

Electra Kingsway VCT Plc

Interim Report & Accounts

31 March 2003

2003

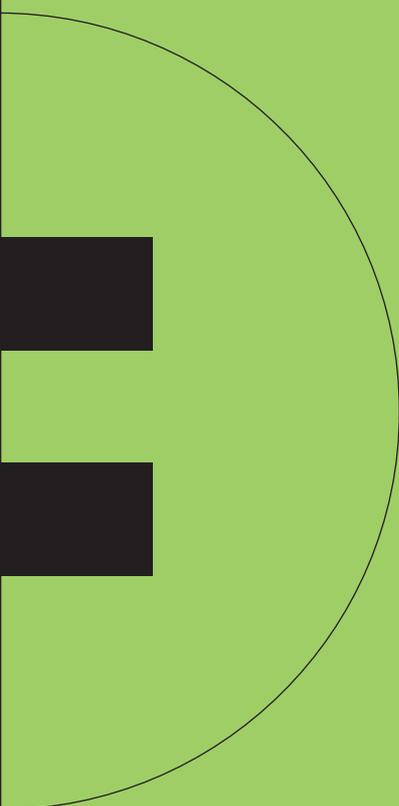


Objective

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

Investment Strategy

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



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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.

The financial information in this publication is unaudited and does not comprise Statutory Accounts. The Statutory Accounts for the period ended 30 September 2002 have been delivered to the UK Registrar of Companies and the Report of the Auditors on those accounts was unqualified.

Interim Report Financial Highlights

Funds raised by 30 April 2003	£18.9 million
Net Asset Value per share at 31 March 2003	93.6p
Dividend per share	* 0.75p

Performance Summary

	31 March 2003	31 March 2002
Capital Value		
Net asset value per share (net of issue expenses) (see Note 1)	93.6p	94.0p
Total assets (net of issue expenses)	£15.8m	£8.9m
Earnings		
Earnings per ordinary share (see Note 2)	0.79p	0.26p

Notes

- 1 Based on 16,914,898 (2002: 9,516,503) ordinary shares in issue at 31 March 2003.
- 2 Based on a weighted average of 15,970,116 ordinary shares in issue during the six months to 31 March 2003 (period to 31 March 2002: 2,329,992).

* Paid 20 February 2003 to shareholders on the register at 22 November 2002.

Interim Report Chairman's Statement

I am pleased to report that the net asset value per share at 31 March 2003 was 93.6p, only marginally below the net issue price of 95p in September 2001. This compares favourably with the FTSE All-Share Index, which fell by 26.5% over the same period. Your Company's performance reflects the cautious approach of the Investment Manager, particularly the prudent policy of investing the majority of the funds raised in fixed income securities and cash deposits.

At 31 March 2003 the Fund's portfolio was valued at £15.7 million: £2.6 million in qualifying investments, £1.0 million in funds managed by Electra Partners, £7.9 million in fixed income securities and £4.2 million in cash deposits. Over the next 18 months, the fixed income securities and cash deposits will gradually be invested in qualifying companies.

Investments

In the period under review, your Company completed two qualifying investments, Signature Brands and Centurion Electronics and made a commitment to invest in Berkeley Morgan (completed April 2003). Signature Brands, an unquoted company, was seeking expansion finance and Centurion Electronics was an AIM flotation. Berkeley Morgan, listed on Ofex, bought back a number of shares for cancellation and subsequently issued new shares to the Fund. All three investments are in established and profitable companies and further details are set out in the Investment Manager's Report. In addition, the Investment Manager increased the Fund's holdings in Electra Investment Trust and Electra Active Management, in line with its investment policy.

At the EGM last November, the Board gained permission to raise additional funds through a share offer. Despite the difficult market for fund-raising, a total of £3.1 million was raised by 30 April 2003. The VCT industry as a whole had another disappointing year, raising less than £35 million. The industry awaits the outcome of the Treasury review on ways to improve access to capital for smaller companies which may have a significant impact on future VCT funding.

Outlook

The Investment Manager has a promising short-list of potential investments that are close to completion and the Fund is on course to meet its investment objectives. I hope to bring you further encouraging news in the months ahead.

Rupert Pennant-Rea

19 May 2003

Interim Report Investment Manager's Review

During the period to 31 March 2003, Electra Kingsway VCT completed two further qualifying investments, Signature Brands and Centurion Electronics, at a total cost of £1.25 million. In addition, the Fund made a commitment to invest £741,000 in Berkeley Morgan, an investment which completed after the reporting period.

Since the launch of the Fund, we have reviewed a number of investment opportunities and have, to date, invested or committed to invest in five qualifying companies. Due diligence continues on a number of short-listed potential investments. However, it must be stressed that, given the difficult economic environment, we have taken a cautious approach to committing funds.

Signature Brands

Signature Brands is a retailer of women's fashion wear operating under four distinct brands: Dannimac, Four Seasons, Giant and Paul Costelloe. It was incorporated in 1999 when Ashley Meyer, Chairman and Chief Executive, led a management buy-out of Four Seasons. The company then proceeded to acquire three under-performing brands, aiming to return them to profitability by implementing tighter in-house design and cost controls. Dannimac and Four Seasons are principally women's rainwear collections and sales are dependent upon the British weather. Paul Costelloe is a designer brand aimed at 35-45 year old women. The brand has received critical acclaim for its recent collections and has good growth potential. Giant is a young women's fashion brand aimed at 18-30 year olds and was acquired from the Receiver after it encountered financial difficulties.

The company designs its own ranges and outsources manufacturing to companies in Hong Kong and Portugal. The majority of garments are sold through concessions in department stores such as John Lewis and House of Fraser. The last full year results recorded pre-tax profits of £382,000, however, the forthcoming results will reflect a 12 month contribution from Giant and the benefits of the turnaround strategy. The Fund invested £750,000 as part of a £1.8 million funding round in October 2002.

Centurion Electronics

Centurion specialises in the design, marketing and distribution of DVD and video systems for the in-car entertainment market. The company's main market has been the UK where last year it was estimated that the market for such in-car vision products increased ten-fold over the number of units sold in 2001. The company has two main product ranges: firstly, an entry level product sold as a 'plug and play' device through retail outlets such as Halfords and Dixons; secondly a top-end professional product sold to motor manufacturers and distributors either as a 'standard fit' or 'optional extra'. Manufacturers who offer such professional products include BMW, Fiat and Mazda.

The prospects for the company are encouraging as new customers on the manufacturing side include Toyota and Nissan and on the retailing side include CD Bramall, generating a strong current year order book. The year end results highlighted a consistent growth trend and record a pre-tax profit of £435,000. The Fund invested £500,000 in November 2002 as part of a financing to fund the company's growing working capital requirement.

Berkeley Morgan

Berkeley Morgan is an independent financial intermediary operating under two divisions. The Investment Division is the amalgamation of three IFA businesses specialising in pensions and mortgages and a service company providing compliance and training services to IFAs. The Protection Division comprises four separate IFAs providing a range of products including health insurance, general insurance and life assurance.

The company has grown through the successful integration of a number of bolt-on acquisitions with the management team demonstrating a good track record in controlling expenses and costs. The IFA market remains fragmented and consolidation is likely to continue for the next few years which may provide an exit opportunity for the Fund. Electra Kingsway VCT invested £741,000 in a transaction that entailed a buy-back of shares by the company and the issue of new shares to the Fund. In its last published annual accounts the company declared a pre-tax profit of £1.2 million.

Other Funds

During the period a total of £840,000 was invested in Electra Investment Trust and Electra Active Management, which are both funds managed by Electra Partners. Electra Investment Trust is an investment trust specialising in private equity. Electra Active Management is an OEIC investing in quoted smaller companies where a catalyst has been identified to maximise shareholder value.

Bond Portfolio

The value of the bond portfolio at the end of the period was £7.9 million. The investment strategy has been to invest in fixed income securities matching redemption periods to the Fund's anticipated qualifying investment programme. The majority of the bonds are "A" rated or higher and at 31 March 2003 the portfolio comprised 15 corporate bonds with an average running yield of 4.6%.

Electra Quoted Management Limited

19 May 2003

Interim Report Portfolio Summary

	Cost at Acquisition £	Valuation at 31 March 2003 £	% of Portfolio by Value %
Qualifying Investments:			
Advanced Medical Solutions Plc Designer and manufacturer of advanced woundcare products	500,000	455,882	3.97
Nectar Taverns Plc Portfolio of managed public houses	750,000	750,000	6.53
Signature Brands Group Plc Retailer of women's fashion wear	750,000	750,000	6.53
Centurion Electronics Plc Manufacturer and wholesaler of in-car DVD and video systems	500,000	625,000	5.44
	2,500,000	2,580,882	22.47
Non-Qualifying Investments:			
Electra Investment Trust Plc	640,460	624,375	5.43
Electra Active Management Plc	450,000	366,212	3.19
	1,090,460	990,587	8.62
Fixed Income Securities			
Coca Cola 6.5% (21.05.03)	804,188	792,884	6.90
Diageo 9.0% (31.05.05)	552,000	548,275	4.77
Dexia 8.375% (16.06.04)	527,500	526,450	4.58
McDonalds 6.25% (07.12.05)	525,000	522,400	4.55
ASIF II 6.5% (26.11.04)	519,950	520,325	4.53
Lloyds TSB Bank 7.375% (11.03.04)	519,600	516,625	4.50
BMW (UK) 6.5% (10.08.04)	517,000	515,825	4.49
Vodafone 7.5% (19.03.04)	517,750	515,650	4.49
IBM 6.0% (28.06.04)	512,250	512,500	4.46
Depfa Finance 7.125% (11.11.03)	516,100	510,000	4.44
Abbey National 5.25% (21.01.04)	501,500	505,950	4.40
Morgan Stanley 6.75% (22.08.03)	512,650	505,300	4.40
Toyota 6.25% (04.08.03)	507,250	504,024	4.39
Republic of Iceland 8.75% (12.05.03)	519,750	502,825	4.38
General Electric 6.5% (26.11.04)	416,200	416,560	3.63
	7,968,688	7,915,593	68.91
	11,559,148	11,487,062	100.00
Cash		4,234,078	
Total		15,721,140	

Accounts Statement of Total Return

(unaudited) (incorporating the Revenue Account)

	Notes	For the six months ended 31 March 2003			For the period 12 September 2001 to 31 March 2002		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains/(losses) on investments		–	66,070	66,070	–	(52,454)	(52,454)
Realised losses on investments		–	(87,928)	(87,928)	–	–	–
Income	1	348,529	–	348,529	91,581	–	91,581
		348,529	(21,858)	326,671	91,581	(52,454)	39,127
Investment management fee		(32,189)	(96,568)	(128,757)	(17,618)	(52,853)	(70,471)
Other expenses		(156,181)	–	(156,181)	(67,797)	–	(67,797)
Return on Ordinary Activities before Taxation		160,159	(118,426)	41,733	6,166	(105,307)	(99,141)
Taxation on ordinary activities		(33,769)	18,349	(15,420)	(1,233)	1,233	–
Return on Ordinary Activities after Taxation		126,390	(100,077)	26,313	4,933	(104,074)	(99,141)
Return to Shareholders per Ordinary Share	2	0.79p	(0.63p)	0.16p	0.26p	(4.52p)	(4.26p)

The amounts dealt with in the Statement of Total Return are all derived from continuing activities.

No operations were acquired or discontinued in the period.

The notes on pages 9 to 10 form part of these financial statements.

Accounts Balance Sheet

(unaudited) as at 31 March 2003

	Notes	As at 31 March 2003 £	As at 31 March 2002 £
Fixed Assets			
Investments	3	11,487,062	8,103,976
Current Assets			
Debtors and prepayments		418,287	296,337
Outstanding settlements		500,000	–
Cash at bank		4,234,078	3,332,173
		5,152,365	3,628,510
Current Liabilities			
Creditors: amounts falling due within one year			
Outstanding settlements		–	2,653,106
Other creditors		809,590	137,843
		809,590	2,790,949
Net Current Assets		4,342,775	837,561
Net Assets		15,829,837	8,941,537
Capital and Reserves			
Called-up share capital		169,149	95,165
Share premium		15,902,904	8,945,513
Realised capital losses		(302,460)	(51,620)
Unrealised capital losses		(72,086)	(52,454)
Revenue reserves		132,330	4,933
Total Equity Shareholders' Funds		15,829,837	8,941,537
Net Asset Value per Ordinary Share		93.59p	93.96p
		2003	2002
Number of Ordinary Shares in issue at 31 March		16,914,898	9,516,503

Reconciliation of Total Shareholders' Funds

(unaudited)

	For the six months ended 31 March 2003 £	For the period 12 September 2001 to 31 March 2002 £
Total Return	26,313	(99,141)
Share issue expenses charged to Share Premium account	(55,060)	(475,825)
Ordinary shares issued	1,157,175	9,516,503
Movements in Total Shareholders' Funds	1,128,428	8,941,537
Total Shareholders' Funds at 1 October	14,701,409	–
Total Shareholders' Funds at 31 March	15,829,837	8,941,537

Accounts Cash Flow Statement

(unaudited)

	For the six months ended 31 March 2003		For the period 12 September 2001 to 31 March 2002	
	£	£	£	£
Operating Activities				
Investment income received	451,650		101,250	
Bank deposit interest received	59,132		19,929	
Investment management fees paid	(202,528)		–	
Other cash payments	(216,930)		(425)	
Net Cash Inflow from Operating Activities		91,324		120,754
Investing Activities				
Acquisition of investments	(6,331,584)		(5,829,259)	
Disposal of investments	4,121,175		–	
Net Cash Outflow from Investing Activities		(2,210,409)		(5,829,259)
Dividend				
Equity dividend paid		(118,183)		–
Cash Outflow before Financing and Management of Liquid Resources		(2,237,268)		(5,708,505)
Financing				
Issue of ordinary shares	1,157,175		9,516,503	
Expenses of the issue of ordinary shares	(55,060)		(475,825)	
Cash held pending issue of ordinary shares	645,252		–	
Net Cash Inflow from Financing		1,747,367		9,040,678
(Decrease)/Increase in Cash for the Period		(489,901)		3,332,173

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, '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.

Unquoted investments are stated at Directors' valuation.

In valuing unlisted investments, the Directors follow a number of general principles in accordance with the BVCA guidelines which are set out below:

- Investments are stated at amounts considered by the Directors to be a fair assessment of their value, subject to the overriding requirements of prudence. All investments are valued according to one of the following bases:
 - cost (less any provision required);
 - open market valuation;
 - earnings multiple; or
 - net assets.
- Investments held for more than one year are valued on one of the bases described above.

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

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 capital reserve – realised and the incentive fee provision in respect of unrealised value growth in the portfolio is charged to capital reserve – unrealised.

f) Capital reserves

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

g) Taxation

The charge for taxation is based on the net revenue for the period. Deferred tax is provided 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 adoption of Financial Reporting Standard 19 had no impact on the results for the period.

Accounts Notes to the Accounts

1 Income

	For the six months ended 31 March 2003 £	For the period 12 September 2001 to 31 March 2002 £
Interest receivable:		
From fixed income securities	289,396	69,719
From bank deposits	59,133	21,862
	348,529	91,581

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 £126,390 (2002: £4,933) and on 15,970,116 (2002: 2,329,992) 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 losses of £100,077 (2002: £104,074) and on 15,970,116 (2002: 2,329,992) 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 £	Unlisted £	Open-ended Investment Company £	Closed-ended Investment Company £	Fixed Income Securities £	
Cost at 1 October 2002	500,000	750,000	250,000	–	8,580,766	10,080,766
Unrealised losses at 1 October 2002	(29,412)	–	(65,138)	–	(43,606)	(138,156)
Valuation at 1 October 2002	470,588	750,000	184,862	–	8,537,160	9,942,610
Purchases at cost	500,000	750,000	200,000	640,460	4,087,650	6,178,110
Sale proceeds	–	–	–	–	(4,611,800)	(4,611,800)
Realised losses in period	–	–	–	–	(87,928)	(87,928)
Unrealised gains/(losses) in period	110,294	–	(18,650)	(16,085)	(9,489)	66,070
Valuation at 31 March 2003	1,080,882	1,500,000	366,212	624,375	7,915,593	11,487,062
Cost at 31 March 2003	1,000,000	1,500,000	450,000	640,460	7,968,688	11,559,148
Unrealised gains/(losses) at 31 March 2003	80,882	–	(83,788)	(16,085)	(53,095)	(72,086)
Valuation at 31 March 2003	1,080,882	1,500,000	366,212	624,375	7,915,593	11,487,062

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, Northern Registrars.



