Electra Kingsway VCT Plc

Report & Accounts

30 September 2003

2003

Objective

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

Investment Strategy

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

Contents

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

Annual Review Financial Highlights

Funds raised by 30 September 2003	£19.8 million
Net asset value per share at 30 September 2003	103.52p
Unaudited net asset value per share at 31 December 2003 *	109.80p
Total dividend per ordinary share (paid and proposed) since inception	1.65p

Performance Summary

	2003	2002
Capital Value		
Net asset value per ordinary share (net of issue expenses)	103.52p	93.30p
Total assets	£20.5m	£14.7m
Dividend		
Final dividend per ordinary share (2003: Proposed; 2002: Paid)	0.90p	0.75p

* The unaudited valuation at 31 December 2003 was calculated on the basis of the asset valuation at 30 September 2003 adjusted to reflect income, expenses, the purchases and sales of investments up to 31 December 2003 and mid market valuations on 31 December 2003 in respect of quoted investments. On this basis, which excludes any revaluation of unquoted investments, the unaudited net asset value per share at 31 December 2003 was 109.80p.

Annual Review Chairman's Statement

I am pleased to present my second annual statement to shareholders. Since the launch of your Company in September 2001, £19.8m has been raised. The Fund closed its extended "Top Up" offer on 30 September 2003. Market sentiment has changed sharply since I last reported to you in May, with the FTSE All-Share Index rising 17% in the six months to the end of September and recovering most of the losses incurred in the first half of the financial year. The FTSE SmallCap and FTSE AIM indices have also risen strongly and the IPO market has improved.

The net asset value per share was 103.52p at 30 September 2003 compared with the 95p net launch price. This has been a satisfactory performance, especially as almost half of the qualifying investments are still held at cost, and a large proportion of the assets of the Fund are still held in cash and short dated bonds.

Valuation Policy

The unquoted assets of the Company are valued by the Directors in accordance with the latest BVCA valuation guidelines. Full details can be found under Principles of Valuation on page 5.

Portfolio Activity

During the year the Company invested in six new qualifying investments. It completed four more investments after the year end, bringing the total number of qualifying investments to 12 and committed to one further investment in January 2004. The Company, therefore, is well positioned to meet its three year qualifying target by September 2004.

The Investment Manager has maintained a disciplined and focused investment approach that has started to yield positive results. Two AIM investments, BioProgress and Centurion Electronics, have risen, since acquisition, by 214% and 182% respectively. This has allowed the Investment Manager to realise part of the investment in BioProgress. In August the Fund took advantage of an opportunity to increase its investment in Centurion Electronics by a further £200,000, bringing the total invested to £700,000. Since then, the Centurion shares have continued to rise strongly and we have realised some profits subsequent to the year end.

Of the qualifying investments made so far, six are listed on AIM and seven are unquoted – a mix that is broadly in line with the Board's expectations. The portfolio is well diversified across different industry sectors.

VCT Qualifying Status

The Board has retained PricewaterhouseCoopers LLP to conduct an annual review of the compliance of the Company with VCT legislation.

Dividend

The Board is recommending a final dividend of 0.90p per ordinary share for the year ended 30 September 2003. Subject to approval at the Annual General Meeting to be held on 23 February 2004, the dividend will be paid on 27 February 2004 to shareholders on the Register of Members at close of business on 6 February 2004.

Share Price

The Company's mid-market share price was 85p on 30 September 2003, in comparison with the NAV of 103.52p on 30 September 2003. This represented a discount of 18%. In common with other VCT companies, there is limited secondary trading activity in the shares of the Company. However, the Board has established a facility to buy back shares for cancellation to enhance market liquidity in the Company's shares.

Prospects

With confidence returning to equity markets and the UK economy remaining buoyant, your Fund is firmly on track to deliver positive returns to shareholders. This is substantiated by the rise in the unaudited net asset value per share at 31 December 2003 which is calculated at 109.80p.

Rupert Pennant-Rea, Chairman

12 January 2004

Annual Review Investment Manager

The Fund's investments are managed by Electra Quoted Management, which is a subsidiary of Electra Partners. Electra Quoted Management was established in 1981 and is authorised and regulated by the Financial Services Authority. Electra Partners is the Manager of Electra Investment Trust (net assets of approximately £495m as at 30 September 2003), and the Manager or Adviser of other specialist funds, including a €1 billion European private equity fund.

Electra Partners has considerable expertise and a strong track record in private equity investments, and has invested over £625m in the five years to 30 September 2003.

Electra Partners also has a well developed deal flow, including unquoted company proposals that originate from its own contacts and network, pre-float finance opportunities and broker led AIM flotations.

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

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

Qualifying Investments Valuation Methodology

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

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

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

a) For unquoted investments including OFEX investments, fair value is commonly determined by utilising one or a combination of the following methodologies:
   - earnings multiple
   - price of recent investment
   - net assets
   - industry valuation benchmarks

b) For quoted investments, fair value is determined by taking the mid market price, which is the recognised convention of AIM upon which the Fund's quoted portfolio companies will be most commonly listed. A marketability discount will be applied where:
   - there is a risk that the holding may not be sold immediately
   - there is a formal restriction on trading in the relevant securities.

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

c) For unquoted companies, investments will be held at cost, in the absence of any reason to institute an impairment or any reason to uplift the investment.

Qualifying Investments

During the year the Fund invested in six qualifying investments and completed a further four investments after the year end and committed to one further investment. Details of all qualifying investments are listed below. In general, the Investment Manager has maintained an active deal flow and has a number of potential investments in various stages of due diligence.

Advanced Medical Solutions

Advanced Medical Solutions ("AMS") and its completed acquisition, Medlogic, are both focused on the R&D, manufacture, and subsequent commercial development of a range of woundcare products for both the professional and retail markets. The professional range centres around liquid wound sealants and the retail products concentrate on moist wound dressings. In both cases the unique selling point is greater efficacy in healing wounds and reducing scar tissue. Each product range is sold either by way of joint ventures to large branded players such as Johnson & Johnson, or directly through distributors. The professional range is the more important, with margins of circa 35% and accounting for 80% of the present turnover.

AMS moved from the main market to AIM in 2002. A consortium of investors raised £4m to enable AMS to purchase Medlogic and integrate the two businesses. AMS was valued at £8m pre new money which included cash of £5m and tax losses of £7m. The Fund invested £500,000 and has a 4.1% stake.

In the audited accounts for the period ended 31 December 2002 AMS reported losses of £1.48m before tax, a retained loss of £1.2m and net assets of £14.1m.

Nectar Taverns

Nectar Taverns is an independent pub company managed by Honeycombe Leisure, a quoted pub company specialising in the acquisition and management of public houses in the north west of England. Nectar has a strong balance sheet since it raised £4m of equity and £7.5m of debt financed by the Bank of Scotland. The strategy is to acquire pubs at low prices, renovate them in a very cost effective way and then improve returns by installing stronger management and trading competitively by utilising improved beer purchasing terms. To date, Nectar have acquired 14 pubs, and in aggregate they are trading above expectations. The management team at Honeycombe Leisure hope that Nectar will be operating 25 units before the Bank of Scotland debt facility is fully utilised. The Fund invested £750,000 and has an 18.5% stake.

In the audited accounts for the period ended 27 April 2003 Nectar made of loss of £59,000 before tax, and had net assets of £3.65m.

Signature Brands Group

Signature Brands is a retailer of women's fashion wear operating under four distinct brands: Dannimac, Four Seasons, Giant and Paul Costelloe. It was incorporated in 1999 when Ashley Meyer, Chairman and Chief Executive led a management buy-out of Four Seasons. The company then proceeded to acquire three underperforming brands aiming to return them to profitability by implementing tighter in-house design and cost controls.

The company designs its own ranges and outsources manufacturing to companies in Hong Kong and Portugal. The majority of these garments are sold through concessions in department stores such as John Lewis and House of Fraser. The Fund invested £750,000 as part of a £1.8m funding round in October 2002 and has a 10.0% stake.

The company reported a loss before tax of £961,931 in the year to 31 July 2003 and had net assets of £705,125.

Centurion Electronics

Centurion specialises in the design, marketing and distribution of DVD and video systems for the in-car entertainment market. The company has two main products which are either sold to be fitted to new cars, or as a Plug and Play device to the retail market through established outlets such as Halfords and Dixons. In the last year, it is estimated that the number of in-car vision units sold in the UK has grown by approximately tenfold on the previous year. The prospects for the company are encouraging. New customers include Toyota and Nissan and, on the retailing side, CD Bramall, resulting in a strong current year order book. The results of Centurion to date highlight a consistent growth trend and a historic pre-tax profit of £435,000. The Fund invested £500,000 in November 2002 and a further £200,000 in August 2003, as part of a financing to support the company's growing working capital requirements. The Fund held a 7.8% stake at the year end.

The company reported a profit before tax of £1.2m in the year to 30 September 2003 and had net assets of £4.5m.

Berkeley Morgan

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

The company has grown through the successful integration of a number of bolt–on acquisitions with the management team demonstrating a good track record in controlling expenses and costs. The Fund invested £741,000, for a 12.7% stake.

The company reported a loss before tax of £2.7m for the year to 30 April 2003, a retained loss of £2.5m and had net assets of £1.5m.

Online Travel Corporation

Online Travel Corporation ("OTC") is an internet based, travel technology and distribution business. It offers consumers a comprehensive travel service on the internet, as well as through its call centre. It is also a tour operator offering its own specialist holidays and tailor-made packages to suit individual client needs. In order to satisfy the demand for niche markets, OTC forms alliances with other companies, for example Superbreaks for UK holidays and ABC Holiday Extras for airport parking and hotels. OTC was founded in January 1998 and in May 2000 became a publicly listed company quoted on AIM. Although the last two years have been difficult ones for the travel industry, the longer term prospects look more encouraging and further consolidation is anticipated. The Fund invested £900,000, for a 3.5% stake, to provide further working capital to the group.

In the audited accounts to 31 October 2003, OTC reported a loss before tax of £5.9m, a retained loss of £5.2m and had net assets of £7.4m.

BioProgress

BioProgress is engaged in the research, development and marketing of a film used to coat tablets and liquid capsules for the pharmaceutical and health products market. The company's key technology is a coating material made from a derivative of wood pulp. This material has not previously been used as a film or coating but has a number of core properties which make it an attractive substitute for gelatin. Gelatin is widely used in the coating and wrapping of capsules but because it is made from animal renderings it has possible health concerns relating to BSE and is unacceptable to certain religious groups. In addition to its product advantages, the manufacturing process is significantly cheaper than gelatin production. The company was originally listed on the Over The Counter market in the US although most of its operations are UK based. In 2003 the company transferred to AIM and raised £5m to finance working capital. The company was forecasting a breakeven position by the end of 2003. The Fund invested £300,000 in the AIM float and held a 1.8% stake at the year end.

In the audited accounts to 31 December 2002, BioProgress reported losses before tax of $6.7m and net assets of $0.3m.

Keycom

Keycom provides telephone and internet services to students. The company has negotiated contracts with 52 UK universities and now has over 25,000 students able to use its ISP service. Demand for Keycom's services is driven by students' requirements for cheap, unlimited access to the internet and the ability to call home on cheap evening tariffs. Keycom markets unlimited internet access for £16 per month, which is an extremely attractive price relative to other ISP offerings. In addition to the on-campus students the company aims to attract the larger numbers of off-campus students to its services.

The company was spun off from Key Students Services in 2000 and has undergone a troublesome development period which has entailed a number of funding rounds. The majority of other operators in the sector have gone into receivership leaving Keycom as the only major player. The Fund invested £950,000 as part of syndicated funding rounds to provide working capital to the company. The Fund has a 9.3% stake.

In the audited accounts to 30 September 2002 the company made a loss before taxation of £1.9m, a retained loss of £1.7m and had net assets of £91,000.

Non Qualifying Funds

In line with the investment policy set out in the Prospectus, £1.3m has been invested in two funds managed by Electra Partners. Electra Investment Trust specialises in private equity with net assets of £495m as at 30 September 2003. Electra Active Management is a specialist smaller company fund which invests in undervalued smaller companies where a corporate catalyst can create a valuation uplift. Both funds have performed well in the year and at the year end showed an uplift of 24% and 12% respectively on their cost.

Bond Portfolio

At the year end the bond portfolio was valued at £7.5m and comprised investments in 14 short-dated corporate bonds and gilts. The bonds have been selected on the basis of their yields and credit rating with redemption periods matched to anticipated qualifying investment rates.

Investments made or committed after 30 September 2003

James & James

James & James is a business to business publisher of international environmental magazines and directories. It has established leading titles in certain energy, waste and conservation sectors. The core products are three bi-monthly, advertising–led magazines: Renewable Energy World, Co-Generation & On-site Power Generation and Waste Management World. The company was seeking finance to complete the acquisition of Earthscan, a publisher of academic and professional books on environmental change and sustainable development. The strategy is to build a dedicated international environmental publisher through further bolt-on acquisitions and organic growth. The company's core focus will be on the Energy and Waste sectors. The Fund invested £750,000, for a 29.2% stake, to facilitate the acquisition of Earthscan and to provide working capital.

Media Square

The company was set up in 2000 and floated on AIM in 2001. Its objective was to acquire a number of companies in the design/media consultancy market to achieve a degree of scale and exploit the resultant synergies. Media Square has two divisions focusing on marketing communications consultancy and retail marketing production support. The Fund invested £600,000, for a 6.5% stake, to enable the company to complete the acquisition of Preprint. Preprint represented a good bolt-on opportunity for the retail marketing division.

For the year ended 31 October 2002 the company reported an audited loss of £0.9m, a retained loss of £0.9m and net assets of £0.7m.

Music Copyright Solutions (“MCS”)

MCS administers and owns music copyright. The company drives revenues by the collection and payment of music royalties, and the creation of rights by commissioning specific work. MCS focuses largely on products for film and TV production companies, such as Endemol and Chorion. MCS is implementing a buy-and-build strategy within the UK independent music publishing market, a market that is very fragmented below a small number of major players such as EMI and Sony. The company had raised £1.1m to acquire the administration rights of a rival, Palans, but had a shortfall of £0.9m. The Fund led a funding round, investing £500,000 to make up the difference. The Fund has a 12.1% stake. MCS is quoted on OFEX and plans to move to AIM in the first half of 2004.

In the audited accounts to 31 December 2002, MCS reported a loss before taxation of £990,000 and had net assets of £1.2m.

Happy Times

Happy Times is an owner operator of three childrens nurseries in South West London. It was seeking expansion capital to acquire a freehold site in Fulham and a further freehold site elsewhere in the London area. The dynamics of the market remain favourable, particularly in the affluent London boroughs where the supply of nursery care facilities lags behind demand. The company has differentiated itself from the competition by operating larger nurseries of typically over 100 places and providing high standards of child care. The Fund invested £750,000 as part of a £1.5m equity funding alongside £2.6m of debt finance. The company is unquoted and reported a loss before tax of £456,000 to 31 March 2003 with net liabilities of £66,511. The Fund has a 12.2% stake.

Immedia Broadcasting

The company designs and operates live radio stations providing tailored commercial programming to retail outlets. It provides two distinct services: a free radio proposition to CTN and convenience stores where advertising slots are sold to the large confectionery and drinks companies; the second service is a bespoke radio station, tailored to meet the requirements of the client. The company has successfully operated a station for Lloyds Chemists and has a number of other potential contracts in the pipeline. There has been considerable interest in point of sale advertising, since a large proportion of purchasing decisions are often made in-store. Accordingly, radio advertising has the potential to increase in-store sales and, in the case of bespoke programming, provide a valuable communications tool.

The company listed on AIM in December 2003 and the Fund invested £275,000 for a 5.4% stake. The company declared a loss of £651,000 to 30 December 2002 with net assets of £26,106.

Annual Review **Portfolio Summary**

	Basis of Valuation	Cost at 30 September 2003 £	Valuation at 30 September 2003 £	% of Portfolio by Value %
Qualifying Investments:				
Centurion Electronics Manufacturer and wholesaler of in-car DVD and video systems	Mid-market price	700,000	1,974,206	11.95
Online Travel Corporation Internet based travel company	Mid-market price	900,000	953,571	5.77
Keycom Student communication services	Price of recent investment	950,963	950,963	5.76
Nectar Taverns Managed public houses	Price of recent investment	750,000	750,000	4.54
Signature Brands Group Retailer of women's fashion wear	Price of recent investment	750,000	750,000	4.54
BioProgress Pharmaceutical products	Mid-market price	236,000	741,188	4.49
Berkeley Morgan Independent financial intermediary	Price of recent investment	741,436	741,436	4.49
Advanced Medical Solutions Designer and manufacturer of advanced woundcare products	Mid-market price	500,000	573,529	3.47
		5,528,399	7,434,893	45.01
Non-Qualifying Investments:				
Electra Investment Trust		640,460	791,875	4.79
Electra Active Management		700,000	782,651	4.74
		1,340,460	1,574,526	9.53
Fixed Income Securities:				
Treasury 5% (07.06.04)		962,350	958,835	5.80
Diageo 9.0% (31.05.05)		552,000	536,325	3.24
UBS AG 7.375% (26.11.04)		522,750	518,300	3.14
McDonalds 6.25% (07.12.05)		525,000	516,575	3.13
Dexia 8.375% (16.06.04)		527,500	514,325	3.11
ASIF II 6.5% (26.11.04)		519,950	513,375	3.11
BMW (UK) 6.5% (10.08.04)		517,000	509,875	3.09
Vodafone 7.5% (19.03.04)		517,750	507,500	3.07
Lloyds TSB Bank 7.375% (11.03.04)		519,600	507,175	3.07
IBM 6.0% (28.06.04)		512,250	506,450	3.07
Alliance & Leicester 5.125% (08.11.04)		507,500	505,625	3.06
Abbey National 5.25% (21.01.04)		501,500	501,900	3.04
Depfa Finance 7.125% (11.11.03)		516,100	501,650	3.04
General Electric 6.5% (26.11.04)		416,200	410,640	2.49
		7,617,450	7,508,550	45.46
		14,486,309	16,517,969	100.00
Cash			3,898,192	
Total			**20,416,161**	

Company Information Contact Details

Electra Kingsway VCT Plc

Board of Directors

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

Investment Manager and Administrator

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

Secretary and Registered Office

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

Company Number

4286368

Registered Independent Auditors and VCT Advisors

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

Investor Enquiries and Fixed Income Investment Advisor

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

Registrar and Transfer Office

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

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

Company Information Board of Directors

*** Rupert Pennant-Rea, Chairman**

Aged 55, was appointed a Director on 24 September 2001.

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

*** Michael Broke**

Aged 67, was appointed a Director on 24 September 2001.

He is currently executive Chairman of Stockley Park Consortium. He is also a non-executive Director of Chelsfield, having joined the Board in October 1987 as Managing Director. He was Chief Executive of Stockley from January 1984 to June 1987 and prior to that a Director of J Rothschild & Co. Previous directorships have included Stalwart Group (Chairman) (now known as GE Life Group), Aspen Healthcare Holdings (Chairman) and Ashbourne Group.

*** David Donnelly**

Aged 55, was appointed a Director on 24 September 2001.

He is currently Executive Chairman of Gordon House Asset Management. He is Chief Investment Officer of The Gordon House Optimal Fund. Previous directorships have included The ECU Trust, Highland Participants and R&W Hawthorn Leslie. He is Chairman of the Remuneration Committee.

Nicholas Ross

Aged 40, was appointed a Director on 12 September 2001.

He joined Electra Partners in 1993 and is a Director of Electra Quoted Management, the Investment Manager. He has been principally involved in running the quoted portfolio of Electra Investment Trust and latterly managing Electra Active Management. He is an associate of the Institute of Investment Management and Research and prior to joining the Investment Manager he worked as an analyst and fund manager at Provident Mutual.

*** David Sebire**

Aged 60, 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 a non-executive Director of Highbury House Communications and non-executive Chairman of Medico Legal Consultancy and a number of private companies. He has been nominated the Senior Independent Director under the Combined Code on Corporate Governance and is additionally Chairman of the Audit Committee.

* Member of the Audit, Remuneration and Nomination Committees

Accounts Report of the Directors

To the Members of Electra Kingsway VCT Plc

The Directors present the audited Accounts of the Company for the year ended 30 September 2003 and their Report on its affairs.

Business and Principal Activities

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

Investment Company Status

Throughout the year under review the Company was an investment company as defined under Section 266 of the Companies Act 1985.

VCT Status

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

Share Capital

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

Between 1 October 2002 and 30 September 2003 a total of 4,090,587 ordinary shares of 1p each were issued for cash at a price of £1 per share.

Pursuant to the authority granted at the last Annual General Meeting, 43,550 ordinary shares of 1p each (representing 0.22% of the shares in issue at that time) were purchased by the Company on 8 August 2003 at 79.5p per share, for a total consideration of £34,624.

As at 30 September 2003 a total of 19,804,760 (2002: 15,757,723) ordinary shares of 1p each of the Company were in issue.

Authority to make Market Purchases of Shares

An Ordinary Resolution will be proposed, as Special Business, at the Annual General Meeting to be held on 23 February 2004 to renew, for one year, the Board's authority to buy up to 2,968,733 of the Company's ordinary shares, or such lesser number of shares as is equal to 14.99 per cent. of the total number of ordinary shares in issue as at the date of the passing of the resolution, subject to the constraints set out in the Ordinary Resolution.

Results and Dividend

Revenue returns attributable to shareholders amounted to £181,513 (2002: £124,123). The Directors recommend the payment of a final dividend in respect of the year ended 30 September 2003 of 0.90p per ordinary share, amounting to £178,243 (2002: £118,183). The proposed final dividend will, if approved by shareholders at the Annual General Meeting to be held on 23 February 2004, be paid on 27 February 2004 to shareholders on the Register of Members at close of business on 6 February 2004.

Post Balance Sheet Events

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

October 2003	James & James	£750,000
November 2003	Media Square	£600,000
December 2003	Immedia Broadcasting	£275,000
December 2003	Music Copyright Solutions	£500,000

Directors

The current Directors of the Company are listed on page 11. Mr RL Pennant-Rea, Mr MHA Broke, Mr DJ Donnelly, Mr NRW Ross and Mr DJ Sebire were Directors of the Company throughout the year ended 30 September 2003. Apart from these persons no other person was a Director of the Company during any part of the year. Mr MHA Broke and Mr DJ Donnelly will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. Short biographical details of Mr MHA Broke and Mr DJ Donnelly are provided on page 11.

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 2003 and 12 January 2004. No options over shares in the capital of the Company have been granted to the Directors.

	30 September 2003 Shares	1 October 2002 Shares
RL Pennant-Rea	10,200	10,200
MHA Broke	10,200	10,200
DJ Donnelly	–	–
NRW Ross	51,001	51,001
DJ Sebire	10,200	10,200

Directors' Remuneration Report

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

Contracts with Directors

No Director has a service contract with the Company.

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

Substantial Shareholders

At 12 January 2004 the Directors had not been notified of any interests of 3% or more in the Company's issued share capital.

Independent Auditors

Following the conversion of the Company's Auditors, PricewaterhouseCoopers, to a Limited Liability Partnership from 1 January 2003, PricewaterhouseCoopers resigned on 28 February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as Auditors. A resolution to reappoint PricewaterhouseCoopers LLP as Auditors to the Company will be proposed at the Annual General Meeting. A separate resolution will be proposed at the Annual General Meeting authorising the Directors to fix the remuneration of the Auditors.

Creditor Payment Policy

The Company pays all its creditors within 30 days.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 2 October 2001. The agreement is for an initial period of five years and continues thereafter until terminated by not less than one year's notice to expire at any time after the initial period. Fees are paid quarterly in arrears, as a percentage of net assets (less a rebate of fees suffered in investments in funds managed by Electra Partners), at the following annual rates:

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

Incentive Schemes

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

Going Concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Accounts as the Company has adequate resources to continue in operational existence for the foreseeable future.

Annual General Meeting

The Annual General Meeting of the Company will be held on Monday 23 February 2004.

In addition to the Ordinary Business, a Resolution will be proposed as described above to renew, for one year, the Board's authority to buy up to 2,968,733 of the Company's ordinary shares, or such lesser number of shares as is equal to 14.99 per cent. of the total number of ordinary shares in issue as at the date of the passing of the resolution, subject to the constraints set out in the Ordinary Resolution.

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

12 January 2004

Corporate Governance

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

The Board of Directors

The Board, which meets regularly, comprised five Directors at 30 September 2003 all of whom were non-executive. All of the Directors who held office at 30 September 2003, 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.

The Board has agreed a schedule of matters reserved for its specific approval, which includes a regular review of the Company's management agreement with Electra Partners, together with the monitoring of the performance thereunder. The management agreement sets out the matters over which Electra Partners has authority in accordance with the policies and directions of the Board.

The Board receives information that it considers to be sufficient and appropriate to enable it to discharge its duties. Each Director receives board papers several days in advance of each scheduled Board Meeting and is able to consider in detail the Company's performance and any issues to be discussed at the relevant meeting.

Individual Directors may seek independent professional advice in furtherance of their duties at the Company's expense within certain parameters. All Directors have access to the advice and services of the Company Secretary. Any question of the removal of the Company Secretary would be a matter of consideration by the entire Board.

The Audit Committee

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

The Remuneration Committee

The Remuneration Committee is chaired by Mr DJ Donnelly and again comprises all the Directors of the Company apart from Mr NRW Ross. Full details of its role are set out in the Directors' Remuneration Report.

The Nomination Committee

The Nomination Committee meets on an ad hoc basis to consider suitable candidates for appointment as Director. It comprises all the Directors apart from Mr NRW Ross with Mr RL Pennant-Rea as Chairman.

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

Communication Policy

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

Internal Control

The Code requires the Directors to review the effectiveness of the Company's system of internal control and report to shareholders that they have done so. The Code extended the earlier reporting requirements and now includes financial, operational and compliance controls and risk management.

The Board confirms that it has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and has continued since the year end. It is reviewed at regular intervals by the Board and accords with the guidance set out in the Turnbull Report.

The Board is responsible for the Company's system of internal control and it has reviewed its effectiveness for the year ended 30 September 2003. The system of internal control is designed to manage rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Since investment management, custody of assets and all administrative services are provided or arranged for the Company by Electra Partners, the Company's system of internal control mainly comprises the monitoring of the services provided by Electra Partners, including the operating controls established by them, to ensure they meet the Company's business objectives. The key elements designed to provide effective internal control for the Company are as follows:

- Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analyses of transactions and performance comparisons.

- Investment Strategy – Agreement by the Board of the Company's investment strategy and authorisation and monitoring of all large investments.
- Management Agreements – The Board regularly monitors the performance of Electra Partners to ensure that the Company's assets and affairs are managed in accordance with the guidelines determined by the Board.
- Investment Performance – The investment transactions and performance of the Company's assets and affairs are managed in accordance with the guidelines determined by the Board.
- Management Systems – Electra Partners' system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Partners' compliance department monitors compliance with the Financial Services Authority rules.

The Board keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key controls of Electra Partners as follows:

- The Board reviews the terms of the management agreement and receives regular reports from Electra Partners' executives.
- The Board reviews the certificates provided by Electra Partners on a six monthly basis, verifying compliance with documented controls.
- Custodians are required to produce on a regular basis a report (available for review by the Directors) on their internal controls and their operations, including a report by an independent firm of accountants.

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

Revised Combined Code

A revised Combined Code applies for all reporting periods commencing on or after 1 November 2003. The Board is in the process of reviewing in detail the requirements of the revised Combined Code.

Accounts Statement of Directors' Responsibilities

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

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

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

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

The Directors submit this report in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time for the financial year ended 30 September 2003. An Ordinary Resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting. The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such.

Remuneration Committee

The Remuneration Committee is comprised of all the Directors of the Company other than Mr NRW Ross. Mr DJ Donnelly was Chairman of the Remuneration Committee throughout the year.

The Remuneration Committee did not consider it necessary to review the level of Directors' fees during the year. The current annual fee rates are £20,000 for the Chairman and £15,000 for each of the other Directors apart from 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 properly 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 2004 and subsequent years. Non-executive Directors are not eligible to receive bonuses, pension benefits, share options and other benefits.

Directors' Service Contracts

None of the Directors has a service contract with the Company. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors to compensation for loss of office.

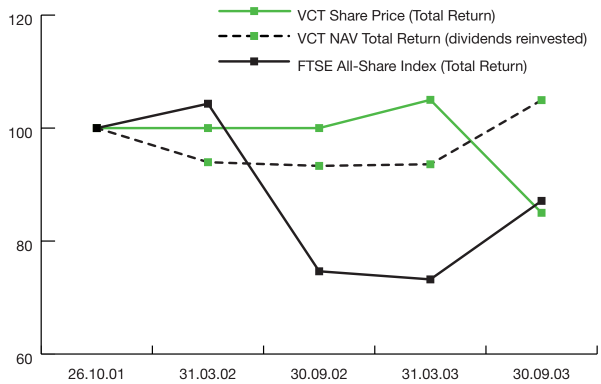
Performance Graph

The graph below shows the Company's performance being measured in terms of both its Total Shareholder Return and its Net Asset Value per share (with dividends reinvested) since shares were first issued on 26 October 2001 against the Total Shareholder Return of the FTSE All-Share Index.

The graph has incorporated the change in net asset value per share because changes in net asset value per share relative to the FTSE All-Share Index are an important indicator of the performance of the Company's assets.

The Directors consider that since the Company invests in a broad range of commercial sectors the FTSE All-Share Index is the most appropriate index against which to compare the Company's performance.

Electra Kingsway VCT Share Price Total Return v Electra Kingsway VCT Net Asset Value (with dividends reinvested) v FTSE All-Share Index (Total Return)



Directors' Remuneration for the Year (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	For the year ended 30 Sept 2003 £	For the period 12 Sept 2001 to 30 Sept 2002 £
RL Pennant-Rea (Chairman & highest paid Director)	20,000	20,000
MHA Broke	15,000	15,000
DJ Donnelly	15,000	15,000
DJ Sebire	15,000	15,000
NRW Ross	–	–
Total	65,000	65,000

As an executive of Electra Partners, NRW Ross has an interest in the Management Contract. £50,000 (2002: £50,000) of his remuneration is estimated to be in respect of the duties he undertakes for the Company.

By order of the Board of Directors
PJ Dyke, Secretary, 65 Kingsway, London
12 January 2004

Accounts Independent Auditors’ Report

To the Members of Electra Kingsway VCT Plc

We have audited the Financial Statements which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors’ Remuneration Report (“the auditable part”).

Respective Responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements and the auditable part of the Directors’ Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This Report, including the opinion, has been prepared for and only for the Company’s members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this Report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors’ Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors' is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's Corporate Governance procedures or its risk and control procedures.

Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the auditable part of the Directors’ Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the auditable part of the Directors’ Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of affairs of the Company at 30 September 2003 and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors’ Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
12 January 2004

Notes:

a The maintenance and integrity of the Electra Quoted Management website is the responsibility of the Investment Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for the information presented on the website.

b Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Accounts Statement of Total Return

Incorporating the Revenue Account of the Company for the year ended 30 September 2003

	Notes	For the year ended 30 September 2003 Revenue £	Capital £	Total £	For the period 12 September 2001 to 30 September 2002 Revenue £	Capital £	Total £
Unrealised gains/(losses) on investments		–	2,117,035	2,117,035	–	(138,156)	(138,156)
Realised gains/(losses) on investments		–	61,369	61,369	–	(17,300)	(17,300)
Income	1	668,134	–	668,134	463,104	–	463,104
		668,134	**2,178,404**	**2,846,538**	**463,104**	**(155,456)**	**307,648**
Investment management fees	2	(87,703)	(263,109)	(350,812)	(49,281)	(147,842)	(197,123)
Other expenses	3	(344,339)	–	(344,339)	(250,653)	–	(250,653)
Return on Ordinary Activities before Taxation		**236,092**	**1,915,295**	**2,151,387**	**163,170**	**(303,298)**	**(140,128)**
Tax on ordinary activities	5	(54,579)	49,991	(4,588)	(39,047)	28,829	(10,218)
Return on Ordinary Activities after Taxation		**181,513**	**1,965,286**	**2,146,799**	**124,123**	**(274,469)**	**(150,346)**
Dividend	6	(178,243)	–	(178,243)	(118,183)	–	(118,183)
Transfer to/(from) Reserves		**3,270**	**1,965,286**	**1,968,556**	**5,940**	**(274,469)**	**(268,529)**
Return per Ordinary Share	7	**1.03p**	**11.08p**	**12.11p**	**3.06p**	**(6.76p)**	**(3.70p)**

All revenues and capital in the above statement derive from continuing activities.
The Revenue column of this statement is the Profit and Loss Account of the Company.
The information on pages 22 to 30 form part of these Financial Statements.

Accounts Reconciliation of Total Shareholders' Funds

	Year ended 30 September 2003 £	Period from 12 September 2001 to 30 September 2002 £
Total Return	2,146,799	(150,346)
Dividend on ordinary shares	(178,243)	(118,183)
Ordinary shares issued	4,090,587	15,857,118
Repurchase of ordinary shares	(34,624)	(99,395)
Preference shares issued	–	50,000
Redemption of preference shares	–	(50,000)
Share issue expenses charged to Share Premium account	(224,981)	(787,785)
Movements in Total Shareholders' Funds	**5,799,538**	**14,701,409**
Total Shareholders' Funds at start of period	14,701,409	–
Total Shareholders' Funds at 30 September 2003	**20,500,947**	**14,701,409**

Accounts Balance Sheet

As at 30 September 2003

	Notes	As at 30 September 2003 £	£	As at 30 September 2002 £	£
Fixed Assets					
Investments	8		**16,517,969**		**9,942,610**
Current Assets					
Debtors	9	372,802		325,867	
Cash at bank	16	3,898,192		4,723,879	
			4,270,994		**5,049,746**
Creditors: amounts falling due within one year					
Creditors	10		288,016		**290,947**
Net Current Assets			**3,982,978**		**4,758,799**
Net Assets			**20,500,947**		**14,701,409**
Capital and Reserves					
Called-up share capital	12		198,048		157,577
Share premium account	13		11,551,185		14,812,361
Capital redemption reserve	13		435		–
Special reserve	13		7,051,251		–
Realised capital reserve	13		(340,843)		(136,313)
Unrealised capital reserve	13		2,031,660		(138,156)
Revenue reserve	13		9,211		5,940
Total Equity Shareholders' Funds			**20,500,947**		**14,701,409**
Net Asset Value per Ordinary Share			**103.52p**		**93.30p**

	2003	2002
Number of ordinary shares in issue at 30 September	**19,804,760**	**15,757,723**

The information on pages 22 to 30 form part of these Financial Statements.

The Financial Statements on pages 19 to 30 were approved by the Board of Directors on 12 January 2004 and were signed on its behalf by R Pennant-Rea, Chairman.

Accounts Cash Flow Statement

	Notes	For the year ended 30 September 2003 £	£	For the period 12 September 2001 to 30 September 2002 £	£
Operating Activities					
Investment income received		761,125		419,980	
Bank interest received		128,673		83,770	
Investment management fees paid		(458,124)		(131,884)	
Other cash payments		(316,337)		(166,271)	
Net Cash Inflow from Operating Activities	15		**115,337**		**205,595**
Taxation			**(10,195)**		**–**
Capital Expenditure and Financial Investments					
Sale of investments		7,075,679		1,000,000	
Acquisition of investments		(11,719,307)		(11,451,654)	
Net Cash Outflow from Capital Expenditure and Financial Investments			**(4,643,628)**		**(10,451,654)**
Equity Dividends Paid			**(118,183)**		**–**
Cash Outflow before Financing			**(4,656,669)**		**(10,246,059)**
Financing					
Issue of ordinary shares		4,090,587		15,857,118	
Repurchase of ordinary shares		(34,624)		(99,395)	
Issue of preference shares		–		50,000	
Redemption of preference shares		–		(50,000)	
Expenses of the issue of ordinary shares		(224,981)		(787,785)	
Net Cash Inflow from Financing			**3,830,982**		**14,969,938**
(Decrease)/Increase in Cash for the Period	16		**(825,687)**		**4,723,879**

Accounts Statement of Accounting Policies

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

a) Basis of accounting

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

b) Valuation of investments

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

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

In valuing unlisted investments, the Directors follow a number of general principles in accordance with the latest BVCA guidelines which are set out on page 5.

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

c) Income

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

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

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

d) Expenses

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

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

e) Investment management and incentive fees

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

f) Capital reserves

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

g) Taxation

The charge for taxation is based on the net revenue for the year. Deferred tax is provided for in accordance with Financial Reporting Standard 19 on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are recoverable.

The tax effects of different items in the Statement of Total Return are allocated between capital and revenue on the same basis as the particular item to which they relate using the Company's effective rate of tax for the accounting period.

1 Income

	For the year ended 30 September 2003	For the period 12 September 2001 to 30 September 2002
	£	£
Interest receivable:		
From fixed interest securities	539,461	374,012
From bank deposits	128,673	89,092
	668,134	463,104

2 Investment Manager's Fees

	Revenue 2003 £	Capital 2003 £	Total 2003 £	Revenue 2002 £	Capital 2002 £	Total 2002 £
Electra Quoted Management	87,703	263,109	350,812	49,281	147,842	197,123

The Management Fee includes irrecoverable VAT of £52,249 (2002: £29,359).

Electra Quoted Management also received an administration fee of £61,020 (2002: £60,000), net of VAT, which increases each year in line with RPI. The administration fee is included in the administration expenses of £199,496 in Note 3.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 2 October 2001. The agreement is for an initial period of five years and thereafter until terminated by not less than one year's notice to expire at any time after the initial period. Fees are paid quarterly in advance, as a percentage of net assets (less a rebate of fees suffered in investments in funds managed by Electra Partners), at the following annual rates:

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

Incentive Schemes

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

3 Other Expenses

	For the year ended 30 September 2003 £	For the period 12 September 2001 to 30 September 2002 £
Directors' remuneration (including Employers NIC)	67,284	67,503
IFA trail commission	51,284	37,071
Auditors' fees – audit	18,800	16,450
– other	7,475	9,106
Administration expenses	199,496	120,523
	344,339	250,653

4 Directors' Remuneration

Details of Directors' remuneration are shown in the table in the Directors' Remuneration Report on page 17.

The Company has no employees or employee costs.

5 Taxation on Ordinary Activities

	For the year ended 30 September 2003 £	For the period 12 September 2001 to 30 September 2002 £
Analysis of charge in the year		
Current tax:		
Prior year adjustment	(23)	–
UK corporation tax at 19% (2002: 19.5%)	4,611	10,218
Total Current Tax	4,588	10,218
Factors affecting tax charge for the year		
Revenue return before tax	236,092	163,170
Revenue return at corporate tax rate	44,857	31,818
Effects of:		
Expenses not deductible for tax purposes	9,745	7,229
Tax relief on fees charged to capital account	(49,991)	(28,829)
Prior year adjustment	(23)	–
	4,588	10,218

In light of the Company's status as a venture capital trust and the Directors' intention to continue to meet the conditions necessary to obtain such approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

6 Dividend

	For the year ended 30 September 2003 £	For the period 12 September 2001 to 30 September 2002 £
Dividend on ordinary shares:		
Proposed final dividend of 0.90p (2002: 0.75p) per ordinary share *	178,243	118,183

* Subject to approval at the Annual General Meeting to be held on 23 February 2004, the proposed final dividend will be payable on 27 February 2004 to shareholders on the register on 6 February 2004.

7 Return per Ordinary Share

The revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £181,513 (2002: £124,123) and on 17,733,423 (2002: 4,061,644) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The capital return per ordinary share is based on net capital gains of £1,965,286 (2002: net capital losses: £274,469) and on 17,733,423 (2002: 4,061,644) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

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

8 Investments

	Traded on AIM £	Traded on OFEX £	Unlisted £	Open-ended Investment Company £	Closed-ended Investment Company £	Fixed Interest Securities £	Total £
Cost at 1 October 2002	500,000	–	750,000	250,000	–	8,580,766	10,080,766
Unrealised losses at 1 October 2002	(29,412)	–	–	(65,138)	–	(43,606)	(138,156)
Valuation at 1 October 2002	470,588	–	750,000	184,862	–	8,537,160	9,942,610
Purchases at Cost	1,900,000	1,692,399	750,000	450,000	640,460	6,080,250	11,513,109
Sales at valuation	(64,000)	–	–	–	–	(6,990,785)	(7,054,785)
Unrealised gains/(losses) in year	1,935,906	–	–	147,789	151,415	(118,075)	2,117,035
Valuation at 30 September 2003	4,242,494	1,692,399	1,500,000	782,651	791,875	7,508,550	16,517,969
Cost at 30 September 2003	2,336,000	1,692,399	1,500,000	700,000	640,460	7,617,450	14,486,309
Unrealised gains/(losses) at 30 September 2003	1,906,494	–	–	82,651	151,415	(108,900)	2,031,660
Valuation at 30 September 2003	4,242,494	1,692,399	1,500,000	782,651	791,875	7,508,550	16,517,969

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

9 Debtors

	2003 £	2002 £
Amounts due within one year:		
Accrued interest	273,014	307,621
Outstanding settlements	49,849	–
Other debtors	49,939	18,246
	372,802	325,867

10 Creditors: amounts falling due within one year

	2003 £	2002 £
UK corporation tax	4,611	10,218
Other creditors	105,162	162,546
Proposed final dividend	178,243	118,183
	288,016	290,947

11 Significant Interests

At 30 September 2003 the Company held significant investments, amounting to 3% or more of the equity capital in the following companies:

	Equity Investment (Ordinary Shares) £	Investment Loan Stock and Preference Shares £	Total Investment £	Percentage of Investee Company's Total Equity %
Advanced Medical Solutions	500,000	–	500,000	4.1
Nectar Taverns	225,000	525,000	750,000	18.5
Signature Brands Group	750,000	–	750,000	10.0
Centurion Electronics	700,000	–	700,000	7.8
Berkeley Morgan	741,436	–	741,436	12.7
Keycom	750,963	200,000	950,963	9.3
Online Travel Corporation	900,000	–	900,000	3.5

It is considered that, as permitted by FRS 9 "Associates and Joint Ventures", the above investments are held as part of an investment portfolio and that, accordingly, their value to the Company lies in their marketable value as part of its portfolio. In view of this, it is not considered that the above represent investments in associated undertakings.

The above companies are incorporated in the United Kingdom.

12 Called Up Share Capital

	2003 Number	2003 £	2002 Number	2002 £
Authorised:				
Ordinary shares of 1p each: 60,000,000	60,000,000	600,000	60,000,000	600,000
	60,000,000	600,000	60,000,000	600,000
Issued:				
At 1 October 2002	15,757,723	157,577	–	–
Ordinary shares of 1p each issued during the year/period	4,090,587	40,906	15,757,723	157,577
Ordinary shares of 1p each repurchased during the year/period	(43,550)	(435)	–	–
At 30 September 2003	19,804,760	198,048	15,757,723	157,577

Between 1 October 2002 and 30 September 2003 a total of 4,090,587 ordinary shares of 1p each were issued for cash at a price of £1 per share. Pursuant to the authority granted at the Annual General Meeting held in February 2003, on 8 August 2003, 43,550 ordinary shares (representing 0.22% of the shares in issue at that time) were purchased by the Company at a price of 79.5p per share and cancelled.

13 Reserves

	Share Premium Account £	Capital Redemption Reserve £	Special Reserve £	Realised Capital Reserve £	Unrealised Capital Reserve £	Revenue Reserve £
At 1 October 2002	14,812,361	–	–	(136,313)	(138,156)	5,940
Premium on issues of shares during the period	4,049,680	–	–	–	–	–
Expenses of share issues	(224,981)	–	–	–	–	–
Transfer to special reserve	(7,085,875)	–	7,085,875	–	–	–
Shares repurchased in year	–	435	(34,624)	–	–	–
Gain on disposal of investments	–	–	–	61,369	–	–
Unrealised depreciation at 1 October 2002 on investments realised in year	–	–	–	(52,781)	52,781	–
Other expenses net of taxation	–	–	–	(213,118)	–	–
Increase in unrealised appreciation	–	–	–	–	2,117,035	–
Retained net revenue for the year	–	–	–	–	–	3,271
At 30 September 2003	11,551,185	435	7,051,251	(340,843)	2,031,660	9,211

During the year ended 30 September 2003 the Fund received Court approval to set up a special reserve which is treated as a distributable reserve out of which repurchases of ordinary shares can be made.

14 Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets at 30 September 2003, and on 19,804,760 (2002: 15,757,723) ordinary shares, being the number of ordinary shares in issue on that date.

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

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

	For the year ended 30 September 2003 £	For the period 12 September 2001 to 30 September 2002 £
Net revenue before taxation	236,092	163,170
Investment management fees charged to capital	(263,109)	(147,842)
Decrease in debtors (net of accrued interest on purchase of bonds)	199,738	27,721
(Decrease)/Increase in creditors and accruals	(57,384)	162,546
Net cash inflow from operating activities	115,337	205,595

16 Analysis of Changes in Cash

	For the year ended 30 September 2003 £	For the period 12 September 2001 to 30 September 2002 £
At beginning of year	4,723,879	–
Net cash (outflow)/inflow	(825,687)	4,723,879
At 30 September	3,898,192	4,723,879

17 Financial Instruments

The Company's financial instruments comprise:

- Equity and non-equity shares, units in an open-ended investment company, shares in a close-ended investment company and fixed interest securities that are held in accordance with the Company's investment objective.

- Cash, liquid resources and short-term debtors and creditors that arise directly from the Company's operations.

It is not the Company's policy to trade in financial instruments or derivatives. The main risks arising from the Company's financial instruments are due to fluctuations in market prices and interest rates. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below:

Key Risks

Credit Risk: Failure by counter-parties to deliver securities which the company has paid for, or pay for securities which the Company has delivered.

Market Price Risk: Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements.

The investments in equity and fixed interest stocks of unquoted and AIM listed companies the Company holds are thinly traded and as such the prices are more volatile than those of more widely traded securities. In addition, the ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers. The ability of the Company to purchase or sell investments is also constrained by the requirements set down for venture capital trusts.

Interest Rate Risk: The Company's fixed interest securities, its equity and non-equity investments and net revenue may be affected by interest rate movements. Due to the short time to maturity of some of the Company's fixed investments, it may not be possible to re-invest in assets which provide the same rates as those currently held.

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

Management of Risks

Credit Risk: All transactions are settled on the basis of delivery against payment.

Market Price Risk: The Board manages the market price risk inherent in the Company's portfolio by maintaining an appropriate spread of market risk, and by ensuring full and timely access to relevant information from the Investment Manager. The Investment Committee reviews the investment performance and financial results, as well as compliance with the Company's objectives. The Board seeks to ensure that an appropriate proportion of the Company's portfolio is invested in cash and readily realisable securities, which are sufficient to meet any funding commitments that may arise. The Company does not use derivative instruments to hedge against market risk.

Interest Rate Risk: The Company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board, as referred to above. The Company does not use derivative instruments to hedge against interest rate risk.

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

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

The interest rate risk profile of the Company's financial assets (excluding short-term debtors and creditors) at 30 September 2002 was:

	Financial Assets on which no Interest Paid £	Fixed Rate Financial Assets £	Variable Rate Financial Assets £	Total £	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	1,405,450	–	–	1,405,450	–	–
Bonds	–	8,537,160	–	8,537,160	6.9	0.6
Cash	–	–	4,723,879	4,723,879	–	–
Total	1,405,450	8,537,160	4,723,879	14,666,489	–	–

Floating rate cash earns interest based on LIBOR.

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

18 Post Balance Sheet Events

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

October 2003	James & James	£750,000
November 2003	Media Square	£600,000
December 2003	Immedia Broadcasting	£275,000
December 2003	Music Copyright Solutions	£500,000

19 Geographical Analysis

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

20 Contingencies, Guarantees and Financial Commitments

In January 2004 the Company committed to invest £750,000 in Happy Times. There were no other contingencies, guarantees or financial commitments of the Company at 30 September 2003 (2002: nil).

21 Transactions with the Manager

During the year ended 30 September 2003 the Company paid £547,447 (2002: £227,764) to Electra Quoted Management, the Investment Manager. At 30 September 2003, the Company was owed £45,119 by the Investment Manager. At 30 September 2002 the Company owed £70,522 to the Investment Manager. Details of the Investment Manager's fee arrangements are included in Note 2.

Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting of Electra Kingsway VCT Plc will be held at 10.00am on Monday 23 February 2004 at 65 Kingsway, London WC2B 6QT for the purpose of considering and, if thought fit, passing the following Resolutions:

Ordinary Business

1 To receive and adopt the Reports of the Directors and Auditors and the Company's Accounts for the year ended 30 September 2003.

2 To approve the Directors' Remuneration Report for the year ended 30 September 2003 which is set out in the Annual Report & Accounts of the Company for the year ended 30 September 2003.

3 To declare a final dividend for the year ended 30 September 2003 which the Directors recommend should be at the rate of 0.90p per ordinary share.

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

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

To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:

6 That PricewaterhouseCoopers LLP be re-appointed as Auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Pricewaterhouse-Coopers), 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

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

8 THAT the Company be and is hereby authorised in accordance with Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163 of the said Act) of ordinary shares, provided that:

i) the maximum number of ordinary shares hereby authorised to be purchased is 2,968,733 or such lesser number of shares as is equal to 14.99 per cent. of the total number of ordinary shares in issue as at the date of the passing of this resolution;

ii) the minimum price which may be paid for an ordinary share shall be one pence;

iii) the maximum price, which may be paid for an ordinary share, shall be an amount equal to not more than 5 per cent. above the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;

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

v) unless renewed, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting in 2005 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

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

12 January 2004

Notes

1 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.

2 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, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, 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.

3 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 21 February 2004 (the "Specified Time") shall be entitled to attend and vote at the Meeting in respect of the number of ordinary shares registered in their name at that time. Changes to entries on the register of members after 6.00pm on 21 February 2004 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

4 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.

5 The following document will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the close of the Annual General Meeting, and will be available at the place of the Annual General Meeting from 9.45am 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

6 Short biographical details of Mr MHA Broke and Mr DJ Donnelly are contained in the Report & Accounts for the year to 30 September 2003 on page 11.