

Electra Kingsway VCT Plc

Report & Accounts

30 September 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.

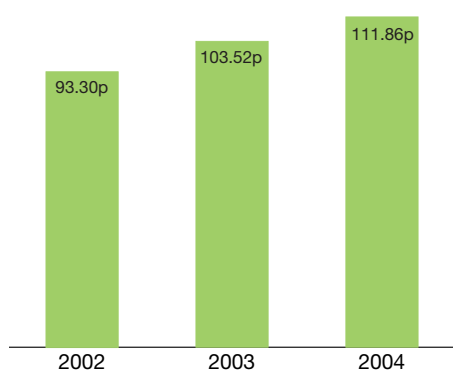
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References in this Report to Electra Kingsway VCT Plc have been abbreviated to 'the Company' or 'the Fund'. References to Electra Partners Limited and its subsidiaries, including the Investment Manager, Electra Quoted Management Limited, have been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

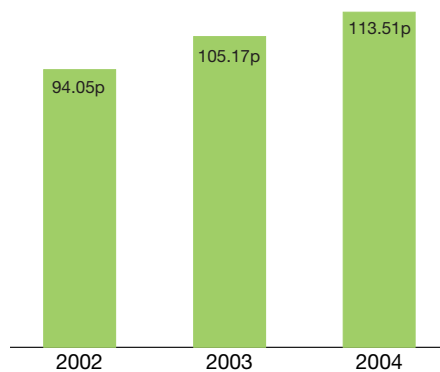
Annual Review Financial Highlights

Year ended 30 September	2004	2003
Net assets	£24.3m	£20.5m
Net asset value per share	111.86p	103.52p
Dividend per share		
Revenue	–	0.90p
Cumulative return to shareholders since launch		
Dividends per share	1.65p	1.65p
Net asset value plus dividends per share	113.51p	105.17p
Unaudited net asset value per share as at 31 December 2004	117.10p	–

Net asset value per share as at 30 September



Net asset value plus cumulative dividends per share as at 30 September



Annual Review Chairman's Statement

In my third annual statement to shareholders I am pleased to report that your Company has made good progress since its launch in 2001. At the year end total funds raised were £22m which – considering the difficult market conditions – compares well with the target of £25m. The Investment Manager has built a diversified portfolio whose good early performance is expected to continue as the investments mature. The Fund reached its 70% qualification hurdle in the year and is now in a position to return any realised profits to shareholders in the form of tax free dividend payments.

The audited net asset value of the Company at the year end was 111.9p per share, up from 103.5p at the start of the year, an increase of 8%. During the same period the FTSE All-Share Index rose by 12%.

The unaudited net asset value as at 31 December 2004 was 117.1p per share, reflecting the updated prices in the AIM portfolio.

Portfolio Activity

The portfolio performed well on all levels. The qualifying AIM stocks rose in the period led by BioProgress and Media Square. The unquoted qualifying portfolio was up 18%; this included increases in the carrying values of Nectar Taverns and Berkeley Morgan and a provision against Signature Brands and Keycom which had both fallen behind plan. The two non-qualifying funds, Electra Investment Trust and Electra Active Management, were up 24% in the year.

In addition after the year end Berkeley Morgan announced a recommended cash offer from Personal Group. This transaction is expected to complete in the early part of 2005 and should enable a significant capital distribution to be made to shareholders.

During the year the Company completed investments in nine qualifying companies, bringing the total to 17. Most have good growth potential and are either trading profitably or are close to cash breakeven, with the result that the portfolio is now well diversified with significant upside potential. More details are provided in the Investment Manager's Report on page 4.

At the year end the Fund had £5.6m in cash and corporate bonds awaiting investment into qualifying companies.

Dealflow remains strong, with a further two new investments completed after the year end. The Fund is therefore close to being fully invested and the Investment Manager expects it to be fully invested by June 2005.

Share Price and Discount Management

Under the general authority granted by shareholders at the Annual General Meeting held in February 2004, the Company made on-market purchases and cancelled 42,000 shares during the year. The Directors believe that this facility enhances market liquidity in the Company's shares and will be seeking to renew this general authority at the Annual General Meeting to be held on 14 March 2005.

Dividends

Although no final dividend is proposed as the revenue account only generated a small surplus, the Board anticipates that following disposals from the capital account a dividend will be paid in respect of the year ended 30 September 2005.

Prospects

The current market environment remains favourable and the portfolio offers significant upside potential as the investments start to mature. In due course this will enable your Company to start distributing realised investment gains in the form of tax free dividends.

Rupert Pennant-Rea, Chairman

20 January 2005

Annual Review Investment Manager

The Fund's investments are managed by Electra Quoted Management, which is a subsidiary of Electra Partners. Electra Quoted Management was established in 1981 and is authorised and regulated by the Financial Services Authority. Electra Partners is the Manager of Electra Investment Trust (net assets of approximately £427m as at 30 September 2004), and the Manager or Adviser of other specialist funds, including a €1 billion European private equity fund.

Electra Partners has considerable expertise and a strong track record in private equity 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.

The Investment Manager has established an Investment Committee comprising Nick Ross, together with four senior executives of Electra Partners – Hugh Mumford, David Symondson, Rhian Davies and Michael George. Hugh Mumford is the Chairman of the Investment Committee.

The Investment Committee meets as required to consider and review investment proposals.



Qualifying Investments Valuation Methodology

The Directors have adopted a valuation policy drawn substantially from the latest BVCA guidelines in respect of unquoted investments.

Under these guidelines all investments are valued at fair value at the reporting date, except in situations where fair value cannot be measured reliably. In such situations the investments are reported at the carrying value at the previous reporting date, unless there is evidence that the investment has since then been impaired.

The fair value of an asset is defined as the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

- a) For unquoted investments including OFEX investments, fair value is commonly determined by utilising one or a combination of the following methodologies:
 - earnings multiple
 - price of recent investment
 - net assets
 - industry valuation benchmarks
- b) For quoted investments, fair value is determined by taking the mid market price, which is the recognised convention of AIM upon which the Fund's quoted portfolio companies will be most commonly listed. A marketability discount will be applied where:
 - there is a risk that the holding may not be sold immediately
 - there is a formal restriction on trading in the relevant securities.

The marketability discount will normally be up to 30% (applied in bands of 5%) in such cases and a description will be provided on the assumptions for this rate, and any other which is adopted, according to the circumstances of each individual investment.

- c) For unquoted companies, investments held for less than one year will be valued at cost, in the absence of any reason to institute an impairment or any reason to uplift the investment.

Annual Review Investment Manager's Review

Investment Overview

In the year to 30 September 2004 the unaudited total return to shareholders rose from 105.17p to 113.51p. Since the year end further progress has been made and the unaudited total return to shareholders has risen to 118.75p at 31 December 2004. Over the year the Fund completed nine qualifying investments and reached its 70% qualification hurdle. As at 30 September 2004 the total investment in qualifying companies was £11.5m spread between 17 investments. Given that current dealflow remains strong, the Fund is expected to be fully invested by June 2005.

Realisations in the year have included BioProgress which has been a very successful investment for the Fund making a return of 410% on its original cost. Although the company has significant growth opportunities we had some concern over the short term profitability.

Performance of the Fund

In the unquoted qualifying portfolio two investments were increased in value and two have had provisions made against them. Berkeley Morgan, a specialist IFA, was an investment made by the Fund in 2002 which has performed well. As at 30 September 2004, it has been valued on a comparative industry earnings multiple leading to a 92% uplift on cost. Since the year end the company has agreed to recommend a cash offer from Personal Group, an industry competitor. Nectar Taverns, a managed pub company, has also performed in line with expectations resulting in a valuation uplift also based on a comparative industry earnings multiple. Both Signature Brands and Keycom had disappointing years and it was necessary to make provisions against their carrying values. There were no other valuation changes to the unquoted qualifying portfolio.

The AIM portfolio, which comprised eight investments at the year end, was up 55% on cost. The main performers were BioProgress and Centurion Electronics. Both saw significant price increases, as a result of which we realised over £1.4m of gains at an average uplift of 4.4x cost. During the year Lastminute.com acquired Online Travel at a price that initially gave the Fund a reasonable uplift on its original investment in Online Travel. The offer, however, was a paper one and in the months after the transaction the price of Lastminute.com fell. Due to the Fund being in its pre-qualification period for VCT clearance it was prudent to hold onto our shares.

New Qualifying Investments

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. The core products are three bi-monthly advertising-led magazines: Renewable Energy World, Co-Generation & On-site Power Generation and Waste Management World.

Media Square



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

Music Copyright Solutions ("MCS")



MCS administers and owns music copyright. The company drives 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.

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 Boroughs of London, 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 specializes 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 in the US. It recently acquired Look CCTV, which specializes in the installation of CCTV cameras in buses.

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.

ePOINT



ePOINT specializes in the design and supply of interactive terminals for consumer use in the digital imaging, retail/leisure and healthcare markets. Growth is forecast to derive predominantly from the roll-out of digital photo kiosks and from the success of interactive gaming terminals in pubs.

Brady



The company supplies an integrated software package for the trading, risk assessment, settlement and physical delivery of metal commodities. It has a market leading position within a niche sector with good opportunities for organic growth. The company recently acquired OpVal which enables it to enter the energy trading sector with a complimentary product range.

Non-qualifying Investments

Electra Investment Trust, a private equity fund, announced a 20% uplift in its NAV for the year ended 30 September 2004 and completed a £100m tender offer during the year.

Electra Active Management specializes in smaller quoted stocks investing in undervalued opportunities where a value catalyst can lead to good investment returns. The fund has continued to outperform its benchmark the FTSE SmallCap (Total Return) Index in the year.

Bond Portfolio

At the end of the financial year the Fund had £2.9m invested in a portfolio of corporate bonds with short term maturity dates and good credit ratings. Bond maturities are matched to the investment profile of the qualifying portfolio thus enabling the Fund to finance further investments into the qualifying portfolio.

Annual Review Portfolio Summary

	Cost at 30 September 2004 £	Valuation at 30 September 2004 £	% of Portfolio by Value %
Qualifying Investments:			
Berkeley Morgan	1,129,758	2,171,093	10.12
Media Square	1,230,000	1,551,250	7.24
Nectar Taverns	750,000	1,535,000	7.16
Centurion Electronics	514,780	1,094,345	5.11
Lastminute.com	900,000	791,399	3.69
BioProgress	100,000	756,250	3.53
Hallmarq	750,006	750,006	3.50
James & James	750,000	750,000	3.50
Happy Times	750,000	750,000	3.50
Keycom	950,963	738,500	3.45
Brady	750,000	726,852	3.39
ePOINT	550,000	550,000	2.57
Music Copyright Solutions	500,004	500,004	2.33
Advanced Medical Solutions	500,000	477,941	2.23
Quadnetics	399,999	422,640	1.97
Signature Brands Group	750,000	375,000	1.75
Immedia Broadcasting	275,000	190,000	0.89
	11,550,510	14,130,280	65.93
Non-qualifying Investments:			
Electra Investment Trust	1,862,149	2,193,813	10.23
Electra Active Management	2,000,000	2,187,380	10.20
	3,862,149	4,381,193	20.43
Fixed Income Securities:			
Diageo 9.0% (31.05.05)	552,000	512,725	2.39
McDonalds 6.25% (07.12.05)	525,000	507,000	2.37
UBS AG 7.375% (26.11.04)	522,750	501,775	2.34
ASIF II 6.5% (26.11.04)	519,950	501,100	2.34
Alliance & Leicester 5.125% (08.11.04)	507,500	500,075	2.33
General Electric 6.5% (26.11.04)	416,200	400,900	1.87
	3,043,400	2,923,575	13.64
	18,456,059	21,435,048	100.00
Cash		2,743,683	
Total		24,178,731	

Annual Review Fifteen Largest Qualifying Investments*

Berkeley Morgan		Year ended April	2004
Cost	£1,129,758		£m
Valuation	£2,171,093	Sales	16.5
Basis of valuation	Earnings multiple	Profit before tax	1.27
Equity held	17.60%	Retained profit	1.0
Business	An Independent Financial Adviser	Net assets	2.4

Media Square		Year ended October	2003
Cost	£1,230,000		£m
Valuation	£1,551,250	Sales	4.3
Basis of valuation	Mid market price (AIM)	Profit before tax	0.3
Equity held	8.00%	Retained profit	0.3
Business	An advertising and retail marketing company	Net assets	3.9

Nectar Taverns		Year ended April	2004
Cost	£750,000		£m
Valuation	£1,535,000	Sales	3.4
Basis of valuation	Earnings multiple	Profit before tax	0.3
Equity held	18.50%	Retained profit	0.2
Business	Acquisition of a portfolio of managed pubs in north-west England	Net assets	3.8

Centurion Electronics		Year ended September	2004
Cost	£514,780		£m
Valuation	£1,094,345	Sales	15.7
Basis of valuation	Mid market price (AIM)	Profit before tax	2.2
Equity held	7.75%	Retained profit	1.4
Business	Design and development of in-car entertainment systems	Net assets	6.3

Lastminute.com		Year ended September	2004
Cost	£900,000		£m
Valuation	£791,399	Sales	440
Basis of valuation	Mid market price (AIM)	Profit before tax	4.5
Equity held	0.22%	Retained profit	4.8
Business	Online provision of holiday, flight and hotel bookings	Net assets	95.2

* Information on the above investments is extracted from their latest audited accounts.

Annual Review Fifteen Largest Qualifying Investments

BioProgress		Year ended December	2003
Cost	£100,000		£m
Valuation	£756,250	Sales	0.9
Basis of valuation	Mid market price (AIM)	Profit before tax	(1.6)
Equity held	0.60%	Retained profit	(1.6)
Business	Development and commercialisation of a cellulose film used in the coating of tablets	Net assets	19.1

Hallmarq		Year ended August	2004
Cost	£750,006		£m
Valuation	£750,006	Sales	1.1
Basis of valuation	Price of recent investment	Profit before tax	(0.1)
Equity held	11.25%	Retained profit	0.2
Business	The design, manufacture and sale of MRI equipment to the equine market	Net assets	0.9

Happy Times		Year ended March	2004
Cost	£750,000		£m
Valuation	£750,000	Sales	2.7
Basis of valuation	Price of recent investment	Profit before tax	(0.2)
Equity held	12.20%	Retained profit	(0.2)
Business	Owner/operator of children's nurseries	Net assets	2.0

James & James		Year ended December	2003
Cost	£750,000		£m
Valuation	£750,000	Sales	2.0
Basis of valuation	Earnings multiple	Profit before tax	(0.2)
Equity held	32.30%	Retained profit	(0.2)
Business	A Publisher of magazines focusing on the environment sector	Net assets	0.8

Keycom		Year ended September	2004
Cost	£950,963		£m
Valuation	£738,500	Sales	2.0
Basis of valuation	Earnings multiple	Profit before tax	(1.2)
Equity held	12.00%	Retained profit	(1.1)
Business	Provision of broadband and telephone services to students living in halls of residence	Net assets	(0.0)

* Information on the above investments is extracted from their latest audited accounts.

Annual Review Fifteen Largest Qualifying Investments

Brady		Year ended December	2003
Cost	£750,000		£m
Valuation	£726,852	Sales	2.4
Basis of valuation	Mid market price (AIM)	Profit before tax	0.6
Equity held	3.66%	Retained profit	0.6
Business	Provision of integrated software packages for the trading of metal commodities	Net assets	1.3

ePOINT		Year ended September	2003
Cost	£550,000		£m
Valuation	£550,000	Sales	8.0
Basis of valuation	Price of recent investment	Profit before tax	(0.7)
Equity held	4.75%	Retained profit	(0.3)
Business	Manufacture of touch screen terminals for the retail, leisure and healthcare market	Net assets	0.1

Music Copyright Solutions		Year ended December	2003
Cost	£500,004		£m
Valuation	£500,004	Sales	7.0
Basis of valuation	Earnings multiple	Profit before tax	(0.5)
Equity held	12.13%	Retained profit	(0.5)
Business	The company administers and owns music copyright	Net assets	1.9

Advanced Medical Solutions		Year ended December	2003
Cost	£500,000		£m
Valuation	£477,941	Sales	9.1
Basis of valuation	Mid market price (AIM)	Profit before tax	(2.3)
Equity held	4.10%	Retained profit	(2.1)
Business	Commercial development of a range of wound care products	Net assets	12.0

Quadnetics		Year ended May	2004
Cost	£399,999		£m
Valuation	£422,640	Sales	18.1
Basis of valuation	Mid market price (AIM)	Profit before tax	1.4
Equity held	1.54%	Retained profit	1.1
Business	Development and installation of CCTV networked surveillance systems	Net assets	18.8

* Information on the above investments is extracted from their latest audited accounts.

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

Electra Quoted Management Limited
65 Kingsway
London
WC2B 6QT
Telephone +44 (0)20 7831 6464
www.electraquoted.com

Secretary and Registered Office

Philip Dyke
65 Kingsway
London
WC2B 6QT
Telephone +44 (0)20 7831 6464

Company Number

4286368

Registered Independent Auditors and VCT Advisors

PricewaterhouseCoopers LLP
Chartered Accountants
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Investor Enquiries and Fixed Income Investment Advisor

Downing Corporate Finance Limited
69 Eccleston Square
London
SW1V 1PJ
Telephone +44 (0)20 7411 4700
www.downing.co.uk

Registrar and Transfer Office

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Telephone +44 (0)8701 623131
www.capitaregistrars.com

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

Aged 56, was appointed a Director on 24 September 2001.

He is a former Deputy Governor of the Bank of England and Editor of The Economist. He is currently Chairman of The Stationery Office and a Director of British American Tobacco and a number of other companies. He is Chairman of the Nomination Committee.

*** Michael Broke**

Aged 68, was appointed a Director on 24 September 2001.

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

*** David Donnelly**

Aged 56, was appointed a Director on 24 September 2001.

He is CEO of FF&P Private Equity. Previously he was Chairman of Gordon House Asset Management, whose team joined Fleming Family & Partners in 2004. He is also a Director of The Real Return Global Fund. Previous directorships have included Highland Participants (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 and worked for Walter Walker & Co in a number of capacities.

Nicholas Ross

Aged 42, was appointed a Director on 12 September 2001.

Nick joined Electra Partners in 1993 after several years in investment analysis and fund management. In the last five years he has been responsible for the launch of Electra Active Management and Electra Kingsway VCT. He is a Director of Electra Quoted Management, Electra Kingsway VCT, Electra Active Management and also sits on a number of investee company boards.

Aged 61, was appointed a Director on 24 September 2001.

*** David Sebire**

He is a Chartered Accountant with extensive industrial and corporate finance experience. Until 1999 he was Chairman of Bridport and of PTS Group. He is a non-executive Director of Highbury House Communications and non-executive Chairman of Aerobox, Clearspeed Technology and Medico Legal Consultancy 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.

* Member of the Audit, Remuneration and Nomination Committees
All Directors are also Directors of Electra Kingsway VCT 2 Plc

Accounts Report of the Directors

To the Members of Electra Kingsway VCT Plc

The Directors present the audited Accounts of the Company for the year ended 30 September 2004 and their Report on its affairs.

Business and Principal Activities

The principal activity of the Company during the year under review was investment in a diversified portfolio of unquoted and AIM listed companies. The Directors anticipate this activity will continue in the foreseeable future.

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

The Inland Revenue has agreed to grant the Company provisional approval under Section 842AA ICTA as a VCT, effective from the first day on which shares were issued pursuant to the Offer as defined in the Prospectus dated 2 October 2001. The Board directs the affairs of the Company to enable it to seek approval as a VCT.

Share Capital

The current authorised share capital of the Company is £600,000 divided into 60,000,000 ordinary shares of 1p each.

Between 1 October 2003 and 30 September 2004 a total of 1,978,655 ordinary shares of 1p each were issued for cash at a prices of between £1.16 and £1.22 per share.

Pursuant to the authority granted at the last Annual General Meeting, 14,000 ordinary shares of 1p each (representing 0.07% of the shares in issue at that time) were purchased by the Company for cancellation on 4 February 2004 at 93.0p per share, for a total consideration of £13,021.

Pursuant to the same authority, 17,105 ordinary shares of 1p each (representing 0.08% of the shares in issue at that time) were purchased by the Company for cancellation on 20 July 2004 at £1.00 per share, for a total consideration of £17,106 and on 30 September 2004 11,120 ordinary shares of 1p each (representing 0.05% of the shares in issue at that time) were purchased by the Company for cancellation at £1.00 per share, for a total consideration of £11,121.

As at 30 September 2004 a total of 21,741,190 (2003: 19,804,760) ordinary shares of 1p each of the Company were in issue.

Authority to make Market Purchases of Shares

An Ordinary Resolution will be proposed, as Special Business, at the Annual General Meeting to be held on 14 March 2005 to renew, for one year, the Board's authority to buy up to 3,259,004 of the Company's ordinary shares, or such lesser number of shares as is equal to 14.99 per cent. of the total number of ordinary shares in issue as at the date of the passing of the resolution, subject to the constraints set out in the Ordinary Resolution.

Results and Dividend

Revenue returns attributable to shareholders amounted to £24,954 (2003: £181,513). The Directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2004 (2003: £178,243).

Post Balance Sheet Events

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

October 2004	Media Square	£500,000
November 2004	1st Dental	£750,000
November 2004	Sanastro	£1,000,000
December 2004	Centurion Electronics	£432,495
December 2004	Keycom	£250,000

Directors

The current Directors of the Company are listed on page 13. Mr RL Pennant-Rea, Mr MHA Broke, Mr DJ Donnelly, Mr NRW Ross and Mr DJ Sebire were Directors of the Company throughout the year ended 30 September 2004. Apart from these persons no other person was a Director of the Company during any part of the year. Mr RL Pennant-Rea and Mr NRW Ross will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. Short biographical details of Mr RL Pennant-Rea and Mr NRW Ross are provided on page 13.

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. There have been no changes in the interests of any of the Directors in the ordinary shares of the Company between 1 October 2004 and 20 January 2005. No options over shares in the capital of the Company have been granted to the Directors.

	30 September 2004 Shares	1 October 2003 Shares
RL Pennant-Rea	10,200	10,200
MHA Broke	10,200	10,200
DJ Donnelly	–	–
NRW Ross	51,001	51,001
DJ Sebire	10,200	10,200

Directors' Remuneration Report

An Ordinary Resolution to approve the Directors' Remuneration Report will be put to the Annual General Meeting.

Contracts with Directors

No Director has a service contract with the Company.

As a result of his employment with Electra Partners, Mr NRW Ross is deemed to have an interest in the management contract to which the Company is a party.

Substantial Shareholders

At 20 January 2005 the Directors had not been notified of any interests of 3% or more in 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. A separate resolution will be proposed at the Annual General Meeting authorising the Directors to fix the remuneration of the Auditors.

Creditor Payment Policy

The Company pays all its creditors within 30 days.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 2 October 2001. The agreement is for an initial period of five years and continues 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 investments in funds managed by Electra Partners), at the following annual rates:

Period ended 30 September 2002	1.5%
Year ended 30 September 2003	2.0%
Year ended 30 September 2004 and thereafter	2.5%

Incentive Schemes

The Investment Manager will receive a performance fee based on returns to shareholders. If the Company's net asset value per share in a relevant period increases so that it exceeds £1, less the value of distributions plus notional interest at 7% per annum compounded annually, the Investment Manager will receive 20% of the excess. The first period expired on 30 September 2004 and thereafter periods will be of one year's duration. In the event that the performance of the Company falls short of the target in any period the shortfall must be made up before the Investment Manager is entitled to a performance fee for subsequent periods.

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 Monday 14 March 2005.

By order of the Board of Directors
PJ Dyke, Secretary, 65 Kingsway, London WC2B 6QT

20 January 2005

Corporate Governance

The Directors confirm that during the year under review the Company has complied with Section 1 of the Combined Code (1998) on Corporate Governance ("the Code").

In July 2003, the Financial Reporting Council issued a revised Combined Code ('the new Code') which applies to accounting periods commencing on or after 1 November 2003. The Board considered the new Code during the year and where appropriate, procedures have been instituted to ensure that the Company will be compliant with the new Code, or will explain areas of non-compliance for the year commencing 1 October 2004.

The Board of Directors

The Board, which meets regularly, comprised of five Directors at 30 September 2004 all of whom were non-executive. All of the Directors who held office at 30 September 2004, 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 the recently launched Electra Kingsway VCT 2 Plc which is also managed by Electra Partners. The Board has particularly considered the question of the independence of each Director in the light of the new 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 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 boards 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 Partners, together with the monitoring of the performance thereunder. The management agreement sets out the matters over which Electra Partners has authority in accordance with the policies and directions of the Board.

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.

During the year and in recognition of the new Code's requirements relating to performance appraisals of Directors which will apply to the Company for the year commencing 1 October 2004, the Chairman carried out a formal appraisal of each of the Directors. Additionally the Board under the leadership of the Senior Independent Director similarly appraised the Chairman. This written appraisal process was prepared in conjunction with Electra Partners and relevant matters included 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. In accordance with the new 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 2005 and offer themselves for re-election.

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 question of the removal of the Company Secretary would be a matter for consideration by the entire Board.

The Audit Committee

The Board has an Audit Committee with specified terms of reference. It comprises all the Directors other than the Chairman of the Board who resigned from the Committee in May this year and Mr NRW Ross with Mr DJ Sebire as Chairman of the Committee. The principal role of the Committee is to review the content of the Annual and Interim Accounts, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements. The Audit Committee has direct access to the Company's Auditors and the senior executives of Electra Partners.

The Remuneration Committee

The Remuneration Committee was comprised during the year of all the Directors of the Company other than Mr NRW Ross. Subsequent to the year end, the Chairman of the Board has resigned from the Remuneration Committee. 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.

New Directors to the Board are briefed fully about the Company by the Chairman and senior executives of Electra Partners. Following appointment, Directors continue to receive appropriate advice to enable them to discharge their duties.

Communication Policy

The Company gives high priority to communication with its shareholders. In addition to the Annual and Interim Reports shareholders will be sent regular newsletters from the Investment Manager. All shareholders are welcome to attend the Annual General Meeting.

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 it 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. It is reviewed at regular intervals by the Board and accords with the guidance set out in the Turnbull Report.

The Board is responsible for the Company's system of internal control and it has reviewed its effectiveness for the year ended 30 September 2004. 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 Partners, the Company's system of internal control mainly comprises the monitoring of the services provided by Electra Partners, 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 Partners 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 Partners' system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Partners' 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 the key controls of Electra Partners as follows:

- The Board reviews the terms of the management agreement and receives regular reports from Electra Partners' executives.
- The Board reviews the certificates provided by Electra Partners 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.

The Board does not see the need for an Internal Audit Function. The decision is reviewed annually.

Accounts Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company as at the end of that period and of the net revenue and gains of the Company for that period. In preparing those accounts the Directors are required to:

- select appropriate accounting policies and then apply them consistently on the basis of judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the Accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Accounts comply with the Companies Act 1985. They are also responsible for taking such steps as are reasonably open to them for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities. The Directors confirm that they have complied with these requirements.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Accounts.

Accounts Directors' Remuneration Report

The Directors submit this report in accordance with the requirements of Schedule 7A to 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

The Remuneration Committee was comprised during the year of all the Directors of the Company other than Mr NRW Ross. Subsequent to the year end the Chairman of the Board has resigned from the Remuneration Committee. Mr DJ Donnelly was Chairman of the Remuneration Committee throughout the year.

The Remuneration Committee did not consider it necessary to review the level of Directors' fees during the year. The current annual fee rates are £20,000 for the Chairman and £15,000 for each of the other Directors apart from the Mr NRW Ross who receives no remuneration from the Company. The Committee 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 to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2005 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.

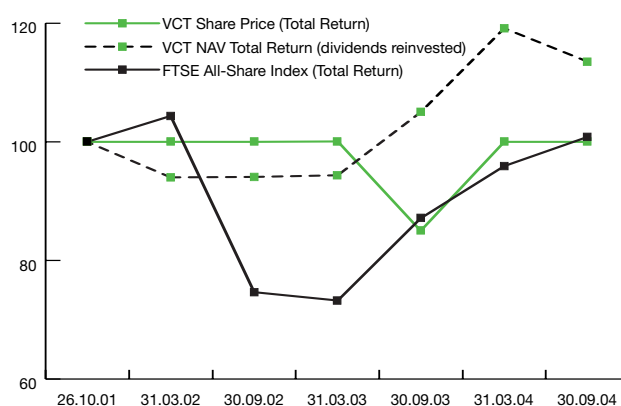
Performance Graph

The graph below shows the Company's performance being measured in terms of both its Total Shareholder Return and its Net Asset Value per share (with dividends reinvested) since shares were first issued on 26 October 2001 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 Share Price Total Return v Electra Kingsway VCT Net Asset Value (with dividends reinvested) 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 Sept 2004	For the year ended 30 Sept 2003
	£	£
RL Pennant-Rea (Chairman & highest paid Director)	20,000	20,000
MHA Broke	15,000	15,000
DJ Donnelly	15,000	15,000
DJ Sebire	15,000	15,000
NRW Ross	–	–
Total	65,000	65,000

As an executive of Electra Partners, NRW Ross has an interest in the Management Contract. £50,000 (2003: £50,000) 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, 65 Kingsway, London
20 January 2005

Accounts Independent Auditors' Report

To the Members of Electra Kingsway VCT Plc

We have audited the Financial Statements which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement and the related notes which have been prepared under the historic cost convention. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors' is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Report of the Directors', the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's review and the Corporate Governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in 1998 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 to form an opinion on the effectiveness of the Company's Corporate Governance procedures or its risk and control procedures.

Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, 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 Financial Statements and the auditable part of the Directors' Remuneration Report 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 Financial Statements.

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of affairs of the Company at 30 September 2004 and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
20 January 2005

Notes:

- a The maintenance and integrity of the Electra Quoted Management website is the responsibility of the Investment Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for the information presented on the website.
- b Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Accounts Statement of Total Return

Incorporating the Revenue Account of the Company for the year ended 30 September 2004

	Notes	For the year ended 30 September 2004			For the year ended 30 September 2003		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains on investments		–	1,537,719	1,537,719	–	2,117,035	2,117,035
Realised gains on investments		–	446,996	446,996	–	61,369	61,369
Income	1	506,514	–	506,514	668,134	–	668,134
		506,514	1,984,715	2,491,229	668,134	2,178,404	2,846,538
Investment management fees	2	(136,621)	(409,863)	(546,484)	(87,703)	(263,109)	(350,812)
Other expenses	3	(329,146)	–	(329,146)	(344,339)	–	(344,339)
Return on Ordinary Activities before Taxation		40,747	1,574,852	1,615,599	236,092	1,915,295	2,151,387
Tax on ordinary activities	5	(15,793)	17,015	1,222	(54,579)	49,991	(4,588)
Return on Ordinary Activities after Taxation		24,954	1,591,867	1,616,821	181,513	1,965,286	2,146,799
Dividend	6	–	–	–	(178,243)	–	(178,243)
Transfer to Reserves		24,954	1,591,867	1,616,821	3,270	1,965,286	1,968,556
Return per Ordinary Share	7	0.12p	7.61p	7.73p	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 24 to 32 form part of these Financial Statements.

Accounts Reconciliation of Total Shareholders' Funds

	Year ended 30 September 2004 £	Year ended 30 September 2003 £
Total Return	1,616,821	2,146,799
Dividend on ordinary shares	–	(178,243)
Ordinary shares issued	2,373,319	4,090,587
Repurchase of ordinary shares	(41,248)	(34,624)
Share issue expenses charged to Share Premium account	(130,533)	(224,981)
Movements in Total Shareholders' Funds	3,818,359	5,799,538
Total Shareholders' Funds at start of year	20,500,947	14,701,409
Total Shareholders' Funds at 30 September 2004	24,319,306	20,500,947

Accounts Balance Sheet

As at 30 September 2004

	Notes	As at 30 September 2004 £	As at 30 September 2003 £
Fixed Assets			
Investments	8	21,435,048	16,517,969
Current Assets			
Debtors	9	268,968	372,802
Cash at bank	16	2,743,683	3,898,192
		3,012,651	4,270,994
Creditors: amounts falling due within one year			
Creditors	10	128,393	288,016
Net Current Assets		2,884,258	3,982,978
Net Assets		24,319,306	20,500,947
Capital and Reserves			
Called-up share capital	12	217,413	198,048
Share premium account	13	13,774,184	11,551,185
Capital redemption reserve	13	857	435
Special reserve	13	7,010,003	7,051,251
Realised capital reserve	13	303,694	(340,843)
Unrealised capital reserve	13	2,978,990	2,031,660
Revenue reserve	13	34,165	9,211
Total Equity Shareholders' Funds		24,319,306	20,500,947
Net Asset Value per Ordinary Share		111.86p	103.52p
		2004	2003
Number of ordinary shares in issue at 30 September		21,741,190	19,804,760

The information on pages 24 to 32 form part of these Financial Statements.

The Financial Statements on pages 21 to 32 were approved by the Board of Directors on 20 January 2005 and were signed on its behalf by R Pennant-Rea, Chairman.

Accounts Cash Flow Statement

		For the year ended 30 September 2004		For the year ended 30 September 2003	
	Notes	£	£	£	£
Operating Activities					
Investment income received		514,297		761,125	
Bank interest received		121,362		128,673	
Investment management fees paid		(609,690)		(458,124)	
Other cash payments		(346,121)		(316,337)	
Net Cash (Outflow)/Inflow from Operating Activities	15		(320,152)		115,337
Taxation			(3,393)		(10,195)
Capital Expenditure and Financial Investments					
Sale of investments		6,103,049		7,075,679	
Acquisition of investments		(8,968,429)		(11,719,307)	
Net Cash Outflow from Capital Expenditure and Financial Investments			(2,865,380)		(4,643,628)
Equity Dividends Paid			(178,243)		(118,183)
Cash Outflow before Financing			(3,367,168)		(4,656,669)
Financing					
Issue of ordinary shares		2,373,319		4,090,587	
Repurchase of ordinary shares		(30,127)		(34,624)	
Expenses of the issue of ordinary shares		(130,533)		(224,981)	
Net Cash Inflow from Financing			2,212,659		3,830,982
Decrease in Cash for the Period	16		(1,154,509)		(825,687)

Accounts Statement of Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current and preceding year, 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 which are set out on page 5.

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 year 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 year end are accounted for in the unrealised capital reserve.

g) Taxation

The charge for taxation is based on the net revenue for the year. 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.

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 year ended 30 September 2004	For the year ended 30 September 2003
	£	£
Franked investment income	11,873	–
Interest from fixed interest securities	373,279	539,461
Interest from bank deposits	121,362	128,673
	506,514	668,134

2 Investment Manager's Fees

	Revenue 2004	Capital 2004	Total 2004	Revenue 2003	Capital 2003	Total 2003
	£	£	£	£	£	£
Electra Quoted Management	136,621	409,863	546,484	87,703	263,109	350,812

The Management Fee includes irrecoverable VAT of £81,391 (2003: £52,249).

Electra Quoted Management also received an administration fee of £62,818 (2003: £61,020), net of VAT, which increases each year in line with RPI. The administration fee is included in the administration expenses of £329,726 in Note 3.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 2 October 2001. 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 advance, as a percentage of net assets (less a rebate of fees suffered in investments in funds managed by Electra Partners), at the following annual rates:

Period ended 30 September 2002	1.5%
Year ended 30 September 2003	2.0%
Year ended 30 September 2004 and thereafter	2.5%

Incentive Schemes

The Investment Manager will receive a performance fee based on returns to shareholders. If the Company's net asset value per share in a relevant period increases so that it exceeds £1, less the value of distributions plus notional interest at 7% per annum compounded annually, the Investment Manager will receive 20% of the excess. The first period expired on 30 September 2004 and thereafter periods will be of one year's duration. In the event that the performance of the Company falls short of the target in any period the shortfall must be made up before the Investment Manager is entitled to a performance fee for subsequent periods.

At 30 September 2004 there was no amount due under the Incentive Schemes.

3 Other Expenses

	For the year ended 30 September 2004	For the year ended 30 September 2003
	£	£
Directors' remuneration (including Employer's NIC)	68,441	67,284
IFA trail commission	60,680	51,284
Auditors' fees – audit	21,150	18,800
– non-audit	15,863	7,475
Administration expenses	163,012	199,496
	329,146	344,339

4 Directors' Remuneration

Details of Directors' remuneration are shown in the table in the Directors' Remuneration Report on page 19.

The Company has no employees or employee costs.

5 Taxation on Ordinary Activities

	For the year ended 30 September 2004	For the year ended 30 September 2003
	£	£
Analysis of charge in the year		
Current tax:		
Prior year adjustment	(1,222)	(23)
UK corporation tax at 19% (2003: 19%)	–	4,611
Total Current Tax	(1,222)	4,588
Factors affecting tax charge for the year		
Revenue return before tax	40,747	236,092
Revenue return at corporate tax rate	7,742	44,857
Effects of:		
Dividend income	(2,256)	–
Expenses not deductible for tax purposes	11,529	9,745
Tax relief on fees charged to capital account	(17,015)	(49,991)
Prior year adjustment	(1,222)	(23)
	(1,222)	4,588

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.

6 Dividend

	For the year ended 30 September 2004	For the year ended 30 September 2003
	£	£
Dividend on ordinary shares:		
Proposed final dividend of nil (2003: 0.90p) per ordinary share	–	178,243

7 Return per Ordinary Share

The revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £24,954 (2003: £181,513) and on 20,904,129 (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 £1,591,867 (2003: £1,965,286) and on 20,904,129 (2003: 17,733,423) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

There is no difference between the diluted Return per Ordinary Share and the basic Return per Ordinary Share shown above.

8 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 Interest 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	2,654,999	500,004	2,800,006	1,300,000	1,342,234	388,322	–	8,985,565
Sales at valuation	(949,501)	–	–	–	(149,044)	–	(4,507,660)	(5,606,205)
Unrealised gains/(losses) in year	62,685	526,318	410,000	104,729	208,748	302,554	(77,315)	1,537,719
Valuation at 30 September 2004	6,010,677	2,718,721	4,710,006	2,187,380	2,193,813	690,876	2,923,575	21,435,048
Cost at 30 September 2004	4,669,778	2,192,403	4,300,006	2,000,000	1,862,149	388,322	3,043,400	18,456,058
Unrealised gains/(losses) at 30 September 2004	1,340,899	526,318	410,000	187,380	331,664	302,554	(119,825)	2,978,990
Valuation at 30 September 2004	6,010,677	2,718,721	4,710,006	2,187,380	2,193,813	690,876	2,923,575	21,435,048

Further details of investments are provided in the Portfolio Summary on page 8 of these accounts.

9 Debtors

	2004	2003
	£	£
Amounts due within one year:		
Accrued interest	143,867	273,014
Outstanding settlements	–	49,849
Other debtors	125,101	49,939
	268,968	372,802

10 Creditors: amounts falling due within one year

	2004	2003
	£	£
UK corporation tax	–	4,611
Other creditors	111,257	105,162
Outstanding settlements	17,136	–
Proposed final dividend	–	178,243
	128,393	288,016

11 Significant Interests

At 30 September 2004 the Company held significant investments, amounting to 3% or more of the equity capital in the following companies:

	Equity Investment (Ordinary Shares) £	Investment Loan Stock and Preference Shares £	Total Investment £	Percentage of Investee Company's Total Equity %
Advanced Medical Solutions	500,000	–	500,000	4.1
Nectar Taverns	225,000	525,000	750,000	18.5
Signature Brands Group	750,000	–	750,000	10.0
Centurion Electronics	514,780	–	700,000	7.8
Berkeley Morgan	1,129,758	–	1,129,758	17.6
Keycom	750,963	200,000	950,963	12.0
James and James	749,000	1,000	750,000	32.3
Brady	750,000	–	750,000	3.7
Media Square	1,230,000	–	1,230,000	8.0
Music Copyright Solutions	500,004	–	500,004	12.1
Happy Times	75,000	675,000	750,000	12.2
Hallmarq	750,006	–	750,006	11.3
ePOINT	550,000	–	550,000	4.8

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 marketable value as part of its portfolio. In view of this, it is not considered that the above represent investments in associated undertakings.

The above companies are incorporated in the United Kingdom.

12 Called Up Share Capital

		2004		2003	
	Number	£	Number	£	
Authorised:					
Ordinary shares of 1p each: 60,000,000	60,000,000	600,000	60,000,000	600,000	
	60,000,000	600,000	60,000,000	600,000	
Issued:					
At 1 October 2003	19,804,760	198,048	15,757,723	157,577	
Ordinary shares of 1p each issued during the year	1,978,655	19,787	4,090,587	40,906	
Ordinary shares of 1p each repurchased during the year	(42,225)	(422)	(43,550)	(435)	
At 30 September 2004	21,741,190	217,413	19,804,760	198,048	

Between 1 October 2003 and 30 September 2004 a total of 1,978,655 ordinary shares of 1p each were issued for cash at a price of between £1.16 and £1.22 per share.

Pursuant to the authority granted at the last Annual General Meeting, 14,000 ordinary shares of 1p each (representing 0.07% of the shares in issue at that time) were purchased by the Company for cancellation on 4 February 2004 at 93.0p per share, for a total consideration of £13,021.

Pursuant to the same authority, 17,105 ordinary shares of 1p each (representing 0.08% of the shares in issue at that time) were purchased by the Company for cancellation on 20 July 2004 at £1.00 per share, for a total consideration of £17,106 and on 30 September 2004 11,120 Ordinary shares of 1p each (representing 0.05% of the shares in issue at that time) were purchased by the Company for cancellation at £1.00 per share, for a total consideration of £11,121.

As at 30 September 2004 a total of 21,741,190 (2003: 19,804,760) ordinary shares of 1p each of the Company were in issue.

13 Reserves

	Share Premium Account £	Capital Redemption Reserve £	Special Reserve £	Realised Capital Reserve £	Unrealised Capital Reserve £	Revenue Reserve £
At 1 October 2003	11,551,185	435	7,051,251	(340,843)	2,031,660	9,211
Premium on issues of shares during the period	2,353,532	–	–	–	–	–
Expenses of share issues	(130,533)	–	–	–	–	–
Shares repurchased in year	–	422	(41,248)	–	–	–
Gain on disposal of investments	–	–	–	446,996	–	–
Unrealised appreciation at 1 October 2003						
on investments realised in year	–	–	–	590,389	(590,389)	–
Other expenses net of taxation	–	–	–	(392,848)	–	–
Increase in unrealised appreciation	–	–	–	–	1,537,719	–
Retained net revenue for the year	–	–	–	–	–	24,954
At 30 September 2004	13,774,184	857	7,010,003	303,694	2,978,990	34,165

14 Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets at 30 September 2004, and on 21,741,190 (2003: 19,804,760) ordinary shares, being the number of ordinary shares in issue on that date.

There is no difference between the diluted NAV per Ordinary Share and the basic NAV per Ordinary Share shown above.

15 Reconciliation of Net Revenue Before Taxation to Net Cash Inflow from Operating Activities

	For the year ended 30 September 2004	For the year ended 30 September 2003
	£	£
Net revenue before taxation	40,747	236,092
Investment management fees charged to capital	(409,863)	(263,109)
Decrease in debtors (net of accrued interest on purchase of bonds)	55,059	199,738
Decrease in creditors and accruals	(6,095)	(57,384)
Net cash inflow from operating activities	(320,152)	115,7

16 Analysis of Changes in Cash

	For the year ended 30 September 2004	For the year ended 30 September 2003
	£	£
At beginning of year	3,898,192	4,723,879
Net cash outflow	(1,154,509)	(825,687)
At 30 September	2,743,683	3,898,192

17 Financial Instruments

The Company's financial instruments comprise:

- Equity and non-equity shares, units in an open-ended investment company, shares in a close-ended investment company and fixed interest securities that are held in accordance with the Company's investment objective.
- Cash, liquid resources and short-term 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 listed 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 net revenue 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.

Currency Risk: All assets and liabilities are denominated in sterling and therefore there is no currency risk.

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 fixed interest stocks, 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.

The interest rate risk profile of the Company's financial assets (excluding short-term debtors and creditors) at 30 September 2004 was:

	Financial Assets on which no Interest Paid £	Fixed Rate Financial Assets £	Variable Rate Financial Assets £	Total £	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	18,511,473	–	–	18,511,473	–	–
Bonds	–	2,923,575	–	2,923,575	6.8	0.4
Cash	–	–	2,743,683	2,743,683	–	–
Total	18,511,473	2,923,575	2,743,683	24,178,731	–	–

The interest rate risk profile of the Company's financial assets (excluding short-term debtors and creditors) at 30 September 2003 was:

	Financial Assets on which no Interest Paid £	Fixed Rate Financial Assets £	Variable Rate Financial Assets £	Total £	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	9,009,419	–	–	9,009,419	–	–
Bonds	–	7,508,550	–	7,508,550	6.6	0.9
Cash	–	–	3,898,192	3,898,192	–	–
Total	9,009,419	7,508,550	3,898,192	20,416,161	–	–

Floating rate cash earns interest based on LIBOR.

The carrying values of financial assets and liabilities approximate to their fair values.

18 Post Balance Sheet Events

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

October 2004	Media Square	£500,000
November 2004	1st Dental	£750,000
November 2004	Sanastro	£1,000,000
December 2004	Centurion Electronics	£432,495
December 2004	Keycom	£250,000

19 Geographical Analysis

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

20 Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments of the Company at 30 September 2004 (2003: £750,000).

21 Transactions with the Manager

During the year ended 30 September 2004 the Company paid £683,501 (2003: £547,447) to Electra Quoted Management, the Investment Manager. At 30 September 2004, the Company was owed £105,280 (2003: £45,119) by the Investment Manager. Details of the Investment Manager's fee arrangements are included in Note 2.

Annual General Meeting Notice of Annual General Meeting

Notice is hereby given that the third Annual General Meeting of Electra Kingsway VCT Plc will be held at 1.00pm on Monday 14 March 2005 at 65 Kingsway, London WC2B 6QT for the purpose of considering and, if thought fit, passing the following Resolutions:

Ordinary Business

- 1 To receive and adopt the Reports of the Directors and Auditors and the Company's Accounts for the year ended 30 September 2004.
- 2 To approve the Directors' Remuneration Report for the year ended 30 September 2004 which is set out in the Annual Report & Accounts of the Company for the year ended 30 September 2004.
- 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

As Special Business, to consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

- 7 THAT the Company be and is hereby authorised in accordance with Section 166 of the Companies Act 1985 (as amended and in force from time to time) (the "Act") to make market purchases (within the meaning of Section 163 of the said Act) of ordinary shares, provided that:
 - i) the maximum number of ordinary shares hereby authorised to be purchased is 3,259,004 or such lesser number of shares as is equal to 14.99 per cent. of the total number of ordinary shares in issue as at the date of the passing of this resolution;
 - ii) the minimum price which may be paid for an ordinary share shall be one pence;
 - iii) the maximum price, which may be paid for an ordinary share, shall be an amount equal to not more than 5 per cent. above the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;
 - iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors); and

- v) unless renewed, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting in 2006 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board of Directors

PJ Dyke, Secretary, 65 Kingsway, London WC2B 6QT

20 January 2005

Notes

- A Any member of the Company who is entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. Such 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, PO 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 12 March 2005 (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 6.00pm on 12 March 2005 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 The following document will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the close of the Annual General Meeting, and will be available at the place of the Annual General Meeting from 1.45 pm until the conclusion of the Meeting

- the Register of Directors' Interests in the share capital of the Company maintained in accordance with Section 325 of the Companies Act 1985.

F Short biographical details of Mr RL Pennant-Rea and Mr NRW Ross are contained in the Report & Accounts for the year to 30 September 2004 on page 11.

Annual General Meeting Form of Proxy



ELECTRA KINGSWAY VCT PLC (the "Company") ANNUAL GENERAL MEETING ON 14 MARCH 2005 FORM OF PROXY

I/We _____
Block capitals please
of _____

being (a) member(s) of Electra Kingsway VCT Plc, hereby appoint*

or failing him the Chairman of the Meeting, as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 1.00 pm on 14 March 2005 and at any adjournment thereof. I/We direct the proxy to vote in respect of the resolutions to be proposed at that Meeting as shown below.

Date _____ Signature _____

The manner in which the proxy is to vote must be indicated by inserting 'X' in the spaces provided. Where no 'X' is inserted, the proxy will vote or abstain at his discretion.

ORDINARY BUSINESS : Ordinary Resolutions	In favour	Against
1 Receipt and Adoption of Report and Accounts		
2 Approval of Directors' Remuneration Report		
3 Re-election of Mr RL Pennant-Rea as a Director		
4 Re-election of Mr NRW Ross as a Director		
5 Re-appointment of the Auditors		
6 Fixing the remuneration of the Auditors		
SPECIAL BUSINESS : Ordinary Resolution		
7 Authority for the Company to make market purchases of its own shares		

Notes

- The completion and return of this form of proxy will not preclude members from attending and voting at the Meeting in person should they subsequently decide to do so.
- The proxy will exercise his discretion as to how he votes or whether he abstains from voting:
 - On the resolutions referred to above if no instruction is given in respect of any one or more resolutions; and
 - On any business or resolution considered at the Meeting other than the resolutions referred to above.
- In the case of joint holders of a share of the Company the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the share.
- In the case of a corporation, the form must be executed under either its Common Seal or under the hand of a duly authorised officer or attorney or other person duly authorised by the corporation.
- To be effective, this form of proxy and any power(s) of attorney or other authority under which it is executed (or a duly certified copy of such power of attorney or other authority), must reach the Company's Registrars 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.
- All corrections must be initialled.

* If any other proxy (not necessarily a member of the Company) is preferred, add the name of the proxy you wish to appoint here.





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BUSINESS REPLY SERVICE
Licence No. MB 122

211

Electra Kingsway VCT Plc
Capita Registrars
PO Box 25
34 Beckenham Road
Beckenham
Kent
BR3 4BR

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