

Electra Kingsway VCT Plc

Interim Report & Accounts

31 March 2004

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.



Contents

	Interim Report
2	Financial Highlights
3	Chairman's Statement
4	Investment Manager's Review
5	Portfolio Summary
	Accounts
6	Statement of Total Return
6	Reconciliation of Total Shareholders' Funds
7	Balance Sheet
8	Cash Flow Statement
9	Statement of Accounting Policies
10	Notes to the Accounts
	Company Information
11	Contact Details

References in this Report 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.

Interim Report Financial Highlights

(unaudited)

	31 March 2004	31 March 2003
Funds raised	£22.2m	£16.9m
Total net assets	£25.6m	£15.8m
Net Asset Value per share	117.45p	93.59p
Total dividend paid per ordinary share †	1.65p	0.75p
Total Return per ordinary share (NAV plus dividends) †	119.10p	94.34p
Total Return per ordinary share (over the Company's initial NAV of 95p)	25.4%	(0.7%)

† Since first share allotment date.

Interim Report Chairman's Statement

I am pleased to present my third interim statement to shareholders. During the period the Fund raised a further £2 million through a "Top Up Offer", which was quickly subscribed. This was partly a reflection of the Fund's continued strong performance, and also of an improving investment climate. The total funds raised to date amount to £22.2 million, and the Board will keep the possibility of further fund-raising under review, particularly after the Chancellor's changes to the tax incentives for VCT investors.

The net asset value per share was 117.45p at 31 March 2004, compared with the 95p net launch price. This represents a total return (including dividends) to shareholders of 25.4% over the net launch price. Good progress has been made in building a portfolio of qualifying investments that should produce long-term capital growth for shareholders.

Investment Activity

Six qualifying investments were made in the period, and their details are in the Investment Manager's Report. Two more unquoted investments were completed in April, bringing the total number of qualifying investments to 16. Their current cost is £9.8 million, so the Fund is on course to meet its VCT qualifying target before the 30 September 2004 deadline. The Investment Manager has also been active in realising profits when suitable opportunities have presented themselves.

Outlook

The Board remains confident that the Fund is well positioned to meet its investment objectives and to provide shareholders with a significant capital return.

Rupert Pennant-Rea

7 June 2004

Interim Report Investment Manager's Review

Good progress has been made in building a well-diversified portfolio of smaller companies that will provide strong capital growth prospects. In the period six investments were made, and a further two were completed in April, bringing the total number of qualifying investments to 16. Deal flow remains good and the Investment Manager anticipates that, given the progress to date the Fund will achieve its VCT qualification status ahead of the 30 September 2004 deadline. The Investment Manager has sought to maintain a balance between unquoted and AIM investments in line with its investment policy. However, there are indications that AIM investments are becoming overpriced and, therefore, finding attractively valued flotations is difficult. The benefits of being a generalist fund will become more significant as the Investment Manager can concentrate on unquoted investments if AIM investments become over valued. In this respect the Fund is well positioned owing to the Investment Manager's strong unquoted deal flow.

The total return per ordinary share has risen to 25.4%, which is a good performance given that the majority of the funds were invested in corporate bonds for the first two years. A large part of this early performance has been due to the AIM investments, which in aggregate have performed strongly, led by Bioprogress and Centurion Electronics. In addition two unquoted stocks, Berkeley Morgan and Nectar Taverns, were written up in value and one, Signature Brands, was written down, all in line with their underlying trading performance and the BVCA guidelines. We were also active in taking profits in stocks that performed well and realised over £1 million from the disposal of shares in Bioprogress and Centurion Electronics. At 31 March 2004 the Company had cash deposits of £5.3 million and £5.4 million in the short-dated bond portfolio.

New Qualifying Investments in the Period

James & James



The company is a business-to-business publisher of international environmental magazines and directories. It has established leading titles in certain energy, waste and conservation sectors. The core magazines are three bi-monthly, advertising led titles: Renewable Energy World, Co-Generation and On-site Power Generation, and Waste Management World.

Media Square



The company specialises in market communications consultancy and retail marketing production support. It was floated on AIM in 2001 with the objective of acquiring similar companies and achieving scale and obtaining operational synergies.

Music Copyright Solutions



MCS administers and owns music copyright. The company derives revenues from 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.

Happy Times



Happy Times is the owner and operator of three children's nurseries in London and was seeking funding to facilitate the roll-out of two further sites in the London area. The dynamics of the market, particularly in the affluent London boroughs, remain favourable.

Immedia Broadcasting



Immedia 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 the large confectionery and drinks companies; the second service is a bespoke radio station, tailored to meet the requirements of the client.

Quadnetics



Quadnetics specialises in the design and implementation of CCTV systems for large municipal councils. It is set to benefit from the conversion of existing analogue systems to digital technology and a strong export market to the USA. It recently acquired Look CCTV, which specialises in the installation of CCTV cameras in buses.

Investments Completed or Committed after the Period

Hallmarq



Hallmarq has developed an MRI scanner for use in the equine market. Lameness in horses is a common injury yet diagnosis is difficult. The company has contracts with a number of the leading equine veterinary practices around the world. The key attraction of the model is that the company receives a payment based on the volume of usage.

Epoin



Epoin specialises in the design and supply of interactive terminals for consumer use in the digital imaging, retail/leisure and healthcare markets. The main growth is forecast to derive from the roll-out of digital photo kiosks and from the success of interactive gaming terminals in pubs and clubs.

Interim Report Portfolio Summary

(unaudited)

	Basis of Valuation	Cost at 31 March 2004 £	Valuation at 31 March 2004 £	% of Portfolio by Value %
Qualifying Investments:				
Berkeley Morgan Independent financial intermediary	Directors' valuation	939,179	1,875,000	9.32
Nectar Taverns Managed public houses	Directors' valuation	750,000	1,535,000	7.63
Centurion Electronics Manufacturer and wholesaler of in-car DVD and video systems	Mid-market price	514,780	1,481,014	7.36
Online Travel Corporation Internet based travel company	Mid-market price	900,000	1,082,142	5.38
Media Square Marketing communications	Mid-market price	600,000	1,025,000	5.10
Keycom Student communication services	Price of recent investment	950,963	950,963	4.73
James & James Publisher	Price of recent investment	750,000	750,000	3.73
Happy Times Children's nursery operator	Price of recent investment	750,000	750,000	3.73
BioProgress Pharmaceutical products	Mid-market price	100,000	646,875	3.22
Advanced Medical Solutions Designer and manufacturer of advanced woundcare products	Mid-market price	500,000	610,294	3.03
Music Copyright Solutions Music copyright	Price of recent investment	500,004	500,004	2.49
Quadnetics CCTV	Mid-market price	399,999	498,112	2.48
Signature Brands Group Retailer of women's fashion wear	Directors' valuation	750,000	375,000	1.86
Immedia Broadcasting Radio stations	Mid-market price	275,000	271,250	1.35
		8,679,925	12,350,654	61.41
Non-Qualifying Investments:				
Electra Active Management		1,250,000	1,425,441	7.09
Electra Investment Trust		640,460	923,750	4.59
		1,890,460	2,349,191	11.68
Fixed Income Securities:				
Treasury 5% (07.06.04)		962,350	951,615	4.74
Diageo 9.0% (31.05.05)		552,000	523,400	2.60
McDonalds 6.25% (07.12.05)		525,000	509,600	2.53
UBS AG 7.375% (26.11.04)		522,750	508,700	2.53
ASIF II 6.5% (26.11.04)		519,950	506,025	2.52
Dexia 8.375% (16.06.04)		527,500	503,825	2.50
BMW (UK) 6.5% (10.08.04)		517,000	503,275	2.50
IBM 6.0% (28.06.04)		512,250	501,700	2.49
Alliance & Leicester 5.125% (08.11.04)		507,500	501,575	2.49
General Electric 6.5% (26.11.04)		416,200	404,740	2.01
		5,562,500	5,414,455	26.91
		16,132,885	20,114,300	100.00
Cash			5,321,902	
Total			25,436,202	

Accounts Statement of Total Return

(incorporating the Revenue Account)

	Notes	For the six months ended 31 March 2004 (unaudited)			For the six months ended 31 March 2003 (unaudited)			For the year ended 30 September 2003 (audited)		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains on investments		-	2,541,078	2,541,078	-	66,070	66,070	-	2,117,035	2,117,035
Realised gains/(losses) on investments		-	443,727	443,727	-	(87,928)	(87,928)	-	61,369	61,369
Income	1	290,950	-	290,950	348,529	-	348,529	668,134	-	668,134
		290,950	2,984,805	3,275,755	348,529	(21,858)	326,671	668,134	2,178,404	2,846,538
Investment management fees		(72,661)	(217,984)	(290,645)	(32,189)	(96,568)	(128,757)	(87,703)	(263,109)	(350,812)
Other expenses		(148,365)	-	(148,365)	(156,181)	-	(156,181)	(344,339)	-	(344,339)
Return on Ordinary Activities										
before Taxation		69,924	2,766,821	2,836,745	160,159	(118,426)	41,733	236,092	1,915,295	2,151,387
Tax on ordinary activities		(20,574)	21,796	1,222	(33,769)	18,349	(15,420)	(54,579)	49,991	(4,588)
Return on Ordinary Activities										
after Taxation		49,350	2,788,617	2,837,967	126,390	(100,077)	26,313	181,513	1,965,286	2,146,799
Dividend		-	-	-	-	-	-	(178,243)	-	(178,243)
Transfer to/(from) Reserves		49,350	2,788,617	2,837,967	126,390	(100,077)	26,313	3,270	1,965,286	1,968,556
Return per Ordinary Share	2	0.24p	13.83p	14.07p	0.79p	(0.63p)	0.16p	1.03p	11.08p	12.11p

All revenues and capital in the above statement derive from continuing activities.

The Revenue column of this statement is the Profit and Loss Account of the Company.

The information on pages 9 to 10 form part of these Financial Statements.

Accounts Reconciliation of Total Shareholders' Funds

	For the six months ended 31 March 2004 (unaudited) £	For the six months ended 31 March 2003 (unaudited) £	For the year ended 30 September 2003 (audited) £
Total Return	2,837,967	26,313	2,146,799
Share issue expenses charged to			
Share Premium account	(130,533)	(55,060)	(224,981)
Ordinary shares issued	2,373,319	1,157,175	4,090,587
Repurchase of Ordinary shares	(13,021)	-	(34,624)
Dividend on ordinary shares	-	-	(178,243)
Movements in Total Shareholders' Funds	5,067,732	1,128,428	5,799,538
Total Shareholders' Funds at start of period	20,500,947	14,701,409	14,701,409
Total Shareholders' Funds	25,568,679	15,829,837	20,500,947

Accounts Balance Sheet

as at 31 March 2004

Notes	As at 31 March 2004 (unaudited)		As at 31 March 2003 (unaudited)		As at 30 September 2003 (audited)	
	£	£	£	£	£	£
Fixed Assets						
Investments	3	20,114,300	11,487,062		16,517,969	
Current Assets						
Debtors and prepayments		203,979	418,287		372,802	
Outstanding settlements		–	500,000		–	
Cash at bank		5,321,902	4,234,078		3,898,192	
		5,525,881	5,152,365		4,270,994	
Current Liabilities						
Creditors: amounts falling due within one year						
Other creditors		71,502	809,590		288,016	
		71,502	809,590		288,016	
Net Current Assets		5,454,379	4,342,775		3,982,978	
Net Assets		25,568,679	15,829,837		20,500,947	
Capital and Reserves						
Called-up share capital		217,694	169,149		198,048	
Share premium		13,774,186	15,902,904		11,551,185	
Capital redemption reserve		575	–		435	
Special reserve		7,038,230	–		7,051,251	
Realised capital reserve		498,018	(302,460)		(340,843)	
Unrealised capital reserve		3,981,415	(72,086)		2,031,660	
Revenue reserve		58,561	132,330		9,211	
Total Equity Shareholders' Funds		25,568,679	15,829,837		20,500,947	
Net Asset Value per Ordinary Share		117.45p	93.59p		103.52p	
		As at 31 March 2004 (unaudited)	As at 31 March 2003 (unaudited)		As at 30 September 2003 (audited)	
Number of Ordinary Shares in issue at end of period		21,769,415	16,914,898		19,804,760	

Accounts Cash Flow Statement

	For the six months ended 31 March 2004 (unaudited)		For the six months ended 31 March 2003 (unaudited)		For the year ended 30 September 2003 (audited)	
	£	£	£	£	£	£
Operating Activities						
Investment income received	324,123		451,650		761,125	
Bank deposit interest received	40,681		59,132		128,673	
Investment management fees paid	(243,812)		(202,528)		(458,124)	
Other cash payments	(187,127)		(216,930)		(316,337)	
Net Cash (Outflow)/Inflow from Operating Activities		(66,135)		91,324		115,337
Taxation		-		-		(10,195)
Capital Expenditure and Financial Investments						
Acquisition of investments	(4,022,746)		(6,331,584)		(11,719,307)	
Sale of investments	3,461,069		4,121,175		7,075,679	
Net Cash Outflow from Capital Expenditure and Financial Investments		(561,677)		(2,210,409)		(4,643,628)
Equity Dividend Paid		(178,243)		(118,183)		(118,183)
Cash Outflow before Financing and Management of Liquid Resources		(806,055)		(2,237,268)		(4,656,669)
Financing						
Issue of ordinary shares	2,373,319		1,157,175		4,090,587	
Expenses of the issue of ordinary shares	(130,533)		(55,060)		(224,981)	
Cash held pending issue of ordinary shares	-		645,252		-	
Repurchase of ordinary shares	(13,021)		-		(34,624)	
Net Cash Inflow from Financing		2,229,765		1,747,367		3,830,982
Increase/(Decrease) in Cash for the Period		1,423,710		(489,901)		(825,687)

Accounts Statement of Accounting Policies

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

a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice (2003), 'Financial Statements of Investment Trust Companies'.

b) Valuation of investments

Listed investments and investments traded on AIM are stated at closing mid-market prices. Where quoted investments are subject to restrictions, an appropriate discount to the latest market price is applied with regard to the BVCA valuation guidelines (2003).

Unquoted investments and investments traded on OFEX are stated at Directors' valuation.

In valuing unlisted investments, the Directors follow a number of general principles in accordance with the latest BVCA guidelines.

Realised gains or losses on the disposal of investments are taken to the realised capital reserve. Unrealised gains or losses on the revaluation of investments are taken to the unrealised capital reserve.

c) Income

Dividends receivable from equity investments are brought into account on the ex-dividend date.

Fixed returns on non-equity investments and on debt securities are recognised on a time apportionment basis, which reflects the effective yield.

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

d) Expenses

All expenses are accounted for on an accruals basis and are charged through the revenue account, except as follows:

- expenses which are incidental to the acquisition of an investment are included in the cost of investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment;
- expenses incurred as a result of an issue of shares are allocated against the share premium account; and
- expenses relating to investment management and incentive fees, which are dealt with below.

e) Investment management and incentive fees

The investment management fees for the Investment Manager's services are charged 25% to the revenue account and 75% to the capital account. This is in line with the Board's long-term projections of returns from the investment portfolio of the Company. The incentive fee on realisations in the period is charged to the realised capital reserve and the incentive fee provision in respect of unrealised value growth in the portfolio is charged to the unrealised capital reserve.

f) Capital reserves

Gains and losses on the realisation of investments are accounted for in the realised capital reserve. Increases and decreases in the valuation of investments held at the period end are accounted for in the unrealised capital reserve.

g) Taxation

The charge for taxation is based on the net revenue for the period. Deferred tax is provided for in accordance with Financial Reporting Standard 19 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.

The tax effects of different items in the Statement of Total Return 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.

Accounts Notes to the Accounts

1 Income

	For the six months ended 31 March 2004 (unaudited) £	For the six months ended to 31 March 2003 (unaudited) £	For the year ended 30 September 2003 (audited) £
Franked investment income	11,873	–	–
Interest from fixed income securities	237,867	289,396	539,461
Interest from bank deposits	41,210	59,133	128,673
	290,950	348,529	668,134

2 Return to Shareholders per Ordinary Share

The revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £49,350 (31.03.2003: £126,390 and 30.09.2003: £181,513) and on 20,166,676 (31.03.2003: 15,970,116 and 30.09.2003: 17,733,423) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The capital return per ordinary share is based on net capital gains of £2,788,617 (31.03.2003: loss of £100,077 and 30.09.2003: £1,965,286) and on 20,166,676 (31.03.2003: 15,970,116 and 30.09.2003: 17,733,423) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

3 Investments

	Qualifying Investments			Non-qualifying Investments				Total £
	Traded on AIM £	Traded on OFEX £	Unlisted £	Open-ended Investment Company £	Closed-ended Investment Company £	Traded on OFEX £	Fixed Income Securities £	
Cost at 1 October 2003	2,336,000	1,692,399	1,500,000	700,000	640,460	–	7,617,450	14,486,309
Unrealised gains/(losses) at 1 October 2003	1,906,494	–	–	82,651	151,415	–	(108,900)	2,031,660
Valuation at 1 October 2003	4,242,494	1,692,399	1,500,000	782,651	791,875	–	7,508,550	16,517,969
Purchases at cost	1,274,999	500,004	1,500,000	550,000	–	197,743	–	4,022,746
Sales at valuation	(949,643)	–	–	–	–	–	(2,017,850)	(2,967,493)
Unrealised gains/(losses) in period	1,046,837	738,785	410,000	92,790	131,875	197,036	(76,245)	2,541,078
Valuation at 31 March 2004	5,614,687	2,931,188	3,410,000	1,425,441	923,750	394,779	5,414,455	20,114,300
Cost at 31 March 2004	3,289,779	2,192,403	3,000,000	1,250,000	640,460	197,743	5,562,500	16,132,885
Unrealised gains/(losses) at 31 March 2004	2,324,908	738,785	410,000	175,441	283,290	197,036	(148,045)	3,981,415
Valuation at 31 March 2004	5,614,687	2,931,188	3,410,000	1,425,441	923,750	394,779	5,414,455	20,114,300

Company Information Contact Details

Electra Kingsway VCT Plc

Board of Directors

Rupert Pennant-Rea (Chairman)
Michael Broke
David Donnelly
Nicholas Ross
David Sebire

Investment Manager and Administrator

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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.





