Electra Investment Trust PLC Annual Report 2001

2001

ELECTRA

Annual Report and Accounts for the year ended 30 September 2001

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.

Electra Investment Trust PLC

Board of Directors
Sir Brian Williamson CBE Chairman
Ronald Armstrong
Professor Sir George Bain
Lord King of Bridgwater
Sir Michael Pickard
Michael Walton
Peter Williams

Manager
Electra Partners

Secretary and Registered Office
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Chartered Accountants
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London SE1 9SY

Financial Advisor
Lazard

Bankers
National Westminster Bank PLC

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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”.

Electra – Background to Recent Changes

Since the listing of Electra in 1976, the Company has specialised in investing in the private equity market. This resulted from the belief that superior returns could be generated from investing in private equity through the structure of an investment trust.

Between 1976 and 2001 Electra invested over £3,000 million in private equity investments and, inclusive of a capital injection of £32 million, Electra's assets grew from £58 million in February 1976 to £1,145 million by 30 September 1998, the financial year end immediately preceding the hostile takeover bid for Electra in 1999.

This bid failed when shareholders voted in favour of a scheme which involved the controlled realisation of the portfolio over a five year period. New investment was restricted to existing portfolio companies.

Since the start of the realisation programme in March 1999, Electra has returned £945 million to shareholders, which compares with the stock market value of Electra of £975 million immediately before the announcement of the takeover bid. Over the same period, £296 million has been invested and £1,138 million has been realised from the portfolio.

In June 2001 shareholders approved proposals which retained the emphasis on realising investments but allowed Electra to continue as an investment vehicle, albeit on a smaller scale. This achieved the objective of catering for those shareholders who wished to retain an investment exposure to private equity.

This more flexible investment strategy provides for at least two thirds of future cash flow to be returned to shareholders with the balance to be invested in private equity investments.

At the same time shareholders authorised the Board to review this strategy in 2004.

Overview

Electra has been an investor in private equity for over 25 years. Over this period and through different economic cycles unlisted investments have been purchased and sold at attractive prices. Timing is important and in the two years to March 2001 shareholders have benefited from realising investments in a buoyant market and by keeping new investment to a minimum. As nearly three years have elapsed since the change of investment policy, shareholders may find it helpful to refer to the background information set out on page 3.

In the present environment and having regard to the significant sums already returned to shareholders, the Board's primary task is to protect and enhance the value of the remaining portfolio to ensure that Electra is in a position to benefit from sales opportunities which will arise as the economic outlook improves.

The Year to 30 September 2001

The year to 30 September 2001 saw the third Tender Offer and approval by shareholders of a change of investment policy.

In June 2001 a Tender Offer of £150 million took place bringing the total cash returned to shareholders to £945 million since the start of the controlled realisation process in 1999. The most recent tranche bought in totalled 15.2 million shares representing 18.9% of the shares in issue prior to the Tender Offer. Together with a market purchase of 100,000 shares in March 2001, this reduces the total number of shares in issue from 173.1 million at the start of the process in March 1999 to 65.2 million at 30 September 2001.

The June Extraordinary General Meeting which approved the Tender Offer also endorsed the adoption of a more flexible investment strategy to reflect changed market conditions and maximise value for shareholders. Under this strategy two thirds of future cash flow will be returned over the next three years via share buy-backs and tender offers. Dependent upon market conditions, a further £350 million is expected to be returned by June 2004. Subject to maintaining appropriate levels of gearing, the balance of cash flow will be invested in follow-on investments in existing portfolio companies, in investment funds managed by Electra Partners and in other private equity investment opportunities identified by Electra Partners.

....in the two years to March 2001 shareholders have benefited from realising investments in a buoyant market and by keeping new investment to a minimum.

Results

At 30 September 2001 the net asset value per share was £8.30 compared with £10.85 at 30 September 2000, a decline of 23.5%. The FTSE All-Share Index declined by 22.7% over the year although a comparison with the Index, whilst convenient, does not reflect the cash extracted from the portfolio during the year. In the period since March 1999 the Index declined by 17% while Electra's net asset value per share increased by 5.5%. The larger UK investments in the portfolio are performing well although provisions have been made against a number of investments, particularly in the United States, to reflect the tougher commercial environment for these companies. Full details are included in the Investment Manager's Review.

Realisations

In last year's Statement it was reported that the realisation process was well ahead of our expectations although the rate of future disposals would depend upon a number of factors. The first two years of our realisation programme were characterised by improved ratings for smaller listed companies and a strong demand for unlisted investments. Portfolio sales of over £1.1 billion were achieved during this period.

This year realisations from the investment portfolio amounted to £167 million, significantly less than sales of £483 million in the previous year with the major portion being achieved in the first six months. Many of the portfolio sales were to financial buyers who have funded purchases through bank borrowings which are now less readily available as lending banks tackle the problem of non-performing loans. Until the banking and general economic environment improves, prices of unlisted investments are likely to remain weak. Consequently, and to ensure that full value is extracted from the portfolio, it is probable that realisations will be concentrated in the second half of the next three years. This will, in turn, influence the timing of further returns of capital to shareholders.

New Investments

The last few years have seen high prices being paid for new unlisted investments and Electra invested at a modest level. The change in economic outlook has contributed to a more realistic pricing of new deals and we anticipate this position will remain for some time.

Under the revised investment strategy new investments will only be funded from realisation proceeds or increased bank borrowings. Before entering into new investment commitments the Board will review Electra's own borrowing covenants and the level of bank debt in portfolio companies.

Since 30 September 2001 Electra has committed to invest in the Electra Partners' European Fund. The investment was acquired from investors in that Fund on standard commercial terms approved by the Board.

I am pleased that in June this year shareholders gave approval for new investments to be made in line with Electra's revised investment policy.

Dividends

Under the current investment policy the Board believes it is inappropriate to consider dividend payments while Electra continues to utilise bank facilities to fund returns of capital to shareholders. No dividend is therefore proposed in respect of the year ended 30 September 2001.

The Board

Sir Michael Pickard, who becomes 70 next year, has indicated his intention to retire from the Board at the end of the financial year in September 2002. He joined the Board in 1989 and has consistently supported it with sound advice and experience. I am personally grateful to him for acting as the Senior Independent Director. Peter Williams, who has been a Director since 1994, has agreed to undertake this role from October 2002.

Electra Partners

In line with the change of investment strategy, Electra Partners were re-appointed in June 2001 under new contractual arrangements to manage the investments of Electra on a discretionary basis in accordance with the investment policy determined by the Board. At the same time revisions to the existing management incentive arrangements were approved by shareholders.

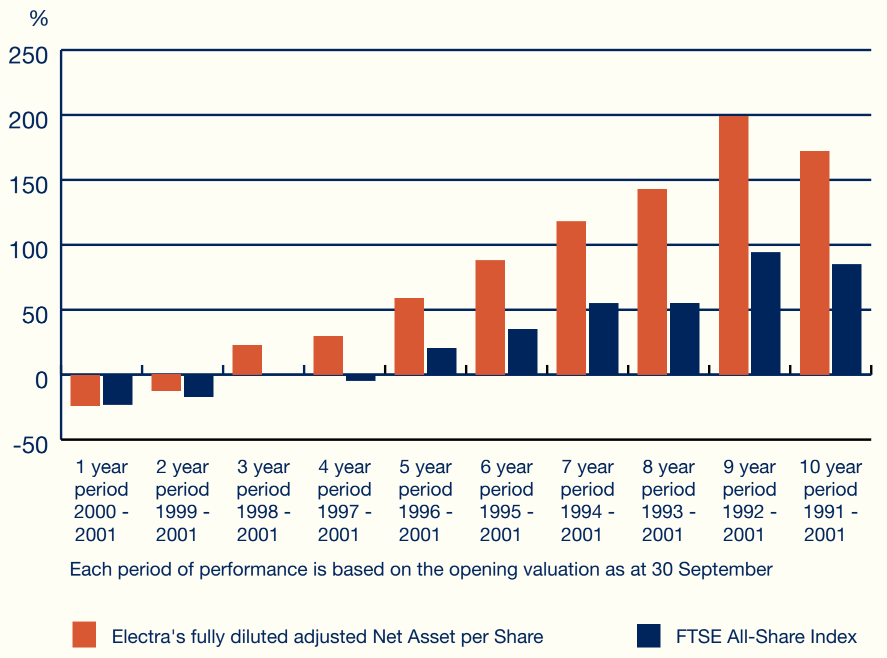
The Future

I am pleased that in June this year shareholders gave approval for new investments to be made in line with Electra's revised investment policy. Electra Partners has had a successful record of managing Electra's portfolio. I am confident that the investment team will be able to add future value to Electra's portfolio by taking advantage of favourable buying opportunities. At the same time they will be realising investments to enable appropriate levels of capital to be returned to shareholders.

Sir Brian Williamson
Chairman

18 December 2001

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



Net Assets and Share Price

As at 30 September	Net Assets £'000	Fully diluted adjusted Net Asset Value per Share p	† Share Price as at 5 April per Share p	† Share Price as at 30 September per Share p
1991	491,743	304.53	259.0	231.0
1992	470,793	277.87	169.0	169.0
1993	580,614	341.30	216.0	281.0
1994	643,924	380.70	303.0	318.5
1995	748,588	440.49	331.0	368.0
1996	886,206	522.13	383.0	412.5
1997	1,082,802	640.04	462.5	483.0
1998	1,145,319	676.15	605.5	512.0
1999	* 987,460	950.77	715.0	836.0
2000	** 874,042	1,084.96	1022.5	1034.0
2001	*** 541,110	829.52	908.5	651.0

* 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

*** During the year £150,000,000 was repaid to shareholders via a tender offer and 100,000 shares were repurchased for cancellation (cost : £907,000)

† Middle market price at close of business on 5 April or 30 September or, if appropriate, previous business day in each case

Five Year Record

For the year ended 30 September	1997	1998	1999	2000	2001
Adjusted net asset value per share (p)	640.04	676.15	* 950.77	** 1,084.96	*** 829.52
Increase/(decrease) in net asset value per share (%)	22.6	5.6	40.6	14.1	(23.5)
Increase/(decrease) in FTSE All-Share Index (%)	26.2	(4.5)	20.5	7.2	(22.7)
Total ordinary dividends per share (p)	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

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Note

For the two 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 173,098,534 ordinary shares of 25p in issue. For the year ended 30 September 1999 the calculation was based on 103,859,120 ordinary shares, on 80,559,959 ordinary shares in respect of the year ended 30 September 2000 and on 65,231,533 ordinary shares in respect of the year ended 30 September 2001.

Sir Brian Williamson CBE

Left to right

Ronald Armstrong
Professor Sir George Bain
Lord King of Bridgwater
Sir Michael Pickard
Michael Walton
Peter Williams

Sir Brian Williamson CBE
Chairman
Aged 56, was appointed a Director in 1994.

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 57, 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 Sir George Bain *
Aged 62, 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 and the Canada Life Assurance Company.

Lord King of Bridgwater *
Aged 68, was appointed a Director in 1992. A Member of Parliament from 1970 until 2001, he 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 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 69, 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, London First Centre and Servus Holdings. 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 National House Building Council, Freeport plc and a Director of other public and private companies.

Michael Walton *
Aged 58, was appointed a Director in 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, Bridgepoint Capital and a number of private companies.

Peter Williams *
Aged 59, was appointed a Director in 1994. He is currently Deputy Chairman 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 2001 £'000	Cost of holding at 30 Sept 2001 £'000	Percentage of net assets %
BAXI (FORMERLY NEWMOND)	48,806	54,590	9.02
AMTICO	34,000	17,067	6.28
CAPITAL SAFETY GROUP	32,396	30,326	5.99
ALLFLEX	32,000	26,246	5.91
VENDCROWN	31,515	4,832	5.82
SAFETY-KLEEN EUROPE	30,743	22,239	5.68
HEATH LAMBERT	22,648	22,648	4.19
TM GROUP	22,000	10,802	4.07
MOSER BAER	21,241	4,406	3.93
DEUTSCHE WOOLWORTH	19,960	29,831	3.69
INVICTA LEISURE	18,491	13,962	3.42
MERLIN COMMUNICATIONS	15,861	4,087	2.93
AGRICOLA	15,300	15,300	2.83
ORTHOFIX INTERNATIONAL	15,276	342	2.82
PRIZE FOODS	15,200	9,166	2.81
SWIFTY SERVE	14,969	26,540	2.77
LEINER HEALTH PRODUCTS	13,608	14,512	2.51
BEZIER	12,750	19,178	2.36
FAIRBRIDGE ESTATES	11,600	7,815	2.14
WILLLIAM COOK HOLDINGS	11,000	20,911	2.03
	439,364	354,800	81.20

Set out above are the 20 largest investments of the Group at 30 September 2001.
These investments are held in the unlisted portfolio.

The Manager

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

Electra Partners has built a strong expertise and track record in private equity investments. The team has managed the assets of Electra for more than ten years, including the successful realisations in the two year period to March 2001 and has managed a number of other venture capital funds during that time.

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. At 30 September 2001, Electra Partners acted as investment manager or advisor for investments valued at £1.6 billion on behalf of Electra and other clients.

In June 2001, shareholders approved new contractual arrangements whereby Electra Partners was re-appointed to manage exclusively the investments of Electra on a discretionary basis in accordance with Electra's investment policy. Electra Partners will receive a priority profit share of 1.5 per cent. The new contract will run for an initial two-year term which commenced 1 April 2001 with a one-year rolling notice period thereafter.

Portfolio Analysis

Overall Portfolio Changes

Summary of Changes to Overall Portfolio
Year ended 30 September 2001

	Valuation at 30 Sept 2000 £'000	New investment £'000	Sales £'000	Net capital depreciation £'000	**Valuation at 30 Sept 2001 £'000**
Unlisted	965,917	66,530	161,679	(151,868)	**718,900**
Listed	50,163	332	5,237	(24,492)	**20,766**
Total Portfolio	1,016,080	66,862	166,916	(176,360)	**739,666**

Cumulative realisations since 1 March 1999 have now reached a total of £1,138 million or 84% of the value of the portfolio at that date.

At 30 September 2001, Electra's investment portfolio was valued at £740 million compared to a valuation of £1,016 million twelve months earlier. During the year, the changes in the portfolio continued to reflect the realisation strategy adopted by the Board in March 1999. Realisations from the portfolio amounted to £167 million which, after deducting purchases of £67 million, meant that over the year there was a net divestment from the portfolio of £100 million. Cumulative realisations since 1 March 1999 have now reached a total of £1,138 million or 84% of the value of the portfolio at that date. During the same period, investments in portfolio companies and other commitments have totalled £296 million or 26% of the amount realised.

At 30 September 2001, 73% of the portfolio was invested in direct unlisted investments, 13% was invested in companies which were listed, but which for the most part had restrictions on sale, and 14% was invested in private equity funds. In terms of geographical spread, 69% was invested in Europe, 22% in North America, 6% in Asia and 3% in South America.

Outlook

Over the last twelve months conditions in the financial markets have changed significantly, as evidenced by declining stock market valuations and the marked fall in the level of merger and acquisition activity. Reflecting these changes, the rate of realisations has slowed considerably. Moreover, under current market conditions, exit valuations are unlikely to be attractive and consequently a realisation in the current market would not maximise value. Looking forward, we believe that realisations from the unlisted portfolio will remain at the current reduced level for at least the next twelve months and possibly longer. However, advantage will continue to be taken of opportunities to realise investments where special circumstances enable a favourable realisation to be made, as illustrated recently by the sale of Merlin Communications.

The portfolio includes a significant proportion of high quality investments where operating profits are improving and further opportunities remain to increase value through the repayment of debt and other courses of action. The portfolio also contains several recovery situations where investments have been written down to a low valuation but which could realise substantial value in the future if existing plans to effect turnarounds are successful.

In the longer term therefore, the potential exists for generating substantial cash returns, particularly in view of the benefits arising from lower interest rates in a portfolio with significant underlying leverage. In the meantime, opportunities to add new investments at a favourable point in the investment cycle will be taken to the extent that cash flow permits.

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

Realisations from the unlisted portfolio amounted to £162 million in the year to 30 September 2001.

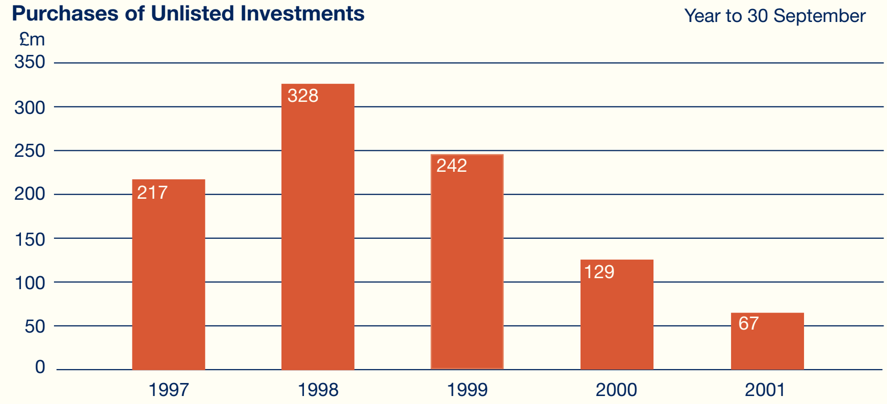
New Investments

Until the EGM held in June 2001, new investments were restricted to commitments outstanding at April 1999 and to investments made to enhance or protect the value of existing portfolio companies. During the year investments of £66.5 million were made under these arrangements. Of these investments, £11.7 million was invested in respect of commitments to private equity funds, £46.3 million was made to enhance the value of existing portfolio companies and £8.5 million was made to provide financial support to six portfolio companies. The most significant investment made by Electra involved a transaction whereby Newmond, an existing portfolio investment, acquired Baxi in a secondary buy-out. This transaction produced a number of benefits for the combined entities (now renamed Baxi) and created one of the largest heating manufacturers in Europe with annual sales in excess of £700 million. Other investments of note included £9.6 million in Swifty Serve and £2.5 million in Invicta, both to provide expansion capital. In addition £2.9 million was invested in Heath Lambert to secure new financing arrangements.

Following the EGM the restriction on investment has been modified to permit new portfolio investments and investment in new situations will be limited to a maximum of one third of cash flow from realisations. In view of the cash required for the most recent share buy-back, no new investments were made during the year under these revised proposals.

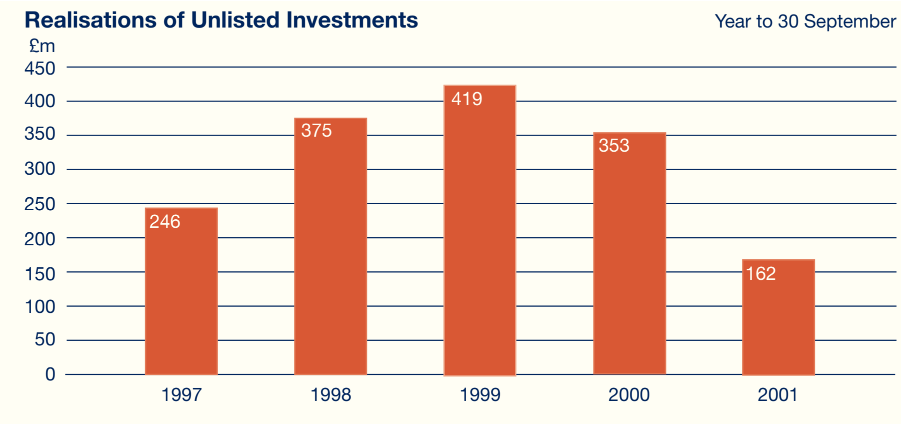
It is envisaged that future investments will be made in existing portfolio companies and also in funds managed by Electra Partners and in other private equity opportunities generated by Electra Partners. In December 2001 under these new arrangements, Electra made a €30 million commitment to the Electra Partners' European Fund.

Purchases of Unlisted Investments



Realisations

Realisations from the unlisted portfolio amounted to £162 million in the year to 30 September 2001. In the Circular to shareholders issued in May 2001 it was stated that the market for the realisation of portfolio companies had changed leading to a slowdown in the rate of sales from the portfolio. This was clearly illustrated by the fact that the sales achieved in the year were less than half the amount realised in the previous year. Moreover, sales in the first half of the year totalled £129 million, whereas sales in the second half declined to £33 million. The worldwide fall in stock markets contributed to this slowdown in activity although the main factor impacting upon our realisation programme resulted from changes in the banking market. Over the past two years, the majority of investments realised from the portfolio have been sold to financial buyers. Recently the activity of financial buyers has been materially affected by the fall in bank lending multiples. This in turn has led to a reduction in the prices offered and fewer transactions being completed.



In the light of these conditions, realisations of £162 million from the portfolio represented reasonable progress. £102 million was received from the sale of unlisted companies, £30 million from the sale of previously restricted securities and £30 million of capital was returned from private equity funds. As mentioned in the Interim Report the largest disposals included Security Printing & Services and Guala Closures, which realised £28 million and £15 million respectively.

Although market conditions have been unfavourable for realisations, progress continues to be made in exploiting opportunities where portfolio investments can be realised at reasonable values. Subsequent to the year end Electra disposed of its interest in Fairbridge Estates for £11.6 million and in November sold its investment in Merlin Communications to Vosper Thornycroft for £15.9 million. This latter sale had been anticipated in the September 2001 valuation but compared to a portfolio valuation six months previously of £4.1 million. Merlin Communications thus realised almost four times the carrying value in the portfolio immediately prior to the offer being received.

The year to 30 September 2001 proved to be a period of rapidly changing market conditions.

Performance

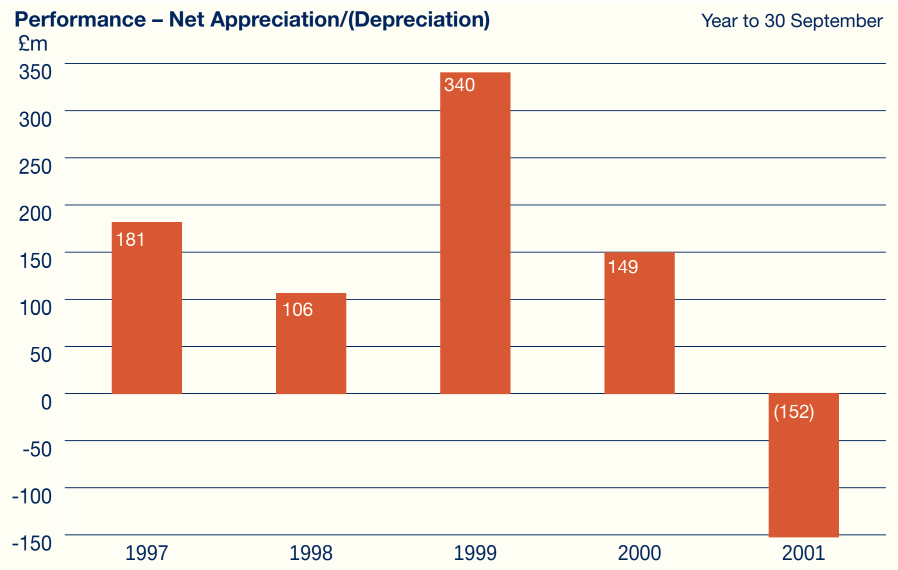
The year to 30 September 2001 proved to be a period of rapidly changing market conditions. Stock markets fell, the USA and Far Eastern economies continued to weaken and conditions in the banking market tightened despite the fall in interest rates. Against this background the unlisted portfolio recorded a net decrease in valuation of £152 million, or 15.7% of the opening valuation.

Profits realised on the sale of investments contributed £21 million to the performance of the year. This was offset by a fall in the value of listed but restricted stocks of £55 million and a reduction in unrealised appreciation of £118 million.

Investments realised from the portfolio during the year continued to show significant uplifts over book value. In the case of direct unlisted investments, the aggregate proceeds from sales exceeded the total carrying value of the investments by 36%. As noted above, the sale of Merlin Communications after the year end realised proceeds of approximately four times the book value at 31 March 2001.

The fall in value of the restricted listed stocks was primarily due to Moser Baer, Locus and Zensar Technologies which declined by £48.5 million in aggregate. Since the year end, the share prices of all these stocks have shown some recovery and by the end of November had increased by £12 million in value.

Unrealised appreciation was increased by £38 million over the year through the upward revaluation of 15 portfolio companies and decreased by £150 million as a result of the downward revaluation of 29 portfolio companies. The largest increases related to Merlin Communications (£11.8 million) reflecting the sale shortly after the end of the financial year and to Safety-Kleen Europe where the investment was revalued for the first time since its acquisition three years previously.



In the UK, most of the larger investments have shown good growth in operating earnings and continue to make sound progress.

Decreases in the value of investments resulted from falling price earnings multiples used to value investments, decreased earnings of certain portfolio investments and provisions required to reflect the particular circumstances of individual investments. The valuation of Swifty Serve was reduced by £29.0 million as a result of a decline in earnings caused by the volatility of petrol prices in the USA. £16.6 million was provided against the value of International Garden Products where earnings had been impacted by the poor weather at the beginning of the current year. As mentioned in the Interim Report, a full provision of £14.1 million was made against the investment in Supervia pending a financial restructuring. While this restructuring has not yet been finalised, considerable progress has been made in bringing this process to a successful conclusion. The investment in Knowledge Technologies International was written down, as anticipated new orders from its principal customers in the airline industry did not materialise. Another significant provision related to the investment in Inchcape Shipping Services, which was required to reflect the uncertainty created by the bankruptcy of one of its largest customers.

While the unlisted portfolio showed a marked decline in value over the financial year, a large part of this related to investments in the USA and the Far East where economic conditions have been most difficult. In the UK, most of the larger investments have shown good growth in operating earnings and continue to make sound progress.

Largest Valuation Changes

Company	£'000	Increase/(decrease) %
Security Printing and Systems	12,474	80.5
Merlin Communications	11,774	288.1
Inchcape Shipping Services	(13,185)	(75.0)
Knowledge Technologies International	(13,994)	(96.3)
Supervia	(14,069)	(100.0)
International Garden Products	(16,556)	(75.3)
Moser Baer	(18,637)	(46.7)
Locus	(22,697)	(73.5)
Swifty Serve	(29,047)	(66.0)

Largest Unlisted Investments

BAXI (FORMERLY NEWMOND)	Location: UK, France, Germany and Italy

Equity Ownership	**23.0%**
Valuation	**£48,806,000**
Cost	**£54,590,000**

Valuation based on multiple of earnings

In 1996 Electra invested £30.9 million in the management buy-out of the building products division of Williams Holdings with a further £23.7 million invested in November 2000 to finance the merger with Baxi. The combined business is one of the largest heating businesses in Europe with a significant pan-european market share in boilers and a strong UK presence in water heaters, showers and gas fires.

Substantial synergies have been delivered since the merger and this, combined with strong growth in new products, has positioned the business well for the future.

AMTICO	Location: UK

Equity Ownership	**49.5%**
Valuation	**£34,000,000**
Cost	**£17,067,000**

Valuation based on multiple of earnings

In 1995 Electra invested £17.1million as part of the £52.8million management buy-out of Amtico from Courtaulds.

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. New manufacturing facilities have been added in the USA during 2001.

While trading conditions have hardened, Amtico is forecasting a result for the year to March 2002 ahead of the 2001 earnings before interest and tax of £10.5million.

CAPITAL SAFETY GROUP	Location: International

Equity Ownership	**53.3%**
Valuation	**£32,396,000**
Cost	**£30,326,000**

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 2001 the company made an operating profit of £11.2 million (2000: £10.0 million) on sales of £70 million (2000: £63 million).

ALLFLEX

Location: UK, USA and Western Europe

Equity Ownership	**44.0%**
Valuation	**£32,000,000**
Cost	**£26,246,000**

Valuation based on multiple of earnings

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 as well as animal traceability systems through its sister company, Farmexpress. The main manufacturing operations are in North America and France.

The company reported an operating profit excluding goodwill amortisation of US$14.0 million for the year ended 31 December 2000 (1999: US$16.4 million) on turnover of US$61.6 million (1999: US$75.3 million). A combination of development expenditure and adverse currency translation effects resulted in a reduction in profits at group level. Profits have recovered strongly in the current year.

VENDCROWN

Location: UK

Equity Ownership	**32.6%**
Valuation	**£31,515,000**
Cost	**£4,832,000**

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.

In the year to 31 December 2000 the company's profit before exceptional items after tax was £8.8 million (1999: £7.4 million). The company, however, was exposed to the insolvency of Independent Insurance and accordingly a provision of £5.6m (post tax) was taken as an exceptional item to the 2000 accounts. Trading in the current year is strong with further profit growth forecast.

SAFETY-KLEEN EUROPE

Location: UK and Europe

Equity Ownership	**44.0%**
Valuation	**£30,743,000**
Cost	**£22,239,000**

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 latter 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 now operates from over 60 branches in the UK, Germany, France, Italy, Spain, Belgium, Hungary, the Czech Republic, Slovakia and Ireland and three recycling centres in the UK and Germany.

In the year to 31 December 2000 revenues were £73.2 million, EBITDA £18.5 million and operating profit was £13.5 million. Solid growth in revenues and earnings has been experienced during 2001.

HEATH LAMBERT

Location: UK

Equity Ownership	**16.0%**
Valuation	**£22,648,000**
Cost	**£22,648,000**

Valuation based on multiple of earnings

In 1997 Electra invested £10.6 million in the management buy-out of CE Heath. Following a substantial de-gearing through the sale of various non-core businesses, CE Heath merged with Lambert Fenchurch in late 1999. Heath Lambert is now well placed to take advantage of the upturn in insurance markets.

Heath Lambert has a spread of insurance and reinsurance business, with its headquarters in London. It has a network of offices around the world as well as a UK provincial broking business.

In the year ended 31 March 2001 turnover was £248 million and operating profit from recurring operations £41.6 million, a substantial increase on the pro-forma prior year comparable.

TM GROUP

Location: UK

Equity Ownership	**27.6%**
Valuation	**£22,000,000**
Cost	**£10,802,000**

Valuation based on multiple of earnings

In 1995 Electra invested £15.1 million in the £173 million buy-out of TM which was 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.

In the year ended 25 November 2000 TM reported operating profit before interest and tax of £40.5 million (1999: £36.7 million) on turnover of £871 million (1999: £897 million). During 2001 TM sold its vending interests and is now solely engaged in convenience store retailing under the banners of Forbuoys, Martins, McColl and More.

MOSER BAER

Location: India

Equity Ownership	**17.7%**
Valuation	**£21,241,000**
Cost	**£4,406,000**

Valuation based on quoted price

In 1998 Electra invested US$8.02 million in a convertible debenture to fund the expansion of Moser Baer into recordable CDs (CD-Rs). Realisations to date from this investment have totalled US$11.3 million.

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 a capacity of 32 million CD-Rs per annum was subsequently expanded to 150 million CD-Rs and the company now plans to have a capacity of 760m CD-Rs per annum by April 2002.

During the year ended March 2001 sales increased by 235% to Rs 3.84bn ($80.1m) and profits after tax increased 314% to Rs 1.38bn ($28.9). In the six months to September 2001, sales were Rs 3.13bn ($65.3m) and profit after tax Rs 1.00bn ($20.8m).

DEUTSCHE WOOLWORTH — Location: Germany

Equity Ownership	49.3%
Valuation	£19,960,000
Cost	£29,831,000

Valuation – cost of shareholder loan adjusted for currency movements

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.

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.

In the year to 31 December 2000, the group reported sales of DM2 billion and EBIT of DM8.5 million.

INVICTA LEISURE — Location: UK

Equity Ownership	32.6%
Valuation	£18,491,000
Cost	£13,962,000

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 £11.75 million to continue the construction programme.

Since disposing of its golf division the company has focussed entirely on the growing health and fitness market. The company now has six full size clubs and four smaller "Indigo" model size clubs, with a number of other sites in the pipeline.

For the year to December 2000, Invicta reported earnings before interest and tax from continuing operations of £1.9 million (1999: £3.1 million). Reported earnings for 2000 were adversely impacted by pre-opening costs of approximately £0.9 million following the opening of five clubs during the 2000 calendar year.

MERLIN COMMUNICATIONS — Location: UK

Equity Ownership	15.5%
Valuation	£15,861,000
Cost	£4,087,000

Valuation based on sale proceeds

In 1997 Electra invested £4.08 million in the management buy-out of Merlin Communications Group. The business was formerly the short-wave transmission division of the BBC World Service and operated a number of radio transmission sites in strategic locations around the world.

Since gaining independence the business has successfully reduced costs and diversified into facilities management of communication assets for a variety of customers including the Ministry of Defence.

Following an auction process, Vosper Thornycroft Holdings offered to acquire the business for a sum which valued Electra's interest at £15.9 million. The sale was subsequently completed in December 2001.

AGRICOLA GROUP	Location: UK

Equity Ownership	**8.3%**
Valuation	**£15,300,000**
Cost	**£15,300,000**

Valuation – cost

In 1998 Electra invested £18.4 million in the £46 million management buy-out of Agricola, the holding company of BOCM Pauls, an animal feed producer. In 2000, Agricola was refinanced and Electra received gross cash proceeds of £53.4 million, out of which it reinvested £15.3 million in the new company.

In the year ended 31 December 2000, Agricola reported an operating profit before interest of £7.2 million (1999 : £13.0 million) on turnover of £427.4 million (1999 : £402.0 million).

ORTHOFIX INTERNATIONAL	Location: USA

Equity Ownership	**5.0%**
Valuation	**£15,276,000**
Cost	**£342,000**

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 2000 revenues were $131.8 million (1999: $121.3 million) and operating income was $22.7 million (1999: $23.2 million).

PRIZE FOODS	Location: UK

Equity Ownership	**18.9%**
Valuation	**£15,200,000**
Cost	**£9,166,000**

Valuation based on multiple of earnings

In 1997 Electra invested £7.0 million in the management buy-in of the prepared foods division of Booker backing a team from within Booker, part of whom Electra Partners have worked with previously. Since then, one loss making business has been sold and one acquisition has been made financed with a rights issue to which Electra subscribed a further £2.2 million.

The business focuses on the supply of fresh and frozen foods to the retail sector with a broad spread of sales across the major multiples. In the year to 31 December 2000, the company reported earnings before interest and tax of £13 million on sales of £176 million.

SWIFTY SERVE

Location: USA

Equity Ownership	23.4%
Valuation	£14,969,000
Cost	£26,540,000

Valuation based on multiple of earnings

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 576 stores located in Georgia, Louisiana, Florida, Alabama and Mississippi.

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$618.7 million and EBITDA of US$16.7 million for the year to 31 December 2000.

LEINER HEALTH PRODUCTS

Location: USA

Equity Ownership	18.2%
Valuation	£13,608,000
Cost	£14,512,000

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 2001 Leiner had sales of $619.2 million and adjusted EBITDA of $11.0 million.

BEZIER

Location: UK

Equity Ownership	47.5%
Valuation	£12,750,000
Cost	£19,178,000

Valuation – discounted 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. Since acquisition 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, which has gone from strength to strength despite tough printing markets.

In the year to 30 April 2001 the continuing group made operating profits of £3.9 million on a turnover of £33.7 million. The current year should show further progress.

United Kingdom and Continental Europe

Company	Directors' valuation of holding at 30 Sept 2000 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 2001 £'000	Cost of holding at 30 Sept 2001 £'000
BAXI (FORMERLY NEWMOND) Heating products	25,100	23,664	42	48,806	54,590
AMTICO Luxury flooring manufacturer	35,000	–	(1,000)	34,000	17,067
CAPITAL SAFETY GROUP Specialist safety equipment	31,762	48	586	32,396	30,326
ALLFLEX Animal identification tags	29,517	668	1,815	32,000	26,246
VENDCROWN Insurance premium finance	32,000	–	(485)	31,515	4,832
SAFETY-KLEEN EUROPE Cleaning and waste removal services	23,765	–	6,978	30,743	22,239
HEATH LAMBERT Insurance broker	19,758	2,890	–	22,648	22,648
TM GROUP Convenience store retailing	22,000	–	–	22,000	10,802
DEUTSCHE WOOLWORTH General merchandise retailer	25,635	–	(5,675)	19,960	29,831
INVICTA LEISURE Health and fitness clubs	16,000	2,491	–	18,491	13,962
MERLIN COMMUNICATIONS Communications	4,087	–	11,774	15,861	4,087
AGRICOLA GROUP Compound animal feeds	15,300	–	–	15,300	15,300
PRIZE FOODS Food manufacturer	13,200	–	2,000	15,200	9,166
BEZIER Printing services	19,178	–	(6,428)	12,750	19,178
FAIRBRIDGE ESTATES Residential property	9,547	300	1,753	11,600	7,815
WILLIAM COOK HOLDINGS Steel castings	11,000	–	–	11,000	20,911
UGC (UNIPART) Automotive spare parts manufacturer	7,500	4	3,496	11,000	112
	340,349	30,065	14,856	385,270	309,112

USA, Far East including India and Elsewhere

Company	Directors' valuation of holding at 30 Sept 2000 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 2001 £'000	Cost of holding at 30 Sept 2001 £'000
MOSER BAER Manufacturer of recordable CD's	39,878	–	(18,637)	21,241	4,406
ORTHOFIX INTERNATIONAL Orthopaedic related medical devices	24,828	(11,385)	1,833	15,276	342
SWIFTY SERVE Convenience stores	34,448	9,568	(29,047)	14,969	26,540
LEINER HEALTH PRODUCTS Manufacturer of vitamin supplements	22,886	–	(9,278)	13,608	14,512
	122,040	(1,817)	(55,129)	65,094	45,800

The unlisted investments shown above and on page 23 represent 63% of the Group's fixed asset unlisted investments at 30 September 2001.

Classification and Distribution of Investments

	UK and Continental Europe Unlisted %	Listed %	USA, Far East including India and Elsewhere Unlisted %	**Total 2001 %**	Total 2000 %
EQUITIES					
Resources					
Oil and Gas	–	–	–	**–**	0.05
	–	–	–	**–**	0.05
Basic Industries					
Chemicals	–	–	0.40	**0.40**	0.29
Construction and Building Materials	7.20	–	1.18	**8.38**	7.01
Forestry and Paper	0.01	–	0.15	**0.16**	0.50
Steel and Other Metals	1.49	–	–	**1.49**	1.08
	8.70	–	1.73	**10.43**	8.88
General Industrials					
Aerospace and Defence	–	–	0.55	**0.55**	0.40
Diversified Industrials	0.01	–	0.09	**0.10**	1.63
Electronic and Electrical Equipment	0.21	–	–	**0.21**	0.24
Engineering and Machinery	–	–	0.80	**0.80**	0.61
	0.22	–	1.44	**1.66**	2.88
Cyclical Consumer Groups					
Automobiles and Parts	1.49	–	–	**1.49**	0.74
Household Goods and Textiles	8.25	0.24	0.07	**8.56**	6.61
	9.74	0.24	0.07	**10.05**	7.35
Non-Cyclical Consumer Groups					
Food Producers and Processors	1.95	–	0.87	**2.82**	1.53
Health	0.85	–	8.01	**8.86**	10.57
Packaging	1.72	–	0.40	**2.12**	2.25
Pharmaceuticals	0.09	0.40	–	**0.49**	2.01
	4.61	0.40	9.28	**14.29**	16.36

	UK and Continental Europe Unlisted %	Listed %	USA, Far East including India and Elsewhere Unlisted %	**Total 2001 %**	Total 2000 %
Cyclical Services					
Distributors	2.07	0.05	0.08	**2.20**	2.98
General Retailers	5.67	0.11	0.02	**5.80**	4.78
Leisure, Entertainment and Hotels	4.43	0.69	0.23	**5.35**	4.31
Media and Photography	3.53	–	0.20	**3.73**	1.69
Support Services	12.94	0.18	0.13	**13.25**	9.17
Transport	1.43	–	0.17	**1.60**	3.29
	30.07	1.03	0.83	**31.93**	26.22
Non-Cyclical Services					
Food and Drug Retailers	–	0.08	1.98	**2.06**	4.47
Telecommunications	0.03	–	0.09	**0.12**	0.20
	0.03	0.08	2.07	**2.18**	4.67
Utilities					
Electricity	0.91	–	–	**0.91**	1.24
	0.91	–	–	**0.91**	1.24
Financials					
Banks, Retail	–	–	0.10	**0.10**	0.36
Insurance	3.37	–	0.02	**3.39**	2.13
Investment Companies	2.95	0.93	8.93	**12.81**	13.05
Real Estate	0.59	–	0.35	**0.94**	0.67
Speciality and Other Finance	5.05	0.04	–	**5.09**	5.61
	11.96	0.97	9.40	**22.33**	21.82
Information Technology					
Information Technology Hardware	–	0.03	2.86	**2.89**	4.02
Software and Computer Services	0.07	0.07	3.19	**3.33**	6.51
	0.07	0.10	6.05	**6.22**	10.53
TOTAL 2001	**66.31**	**2.82**	**30.87**	**100.00**	
TOTAL 2000	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 2001 and their Report on its affairs. A review of the business of the Group is given on pages 4 to 26.

Investment Trust Status

The principal activity of the Company throughout the year was that of an investment trust. The Inland Revenue has approved the Company as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting period to 30 September 1999. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that section. 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

In 1999 shareholders approved the controlled realisation of the investment portfolio over a five year period. In the Report for the year ended 30 September 2000 the Board indicated that it was considering options for the future of Electra with the aim of building on the success of the realisation programme and maximising the value of the remaining assets. In June 2001 shareholders approved changes to Electra's investment strategy whereby at least two thirds of future cash flow will be returned to shareholders with the balance invested in new investments. Further details of the background to recent changes are given on page 3.

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 and in management and investment guideline agreements. The majority of the investments are made as a limited partner of limited partnership funds.

From 1 April 2001 Electra Partners has received a priority profit share of 1.5 per cent on the gross value of Electra's investment portfolio (excluding any amounts committed to Electra Partners' funds). The contract will run for an initial two year term commencing 1 April 2001 with a one-year rolling notice period thereafter.

Results and Dividend

A revenue loss attributable to shareholders of £17.533 million (2000: loss of £19.464 million) was transferred from Revenue Reserves. The Directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2001.

Tender Offer

A Tender Offer returning £150 million to shareholders at a price of £9.85 per share was completed in June 2001 resulting in the purchase for cancellation of 15,228,426 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 28 February 2001 which authorised the Directors, in accordance with Section 166 of the Companies Act 1985, to make further market purchases of up to 12,075,937 shares, equal to 14.99% of the Company's shares in issue at that time. On 21 March 2001, 100,000 of the Company's shares in issue were purchased for cancellation pursuant to this authority at a price of £9.07 per share.

Multi-Currency Loan Facility

At 1 October 2000 the Company had outstanding borrowings of £236,496,000 drawn down under existing multi-currency loan facilities which were repaid in May 2001 when the Company entered into a new £350 million multi-currency loan facility agreement. The purpose of the new facility is to finance tender offers, other share buy-backs and on-market purchases of shares, the financing of new investment and refinancing existing debt. At 30 September 2001 borrowings under the new facility amounted to £239,328,000.

Directors
The current Directors of the Company are listed on page 8. Sir Brian Williamson, Mr RA Armstrong, Professor Sir George Bain, Lord King of Bridgwater, Sir Michael Pickard, Mr MED'A Walton and Mr JP Williams were Directors throughout the year ended 30 September 2001. Apart from these persons no other person was a Director of the Company during any part of the year. Professor Sir George Bain and Mr JP Williams will retire at the 2002 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 2001 and 18 December 2001.

	30 September 2001 Shares	1 October 2000 Shares
Sir Brian Williamson	**20,000**	20,000
RA Armstrong	**30,000**	30,000
Professor Sir George Bain	**2,000**	2,000
Lord King of Bridgwater	**20,000**	20,000
Sir Michael Pickard	**23,070**	28,500
MED'A Walton	**67,774**	67,774
JP Williams	**50,000**	50,000

Substantial Shareholders
At 14 December 2001 the following shareholders had notified an interest of 3% or more in the Company's ordinary shares:

	Shares	%
Deutsche Bank AG London *	5,465,792	8.37
The Equitable Life Assurance Society	2,712,062	4.16

* Deutsche Bank AG London have advised that part of this holding may relate to hedging arrangements for customer transactions.

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 (2000: £nil). No political donations were made during the year (2000: £nil).

Auditors
Resolutions 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 2001 was one day (2000: one day) and that of the Company was one day (2000: one day).

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

Annual General Meeting
The Annual General Meeting will be held on Monday 4 March 2002. 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 9,778,207 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
18 December 2001

Ten Year Record of Earnings and Dividends

Year ended 30 September	Basic Earnings per Share p	Dividends per Share p
1992	7.526	6.700
1993	7.544	7.000
1994	7.498	7.250
1995	10.186	7.550
1996	10.684	8.400
1997	14.181	† 9.700
1998	16.030	11.175
1999	(4.040)	–
2000	(19.847)	–
2001	(22.981)	–

† Excludes special dividend of 0.55p per share

Electra has charged all expenses and finance costs to its Revenue Account in respect of accounting periods since 1 October 1998.

Corporate Governance

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

The Board of Directors

The Board, which meets regularly, comprised of seven Directors at 30 September 2001, all of whom were non-executive. The Chairman devotes approximately two days a week to the affairs of the Company. All the Directors who held office at 30 September 2001 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 entire Board.

The Audit Committee

The Board has an Audit Committee with specified terms of reference. It comprises all 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 JP Williams was Chairman of the Remuneration Committee throughout the year. 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. It comprises all the Directors with Sir Brian Williamson as Chairman.

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 Control

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

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

The Board is responsible for the Company's system of internal control and it has reviewed its effectiveness for the year ended 30 September 2001. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

- Financial Reporting – regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analyses of transactions and performance comparisons.
- Investment Strategy – agreement by the Board of the Company's investment strategy and authorisation and monitoring of all large investments.
- Management Agreements – the Board regularly monitors the performance of Electra Partners to ensure that the Company's assets and affairs are managed in accordance with the guidelines determined by the Board.
- Investment Performance – the investment transactions and performance of the Company's assets and affairs are managed in accordance with the guidelines determined by the Board.
- Management Systems – Electra Partners' system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Partners' compliance department monitors compliance with the FSA rules.

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

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

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.

The Board considers that if the Company were to develop its own website the maintenance and integrity of such a website would be the Company's responsibility. In this respect it should be noted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the Auditors

Independent Auditors' Report to the Members of Electra Investment Trust PLC

We have audited the financial statements of Electra Investment Trust PLC which comprise the Statement of Total Return, the Balance Sheet, Reconciliation of Movements in Shareholders' Funds and the Cash flow Statement and notes 1 to 21, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the Statement of Accounting Policies.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you 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 1985. 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 require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

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

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group'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 2001 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
18 December 2001

Consolidated Statement of Total Return (incorporating the Revenue Account)

Note	For the year ended 30 September	Revenue £'000	Capital £'000	2001 Total £'000	Revenue £'000	Capital £'000	2000 Total £'000
	Gains/(losses) on investments:						
17	Realised	–	15,553	15,553	–	168,832	168,832
17	Unrealised	–	(177,456)	(177,456)	–	(2,188)	(2,188)
	(Losses)/gains on revaluation of foreign currencies:						
17	Realised	–	(7,844)	(7,844)	–	(8,414)	(8,414)
17	Unrealised	–	5,096	5,096	–	(1,434)	(1,434)
		–	(164,651)	(164,651)	–	156,796	156,796
1	Income of the investment trust	24,317	–	24,317	23,223	–	23,223
2	Net (expense)/income of subsidiary undertakings	(587)	–	(587)	4,424	–	4,424
3	Expenses:						
	Priority profit share paid to general partners	(14,129)	–	(14,129)	(19,978)	–	(19,978)
	Management fee	–	–	–	(3,946)	–	(3,946)
	Other expenses	(5,768)	–	(5,768)	(6,862)	–	(6,862)
	Reversal of income accruals	(11,020)	–	(11,020)	(2,803)	–	(2,803)
	Net Return before Finance Costs and Taxation	(7,187)	(164,651)	(171,838)	(5,942)	156,796	150,854
6	Interest payable and similar charges	(10,346)	–	(10,346)	(13,522)	–	(13,522)
	Return on Ordinary Activities before Taxation	(17,533)	(164,651)	(182,184)	(19,464)	156,796	137,332
7	Taxation on ordinary activities	–	–	–	–	–	–
	Return on Ordinary Activities after Taxation and Transfers from Reserves for the Year	(17,533)	(164,651)	(182,184)	(19,464)	156,796	137,332
	Exchange differences arising on consolidation	30	885	915	714	9,099	9,813
17	**Net Transfers (from)/to Reserves for the Year**	(17,503)	(163,766)	(181,269)	(18,750)	165,895	147,145
9	**Return to Shareholders per Ordinary Share**	(22.98p)	(215.81p)	(238.79p)	(19.85p)	159.88p	140.03p

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

	2001	2000
Number of Ordinary Shares in issue at 30 September	65,231,533	80,559,959

Reconciliation of Total Shareholders' Funds

	Year to 30 Sept 2001 £'000	Year to 30 Sept 2000 £'000
Total Return	**(182,184)**	137,332
Exchange differences arising on consolidation	**915**	9,813
Repurchase of own shares	**(147,831)**	(254,738)
Nominal value of own shares repurchased	**(3,832)**	(5,825)
Movements in Total Equity Shareholders' Funds	**(332,932)**	(113,418)
Total Equity Shareholders' Funds at 1 October	**874,042**	987,460
Total Equity Shareholders' Funds at 30 September	**541,110**	874,042

Consolidated Balance Sheet

Note		As at 30 Sept 2001 £'000	As at 30 Sept 2001 £'000	As at 30 Sept 2000 £'000	As at 30 Sept 2000 £'000
	Fixed Assets				
10	Investments:				
	Unlisted		**718,900**		965,917
	Listed		**20,766**		50,163
			739,666		1,016,080
	Current Assets				
11	Debtors	**41,228**		50,601	
12	Investments	**1,867**		3,293	
	Cash at bank and in hand	**5,155**		67,342	
		48,250		121,236	
	Current Liabilities				
13	Creditors: amounts falling due within one year	**7,478**		26,778	
	Net Current Assets		**40,772**		94,458
	Total Assets less Current Liabilities		**780,438**		1,110,538
14	Creditors: amounts falling due after more than one year		**239,328**		236,496
	Net Assets		**541,110**		874,042
	Capital and Reserves				
16	Called-up share capital		**16,308**		20,140
17	Share premium	**24,147**		24,147	
17	Capital redemption reserve	**26,967**		23,135	
17	Realised capital profits	**660,322**		745,332	
17	Unrealised capital (losses)/profits	**(184,853)**		45,566	
17	Revenue reserve	**(1,781)**		15,722	
			524,802		853,902
	Total Equity Shareholders' Funds		**541,110**		874,042
	Net Asset Value per Ordinary Share		**829.52p**		1,084.96p

Balance Sheet

Note		As at 30 Sept 2001 £'000	As at 30 Sept 2001 £'000	As at 30 Sept 2000 £'000	As at 30 Sept 2000 £'000
	Fixed Assets				
10	Investments:				
	Subsidiary undertakings		**9,044**		9,044
	Unlisted		**643,309**		897,054
	Listed		**20,766**		50,163
			673,119		956,261
	Current Assets				
11	Debtors	**62,910**		70,405	
	Cash at bank and in hand	**5,139**		65,816	
		68,049		136,221	
	Current Liabilities				
13	Creditors: amounts falling due within one year	**150,182**		203,409	
	Net Current Liabilities		**(82,133)**		(67,188)
	Net Assets		**590,986**		889,073
	Capital and Reserves				
16	Called-up share capital		**16,308**		20,140
17	Share premium	**24,147**		24,147	
17	Capital redemption reserve	**26,967**		23,135	
17	Realised capital profits	**696,348**		766,911	
17	Unrealised capital (losses)/profits	**(182,191)**		41,209	
17	Revenue reserve	**9,407**		13,531	
			574,678		868,933
	Total Equity Shareholders' Funds		**590,986**		889,073

The Accounts on pages 34 to 55 were approved by the Directors on 18 December 2001 and were signed on their behalf by:
Sir Brian Williamson, *Chairman*

Consolidated Cash Flow Statement

Note	For the year ended 30 September	£'000	2001 £'000	£'000	2000 £'000
	Operating Activities				
	UK dividend income	**6,339**		4,911	
	Unfranked investment income	**16,114**		8,578	
	Partnership income	**–**		9	
	Interest income	**1,272**		2,134	
	Other income	**456**		296	
	Expenses	**(30,074)**		(30,293)	
a	**Net Cash Outflow from Operating Activities**		**(5,893)**		(14,365)
	Returns on Investments and Servicing of Finance				
	Interest paid	**(13,945)**		(10,938)	
	Net Cash Outflow from Returns on Investments and Servicing of Finance		**(13,945)**		(10,938)
	Taxation Paid				
	Corporation tax	**3,325**		4	
	Total Taxation Repaid		**3,325**		4
	Capital Expenditure and Financial Investment				
	Purchases of investments	**(75,960)**		(140,691)	
	Sales of investments	**184,265**		490,675	
	Net Cash Inflow from Capital Expenditure and Financial Investment		**108,305**		349,984
	Acquisitions and Disposals				
	Sale of subsidiary and associated undertakings		**–**		20,500
	Net Cash Inflow before Management of Liquid Resources and Financing		**91,792**		345,185
b	**Management of Liquid Resources**		**43,504**		46,304
	Financing				
	Bank loans drawn	**282,261**		367,818	
	Bank loans repaid	**(283,899)**		(423,786)	
	Loans advanced	**(2,400)**		(973)	
	Repurchase of own shares	**(151,663)**		(254,738)	
	Net Cash Outflow from Financing		**(155,701)**		(311,679)
	(Decrease)/Increase in Cash in the Year		**(20,405)**		79,810

Note	For the year ended 30 September	£'000	2001 £'000	£'000	2000 £'000
	Reconciliation of Net Cash Flow to Movement in Net Debt				
	(Decrease)/Increase in cash in the year		**(20,405)**		79,810
	Cash outflow from debt financing	**1,638**		55,968	
	Cash inflow from change in liquid resources	**(43,504)**		(46,304)	
			(41,866)		9,664
	Change in Net Debt Resulting from Cash Flows		**(62,271)**		89,474
	Translations difference		**(2,748)**		(9,847)
	Movement in Net Debt		**(65,019)**		79,627
	Net debt brought forward		**(169,154)**		(248,781)
	Net Debt carried forward		**(234,173)**		(169,154)

Notes to the Consolidated Cash Flow Statement

	Year to 30 Sept 2001 £'000	Year to 30 Sept 2000 £'000
a Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Outflow from Operating Activities		
Net return before finance costs and taxation but including interest in associated undertaking	**(7,187)**	(5,942)
(Profit)/Loss on sale of current assets investments	**1,421**	(1,086)
Exchange difference	**913**	714
Increase in other debtors and prepayments	**(495)**	(7,174)
Taxation deducted at source on investment income	**(475)**	(656)
Decrease in other creditors and accruals	**(62)**	(220)
Increase in trade debtors	**(8)**	(1)
Net Cash Outflow from Operating Activities	**(5,893)**	(14,365)

b Analysis of Net Debt

	At 1 Oct 2000 £'000	Cash Flow £'000	Exchange Movements £'000	At 30 Sept 2001 £'000
Net cash:				
Cash at bank and in hand	**67,342**	**(63,909)**	**1,722**	**5,155**
Less deposits treated as liquid resources	**(46,304)**	**43,504**	**–**	**(2,800)**
	21,038	**(20,405)**	**1,722**	**2,355**
Liquid resources:				
Deposits on money market	**46,304**	**(43,504)**	**–**	**2,800**
Debt:				
Bank loans	**(236,496)**	**1,638**	**(4,470)**	**(239,328)**
	(169,154)	**(62,271)**	**(2,748)**	**(234,173)**

Statement of Accounting Policies

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

Basis of Accounting
The Accounts are prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (the SORP).

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 by Electra Partners, 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 by Electra Partners. 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.

Current Asset Investments
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.

Expenses

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

- expenses in connection with the acquisition of fixed asset investments are included within the cost of the investment; and
- expenses in connection with the disposal of fixed asset investments are deducted from the disposal proceeds of the investment.

Priority Profit Share

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 is charged wholly to the revenue account.

Taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability will crystallize. The tax effect of different items of income/gain and expense/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the company's effective rate of tax for the accounting period.

Notes to the Accounts

1 Income of the Investment Trust

	£'000	Year to 30 Sept 2001 £'000	£'000	Year to 30 Sept 2000 £'000
UK Dividend Income from Fixed Asset Investments				
Unlisted – UK	**361**		1,183	
Listed – UK	**–**		1,312	
Partnership interests – UK†	**5,914**		4,112	
		6,275		6,607
Unfranked Investment Income from Fixed Asset Investments				
Unlisted – UK	**7,985**		293	
Unlisted – overseas	**141**		294	
Partnership interests – UK†	**8,215**		13,806	
		16,341		14,393
		22,616		21,000
Interest Receivable and Other Income				
Bank interest receivable	**1,269**		1,644	
Underwriting commission	**–**		38	
Rents receivable	**379**		244	
Partnership interests – UK	**–**		297	
Other income	**53**		–	
		1,701		2,223
		24,317		23,223

† 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

	£'000	Year to 30 Sept 2001 £'000	£'000	Year to 30 Sept 2000 £'000
Unfranked Investment Income from Fixed Asset Investments				
Unlisted – UK	**807**		2,603	
Partnership interests – UK	**24**		511	
Partnership interests – overseas	**–**		9	
		831		3,123
Investment Income from Current Asset Investments				
Listed – UK – dividend income		**–**		9
		831		3,132
Interest Receivable and Other Income				
Bank interest receivable	**3**		193	
Underwriting commission	**–**		10	
Investment dealing	**(1,421)**		1,089	
		(1,418)		1,292
		(587)		4,424

3 Expenses

	Year to 30 Sept 2001 £'000	Year to 30 Sept 2000 £'000
Priority profit share paid to General Partner	**14,129**	19,978
Management fee	**–**	3,946
	14,129	23,924

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	**5,158**	6,049
Directors' remuneration (see Note 4)	**310**	515
Auditors' remuneration		
Audit fees (Company 2001: £85,000, 2000: £85,000)	**85**	85
Advisory services (Company 2001: £215,000, 2000: £185,000)	**215**	213
	5,768	6,862

Advisory services include accounting and taxation advice in relation to the tender offer and restructuring that took place during the year.

Reversal of Income Accruals	**11,020**	2,803

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 2001 £'000	Year to 30 Sept 2000 £'000
Chairman's remuneration 1 October 1999 to 30 April 2000	**–**	186
Chairman's Bonus 1 October 1999 to 30 April 2000	**–**	112
Chairman's remuneration for year (2000: 1 May 2000 to 30 September 2000)	**150**	63
Directors' fees	**160**	154
	310	515

Emoluments

Chairman and highest paid Director: (2000: remuneration 1 October 1999 to 30 April 2000)	**150**	186
Bonus 1 October 1999 to 30 April 2000	**–**	112
	150	298

MC Stoddart, Chairman – for the period 1 October 1999 to 30 April 2000
Sir Brian Williamson, Chairman – for the period 1 May 2000 to 30 September 2001

Directors' Remuneration

All of the other Directors received fees of £25,000 per annum for the period 1 October 2000 to 31 March 2001 and £28,500 per annum for the period 1 April 2001 to 30 September 2001 (2000: £25,000).

4 Directors' Remuneration continued

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:

	2001 Number	2000 Number		2001 Number	2000 Number
£ 0 – £ 5,000	**–**	1	£ 90,001 – £ 95,000	**–**	1
£20,001 – £25,000	**–**	5	£145,001 – £150,000	**1**	–
£25,001 – £30,000	**6**	–	£295,001 – £300,000	**–**	1

During the year no Director (2000: nil) waived remuneration amounting to £nil (2000: £nil).

5 Employees (Excluding Directors)

The Company has no employees (2000: nil).

6 Interest Payable

	Year to 30 Sept 2001 £'000	Year to 30 Sept 2000 £'000
Loans Repayable between One and Five Years		
Bank loans	**10,337**	5,508
Loans Repayable within One Year		
Bank loans	**9**	8,014
	10,346	13,522

7 Taxation on Ordinary Activities

No charge to tax arose in the year to 30 September 2001 (2000: £nil).
Corporation tax at 30% (2000: 30%).

8 Revenue Return Attributable to Shareholders

The Revenue Return attributable to shareholders includes a loss of £4,124,000 (2000: loss of £13,124,000) 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 £17,533,000 (2000: £19,464,000) and on a weighted average number of 76,294,548 (2000: 98,070,928) ordinary shares of 25p in issue.
The calculation of capital return per share is based on the capital deficit attributable to ordinary shareholders of £164,651,000 (2000: return £156,796,000) and on a weighted average number of 76,294,548 (2000: 98,070,928) ordinary shares of 25p in issue.

10 Fixed Asset Investments

	Group 30 Sept 2001 £'000	Group 30 Sept 2000 £'000	Company 30 Sept 2001 £'000	Company 30 Sept 2000 £'000
Subsidiary Undertakings at Directors' Valuation				
Unlisted – UK and Continental Europe	**–**	–	**1,445**	1,445
Unlisted – USA and Other	**–**	–	**7,599**	7,599
	–	–	**9,044**	9,044
Unlisted at Directors' Valuation				
UK and Continental Europe	**465,760**	534,553	**393,505**	470,101
USA and Other	**147,367**	315,108	**146,657**	314,376
Partnership interests – UK and Continental Europe	**24,716**	46,000	**24,716**	44,139
Partnership interests – USA and Other	**81,057**	70,256	**78,431**	68,438
	718,900	965,917	**643,309**	897,054
Listed at Market Value				
UK and Continental Europe	**20,766**	50,163	**20,766**	50,163

The market value of investments listed on a recognised investment exchange is £20,766,000 (2000: £50,163,000).

	Group £'000	Company £'000
Valuation at 1 October 2000		
Investments	**1,016,080**	**947,217**
Subsidiary undertakings	**–**	**9,044**
	1,016,080	**956,261**
Changes due to currency movements	**1,543**	**1,543**
	1,017,623	**957,804**
Purchases – at cost	**66,862**	**40,076**
	1,084,485	**997,880**
Disposals – at valuation 1 October 2000	**(151,363)**	**(148,247)**
	933,122	**849,633**
Decrease in valuation	**(193,456)**	**(176,514)**
Valuation at 30 September 2001	**739,666**	**673,119**
Cost at 30 September 2001	**907,798**	**837,341**

The amount of investments held in limited partnership funds that are managed by Electra Partners is £556,262,000 (2000: £777,162,000).

11 Debtors

	Group 30 Sept 2001 £'000	Group 30 Sept 2000 £'000	Company 30 Sept 2001 £'000	Company 30 Sept 2000 £'000
Amounts Falling Due within One Year				
Sales for future settlement	**5,860**	15,649	**5,860**	15,649
Taxation recoverable	**702**	3,435	**36**	2,852
Amounts owed by subsidiary undertakings	**–**	–	**25,039**	23,174
Other debtors	**8,200**	7,001	**5,732**	4,214
Prepayments and accrued income	**26,466**	24,516	**26,243**	24,516
	41,228	50,601	**62,910**	70,405

Prepayments and accrued income comprise accrued income from fixed asset investments.

12 Current Asset Investments

	Group 30 Sept 2001 £'000	Group 30 Sept 2000 £'000	Company 30 Sept 2001 £'000	Company 30 Sept 2000 £'000
Partnership interest	**1,867**	3,293	**–**	–

The market value of listed investments at 30 September 2001 held as partnership interests is £2,346,000 (2000 Listed UK: £5,373,000). Of this total £2,346,000 relates to investments listed on a recognised investment exchange (2000: £5,373,000).

13 Creditors

	Group 30 Sept 2001 £'000	Group 30 Sept 2000 £'000	Company 30 Sept 2001 £'000	Company 30 Sept 2000 £'000
Amounts Falling Due within One Year				
Amounts owed to subsidiary undertakings	**–**	–	**143,631**	180,898
Other taxation	**10**	18	**10**	18
Other creditors	**7,468**	26,760	**6,541**	22,493
	7,478	26,778	**150,182**	203,409

14 Creditors

	Group 30 Sept 2001 £'000	Group 30 Sept 2000 £'000	Company 30 Sept 2001 £'000	Company 30 Sept 2000 £'000
Amounts Falling Due after more than One Year				
Bank loans				
two to five years	**239,328**	236,496	**–**	–

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 12 to 16.
2. A loan facility, the purpose of which is to finance tender offers, other share buy-backs and on-market purchases of shares, the financing of new investment and refinancing existing debt.

Investments are held with a view to identifying suitable opportunities for realisation.

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 during each year 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 seeks to ensure that individual stocks meet an acceptable risk reward profile.

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, long-term foreign currency loan facilities were in existence. The initial drawdown under the loan facilities 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. Investments are held with a view to identifying suitable opportunities for realisation. 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. 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 42.

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 offset exchange risks suffered on foreign fixed asset investments.

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

15 Financial Instruments continued

(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 2001.

Currency As at 30 September	Foreign currency monetary assets 2001 £'000	Foreign currency monetary assets 2000 £'000	Foreign currency monetary liabilities 2001 £'000	Foreign currency monetary liabilities 2000 £'000	Net foreign currency monetary assets 2001 £'000	Net foreign currency monetary assets 2000 £'000
US Dollar	**209,591**	285,365	**(164,659)**	(174,400)	**44,932**	110,965
Other	**86,631**	198,911	**(74,669)**	(62,096)	**11,962**	136,815
Total	**296,222**	484,276	**(239,328)**	(236,496)	**56,894**	247,780

(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 2001.

Currency As at 30 September 2001	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	**450,466**	**5,155**	**197,767**	**247,544**
US Dollar	**209,591**	**–**	**22,161**	**187,430**
Other	**86,631**	**–**	**–**	**86,631**
Total	**746,688**	**5,155**	**219,928**	**521,605**

Interest on floating rate financial assets is at prevailing market rates.

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

Currency As at 30 September	Fixed rate financial assets weighted average interest rate 2001 %	Fixed rate financial assets weighted average interest rate 2000 %	Fixed rate financial assets on which no interest is paid weighted average period until maturity 2001 years	Fixed rate financial assets on which no interest is paid weighted average period until maturity 2000 years
Sterling	**8.7**	5.8	**1.4**	2.4
US Dollar	**6.0**	10.8	**1.3**	2.3
Other	**0.0**	2.0	**2.2**	3.2

The equity shares held have no interest payable and do not have a stated maturity date.

15 Financial Instruments continued

Financial Liabilities

The interest rate profile of the financial liabilities as at 30 September 2001 was:

Currency As at 30 September	Floating rate financial liabilities 2001 £'000	 2000 £'000
US Dollar	**164,659**	174,400
Other	**74,669**	62,096
Total	**239,328**	236,496
Total loan facility	**350,000**	450,000

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 2001 was:

As at 30 September	2001 £'000	2000 £'000
Between two and five years	**239,328**	236,496

(v) Fair Values of Financial Assets and Liabilities

All the financial assets of the Group are held at fair value as at 30 September. Current asset investments are held at lower of cost or market value.

As at 30 September	Book Value and Fair Value 2001 £'000	 2000 £'000
Primary Financial Assets Held		
Equity shares	**436,077**	677,099
Non-equity shares	**91,628**	71,846
Fixed interest securities	**213,828**	270,428
Cash at bank and in hand	**5,155**	67,342
Primary Financial Liabilities held to Finance the Group's Operations		
Long-term borrowings	**239,328**	236,496

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 13.

16 Share Capital

	30 Sept 2001 £'000	30 Sept 2000 £'000
Allotted, called-up and fully paid 65,231,533 (2000: 80,559,959) ordinary shares of 25p each	**16,308**	20,140
Unissued 134,768,467 (2000: 119,440,041) ordinary shares of 25p each	**33,692**	29,860
Authorised 200,000,000 ordinary shares of 25p each	**50,000**	50,000

On 21 March 2001 the Company repurchased in the market, 100,000 of its own issued ordinary shares at £9.07 per share. On 25 June 2001 the Company repurchased 15,228,426 of its own issued ordinary shares at £9.85 per share. The cost of acquisition, which included the expenses directly relating to this acquisition, amounted to £756,000 and has been charged against Realised Capital Profits.

17 Reserves

		Group 30 Sept 2001 £'000	Company 30 Sept 2001 £'000
a	**Share Premium**		
	Share premium at 1 October 2000 and 30 September 2001	**24,147**	**24,147**
b	**Capital Redemption Reserve**		
	At 1 October 2000	**23,135**	**23,135**
	Share capital redeemed during the year	**3,832**	**3,832**
	At 30 September 2001	**26,967**	**26,967**
c	**Realised Capital Profits**		
	At 1 October 2000	**745,332**	**766,911**
	Profits less losses on realisation of investments during the year	**15,553**	**15,506**
	Losses on repayment of foreign currency bank loans	**(9,566)**	**–**
	Net profits on revaluation of foreign currencies	**1,722**	**1,722**
	Unrealised net depreciation at 1 October 2000 on bank loans repaid during the year	**(1,434)**	**–**
	Exchange differences arising on consolidation	**885**	**986**
	Unrealised net appreciation at 1 October 2000 on investments sold during the year	**59,493**	**62,886**
	Repurchase of own shares (Note 16)	**(151,663)**	**(151,663)**
	At 30 September 2001	**660,322**	**696,348**
d	**Unrealised Capital Profits**		
	At 1 October 2000	**45,566**	**41,209**
	Decrease in value of fixed asset investments	**(193,456)**	**(176,514)**
	Provision for long-term incentive scheme payable to employees and executives of Electra Partners	**16,000**	**16,000**
	Profit on revaluation of foreign currency loans	**5,096**	**–**
	Unrealised net appreciation at 1 October 2000 on investments sold during the year transferred to realised profits	**(59,493)**	**(62,886)**
	Unrealised net depreciation at 1 October 2000 on bank loans repaid during the year transferred to realised profits	**1,434**	**–**
	At 30 September 2001	**(184,853)**	**(182,191)**

17 Reserves continued

	Group 30 Sept 2001 £'000	Company 30 Sept 2001 £'000
e Revenue Profits		
At 1 October 2000	**15,722**	**13,531**
Net revenue deficit transfer for the year	**(17,503)**	**(4,124)**
At 30 September 2001	**(1,781)**	**9,407**
Total reserves at 30 September 2001	**524,802**	**574,678**
Total reserves at 30 September 2000	853,902	868,933

18 Contingent Liabilities and Commitments

The Company has undertaken to invest up to a further US$43,385,000 (2000: US$55,977,000) 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 £12,318,000 (2000: £14,825,000).

At 30 September 2001 the Company had no uncalled commitments to limited partnership funds managed by Electra Partners (2000: £20,248,000 and four limited partnerships).

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 (Investment Holding Company)
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.

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 2000 £'000	**Carrying value at 30 Sept 2001 £'000**	**Cost 30 Sept 2001 £'000**
Agricola Group Ordinary shares 8.3% Preference shares 95.0% Loan stock 95.0%	15,300	**15,300**	**15,300**
Allflex Ordinary shares 44.0% Preferred ordinary shares 51.0% Loan stock 70.6%	29,517	**32,000**	**26,246**
Amtico Ordinary shares 49.5% Loan stock 66.1%	35,000	**34,000**	**17,067**
Baxi (formerly Newmond) Ordinary shares 23.0% Preference shares 16.8% 'A' Loan stock 16.8% 'B' Loan stock 59.5%	25,100	**48,806**	**54,590**
Bezier Ordinary shares 47.5% Loan notes 66.7%	19,178	**12,750**	**19,178**
Capital Safety Group Ordinary shares 53.3% Preference shares 62.3% Loan stock 62.3%	31,762	**32,396**	**30,326**
Charco Ninety-Nine Participating ordinary shares 50.0%	10,705	**9,268**	**178**
Deutsche Woolworth (Germany) Ordinary shares 49.3% Shareholders loans 57.6%	25,635	**19,960**	**29,831**
Fairbridge Estates 'A' Ordinary shares 80.0% Shareholder loan 100.0%	9,547	**11,600**	**7,815**
Heath Lambert Ordinary shares 13.6% Preferred shares 21.3% Shareholders loans 22.2%	19,758	**22,648**	**22,648**

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 2000 £'000	**Carrying value at 30 Sept 2001 £'000**	**Cost 30 Sept 2001 £'000**
Invicta Leisure Warrants for ordinary shares 31.3% Mezzanine loan 76.7%	16,000	**18,491**	**13,962**
Leiner Health Products (USA) Partnership interest 18.2%	22,886	**13,608**	**14,512**
Locus (South Korea) Ordinary shares 18.1%	30,899	**8,202**	**12,096**
Merlin Communications 'A' Ordinary shares 15.5% Preference shares 31.8%	4,087	**15,861**	**4,087**
Moser Baer (India) Ordinary shares 17.7%	39,878	**21,241**	**4,406**
Orthofix International (USA) Common stock 5.0%	24,828	**15,276**	**342**
Prize Foods Group Ordinary shares 18.5% Preference shares 24.4% Loan notes 24.4%	13,200	**15,200**	**9,166**
Safety-Kleen Europe Ordinary shares 44.0% Loan stock 48.8%	23,765	**30,743**	**22,239**
Swifty Serve (USA) Common stock 23.4%	34,448	**14,969**	**26,540**
TM Group Ordinary shares 27.6% Preference shares 46.6%	22,000	**22,000**	**10,802**
UGC (Unipart) 'A' Ordinary shares 17.2%	7,500	**11,000**	**112**
Vendcrown 'B' Ordinary shares 49.2%	32,000	**31,515**	**4,832**
William Cook Holdings Ordinary shares 48.8% Convertible ordinary shares 56.1% Preference shares 59.3% Loan stock 59.6% Mezzanine loan 11.7%	11,000	**11,000**	**20,911**

21 Related Party Transactions

The Company operates carried interest and co-investment schemes for employees and executives (the "participants") of Electra Partners. 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 2001 the participants received £6,712,000 (2000: £9,035,000) under these schemes and had unrealised gains of £17,395,000 (2000: £15,107,000). 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 2001 the participants received £nil (2000: £591,000) under the scheme and had unrealised gains of £769,000 (2000: £701,000).

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 2001 the unrealised gain under these arrangements was £1,861,000 (2000: £1,740,000). 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 operated a long term incentive scheme for employees and executives of Electra Partners. Under this scheme the participants received a percentage of the cumulative cash flow arising from the realisation programme of the Company, subject to certain predetermined limits. At 30 September 2000, £16,000,000 had been provided in respect of this scheme. Under terms agreed by shareholders in June 2001 the participants waived their rights under the long term incentive scheme and the £16,000,000 previously provided was written back through unrealised reserves. Electra also waived its right to an outstanding loan note repayment of £4.5 million due from the Electra Partners Group. Electra also assigned its interests in profit share entitlements of Electra Partners valued at £7 million and was issued with a loan note by Electra Partners for £7 million.

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Notice is hereby given that the sixty-seventh Annual General Meeting of Electra Investment Trust PLC will be held at 12.00 noon on Monday 4 March 2002 in the Keats & Milton Meeting Rooms at the Kingsway Hall Hotel, Great Queen Street, London WC2B 5BX 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 2001;

2. To re-elect Professor Sir George Bain as a Director of the Company;

3. To re-elect Mr JP Williams as a Director of the Company;

4. To re-appoint PricewaterhouseCoopers as Auditors of the Company; and

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

Special Business

As Special Business, to consider and, if thought fit, to pass the following Resolution as 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 9,778,207 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 2003 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
18 December 2001

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 41 of the Uncertificated Securities Regulations 2001, only those holders of ordinary shares entered on the register of members of the Company as at 6.00 pm on 2 March 2002 ("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 2 March 2002 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 11.45 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 Professor Sir George Bain and Mr JP Williams are contained on page 9.

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