Electra Kingsway VCT Plc

Report & Accounts

30 September 2005

2005

Objective

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

Investment Strategy

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

Contents

For all shareholder enquiries please contact:

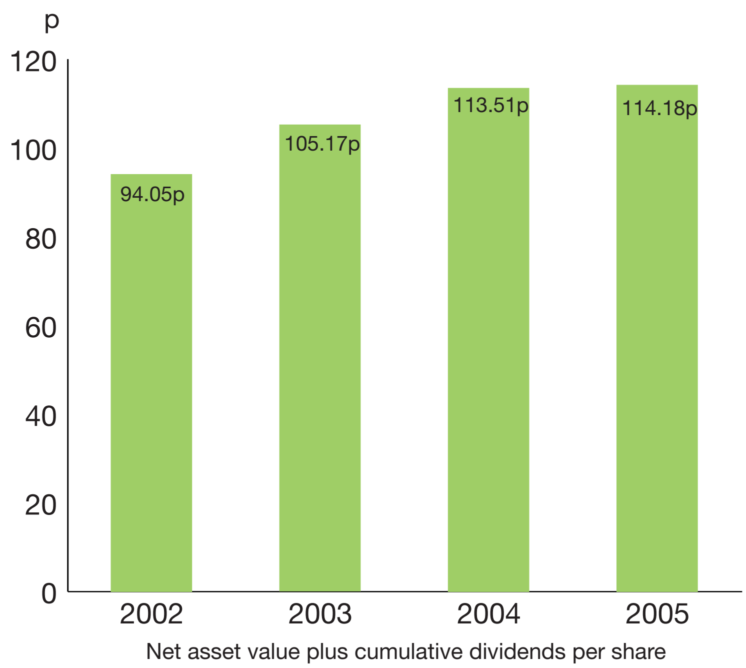
Shareholder Helpline +44 (0)20 7233 5902

References in this Report to Electra Kingsway VCT Plc have been abbreviated to 'the Company' or 'the Fund'. References to Electra Partners Group 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	**2005**	2004
Net assets	**£22.9m**	£24.3m
Net asset value per share	**106.03p**	111.86p
Dividend per share	**6.50p**	–
Cumulative return to shareholders since launch		
Dividends per share	**8.15p**	1.65p
Net asset value plus dividends per share	**114.18p**	113.51p

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



At 30 September 2005 the net asset value (NAV) of the Fund was 106.03p per share, after cumulative dividends of 8.15p per share paid since the Company began. This total of 114.18p per share represents a rise of 20% over the initial NAV of 95p, and compares with last year's total of NAV plus cumulative dividends of 113.51p. This disappointing increase was due to the fall in the prices of some of our AIM listed investments, partly reflecting the poor liquidity of many AIM shares.

Portfolio Review

The portfolio contains investments in 20 qualifying companies, and also in two funds managed by Electra Partners. Since inception, and including the disposal of Nectar Taverns after the year end, five qualifying companies have been sold for a total of £6.9m – more than double their original cost. At year end, 67% (by value) of all qualifying investments in the Fund were unquoted and 33% were AIM listed. Recent investments have generally been in unquoted companies, whose valuations tend to be more favourable and where the Investment Manager is able to carry out greater due diligence. During the year six new qualifying investments were made at a total cost of £4.6m, two of which were further freehold pub investments.

Investment Rate

Shareholders will know that the Company has to invest 70% of its original capital into qualifying companies within three years. The Fund first achieved this target in 2005, and the Investment Manager is confident that the Company will continue to satisfy this requirement.

Co-investment with other Electra Kingsway VCTs

Investors may be aware that the Investment Manager raised a second Fund (Electra Kingsway VCT 2 Plc) in 2005 and launched a third Fund (Electra Kingsway VCT 3 Plc) in October 2005. Both have similar investment objectives to your Company. The Board believes the combination of these three funds will produce more opportunities to invest in larger unquoted transactions, thereby improving the quality of the deals available to your Company.

Accordingly, the Board has approved a co-investment policy that formalises relations among the three funds; details are on page 5.

HM Revenue and Customs

In November 2005 HM Revenue and Customs issued a statement to the VCT industry about breaches of the VCT rules.

In light of this statement, the Board has reviewed with its Advisers and the Investment Manager the internal procedures and monitoring arrangements employed to ensure the Company complies with the rules. It is satisfied the Company has not breached any rules and has arrangements in place to ensure that breaches do not occur in future.

Dividends

The Board aims to balance the twin objectives of the Fund: to provide both capital growth and tax free dividends. The flow of dividends is dictated by the rate of disposals, so it is often hard to predict, but the objective is a consistent and sustainable dividend policy. Following the sale of Nectar Taverns in October 2005, the Board expects to pay an interim dividend in 2006.

Further Authority to Purchase Shares for Cancellation

Under the general authority granted by shareholders, the Directors have discretion to buy shares for cancellation at prices below the prevailing NAV per share, and will consider doing so (whenever the Company is free to deal) at a discount of 10%. I can now report that the Company bought and cancelled 309,169 shares during the year, at a total cost of £292,423. The Company currently has the authority to buy for cancellation a further 2,990,130 shares before the Annual General Meeting to be held on Monday 13 March 2006. Shareholders will then be asked to renew this authority.

Portfolio Prospects

The investment policy set out in the Prospectus has been followed, and the portfolio is now satisfactorily diversified. As it has some way to go before reaching maturity, the prospects for further capital gains and dividends seem good.

Rupert Pennant-Rea, Chairman

26 January 2006

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 £512m as at 30 September 2005), and the Manager or Adviser of other specialist funds.

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 with Hugh Mumford as Chairman. The Investment Committee meets as required to consider and review investment proposals.

Annual Review Co-investment Arrangements

Co-investment Arrangements with other Electra Kingsway VCTs

The Directors welcome the fact that the Investment Manager has three VCT funds ("Electra Kingsway VCTs") it can use for co-investment. This allows the Company to spread its investment risk and gain access to larger investments than it could do on its own. Where a co-investment opportunity arises between the Company and either or both of the other two funds, the Company will invest in an agreed and consistent proportion on the same terms and in the same securities as the Electra Kingsway VCTs with which it co-invests. Costs associated with any such investment will be borne by each fund pro-rata to its investment.

In more detail, the Company's Board has adopted a set of guidelines on its co-investment arrangements with the Electra Kingsway VCTs and the Investment Manager as follows:-

- Other than as set out below, investments will be allocated between the Company and the Electra Kingsway VCTs on a pro-rata basis by reference to each fund's available cash resources.

- Where an opportunity arises for a second or subsequent round of investment in a company in which the Company or one of the Electra Kingsway VCTs has invested at an earlier stage, the fund holding the existing investment will have a preferential right to take up any pro-rata entitlement it may have in the new financing round. The amount it invests on this basis will not be taken into account in determining its co-investment share thereafter.

- The Company will make an investment in which one or more of the Electra Kingsway VCTs have existing investments only when the Board considers that to be in the best interests of the Company.

- Any potential conflict of interest in a proposed investment by one or more of the Electra Kingsway VCTs will be referred by the Investment Manager to the Board of the Company and the other relevant Boards.

- In the event of a possible conflict of interest between the Investment Manager and the Company, the matter will be decided by those directors who are independent of the Investment Manager.

The Board of the Company acknowledges that the Investment Manager may occasionally recommend an allocation of investments on a different basis from the one described above. For example, an exception may be made to ensure that one or more of the Electra Kingsway VCTs maintain their status as an HMRC approved VCT, or in the interests of balancing their portfolios. A different basis may also be necessary to meet the requirements of potential investee companies.

Principles of Valuation

Qualifying Investments Valuation Methodology

The Directors have adopted a valuation policy drawn substantially from the latest International Private Equity and Venture Capital 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 (a UK market focussed on small and medium companies) 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 25% 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.

Non-qualifying Investments Valuation Methodology

The valuation policy for non-qualifying investments is set out in the Statement of Accounting Policies on page 25.

Investment Overview

Unquoted companies
In the early part of the year, Berkeley Morgan was acquired by Personnel Group Holdings for £12.3m giving the Fund an uplift of 1.9x its initial cost. Just after the year end in October 2005 we completed the disposal of the first unquoted investment in the Fund, Nectar Taverns. The uplift on initial cost was 2.2x in a period of just over three years. After a large auction, the company was acquired by Lincoln Capital for cash. It was a good result, giving an IRR of 27%. The key to the success of the transaction was the relationship with Honeycombe Leisure and the structure of the company. Encouraged by the success of Nectar Taverns we committed to invest in two similar managed pub companies alongside the Honeycombe team. These were Amber Taverns, which is the successor to Nectar but with a slightly wider geographic remit, and Ma Hubbards, which focuses on a value for money food offering. Both companies have similar financial structures and we committed to invest a total of £3m split equally with Electra Kingsway VCT 2.

The other major uplift in the unquoted portfolio was James & James which was written up by 50% in response to improving underlying trading and industry benchmarking. James & James specialises in the publication of a number of environmental business magazines and was an investment made by the Fund in 2003. There were no other valuation changes to the unquoted portfolio.

AIM Companies

It was a volatile year for the Fund's AIM investments with a number experiencing declines from the peaks achieved in 2004. The worst affected was Centurion Electronics, which fell heavily after the company ran into trading difficulties. The company had launched its plug and play in-car DVD player into the retail market but had been too optimistic on potential sales, resulting in a large stock write down. The company has withdrawn from this sector and is concentrating on its core business relationships with car manufacturers. The other major faller was Brady, which drifted lower due to an absence of new contracts. The company launched a new software suite and a number of customers delayed orders for the old system in anticipation of the launch of the new product.

On a more positive note, Advanced Medical Solutions, Quadnetics and 1st Dental announced good results and look well positioned to deliver further profits growth.

Disposals from the AIM portfolio included lastminute.com, which received an offer from Sabre Holdings, the owner of Travelocity. The uplift on cost was only small as the lastminute.com share price had fallen after it acquired the Fund's original investment in Online Travel. Other disposals included the sale of the last remaining shares in Bioprogress where the Fund made a return of 5.1x its initial cost.

Non Qualifying Portfolio

The Fund has investments in two other funds managed by Electra Partners, which are used to help with liquidity now that the Fund is close to being fully invested. These funds also provide further exposure to private equity and smaller company investments. Both Electra Investment Trust and Electra Active Management progressed well in the year and are now showing good uplifts on cost.

New Investments

1st Dental
The company is AIM listed and supplies dental practices with a range of physical products including crowns, bridgework, orthodontics, implants and prosthetics. The company operates from 15 laboratories in the UK providing dentists with a cost effective and high quality service. The company sought equity finance to acquire its main competitor, The Benchmark Group, thus making it the largest dental laboratory group in the UK and providing some significant synergies. The Fund invested £750,000 for 6.0% of the equity.

Gyro
The company is a specialist brand and marketing agency with a strong business-to-business focus. It has a blue chip client list with customers such as Oracle, Sun Microsystems and Sony. The company raised £2.5m to fund the buy-out of one of the two founder partners. The buy-out was part of a wider transaction which allowed a distribution of equity to other members of the management team. The Fund invested £375,000 alongside Electra Kingsway VCT 2 for a combined equity stake of 6.8%.

Sanastro
The company is a business-to-business publisher specialising in the financial services market with two leading titles, Leasing Life and Motor Finance. In November 2004 the company raised £6.75m to acquire the Lafferty Group, a larger company that publishes 11 titles such as The Accountant, Retail Banker, and Bank Marketing International. The acquisition provides a number of synergies and a platform from which the company can continue to develop both organically and by further acquisitions. The Fund invested £1m alongside Electra Kingsway VCT 2 for a combined equity stake of 20.3%.

Amber Taverns
Amber is a company set up in conjunction with Honeycombe Leisure, an AIM listed pub company. The management team at Honeycombe will seek to build up a portfolio of freehold pubs based in the North West of England. The key is to acquire underperforming pubs, refurbish them and install better operating management. The Fund invested £750,000 alongside Electra Kingsway VCT 2 for a combined equity stake of 33.0%.

Find Portal
The company owns and operates the UK's leading internet financial services directory website, www.find.co.uk, which has the most complete A to Z listing of any UK directory website. The company was founded in 1996 and has demonstrated a successful record of profits growth. The key has been the rapid growth of online advertising and the attractiveness of the internet for marketing financial products. The Fund invested £1m alongside Electra Kingsway VCT 2 for a combined equity holding of 28.2%.

Ma Hubbards
The company is similar to Amber Taverns in that it was set up in conjunction with Honeycombe Leisure. The main difference is that the company's objective is to acquire freehold pub sites and convert them into a value food offer. The business is based in the north Midlands. The Fund invested £750,000 alongside Electra Kingsway VCT 2 for a combined 50.0% of the equity.

Purchases Completed Since Year End

Hill Station
The company is a manufacturer of premium ice cream and floated on the AIM market in 2004. As a stand alone entity the company was sub-scale; therefore it entered into negotiations to acquire two significantly larger ice cream manufacturers with the intention of merging the three companies in to one manufacturing site. The deal should enable significant cost savings and synergies and create a company with a combined turnover of £18m. The Fund invested £758,085 alongside Electra Kingsway VCT 2 for a combined 16.0% interest in the company.

Conquest Business Media
The company specialises in Business-to-Business Publishing. Its core magazines are The Manufacturer, The Manufacturer US and British Industry. The business was founded in 1996 and is located in Norwich. The Fund invested £750,000 alongside Electra Kingsway VCT 2 for a combined 43.4% interest in the company.

Outlook

Good progress has been made investing in qualifying companies and the deal flow remains encouraging. Since inception the Fund has disposed of five portfolio companies at significant uplifts and, as the portfolio starts to mature, the level of disposals should start to accelerate, enabling further dividend distributions.

Annual Review **Portfolio Summary**

	Cost at 30 September 2005 £	Valuation at 30 September 2005 £	% of Portfolio by Value %
Qualifying Investments:			
Media Square	1,730,000	2,668,929	11.94
Nectar Taverns	750,000	1,621,282	7.25
James & James	750,000	1,130,000	5.05
Sanastro	1,000,000	1,000,000	4.47
Find Portal	1,000,000	1,000,000	4.47
Hallmarq	849,996	972,090	4.35
Happy Times	939,524	939,524	4.20
1st Dental	750,000	906,250	4.05
Keycom	1,400,963	807,000	3.61
Amber Taverns	750,000	750,000	3.35
Ma Hubbards	750,000	750,000	3.35
ePOINT	550,000	550,000	2.46
Advanced Medical Solutions	500,000	537,059	2.40
Music Copyright Solutions	500,004	441,180	1.97
Centurion Electronics	947,275	428,808	1.92
Gyro	375,000	375,000	1.68
Signature Brands Group	750,000	375,000	1.68
Quadnetics	399,999	366,037	1.64
Brady	750,000	361,111	1.61
Immedia Broadcasting	275,000	65,000	0.29
	15,717,761	16,044,270	71.74
Non-Qualifying Investments:			
Electra Investment Trust	1,862,149	3,077,144	13.76
Electra Active Management	2,000,000	2,743,117	12.26
Fixed Interest Securities	525,000	501,175	2.24
	4,387,149	6,321,436	28.26
	20,104,910	22,365,706	**100.00**
Cash		449,857	
Total		**22,815,563**	

Annual Review Ten Largest Qualifying Investments*

Media Square		Year ended October	2004
Cost	£1,730,000		£m
Valuation	£2,668,929	Sales	19.5
Basis of valuation	Mid market price (AIM)	Profit before tax	1.5
Equity held	5.9%	Retained profit	1.3
Business	An advertising and retail marketing company	Net assets	28.5

Nectar Taverns		Year ended April	2005
Cost	£750,000		£m
Valuation	£1,621,282	Sales	7.1
Basis of valuation	Earnings multiple	Profit before tax	0.6
Equity held	18.5%	Retained profit	0.1
Business	Acquisition of a portfolio of managed pubs in NW England	Net assets	3.7

James & James		Year ended December	2004
Cost	£750,000		£m
Valuation	£1,130,000	Sales	3.5
Basis of valuation	Earnings multiple	Profit before tax	0.03
Equity held	32.3%	Retained profit	0.03
Business	A Publisher of magazines focusing on the environment sector	Net assets	0.8

Sanastro		Year ended November	2005
Cost	£1,000,000		£m
Valuation	£1,000,000	Sales	n/a
Basis of valuation	Cost	Profit before tax	n/a
Equity held	12.7%	Retained profit	n/a
Business	Publisher of financial newsletters	Net assets	n/a

Find Portal		Year ended May	2005
Cost	£1,000,000		£m
Valuation	£1,000,000	Sales	4.0
Basis of valuation	Cost	Profit before tax	1.1
Equity held	14.1%	Retained profit	1.0
Business	An internet financial directory	Net assets	1.2

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

Annual Review **Ten Largest Qualifying Investments ***

Hallmarq		Year ended August	2004
Cost	£849,996		£m
Valuation	£972,090	Sales	1.1
Basis of valuation	Price of recent fund raising	Profit before tax	(0.1)
Equity held	11.3%	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	2005
Cost	£939,524		£m
Valuation	£939,524	Sales	2.7
Basis of valuation	Cost	Profit before tax	(0.6)
Equity held	12.2%	Retained profit	(0.6)
Business	Owner/operator of children's nursery schools	Net assets	1.4

1st Dental		Year ended November	2004
Cost	£750,000		£m
Valuation	£906,250	Sales	5.8
Basis of valuation	Mid market price (AIM)	Profit before tax	0.11
Equity held	6.0%	Retained profit	0.14
Business	A chain of dental laboratories	Net assets	5.0

Keycom		Year ended September	2004
Cost	£1,400,963		£m
Valuation	£807,000	Sales	1.9
Basis of valuation	Earnings multiple	Profit before tax	(1.3)
Equity held	14.6%	Retained profit	(1.1)
Business	Provision of broadband and telephone services to students living in Halls of Residence.	Net assets	(1.5)

Amber Taverns		Year ended April	2005
Cost	£750,000		£m
Valuation	£750,000	Sales	n/a
Basis of valuation	Cost	Profit before tax	n/a
Equity held	16.5%	Retained profit	n/a
Business	Acquisition of a portfolio of managed pubs in NE England	Net assets	n/a

* 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
Paternoster House
65 St Paul's Churchyard
London
EC4M 8AB
Telephone +44 (0)20 7214 4200
www.electraquoted.com

Secretary and Registered Office

Philip Dyke
Paternoster House
65 St Paul's Churchyard
London
EC4M 8AB
Telephone +44 (0)20 7214 4200

Company Number

4286368

Registered Independent Auditors

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 7233 5902
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 58, 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 Henderson Plc and a Director of British American Tobacco and a number of other companies. He is Chairman of the Nomination Committee.

*** Michael Broke**

Aged 69, 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 57, 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. Previous directorships have included Highland Participants Plc, an oil and gas exploration company (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. He is Chairman of the Remuneration Committee.

Nicholas Ross

Aged 43, was appointed a Director on 12 September 2001.

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

*** David Sebire**

Aged 62, was appointed a Director on 24 September 2001.

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 non-executive Chairman of Aerobox and Clearspeed Technology 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.

All Directors are also Directors of Electra Kingsway VCT 2 Plc

* Member of the Audit, Remuneration and Nomination Committees

To the Members of Electra Kingsway VCT Plc

The Directors present the audited Accounts of the Company for the year ended 30 September 2005 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

In February 2005, in order to permit the payment of a dividend out of capital gains, the Company gave notice to Companies House that it no longer wished to be an investment company within the meaning of Section 266(3) of the Companies Act 1985.

VCT Status

HM Revenue and Customs 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 and Dividend Reinvestment Scheme

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

At the Company's Extraordinary General Meeting held on 14 March 2005, shareholders approved the establishment of a Dividend Reinvestment Scheme ("the Scheme") whereby shareholders were offered the opportunity to reinvest the interim capital dividend of 6.5p per ordinary share, paid on 29 April 2005, as well as subsequent dividends, by subscribing for further shares in the Company in accordance with the Terms and Conditions of the Scheme. Shareholders holding a total of 2,763,758 ordinary shares, representing 12.8% of the issued share capital at that time applied to participate in the Scheme.

Between 1 October 2004 and 30 September 2005 a total of 165,035 ordinary shares of 1p each (representing 0.76% of the Company's enlarged share capital) were issued under the Scheme at a price of 108.7p per share.

During the year under review, the Company made the following purchases of its own shares for cancellation in the market under the authority granted by shareholders at the Annual General Meeting held in February 2004.

Shares Purchased for Cancellation	Date of Purchase	Price per Share
47,400	25 January 2005	100p

In addition, under the authority granted by shareholders at the Annual General Meeting held in March 2005, the Company made the following purchases of its own shares for cancellation:

Shares Purchased for Cancellation	Date of Purchase	Price per Share
47,027	15 March 2005	96p
55,100	31 March 2005	96p
85,317	7 July 2005	92p
74,325	3 August 2005	92p

The Company does not hold any shares in Treasury.

As at 30 September 2005, a total of 21,597,056 (2004: 21,741,190) ordinary shares of 1p each of the Company were in issue.

Authority to make Market Purchases of Shares

A Special Resolution will be proposed at the Annual General Meeting to be held on 13 March 2006 ("AGM") to renew, for one year, the Board's authority to buy up to 2,159,705 of the Company's ordinary shares, or such lesser number of shares as is equal to 10% 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 Special Resolution. Should any shares be purchased under this authority, it is the intention of the Board that such shares be cancelled.

Renewal of Authority to Allot Shares and Disapply Pre-emption Rights

At the AGM an Ordinary Resolution will be proposed to renew the authority conferred upon the Directors at the Extraordinary General Meeting held on 14 March 2005 to allot additional shares, up to an aggregate nominal amount of £100,000, representing 46% of the Company's issued share capital. This authority will expire either at the conclusion of the fifth Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of the resolution.

It is standard practice for most public companies to renew this authority to allot shares annually. The Directors are seeking to renew this authority to enable them to allot shares in the Company under the terms of the Dividend Reinvestment Scheme if appropriate, and also to provide the Directors with the ability to make further small share issues if considered suitable. Otherwise, the Directors have no present intention of exercising this authority.

A Special Resolution will be proposed at the Annual General Meeting seeking to renew the authority conferred upon the Directors at the Extraordinary General Meeting held on 14 March 2005 to issue equity securities of the Company for cash without the application of the pre-emption rights provided by the Companies Act 1985. The authority contained in this Resolution will be limited to the allotment of equity securities in the specified circumstances and will expire either at the conclusion of the fifth Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of the resolution.

Results and Dividend

The loss attributable to shareholders amounted to £666,289 (2004: profit £79,102). The Directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2005 (2004: £nil). An interim dividend of £1,410,096 was paid in the year (2004: nil).

Post Balance Sheet Events

Sales and purchases since the year end:

Oct 2005	Sale	Nectar Taverns	£1,621,282
Nov 2005	Purchase	Hill Station	£758,085
Nov 2005	Purchase	Conquest Business Media	£750,000

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 served as Directors of the Company throughout the year ended 30 September 2005. No other person was a Director of the Company during any part of the year. Mr MHA Broke and Mr DJ Sebire will retire at the Annual General Meeting in 2006 and, being eligible, offer themselves for re-election. Short biographical details of Mr MHA Broke and Mr DJ Sebire 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 2005 and 26 January 2006. No options over shares in the capital of the Company have been granted to the Directors.

	30 September 2005 Shares	1 October 2004 Shares
RL Pennant-Rea	10,809	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 26 January 2006 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 in 2006 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 2.5% per annum.

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. Subsequent periods are 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 13 March 2006.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB

26 January 2006

The Directors confirm that during the year under review the Company has complied with Section 1 of the Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council in July 2003.

Directors' Attendance at Meetings

	Board	Audit Committee	Remuneration Committee
Number of Meetings	**8**	**2**	**1**
Rupert Pennant-Rea	8	n/a	n/a
Michael Broke	7	2	1
David Donnelly	6	2	1
Nicholas Ross	8	n/a	n/a
David Sebire	5	2	1

The Board of Directors

The Board, which meets regularly, comprised of five Directors at 30 September 2005 all of whom were non-executive. All of the Directors who held office at 30 September 2005, 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 Electra Kingsway VCT 2 Plc which was launched in 2004 and 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 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 under the Code 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 Board's 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 Meetings consider as appropriate such matters as overall strategy, investment performance, share price performance, share price discount and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The number of meetings of the Board and the Audit and Remuneration Committees are shown in the table above. All of the Directors attended the Annual General Meeting.

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.

The Directors believe that the Board has the balance, skills and experience which enables it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience can be found on page 13.

Performance Appraisal

The Board carried out a formal appraisal process of its own and of its Committees' operations and performance during the year. This was implemented by means of questionnaires circulated to the Directors, the results of which were then summarised and reviewed by the Board. Issues covered included board composition, meeting arrangements and communication. The process was considered by the Board to be constructive in identifying areas for improving the functioning and performance of the Board and of its Committees. The Board concluded that its performance and that of its Committees was satisfactory.

The Chairman carried out a formal appraisal of each of the Directors during the year and the Board, under the leadership of the Senior Independent Director, similarly appraised the Chairman. Relevant matters considered included the 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.

Re-election of Directors

In accordance with the Code's provisions or the Company's Articles Mr MHA Broke and Mr DJ Sebire will retire at the Annual General Meeting to be held in 2006 and offer themselves for re-election.

Independent Professional Advice

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 appointment or removal of the Company Secretary would be a matter of consideration by the entire Board.

The Audit Committee

The Board has an Audit Committee established in compliance with the Code. It comprises all the Directors, other than the Chairman of the Board and Mr NRW Ross with Mr DJ Sebire as Chairman of the Committee. The Board has taken note of the suggestion that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in this respect. Its authority and duties are clearly defined in its written terms of reference which are available on request.

The Committee's responsibilities include:

- monitoring and reviewing the integrity of the financial statements, the internal financial controls and the independence, objectivity and effectiveness of the external auditors;
- making recommendations to the Board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement;
- developing and implementing the Company's policy on the provision of non-audit services by the external auditors;
- reviewing the arrangements in place within Electra Partners whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company;
- considering annually whether there is a need for the Company to have its own internal audit function.

The Committee has reviewed the provision of non-audit services by the external auditors and believes them to be cost effective and not an impediment to the external auditors objectivity and independence. The non-audit services include the provision of a monitoring service to ensure the Company complies with VCT legislation. It has been agreed that all non-audit work, to be carried out by the external auditors, must be approved by the Audit Committee and that any special projects must be approved in advance.

Internal Audit

Following the review carried out by the Audit Committee as to whether there is a need for the Company to have its own internal audit function, the Board has considered and continues to believe that the internal control systems in place within Electra Partners and the work carried out by the Company's external auditors provides sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

The Remuneration Committee

The Remuneration Committee was comprised during the year of all the Directors of the Company other than the Chairman of the Board who resigned from the Committee shortly after the start of the year and Mr NRW Ross. The Committee has written terms of reference which are available on request. 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. It was not necessary to hold any meeting of the Committee during the course of this year. The Committee has written terms of reference which are available on request. The Committee is responsible for identifying and nominating, for the approval of the Board candidates to fill board vacancies to maintain a balanced Board.

Letters of appointment, which specify the terms of appointment, are issued to new Directors.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee and which includes being briefed fully about the Company by the Chairman and senior executives of Electra Partners. Following appointment, Directors continue to receive other relevant training and advice as necessary to enable them to discharge their duties.

The Company's Relationship with its Shareholders

The Company places great importance on communication with the Company's shareholders. In addition to the Annual and Interim Reports shareholders will be sent regular newsletters from the Investment Manager.

At the Annual General Meeting all shareholders are welcome to attend and have the opportunity to put questions to the Board.

The notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. A separate resolution is proposed on each substantially separate issue including the annual report and accounts. All proxy votes are counted and except where a poll is called, the Chairman indicates the level of proxies lodged for each resolution and the balance for and against the resolution after it has been dealt with on a show of hands.

The Chairman and the Senior Independent Director can always be contacted either through the Company Secretary or care of the Company's registered office at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB.

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 'Internal Control: Guidance for Directors on the Combined Code'.

The Board is responsible for the Company's system of internal control and it has reviewed its effectiveness for the year ended 30 September 2005. 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 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.

Voting Policy

The Company's investee companies are principally a mixture of listed and unlisted companies in which the Company is a significant shareholder and the Company is usually a party to all issues requiring shareholder approval. The Company has given discretionary voting power to Electra Partners to vote on its behalf.

Electra Partners' voting policy as agent for the Company has adopted and applies the Statement of Principles drawn up by the Institutional Shareholders Committee when it considers these in its reasonable judgement to best serve the financial interests of the Company's shareholders. Electra Partners' voting policy has been reviewed and endorsed by the Board.

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.

Directors' Remuneration Report

The Directors submit this report in accordance with the requirements of Schedule 7A of 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 the Chairman of the Board, who resigned shortly after the start of the year, and Mr NRW Ross. Mr DJ Donnelly was Chairman of the Remuneration Committee throughout the year.

The Remuneration Committee reviewed the level of Directors' fees during the year and agreed that no changes should be made to the level of these fees. The current annual fee rates are £20,000 for the Chairman and £15,000 for each of the other Directors apart from 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 2006 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.

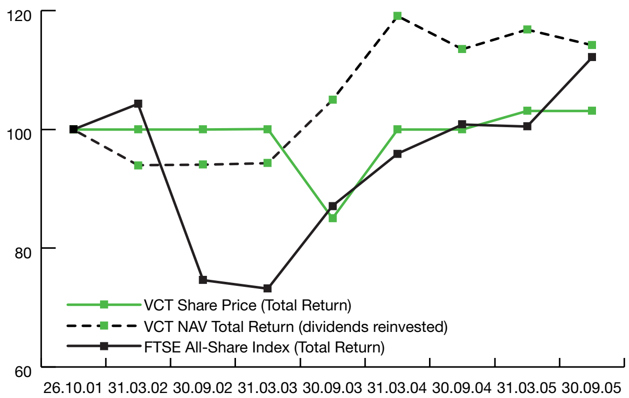
Performance Graph

The graph below shows the Company's performance being measured in terms of 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 2005 £	For the year ended 30 Sept 2004 £
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 (2004: £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, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB

26 January 2006

To the Members of Electra Kingsway VCT Plc

We have audited the Financial Statements which comprises the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Accounting Policies and the related notes. 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, the Corporate Governance statement and the other items included in the contents section.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in 2003 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 2005 and of its loss 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
26 January 2006

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 Profit and Loss Account

As at 30 September 2005

	Notes	For the year ended 30 September 2005 £	For the year ended 30 September 2004 Restated £
Income	1	**229,279**	506,514
Investment Management fee	2	**(503,710)**	(546,484)
Other expenses	3	**(321,322)**	(329,146)
Operating Loss		**(595,753)**	(369,116)
(Loss)/Profit on realisation of investments		**(70,536)**	446,996
(Loss)/Profit before tax		**(666,289)**	77,880
Tax on ordinary activities	5	**—**	1,222
(Loss)/Profit after tax		**(666,289)**	79,102
Dividends	6	**(1,410,096)**	—
Retained (Loss)/Profit		**(2,076,385)**	79,102
Earnings per share	7	**(3.07)p**	0.38p

The amounts dealt with in the Profit and Loss Account are all derived from continuing activities.
No operations were acquired or discontinued in the period.
The notes on pages 26 to 33 form part of these Financial Statements.

Statement of Recognised Gains and Losses

	For the year ended 30 September 2005 £	For the year ended 30 September 2004 £
(Loss)/Profit after tax	**(666,289)**	79,102
Unrealised gains on revaluation of investments	**768,966**	1,537,719
Total recognised gains for the period	**102,677**	1,616,821

Note of Historical Profits and Losses

	For the year ended 30 September 2005 £	For the year ended 30 September 2004 £
(Loss)/Profit on ordinary activities before taxation	(666,289)	77,280
Realisation of investment revaluation gains recognised in previous years	1,487,160	590,389
Historical cost profit for the year before dividends	820,871	667,669
Dividends	(1,410,096)	–
Historical cost (loss)/profit for the year after taxation and dividends	(589,225)	667,669

Accounts Balance Sheet

As at 30 September 2005

	Notes	As at 30 September 2005 £	£	As at 30 September 2004 £	£
Fixed Assets					
Investments	8		**22,365,706**		**21,435,048**
Current Assets					
Debtors	9	173,935		268,968	
Cash at bank	16	449,857		2,743,683	
			623,792		**3,012,651**
Creditors: amounts falling due within one year					
Creditors	10	90,639		128,393	
			90,639		**128,393**
Net Current Assets			**533,153**		**2,884,258**
Net Assets			**22,898,859**		**24,319,306**
Capital and Reserves					
Called-up share capital	12		215,970		217,413
Share premium account	13		13,951,929		13,774,184
Capital redemption reserve	13		3,950		857
Special reserve	13		6,717,580		7,010,003
Realised capital reserve	13		–		303,694
Revaluation reserve	13		2,260,796		2,978,990
Revenue reserve	13		(251,366)		34,165
Total Equity Shareholders' Funds			**22,898,859**		**24,319,306**
Net Asset Value per Ordinary Share	14		**106.03p**		**111.86p**

	2005	2004
Number of ordinary shares in issue at 30 September	**21,597,056**	**21,741,190**

The information on pages 25 to 34 form part of these Financial Statements.

The Financial Statements on pages 22 to 34 were approved by the Board of Directors on 26 January 2006 and were signed on its behalf by:

R Pennant-Rea, Chairman.

Accounts Cash Flow Statement

	Notes	For the year ended 30 September 2005 £	£	For the year ended 30 September 2004 £	£
Operating Activities					
Investment income received		324,536		514,297	
Bank interest received		25,044		121,362	
Investment management fees paid		(534,174)		(609,690)	
Other cash payments		(325,666)		(346,121)	
Net Cash Outflow from Operating Activities	15		**(510,260)**		**(320,152)**
Taxation			–		(3,393)
Capital Expenditure and Financial Investments					
Sale of investments		6,064,781		6,103,049	
Acquisition of investments		(6,314,212)		(8,968,429)	
Net Cash Outflow from Capital Expenditure and Financial Investments			**(249,431)**		**(2,865,380)**
Equity Dividends Paid			**(1,230,475)**		**(178,243)**
Cash Outflow before Financing and Management of Liquid Resources			**(1,990,166)**		**(3,367,168)**
Financing					
Issue of ordinary shares		–		2,373,319	
Repurchase of ordinary shares		(303,660)		(30,127)	
Expenses of the issue of ordinary shares		–		(130,533)	
Net Cash (Outflow)/Inflow from Financing			**(303,660)**		**2,212,659**
Decrease in Cash for the Period	16		**(2,293,826)**		**(1,154,509)**

Reconciliation of Total Shareholders' Funds

	For the year ended 30 September 2005 £	For the year ended 30 September 2004 £
Total gains and losses for the period	102,677	1,616,821
Share issue expenses charged to Share Premium account	–	(130,533)
Ordinary shares issued	179,395	2,373,319
Repurchase of Ordinary shares	(292,423)	(41,248)
Dividend on ordinary shares	(1,410,096)	–
Movements in Total Shareholders' Funds	**(1,420,447)**	3,818,359
Total Shareholders' Funds at start of period	24,319,306	20,500,947
Total Shareholders' Funds	**22,898,859**	24,319,306

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) Presentation of financial statements

In order to enable the Company to make capital distributions, the Company has revoked its investment company status and is accordingly unable to take advantage of the accounting exemptions that status permits. The results of the Company have been prepared in accordance with the requirements of Schedule IV of the Companies Act 1985. The prior year comparatives have been restated accordingly and the balance of the realised capital reserve transferred to the revenue reserve account.

Reference to revenue and capital in the notes to these financial statements reflects the basis on which taxation is calculated and the treatment applied in determining the amounts available for revenue dividend distribution.

b) 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.

c) 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 International Private Equity and Venture Capital ("IPEVC") valuation guidelines.

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 IPEVC guidelines.

Realised gains or losses on the disposal of investments are taken to the Profit and Loss Account. Unrealised gains or losses on the revaluation of investments are taken to the revaluation reserve.

d) 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.

e) Expenses

All expenses are accounted for on an accruals basis and are charged through the Profit and Loss 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; and
- expenses incurred as a result of an issue of shares are allocated against the share premium account.

f) 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 Profit and Loss Account 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.

1 Income

	For the year ended 30 September 2005 £	For the year ended 30 September 2004 £
Franked investment income	128,977	11,873
Interest from fixed interest securities	75,258	373,279
Interest from bank deposits	25,044	121,362
	229,279	506,514

2 Investment Manager's Fees

	For the year ended 30 September 2005 £	For the year ended 30 September 2004 £
Electra Quoted Management	503,710	546,484

The Management Fee includes irrecoverable VAT of £75,021 (2004: £81,391).

Electra Quoted Management also received an administration fee of £64,824 (2004: £62,818), net of VAT, which increases each year in line with RPI. The administration fee is included in the administration expenses of £321,322 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 2.5% per annum.

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 per share 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. Subsequent periods are 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 2005 there was no amount due under the Incentive Schemes.

3 Other Expenses

	For the year ended 30 September 2005 £	For the year ended 30 September 2004 £
Directors' remuneration (including Employer's NIC)	68,429	68,441
IFA trail commission	57,287	60,680
Auditors' fees – audit	21,150	21,150
– non-audit	16,568	15,863
Administration expenses	157,888	163,012
	321,322	329,146

4 Directors' Remuneration

Details of Directors' remuneration are shown in the table in the Directors' Remuneration Report on page 20.

The Company has no employees or employee costs.

5 Taxation on Ordinary Activities

	For the year ended 30 September 2005 £	For the year ended 30 September 2004 £
Analysis of charge in the year		
Current tax:		
Prior year adjustment	–	(1,222)
UK corporation tax at 19% (2004: 19%)	–	–
Total Current Tax	–	(1,222)
Factors affecting tax charge for the year		
Operating loss	(595,753)	(369,116)
Operating loss at corporate tax rate	(113,193)	(70,132)
Effects of:		
Dividend income	(24,506)	(2,256)
Expenses not deductible for tax purposes	10,942	11,529
Unutilised losses arising in year	126,757	60,859
Prior year adjustment	–	(1,222)
	–	(1,222)

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 2005	For the year ended 30 September 2004
	£	£
Dividend on ordinary shares:		
Interim dividend of 6.5p (2004: nil) per ordinary share	1,410,096	–

7 Earnings per Ordinary Share

Basic and diluted earnings per share is based on the net (loss)/profit from ordinary activities after taxation of (£666,289) (2004: £79,102) and on 21,701,176 (2004: 20,904,129) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

There is no difference between basic and diluted earnings per share because the Company has no potentially dilutive shares in issue.

8 Investments

	Qualifying Investments			Non-Qualifying Investments					
	Traded on AIM	Traded on OFEX	Unlisted	Open-ended Investment Company	Closed-ended Investment Company	Traded on OFEX	Traded on AIM	Fixed Interest Securities	Total
	£	£	£	£	£	£	£	£	£
Cost at 1 October 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 1 October 2004	1,340,899	526,318	410,000	187,380	331,664	302,554	–	(119,825)	2,978,990
Valuation at 1 October 2004	6,010,677	2,718,721	4,710,006	2,187,380	2,193,813	690,876	–	2,923,575	21,435,048
Purchases at Cost	750,000	450,000	4,164,514	–	–	–	932,495	–	6,297,009
Transfer from OFEX to AIM	500,004	(500,004)	–	–	–	–	–	–	–
Sales at valuation 1 October 2004	(1,547,649)	(1,480,217)	–	–	–	(690,876)	–	(2,416,575)	(6,135,317)
Unrealised gains/(losses) in year	(717,887)	(381,500)	588,376	555,737	883,331	–	(153,266)	(5,825)	768,966
Valuation at 30 September 2005	4,995,145	807,000	9,462,896	2,743,117	3,077,144	–	779,229	501,175	22,365,706
Cost at 30 September 2005	4,919,783	1,400,963	8,464,520	2,000,000	1,862,149	–	932,495	525,000	20,104,910
Unrealised gains/(losses) at 30 September 2005	75,362	(593,963)	998,376	743,117	1,214,995	–	(153,266)	(23,825)	2,260,796
Valuation at 30 September 2005	4,995,145	807,000	9,462,896	2,743,117	3,077,144	–	779,229	501,175	22,365,706

Further details of investments are provided in the Portfolio Summary on page 9 of these accounts.

9 Debtors

	2005 £	2004 £
Amounts due within one year:		
Accrued interest	21,876	143,867
Other debtors	152,059	125,101
	173,935	268,968

10 Creditors: amounts falling due within one year

	2005 £	2004 £
Other creditors	90,639	111,257
Outstanding settlements	–	17,136
	90,639	128,393

11 Significant Interests

At 30 September 2005 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	947,275	–	947,275	7.9
Keycom	1,200,963	200,000	1,400,963	14.6
James & James	749,000	1,000	750,000	32.3
Brady	750,000	–	750,000	3.3
Media Square	1,730,000	–	1,730,000	5.9
Music Copyright Solutions	500,004	–	500,004	9.6
Happy Times	99,938	839,586	939,524	12.2
Hallmarq	849,996	–	849,996	11.3
ePOINT	550,000	–	550,000	4.8
Amber Taverns	225,000	525,000	750,000	16.5
Find Portal	100,394	899,606	1,000,000	14.1
Ma Hubbards	225,000	525,000	750,000	25.0
Sanastro	1,000,000	–	1,000,000	12.7
Gyro	112,500	262,500	375,000	3.4
1st Dental	750,000	–	750,000	6.0

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

	2005 Number	2005 £	2004 Number	2004 £
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 2004	21,741,190	217,413	19,804,760	198,048
Ordinary shares of 1p each issued during the year	165,035	1,650	1,978,655	19,787
Ordinary shares of 1p each repurchased during the year	(309,169)	(3,093)	(42,225)	(422)
At 30 September 2005	21,597,056	215,970	21,741,190	217,413

On 5 May 2005 a total of 165,035 ordinary shares of 1p each were allotted under the Company's Dividend Reinvestment Scheme for cash at a price of 108.7p per share.

During the year under review, the Company made the following purchases of its own shares in the market under the authority granted by shareholders at the annual General Meeting held in February 2004.

Shares Purchased for Cancellation	Date of Purchase	Price per Share
47,400	25 January 2005	100p

In addition, under the authority granted by shareholders at the Annual General Meeting held in March 2005, the Company made the following purchases of its own shares:

Shares Purchased for Cancellation	Date of Purchase	Price per Share
47,027	15 March 2005	96p
55,100	31 March 2005	96p
85,317	7 July 2005	92p
74,325	3 August 2005	92p

As at 30 September 2005 a total of 21,597,056 (2004: 21,741,190) ordinary shares of 1p each of the Company were in issue.

13 Reserves

	Share Premium Account £	Capital Redemption Reserve £	* Special Reserve £	Realised Capital Reserve £	Revaluation Reserve £	Revenue Reserve Account £
At 1 October 2004	13,774,184	857	7,010,003	303,694	2,978,990	34,165
Reclassification (see page 25 Note a)	–	–	–	(303,694)	–	303,694
	13,774,184	857	7,010,003	–	2,978,990	337,859
Premium on issues of shares during the period	177,745	–	–	–	–	–
Shares repurchased in year	–	3,093	(292,423)	–	–	–
Unrealised appreciation at 1 October 2004 on investments realised in year	–	–	–	–	(1,487,160)	1,487,160
Increase in unrealised appreciation	–	–	–	–	768,966	–
Retained net loss for the year	–	–	–	–	–	(2,076,385)
At 30 September 2005	13,951,929	3,950	6,717,580	–	2,260,796	(251,366)

* The Special Reserve was created by a Court Order in 2003 upon the reduction of the Share Premium Account.

14 Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets at 30 September 2005, and on 21,597,056 (2004: 21,741,190) 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 2005	For the year ended 30 September 2004
	£	£
Operating loss	(595,753)	(369,116)
Decrease in debtors	95,033	55,059
Decrease in creditors and accruals	(9,540)	(6,095)
Net cash outflow from operating activities	(510,260)	(320,152)

16 Analysis of Changes in Cash

	For the year ended 30 September 2005	For the year ended 30 September 2004
	£	£
At beginning of year	2,743,683	3,898,192
Net cash outflow	(2,293,826)	(1,154,509)
At 30 September	449,857	2,743,683

17 Financial Instruments

The Company's financial instruments comprise:

- Equity and non-equity shares, units in an open-ended investment company, shares in a closed-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 2005 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	21,864,531	–	–	21,864,531	–	–
Bonds	–	501,175	–	501,175	6.2	0.2
Cash	–	–	449,857	449,857	–	–
Total	21,864,531	501,175	449,857	22,815,563	–	–

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	–	–

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

Sales and purchases since the year end:

October 2005	Sale	Nectar Taverns	£1,621,282
November 2005	Purchase	Hill Station	£758,085
November 2005	Purchase	Conquest Business Media	£750,000

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 2005 (2004: £nil).

21 Transactions with the Manager

During the year ended 30 September 2005 the Company paid £610,342 (2004: £683,501) to Electra Quoted Management, the Investment Manager. At 30 September 2005, the Company was owed £145,700 (2004: £105,280) by the Investment Manager. Details of the Investment Manager's fee arrangements are included in Note 2. *

* This amount is owed back to the Company because the Investment Manager has reduced its fee so that the Company does not exceed its expense cap of 3.6% of the company's net assets.

Additional Information **Pro forma Statement of Total Return**

(incorporating the Revenue Account)

The Company's results have been prepared in accordance with the requirements of Schedule IV of the Companies Act 1985, which requires that realised gains and losses, including those arising from the disposal of investments, are included in the profit for the period and unrealised capital gains are excluded from the profit for the period.

In order to enable investors to compare the results of the Company with other VCTs, the Directors have prepared the Statement of Total Return that is required for investment companies.

		For the year ended 30 September 2005			For the year ended 30 September 2004	
	Revenue £	**Capital £**	**Total £**	Revenue £	Capital £	Total £
Unrealised gains on investments	**–**	**768,966**	**768,966**	–	1,537,719	1,537,719
Realised (losses)/gains on investments	**–**	**(70,536)**	**(70,536)**	–	446,996	446,996
Income	**229,279**	**–**	**229,279**	506,514	–	506,514
	229,279	**698,430**	**927,709**	506,514	1,984,715	2,491,229
Investment management fees	**(125,927)**	**(377,783)**	**(503,710)**	(136,621)	(409,863)	(546,484)
Other expenses	**(321,322)**	**–**	**(321,322)**	(329,146)	–	(329,146)
Return on Ordinary Activities before Taxation	**(217,970)**	**320,647**	**102,677**	40,747	1,574,852	1,615,599
Tax on ordinary activities	**–**	**–**	**–**	(15,793)	17,015	1,222
Return on Ordinary Activities after Taxation	**(217,970)**	**320,647**	**102,677**	24,954	1,591,867	1,616,821
Return per Ordinary Share	**(1.00p)**	**1.47p**	**0.47p**	0.12p	7.61p	7.73p

Notice of Annual General Meeting

Notice is hereby given that the fourth Annual General Meeting of Electra Kingsway VCT Plc will be held at 1.00pm on Monday 13 March 2006 at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB for the purpose of considering and, if thought fit, passing the following Resolutions (of which, Resolutions 1 to 6 will be proposed as Ordinary Resolutions):

Ordinary Business

1 To receive, consider and adopt the Reports of the Directors and Auditors and the Company's Accounts for the year ended 30 September 2005.

2 To approve the Directors' Remuneration Report for the year ended 30 September 2005 which is set out in the Annual Report and Accounts of the Company for the year ended 30 September 2005.

3 To re-elect Mr MHA Broke as a Director of the Company.

4 To re-elect Mr DJ Sebire 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

To consider and, if thought fit, to pass the following Resolutions which in the case of Resolution 7 will be proposed as an Ordinary Resolution and in the case of Resolutions 8 and 9 will be proposed as Special Resolutions:

7 THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £100,000 (the "Relevant Amount"), representing 46% of the Company's issued share capital as at the date of this Notice, during the period commencing on the passing of this Resolution and expiring either at the conclusion of the fifth Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this Resolution (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry, all previous authorities given to the Directors in accordance with Section 80 of the Act being and they are hereby revoked, provided that such revocation shall not have retrospective effect.

8 THAT, conditional upon the passing of Resolution 7 above, in substitution for any existing power under Section 95 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered, during the period commencing on the passing of this Resolution and expiring either at the conclusion of the fifth Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this Resolution (unless previously revoked, varied or extended by the Company in general meeting), pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act pursuant to Resolution 7, as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:

(i) the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body in any territory;

(ii) the Dividend Reinvestment Scheme approved by the shareholders of the Company at the Extraordinary General Meeting of the Company held on 14 March 2005;

(iii) any outstanding offers or obligations under earlier subscription agreements; and

(iv) the allotment for cash otherwise than pursuant to sub-paragraphs (i) to (iii) above of equity securities up to the Relevant Amount, but so that this authority shall allow the Company to make offers or agreements before the expiry which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements and notwithstanding the expiry of such power.

9 THAT the Company be and is hereby authorised generally and unconditionally 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 of 1 pence each, provided that:

i) the maximum number of ordinary shares hereby authorised to be purchased is 2,159,705 or such lesser number of shares as is equal to 10% 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 1 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 on the earlier of 13 June 2007 or the conclusion of the Company's Annual General Meeting in 2007 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, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB

26 January 2006

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, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, 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 11 March 2006 (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 11 March 2006 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 documents 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 12.45 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; and
- the Articles of Association of the Company.

F Short biographical details of Mr MHA Broke and Mr DJ Sebire are contained in the Report & Accounts for the year to 30 September 2005 on page 13.