Electra Kingsway VCT Plc

Report & Accounts

30 September 2006

2006

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 and non-qualifying investments.

Investment Strategy

The Company will seek to invest in a diversified portfolio of unquoted and AIM quoted 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

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 Group. References to Electra Quoted Management Limited have been abbreviated to Electra Quoted Management.

Annual Review **Financial Highlights**

Year ended 30 September	**2006**	2005 Restated
Net assets	**£21.3m**	£22.7m
Net asset value per share	**101.97p**	105.05p
Dividend paid per share	**2.50p**	6.50p

Cumulative return to shareholders since launch

Dividends paid per share	**10.65p**	8.15p
Net asset value plus dividends paid per share	**112.62p**	113.20p

Annual Review Chairman's Statement

Results

At 30 September 2006 the Net Asset Value was 101.97p per share. Including dividends, the Fund's total return per share was 112.62p, an increase of 18.5% from the starting NAV of 95p. The most recent dividend paid to shareholders was 2.5p, in August 2006. The investment portfolio comprises holdings in 20 qualifying companies and two non-qualifying funds. Together they offer good portfolio diversification and upside potential. Smaller unquoted investments often take time to mature, with the returns typically increasing from year four onwards. As these investments are sold, the Company will be able to increase dividends to shareholders.

Portfolio

The performance of the portfolio reflected a good year for our unquoted investments, but a difficult one for the AIM investments. This is partly a reflection of the underlying volatility in the AIM market, brought about by the sheer number of flotations and in, most cases, thin trading volumes. Despite the strength of the main equity markets, the FT AIM Index fell by 7.41% in the period. However, taken as a whole, the AIM portfolio now offers some good potential. During the year, two new investments were added to the portfolio: Conquest Business Media and Hill Station. The two major disposals in the period were Nectar Taverns and James & James which were sold for respective uplifts over cost of 116% and 68%.

C share issue

In November 2006 the Board approved, subject to shareholder consent, the launch of a £20m C share issue. This will be in the interests of shareholders, as the Fund is already fully invested so an additional fund raising will lower the existing costs of running the Fund and lead to greater portfolio diversification when the two pools of capital are merged. An EGM will be held on 5 February 2007 for shareholders to consider the issue.

Dividend and Dividend Reinvestment Scheme

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 once the Fund has matured, we aim to pay a sustainable level of annual dividends. To date, dividends of 10.65p have been paid to shareholders.

Owing to changes in the VCT legislation contained in the 2006/2007 Budget, the Board has withdrawn the Company's Dividend Reinvestment Scheme.

Share price and discount management

The Company operates a share buy back policy at a 10% discount to the last published net asset value, thus offering shareholders the opportunity to sell their shares if required. During the year the Company bought back 813,536 shares for cancellation, at an average price of 93.45p.

VCT status

The six standard VCT industry tests were met during the period. The most significant of these is the requirement for qualifying investments to be 70% of total funds available for investment. At the year end, the Company had 76% of its investment funds in qualifying investments, based on the tax valuation rules for qualifying investments.

Budget changes

The March 2006 Budget introduced a number of changes to VCT legislation. The main one was a reduction in the gross asset test for qualifying companies. This and most of the other changes relate only to funds raised after 5 April 2006, so will have no impact on current shareholders in the Fund. However, funds from the proposed £20m C share issue will be subject to the new legislation. The Manager has analysed historical and proposed investments and has concluded that the majority of these would pass the current gross asset test.

Outlook

The balance of the Fund closely reflects the investment strategy set out in the Fund's Prospectus. Overall, good progress has been made, with considerable potential still to come as economic and market conditions continue to remain favourable.

Rupert Pennant-Rea, Chairman

22 January 2007

Annual Review **Investment Manager's Review**

Investment overview

At 30 September 2006, the Net Asset Value per share was 101.97p, which, when combined with total dividends paid since inception, represented a total return of 112.62p per share. The Fund is now fully invested with 72% of its investment in qualifying investments and 28% invested in Electra Private Equity and Electra Active Management. As some of the qualifying investments in the portfolio are still quite young the Fund is still maturing, which should ensure further capital appreciation over the next few years. The qualifying portfolio comprises investments in 20 companies and is divided in value terms 69% in unquoted investments and 31% in AIM quoted companies.

Performance

It was a mixed year for performance with the unquoted portfolio performing well. This was counterbalanced by the AIM stocks, which had a disappointing year. The main uplifts in the unquoted portfolio were Gyro International and Find Portal. Gyro International is a specialist brand and marketing agency and Find Portal is a comparison website specialising in the financial services market. Both investments were increased in value in line with International Private Equity and Venture Capital Valuation Guidelines taking into consideration improved current trading and comparative valuations. Unquoted investments where it was necessary to make increased provisions against carrying values included ePoint where the company is in negotiations to be sold.

In the AIM portfolio the best performance was by Advanced Medical Solutions, which rose 20% after reporting very encouraging progress. The rest of the portfolio fared poorly with the largest falls registered by Media Square, Brady, Hill Station and First Dental. All four companies had disappointing results and were marked down quite heavily by the market. All have good long term potential and should soon start to see their share prices increasing. It is a particular problem of AIM that the sheer number of new companies listing has created a very thin secondary market for shares, the consequence being that any trading disappointments can often lead to significant share price movements owing to the lack of liquidity. In the non qualifying portfolio Electra Private Equity continued to perform well rising by 21% in the period reflecting strong underlying growth in the net asset value.

New Investments

As the portfolio is close to being fully invested, the scope for adding new investments is limited. However, two investments were made in the year: Conquest Business Media and Hill Station.

Conquest Business Media is a leading UK business-to-business publisher concentrating in the manufacturing and related sectors. The company publishes *The Manufacturer* and *British Industry* in the UK as well as *US Manufacturer* in the US. The development of the brand has enabled the company to diversify into conferences and exhibitions although over 85% of revenues are from publishing. The transaction was a management buyout and Electra Kingsway VCT and Electra Kingsway VCT 2 both invested £750,000 for a combined stake of 43%.

Hill Station is a super premium brand dairy ice cream company that merged with Granelli and Loseley to form a larger ice cream manufacturer serving the own label and branded markets. The key to the mergers was that four manufacturing facilities would be consolidated into the existing Loseley operations at Cwmbran in South Wales. Hill Station was listed on AIM in 2004 and Electra Kingsway VCT and Electra Kingsway VCT 2 invested a total of £1.5m for a 16% interest in the company. After the year end, the fund invested a further £375,000 to provide additional working capital.

Disposals

Disposals in the period included Nectar Taverns which was sold for a multiple of 2.2 times cost. Nectar was a pub investment company established in partnership with Honeycombe Leisure with the objective of building a portfolio of underperforming freehold pubs and through new management and better controls improving the underlying performance. The other main disposal was James & James, a publisher of environmental magazines, which was sold for an uplift of 1.7 times cost to a trade buyer. In addition, some profits were also realised in Media Square and Electra Active Management.

Annual Review **Portfolio Summary**

	Cost at 30 September 2006 £	Valuation at 30 September 2006 £	Performance in in year ended 30 September 2006 £	% of Portfolio by Value %
Qualifying Investments				
Find Portal	1,100,000	2,273,694	1,173,695	11.24
Media Square	1,577,673	1,527,678	(880,357)	7.56
Gyro International	375,000	1,344,979	969,979	6.65
Hallmarq	1,049,996	1,104,195	(67,895)	5.46
Sanastro	1,000,000	1,000,000	-	4.95
Happy Times	999,375	999,375	-	4.94
Hill Station	758,085	821,259	63,174	4.06
Keycom	1,704,963	751,313	(359,688)	3.72
Amber Taverns	750,000	750,000	-	3.71
Ma Hubbards	750,000	750,000	-	3.71
Conquest Business Media	750,000	750,000	-	3.71
Advanced Medical Solutions	500,000	647,059	117,647	3.20
First Dental	750,000	400,000	(475,000)	1.98
Quadnetics	399,999	377,358	22,641	1.87
Signature Brands Group	750,000	375,000	-	1.86
Centurion Electronics	1,197,275	353,254	(286,572)	1.75
Brady	750,000	222,222	(129,630)	1.10
Music Copyright Solutions	500,004	161,766	(250,002)	0.80
Immedia Broadcasting	275,000	42,500	(20,000)	0.21
ePoint	550,000	-	(550,000)	-
	16,487,370	14,651,652	(672,008)	72.48
Non Qualifying Investments				
Electra Private Equity	1,862,149	3,732,386	655,242	18.46
Electra Active Management	1,550,147	1,831,493	(253,273)	9.06
	3,412,296	5,563,879	401,969	27.52
	19,899,666	20,215,531	(270,039)	100.00
Other Assets				
Liquidity Fund		351,000		
Cash		128,633		
		479,633		
Total		**20,695,164**		

The Company has made some investments into individual qualifying investments which are non qualifying, as they did not, at the time the investments were made, comply with tax rules. These are detailed in Note 9 within the Notes to the Accounts.

Annual Review Investment Manager

The Fund's investments are managed by Electra Quoted Management Limited, which is a subsidiary of Electra Partners Group Limited. Electra Quoted Management was established in 1981 and is authorised and regulated by the Financial Services Authority.

Electra Quoted Management has considerable expertise in quoted and unquoted 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.

Electra Quoted Management is also the Investment Manager of Electra Kingsway VCT 2 Plc, Electra Kingsway VCT 3 Plc and Electra Active Management Plc.

The Investment Manager has established an Investment Committee comprising four executives, which is chaired by Hugh Mumford, a senior executive of Electra Partners Group. The Investment Committee meets as required to consider and review investment proposals.

Co-investment Arrangements with other Electra Kingsway VCTs

The Directors welcome the fact that the Investment Manager has three VCT funds (“the 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 other 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 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. In these cases the Directors use their judgement.

Annual Review Ten Largest Qualifying Investments

(Information on the following investments is extracted from their latest audited accounts)

Find Portal		**Year ended May**	**2006**
Cost	£1,100,000		£'m
Valuation	£2,273,694	Sales	3.0
Basis of Valuation	Fair Value	Loss before tax	(1.4)
Equity held	9.48%	Retained loss	(1.4)
Business	An internet financial directory	Net liabilities	(0.7)

Media Square		**16 months ended February**	**2006**
Cost	£1,577,673		£'m
Valuation	£1,527,678	Sales	126.4
Basis of Valuation	Bid market price (AIM)	Profit before tax	2.3
Equity held	3.49%	Retained profit	1.5
Business	An advertising and retail marketing company	Net assets	58.6

Gyro International		**Year ended October**	**2005**
Cost	£375,000		£'m
Valuation	£1,344,979	Sales	13.3
Basis of Valuation	Fair Value	Profit before tax	0.2
Equity held	4.00%	Retained loss	(0.1)
Business	B2B creative agency	Net assets	3.8

Hallmarq		**Year ended August**	**2006**
Cost	£1,049,996		£'m
Valuation	£1,104,195	Sales	1.4
Basis of Valuation	Fair Value	Loss before tax	(0.3)
Equity held	10.38%	Retained loss	(0.3)
Business	The design, manufacture and sale of MRI equipment to the equine market	Net assets	1.2

Annual Review **Ten Largest Qualifying Investments**

Sanastro		Year ended November	2005
Cost	£1,000,000		£'m
Valuation	£1,000,000	Sales	5.0
Basis of Valuation	Fair Value	Profit before tax	0.3
Equity held	12.60%	Retained profit	0.2
Business	Publisher of financial newsletters	Net assets	7.4

Happy Times		Year ended March	2005
Cost	£999,375		£'m
Valuation	£999,375	Sales	2.7
Basis of Valuation	Fair Value	Loss before tax	(0.6)
Equity held	12.20%	Retained loss	(0.6)
Business	Owner/operator of children's nursery schools	Net assets	1.4

Hill Station		15 months ended October	2005
Cost	£758,085	£'m	
Valuation	£821,259	Sales	1.2
Basis of Valuation	Bid Price	Loss before tax	(0.8)
Equity held	8.00%	Retained loss	(0.7)
Business	Manufacturer of Ice Cream	Net assets	0.8

Keycom		Year ended October	2005
Cost	£1,704,963		£'m
Valuation	£751,313	Sales	1.3
Basis of Valuation	Fair Value	Loss before tax	(1.4)
Equity held	16.30%	Retained loss	(1.5)
Business	Provision of broadband telephone services to students	Net liabilities	(1.6)

Annual Review Ten Largest Qualifying Investments

Ma Hubbards		Period ended April	2006
Cost	£750,000		£'m
Valuation	£750,000	Sales	2.3
Basis of Valuation	Fair Value	Loss before tax	(0.3)
Equity held	25.00%	Retained loss	(0.3)
Business	Acquisition of portfolio of managed pubs in the Midlands	Net assets	0.5

Conquest Business Media		Year ended December	2005
Cost	£750,000		£'m
Valuation	£750,000	Sales	6.0
Basis of Valuation	Price of recent investment	Loss before tax	(0.2)
Equity held	21.70%	Retained loss	(0.2)
Business	B2B publishing	Net liabilities	(1.0)

Company Information Contact Details

Electra Kingsway VCT Plc

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

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Any change of address of a shareholder or other relevant amendment to shareholder details should be communicated to the Company's Registrar, Capita Registrars.

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 Plc and a number of other companies. He is Chairman of the Nomination Committee.

*** Michael Broke**

Aged 70, 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 Plc, 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 58, 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 44, was appointed a Director on 12 September 2001.

He joined Electra Quoted Management 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 63, 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 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 2006 and their Report on its affairs.

Investment Company Status

In February 2005, in order to permit the payment of a dividend out of capital gains, the Company revoked its status as an investment company within the meaning of Section 266(3) of the Companies House 1985.

VCT Status

HM Revenue and Customs has granted the Company approval under Section 842AA ICTA as a VCT, the approval being effective from the first day on which the Company's ordinary shares were listed on the London Stock Exchange (being 25 January 2002). The Board directs the affairs of the Company to enable it to maintain approval as a VCT.

Business Review

Objective and investment strategy

The Company specialises in investing in unquoted companies and AIM quoted companies. The Company's principal 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 and non-qualifying investments.

In addition the investment strategy sets out that the Company will seek to invest in a diversified portfolio of unquoted and AIM quoted companies. Unquoted investments will typically be in companies that intend to float on a market within a two year period or 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.

Current and future development

A review of the main features of the year is contained in the Chairman's Statement and the Investment Manager's Review on pages 3 and 4 respectively.

The Board regularly reviews the development and strategic direction of the Company. The Board's main focus continues to be on the Company's long-term investment return. Attention is paid to the integrity and success of the investment process and on factors which may have an impact on this approach. Due regard is given to the marketing and promotion of the Company, including effective communication with shareholders and other external parties.

Performance

A detailed review of performance during the year is contained in the Investment Manager's Review on page 4.

A number of performance measures are considered by the Board and the Investment Manager in assessing the Company's success in achieving its objectives.

The key performance indicators ('KPIs') used to measure the progress and performance of the Company are established industry measures and are as follows:

- The movement in net asset value per ordinary share
- The movement in share price
- The movement of net asset value and share price performance compared to the FTSE All-Share index

Details of the KPIs are shown in a graph comparing the Company's total return on a share price and net asset value basis over the period since shares were first issued with the FTSE All-Share Index total return over the same period as set out in the Directors' Remuneration Report on page 20.

The Board recognises that it is in the long term interests of shareholders to reduce discount volatility and believes that the prime driver of discounts over the longer term is performance. As outlined in the Directors' Report on page 14, the Board intends to seek renewal of its share buy-back authority.

Risk Management

As the Company's investments are focused on unquoted companies and AIM quoted companies, which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies, the Directors aim to limit the risk attaching to the portfolio as a whole by careful selection and timely redistribution of investments, and by monitoring the spread of holdings in terms of financing stage and industry sector. The Board reviews the investment portfolio with the Investment Manager on a regular basis.

The key risks facing the Company include Credit Risk, Market Price Risk, Interest Rate Risk, Liquidity Risk and Regulatory Risk, as further detailed in Note 19 of the Notes to the Accounts.

Share Capital

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

In March 2005, shareholders approved the establishment of a Dividend Reinvestment Scheme ("the Scheme"). During the year under review, a total of 73,131 ordinary shares of 1p each (representing 0.35% of the Company's enlarged capital at the date of allotment) were issued under the Scheme, in relation to the Interim Dividend of 2.5p per ordinary share paid on 4 August 2006, at a price of 99.94p per share.

Owing to changes in the VCT legislation contained in the 2006/2007 Budget, the Board has withdrawn the Company's Dividend Reinvestment Scheme.

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 March 2005.

Shares Purchased for Cancellation	Date of Purchase	Percentage of Issued Capital at Time of Purchase	Price per Share
274,056	31 January 2006	1.27%	95.5p

In addition, under the authority granted by shareholders at the Annual General Meeting in March 2006, the Company made the following purchases of its own shares for cancellation in the market:

Shares Purchased for Cancellation	Date of Purchase	Percentage of Issued Capital at Time of Purchase	Price per Share
236,038	31 March 2006	0.11%	95.5p
178,792	18 July 2006	0.85%	90.0p
100,000	11 September 2006	0.48%	90.0p
24,650	29 September 2006	0.12%	90.0p

The Company does not hold any shares in treasury.

As at 30 September 2006, a total of 20,856,651 (2005: 21,597,056) ordinary shares of 1p each of the Company were in issue.

Authority to make Market Purchases of Shares

At the Annual General Meeting of the Company held on 13 March 2006, authority was given to make market purchases of up to 2,132,300 of the Company's own issued ordinary shares. During the period to 30 September 2006, a total of 539,480 ordinary shares were purchased under this authority and accordingly, at 30 September 2006 authority remained to purchase a further 1,592,820 ordinary shares.

Shareholders will have received a Circular dated 12 January 2007 relating to two offers for subscription of up to 20 million C Shares of one penny each (the "Offers"). The Circular contained a notice of an Extraordinary General Meeting which has been convened for 10.30am on 5 February 2007 to be held at 10 Snow Hill, London EC1A 2AL. Resolutions will be proposed at the EGM to approve the Offers and enable them to be implemented, which will include approving an increase in the Company's authorised share capital by the creation of 20 million C Shares, 20 million deferred shares and 20 million new ordinary shares and authorising the Directors to allot C Shares pursuant to the Offers.

A Special Resolution will be proposed at the Annual General Meeting to be held on 26 March 2007 ("AGM") to renew, for one year, the Board's authority to make market purchases of ordinary shares and/or C Shares, such authority being limited to the purchase of up to 10% of the issued ordinary share capital immediately prior to the passing of the resolution and/or up to 10% of the issued C Share capital immediately following the closure of the Offers. Any purchases will also be subject to the constraints set out in the Special Resolution. Should any ordinary shares and/or C Shares be purchased under this authority, it is the intention of the Board that such shares be cancelled and not held as treasury shares.

The Directors do not intend to use this authority to purchase shares unless this would result in an increase in the net asset value per ordinary share or C Share as applicable, and would be in the best interests of shareholders generally. The Directors recommend shareholders to vote in favour of this Special Resolution.

Results and Dividend

The loss attributable to shareholders amounted to £204,278 (2005: loss £109,437). The Directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2006 (2005: £nil). An interim dividend of £527,174 was paid in the year (2005: £1,410,096).

Post Balance Sheet Events

Sales and purchases of investments since the year end:

November 2006	Sale	Electra Active Management Plc	£499,980
November 2006	Purchase	Hill Station Plc	£375,000
December 2006	Purchase	Hallmarq Veterinary Imaging Limited	£250,000
December 2006	Purchase	Conquest Business Media Limited	£225,000

Directors

The current Directors of the Company are listed on page 12. 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 2006. No other person was a Director of the Company during any part of the year. Mr MHA Broke, who attained the age of 70 years on 9 March 2006, will retire at the Annual General Meeting in 2007 and, being eligible, offer himself for re-election. Mr DJ Donnelly and Mr RL Pennant-Rea will retire at the Annual General Meeting in 2007 and, being eligible, offer themselves for re-election. Short biographical details of Mr MHA Broke, Mr DJ Donnelly and Mr RL Pennant-Rea are provided on page 12. Following performance appraisals of all of the Directors, details of which are to be found in the Corporate Governance Statement on page 16, the Board considers that the performance of each Director retiring at the Annual General Meeting and offering himself for re-election continues to be effective and that each Director continues to show commitment to his role. Accordingly, the Board recommends that those Directors retiring at the Annual General Meeting in 2007 and offering themselves for re-election be re-elected.

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 2006 and 22 January 2007. No options over shares in the capital of the Company have been granted to the Directors.

	30 September 2006 Shares	**1 October 2005 Shares**
RL Pennant-Rea	11,080	10,809
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 in 2007.

Contracts with Directors

No Director has a service contract with the Company. As a result of his employment with Electra Partners Group, Mr NRW Ross is deemed to have an interest in the Management Contract between the Company and Electra Quoted Management.

Substantial Shareholders

At 22 January 2007 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 in 2007. A separate resolution will be proposed at the Annual General Meeting in 2007 authorising the Directors to fix the remuneration of the Auditors.

Creditor Payment Policy

The Company agrees the terms of payment with its suppliers when agreeing the terms of each agreement. Suppliers are aware of the terms of payment and the Company abides by the terms of payment. The Company's average creditor payment period at 30 September 2006 was one day.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 2 October 2001. The agreement was 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 advance, as a percentage of net assets (less a rebate of fees suffered in investments in funds managed by Electra Quoted Management), at 2.5% per annum. Neither the Company nor the Investment Manager have issued a notice to terminate since 2 October 2006.

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. At 30 September 2006, there was no amount due under the Incentive Schemes.

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 26 March 2007.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB
22 January 2007

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 Scheduled Meetings of the Board and Committees of the Board

Number of Meetings	Scheduled Board	Audit Committee
Rupert Pennant-Rea	3	N/A
Michael Broke	3	2
David Donnelly	3	2
Nicholas Ross	3	N/A
David Sebire	3	2

In addition a number of Directors attended further Board meetings at short notice to address specific issues.

The Board of Directors

The Board, which meets regularly, comprised five Directors at 30 September 2006 all of whom were non-executive. All of the Directors who held office at 30 September 2006, 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 which was launched in 2004 and which is also managed by Electra Quoted Management. The Board has particularly considered the question of the independence of each Director in 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 Quoted Management, together with the monitoring of the performance thereunder. The management agreement sets out the matters over which Electra Partners Group 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 scheduled meetings of the Board and the Audit Committee 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 12.

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 Directors, the results of which were then 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 either the Code's provisions or the Company's Articles Mr RL Pennant-Rea, Mr DJ Donnelly and Mr MHA Broke will retire at the Annual General Meeting to be held in 2007 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 for 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 Group 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 Group provides sufficient assurance that a sound system of internal controls, 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

During the year the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross, with Mr DJ Donnelly as Chairman of the Committee. There were no meetings of the Remuneration Committee during the year. 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 the 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.

The current Directors of the Company were appointed with regard to their independence, suitability for the position and their experience in related business areas.

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 Group. 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 are 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 to the date of these report and accounts. 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 2006. 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 Group, the Company's system of internal control mainly comprises the monitoring of services provided by Electra Partners Group, 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 Group 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 Group's system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Partners Group's 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 key controls of Electra Partners Group as follows:

- The Board reviews the terms of the management agreement and receives regular reports from Electra Partners Group's executives.
- The Board reviews the certificates provided by Electra Partners Group 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 quoted and unquoted 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 Group to vote on its behalf.

Electra Partners Group's 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 Group's voting policy has been reviewed and endorsed by the Board.

Accounts Statement of Directors' Responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Company's Financial Statements comply with the applicable UK Accounting Standards, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Company's Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Company's Financial Statements comply with the Companies Act 1985 and the Directors' Remuneration Report complies with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and that each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

During the year, the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross. Mr DJ Donnelly was Chairman of the Remuneration Committee throughout the year.

It was not necessary to hold any meetings of the Committee during the year. There was no change to the remuneration of the Directors during the year. The current annual fee rates are £20,000 for the Chairman and £15,000 for each of the other Directors apart from 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 2007 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.

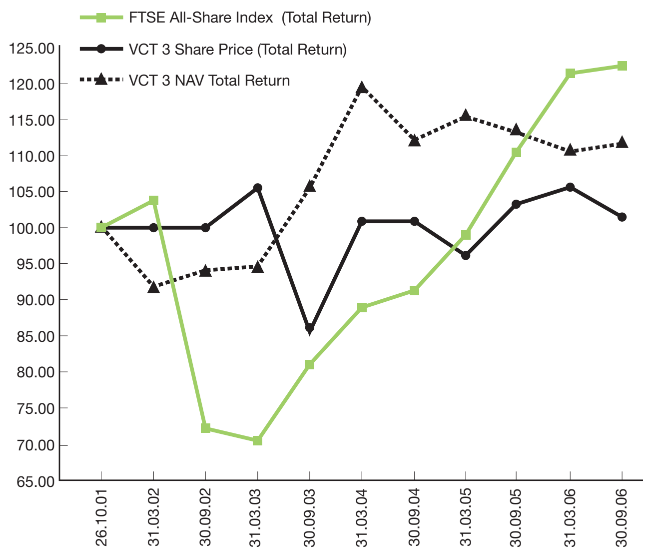
Performance Graph

The graph right 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 on 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 2006 £	For the year ended 30 Sept 2005 £
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 Group, NRW Ross has an interest in the Management Contract between the Company and Electra Quoted Management. £30,000 (2005: £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

22 January 2007

Accounts Independent Auditors' Report

To the Members of Electra Kingsway VCT Plc

We have audited the financial statements of Electra Kingsway VCT Plc for the year ended 30 September 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Statement of Historical Profits and Losses, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Total Shareholders' Funds and the related notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and Investment Manager's Review that is cross referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 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 form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Chairman's Statement, the Investment Manager's Review and other parts of the Annual Review, the Report of the Directors, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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 part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of the Company's affairs as at 30 September 2006 and of its loss and cash flows for the year then ended;
- the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors, London

22 January 2007

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 any changes that may have occurred to the Financial Statements since they were initially 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

For the year ended 30 September 2006

	Notes	2006 £	2005 Restated £
Profit/(loss) on realisation of investments		75,458	(70,536)
Unrealised (losses)/gains on revaluation of investments		(270,039)	556,852
Income	2	756,650	229,279
		562,069	715,595
Investment management fee	3	(469,696)	(503,710)
Other expenses	4	(296,651)	(321,322)
		(766,347)	(825,032)
Loss on ordinary activities before tax		(204,278)	(109,437)
Tax on ordinary activities	6	-	-
Loss for the financial year		(204,278)	(109,437)
Dividends per share 2.5p (2005: 6.5p)	7	(527,174)	(1,410,096)
Retained Loss		(731,452)	(1,519,533)
Basic and diluted earnings per share	8	(0.97)p	(0.50)p

The amounts dealt with in the Profit and Loss Account are all derived from continuing activities.
No operations were acquired or discontinued in the year.

Statement of Total Recognised Gains and Losses

For the year ended 30 September 2006

	Notes	2006 £	2005 Restated £
Loss for the financial year		(204,278)	(109,437)
Total recognised losses for the year		(204,278)	(109,437)
Prior year adjustment	1	(212,114)	-
Total recognised losses since last annual report		(416,392)	(109,437)

Statement of Historical Profits and Losses

For the year ended 30 September 2006

	2006 £	2005 Restated £
Loss on ordinary activities before tax	(204,278)	(109,437)
Realisation of investment revaluation gains recognised in previous years	1,462,777	1,487,160
Historical cost profit for the year before tax and dividends	1,258,499	1,377,723

Accounts Balance Sheet

As at 30 September 2006

	Notes		2006		2005 Restated
		£	£	£	£
Fixed Assets					
Investments held at fair value	**9**		20,215,531		22,153,592
Current Assets					
Debtors	**10**	686,012		173,935	
Investments	**11**	351,000		401,000	
Cash at bank		128,633		48,857	
			1,165,645		623,792
Creditors: amounts falling due within one year					
Creditors	**12**	113,041		90,639	
			113,041		90,639
Net Current Assets			1,052,604		533,153
Net Assets			21,268,135		22,686,745
Capital and Reserves					
Called-up share capital	**14**		208,566		215,970
Share premium account	**15**		14,024,282		13,951,929
Capital redemption reserve	**15**		12,085		3,950
Special reserve	**15**		5,957,338		6,717,580
Profit and Loss reserve	**15**		1,065,864		1,797,316
Total Equity Shareholders' Funds			21,268,135		22,686,745
Net Asset Value per Ordinary Share	**16**		101.97p		105.05p
Number of ordinary shares in issue at end of year			20,856,651		21,597,056

The information on pages 26 to 37 forms part of these Financial Statements.

The Financial Statements on pages 22 to 37 were approved by the Board of Directors on 22 January 2007 and were signed on its behalf by:-

RL Pennant-Rea, Chairman

Accounts Cash Flow Statement

For the year ended 30 September 2006

	Notes	£	2006 £	£	2005 £
Operating Activities					
Investment income received		150,709		324,536	
Bank interest received		6,796		25,044	
Investment management fees paid		(382,629)		(534,174)	
Other cash payments		(296,315)		(325,666)	
Net Cash Outflow from Operating Activities	**17**		(521,439)		(510,260)
Taxation			-		-
Capital Expenditure and Financial Investment					
Sale of investments		4,165,415		6,064,781	
Purchase of investments		(2,421,935)		(6,314,212)	
Net Cash Inflow/(Outflow) from Capital Expenditure and Financial Investment			1,743,480		(249,431)
Equity Dividends Paid	**7**		(454,208)		(1,230,475)
Cash Inflow/(Outflow) before Financing and Management of Liquid Resources			767,833		(1,990,166)
Management of Liquid Resources					
Sale/(Purchase) of current asset investments		50,000		(401,000)	
Net Cash Inflow/(Outflow) from Management of Liquid Resources			50,000		(401,000)
Financing					
Repurchase of ordinary shares		(738,057)		(303,660)	
Net Cash Outflow from Financing			(738,057)		(303,660)
Increase/(Decrease) in Cash for the Year	**18**		79,776		(2,694,826)

Accounts Reconciliation of Total Shareholders' Funds

For the year ended 30 September 2006

	Notes	2006 £	2005 Restated £
Total gains and losses for the year		(204,278)	(109,437)
Ordinary shares issued		73,084	179,395
Repurchase of ordinary shares		(760,242)	(292,423)
Dividend on ordinary shares		(527,174)	(1,410,096)
Movements in Total Shareholders' Funds		(1,418,610)	(1,632,561)
Total Shareholders' Funds at start of year (previously £22,898,859 before deducting prior year adjustment of £212,114)	1	22,686,745	24,319,306
Total Shareholders' Funds at end of year		21,268,135	22,686,745

Statement of Accounting Policies

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.

Following an application to the High Court a special reserve was created from a reduction in the share premium account. The special reserve has been utilised to facilitate a share buy back programme and to eliminate realised losses transferred from the profit and loss account.

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

Basis of accounting

The accounts have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards in the United Kingdom and have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets.

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

Investments

Purchases and sales of quoted investments are recognised on the trade date where a contract exists whose terms require delivery within a timeframe determined by the relevant market. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional. Investments are designated at fair value through profit and loss (described in the Accounts as investments held at fair value) and are subsequently measured at reporting dates at fair value. The fair value of direct unquoted investments is calculated in accordance with the Principles of Valuation of Investments below. Changes in the fair value of investments are recognised in the Profit and Loss Account. The Directors have adopted FRS 25 'Financial Instruments: Disclosure and Presentation.'

Quoted Investments

Quoted investments are stated at the last traded bid price on the balance sheet date without discount.

Unquoted Investments

Unquoted investments are held at fair value as fixed asset investments. The fair value is calculated in accordance with International Private Equity and Venture Capital Guidelines issued in March 2005 following the methodology outlined below.

Principles of Valuation of Investments

General

In valuing investments, the Directors follow the principles recommended in the International Private Equity and Venture Capital Valuation Guidelines issued in March 2005. The Directors have also adopted the requirements of FRS 26 'Financial Instruments Measurement' which has led to a restatement of comparative figures as set out in Note 1. Investments are valued at Fair Value at the reporting date.

Fair Value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. In estimating Fair Value, the Directors use a methodology which is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio. Methodologies are applied consistently from one period to another except where a change results in a better estimate of Fair Value. Because of the inherent uncertainties in estimating the value of private equity investments, the Directors exercise due caution in applying the various methodologies. The directors are however wary of applying excessive caution.

Unquoted investments

The principal methodologies applied in valuing unquoted investments including PLUS investments (a UK market focussed on small and medium companies which the Directors do not regard as an active market with sufficient liquidity) include the following:

- Earnings multiple
- Price of recent investment
- Net assets

In applying the Earnings Multiple methodology, the Directors apply a market based multiple that is appropriate and reasonable to the maintainable earnings of the company. In the majority of cases the Enterprise Value of the underlying business is derived by the use of an Earnings Before Interest and Tax multiple applied to current year's earnings where these can be forecast with a reasonable degree of certainty and are deemed to represent the best estimate of maintainable earnings. Where this is not the case, historic earnings will generally be used in their place.

Where a recent investment has been made, either by the Company or by a third party in one of the Company's investments, this price will be used as the estimate of Fair Value for a period of up to one year from the date on which the investment was made. One of the principal methodologies, as above, may be used at any time if this is deemed to provide a better assessment of the Fair Value of the investment.

The Fair Value of an investment in a company will be arrived at through the following process:

- The Enterprise Value of the underlying business will be calculated using one of the above methodologies;
- The Enterprise Value of the underlying business will then be adjusted for surplus assets or excess liabilities to arrive at an Enterprise Value for the company; and
- The valuation of the Company's investment will be calculated from the Enterprise Value for the company after deduction of prior ranking debt and other financial instruments and an appropriate marketability discount.

In terms of the marketability discount, this will normally be in the range of 10-30% (in steps of 5%) applied to the Enterprise Value of the Company after deducting prior ranking debt and other financial instruments.

The amount of the marketability discount is a question of judgement and will reflect several factors including the ability of the Company to influence the timing and nature of any realisation. Where the Company has the ability to influence an exit, or is part of a syndicate of like-minded investors who initiate the exit, a marketability discount will normally be applied. This may vary according to market and investee company circumstances. Where the likelihood of an exit is high, the discount is likely to be lower. Where there is no ability to initiate an exit and exit is not under discussion, the discount is likely to be higher. In cases where no exit is contemplated by controlling shareholders, the investment may be valued by discounting the cash flow from the investment itself.

Although the Company holds more than 20% of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio. Accordingly, and as permitted by FRS 9 'Associates and joint ventures', their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of the holdings represent investments in associated undertakings.

Under FRS 2 'Accounting for subsidiary undertakings' control is presumed to exist when the parent owns, directly or indirectly more than half of the voting power by a number of means. The company does not hold more than 50% of the equity of any of the companies within the portfolio. In addition, it does not control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

Income

Dividends receivable from equity investments are brought into account on the ex-dividend date or, where no ex-dividend date is quoted, are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity investments and on debt securities are recognised on a time apportionment basis, which reflects the effective yield. Where there is reasonable doubt that a return, which falls within the accounting period, will actually be received by the Company, the recognition of the return is deferred until the reasonable doubt has been removed.

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

Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the Profit and Loss Account except for expenses in connection with the disposal of fixed asset investments, which are deducted from the disposal proceeds of the investment.

Taxation

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.

Due to the Company's status as a venture capital trust and the continued intention to meet the conditions required to comply with Section 842AA of the Income and Corporation Taxes Act (1988), no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises.

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.

Dividends Payable

Dividend distributions to shareholders are recognised as a liability in the period in which they are paid in respect of interim dividends or when approved in respect of final dividends.

1. Restatement of Unrealised Capital Reserves and Net Assets as at 30 September 2005

FRS 26 "Financial Instruments Measurement" requires investments to be valued at bid price rather than mid market price.

A reconciliation of reserves incorporating the adjustments required by the adoption of FRS 26 is illustrated below:-

Reconciliation of Revaluation reserve

	As at 30 September 2005 £
Revaluation reserve previously reported at year end	2,260,796
Adjustment as required by adoption of FRS 26	(212,114)
Transferred to the profit and loss reserve	(2,048,682)
Revaluation reserve as restated	-

Reconciliation of changes to Net Asset Values

	As at 30 September 2005 £
Net assets previously reported at year end	22,898,859
Adjustment as required by adoption of FRS 26	(212,114)
Net assets as restated	22,686,745

2. Income

	For the year ended 30 September 2006 £	For the year ended 30 September 2005 £
Franked investment income	410,086	128,977
Unfranked investment income	339,768	75,258
Interest from bank deposits	6,796	25,044
	756,650	229,279

3. Investment Manager's Fees

	For the year ended 30 September 2006 £	For the year ended 30 September 2005 £
Electra Quoted Management	469,696	503,710

The Management Fee includes irrecoverable VAT of £69,955 (2005: £75,021).

Electra Quoted Management also received an administration fee of £66,481 (2005: £64,824), net of VAT, which increases each year in line with RPI. The administration fee is included in the administration expenses of £139,128 in Note 4.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 2 October 2001. The agreement was 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 Quoted Management), at 2.5% per annum. Neither the Company nor the Investment Manager has issued a notice to terminate since 2 October 2006.

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 2006 there was no amount due under the Incentive Schemes.

4. Other Expenses

	For the year ended 30 September 2006 £	For the year ended 30 September 2005 £
Directors' remuneration	65,000	65,000
Employer's NIC	3,416	3,429
IFA Trail commission (at 0.25% per annum)	53,270	57,287
Auditors' fees – audit	23,500	21,150
Auditors' fees – non-audit	12,337	16,568
Administration expenses	139,128	157,888
	296,651	321,322

5. Directors' Remuneration

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

The Company had no employees or employee costs in 2006 (2005: £ nil).

6. Taxation on Ordinary Activities

	For the year ended 30 September 2006 £	For the year ended 30 September 2005 £
Analysis of charge in the year		
Current tax:		
UK corporation tax at 19% (2005: 19%)	-	-
Total Current Tax	**-**	**-**
Factors affecting tax charge for the year		
Loss on ordinary activities before tax	(204,278)	(109,437)
Loss on ordinary activities before tax at corporate tax rate	(38,813)	(20,793)
Effects of:-		
Dividend income not subject to tax	(77,916)	(24,506)
Expenses not deductible for tax purposes	10,121	10,942
Unrealised (losses)/gains on revaluation of investments	51,307	(105,802)
Unutilised losses arising in the year	55,301	140,159
Total Current Tax	**-**	**-**

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. There is no unprovided deferred tax liability at 30 September 2006.

There has been no recognition of a deferred tax asset £256,319 (2005: Restated £201,018) for tax losses as the Directors do not anticipate them being used.

7. Dividend

	For the year ended 30 September 2006 £	For the year ended 30 September 2005 £
Dividend on ordinary shares:		
Interim dividend of 2.5p (2005: 6.5p) per ordinary share paid in the year	527,174	1,410,096
Reconciliation to Equity Dividends paid in cashflow statement		
Cash paid	454,208	1,230,475
Shares issued	73,084	179,395
Movement in creditor	(118)	226
	527,174	1,410,096

8. Earnings per Ordinary Share

Basic and diluted earnings per share is based on the net loss from ordinary activities after taxation of £204,278 (2005: Loss of £109,437) and on 21,072,203 (2005: 21,701,176) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

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

9. Investments

	Qualifying Investments			Non-qualifying Investments				
	Traded on AIM £	**Traded on PLUS £**	**Unquoted £**	**Open-ended Investment Company £**	**Closed-ended Investment Company £**	**Traded on AIM £**	**Fixed Interest Securities £**	**Total £**
Cost at 1 October 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 1 October 2005 (restated)	(245,316)	(593,963)	998,376	689,767	1,214,996	8,647	(23,825)	2,048,682
Valuation at 1 October 2005 (restated)	4,674,467	807,000	9,462,896	2,689,767	3,077,145	941,142	501,175	22,153,592
Purchases at cost	1,008,085	304,000	1,109,850	-	-	-	-	2,421,935
Disposals at 1 October 2005 valuation	-	-	(2,751,282)	(605,000)	-	(232,500)	(501,175)	(4,089,957)
Unrealised gains/(losses) in year	(1,469,444)	(359,687)	1,525,779	(253,274)	655,241	(368,654)	-	(270,039)
Valuation at 30 September 2006	**4,213,108**	**751,313**	**9,347,243**	**1,831,493**	**3,732,386**	**339,988**	**-**	**20,215,531**
Cost at 30 September 2006	5,927,868	1,704,963	8,074,371	1,550,147	1,862,149	780,168	-	19,899,666
Unrealised gains/(losses) at 30 September 2006	(1,714,760)	(953,650)	1,272,872	281,346	1,870,237	(440,180)	-	315,865
Valuation at 30 September 2006	**4,213,108**	**751,313**	**9,347,243**	**1,831,493**	**3,732,386**	**339,988**	**-**	**20,215,531**

Further details of investments are provided in the Portfolio Summary on page 5 of the Annual Review and significant interests in the investee companies are disclosed in note 13 of the Notes to the Accounts.

10. Debtors

	2006 £	**2005 £**
Amounts due within one year:		
Accrued interest	622,559	21,876
Electra Quoted Management	58,633	145,700
Other debtors	4,820	6,359
	686,012	173,935

11. Other Investments

	2006 £	2005 £
Liquidity Funds	351,000	401,000
	351,000	401,000

The market value of the Liquidity Funds is £351,000 (2005: £401,000).

12. Creditors: amounts falling due within one year

	2006 £	2005 £
Other creditors	90,723	90,388
Due under Divided Reinvestment Scheme	132	251
Outstanding settlements on share repurchases	22,186	-
	113,041	90,639

13. Significant Interests

At 30 September 2006 the Company held significant investments, amounting to 3% or more of the equity capital in the following companies:-

	Equity Investment (Ordinary Shares) £	Investments Loan Stock and Preference Shares £	Total Investments £	Percentage of Investee Company's Total Equity %
Find Portal Limited	110,394	989,606	1,100,000	9.48
Media Square Plc	1,577,673	-	1,577,673	3.49
Gyro International Limited	112,500	262,500	375,000	4.00
Hallmarq Veterinary Imaging Limited	849,996	200,000	1,049,996	10.38
Sanastro Plc	1,000,000	-	1,000,000	12.60
Happy Times Healthcare Group Plc	99,938	899,436	999,374	12.20
Hill Station Plc	758,085	-	758,085	8.00
Keycom Plc	1,200,963	504,000	1,704,963	16.30
Ma Hubbards Limited	225,000	525,000	750,000	25.00
Conquest Business Media Limited	75,000	675,000	750,000	21.70
Amber Taverns Limited	225,000	525,000	750,000	16.50
Advanced Medical Solutions Group Plc	500,000	-	500,000	4.10
First Dental Plc	750,000	-	750,000	6.00
Signature Brands Group Plc	750,000	-	750,000	10.00
Brady Plc	750,000	-	750,000	3.32
Centurion Electronics Plc	1,197,275	-	1,197,275	7.70
Music Copyright Solutions Plc	500,004	-	500,004	8.34
ePoint Group Limited	550,000	-	550,000	4.80

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.

14. Called Up Share Capital

	Number	2006 £	Number	2005 £
Authorised:				
Ordinary shares of 1p each:	60,000,000	600,000	60,000,000	600,000
	60,000,000	600,000	60,000,000	600,000
Issued:				
At 1 October 2005	21,597,056	215,970	21,741,190	217,413
Ordinary shares of 1p each issued during the year	73,131	731	165,035	1,650
Ordinary shares of 1p each repurchased during the year	(813,536)	(8,135)	(309,169)	(3,093)
As at 30 September 2006	20,856,651	208,566	21,597,056	215,970

On 4 August 2006 a total of 73,131 ordinary shares of 1p each were allotted under the Company's Dividend Reinvestment Scheme for cash at a price of 99.94p 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 March 2005.

Shares purchased for cancellation	Date of Purchase	Price per Share
274,056	31 January 2006	95.5p

In addition, under the authority granted by shareholders at the Annual General Meeting held in March 2006, the Company made the following purchases of its own shares.

Shares purchased for cancellation	Date of Purchase	Price per share
236,038	31 March 2006	95.5p
178,792	18 July 2006	90.0p
100,000	11 September 2006	90.0p
24,650	29 September 2006	90.0p

As at 30 September 2006 a total of 20,856,651 (2005: 21,597,056) ordinary shares of 1p each of the Company were in issue.

15. Reserves

	Share Premium Account (Non distributable) £	Capital Redemption Reserve (Non distributable) £	* Special Reserve (Distributable) £	Revaluation Reserve (Non distributable) £	Profit and Loss Reserve (Distributable) £
At 1 October 2005 (see note 1)	13,951,929	3,950	6,717,580	2,048,682	(251,366)
Reclassification	-	-	-	(2,048,682)	2,048,682
At 1 October 2005 adjusted	13,951,929	3,950	6,717,580	-	1,797,316
Premium on issues of shares during the year	72,353	-	-	-	-
Shares repurchased in year	-	8,135	(760,242)	-	-
Retained loss for the year	-	-	-	-	(731,452)
At 30 September 2006	14,024,282	12,085	5,957,338	-	1,065,864

* The Special Reserve was created by a Court Order in 2003 upon the reduction of the Share Premium Account. It is treated as a distributable reserve out of which repurchases of ordinary shares can be made and can also be used to eliminate realised losses on the Profit and Loss Account.

The Profit and Loss Reserve includes unrealised investment gains of £315,856 which are non-distributable.

16. Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets at 30 September 2006, and on 20,856,651 (2005: 21,597,056) ordinary shares, being the number of ordinary shares in issue on that date. There is no difference between the basic and diluted NAV per ordinary share because the Company has no potentially dilutive shares.

17. Reconciliation of Loss on Ordinary Activities Before Taxation to Net Cash Outflow from Operating Activities

	For the year ended 30 September 2006 £	For the year ended 30 September 2005 £
Loss on ordinary activities before tax	(204,278)	(109,437)
(Profit)/Loss on realisation of investments	(75,458)	70,536
Unrealised losses/(gains) on revaluation of investments	270,039	(556,852)
(Increase)/Decrease in debtors	(512,077)	95,033
Decrease/(Increase) in creditors and accruals	335	(9,540)
Net cash outflow from operating activities	(521,439)	(510,260)

18. Analysis of Changes in Cash in the Year

	For the year ended 30 September 2006 £	For the year ended 30 September 2005 £
At beginning of year	48,857	2,743,683
Net cash inflow/(outflow)	79,776	(2,694,826)
At 30 September	128,633	48,857

19. 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, liquidity funds and 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 quoted 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 profit or loss 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.

Liquidity risk: The Company has significant investments in unquoted companies and AIM quoted companies which are inherently illiquid.

Regulatory risk: Failure by the Company to adhere with regulations could result in the Company losing its listing and/or shareholders losing the taxation advantages of holding VCT shares.

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.

Liquidity risk: The Company manages its liquid investments to ensure sufficient cash is available to meet contractual commitments and also seeks to have cash generally available to meet other short-term financial needs.

Regulatory risk: The Board receives and reviews regular reports from the Investment Manager on its controls in place to prevent non-compliance of the Company with rules and regulations.

The interest rate risk profile of the Company's financial assets at 30 September 2006 was:

	Financial Assets on which no Interest Paid £	Fixed Rate Financial Assets £	Variable Financial Assets £	Total £	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	15,634,988	-	-	15,634,988	-	-
Non-equity shares	1,331,250	-	-	1,331,250	-	-
Loan stock	-	3,118,043	131,250	3,249,293	10.8	3.8
Liquidity funds	-	-	351,000	351,000	-	-
Cash	-	-	128,633	128,633	-	-
Debtors	686,012	-	-	686,012	-	-
Total	17,652,250	3,118,043	610,883	21,381,176	-	-

The Company has no financial liabilities other than creditors of £113,041 at 30 September 2006.

The interest rate risk profile of the Company's financial assets at 30 September 2005 was:

	Financial Assets on which no Interest Paid £	Fixed Rate Financial Assets £	Variable Financial Assets £	Total £	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	17,350,724	-	-	17,350,724	-	-
Non-equity shares	2,381,250	-	-	2,381,250	-	-
Loan stock	-	1,789,193	131,250	1,920,443	10.2	4.8
Bonds	-	501,175	-	501,175	6.2	0.2
Liquidity funds	-	-	401,000	401,000	-	-
Cash	-	-	48,857	48,857	-	-
Debtors	173,935	-	-	173,935	-	-
Total	19,905,909	2,290,368	581,107	22,777,384	-	-

The Company has no financial liabilities other than creditors of £90,639 at 30 September 2005.

Floating rate cash earns interest based on LIBOR.

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

20. Post Balance Sheet Events

Sales and purchases of investments since the year end:

November 2006	Sale	Electra Active Management Plc	£499,980
November 2006	Purchase	Hill Station Plc	£375,000
December 2006	Purchase	Hallmarq Veterinary Imaging Limited	£250,000
December 2006	Purchase	Conquest Business Media Limited	£225,000

21. Geographical Analysis

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

22. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments of the Company at 30 September 2006 (2005: £nil).

23. Transactions with the Manager

During the year ended 30 September 2006 the Company paid £460,822 (2005: £610,342) to Electra Quoted Management, the Investment Manager. At 30 September 2006, the Company was owed £58,633 (2005: £145,700) by the Investment Manager. Details of the Investment Manager's fee arrangements are included in Note 3.

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.

Notice of Annual General Meeting

Notice is hereby given that the fifth Annual General Meeting of Electra Kingsway VCT Plc will be held at 1.00pm on 26 March 2007 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 7 will be proposed as Ordinary Resolutions and Resolution 8 will be proposed as a Special Resolution):

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 2006.

2 To approve the Directors' Remuneration Report for the year ended 30 September 2006.

Special notice having been received of the intention to propose Resolution 3 below as an ordinary resolution:

3 To re-elect Mr MHA Broke, who attained the age of 70 years on 9 March 2006, as a Director of the Company.

4 To re-elect Mr DJ Donnelly as a Director of the Company.

5 To re-elect Mr RL Pennant-Rea as a Director of the Company.

6 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.

7 To authorise the Directors to fix the remuneration of the Auditors.

Special Business

8 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 penny each and C Shares of 1 penny each (the "C Shares") (if such shares are in issue), provided that:

i) the maximum number of ordinary shares hereby authorised to be purchased is 2,085,665 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 and the maximum number of C Shares hereby authorised to be purchased (if such shares are in issue) is equal to 10% of the issued C Share capital immediately following the closure of the offers for subscription of up to 20 million C Shares in the capital of the Company;

ii) the minimum price which may be paid for an ordinary share or for a C Share shall be 1 penny;

iii) the maximum price, which may be paid for an ordinary share or for a C Share, shall be an amount equal to 105% of the average of the middle market quotations for an ordinary share or for a C Share as applicable, 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 an ordinary share or a C Share is purchased;

iv) any purchase of ordinary shares or C Shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share or C Share (as determined by the Directors); and

v) unless renewed, the authority hereby conferred shall expire on the earlier of 26 June 2008 or the conclusion of the Company's Annual General Meeting in 2008 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares or C 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
22 January 2007

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 4BR, not less than 48 hours before the time of the Meeting or adjourned Meeting or (in the case of a poll taken otherwise than at or on the same day as the Meeting or adjourned Meeting) for the taking of the poll at which it is to be used. Completion and return of the Form of Proxy will not prevent a member from attending and voting at the Meeting.

C In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those holders of ordinary shares entered on the register of members of the Company as at 6.00pm on 24 March 2007 (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 the Specified Time 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 12.45pm 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, Mr DJ Donnelly and Mr RL Pennant-Rea are contained in the Report & Accounts for the year to 30 September 2006 on page 12.

If you have sold or otherwise transferred all your Shares in Electra Kingsway VCT Plc, you should pass this document and other relevant accompanying documents, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was made, for transmission to the purchaser or transferee.