 2003 the company applied to join AIM and raised £5m to provide working capital for expansion. At the time of its listing, BioProgress had an order book for £5.5m and was forecasting cash breakeven by the end of 2003. Unsurprisingly the company has received a number of enquiries from pharmaceutical companies interested in the application of the technology. The Fund invested £300,000 in the AIM fund raising.



Keycom

Keycom provides telecommunication and data services to students, delivering a telephone and internet service to 46 universities covering some 120 separate sites and over 50,000 student rooms. The company aims to provide telephone, internet and data communications to every student bedroom on campus.

Through its link with JANET (the academic network) students can gain access to university systems and local area networks. Demand for Keycom's services are driven by students' needs for cheap telephone services, access to the internet and the university network from their own rooms as an increasing number of students have their own computers.

The company was established in April 2000 as a spin-off from Key Student Services which initially covered four universities. The company has benefited from the limitations of its competitors. NetNet went into receivership with 16 sites which Keycom were able to secure and Campus Link with its 50 sites was effectively acquired from the Receiver in 2001.

Keycom is now the largest provider of these services to students. The Fund invested £750,000 as part of a small institutional fund raising to provide working capital for the company.



Online Travel Corporation

Online Travel Corporation (“OTC”), based in Twickenham, was founded in 1997 by the current CEO, Mark Jones and has been known to Electra Partners since 2000. This relationship enabled the Fund to ascertain that there was an opportunity to provide expansion capital to OTC to assist with its rapid growth.

OTC is a travel agent, which also provides support services to other travel agents, using the internet to gain a competitive advantage over the more traditional high street operators.

OTC’s primary businesses are: Direct sales of holidays under its own branded websites, such as Onlinetravel.com, which caters for the leisure market: Sophisticated IT systems, which enable it to operate other travel providers’ branded sites on their behalf: Licensing, whereby OTC establishes internet travel sites for other operators from scratch. A low cost, pragmatic approach ensured that OTC was the first internet travel business to become EBITDA positive at the end of last year.



Having been a public company for over four years, OTC has a talented and experienced board. Since its listing on AIM in 1998 OTC has increased turnover from £2m to an expected £17m for the current year. OTC’s brokers, Altium Capital, are forecasting turnover of £22m next year and profits of £3.5m.



Shareholder Information

Shareholder Communications

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

Investor Enquiries

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Important Notice

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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 Venture Capital Trust ('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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