

Electra Investment Trust PLC *Annual Report 2000*

2000





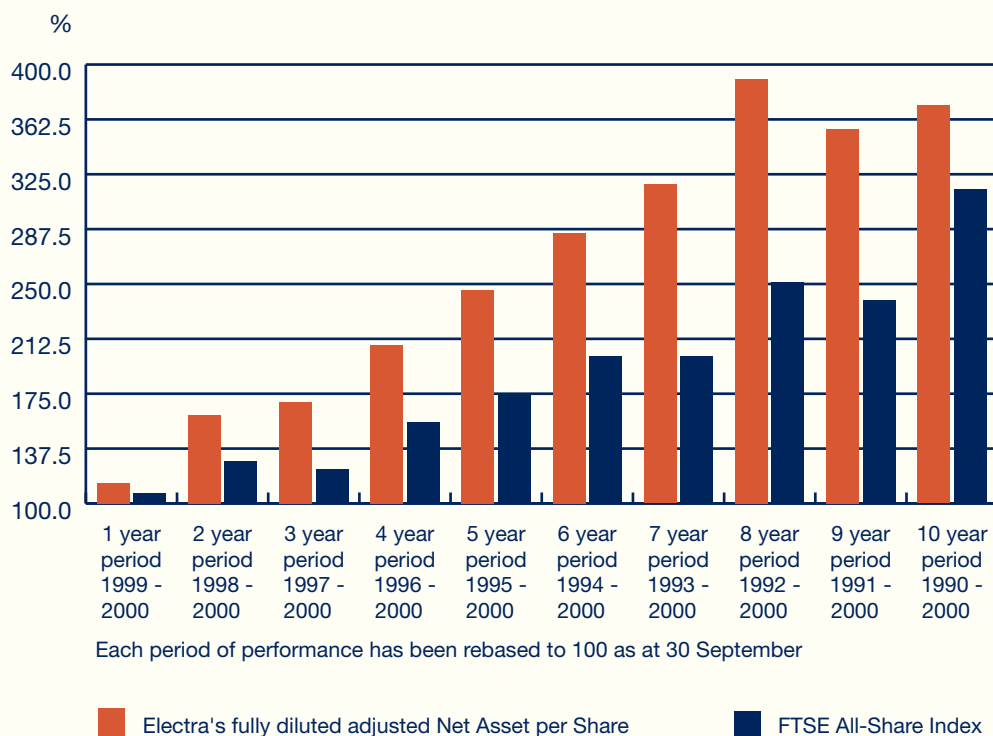
Annual Report and Accounts for the year ended 30 September 2000
 

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<b>Overview</b>	<b>2</b>	Financial Highlights
	<b>4</b>	Chairman's Statement
	<b>6</b>	Board of Directors
	<b>8</b>	Twenty Largest Investments
<hr/>		
<b>Investment Manager's Review</b>	<b>9</b>	The Manager
	<b>10</b>	Portfolio Analysis
	<b>11</b>	Principles of Valuation of Unlisted Investments
	<b>12</b>	Unlisted Portfolio
	<b>15</b>	Largest Unlisted Investments
	<b>21</b>	Schedules of Largest Unlisted Investments
	<b>23</b>	Listed Portfolio
<b>24</b>	Classification and Distribution of Investments	
<hr/>		
<b>Accounts</b>	<b>26</b>	Report of the Directors
	<b>28</b>	Ten Year Record of Earnings and Dividends
	<b>29</b>	Corporate Governance
	<b>31</b>	Directors' Responsibilities for Preparing the Accounts
	<b>32</b>	Report of the Auditors
	<b>33</b>	Consolidated Statement of Total Return
	<b>34</b>	Reconciliation of Total Shareholders' Funds
	<b>35</b>	Consolidated Balance Sheet
	<b>36</b>	Balance Sheet
	<b>37</b>	Consolidated Cash Flow Statement
	<b>39</b>	Notes to the Consolidated Cash Flow Statement
<b>40</b>	Statement of Accounting Policies	
<b>42</b>	Notes to the Accounts	
<hr/>		
<b>Company Information</b>	<b>56</b>	Electra Investment Trust Contact Details
	<b>57</b>	Electra Partners Group Offices
<hr/>		
<b>Annual General Meeting</b>	<b>58</b>	Notice of Annual General Meeting

References in this Report and Accounts to Electra Investment Trust PLC and its subsidiaries have been abbreviated to Electra. References to Electra Partners Limited and its subsidiaries have been abbreviated to Electra Partners.

## Fully diluted adjusted Net Asset Value per Share compared to FTSE All-Share Index



## Net Assets

As at 30 September	Net Assets £'000	Fully diluted adjusted Net Asset Value per Share p
<b>1990</b>	467,668	291.71
<b>1991</b>	491,743	304.53
<b>1992</b>	470,793	277.87
<b>1993</b>	580,614	341.30
<b>1994</b>	643,924	380.70
<b>1995</b>	748,588	440.49
<b>1996</b>	886,206	522.13
<b>1997</b>	1,082,802	640.04
<b>1998</b>	1,145,319	676.15
<b>1999</b>	*987,460	950.77
<b>2000</b>	†874,042	1,084.96

\* During the year £544,222,000 was repaid to shareholders via a tender offer

† During the year £250,000,000 was repaid to shareholders via a tender offer

## Five Year Record

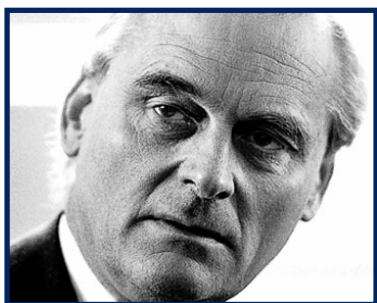
For the year ended 30 September	1996	1997	1998	1999	2000
Adjusted net asset value per share (p)	522.13	640.04	676.15	* 950.77	†1,084.96
Increase in net asset value per share (%)	18.6	22.6	5.6	40.6	14.1
Increase/(decrease) in FTSE All-Share Index (%)	12.1	26.2	(4.5)	20.5	7.2
Total ordinary dividends per share (p)	8.400	9.700	11.175	–	–
Special dividend per share (p)	–	0.55	–	–	–

\* During the year £544,222,000 was repaid to shareholders via a tender offer

† During the year £250,000,000 was repaid to shareholders via a tender offer

### Note

For the three years ended 30 September 1998 the adjusted net asset value per share comprised net assets per the Consolidated Balance Sheet and an amount in respect of the interest in Electra Kingsway Holdings Limited and was based on 173,048,534 ordinary shares of 25p in issue. For the year ended 30 September 1999 the calculation was based on 103,859,120 ordinary shares and on 80,559,959 ordinary shares in respect of the year ended 30 September 2000.



**Review of the Year**

The year to 30 September 2000 saw a continuation of Electra's strategy of realising the investment portfolio and the return of capital to shareholders.

In June 2000 shareholders approved proposals to return a further £250 million of capital by way of a Tender Offer and this was completed in July. A total of 23 million shares were bought in representing 22.4% of the shares in issue prior to the Tender Offer. This brings the cumulative return of capital to shareholders since March 1999 to £800 million.

**Results**

At 30 September 2000 the net asset value per share was £10.85 compared with £9.51 at 30 September 1999, an increase of 14.1%. Over the year to 30 September 2000 the FTSE All-Share Index increased by 7.2% and the FTSE SmallCap Index by 27.5%. Although the performance of Electra has historically been compared with the FTSE All-Share Index and the FTSE SmallCap Index these benchmarks are no longer a valid comparison as the portfolio is in the process of realisation.

The year has seen substantial realisations of investments, the proceeds of which have been used to repay borrowings arranged to finance the Tender Offer which was completed in 1999 and fulfil existing investment commitments. Of the £588 million utilised for the Tender Offer completed in April 1999, all but £30 million had been repaid by 19 May 2000 and a new £450 million facility was put in place of which £250 million was utilised for the subsequent Tender Offer, leaving further facilities available to the Company to make on-market share purchases.

Since the start of the realisation strategy in March 1999, £1 billion has been received from the sale of portfolio companies. The early phase of the realisation programme was characterised by an improved rating of smaller listed companies and a strong demand for unlisted investments. As a result we were able to realise a substantial part of the listed portfolio at attractive prices and achieve full value on realisation of a significant number of unlisted investments.

The future rate of disposal will depend on a number of factors, not least the conditions in the banking market which will affect demand from financial buyers who have been the main purchasers of Electra's unlisted investments during the realisation period. The relative immaturity of a significant proportion of the remaining unlisted investments will be important in the timing of future realisations. In the meantime the portfolio continues to be valued on a conservative basis.

**Dividends**

No dividend is proposed in respect of the year ended 30 September 2000 and, as indicated in earlier statements, the Board considers it unlikely that dividends will be paid in the foreseeable future.

**The Board**

On 12 July 2000 Michael Walton was appointed a Director of the Company. He has extensive experience of the venture capital industry as a former Managing Director of Gartmore Private Capital and Director of NatWest Equity Partners.

**Since the start of the realisation strategy in March 1999, £1 billion has been received from the sale of portfolio companies.**

**Electra Partners**

Electra Partners, now owned by its senior executives, has continued to manage Electra's assets. It has had a successful year both in the management of the portfolio and in the progress it has made in building a new client base independent of Electra.

**The Future**

In my letter dated 25 May 2000 giving details of the second Tender Offer, I stated that the Board was aware that a number of shareholders were in favour of a continuation or rollover vehicle and that the Board would consider this as the realisation of Electra's portfolio advanced.

Since March 1999 £1 billion has been received from the sale of investments which is equivalent to 75% of the £1.36 billion valuation of the portfolio at 28 February 1999. This significant progress is well ahead of our expectations for the five year realisation programme. Given the speed of this achievement it is now appropriate for the Board to consider in detail the most suitable options to address shareholders' wishes for the future of Electra. I anticipate giving an update on progress by the Annual General Meeting which is to be held on 28 February 2001.

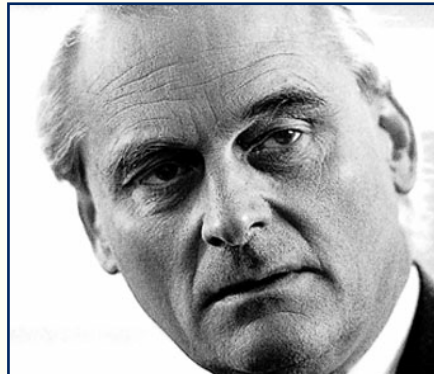
**I anticipate giving an update on progress by the Annual General Meeting which is to be held on 28 February 2001.**



**Brian Williamson**  
Chairman

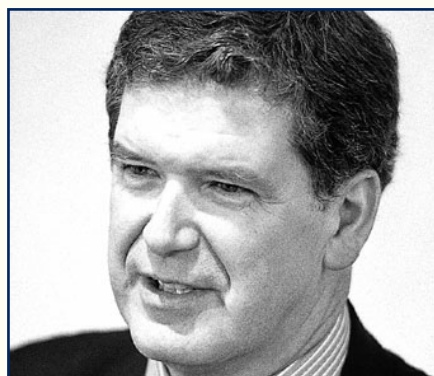
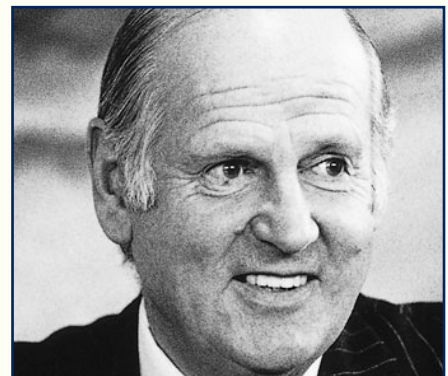
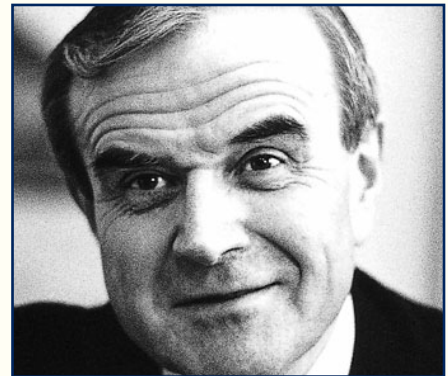
19 December 2000

Brian Williamson CBE



Left to right

- Ronald Armstrong
- Professor George Bain
- The Rt Hon Tom King CH MP
- Sir Michael Pickard
- Michael Walton
- Peter Williams





**Brian Williamson CBE**  
**Chairman**

Aged 55, was appointed a Director in 1994 and succeeded Michael Stoddart as Chairman of the Company on 30 April 2000.

He is currently Chairman of the London International Financial Futures & Options Exchange. He is a former Governor of the National Association of Securities Dealers in the USA and Chairman of Nasdaq's International Markets Advisory Board.

He was formerly a member of the Financial Services Authority, Chairman of Gerrard Group plc, and a Member of the Court of the Bank of Ireland.

**Ronald Armstrong \***

Aged 56, was appointed a Director in 1994. Having qualified as a Mechanical Engineer, his career has spanned the petrochemical, aerospace and consumer goods industries. Most of his career has been spent in companies in which the application of technology is critical to success and he has considerable experience of this process across a wide range of industries.

He is a Director of the Fleming Worldwide Income Investment Trust and Chief Executive of E-Synergy, which specialises in venture funding for early-stage technology companies.

**Professor George Bain \***

Aged 61, was appointed a Director in 1998. He is currently President and Vice-Chancellor of The Queen's University of Belfast, having held senior academic posts at the London Business School and the University of Warwick. He is also Chairman of the Low Pay Commission and is on the Boards of Bombardier Aerospace Short Brothers, the Canada Life Assurance Company and The Economist Group.

**The Rt Hon Tom King CH MP \***

Aged 67, was appointed a Director in 1992. A Member of Parliament since 1970, he has held a variety of senior Cabinet posts and was Secretary of State for Defence from 1989 to 1992. He has been a member of the Nolan Committee and is Chairman of the Intelligence and Security Committee.

Before entering Parliament he was a senior manager in DRG, the printing and packaging group, and subsequently Chairman of Sale Tilney. He is currently Non-Executive Chairman of London International Exhibition Centre (Holdings).

**Sir Michael Pickard \***

Aged 68, was appointed a Director in 1989. A Chartered Accountant, he has had substantial experience in the hotel, catering and brewing industries where he has held a variety of posts, including Managing Director of Trusthouse Forte and Chairman of Courage and of Imperial Brewing and Leisure. He was the Founder Chairman of the Happy Eater chain of restaurants and Chairman of London Docklands Development Corporation. He has also had substantial experience in retailing and mail order and was formerly Chief Executive of Sears and Chairman of Grattan and Freemans.

He is currently Chairman of Bullough, London First Centre, National House Building Council and Servus Holdings, and a Director of other public and private companies.

**Michael Walton \***

Aged 57, was appointed a Director on 12 July 2000. He was previously on the Board of the Company from 1981 to 1986. He was Managing Director of Gartmore Private Capital until 1996 and has subsequently been a Director of NatWest Equity Partners. He has served on the Council of the British Venture Capital Association.

He is a Director of Elderstreet Millennium Venture Capital Trust plc and a number of private companies.

**Peter Williams \***

Aged 58, was appointed a Director in 1994. He is currently Chief Executive of David S Smith Holdings, one of the UK's leading packaging, paper and office products companies. He is also Chairman of RPC Group, one of the UK's largest producers of plastic packaging. He is a former Director of Reed International.

\* Member of the Remuneration Committee. All Directors are members of the Audit Committee.

## Twenty Largest Investments

Company	Valuation of holding at 30 Sept 2000 £'000	Cost of holding at 30 Sept 2000 £'000	Percentage of net assets %
MOSEER BAER	39,878	4,406	4.56
AMTICO	35,000	17,067	4.00
SWIFTY SERVE	34,448	16,972	3.94
VENDCROWN	32,000	4,832	3.66
CAPITAL SAFETY GROUP	31,762	30,278	3.63
LOCUS	30,899	12,096	3.54
ALLFLEX	29,517	25,578	3.38
DEUTSCHE WOOLWORTH	25,635	29,831	2.93
NEWMOND	25,100	30,884	2.87
ORTHOFIX INTERNATIONAL	24,828	608	2.84
SAFETY-KLEEN EUROPE	23,765	22,239	2.72
LEINER HEALTH PRODUCTS	22,886	14,512	2.62
TM GROUP	22,000	10,802	2.52
INTERNATIONAL GARDEN PRODUCTS	21,987	10,003	2.52
HEATH LAMBERT	19,758	19,758	2.26
BEZIER	19,178	19,178	2.20
INCHCAPE SHIPPING SERVICES	17,580	17,580	2.01
BIOGLAN PHARMA †	16,222	2,689	1.86
INVICTA LEISURE	16,000	11,471	1.83
SECURITY PRINTING AND SYSTEMS	15,500	113	1.77
	<b>503,943</b>	<b>300,897</b>	<b>57.66</b>

Set out above are the 20 largest investments of the Group at 30 September 2000. These investments are held in the unlisted portfolio except where shown.

† Held in the listed portfolio

## The Manager

Electra's investment portfolio is managed by Electra Partners, now owned independently of Electra by its senior executives.

Since November 1999 the arm's length management arrangements have provided that Electra Partners will earn a fixed management fee for the period anticipated for the realisation of Electra's investment portfolio. The contract is for an initial fixed term of two years with a rolling twelve month notice period for either party thereafter.

Hugh Mumford is Chief Executive of Electra Partners and his responsibilities include the overseeing of all of Electra's investment activities within guidelines agreed by the Board of Electra. Electra Partners has offices in London, Paris, Frankfurt, New York, Hong Kong and India and has associate offices in Italy, Spain, Argentina and Brazil. At 30 September 2000 Electra Partners acted as investment manager or adviser for investments valued at £1.9 billion on behalf of Electra and other clients.

## Portfolio Analysis

### Overall Portfolio Changes

#### Summary of Changes to Overall Portfolio

Year ended 30 September 2000

	Valuation at 30 Sept 1999 £'000	New investment £'000	Sales £'000	Net capital appreciation £'000	Valuation at 30 Sept 2000 £'000
Unlisted	1,040,495	129,012	(353,009)	149,419	<b>965,917</b>
Listed	133,073	5,046	(129,651)	41,695	<b>50,163</b>
<b>Total Portfolio</b>	<b>1,173,568</b>	<b>134,058</b>	<b>(482,660)</b>	<b>191,114</b>	<b>1,016,080</b>

**Sales from the portfolio during the year amounted to £483 million ...**

At 30 September 2000, Electra's investment portfolio was valued at £1,016 million compared to a valuation of £1,174 million at 30 September 1999. During the year, investment activities continued to reflect the strategy of realising the portfolio over the five year period from 1 March 1999. Sales from the portfolio during the year amounted to £483 million which, together with sales in the previous seven months, increased the cumulative realisations since 1 March 1999 to a total of £971 million. As at 30 September 2000, the value of the listed portfolio had been reduced by realisations to a value of £50.2 million.

Net capital appreciation recorded by the portfolio during the period amounted to £191 million, an increase over the year of 16.3%.

At the year end, 62% of the portfolio was invested in Europe, 23% in North America, 6% in South America and 9% in Asia and India.

### Outlook

During the initial 19 months of the realisation process, progress has exceeded expectations in terms of rates of realisation and valuations achieved. Of the total proceeds of £971 million, £723 million has arisen from the disposal of unlisted investments and £248 million from the disposal of listed securities.

At 30 September 2000, Electra's portfolio consisted of £189 million of investments which were listed or listed but subject to sale restrictions and £827 million of unlisted investments. Investments with a listing are potentially marketable and represent relatively short term realisation prospects. The unlisted portfolio is becoming more concentrated with the largest 30 investments accounting for 63% of the portfolio. A number of these investments are immature and have significant added value potential. The desire to capture this added value will influence the timing of future disposals with the result that the previous rate of realisation is unlikely to be maintained. For this reason cash realisations from the unlisted portfolio, while continuing at a satisfactory rate, are likely to be weighted towards the latter half of the five year realisation period ending in March 2004.

## Principles of Valuation of Unlisted Investments

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

- Investments are stated at amounts considered by the Directors to be a fair assessment of their value, subject to the overriding requirements of prudence. All investments are valued according to one of the following bases:
  - cost (less any provision required);
  - open market valuation;
  - earnings multiple; or
  - net assets.
- Investments held for more than one year are valued on one of the bases described above.
- Investments are normally valued at cost for at least one year after acquisition. Provisions against cost, however, will be made as soon as appropriate in the light of adverse circumstances – for example, where an investment performs significantly below expectations. Upward adjustments to cost may be made within one year in the following circumstances: where an offer is received for the company, where securities held become quoted or where events occur such as accelerated repayment of acquisition debt, which have the effect of reducing the acquisition price of the investment.
- Wherever practical, investments will be valued by reference to an open market transaction or quoted price. This includes investments in unquoted convertible securities in companies which are listed on a stock exchange. In arriving at the valuation, a discount of up to 30 per cent will be applied to the quoted price depending on the size of the company, the liquidity of the market for its shares and restrictions on sale. Discounts applied may be offset by premiums appropriate on yield considerations or where the investment is part of a controlling interest.
- Where investments are valued on an earnings basis, earnings of the current year will normally be used provided these can be predicted with reasonable certainty. Where earnings of investments for the current year cannot be predicted with reasonable certainty, historical earnings will normally be used. Such earnings will be adjusted to a maintainable basis, taxed at the full tax rate and multiplied by a discounted market price earnings multiple. Earnings will normally be calculated after deduction of interest unless the capital structure of the investment includes a significant level of acquisition debt, in which case earnings before interest may be considered to be more appropriate. Market price earnings ratios utilised are related to comparable quoted companies and normally discounted by at least 25 per cent. The discount used may be lower where a realisation is planned within 12 months and higher if the timing of a realisation is relatively long-term or not currently being contemplated.
- In arriving at the value of an investment, the percentage ownership is calculated after taking into account any dilution through outstanding warrants, options and performance related mechanisms.
- The net assets basis is used where there is no open market valuation available and an earnings basis is inappropriate, as in the case of certain asset based investments.
- In arriving at a final valuation, the Directors will normally have reference to the valuations implied by other valuation methodologies, including using historical, current and prospective earnings multiples and the amount of net assets to ensure the appropriateness of the discount applied in arriving at the valuation result.

## Unlisted Portfolio Review

### Summary

The year to 30 September 2000 proved to be a further successful period for Electra's realisation programme. The rate of realisation from the unlisted portfolio continued to exceed expectations and proceeds gave rise to realised gains significantly in excess of carrying values.

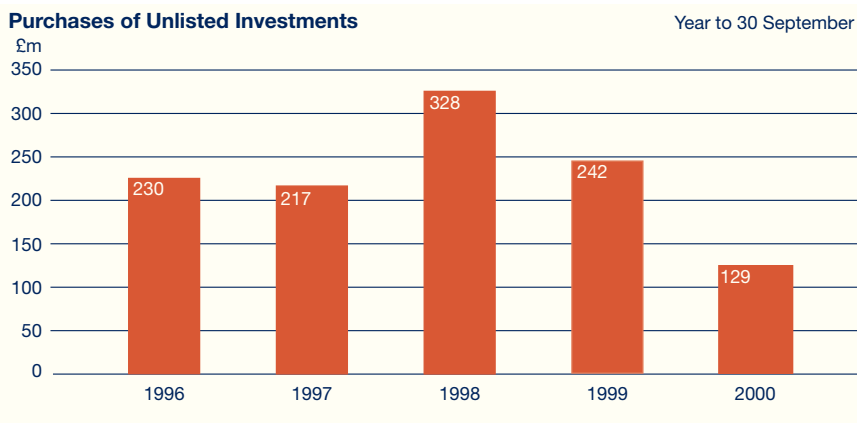
As a result of investment activity in the year, there was a net disinvestment of £224 million from the unlisted portfolio with sales of £353 million compared to purchases of £129 million.

Net capital appreciation recognised during the year amounted to £149 million representing a percentage increase in the unlisted portfolio of 14.4% in the period.

### New Investments

In the year under review the cost of additions to unlisted investments totalled £129 million. In accordance with the current investment policy, new investments were restricted to further investment in existing portfolio companies or to commitments which were outstanding when the investment policy was changed.

**The year to 30 September 2000 proved to be a further successful period for Electra's realisation programme.**



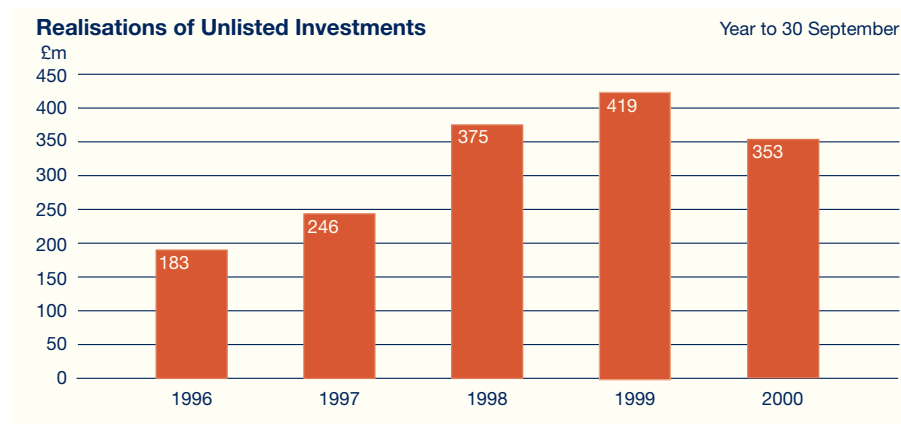
Of the new investment, £99 million related to existing portfolio companies. These were made primarily to finance further acquisitions and included £9.1 million in Heath Lambert, £4.8 million in Swifty Serve, £2.9 million in International Garden Products and £2.5 million in Leiner Health Products. Additionally, £4.9 million was subscribed to a rights issue by Locus and £2.5 million was invested in Allflex to develop an e-commerce related opportunity.

A further £30 million of investment related to existing commitments, notably £7.2 million to the Patagonian Fund in Argentina, £8.4 million to Pactual Electra Capital Partners in Brazil and £7.3 million to Kennet Capital in the UK.

Shortly after the year end, Electra made a significant investment of £25 million in Newmond as part of a transaction involving a merger with the Baxi Group. The merged company will have an annual turnover of circa £750 million and will be a significant force in the European heating market.

### Realisations

Realisations from the unlisted portfolio for the year under review amounted to £353 million. Proceeds from the sale of unlisted companies, sold either wholly or in part, generated cash sales of £232 million. Sales through the stock market of listed securities previously subject to dealing restrictions realised £92 million and a further £29 million was received from the refinancing of a number of portfolio companies.



The most significant sale related to Locus, a company based in South Korea and quoted on the Kosdaq exchange. Approximately 33% of the holding was realised giving rise to proceeds of £66 million. The original cost of the entire investment in Locus made in January 1999 was £9.6 million. The remaining holding is subject to dealing restrictions which will end in June 2001. Another significant sale related to the investment in Agricola Holdings, a company engaged in the production of animal feed. Electra invested £18.3 million in November 1998. As a result of the sale of this company in June 2000, Electra received £52 million in cash and securities which included an 8% equity holding in the new company. The refinancing of Inchcape Shipping Services resulted in the redemption of loan stock and a repayment to Electra of £23 million. The sale of Robert Fleming Holdings was completed in September 2000 and resulted in cash proceeds to Electra of £30 million compared to an original cost in 1995 of £7.5 million.

Realisations from funds totalled £29 million during the year, including repayments of £12 million from Kennet Capital, which invests in high technology companies in the IT sector. These repayments have more than returned Electra's total investment in Kennet Capital.

**During the year the unlisted portfolio recorded an overall net capital appreciation of £149 million, an increase of 14.4%.**

### Major Realisations

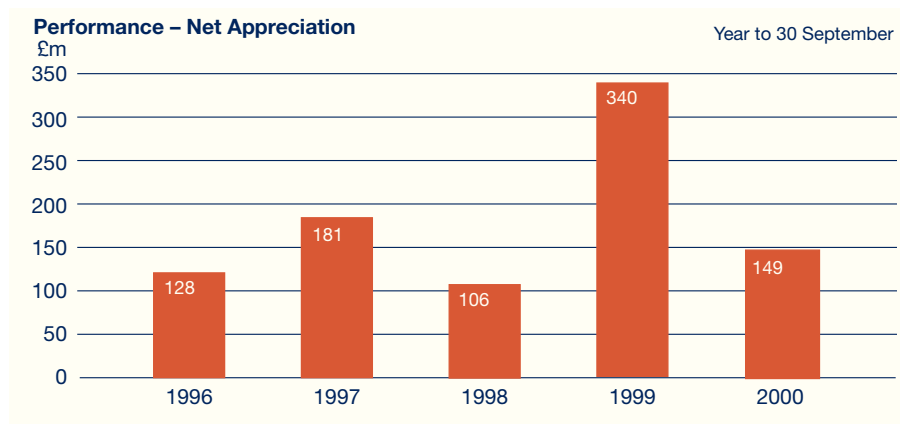
Company	Country of incorporation	Type of security	Proceeds £'000	Directors' valuation of holding at 30 Sept 2000 £'000	Total £'000	Directors' valuation of holding at 30 Sept 1999 £'000	Cost £'000
Locus	South Korea	Equity	65,597	30,899	96,496	*35,230	*14,504
Agricola Holdings	UK	Equity & loan	52,039	-	52,039	*18,335	*18,335
Robert Fleming Holdings	UK	Equity	29,807	-	29,807	10,362	7,470
HMY	France	Equity & loan	27,542	-	27,542	23,646	6,044
Inchcape Shipping Services	UK	Loan	22,753	17,580	40,333	40,326	40,326
Tactica	UK	Equity & loan	14,983	-	14,983	13,300	170
Vantios	UK	Equity & loan	13,014	-	13,014	12,000	2,098
Aspen	UK	Equity & loan	11,329	-	11,329	11,516	3,492
Eurogestion	France	Equity & loan	10,376	1,000	11,376	11,041	6,178
			<b>247,440</b>	<b>49,479</b>	<b>296,919</b>	<b>175,756</b>	<b>98,617</b>

\* Adjusted for subsequent purchases.

### Performance

During the year the unlisted portfolio recorded an overall net capital appreciation of £149 million, an increase of 14.4%.

The majority of the capital appreciation related to gains realised on disposals. Total net realised gains amounted to £124 million of which Locus, Agricola Holdings and Robert Fleming Holdings accounted for a significant proportion.



The valuation of the remaining portfolio benefited from the strength of the dollar but was adversely impacted by the falling multiples used to value 'old' economy companies. Net additions to unrealised appreciation over the year totalled £25 million. The largest additions to unrealised appreciation related to Moser Baer and Orthofix which were increased by £24.3 million and £12.8 million respectively, reflecting movements in quoted prices. In addition £9.8 million was added in respect of Guala Closures to reflect an impending sale. The largest decrease of £14.4 million related to Zensar Technologies and reflected a fall in the quoted price of its holding company. Provisions included an amount of £14.1 million in respect of Motorsport Dealers International, £13.4 million in respect of William Cook and £12.5 million in respect of Unipart. All three companies have encountered difficult trading conditions. Provision for diminution in the value of investments amounted to £109 million and related to 23 portfolio companies.

**Largest Valuation Changes**

Company	£'000	Increase/(decrease) %
Locus	61,287	201.9
Agricola Holdings	33,704	184.2
Moser Baer	24,275	105.0
Robert Fleming Holdings	19,445	187.7
Orthofix International	12,807	93.2
Unipart	(12,500)	(62.5)
William Cook	(13,400)	(54.9)
Motorsport Dealers International	(14,100)	(100.0)
Zensar Technologies (formerly ICIL)	(14,364)	(59.1)



## Largest Unlisted Investments

MOSER BAER		Location: India
Equity Ownership	17.7%	<p>In 1998 Electra invested US\$8.02 million in a convertible debenture to fund the expansion of Moser Baer into recordable CDs (CD-Rs). The transaction involved a total financing of US\$53 million. Realisations to date from this investment have totalled US\$11.3 million.</p> <p>At the time of investment the company was producing 100 million floppy disks per annum, mainly for export, selling the disks under brands such as BASF, Sony and DataRight. The initial project to set up a plant with capacity of 32 million CD-Rs per annum has subsequently been expanded to 150 million CD-Rs per annum in view of the strong demand.</p> <p>The year ended March 2000 saw the expanded production of CD-Rs beginning to have an impact with sales increasing by 52% to Rs1.5 billion (US\$32.6 million) and profit after tax at Rs441 million (US\$9.3 million) up by 116%.</p>
Valuation	£39,878,000	
Cost	£4,406,000	
Valuation based on quoted price		
AMTICO		Location: UK
Equity Ownership	49.5%	<p>In 1995 Electra invested £17.1 million as part of the £52.8 million management buy-out of Amtico from Courtaulds.</p> <p>Amtico is a designer and manufacturer of high quality resilient flooring aimed at replicating natural materials. The company has manufacturing operations in the UK, Germany and the USA and is a supplier to many of the UK's retail groups. It is also active in the residential market in the UK, and has a sales network operating in the UK, Germany, Australia and the USA.</p> <p>For the year to 31 March 2000 Amtico reported earnings before interest and tax of £9.0 million (1999 £8.4 million). The company is performing well with strong growth in the USA and from Stratica, Amtico's unique non-PVC flooring product.</p>
Valuation	£35,000,000	
Cost	£17,067,000	
Valuation based on multiple of earnings		
SWIFTY SERVE		Location: USA
Equity Ownership	23.4%	<p>In 1998, in a transaction led by Electra Partners' New York office, Electra invested US\$12.5 million in the buy-out of EZ Serve, a publicly listed convenience store group. Subsequently, EZ Serve and Swifty Mart, another convenience store in which Electra had invested US\$7.5 million, were merged to form Swifty Serve. In March 1999 Swifty Serve purchased Country Cupboard, a Georgia chain of stores. The company now has approximately 530 stores located in Georgia, Louisiana, Florida, Alabama and Mississippi.</p> <p>Swifty Serve's typical 2,400 sq.ft. store offers a broad range of merchandise and services, including branded and proprietary goods. The company had revenues of US\$496.9 million and EBITDA of US\$20.6 million for the year to 31 December 1999.</p>
Valuation	£34,448,000	
Cost	£16,972,000	
Valuation based on multiple of earnings		

**VENDCROWN** Location: UK

Equity Ownership	<b>32.6%</b>
Valuation	<b>£32,000,000</b>
Cost	<b>£4,832,000</b>

Valuation based on multiple of earnings

In 1996 Electra invested in the management buy-out of Vendcrown, the holding company of Premium Credit. Total financing of approximately £230 million was raised for the transaction by Electra Partners.

Premium Credit specialises in the provision of finance for the payment of corporate insurance premiums and spread payment facilities for personal insurance, school fees and annual subscriptions.

Since the acquisition, advances to customers have increased in both the insurance and non-insurance divisions. This has resulted in higher service fees and increased operating profits.

In the year to 31 December 1999 the company's profit before exceptional items after tax was £8.9 million (1998: £5.3 million). Further profit growth is forecast for the year to 31 December 2000.

**CAPITAL SAFETY GROUP** Location: International

Equity Ownership	<b>53.3%</b>
Valuation	<b>£31,762,000</b>
Cost	<b>£30,278,000</b>

Valuation based on multiple of earnings

In 1998 Electra invested £30.3 million in the £102 million management buy-out of Capital Safety Group ("CSG").

CSG is a manufacturer of fall arrest equipment ranging from fixed roof-top systems to harnesses and lanyards. Its main manufacturing sites are in the UK, France and the USA with sales organisations across Europe, North America and Australia.

In the year to 31 March 2000 the company made operating profit of £11.4 million on sales of £63 million, an increase of 13% over the prior year.

**LOCUS** Location: South Korea

Equity Ownership	<b>18.1%</b>
Valuation	<b>£30,899,000</b>
Cost	<b>£12,096,000</b>

Valuation based on quoted price

In January 1999 Electra invested US\$15.9 million in Locus. Realisations to date from this investment have totalled US\$101.0 million. In September 2000 a further \$7.0 million was invested in a rights issue to take up Electra's rights. Locus sells customised total solutions consisting of hardware and software that integrate computers, fixed-line and mobile telephone networks, Internet and television networks. Its customers are mainly multinationals, financial companies and telephone companies.

Locus was listed on Kosdaq in December 1999. For the nine months to 30 September 2000 Locus reported unaudited third quarter results showing sales of KRW56.8 billion (US\$50.9 million) and profit after tax of KRW2.9 billion (US\$2.6 million). While Locus sales enjoyed 89% growth compared to the same nine month period in 1999, gross profit margin dropped from 38.8% to 28.4%. According to Locus's management, the margin reduction reflects a slowdown by Korean companies to commit to capital expenditure, increased competition, and lower margins on a contract with a major customer.

**ALLFLEX** Location: UK, USA and Western Europe

<table border="0"> <tr> <td>Equity Ownership</td> <td style="text-align: right;"><b>44.0%</b></td> </tr> <tr> <td>Valuation</td> <td style="text-align: right;"><b>£29,517,000</b></td> </tr> <tr> <td>Cost</td> <td style="text-align: right;"><b>£25,578,000</b></td> </tr> <tr> <td colspan="2">Valuation based on multiple of earnings</td> </tr> </table>	Equity Ownership	<b>44.0%</b>	Valuation	<b>£29,517,000</b>	Cost	<b>£25,578,000</b>	Valuation based on multiple of earnings		<p>In 1998 Electra invested £23.1 million in the US\$160 million buy-out of Allflex which was led by Electra Partners. Allflex is a manufacturer and distributor of plastic animal identification tags. The company is also developing electronic tagging products. The main manufacturing operations are in North America and France.</p> <p>The company reported an operating profit excluding goodwill amortisation of US\$16.5 million for the year ended 31 December 1999 on turnover of US\$75.3 million. Further progress is being made in the current year as concerns in relation to food safety continue to increase.</p>
Equity Ownership	<b>44.0%</b>								
Valuation	<b>£29,517,000</b>								
Cost	<b>£25,578,000</b>								
Valuation based on multiple of earnings									

**DEUTSCHE WOOLWORTH** Location: Germany

<table border="0"> <tr> <td>Equity Ownership</td> <td style="text-align: right;"><b>49.3%</b></td> </tr> <tr> <td>Valuation</td> <td style="text-align: right;"><b>£25,635,000</b></td> </tr> <tr> <td>Cost</td> <td style="text-align: right;"><b>£29,831,000</b></td> </tr> <tr> <td colspan="2">Valuation – cost adjusted for currency movements</td> </tr> </table>	Equity Ownership	<b>49.3%</b>	Valuation	<b>£25,635,000</b>	Cost	<b>£29,831,000</b>	Valuation – cost adjusted for currency movements		<p>In 1998 Electra invested DM85 million (£29.8 million) in the DM950 million buy-out of the German retailer Deutsche Woolworth. The company operates around 350 stores throughout Germany and seven in Austria. These stores are typically located in town centres and city suburbs and offer a range of merchandise focused on clothing, toiletries and household goods.</p> <p>The company continues to seek improvements in operational performance, particularly in its supply chain management, and is also seeking to optimise the management of its considerable real estate assets.</p> <p>In the year to 31 December 1999, the group reported sales of DM2 billion and operating profit of DM41.6 million.</p>
Equity Ownership	<b>49.3%</b>								
Valuation	<b>£25,635,000</b>								
Cost	<b>£29,831,000</b>								
Valuation – cost adjusted for currency movements									

**NEWMOND** Location: UK

<table border="0"> <tr> <td>Equity Ownership</td> <td style="text-align: right;"><b>13.5%</b></td> </tr> <tr> <td>Valuation</td> <td style="text-align: right;"><b>£25,100,000</b></td> </tr> <tr> <td>Cost</td> <td style="text-align: right;"><b>£30,884,000</b></td> </tr> <tr> <td colspan="2">Valuation based on multiple of earnings</td> </tr> </table>	Equity Ownership	<b>13.5%</b>	Valuation	<b>£25,100,000</b>	Cost	<b>£30,884,000</b>	Valuation based on multiple of earnings		<p>In 1996 Electra invested £30.9 million in the management buy-out of the building products division of Williams Holdings. Since then, several of the original businesses have been sold including Swish, Vi-Spring, Smallbone and Amdega and the proceeds, together with strong cashflow, have reduced debt by £110 million.</p> <p>Several major acquisitions have been considered and in November 2000, Newmond was merged with the Baxi boiler business creating one of the largest heating businesses in Europe with sales of £750 million and 7,500 employees. Electra invested £25 million in new equity to support the merger and is the largest shareholder in the enlarged group now renamed Baxi Group.</p>
Equity Ownership	<b>13.5%</b>								
Valuation	<b>£25,100,000</b>								
Cost	<b>£30,884,000</b>								
Valuation based on multiple of earnings									

**ORTHOFIX INTERNATIONAL**

Location: USA

Equity Ownership	<b>11.1%</b>
Valuation	<b>£24,828,000</b>
Cost	<b>£608,000</b>

Valuation based on quoted price

In 1987 Electra invested \$6 million in the acquisition of Orthofix from its Italian founders.

Orthofix manufactures and distributes minimally invasive external and internal fixation devices for bones, electronic bone growth stimulation devices and other medical devices principally targeted at the trauma markets.

In 1992 Orthofix was floated on the US Nasdaq market.

In the year to 31 December 1999 revenues were \$121.3 million (1998: \$104.1 million) and operating income was \$23.2 million (1998: \$11.9 million).

**SAFETY-KLEEN EUROPE**

Location: UK and Europe

Equity Ownership	<b>44.0%</b>
Valuation	<b>£23,765,000</b>
Cost	<b>£22,239,000</b>

Valuation based on multiple of earnings

In 1998 Electra invested £22.3 million in the management buy-out of Safety-Kleen Europe with its former parent, Safety-Kleen Corporation retaining an equal interest. This interest has subsequently been acquired by another client of Electra Partners.

Safety-Kleen Europe is the market leader in providing parts cleaner and paint gun cleaner services in Europe with 100,000 customers and in excess of 800,000 services performed each year. The company operates 59 branches in the UK, Germany, France, Italy, Spain, Belgium and Ireland and three recycling centres in the UK and Germany.

In the year to 31 December 1999 revenues were £74.9 million and operating profit was £11.5 million.

**LEINER HEALTH PRODUCTS**

Location: USA

Equity Ownership	<b>18.2%</b>
Valuation	<b>£22,886,000</b>
Cost	<b>£14,512,000</b>

Valuation based on multiple of earnings

In 1997 Electra invested US\$20 million in a transaction led by Electra Partners' New York office as part of an \$80.4 million equity investment in a leveraged recapitalisation of Leiner Health Products. In December 1999 the company acquired certain private label, over-the-counter ("OTC") businesses in Canada and the USA and Electra invested a further \$3.6 million. Leiner is a manufacturer of vitamins, minerals and nutritional supplements and OTC products in Canada and the USA and distributes its products primarily through mass market retailers.

For the year ended 31 March 2000 Leiner had sales of \$662.3 million and EBITDA of \$79.8 million.

**TM GROUP** Location: UK

<table border="0"> <tr> <td>Equity Ownership</td> <td style="text-align: right;"><b>27.6%</b></td> </tr> <tr> <td>Valuation</td> <td style="text-align: right;"><b>£22,000,000</b></td> </tr> <tr> <td>Cost</td> <td style="text-align: right;"><b>£10,802,000</b></td> </tr> <tr> <td colspan="2">Valuation based on multiple of earnings</td> </tr> </table>	Equity Ownership	<b>27.6%</b>	Valuation	<b>£22,000,000</b>	Cost	<b>£10,802,000</b>	Valuation based on multiple of earnings		<p>In 1995 Electra invested £15.1 million in the £173 million buy-out of TM which was jointly led by Electra Partners. TM is the holding company of businesses engaged in convenience store retailing and cigarette, food and beverage vending. In 1998 the company issued £160 million of high yield bonds, the proceeds of which were partially used to repay shareholders, Electra receiving £34 million. Also in 1998, Electra reinvested £9.7 million in TM to assist the company in its £75 million acquisition of the Martin Retail Group.</p> <p>In the year ended 30 November 1999, TM reported operating profit before interest and tax of £36.7 million (1998: £24.5 million) on turnover of £897 million (1998: £541 million). The integration of Martin Retail is expected to produce a further profit uplift in the current year.</p>
Equity Ownership	<b>27.6%</b>								
Valuation	<b>£22,000,000</b>								
Cost	<b>£10,802,000</b>								
Valuation based on multiple of earnings									

**INTERNATIONAL GARDEN PRODUCTS** Location: USA

<table border="0"> <tr> <td>Equity Ownership</td> <td style="text-align: right;"><b>47.0%</b></td> </tr> <tr> <td>Valuation</td> <td style="text-align: right;"><b>£21,987,000</b></td> </tr> <tr> <td>Cost</td> <td style="text-align: right;"><b>£10,003,000</b></td> </tr> <tr> <td colspan="2">Valuation based on multiple of earnings</td> </tr> </table>	Equity Ownership	<b>47.0%</b>	Valuation	<b>£21,987,000</b>	Cost	<b>£10,003,000</b>	Valuation based on multiple of earnings		<p>In 1997 Electra made a first investment of \$4.7 million as part of a consolidation strategy which Electra Partners New York office was leading in the garden products industry. To date Electra has invested \$16.9 million to fund the company's expansion. The first acquisition was a leading grower of dwarf and miniature conifers and subsequent acquisitions have resulted in the group becoming a leading grower of woody ornamentals, roses and bulbs. The company has operations in the USA, a bulb growing business in Holland and the Thompson &amp; Morgan seed and young plant business in the UK.</p> <p>For the year ended 30 June 2000 the company had proforma sales of \$168.2 million and proforma EBITDA of \$23.3 million.</p>
Equity Ownership	<b>47.0%</b>								
Valuation	<b>£21,987,000</b>								
Cost	<b>£10,003,000</b>								
Valuation based on multiple of earnings									

**HEATH LAMBERT** Location: UK

<table border="0"> <tr> <td>Equity Ownership</td> <td style="text-align: right;"><b>16.0%</b></td> </tr> <tr> <td>Valuation</td> <td style="text-align: right;"><b>£19,758,000</b></td> </tr> <tr> <td>Cost</td> <td style="text-align: right;"><b>£19,758,000</b></td> </tr> <tr> <td colspan="2">Valuation – cost</td> </tr> </table>	Equity Ownership	<b>16.0%</b>	Valuation	<b>£19,758,000</b>	Cost	<b>£19,758,000</b>	Valuation – cost		<p>In 1997 Electra invested £10.6 million in the management buy-out of CE Heath. Following the restructuring of CE Heath which involved the sale of non-core businesses, all of the acquisition debt was repaid and the overseas operations expanded.</p> <p>In January 2000 Electra invested a further £9.1 million to help fund the merger of CE Heath with Lambert Fenchurch.</p> <p>The operations were highly complementary, creating the sixth largest insurance and reinsurance broker in the world with revenues of £250 million. Significant efficiency improvements are anticipated.</p>
Equity Ownership	<b>16.0%</b>								
Valuation	<b>£19,758,000</b>								
Cost	<b>£19,758,000</b>								
Valuation – cost									

**BEZIER** Location: UK

Equity Ownership	<b>47.5%</b>
Valuation	<b>£19,178,000</b>
Cost	<b>£19,178,000</b>

Valuation – cost

In 1998 Electra invested £19.2 million in the £53 million management buy-out of Bezier from the Wace Group.

On acquisition Bezier comprised four specialist printing businesses: greetings cards; point-of-purchase advertising materials; food labels; and quality corporate documents. A key underlying focus is a high service offering and the new Chief Executive has a strong service orientated background. During the last year Bezier has sold the labels business and closed the greeting cards business to concentrate on the higher growth and value added areas of its business.

In the year to 30 April 2000 the continuing group made operating profits of £3.1 million on a turnover of £33.9 million. The current year should see good growth in these earnings.

**INCHCAPE SHIPPING SERVICES** Location: International

Equity Ownership	<b>74.0%</b>
Valuation	<b>£17,580,000</b>
Cost	<b>£17,580,000</b>

Valuation – cost

In March 1999 Electra invested £40.3 million in the £47.5 million buy-out of Inchcape Shipping Services (“ISS”) from Inchcape, a transaction fully underwritten by Electra.

ISS is the world’s largest independent shipping agency network, providing ship services for over 30,000 vessels and handling in excess of 1.5 million containers each year. The ISS network services a diversified customer base across the oil, cruise, navy and commodity sectors.

Performance in 2000 has been impacted by the implementation of a new IT system in North America and a change in mix of business. These issues are currently being addressed and elsewhere the business continues to perform strongly.

In April 2000 ISS successfully completed the refinancing of a portion of its initial funding and repaid £22.7 million to Electra.

**INVICTA LEISURE** Location: UK

Equity Ownership	<b>31.3%</b>
Valuation	<b>£16,000,000</b>
Cost	<b>£11,471,000</b>

Valuation based on multiple of earnings

In 1996, Electra committed £8 million in the form of development capital to Invicta to help finance the construction of a number of high quality health and tennis clubs. Since then Electra has committed a further £10.5 million to continue the construction programme. For the year to December 1999, Invicta reported earnings before interest and tax from continuing operations of £3.1 million (1998: £1.8 million).

Since disposing of its golf division the company has focussed entirely on the growing health and fitness market. Earlier this year Invicta launched its smaller fitness focussed ‘Indigo’ model club and has a number of Indigo sites and full scale tennis and health clubs under construction.

## United Kingdom and Continental Europe

Company	Directors' valuation of holding at 30 Sept 1999 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 2000 £'000	Cost of holding at 30 Sept 2000 £'000
<b>AMTICO</b> Luxury flooring manufacturer	32,750	–	2,250	35,000	17,067
<b>VENDCROWN</b> Insurance premium finance	26,000	4	5,996	32,000	4,832
<b>CAPITAL SAFETY GROUP</b> Specialist safety equipment	30,264	14	1,484	31,762	30,278
<b>ALLFLEX</b> Animal identification tags	23,098	2,480	3,939	29,517	25,578
<b>DEUTSCHE WOOLWORTH</b> General merchandise retailer	27,774	–	(2,139)	25,635	29,831
<b>NEWMOND</b> Building products	23,163	–	1,937	25,100	30,884
<b>SAFETY-KLEEN EUROPE</b> Cleaning and waste removal services	22,267	(28)	1,526	23,765	22,239
<b>TM GROUP</b> Group of businesses comprising neighbourhood stores and food and drink vending machines	22,000	–	–	22,000	10,802
<b>HEATH LAMBERT</b> Insurance broker	10,617	9,141	–	19,758	19,758
<b>BEZIER</b> Printing services	19,178	–	–	19,178	19,178
<b>INCHCAPE SHIPPING SERVICES</b> Shipping services	40,326	(22,746)	–	17,580	17,580
<b>INVICTA LEISURE</b> Racquet and health clubs	14,477	849	674	16,000	11,471
<b>SECURITY PRINTING AND SYSTEMS</b> Security printing	11,800	–	3,700	15,500	113
<b>AGRICOLA GROUP</b> Compound animal feeds	–	15,300	–	15,300	15,300
<b>GUALA CLOSURES</b> Manufacture of bottle closures	5,244	–	9,756	15,000	5,474
<b>PRIZE FOODS</b> Food manufacturer	12,166	–	1,034	13,200	9,166
	<b>321,124</b>	<b>5,014</b>	<b>30,157</b>	<b>356,295</b>	<b>269,551</b>

## USA, Far East including India and Elsewhere

Company	Directors' valuation of holding at 30 Sept 1999 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 2000 £'000	Cost of holding at 30 Sept 2000 £'000
<b>MOSER BAER</b> Manufacturer of floppy disks and CD-R's	23,114	(7,511)	24,275	39,878	4,406
<b>SWIFTY SERVE</b> Convenience stores	27,324	4,755	2,369	34,448	16,972
<b>LOCUS</b> Solution provider for integrated networks	30,360	(60,748)	61,287	30,899	12,096
<b>ORTHOFIX INTERNATIONAL</b> Orthopaedic related medical devices	13,736	(1,715)	12,807	24,828	608
<b>LEINER HEALTH PRODUCTS</b> Manufacturer of vitamin supplements	18,216	2,479	2,191	22,886	14,512
<b>INTERNATIONAL GARDEN PRODUCTS</b> Garden products	12,994	2,896	6,097	21,987	10,003
	<b>125,744</b>	<b>(59,844)</b>	<b>109,026</b>	<b>174,926</b>	<b>58,597</b>

The unlisted investments shown above and on page 21 represent 55% of the Group's fixed asset unlisted investments at 30 September 2000.



## Listed Portfolio Review

At the commencement of the year the listed portfolio was valued at £133.1 million and consisted of 52 UK smaller company stocks. In line with the policy approved by shareholders in 1999, £129.7 million was realised from the portfolio in the year leaving a residual holding at the year end valued at £50.2 million. This process has supported the strategy of delivering value to shareholders through a gradual realisation process. Despite the high level of disposals the portfolio rose in value by £41.7 million equating to an investment performance of 31.3%, which compared favourably to the FTSE SmallCap Index which increased by 27.5%.

Four investments materially impacted the performance in the year. Cedar Group, a software and service provider, was the most significant delivering an investment uplift of £18.5 million. The company benefited substantially from the investment technology boom of 1999 and as a result £20.8 million was realised from this investment. Bioglan Pharma, a dermatological pharmaceutical specialist, also performed strongly adding £6.6 million in value. Euro Sales Finance, a factoring finance house, contributed £5.9 million. Finally Diagonal, an SAP systems consultant, added a further £4.0 million in value.

**...£129.7 million was realised from the portfolio in the year leaving a residual holding at the year end valued at £50.2 million.**

### Major Realisations

Company	Valuation of holding at 30 Sept 1999 £'000	Performance during year £'000	Proceeds £'000	Cost at 30 Sept 1999 £'000
Cedar Group*	3,159	17,637	20,796	2,358
Euro Sales Finance*	7,533	5,881	13,414	3,176
Candover Investments	12,438	408	12,846	377
Fibernet*	3,043	9,061	12,104	2,480
Diagonal	3,965	4,000	7,965	1,043
Kier	6,139	(446)	5,693	4,633
Wickes	5,528	99	5,627	3,437
Berisford International	4,583	95	4,678	3,339
Wardle Storeys	3,080	995	4,075	1,551
Benchmark	4,592	(624)	3,968	4,083
	54,060	37,106	91,166	26,477

\* Adjusted for subsequent purchases

## Classification and Distribution of Investments

	UK and Continental Europe Unlisted %	UK and Continental Europe Listed %	USA, Far East including India and Elsewhere Unlisted %	Total 2000 %	Total 1999 %
<b>EQUITIES</b>					
<b>Resources</b>					
Oil and Gas	–	0.05	–	<b>0.05</b>	0.05
	–	0.05	–	<b>0.05</b>	0.05
<b>Basic Industries</b>					
Chemicals	–	–	0.29	<b>0.29</b>	0.18
Construction and Building Materials	5.43	–	1.58	<b>7.01</b>	6.40
Forestry and Paper	0.15	–	0.35	<b>0.50</b>	0.03
Steel and Other Metals	1.08	–	–	<b>1.08</b>	4.18
	6.66	–	2.22	<b>8.88</b>	10.79
<b>General Industrials</b>					
Aerospace and Defence	–	–	0.40	<b>0.40</b>	0.31
Diversified Industrials	0.95	–	0.68	<b>1.63</b>	3.05
Electronic and Electrical Equipment	0.24	–	–	<b>0.24</b>	0.32
Engineering and Machinery	–	–	0.61	<b>0.61</b>	1.57
	1.19	–	1.69	<b>2.88</b>	5.25
<b>Cyclical Consumer Groups</b>					
Automobiles	0.74	–	–	<b>0.74</b>	1.70
Household Goods and Textiles	5.73	0.25	0.63	<b>6.61</b>	4.56
	6.47	0.25	0.63	<b>7.35</b>	6.26
<b>Non-Cyclical Consumer Groups</b>					
Food Producers and Processors	1.51	–	0.02	<b>1.53</b>	2.50
Health	0.69	–	9.88	<b>10.57</b>	10.39
Packaging	1.89	–	0.36	<b>2.25</b>	2.02
Personal Care and Household Products	–	–	–	–	0.30
Pharmaceuticals	0.26	1.74	0.01	<b>2.01</b>	1.08
	4.35	1.74	10.27	<b>16.36</b>	16.29

**Investment Manager's Review** Classification and Distribution of Investments

	UK and Continental Europe Unlisted %	UK and Continental Europe Listed %	USA, Far East including India and Elsewhere Unlisted %	Total 2000 %	Total 1999 %
<b>Cyclical Services</b>					
Distributors	2.85	0.07	0.06	<b>2.98</b>	3.72
General Retailers	4.69	0.06	0.03	<b>4.78</b>	8.01
Leisure, Entertainment and Hotels	3.41	0.73	0.11	<b>4.24</b>	5.34
Media and Photography	1.45	–	0.23	<b>1.69</b>	1.62
Restaurants, Pubs and Breweries	–	0.07	–	<b>0.07</b>	0.18
Support Services	8.55	0.56	0.06	<b>9.17</b>	8.37
Transport	2.00	–	1.29	<b>3.29</b>	5.09
	22.95	1.49	1.78	<b>26.22</b>	32.33
<b>Non-Cyclical Services</b>					
Food and Drug Retailers	–	0.10	4.37	<b>4.47</b>	3.75
Telecommunications	–	–	0.20	<b>0.20</b>	0.69
	–	0.10	4.57	<b>4.67</b>	4.44
<b>Utilities</b>					
Electricity	1.24	–	–	<b>1.24</b>	1.08
	1.24	–	–	<b>1.24</b>	1.08
<b>Financials</b>					
Banks, Retail	–	–	0.36	<b>0.36</b>	0.21
Insurance	2.13	–	–	<b>2.13</b>	1.16
Government Companies	4.84	0.85	7.36	<b>13.05</b>	7.79
Real Estate	0.50	–	0.17	<b>0.67</b>	1.57
Speciality and Other Finance	5.54	0.07	–	<b>5.61</b>	3.92
	13.01	0.92	7.89	<b>21.82</b>	14.65
<b>Information Technology</b>					
Information Technology Hardware	–	0.11	3.91	<b>4.02</b>	2.01
Software and Computer Services	1.26	0.29	4.96	<b>6.51</b>	6.85
	1.26	0.40	8.87	<b>10.53</b>	8.86
<b>TOTAL 2000</b>	<b>57.13</b>	<b>4.95</b>	<b>37.92</b>	<b>100.00</b>	–
TOTAL 1999	56.99	11.34	31.67	–	100.00

All classes of investment in one company are treated as equity investments for the purposes of this table.

## Report of the Directors

### To the Members of Electra Investment Trust PLC

The Directors present the audited Accounts of the Group for the year ended 30 September 2000 and their Report on its affairs. A review of the business of the Group is given on pages 4 to 25.

### Investment Trust Status

The principal activity of the Company throughout the year was that of an investment trust. Under new self assessment procedures for companies, the Company has submitted a tax return as an investment trust in respect of the year ended 30 September 1999 confirming that it has complied with the requirements of Section 842 of the Income and Corporation Taxes Act 1988. Enquiries in relation to this tax return must be raised by the Inland Revenue on or before 30 September 2001. Since 30 September 1999 the Company's affairs have been directed so that the Company will continue to be able to complete future tax returns as an investment trust and to confirm to the Inland Revenue that it complied with the requirements of Section 842. The "close company" provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company. Details of the Company's principal subsidiary undertakings are set out in Note 19 to the Accounts.

### Investment Objectives and Realisation Strategy

As a result of the restructuring proposals approved by shareholders in 1999, the Company has continued to hold its investments with a view to identifying suitable opportunities for realisation within a five year period from March 1999. Investments are sold in accordance with the realisation strategy for each investment and new investments are restricted to existing commitments and value-enhancing, follow-on investments. The net proceeds from realisations are held in cash or short-term securities.

### Investment Management Arrangements

Electra Partners continues to be responsible for the investment management of a number of limited partnership funds to which the Company has subscribed. The Directors of the Company retain control over its investment policy. Electra Partners manages the investments in accordance with guidelines determined by the Directors and as specified in limited partnership, management and investment guideline agreements. The majority of the investments are made as a limited partner of limited partnership funds.

### Results and Dividend

A revenue loss attributable to shareholders of £19.464 million (1999: loss of £5.729 million) was transferred from Revenue Reserves. In accordance with the Company's investment policy, the Directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2000.

### Tender Offer

A Tender Offer returning £250 million worth of the issued share capital to shareholders at a price of £10.73 per share was completed in July 2000 resulting in the purchase for cancellation of 23,299,161 ordinary shares of nominal value of 25p each.

### Authority to make Market Purchases of Shares

A special resolution was passed at the Annual General Meeting on 1 March 2000 which authorised the Directors, in accordance with Section 166 of the Companies Act 1985, to make further market purchases of up to 15,568,482 shares, equal to 14.99% of the Company's shares in issue at that time. To date no shares have been purchased using this authority.

### Multi-Currency Loan Facility

At 30 September 2000, the equivalent of £236 million remained outstanding from the original balance which was drawn down under a £450 million multi-currency loan facility. This was put in place in May 2000 to provide finance for the Company to purchase up to £250 million worth of its own shares by way of a Tender Offer.

**Directors**

The current Directors of the Company are listed on page 6. Mr RB Williamson, Mr RA Armstrong, Professor George Bain, The Rt Hon Tom King, Sir Michael Pickard and Mr JP Williams were Directors throughout the year ended 30 September 2000. Mr S Robert resigned as a Director on 1 October 1999 and Mr MC Stoddart resigned as a Director on 30 April 2000. Mr MED'A Walton was appointed a Director on 12 July 2000. Apart from these persons no other person was a Director of the Company during any part of the year. Mr RA Armstrong, Mr MED'A Walton and Mr RB Williamson will retire at the 2000 Annual General Meeting and, being eligible, offer themselves for re-election.

**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 or of any subsidiary 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 2000 and 19 December 2000.

	30 September 2000 Shares	1 October 1999 Shares
RB Williamson	20,000	9,500
RA Armstrong	30,000	15,000
Professor George Bain	2,000	1,000
The Rt Hon Tom King	20,000	15,000
Sir Michael Pickard	28,500	28,500
MED'A Walton	67,774	*67,774
JP Williams	50,000	50,000

\* On date of appointment

**Substantial Shareholders**

At 15 December 2000 the following shareholders had notified an interest of 3% or more in the Company's ordinary shares:

	Shares	%
The Equitable Life Assurance Society and its wholly owned subsidiaries the University Life Assurance Society and Equitable Investment Fund Managers Limited	5,729,356	7.11
CGNU plc	3,072,580	3.81

The Directors have not been notified of any other interests in holdings of 3% or more of the ordinary shares in issue.

**Charitable and Political Donations**

During the year the Group made no charitable donations (1999: £nil). No political donations were made during the year (1999: £nil).

**Auditors**

A resolution proposing the re-appointment of PricewaterhouseCoopers as the Company's Auditors and authorising the Directors to fix their remuneration will be considered at the Annual General Meeting.

**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 Group's average creditor payment period at 30 September 2000 was one day (1999: one day) and that of the Company was one day (1999: one day).

**Annual General Meeting**

The Annual General Meeting will be held on Wednesday 28 February 2001. In addition to the ordinary business the following special business will be considered:

**Authority to Purchase Own Shares**

A special resolution will be proposed to renew, for one year, the Board's authority to buy up to 12,075,937 of the Company's own shares (being 14.99% of the total number of ordinary shares in issue) subject to the constraints set out in the special resolution. The Directors do not intend to use this authority to purchase shares unless this would result in an increase in net asset value per share and would be in the best interests of shareholders generally.

By order of the Board of Directors  
 PJ Dyke, Secretary, 65 Kingsway, London WC2B 6QT  
 19 December 2000

## Ten Year Record of Earnings and Dividends

Since the change of investment policy approved by shareholders in April 1999, Electra has charged all expenses and finance costs to its Revenue Account in respect of accounting periods since 1 October 1998.

**Revenue**

Year ended 30 September	Basic Earnings per Share p	Dividends per Share p
<b>1990</b>	9.463	6.100
<b>1991</b>	7.351	6.400
<b>1992</b>	7.526	6.700
<b>1993</b>	7.544	7.000
<b>1994</b>	7.498	7.250
<b>1995</b>	10.186	7.550
<b>1996</b>	10.684	8.400
<b>1997</b>	14.181	† 9.700
<b>1998</b>	16.030	11.175
<b>1999</b>	(4.040)	–
<b>2000</b>	(19.847)	–

† Excludes special dividend of 0.55p per share

## Corporate Governance

The Directors of Electra Investment Trust PLC 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 Services Authority.

### **The Board of Directors**

The Board which meets regularly was comprised of seven Directors at 30 September 2000, all of whom were non-executive. The Chairman devotes approximately two days per week to the affairs of the Company. All the Directors who held office at 30 September 2000 have been considered by the Board to be wholly independent under the Code. The Board has nominated Sir Michael Pickard 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 agreements with Electra Partners, together with the monitoring of the performance thereunder. The management agreements set 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 for consideration by the Board as a whole.

### **The Audit Committee**

The Board has an Audit Committee with specified terms of reference. It comprises all of the Directors with Mr RA Armstrong 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 meets when necessary to determine the emoluments of the Directors and the Chairman. It comprises all the Directors of the Company other than the Chairman, who takes no part in determining his own remuneration. Mr RB Williamson was Chairman of the Remuneration Committee until 30 April 2000 when Mr JP Williams became Chairman in his place. Details of Director's remuneration are shown in Note 4 of the accounts. The Remuneration Committee considers the levels of remuneration paid to be appropriate in light of the responsibilities and duties undertaken by the Directors. None of the Directors has a service contract.

### **The Nomination Committee**

The Nomination Committee meets on an ad hoc basis to consider suitable candidates for appointment as Director. The Chairman of the Nomination Committee was Mr MC Stoddart until 30 April 2000 when he was replaced by Mr RB Williamson. The Nomination Committee comprises all the Directors of the Company.

New appointments 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.

### **The Company's Relationship with its Shareholders**

The Company maintains a regular dialogue with its institutional shareholders and City analysts, with a number of presentations and visits being undertaken throughout the year. Meetings are held with principal shareholders to discuss relevant issues as they arise. All shareholders are welcome to attend the Annual General Meeting.

### Internal Financial Control

The Code introduced a requirement that the Directors review the effectiveness of the Company's system of internal control. This extends the existing requirement in respect of internal financial control to cover all controls including financial, operational and compliance controls and risk management. Guidance for Directors on the implementation of the Code requirements was published in September 1999 in the form of the Turnbull Guidance. The Company has adopted the transitional approach set out in a letter from the London Stock Exchange to all listed companies in 1999 and has established the procedures necessary to implement the Turnbull Guidance. A full risk and control assessment has been carried out, and a programme of review and verification procedures has been implemented such that the Directors believe that throughout the year to 30 September 2001 full compliance with the Turnbull Guidance will be possible.

For the year ended 30 September 2000, the Board's report on internal financial controls is prepared pursuant to the guidance for Directors on internal controls and financial reporting that was issued by the London Stock Exchange in December 1994.

The Board is responsible for the Company's system of internal financial control. Internal control systems are designed to meet the particular needs of the Company and the risk to which it is exposed and provide reasonable assurance against material misstatement or loss. The Board has reviewed the effectiveness of the systems of internal financial control of the Company over the year to 30 September 2000.

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 financial control mainly comprises the monitoring of services provided by Electra Partners, including the operating controls established by them, to ensure they meet the Company's business objectives. The key elements designed to provide effective internal financial 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 portfolio are monitored by the Directors at their Board Meetings to ensure that the Company's investment strategy is met. The Board also regularly discusses the investment performance with senior executives of Electra Partners.
- Management Systems - Electra Partners' system of internal financial control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Partners' compliance department monitors compliance with IMRO rules.

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

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

### 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.



## Directors' Responsibilities for Preparing the Accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of that year and of the net revenue and gains of the Group for that year. 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 Group 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 of the Group 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 of the Group 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.

## Report of the Auditors

### To the Members of Electra Investment Trust PLC

We have audited the financial statements of Electra Investment Trust PLC on pages 33 to 55 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed asset investments and the accounting policies on pages 40 and 41.

### Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 31 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you in our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' Report 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 required for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions was 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.

We review whether the statement on pages 29 and 30 reflects the Company's compliance with the seven provisions of the Combined Code on Corporate Governance specified for our review by the Financial Services Authority, and we report it if 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. 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 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 and the Group at 30 September 2000 and of the total return and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London  
19 December 2000

## Consolidated Statement of Total Return (incorporating the Revenue Account)

For the year ended 30 September		2000			Restated 1999		
Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	
Gains/(losses) on investments:							
17	Realised	-	168,832	168,832	-	198,991	198,991
17	Unrealised	-	(2,188)	(2,188)	-	198,617	198,617
(Losses)/gains on revaluation of foreign currencies:							
17	Realised	-	(8,414)	(8,414)	-	2,862	2,862
17	Unrealised	-	(1,434)	(1,434)	-	4,495	4,495
<hr/>							
		-	156,796	156,796	-	404,965	404,965
1	Income of the investment trust	23,223	-	23,223	43,110	-	43,110
2	Income of subsidiary undertakings	4,424	-	4,424	1,443	-	1,443
3	Expenses:						
	Priority profit share paid to general partners	(19,978)	-	(19,978)	(13,082)	-	(13,082)
	Management fee	(3,946)	-	(3,946)	(3,350)	-	(3,350)
	Other expenses	(6,862)	-	(6,862)	(18,346)	-	(18,346)
	Reversal of income accruals	(2,803)	-	(2,803)	(2,442)	-	(2,442)
<hr/>							
	<b>Net Return before Finance Costs and Taxation</b>	<b>(5,942)</b>	<b>156,796</b>	<b>150,854</b>	<b>7,333</b>	<b>404,965</b>	<b>412,298</b>
6	Interest payable and similar charges	(13,522)	-	(13,522)	(18,078)	-	(18,078)
	Income from interest in associated undertaking	-	-	-	4,816	-	4,816
<hr/>							
	<b>Return on Ordinary Activities before Taxation</b>	<b>(19,464)</b>	<b>156,796</b>	<b>137,332</b>	<b>(5,929)</b>	<b>404,965</b>	<b>399,036</b>
7	Taxation on ordinary activities	-	-	-	200	-	200
<hr/>							
	<b>Return on Ordinary Activities after Taxation and Transfers from Reserves for the Year</b>	<b>(19,464)</b>	<b>156,796</b>	<b>137,332</b>	<b>(5,729)</b>	<b>404,965</b>	<b>399,236</b>
	Exchange differences arising on consolidation	714	9,099	9,813	224	171	395
<hr/>							
17	<b>Net Transfers (from)/to Reserves for the Year</b>	<b>(18,750)</b>	<b>165,895</b>	<b>147,145</b>	<b>(5,505)</b>	<b>405,136</b>	<b>399,631</b>
<hr/>							
9	<b>Return to Shareholders per Ordinary Share</b>	<b>(19.85p)</b>	<b>159.88p</b>	<b>140.03p</b>	<b>(4.04p)</b>	<b>285.59p</b>	<b>281.55p</b>

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

	2000	1999
<b>Number of Ordinary Shares in issue at 30 September</b>	<b>80,559,959</b>	<b>103,859,120</b>

### Prior year adjustment

The results at 30 September 2000 have been prepared in accordance with UK GAAP and the accounting policies applied to the Group's Annual Accounts for the year ended 30 September 1999, except for the adoption of Financial Reporting Standard No 16 – Current Taxation. The comparative figures for the year ended 30 September 1999 have been restated accordingly. There is no impact on the Net Assets of the Group or Transfer to Reserves for the year although Income of the Investment Trust and Taxation on Ordinary Activities have both been reduced by £428,000 (1999: £2,319,000).

## Reconciliation of Total Shareholders' Funds

	Year to 30 Sept 2000 £'000	Year to 30 Sept 1999 £'000
<b>Total Return</b>	<b>137,332</b>	399,236
Exchange differences arising on consolidation	<b>9,813</b>	395
Repurchase of own shares	<b>(254,738)</b>	(540,180)
Nominal value of own shares repurchased	<b>(5,825)</b>	(17,310)
<b>Movements in Total Equity Shareholders' Funds</b>	<b>(113,418)</b>	(157,859)
Total Equity Shareholders' Funds at 1 October	<b>987,460</b>	1,145,319
<b>Total Equity Shareholders' Funds at 30 September</b>	<b>874,042</b>	987,460

## Consolidated Balance Sheet

Note	As at 30 Sept 2000		As at 30 Sept 1999	
	£'000	£'000	£'000	£'000
<b>Fixed Assets</b>				
10	Investments:			
	Associated undertaking	–		9,033
	Unlisted	965,917		1,040,495
	Listed	50,163		133,073
		<b>1,016,080</b>		<b>1,182,601</b>
<b>Current Assets</b>				
11	Debtors	50,601		35,969
12	Investments	3,293		26,567
	Cash at bank and in hand	67,342		39,607
		<b>121,236</b>		<b>102,143</b>
<b>Current Liabilities</b>				
13	Creditors: amounts falling due within one year	26,778		8,896
	<b>Net Current Assets</b>	<b>94,458</b>		<b>93,247</b>
	<b>Total Assets less Current Liabilities</b>	<b>1,110,538</b>		<b>1,275,848</b>
14	Creditors: amounts falling due after more than one year	236,496		288,388
	<b>Net Assets</b>	<b>874,042</b>		<b>987,460</b>
<b>Capital and Reserves</b>				
16	Called-up share capital	20,140		25,965
17	Share premium	24,147		24,147
17	Capital redemption reserve	23,135		17,310
17	Realised capital profits	745,332		719,319
17	Unrealised capital profits	45,566		157,596
17	Revenue profits	15,722		43,123
		<b>853,902</b>		<b>961,495</b>
	<b>Total Equity Shareholders' Funds</b>	<b>874,042</b>		<b>987,460</b>

## Balance Sheet

Note	As at 30 Sept 2000		As at 30 Sept 1999	
	£'000	£'000	£'000	£'000
<b>Fixed Assets</b>				
10	Investments:			
	Subsidiary undertakings	9,044		9,044
	Unlisted	897,054		943,187
	Listed	50,163		133,073
		<b>956,261</b>		<b>1,085,304</b>
<b>Current Assets</b>				
11	Debtors	70,405	69,191	
	Cash at bank and in hand	65,816	39,129	
		<b>136,221</b>	<b>108,320</b>	
<b>Current Liabilities</b>				
13	Creditors: amounts falling due within one year	203,409	71,164	
	<b>Net Current (Liabilities)/Assets</b>	<b>(67,188)</b>		<b>37,156</b>
	<b>Total Assets less Current Liabilities</b>	<b>889,073</b>		<b>1,122,460</b>
14	Creditors: amounts falling due after more than one year	–		140,816
	<b>Net Assets</b>	<b>889,073</b>		<b>981,644</b>
<b>Capital and Reserves</b>				
16	Called-up share capital	20,140		25,965
17	Share premium	24,147	24,147	
17	Capital redemption reserve	23,135	17,310	
17	Realised capital profits	766,911	729,585	
17	Unrealised capital profits	41,209	157,982	
17	Revenue profits	13,531	26,655	
		<b>868,933</b>		<b>955,679</b>
	<b>Total Equity Shareholders' Funds</b>	<b>889,073</b>		<b>981,644</b>

The Accounts on pages 33 to 55 were approved by the Directors on 19 December 2000 and were signed on their behalf by:  
 Brian Williamson, *Chairman*

## Consolidated Cash Flow Statement

For the year ended 30 September		2000		1999
Note	£'000	£'000	£'000	£'000
<b>Operating Activities</b>				
Franked investment income	4,911		4,739	
Unfranked investment income	8,578		17,295	
Partnership income	9		617	
Interest income	2,134		7,433	
Other income	296		437	
Expenses	(30,293)		(23,287)	
<b>a Net Cash Inflow from Operating Activities</b>		<b>(14,365)</b>		<b>7,234</b>
<b>Returns on Investments and Servicing of Finance</b>				
Interest paid	(10,938)		(17,062)	
<b>Net Cash Outflow from Returns on Investments and Servicing of Finance</b>		<b>(10,938)</b>		<b>(17,062)</b>
<b>Taxation Paid</b>				
Corporation tax	4		(310)	
Overseas tax	-		(61)	
<b>Total Taxation Repaid/(Paid)</b>		<b>4</b>		<b>(371)</b>
<b>Capital Expenditure and Financial Investment</b>				
Purchases of investments	(140,691)		(272,118)	
Sales of investments	490,675		628,483	
<b>Net Cash Inflow from Capital Expenditure and Financial Investment</b>		<b>349,984</b>		<b>356,365</b>
<b>Acquisitions and Disposals</b>				
Purchase of subsidiary held for resale		-		(30,150)
Sale of subsidiary and associated undertakings		20,500		-
<b>Equity Dividends Paid</b>		<b>-</b>		<b>(10,386)</b>
<b>Net Cash Inflow before Management of Liquid Resources and Financing</b>		<b>345,185</b>		<b>305,630</b>
<b>b Management of Liquid Resources</b>		<b>46,304</b>		<b>85,200</b>
<b>b Financing</b>				
Bank loans drawn	367,818		693,813	
Bank loans repaid	(423,786)		(615,463)	
Loans received	-		2,063	
Loans advanced	(973)		-	
Repurchase of own shares	(254,738)		(557,490)	
<b>Net Cash (Outflow) from Financing</b>		<b>(311,679)</b>		<b>(477,077)</b>
<b>Increase/(Decrease) in Cash in the Year</b>		<b>79,810</b>		<b>(86,247)</b>

For the year ended 30 September		2000		1999
Note	£'000	£'000	£'000	£'000
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>				
Increase/(decrease) in cash in the year		79,810		(86,247)
Cash inflow/(outflow) from debt financing	55,968		(78,350)	
Cash outflow from change in liquid resources	(46,304)		(85,200)	
		9,664		(163,550)
<b>Change in net debt resulting from cash flows</b>		89,474		(249,797)
Translations difference		(9,847)		7,357
<b>Movement in net debt</b>		79,627		(242,440)
Net debt brought forward		(248,781)		(6,341)
<b>Net Debt carried forward</b>		(169,154)		(248,781)



## Notes to the Consolidated Cash Flow Statement

	Year to 30 Sept 2000 £'000	Year to 30 Sept 1999 £'000		
<b>a Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Inflow from Operating Activities</b>				
Net return before finance costs and taxation but including interest in associated undertaking	5,942	14,468		
Profit on sale of current assets investments	1,086	(591)		
Exchange difference	(714)	395		
Decrease in trade creditors	–	(3)		
Decrease in other debtors and prepayments	7,174	483		
Taxation deducted at source on investment income	656	(2,751)		
Increase in other creditors and accruals	220	49		
Decrease in trade debtors	1	–		
Share of profit of associated undertaking	–	(4,816)		
<b>Net Cash Inflow from Operating Activities</b>	<b>14,365</b>	<b>7,234</b>		
<b>b Analysis of Net Debt</b>				
	At 1 Oct 1999 £'000	Cash Flow £'000	Exchange Movements £'000	At 30 Sept 2000 £'000
Net cash:				
Cash at bank and in hand	39,607	33,506	(5,771)	67,342
Less deposits treated as liquid resources	–	46,304	–	46,304
	39,607	79,810	(5,771)	113,646
Liquid resources:				
Deposits on money market	–	(46,304)	–	(46,304)
Debt:				
Bank loans	(288,388)	55,968	(4,076)	(236,496)
	(248,781)	89,474	(9,847)	(169,154)

## Statement of Accounting Policies

### Principal Accounting Policies

The Accounts have been prepared in accordance with Accounting Standards applicable in the United Kingdom.

### Loss of Investment Company Status

As a technical consequence of the purchase of its own shares, the Company was not an investment company within the meaning of Section 266 of the Companies Act 1985 throughout the year. However, following a change in legislation relating to investment companies on 8 November 1999, the Company re-registered as an investment company on 28 September 2000. The Directors consider it appropriate to continue to present the accounts in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies” (the SORP). Under the SORP, the financial performance of the Company is presented in a statement of total return which discloses separately income and capital gains.

The revenue account excludes certain capital items which, since the Company was not an investment company for the whole of the year, would under the Companies Act 1985 and FRS3 need to be disclosed in the profit and loss account. It excludes realised profits of £147,918,000 (1999: £201,853,000). In the opinion of the Directors the inclusion of the gains and losses from disposals in the profit and loss account would be misleading because it would obscure and distort both the revenue and capital performance of the Company and would not show clearly the revenue profits emerging to be distributed by way of a dividend.

The Directors therefore consider that these departures from the specific provision of Schedule 4 of the Companies Act 1985 and accounting standards relating to the form and content of accounts for companies other than investment companies are necessary to give a true and fair view. The departures have no effect on total return or on the balance sheet.

The Company continues to manage its affairs to enable it to qualify as an investment trust for taxation purposes under Section 842 of the Income and Corporation Taxes Act 1988.

### Basis of Accounting

The Accounts are prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets.

### Company Profit and Loss Account

As permitted by Section 230 of the Companies Act 1985, the Company’s Profit and Loss Account has not been included in these Financial Statements.

### Basis of Consolidation

The consolidated Accounts include in full the Company and its subsidiary undertakings. Where subsidiaries are acquired or sold during the year their results are included in the consolidated accounts from the date of acquisition and up to the date of disposal respectively. Any subsidiaries which have been acquired in the period and whose interest is held exclusively with a view to subsequent resale have not been consolidated.

### Limited Partnership Funds

Investments made by the Company in limited partnership funds managed within the Electra Partners Group, are accounted for as listed or unlisted investments, dependent on the underlying nature of the investments held within the limited partnership funds. The Group incorporates its attributable proportion as a limited partner of the assets and liabilities and income and expenditure of these funds. Investments in other limited partnership funds are treated as unlisted investments and disclosed separately (see Note 10).

### Listed Investments

The listed investment portfolio is held within a limited partnership fund managed within the Electra Partners Group. The investments comprising the Group’s interest in this fund are disclosed as listed investments (see Note 10).

Listed investments are stated at mid-market prices at the year end. Investments in overseas companies listed both abroad and on The London Stock Exchange are classified as investments listed overseas.

**Unlisted Investments**

Unlisted investments and long term leasehold investment properties are held at Directors' valuation as fixed asset investments. These investments are made with the express intention of capital appreciation and receipt of income and may be held through limited partnership funds or directly by the Company or Group.

**Associated Undertaking**

The Group's share of profits less losses of this associated undertaking is included in the Consolidated Statement of Total Return and the Group's share of its net assets is included in the Consolidated Balance Sheet.

**Current Asset Investments**

The asset held exclusively for resale is valued at the lower of cost or net realisable value.

Other current asset investments include dealing investments. These are individually stated at the lower of cost or mid-market value for listed investments and at the lower of cost or Directors' valuation for unlisted investments.

**Foreign Currencies**

Assets, liabilities and the results of subsidiaries recorded in foreign currencies are translated into sterling at exchange rates at the year end. Exchange differences arising from the re-translation of the opening net investments in subsidiary undertakings are taken to reserves and are reported in the Consolidated Statement of Total Return.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities are translated at the exchange rate at the year end or the exchange rate of a related forward exchange contract where appropriate. The resulting differences on investments and borrowings are taken to reserves. All other foreign exchange differences are taken to the Consolidated Statement of Total Return in the year in which they arise.

**Income**

Dividends receivable from equity shares 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 shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the shares and debt securities. Deep discounts on debt securities are recognised on an effective yield basis and recorded as revenue. Where there is a 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. Where income accruals previously recognised, but not received, are no longer considered to be reasonably expected to be received, either through investee company restructuring or doubt over receipt, then these amounts are reversed through expenses.

Franked dividends are accounted for net of any tax credits. This is a change in accounting policy to comply with Financial Reporting Standard 16 "Current Taxation" which has replaced Statement of Standard Accounting Practice 8 ("SSAP 8"). Under SSAP 8, dividends were recognised inclusive of attributable tax credits. The effect of this change is that Return Before Taxation for 2000 is £428,000 (1999: £2,319,000) lower. There is no effect on Return After Taxation or Equity Shareholders' Funds.

**Priority Profit Share and Management Fee**

The majority of the investments are made by the Company in limited partnership funds managed by Electra Partners. Under the terms of the limited partnership agreements the general partner is entitled to appropriate, as a first charge on the net income or net capital gains of the limited partnership funds an amount equivalent to its priority profit share. In periods in which the limited partnership funds have not yet earned sufficient net income or net capital gain to satisfy this priority profit share the entitlement is carried forward to the following period. In all instances the cash amount paid to the general partner in each period is equivalent to the priority profit share. Notwithstanding that insufficient net income or net capital gains may have been earned, where the cash amount paid exceeds the net income or net capital gains, an interest free loan is created.

In order to reflect the substance of these transactions, revenue and/or capital is included in the Group and Company Accounts to reflect the type of return appropriated by the general partners in satisfaction of their priority profit shares, and expenses or interest free loans are included to reflect the proportion of the Company's net income and/or net capital gain in the limited partnership funds that has been paid to the general partners by way of priority profit shares.

The priority profit share and management fee is charged wholly to the revenue account.

## Notes to the Accounts

### 1 Income of the Investment Trust

	£'000	Year to 30 Sept 2000 £'000	£'000	Restated Year to 30 Sept 1999 £'000
<b>Franked Investment Income from Fixed Asset</b>				
<b>Investments</b>				
Unlisted – UK	1,183		3,498	
Listed – UK	1,312		3,986	
Partnership interests – UK <sup>†</sup>	4,112		7,861	
		<b>6,607</b>		<b>15,345</b>
<b>Unfranked Investment Income from Fixed Asset</b>				
<b>Investments</b>				
Unlisted – UK	293		16,110	
Unlisted – overseas	294		1,259	
Listed – UK	–		822	
Listed – overseas	–		576	
Partnership interests – UK <sup>†</sup>	13,806		1,328	
		<b>14,393</b>		<b>20,095</b>
		<b>21,000</b>		<b>35,440</b>
<b>Interest Receivable and Other Income</b>				
Bank interest receivable	1,644		7,263	
Underwriting commission	38		163	
Rents receivable	244		244	
Partnership interests – UK	297		–	
		<b>2,223</b>		<b>7,670</b>
		<b>23,223</b>		<b>43,110</b>

<sup>†</sup> This represents the income that has been appropriated by the general partners of the limited partnership funds (see Note 3).

### 2 Income of Subsidiary Undertakings

<b>Unfranked Investment Income from Fixed Asset</b>				
<b>Investments</b>				
Unlisted – UK	2,603		–	
Partnership interests – UK	511		600	
Partnership interests – overseas	9		17	
		<b>3,123</b>		<b>617</b>
<b>Investment Income from Current Asset</b>				
<b>Investments</b>				
Listed – UK – franked		9		65
		<b>3,132</b>		<b>682</b>
<b>Interest Receivable and Other Income</b>				
Bank interest receivable	193		170	
Underwriting commission	10		–	
Investment dealing	1,089		591	
		<b>1,292</b>		<b>761</b>
		<b>4,424</b>		<b>1,443</b>

### 3 Expenses

	Year to 30 Sept 2000 £'000	Year to 30 Sept 1999 £'000
Priority profit share paid to General Partners	19,978	13,082
Management fee	3,946	3,350
	<b>23,924</b>	<b>16,432</b>

In order to reflect the substance of the priority profit share as discussed in the accounting policies, revenue and/or capital is included in the Group and Company Accounts to reflect the type of return appropriated by the general partners in satisfaction of their priority profit shares. Expenses and interest free loans are included to reflect the proportion of the Company's investment in the limited partnership funds that has been paid to the general partners by way of priority profit shares.

#### Other expenses

Administrative expenses	6,049	15,719
Directors' remuneration (see Note 4)	515	655
Auditors' remuneration		
Audit fees (Company 2000: £85,000, 1999: £100,000)	85	100
Advisory services (Company 2000: £185,000, 1999: £1,872,000)	213	1,872
	<b>6,862</b>	<b>18,346</b>

<b>Reversal of Income Accruals</b>	<b>2,803</b>	<b>2,442</b>
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The reversal of income represents income previously recognised, but not received, in accordance with the requirements of the AITC SORP. The reversals relate substantially to returns on investments which, due to restructuring by the investee companies, are likely to be realised as capital.

### 4 Directors' Remuneration

	Year to 30 Sept 2000 £'000	Year to 30 Sept 1999 £'000
Chairman's remuneration 1 October 1999 to 30 April 2000 (1999 for year)	186	185
Chairman's Bonus 1 October 1999 to 30 April 2000 (1999 for year)	112	224
Chairman's remuneration 1 May 2000 to 30 September 2000	63	–
Directors' fees	154	196
Bonus	–	50
	<b>515</b>	<b>655</b>

#### Emoluments

Chairman and highest paid Director: remuneration 1 October 1999 to 30 April 2000 (1999 for year)	186	185
Bonus 1 October 1999 to 30 April 2000 (1999 for year)	112	224
	<b>298</b>	<b>409</b>

MC Stoddart, Chairman – for the period 1 October 1999 to 30 April 2000

RB Williamson, Chairman – for the period 1 May 2000 to 30 September 2000

#### 4 Directors' Remuneration continued

In addition the Chairman received fees amounting to £nil (1999: £32,000) from Electra Partners. No pension contributions were made in respect of any Directors and no Director will receive any pension from any company within the Group. The number of Directors of the Company whose emoluments were within the following bands are set out below:

	2000 Number	1999 Number		2000 Number	1999 Number
£ 0 – £ 5,000	1	–	£ 70,001 – £75,000	–	1
£20,001 – £25,000	5	–	£ 90,001 – £95,000	1	–
£30,001 – £35,000	–	2	£295,001 – £300,000	1	–
£35,001 – £40,000	–	3	£405,001 – £410,000	–	1
£40,001 – £45,000	–	1			

During the year no Director (1999: one) waived remuneration amounting to £nil (1999: £23,000).

#### 5 Employees (Excluding Directors)

The Company has no employees (1999: nil).

#### 6 Interest Payable

	Year to 30 Sept 2000 £'000	Year to 30 Sept 1999 £'000
<b>Loans Repayable between One and Five Years</b>		
Bank loans	5,508	15,608
<b>Loans Repayable within One Year</b>		
Bank loans	8,014	2,470
	<b>13,522</b>	<b>18,078</b>

#### 7 Taxation on Ordinary Activities

	Year to 30 Sept 2000 £'000	Restated Year to 30 Sept 1999 £'000
<b>Based on the Profits for the Year</b>		
Corporation tax at 30% (1999: 30%)		
Current taxation	–	(1,362)
Prior year adjustment	–	285
Overseas taxation	–	61
	–	(1,016)
Associated undertaking	–	816
	–	(200)

No charge to tax arose in the year to 30 September 2000.

## 8 Revenue Return Attributable to Shareholders

The Revenue Return attributable to shareholders includes a loss of £13,124,000 (1999: loss of £3,225,000) which has been dealt with in the Accounts of the Company.

## 9 Return to Shareholders per Ordinary Share

The calculation of revenue return per share is based on the revenue losses attributable to shareholders of £19,464,000 (1999: £5,729,000) and on a weighted average number of 98,070,928 (1999: 141,798,525) ordinary shares of 25p in issue.

The calculation of capital return per share is based on the capital return attributable to ordinary shareholders of £156,796,000 (1999: £404,965,000) and on a weighted average number of 98,070,928 (1999: 141,798,525) ordinary shares of 25p in issue.

## 10 Fixed Asset Investments

	Group		Company	
	30 Sept 2000 £'000	30 Sept 1999 £'000	30 Sept 2000 £'000	30 Sept 1999 £'000
<b>Subsidiary Undertakings at Directors' Valuation</b>				
Unlisted – UK and Continental Europe	–	–	1,445	1,445
Unlisted – USA and Other	–	–	7,599	7,599
	–	–	9,044	9,044
<b>Associated Undertaking</b>				
Unlisted – UK and Continental Europe	–	9,033	–	–
<b>Unlisted at Directors' Valuation</b>				
UK and Continental Europe	534,553	643,751	470,101	552,025
USA and Other	315,108	316,184	314,376	314,376
Partnership interests – UK and Continental Europe	46,000	25,308	44,139	23,334
Partnership interests – USA and Other	70,256	55,252	68,438	53,452
	965,917	1,040,495	897,054	943,187
<b>Listed at Market Value</b>				
UK and Continental Europe	50,163	133,073	50,163	133,073

The market value of investments listed on a recognised investment exchange is £50,163,000 (1999: £133,073,000).

**10 Fixed Asset Investments** continued

	Group £'000	Company £'000
<b>Valuation at 1 October 1999</b>		
Investments	1,173,568	1,076,260
Subsidiary undertakings	–	9,044
Associated undertaking	9,033	–
	<b>1,182,601</b>	<b>1,085,304</b>
Changes due to currency movements	15,126	14,810
	<b>1,197,727</b>	<b>1,100,114</b>
Purchases – at cost	134,058	119,854
	<b>1,331,785</b>	<b>1,219,968</b>
Disposals – at valuation 1 October 1999	(320,484)	(276,961)
– at valuation 1 October 1999 associated undertaking	(9,033)	–
	<b>1,002,268</b>	<b>943,007</b>
Increase in valuation	13,812	13,254
<b>Valuation at 30 September 2000</b>	<b>1,016,080</b>	<b>956,261</b>
Cost at 30 September 2000	<b>932,804</b>	<b>882,627</b>

The amount of investments held in limited partnership funds that are managed by Electra Partners is £777,162,000 (1999: £923,517,000).

**11 Debtors**

	Group		Company	
	30 Sept 2000 £'000	30 Sept 1999 £'000	30 Sept 2000 £'000	30 Sept 1999 £'000
<b>Amounts Falling Due within One Year</b>				
Sales for future settlement	15,649	9,466	15,649	9,466
Trade debtors	–	1,198	–	–
Taxation recoverable	3,435	2,783	2,852	2,736
Amounts owed by subsidiary undertakings	–	–	23,174	36,162
Amounts owed by associated undertaking	–	2,889	–	1,745
Other debtors	7,001	1,727	4,214	1,176
Prepayments and accrued income	24,516	17,906	24,516	17,906
	<b>50,601</b>	<b>35,969</b>	<b>70,405</b>	<b>69,191</b>

**12 Current Asset Investments**

Interest in asset held exclusively for resale (see Note 11)	–	24,467	–	–
Listed – UK	–	2,100	–	–
Partnership interest	3,293	–	–	–
	<b>3,293</b>	<b>26,567</b>	<b>–</b>	<b>–</b>

The market value of listed investments at 30 September 2000 held as partnership interests is £5,373,000 (1999 Listed UK: £2,201,000). Of this total £5,373,000 relates to investments listed on a recognised investment exchange (1999: £2,201,000).



### 13 Creditors

	Group		Company	
	30 Sept 2000 £'000	30 Sept 1999 £'000	30 Sept 2000 £'000	30 Sept 1999 £'000
<b>Amounts Falling Due within One Year</b>				
Amounts owed to subsidiary undertakings	-	-	180,898	63,183
Amounts owed to associated undertaking	-	6,299	-	6,105
Other taxation	18	21	18	8
Other creditors	26,760	2,576	22,493	1,868
	<b>26,778</b>	<b>8,896</b>	<b>203,409</b>	<b>71,164</b>

### 14 Creditors

#### Amounts Falling Due after more than One Year

Bank loans				
between one and two years	-	6,562	-	6,562
two-five years	236,496	281,826	-	134,254
	<b>236,496</b>	<b>288,388</b>	<b>-</b>	<b>140,816</b>

A variable rate of interest is charged on the bank loans.

### 15 Financial Instruments

#### (i) Management of Risk

As an investment trust, the Group's investment objective is to seek capital growth from a portfolio of securities drawn from markets both within the UK and worldwide. The holding of these financial instruments to meet this objective results in certain risks.

The Group's financial instruments comprise:

1. Securities in unquoted and quoted companies, and partnership interests which are held in accordance with the Group's investment objective set out in the Investment Manager's Review on pages 10 to 14.
2. A loan facility, the purpose of which was to finance the share repurchase in the year and to refinance existing debt.

Investments are held with a view to identifying suitable opportunities for realisation within a four year period. New investments are restricted to existing commitments and value-enhancing follow-on investments.

Trading in quoted securities has occurred during the year through a wholly owned subsidiary of the Group.

The main risks arising from the Group's financial instruments are fluctuations in market price, interest rate and foreign currency exchange rate risk. The Board reviews and agrees policies for managing each of these risks which are summarised below. These policies have remained constant throughout the year under review and the preceding year.

#### Market Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Group's operations. It represents the potential loss the Group might suffer through holding market positions in the face of price movements, mitigated by stock selection. The Group does not use derivatives.

The Board meets on a number of occasions to consider the realisation programme of the investment portfolio in order to minimise the risk associated with particular sectors. Electra Partners has responsibility for monitoring the realisation programme of the portfolio in accordance with the Group's investment objectives and seek to ensure that individual stocks meet an acceptable risk reward profile.

**15 Financial Instruments continued**
**Interest Rate Risk**

The Group finances its operations through retained profits including both realised and unrealised capital profits. In addition, financing is obtained through loan facilities. During the year, a long-term foreign currency loan facility was in existence. The initial drawdown of the loan facility was in US Dollars and Euros. The loans have a floating rate of interest.

The cash balances held on deposit mitigate in part the interest rate risk. A special resolution was passed on 15 April 1999 which resulted in a change in the investment policy of the Group. Investments will now be held with a view to identifying suitable opportunities for realisation over the balance of the five year period to March 2004. The resultant proceeds will be held as cash or short-term securities and used towards the repayment of the facility.

Interest rate risk profiles for financial assets and liabilities are shown in part (iii) of the Note. These profiles exclude short term debtors and creditors.

**Liquidity Risk**

The Group's assets comprise listed and unlisted equity and non-equity shares and fixed income securities. As a result of the realisation policy approved by shareholders in April 1999, there have been significant disposals in the period of both listed and unlisted investments, which have been used to repay loan facilities and return capital to shareholders. As a result the Group's liquidity has decreased in the year. Short-term flexibility is achieved through the loan facility.

The maturity of the Group's existing borrowings are set out in part (iv) of the Note.

**Foreign Currency Risk**

The Group's total return and net assets are affected by currency translation movements as a significant proportion of the investments held in the year are denominated in currencies other than sterling.

Revenue received in currencies other than sterling is converted into sterling at the date of the transaction. Foreign currency assets and liabilities are translated at the year-end rate. The treatment of foreign currency transactions has been described in greater detail in the accounting policies note on page 41.

The foreign investments held are principally in the USA, Continental Europe, Latin America and the Far East.

During the year, the Group held loans denominated in US Dollars and Euros, which partially offsets exchange risks suffered on foreign fixed asset investments.

Foreign currency exposures are analysed in part (ii) of the Note.

**(ii) Foreign Currency Exposures**

A portion of the financial assets and financial liabilities of the Group are denominated in currencies other than sterling, which will have an impact on the net assets and return of the Group as at 30 September 2000.

Currency As at 30 September	Foreign currency monetary assets		Foreign Currency monetary liabilities		Net foreign currency monetary assets	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
US Dollar	285,365	286,907	(174,400)	(97,444)	110,965	189,463
Other	198,911	200,888	(62,096)	(97,342)	136,815	103,546
Total	484,276	487,795	(236,496)	(194,786)	247,780	293,009

**(iii) Interest Rate Risk Profile of Financial Assets and Liabilities**
**Financial Assets**

The financial instruments held by the Group include equity and non-equity shares as well as fixed interest securities. The type of income generated from these financial instruments is shown as at 30 September 2000.

Currency As at 30 September 2000	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	602,439	42,524	207,757	352,158
US Dollar	285,365	27,707	43,427	214,231
Other	198,911	835	19,244	178,832
Total	1,086,715	71,066	270,428	745,221

15 Financial Instruments continued

Currency As at 30 September 1999	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	725,380	69,024	312,528	343,828
US Dollar	286,907	1,026	21,720	264,161
Other	200,888	1	24,122	176,765
<b>Total</b>	<b>1,213,175</b>	<b>70,051</b>	<b>358,370</b>	<b>784,754</b>

Currency As at 30 September	Fixed rate financial assets weighted average interest rate		Fixed rate financial assets on which no interest is paid weighted average period until maturity	
	2000 %	1999 %	2000 years	1999 years
Sterling	5.8	5.8	2.4	2.2
US Dollar	10.8	3.8	2.3	2.3
Other	2.0	4.6	3.2	3.1

The equity shares held have no interest payable and do not have a stated maturity date. However, as stated above, the Group aims to realise the portfolio within four years in order to wind down the investment trust.

**Financial Liabilities**

The interest rate profile of the financial liabilities as at 30 September 2000 was:

Currency As at 30 September	Floating rate financial liabilities	
	2000 £'000	1999 £'000
Sterling	–	93,602
US Dollar	174,400	97,444
Other	62,096	97,342
<b>Total</b>	<b>236,496</b>	<b>288,388</b>

The floating rate financial liabilities comprise a loan facility based on a rate per annum, the aggregate of margin, LIBOR and mandatory cost. The Group does not currently hold fixed rate interest bearing financial liabilities, or financial liabilities on which no interest is paid.

**(iv) Maturity of Financial Liabilities**

The maturity profile of the Group's financial liabilities as at 30 September 2000 was:

As at 30 September	2000 £'000	1999 £'000
Between one and two years	–	6,562
Between two and five years	236,496	281,826
<b>Total</b>	<b>236,496</b>	<b>288,388</b>

**15 Financial Instruments** continued

**(v) Fair Values of Financial Assets and Liabilities**

All the financial assets of the Group are held at fair value as at 30 September.

As at 30 September	Book Value and Fair Value	
	2000 £'000	1999 £'000
<b>Primary Financial Assets Held</b>		
Equity shares	677,099	733,848
Non-equity shares	71,846	81,350
Fixed interest securities	270,428	358,370
Cash at bank and in hand	67,342	39,607
<b>Primary Financial Liabilities held to Finance the Group's Operations</b>		
Long-term borrowings	236,496	288,388

The unlisted financial assets held are valued at amounts considered by the Directors to be a fair value, subject to the overriding requirements of prudence. All the unlisted investments are valued according to one of the following bases:

Cost less any provision required;

Open market valuation; or

Earnings multiple or net assets.

The Principles of Valuation of Unlisted Investments are detailed on page 11.

**16 Share Capital**

	30 Sept 2000 £'000	30 Sept 1999 £'000
Allotted, called-up and fully paid 80,559,959 (1999: 103,859,120) ordinary shares of 25p each	20,140	25,965
Unissued 119,440,041 (1999: 96,140,880) ordinary shares of 25p each	29,860	24,035
Authorised 200,000,000 ordinary shares of 25p each	50,000	50,000

On 4 July 2000 the company repurchased 23,299,161 of its own issued ordinary shares at £10.73 per share. The cost of acquisition includes the expenses directly relating to this acquisition of £4,738,000, have been charged against realised profits, details of the share repurchase are given in the Report of the Directors on pages 26 to 28.

**17 Reserves**

	Group 30 Sept 2000 £'000	Company 30 Sept 2000 £'000
<b>a Share Premium</b>		
Share premium at 1 October 1999 and 30 September 2000	24,147	24,147
<b>b Capital Redemption Reserve</b>		
At 1 October 1999	17,310	17,310
Share capital redeemed during the year	5,825	5,825
At 30 September 2000	23,135	23,135

**17 Reserves continued**

	Group 30 Sept 2000 £'000	Company 30 Sept 2000 £'000
<b>c Realised Capital Profits</b>		
At 1 October 1999	719,319	729,585
Profits less losses on realisation of investments during the year	162,176	156,209
Sale of subsidiary undertaking and associated undertaking	1,450	12,500
(Losses)/gains on repayment of foreign currency bank loans	(2,643)	3,836
Net losses on revaluation of foreign currencies	(5,771)	(5,771)
Unrealised net appreciation at 1 October 1999 on bank loans repaid during the year	4,495	2,066
Exchange differences arising on consolidation	9,099	11,263
Unrealised net appreciation at 1 October 1999 on investments sold during the year	111,945	111,961
Repurchase of own shares (Note 16)	(254,738)	(254,738)
At 30 September 2000	745,332	766,911
<b>d Unrealised Capital Profits</b>		
At 1 October 1999	157,596	157,982
Increase in value of fixed asset investments	13,812	13,254
Provision for long-term incentive scheme payable to employees and executives of Electra Partners Group	(16,000)	(16,000)
Sale of subsidiary undertakings transferred to realised profits	8,032	-
Loss on revaluation of foreign currency loans	(1,434)	-
Unrealised net appreciation at 1 October 1999 on investments sold during the year transferred to realised profits	(111,945)	(111,961)
Unrealised net appreciation at 1 October 1999 on bank loans repaid during the year transferred to realised profits	(4,495)	(2,066)
At 30 September 2000	45,566	41,209
<b>e Revenue Profits</b>		
At 1 October 1999	43,123	26,655
Net revenue deficit transfer for the year	(18,750)	(13,124)
Sale of subsidiary undertaking transferred to realised profits	(8,651)	-
At 30 September 2000	15,722	13,531
Total reserves at 30 September 2000	853,902	868,933
Total reserves at 30 September 1999	961,495	955,679

**18 Contingent Liabilities and Commitments**

The Company has undertaken to invest up to a further US\$55,977,000 (1999: US\$88,380,000) in various syndicates of investors in the USA and elsewhere.

The Company has undertaken to make further investments through various limited partnership funds in the UK and Continental Europe amounting to £14,825,000 (1999: £25,905,000).

At 30 September 2000 the Company had uncalled commitments to four (1999: four) limited partnership funds managed by Electra Partners of £20,248,000 (1999: £33,837,000).

As a limited partner in a number of limited partnership funds, the Company has entered into agreements with subsidiaries of Electra Partners for the management of the Company's portfolio of investments. In consideration for this the limited partnership funds pay a priority profit share to their general partners. The management agreements are rolling contracts which now allow for termination by either party at the conclusion of a one year notice period.

## 19 Particulars of Holdings in Principal Subsidiary Undertakings

All companies are incorporated in Great Britain and registered in England and Wales unless otherwise stated. All companies operate in their country of incorporation.

### Principal Subsidiary Undertakings

#### Albion (Electra) Limited (trading partnership member)

5 ordinary shares of US\$1.00 (par value). Paid-in capital US\$11,565,002.

Incorporated in the Commonwealth of the Bahamas.

The subsidiary is wholly owned and held directly by the Company

#### Electra Investments Limited

87,000 ordinary shares of £10 (par value). Paid-in capital £1,027,389. Incorporated in England and Wales.

The subsidiary is wholly owned and held direct by the Company.

## 20 Particulars of Holdings in Other Companies

All companies are incorporated in Great Britain and registered in England and Wales unless otherwise stated. All companies operate in their country of incorporation.

The principal companies in which the Group had an interest in 20% or more in nominal value of securities at 30 September 2000 are:

	Total capital and reserves £'000	Percentage of share and loan capital held by the Group %
<b>Charco Ninety-Nine</b>		
Ordinary shares of £1	110	–
Convertible participating ordinary shares of £1	330	50.0
Profit for the year	3,509	–
Reserves at 28 March 1999	5,715	–

The principal companies in which the Group had interests of 10% or more in nominal value of securities at 30 September 2000 are:

	Holding as percentage in each class of share %
<b>Orthofix International (Netherlands Antilles)</b>	
Common stock US\$0.01	12.56
<b>UGC (Unipart)</b>	
'A' Ordinary shares of 5p	16.67

### Significant Interests in Investee Undertakings

The investee undertakings shown below each represent by value more than 1% of the fixed asset investments of the Group:

	Carrying value at 30 Sept 1999 £'000	Carrying value at 30 Sept 2000 £'000	Cost 30 Sept 2000 £'000
<b>Agricola Group</b>	–	15,300	15,300
Ordinary shares 8.3%			
Preference shares 95.0%			
Loan stock 95.0%			

## 20 Particulars of Holdings in Other Companies continued

**Significant Interests in Investee Undertakings**

The investee undertakings shown below each represent by value more than 1% of the fixed asset investments of the Group:

	Carrying value at 30 Sept 1999 £'000	Carrying value at 30 Sept 2000 £'000	Cost 30 Sept 2000 £'000
<b>Allflex</b>	23,098	29,517	25,578
Ordinary shares 44.0%			
Preferred ordinary shares 51.0%			
Loan stock 70.6%			
<b>Amtico</b>	32,750	35,000	17,067
Ordinary shares 49.5%			
Loan stock 66.1%			
<b>Bezier</b>	19,178	19,178	19,178
Ordinary shares 47.5%			
Loan notes 66.7%			
<b>Bioglan Pharma</b>	9,664	16,222	2,689
Ordinary shares 2.5%			
<b>Capital Safety Group</b>	30,264	31,762	30,278
Ordinary shares 53.3%			
Preference shares 62.3%			
Loan stock 62.3%			
<b>Charco Ninety-Nine</b>	10,705	10,705	178
Participating ordinary shares 50%			
<b>Deutsche Woolworth (Germany)</b>	27,774	25,635	29,831
Ordinary shares 49.3%			
Shareholders loans 57.6%			
<b>Energy Power Resources</b>	12,663	12,643	12,643
Ordinary shares 48.9%			
Loan stock 55.9%			
Loan facility 100.0%			
<b>Guala Closures (Italy)</b>	5,244	15,000	5,474
Ordinary shares 18.3%			
<b>Heath Lambert</b>	10,617	19,758	19,758
Ordinary shares 13.0%			
Preferred shares 21.3%			
Shareholders loans 19.1%			
<b>Inchcape Shipping Services</b>	40,326	17,580	17,580
Ordinary shares 74.0%			
Loan stock 100.0%			
<b>International Garden Products (USA)</b>	12,994	21,987	10,003
Ordinary shares 47.0%			
<b>Invicta Leisure</b>	14,477	16,000	11,471
Warrants for ordinary shares 31.3%			
Mezzanine loan 76.7%			

**20 Particulars of Holdings in Other Companies** continued

**Significant Interests in Investee Undertakings**

The investee undertakings shown below each represent by value more than 1% of the fixed asset investments of the Group:

	Carrying value at 30 Sept 1999 £'000	Carrying value at 30 Sept 2000 £'000	Cost 30 Sept 2000 £'000
<b>Knowledge Technologies International (Luxembourg)</b>	11,886	12,826	16,324
‘A’ Ordinary shares 100.0%			
Preference shares 100.0%			
Loan stock 100.0%			
<b>Leiner Health Products (USA)</b>	18,216	22,886	14,512
Partnership interest 18.2%			
<b>Locus (South Korea)</b>	30,360	30,899	12,096
Ordinary shares 18.1%			
<b>Moser Baer (India)</b>	23,114	39,878	4,406
Ordinary shares 17.7%			
<b>Newmond</b>	23,163	25,100	30,884
‘B’ Preferred ordinary shares 40.5%			
Preference shares 16.8%			
<b>Orthofix International (USA)</b>	13,736	24,828	608
Common stock 11.1%			
<b>Prize Foods Group</b>	12,166	13,200	9,166
Ordinary shares 18.5%			
Preference shares 24.4%			
Loan notes 24.4%			
<b>Safety-Kleen Europe</b>	22,267	23,765	22,239
Ordinary shares 44.0%			
Loan stock 48.8%			
<b>Security Printing and Systems</b>	11,800	15,500	113
Ordinary shares 41.5%			
<b>Swiftly Serve (USA)</b>	27,324	34,448	16,972
Common stock 23.4%			
<b>TM Group</b>	22,000	22,000	10,802
Ordinary shares 27.6%			
Preference shares 46.6%			
<b>Vendcrown</b>	26,000	32,000	4,832
‘B’ Ordinary shares 49.2%			
<b>William Cook Holdings</b>	24,400	11,000	20,911
Ordinary shares 48.8%			
Convertible ordinary shares 56.1%			
Preference shares 59.3%			
Loan stock 59.6%			
Mezzanine loan 11.7%			



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**21 Related Party Transactions**

The Company operates carried interest and co-investment schemes for employees and executives (the “participants”) of the Electra Partners Group. Under these schemes the participants invest in every new investment made by the Company. In return the participants receive a percentage of the total capital and revenue profits made on each investment. The participants do not receive any profits until the Company has received back its initial investment. During the year ended 30 September 2000 the participants received £9,035,000 (1999: £10,400,000) under these schemes and had unrealised gains of £15,107,000 (1999: £13,670,000). The unrealised gains have been deducted from the valuation of the Company’s unlisted portfolio. In addition the participants are entitled to a percentage of the incremental value of unlisted investments held at 31 March 1995, subject to the Company having received in total proceeds equal to the valuation of those investments as at 31 March 1995 and a preferred return. During the year ended 30 September the participants received £591,000 (1999: £nil) under the scheme and had unrealised gains of £701,000 (1999: £1,167,000).

Under the arrangements relating to the management of the listed portfolio, certain executives of the Electra Partners Group will receive bonuses over a one year period if the listed portfolio outperforms a composite index. At 30 September 2000 the unrealised gain under these arrangements was £1,740,000 (1999: £nil). These unrealised gains have been deducted from the valuation of the company’s listed portfolio. No Directors of Electra participate in the above schemes.

Under the terms agreed by shareholders in April 1999, the Company operates a long term incentive scheme for employees and executives of the Electra Partners Group. Under this scheme the participants receive a percentage of the cumulative cashflow arising from the realisation programme of the Company, subject to certain predetermined limits. At 30 September 2000, £16,000,000 (1999: £nil) had been provided in respect of this scheme.

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**22 Sale of Subsidiary**

On 15 November 1999, Electra Kingsway Holdings Limited (“EKHL”) a wholly owned subsidiary and related activities were sold to the Electra Partners Group. As a consequence, Electra received cash and securities amounting to £34,950,000. For the year ended 30 September 2000 none of the consolidated revenue account of Electra was attributable to EKHL.

**Electra Investment Trust PLC****Board of Directors**

Brian Williamson CBE Chairman  
Ronald Armstrong  
Professor George Bain  
The Rt Hon Tom King CH MP  
Sir Michael Pickard  
Michael Walton  
Peter Williams

**Manager**

Electra Partners Group

**Secretary and Registered Office**

Philip Dyke  
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**Company Number**

303062

**Registered Auditors**

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Chartered Accountants  
Southwark Towers  
32 London Bridge  
London SE1 9SY

**Financial Advisor**

Lazard Brothers & Co Limited

**Bankers**

National Westminster Bank PLC  
JP Morgan & Co Inc

**Registrar and Transfer Office**

Lloyds TSB Registrars  
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**Share Plan**

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Brochureline 0500 403030  
Account queries 0500 500324

The portfolio service from Lloyds TSB Registrars gives shareholders access to more information on their investments, including balance movements and indicative share prices. For more details on this and practical help on transferring shares or updating details, visit “[www.shareview.co.uk](http://www.shareview.co.uk)”.

Following the completion of the Tender Offer in 1999, shares in Electra are no longer available for purchase through The Investment Trust Share Plan. Chase Fleming Asset Management will continue to provide Share Plan services to participants in the Plan holding shares in Electra prior to 1 August 1999.

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Notice is hereby given that the sixty-sixth Annual General Meeting of Electra Investment Trust PLC will be held at 11.00 am on Wednesday 28 February 2001 in the Keats & Milton Meeting Rooms at the Kingsway Hall, Great Queen Street, London WC2B 5BZ for the following purposes:

**Ordinary Business**

1. To receive and adopt the reports of the Directors and Auditors and the Group Accounts for the year ended 30 September 2000;
2. To re-elect Mr RA Armstrong as a Director of the Company;
3. To re-elect Mr MED'A Walton as a Director of the Company;
4. To re-elect Mr RB Williamson as a Director of the Company; and
5. To re-appoint PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration.

**Special Business**

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

6. 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 12,075,937 equal to 14.99 per cent. of the total number of ordinary shares in issue;
  - (ii) the minimum price which may be paid for an ordinary share shall be 25 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 2002 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  
19 December 2000

**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 enclosed. To be effective, the Form of Proxy and any power of attorney under which it is executed (or a duly certified copy of any such power) must reach the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, 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 34 of the Uncertificated Securities Regulations 1995, only those holders of ordinary shares entered on the register of members of the Company as at 6.00 pm on Monday 26 February 2001 ("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 6.00 pm on Monday 26 February 2001 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 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 10.45 am until the conclusion of the Meeting:
  - (a) the Register of Directors' Interests in the share capital of the Company maintained in accordance with Section 325 of the Companies Act 1985; and
  - (b) the Memorandum and Articles of Association of the Company.
- 6** Short biographical details regarding Mr RA Armstrong, Mr MED'A Walton, and Mr RB Williamson are contained on page 7.



