Electra Investment Trust PLC Annual Report 2004

ELECTRA

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Electra Investment Trust PLC

Annual Report and Accounts for the year ended 30 September 2004

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
Michael Walton
Peter Williams

Manager
Electra Partners

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London SE1 9SY

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Lazard

Bankers
National Westminster Bank PLC

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Lloyds TSB Registrars
The Causeway, Worthing
West Sussex BN99 6DA
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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".

Chairman's Statement

Year to 30 September 2004

Electra made very significant progress during the year to 30 September 2004, achieving strong net asset value growth, share price performance, substantial realisations of investments and further returns of capital to shareholders. The net asset value per share was 913p at 30 September 2004, an increase of 20% over the financial year. Proceeds from the realisation of investments enabled returns of capital of £148 million to be made during the year and by 30 September 2004 cash and floating rate notes exceeded bank debt by £18 million compared with a net debt position of £187 million at the start of the financial year. Electra's share price was up 25.3% over the financial year by comparison with the FTSE All-Share Index which increased 12% over the same period.

Returns of Capital to Shareholders

The Tender Offer of £100 million was completed in July at a price of 816p per share and this was followed by on-market share buy-backs completed in August and September for £48 million in total at prices in the range of 760p to 792p per share. Taken together with the three earlier Tender Offers and purchases of shares for cancellation, a total of £1,093 million has been returned to shareholders since March 1999, of which £300 million or 27% was from realisations since June 2001 when shareholders approved the current investment strategy. The number of shares in issue has reduced by 73% from 173.1 million in issue at 31 March 1999 to 46.7 million at 30 September 2004.

Portfolio

During the year the climate for realisations improved significantly enabling the three largest investments in Baxi, Vendcrown and Safety-Kleen Europe to be successfully realised. Inclusive of accrued income, realisation proceeds for the year totalled £415 million, significantly higher than the disposals achieved over the previous two financial years which amounted to £191 million in total. Excluding the purchase of floating rate notes, new investments in the year totalled £48 million, compared with the previous year's total of £39 million. Full details of these are included in the Investment Manager's Review.

Electra made very significant progress during the year to 30 September 2004, achieving strong net asset value growth, share price performance, substantial realisations of investments and further returns of capital to shareholders.

Investment Strategy

The June 2004 circular to shareholders setting out the Tender Offer proposals provided details of the investment strategy review undertaken by the Board. Following this review, with input from its advisers and Electra Partners, the Board concluded that, in the short term, Electra's strategy should remain unchanged from that approved by shareholders in June 2001 and which concentrated on realisations and capital returns. Under this strategy the realisation of the portfolio as at June 2001 will continue with at least two-thirds of future cash flow from such realisations being returned to shareholders. Subject to maintaining appropriate levels of gearing, the balance of cash flow from realisations will be available for follow-on investments and investment opportunities generated by Electra Partners.

Since June 2001, Electra's investment strategy has allowed a flexible approach to investment with portfolio realisations timed to maximise value and new investments made on attractive terms. This policy will continue with investments being made in a broad spread of private equity assets in funds managed by Electra Partners and through other investment opportunities generated by Electra Partners.

Further Authority to Buy-Back Shares

Under the general authority granted by shareholders at the Annual General Meeting held in March 2004, Electra made on-market purchases and cancelled 6.1 million shares during the year. The Company has the ability to buy back and cancel up to a further 3.7 million shares during the remaining term of this authority.

As indicated to shareholders in the June 2004 circular, the Board expects that future returns of capital will be executed primarily by way of active on-market buy-backs of Electra shares. Accordingly, the Directors will seek to renew the general authority to undertake on-market purchases of Electra shares at the Annual General Meeting to be held on 9 February 2005.

... the Board expects that future returns of capital will be executed primarily by way of active on-market buy-backs of Electra shares.

Corporate Governance

During the last year the Board has considered the implications of the new Combined Code on Corporate Governance (the "new Code") and has instituted procedures to ensure that the Company will be compliant with the new Code for the accounting year commencing 1 October 2004. The Board has particularly considered the question of the independence of each Director in the light of the new Code's provisions on that subject.

Since March 1999, when shareholders approved the 1999 Tender Offer, the Directors have pursued a programme of maximising returns to shareholders in accordance with the strategy formulated by the Board and approved by shareholders. This strategy and its implementation has benefited from the Directors' experience of Electra's private equity investments as did the investment strategy review undertaken in 2004. Continued review of Electra's investment strategy remains an important topic for Directors and is undertaken by the Board which mainly comprises those Directors who have been involved in the realisation process from the outset.

I, together with my Board colleagues, strongly believe that each of the Directors who made a commitment to shareholders in March 1999 continues to be wholly independent notwithstanding length of service on the Board and, in the case of Lord King, the family relationship with a senior executive of Electra Partners, the Company's investment manager. Independence is a state of mind and the character and judgement which accompany this are distinct from the period of time served by each Director on the Board. The presumption that independence is compromised by length of service or family relationships is, in my opinion, and at least for the Board of Electra, a false one.

Performance Review of Directors

During the year and in recognition of the new Code requirements relating to performance appraisals of Directors, the Chairman carried out an appraisal of each of the Directors. Additionally, the Board, under the leadership of the Senior Independent Director, appraised the Chairman. Discussions on the appraisal process have been held by the Chairman and the Senior Independent Director with Hanson Green, who specialise in the recruitment of independent non–executive directors, so that this process will be reviewed externally for the year ending 30 September 2005.

Re-election of Directors

At the Annual General Meeting to be held in February 2005, all Directors of the Company with the exception of Mr Walton, will retire and offer themselves for re–election pursuant either to the requirements of the new Code or the Articles of Association. I can confirm that as a result of the performance appraisals detailed above, the performance of each of the Directors retiring and offering himself for re-election continues to be effective and that each of them continues to show commitment to his role. Further details are set out in the Corporate Governance Statement.

Outlook

Although significant amounts have been invested in private equity through limited partnership funds over recent years the vast majority of these vehicles are not available for the smaller institutional or private investor. The Board believes that there is an increased acceptance of its long held view that there is a role for investment vehicles such as Electra which provide cost-effective and liquid access to private equity. However this is a specialised area and to be successful requires experience and expertise. The success of the past year has demonstrated the value of an independent and experienced Board, working with an expert investment management team which over many years has correctly judged the private equity investment market. I am grateful to my Board colleagues, who have implemented the strategies approved by shareholders in 1999 and 2001 and to Electra Partners, who had the task of satisfying the Board and shareholders that patience in realising investments would result in superior rewards.

Electra's ability to time realisations to maximise shareholder value has been demonstrably successful over the last five years and although the environment for realisations continues to be favourable, the timing of future sales may become less predictable as the portfolio reduces in size and an increasing proportion of the portfolio comprises longer term assets.

The Board believes that Electra, using Electra Partners' deal flow and investment management skills, is well positioned both to successfully realise and selectively make profitable new investments within the constraints of its current investment strategy. The Board is confident that this policy will continue to create shareholder value.

Electra's ability to time realisations to maximise shareholder value has been demonstrably successful over the last five years ...

Sir Brian Williamson
15 November 2004

Board of Directors

Sir Brian Williamson CBE
Chairman
Aged 59, was appointed a Director in 1994.

Chairman of Resolution Life Group and a member of the Supervisory Board of Euronext NV, Sir Brian was previously Chairman of the London Financial Futures & Options Exchange. He is a non-executive Director of HSBC Holdings and a senior adviser to Fleming Family & Partners. In the USA he was a former Governor of the National Association of Securities Dealers and Chairman of Nasdaq's International Markets Advisory Board.

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

Ronald Armstrong *
Aged 60, was appointed a Director in 1994.

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 and countries.

He is a Director of JP Morgan Fleming Worldwide Income Investment Trust, a Director of E-Synergy, which specialises in venture funding for early-stage technology companies, and Chairman of Prism Risk Management.

Professor Sir George Bain *
Aged 65, was appointed a Director in 1998.

A former President and Vice-Chancellor of The Queen's University of Belfast, he has also held senior academic posts at the London Business School and the University of Warwick. He has also been Chairman of the Low Pay Commission and is on the Boards of Bombardier Aerospace Short Brothers and the Canada Life Group (UK).

Lord King of Bridgwater *
Aged 71, 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).

Michael Walton *
Aged 60, 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 Bridgepoint Capital and a number of private companies.

Peter Williams *
Aged 62, was appointed a Director in 1994.

He is Chairman of RPC Group, one of Europe's largest producers of plastic packaging and of Eposs, a specialist deliverer of electronic products to the mobile phone industry. He was formerly a Director of Reed International and Chief Executive of David S. Smith Holdings.

* Member of the Remuneration Committee. All Directors, other than the Chairman, are members of the Audit Committee.

Sir Brian Williamson CBE

Left to right

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

Electra – Background to Recent Changes

Since listing in 1976, Electra has specialised in investing in the private equity market and, through the adoption of a flexible investment policy, has achieved returns substantially in excess of the FTSE All–Share Index over the last ten years. As an investment trust, Electra has a number of advantages over limited partnership funds which invest in private equity.

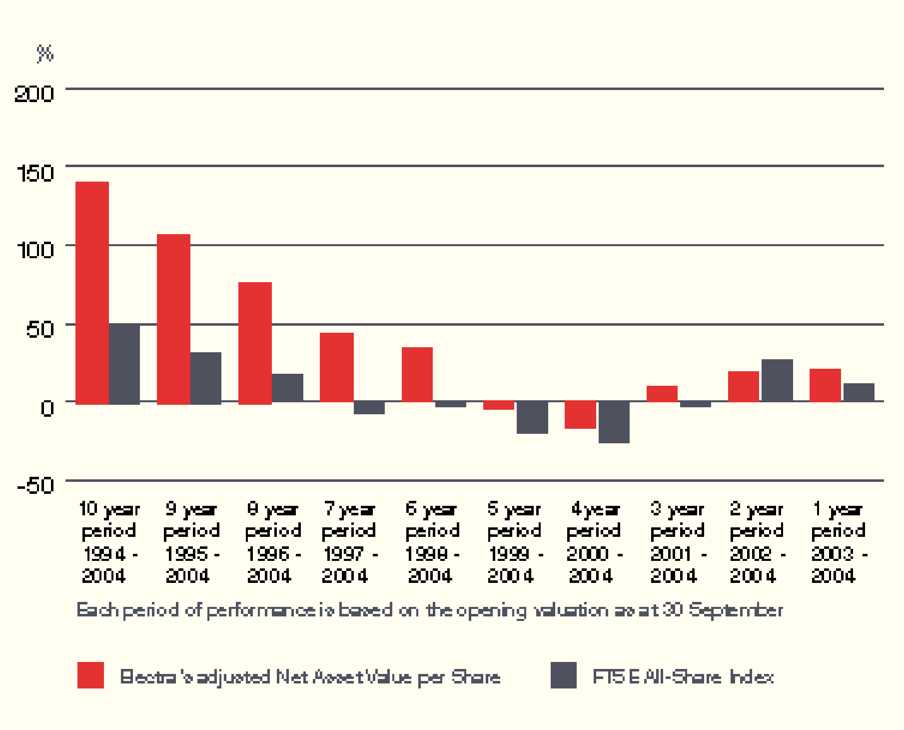
Between 1976 and 2004 Electra invested over £3,000 million in private equity investments. Inclusive of a capital injection of £32 million, Electra's assets grew from £58 million in February 1976 to £1,145 million by 30 September 1998, the financial year end immediately preceding the hostile takeover 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 under which new investment was restricted to existing portfolio companies.

Since the start of the realisation programme in March 1999, Electra has returned £1,093 million to shareholders leaving a residual portfolio valued at £578 million at 30 September 2004. This compares with the stock market value of Electra of £975 million immediately before the announcement of the takeover bid. Over the five and a half years to 30 September 2004, £489 million has been invested in portfolio companies and £1,700 million has been realised from the portfolio.

Shareholders approved proposals in June 2001 which retained the emphasis on realising the investment portfolio but made provision for Electra to continue as an investment vehicle.

In June 2004, the Board, with input from its advisers and Electra Partners, reviewed Electra's investment strategy and concluded that, in the short term, it should continue unchanged from the investment strategy approved by shareholders in June 2001. Also in June 2004, the Board announced a Tender Offer of £100 million which was completed in July 2004 and which was followed by on-market share buy-backs completed in August and September 2004 for £48 million in total.

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
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
2002	498,330	763.94	637.0	462.5
2003	495,498	759.60	522.0	633.5
2004	**** 426,723	912.86	747.5	793.5

* 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)

**** During the year £100,000,000 was repaid to shareholders via a tender offer and 6,232,000 shares were repurchased for cancellation (cost: £48,082,000)

† 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	2000	2001	2002	2003	2004
Net asset value per share (p)	* 1,084.96	** 829.52	763.94	759.60	*** 912.86
Increase/(decrease) in net asset value per share (%)	14.1	(23.5)	(7.9)	(0.6)	20.2
Increase/(decrease) in FTSE All-Share Index (%)	7.2	(22.7)	(23.0)	12.6	12.0

* 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)

*** During the year £100,000,000 was repaid to shareholders via a tender offer and 6,232,000 shares were repurchased for cancellation (cost: £48,082,000)

Twenty Largest Investments

Company	Valuation of holding at 30 Sept 2004 £'000	Cost of holding at 30 Sept 2004 £'000	Percentage of net assets %
BARCLAYS BANK (floating rate notes)	50,000	50,025	11.72
EUROPEAN INVESTMENT BANK (floating rate notes)	39,997	40,017	9.37
CAPITAL SAFETY GROUP	39,129	30,326	9.17
ALLFLEX	35,700	24,813	8.36
AMTICO	30,500	17,056	7.15
INCHCAPE SHIPPING SERVICES	26,387	15,471	6.18
ABBEY NATIONAL (floating rate notes)	25,000	25,013	5.86
BANK OF SCOTLAND (floating rate notes)	25,000	25,013	5.86
LLOYDS BANK (floating rate notes)	25,000	25,013	5.86
FREIGHTLINER	21,618	37	5.07
ESPORTA	16,916	26,041	3.96
MOSER BAER	16,452	1,900	3.86
BAXI HOLDINGS	14,908	14,908	3.49
ENERGY POWER RESOURCES	11,394	25,761	2.67
CANDOVER INVESTMENTS	10,845	226	2.54
BEZIER	10,666	19,178	2.50
FORTHPANEL	9,383	10,738	2.20
FIBROTHETFORD	9,346	9,346	2.19
PRIZE FOODS	9,185	9,166	2.15
LEINER HEALTH PRODUCTS	8,704	8,818	2.04
	436,130	378,866	102.20

Set out above are the 20 largest investments of the Group at 30 September 2004.

The Investment Manager

Electra's investment portfolio is managed by Electra Partners, the independent private equity fund management group.

Electra Partners has accumulated considerable expertise and built a strong track record in private equity investments. The team has managed the assets of Electra for more than 15 years, as well as 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.

In 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.

Principles of Valuation of Unlisted Investments

General

In valuing investments, the Directors follow the principles recommended in the BVCA's Valuation Guidelines, revised in August 2003. Investments are valued at Fair Value at the reporting date. In the small minority of cases where Fair Value cannot be reliably measured, existing book value, less any impairment, is used as the basis of valuation.

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

Unlisted investments

The principal methodologies applied in valuing unlisted investments include the following:

- Earnings multiple
- Price of recent investment
- Net assets

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

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

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

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

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

The amount of the marketability discount will primarily reflect the ability of Electra to control or influence the timing and nature of any realisation. Where Electra has the ability to control an exit, or is part of a syndicate of like-minded investors who can control the exit, a marketability discount of 15% will normally be applied. This may vary according to market and investee company circumstances. Where the likelihood of an exit is high, the discount is likely to be lower. Where there is no ability to control an exit and exit is not under discussion, the discount is likely to be higher. In cases where no exit is contemplated by controlling shareholders, the investment may be valued by discounting the cash flow from the investment itself.

Restricted quoted investments held within the unlisted portfolio are valued at market price but reduced by a marketability discount of up to 30 per cent. where:

- There is a risk that the holding may not be able to be sold immediately.
- There is a formal restriction on trading in the relevant securities.

Accrued Income

Accrued income is not included within investment valuations but is shown within Debtors and is separately disclosed in Note 19 to the Accounts.

Portfolio Analysis

Summary of Changes to Overall Portfolio

Year ended 30 September	2004 £'000	2003 £'000
Opening valuation	679,611	691,727
Investments	48,361	39,182
Realisations	(392,405)	(53,803)
Change in valuation	77,521	2,505
Closing valuation *	413,088	679,611

* The above valuations at 30 September exclude accrued income (2004: £15,773,000; 2003: £31,619,000) and investments in floating rate notes (2004: £164,997,000; 2003: £Nil).

In the year to 30 September 2004, Electra's net asset value per share increased from 760p per share to 913p per share, an increase of 20.2%. This strong performance resulted primarily from an active realisation programme leading to a high level of realised gains. Over the period, the investment portfolio showed a reduction in size from £679 million to £413 million as a result of a net disinvestment from the portfolio of £344 million offset by net gains of £78 million.

New investments in the year amounted to £48 million compared to £39 million in the previous year. This amount excludes £165 million in floating rate notes which were purchased during the year to facilitate currency hedging and other treasury operations. The level of new investment continued to be restricted by the investment strategy currently in place.

The year was highly successful in terms of realisations from the portfolio. In total, these amounted to £392 million, equivalent to almost 58% of the value of the portfolio at the beginning of the year. In addition £23 million of previously accrued income was received during the year. In aggregate, these realisations were made at a premium of 43% over book value at the beginning of the year.

At 30 September 2004, Electra's investment portfolio comprised direct investments in 70 companies with a value of £352 million, together with investments in 27 private equity funds with a value of £61 million. Of the direct portfolio, investments with a value of £74 million were quoted on a recognised stock exchange but subject to restrictions on sale. The ten largest investments accounted for 54% of the total investment portfolio.

Geographically, 78% of the total portfolio is in the UK and Europe, 13% in the USA, 7% in Asia and 2% in South America.

The year was highly successful in terms of realisations from the portfolio.

Current Operations and Outlook

The year has seen a significant change in Electra's portfolio and financial position. Cash generated from realisations from the investment portfolio was utilised to repay debt, provide funding for a Tender Offer of £100 million and provide funding for £48 million of further on-market share buy-backs.

At the end of the year, Electra's investment portfolio contained a significant proportion of larger, mature investments, a number of smaller investments with turnaround potential and several new investments with good upside potential. While realisations in the year ahead will not match the levels of the 2004 financial year, we anticipate that realisations will continue to occur at a reasonable level provided that market conditions continue to be favourable. However the timing of future sales may become less predictable as the portfolio reduces in size and an increasing proportion of the portfolio comprises longer term assets. Meanwhile, good opportunities remain to add value to existing portfolio companies and to add new investments to the portfolio as cash flow becomes available.

Portfolio Review

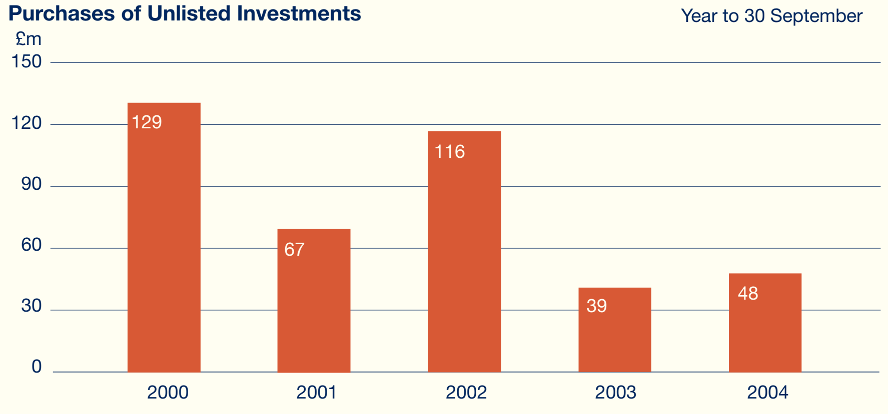
New Investments

Under Electra's current investment policy, two thirds of cash realised from the portfolio existing at June 2001 is to be returned to shareholders. The remaining balance of cash realised is available for follow–on and new investments and investments in funds managed by Electra Partners. Up to the end of the 2004 financial year, demand for reinvestment in portfolio companies has meant that limited funds have been available for new investments. As the portfolio declines in size this demand will reduce allowing more funds to become available for adding new investments to the portfolio.

During the year Electra invested £48 million in new investments, an increase over the prior year. In March 2004, Electra invested £14.9 million in Baxi Holdings in order to preserve an exposure to this business and take advantage of the future upside potential. A similar new investment of £8.8 million was made in Leiner Health Products in the USA, where prospects are believed to be excellent. Both these new investments have so far made encouraging progress. A third significant investment was made in FibroThetford for £9.3 million where Electra purchased subordinated debt and an equity interest in the Biomass power plant in which Energy Power Resources, another of Electra's investments, has a joint venture interest. The subordinated debt was purchased at a significant discount to face value. In addition to the above new investments, £9.3 million was drawn down under commitments to private equity funds.

During the year Electra invested £48 million in new investments, an increase over the prior year.

Purchases of Unlisted Investments



Excludes listed investments

Realisations

Realisations from the portfolio during the year amounted to £392 million. In addition to this, £23 million was received in the form of accrued income, principally on the sale of Baxi. This realisation programme represented a very significant achievement and the patience exercised during the previous two years, when market conditions were unfavourable, has been more than justified. The success of these realisations was due to an effective marketing programme combined with improved market conditions.

Overall, realisations were made at a level 43% higher than book value at the beginning of the year. Five of the top ten investments were sold for £334 million, giving rise to £96 million of realised gains.

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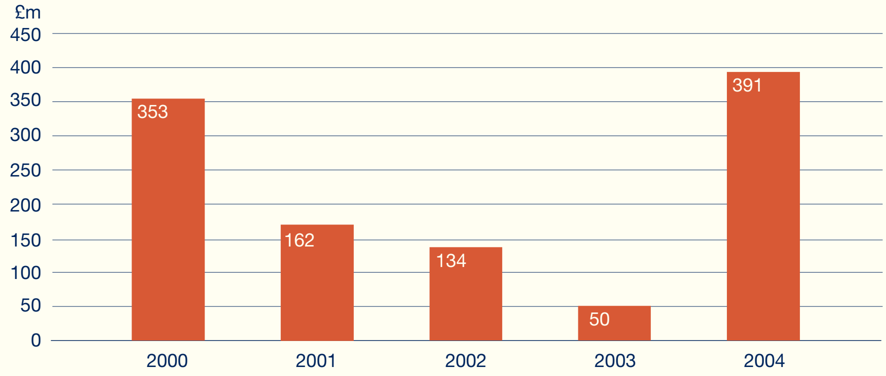
Largest Realisations

Company	Valuation at 30 September 2003 £'m	Proceeds from Disposal £'m
Safety-Kleen Europe	* 49.2	† 103.2
Baxi Holdings	** 83.2	†† 99.1
Vendcrown	57.0	72.2
Leiner Health Products	31.4	39.5
Gower	17.1	19.6
	237.9	333.6

* Includes accrued income of £1.3 million
** Includes accrued income of £21.4 million
† Includes accrued income of £1.6 million
†† Includes accrued income of £25.9 million

Realisations of Unlisted Investments

Year to 30 September



Excludes listed investments

The most significant sale was that of Safety–Kleen Europe, where Electra received proceeds of £103 million. This compared to an original investment cost of £22 million in December 1998. In the case of Baxi, Electra received £99 million including accrued interest. Electra originally invested £30 million in Newmond in 1996 and added a further £24 million in December 2000 to finance the purchase of Baxi by Newmond. The acquisition of Baxi by Newmond resulted in substantial added value. Of the proceeds, £72 million was attributable to the investment made in December 2000. Further significant disposals included Vendcrown, Leiner Health Products, Gower and William Cook. £19 million was received in the year from limited partnership interests in private equity funds and £15 million was received as a result of the repayment of loans by portfolio investments.

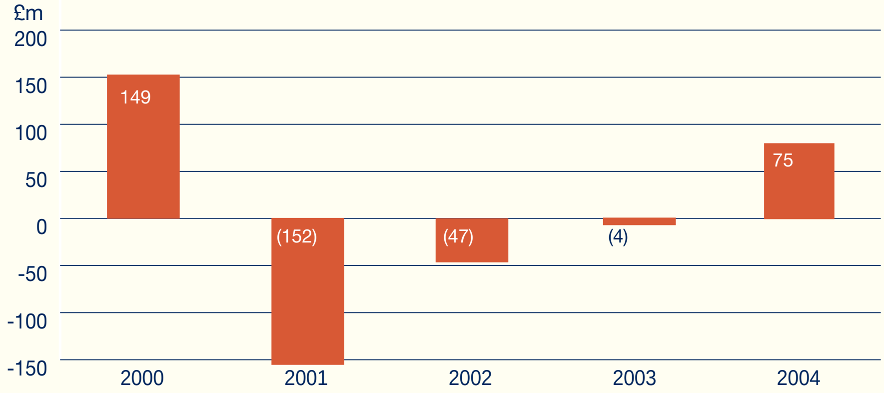
The portfolio performed consistently throughout the year and over the period recorded net appreciation of 14%.

Performance

The portfolio performed consistently throughout the year and over the period recorded net appreciation of 14%. The year thus saw a welcome return to positive progress after three years of decline. Over the year the portfolio appreciated by £78 million. This appreciation included £103 million of realised gains from the sale of portfolio investments and £6 million of unrealised gains on restricted listed securities. These gains were, however, offset by currency depreciation of £13 million and a reduction in unrealised appreciation of £18 million. The majority of the current depreciation was, however, hedged through currency borrowings.

While the realisation programme gave rise to a high level of realised gains there were also some significant increases in unrealised appreciation of investments remaining in the portfolio. The two most significant individual increases were those relating to the investments in Inchcape Shipping Services and Freightliner.

Performance – Net Appreciation/(Depreciation)



Excludes listed investments

Significant valuation increases were also recognised in respect of Capital Safety and Allflex to reflect the good progress made by those investments.

The restructuring of Inchcape Shipping Services, completed two years ago, has allowed the business to grow strongly and the company is currently enjoying a robust operating performance. With a much improved financial position, the company was able, during the year, to redeem Electra's loan of £9.4 million and a revaluation of Electra's investment produced an increase in value of £9.5 million, a percentage increase of 36%. Freightliner also performed strongly over the year to 31 March 2004 and was revalued by £10.6 million, a percentage increase of 75%. Significant valuation increases were also recognised in respect of Capital Safety and Allflex to reflect the good progress made by those investments.

Largest Valuation Increases

Company	£'000	%
Safety-Kleen Europe	53,943	113
Vendcrown	15,221	27
Baxi Holdings	11,259	18
Freightliner	10,579	75
Inchcape Shipping Services	9,462	36
Leiner Health Products	8,085	27

Largest Valuation Decreases

Company	£'000	%
Deutsche Woolworth	(13,696)	(100)
Leisure Parcs	(5,525)	(100)
International Garden Products	(5,338)	(54)

A number of provisions were made against the book value of investments brought forward at the beginning of the year. This included full provision against the investments in Deutsche Woolworth and Leisure Parcs, both of which were made in the first half of the financial year. In the case of Deutsche Woolworth, the provision was made in view of the difficult trading conditions in Germany. Other provisions were made primarily against a number of older investments to reflect, in some cases, volatility in profit and, in other cases, uncertain prospects for profitable realisation.

In aggregate, the provisions made against the value of investments exceeded the increases in unrealised profits by £18 million. This resulted in a reduction in the value of unlisted investments held throughout the year of 5.1%.

Largest Unlisted Investments

CAPITAL SAFETY GROUP

Location: International

Equity Ownership	51.3%
Valuation	£39,129,000
Accrued income	£5,588,000
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. Products fall into three main categories: soft goods (harnesses, lanyards etc), hard goods (blocks, tripods, winches, karrabiners etc) and systems (permanent fixed anchorings). CSG generates its sales worldwide with 68% sourced in North America.

In the year to 31 March 2004 the company achieved unaudited sales of £68.8 million (2003: £66.7 million using comparative exchange rates) with an unaudited operating profit before reorganisation costs of £12.2 million (2003: £11.0 million reducing to £10.3 million after exceptional costs). The budget for the year ending 31 March 2005 is for further profit growth based on increased sales, assisted by the strengthening US economy and the benefit of site rationalisation that was undertaken in 2003.

ALLFLEX

Location: UK, USA and Western Europe

Equity Ownership	50.2%
Valuation	£35,700,000
Accrued income	£2,363,000
Cost	£24,813,000

Valuation based on multiple of earnings

In 1998 Electra invested £23.1 million in the US$160 million buy-out of Allflex. Allflex is, by a significant margin, the world's leading manufacturer and distributor of plastic and electronic animal identification tags with factories in France, USA and China. Subsequently Electra invested a further £5.1 million in Farmexpress, a sister company established to design a livestock traceability system.

In 2003 Allflex raised additional bank facilities to finance the acquisition and further expansion of Farmexpress and to meet interest payments to the institutions.

In the year ended 31 December 2003, Allflex achieved sales of $84.1 million (2002: $82.9 million) and an audited operating profit of $21.7 million (2002: $18.7 million). Allflex is trading ahead of its 2004 budget and is continuing to benefit from the increased awareness worldwide of the need for animal identification and traceability following the BSE outbreak in the USA in December 2003.

AMTICO

Location: UK

Equity Ownership	48.4%
Valuation	£30,500,000
Accrued income	£1,037,000
Cost	£17,056,000

Valuation based on multiple of earnings

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

Amtico designs, manufactures and markets resilient vinyl flooring products. The company is focused on producing premium priced quality products that simulate other materials (wood, marble, slate, metal etc.) with a high value-added design element in a comprehensive range of styles. The company manufactures in the UK and USA and sells its products globally. Customers are 75% commercial and the balance residential.

In the year to 31 March 2004 sales were £77 million (2003: £77 million) and operating profit (before interest) was £8.3 million (2003: £8.1 million). Amtico's end markets continue to exhibit low rates of growth currently, however the company is forecasting a year on year improvement in terms of operating results for the current financial year.

INCHCAPE SHIPPING SERVICES

Location: International

Equity Ownership	**69.0%**
Valuation	**£26,387,000**
Accrued income	**£nil**
Cost	**£15,471,000**

Valuation based on multiple of earnings

In 1999 Electra led and fully underwrote the £40.8 million management buy–out of Inchcape Shipping Services, a market leader in the supply of marine services to the global marine sector. In 2001 a further £10.1 million was invested in the business as part of a restructuring and sale of ISS's North American liner operations.

The business operates from 148 locations in 45 countries and is headquartered in the UK. Services now extend from the traditional ship husbandry operations into financial management and provision of marine services to clients on a global basis.

In the year ended 31 December 2003 ISS reported EBIT of US$14.5 million (2002: $13.4 million) and turnover of US$199 million (2002: $186 million). The operating performance in 2004 has to date been very strong particularly in the core marine services operations and is significantly ahead of prior year and budget. The outperformance is expected to continue for the full year. A refinancing was completed in April which resulted in the repayment of US$17.1 million of loan finance to Electra.

FREIGHTLINER

Location: UK

Equity Ownership	**29.8%**
Valuation	**£21,618,000**
Accrued income	**£nil**
Cost	**£37,000**

Valuation based on multiple of earnings

In 1996 Electra invested £2.5 million for 30% of the equity in the privatisation and management buy out of Freightliner, a division of British Rail. Total funding for the transaction amounted to £72.8 million.

Freightliner's original business consisted of Intermodal, which offers a fully integrated rail service for the transportation of containers from deep sea ports to inland collection points. This also included local haulage to the final destination. Three years ago Freightliner established a heavy haul business to provide an alternative supplier to the bulk freight rail market. Both businesses have offices and freight terminals located around the rail network.

In the year to 31 March 2004, the audited results show sales of £199 million (2003: £186 million), with operating profits of £19.0 million (2003: £13.7 million).

Current year's trading continues to show good progress.

ESPORTA

Location: International

Equity Ownership	**4.0%**
Valuation	**£16,916,000**
Accrued income	**£4,216,000**
Cost	**£26,041,000**

Valuation based on multiple of earnings

Electra initially invested in Invicta in 1996 in order to fund the development of health and fitness clubs.

In 2002 Invicta was acquired by Esporta for £125 million. In this transaction, Electra sold its entire investment in Invicta and received aggregate consideration of £39.4 million. Of this amount £15.1 million was in the form of loan notes secured on the assets of Esporta and £11 million in the equity strip of Esporta. The balance was received in cash.

Esporta operates 18 racquet and 42 health and fitness clubs. In the year to 31 December 2003 the company reported EBIT of £18.6 million on turnover of £155 million. Trading conditions in 2004 have continued to be difficult. However, as a result of a number of management initiatives, profits for the year to December 2004 are forecast to be in line with those made in the previous year. The company is continuing to develop new sites.

MOSER BAER

Location: India

Equity Ownership	7.2%
Valuation	£16,452,000
Accrued income	£nil
Cost	£1,900,000

Valuation based on quoted price

In 1998 Electra invested US$8.0 million in a convertible debenture to fund the expansion of Moser Baer into recordable CDs (CD-Rs). The transaction involved a total financing of US$53 million. At 30 September 2004, Electra had realisations of $53.5 million and held approximately 29% of the original investment valued at $29.7 million. With a capacity of 2 billion disks per annum, it is estimated that Moser Baer has a 15% share of the global recordable optical disk market and is its third largest producer.

In the year to 31 March 2004 the company reported sales of $351 million ($221 million in 2003) and a profit after tax of $74.6 million compared to a profit after tax of $51.9 million the previous year. The current year is challenging for the optical disk manufacturers as CD-R and DVD-R prices have fallen 40% since December 2003. Consumption of disks however continue to rise with an expected threefold increase in DVD-R sales to two billion disks in 2004.

BAXI HOLDINGS

Location: UK, France, Germany, Italy and Turkey

Equity Ownership	9.8%
Valuation	£14,908,000
Accrued income	£nil
Cost	£14,908,000

Valuation based on multiple of earnings

In 2004 Electra invested £14.9 million in the purchase of Baxi by BC Partners. Through this investment Electra maintained an exposure to a business considered to have good long term growth potential.

Baxi is a significant manufacturer of heating products and is the number one supplier of domestic boilers in the UK. It also has significant sales in Continental Europe.

Since the change of ownership, Baxi has continued to trade ahead of budget. Some weakness in the UK has been more than offset by strong performances in Germany and Italy.

In the year to 31 December 2003, Baxi Holdings reported sales of £705 million (2002: £628 million) and EBIT of £81.6 million. (2002: £73.9 million).

ENERGY POWER RESOURCES

Location: UK

Equity Ownership	52.4%
Valuation	£11,394,000
Accrued income	£nil
Cost	£25,761,000

Valuation based on multiple of earnings

In 1998 Electra invested £10.9 million to fund the construction of two biomass fired renewable energy plants and the development of other renewable energy operations. Due to uncertainties as the government reviewed the renewable regime and various project specific issues, no further plants were developed. In 2002, EPR purchased a controlling interest in Fibrowatt, a well established biomass operation with three generating plants, to become the dominant biomass operation in the UK. It also purchased interests in two wind farms.

In the year to 31 March 2004 sales increased to £57 million (2003: £27 million) and operating profit was £10.6 million (2003: £4.2 million).

Overall performance of the plants is stable and continued reduction in project finance debt is forecast.

BEZIER	Location: UK

Equity Ownership	**66.6%**
Valuation	**£10,666,000**
Accrued income	**£nil**
Cost	**£19,178,000**

Valuation based on multiple of earnings

In 1998 Electra invested £19.2 million in the £53 million management buy-out of Bezier which comprised four specialist printing businesses. 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 have continued to grow every year since acquisition.

It remains a difficult environment for UK printing generally. However, Bezier has continued to add major accounts as major retailers rationalise their supplier bases. Margins have also improved as costs have been cut and the mix of business has moved favourably.

In the year to 30 April 2004 the group reported sales of £43.6 million (2003: £37.9 million) and an operating profit of £4.9 million (2003: £4.3 million).

The current financial year has started strongly. Profit is well ahead of prior year after the first quarter and this is expected to continue for the full year.

United Kingdom and Continental Europe

Company	Directors' valuation of holding at 30 Sept 2003 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 2004 £'000	Cost of holding at 30 Sept 2004 £'000
CAPITAL SAFETY GROUP Specialist safety equipment	31,317	–	7,812	39,129	30,326
ALLFLEX Animal identification tags	27,161	2,038	6,501	35,700	24,813
AMTICO Luxury flooring manufacturer	28,653	(16)	1,863	30,500	17,056
INCHCAPE SHIPPING SERVICES Shipping services	26,318	(9,393)	9,462	26,387	15,471
FREIGHTLINER Rail freight operator	14,022	(2,983)	10,579	21,618	37
ESPORTA Health and fitness clubs	15,492	–	1,424	16,916	26,041
BAXI HOLDINGS Heating products	–	14,908	–	14,908	14,908
ENERGY POWER RESOURCES Renewable energy provider	10,500	894	–	11,394	25,761
BEZIER Printing services	10,559	–	107	10,666	19,178
	164,022	5,448	37,748	207,218	173,591

India

Company	Directors' valuation of holding at 30 Sept 2003 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 2004 £'000	Cost of holding at 30 Sept 2004 £'000
MOSER BAER Manufacturer of recordable CDs	28,856	(13,901)	1,497	16,452	1,900

The unlisted investments shown above represent 57% of the Group's fixed asset unlisted investments at 30 September 2004.

Classification and Distribution of Investments

	UK and Continental Europe Unlisted %	UK and Continental Europe Listed %	USA, Far East including India and Elsewhere Unlisted %	**Total 2004 %**	Total 2003 %
EQUITIES					
Basic Industries					
Chemicals	–	–	0.30	**0.30**	0.38
Construction and Building Materials	5.28	–	0.10	**5.38**	5.07
Forestry and Paper	–	–	0.33	**0.33**	0.41
Steel and Other Metals	–	–	–	**–**	1.98
	5.28	–	0.73	**6.01**	7.84
General Industrials					
Aerospace and Defence	–	–	0.26	**0.26**	0.33
Diversified Industrials	0.05	–	0.02	**0.07**	0.05
Electronic and Electrical Equipment	0.35	–	–	**0.35**	0.22
Engineering and Machinery	–	–	0.32	**0.32**	0.42
	0.40	–	0.60	**1.00**	1.02
Cyclical Consumer Groups					
Automobiles and Parts	1.02	–	–	**1.02**	0.60
Household Goods and Textiles	2.58	1.30	–	**3.88**	13.06
	3.60	1.30	–	**4.90**	13.66
Non-Cyclical Consumer Groups					
Food Producers and Processors	–	–	0.02	**0.02**	0.99
Health	–	–	3.60	**3.60**	7.69
Packaging	3.46	–	0.11	**3.57**	1.65
Pharmaceuticals	0.38	0.02	–	**0.40**	0.33
	3.84	0.02	3.73	**7.59**	10.66
Cyclical Services					
Distributors	1.59	–	0.04	**1.63**	2.10
General Retailers	0.47	–	–	**0.47**	4.63
Leisure, Entertainment and Hotels	3.52	0.28	–	**3.80**	4.03
Media and Photography	0.25	–	0.08	**0.33**	0.55
Support Services	12.94	0.19	0.08	**13.21**	15.89
Transport	8.30	–	0.03	**8.33**	6.15
	27.07	0.47	0.23	**27.77**	33.35

	UK and Continental Europe Unlisted %	Listed %	USA, Far East including India and Elsewhere Unlisted %	**Total 2004 %**	Total 2003 %
Non-Cyclical Services					
Telecommunications	–	0.02	0.27	**0.29**	0.17
Utilities					
Electricity	1.97	–	–	**1.97**	1.55
Financials					
Investment Companies	5.95	1.88	4.79	**12.62**	11.98
Real Estate	3.85	–	0.67	**4.52**	4.93
Speciality and Other Finance	–	–	–	**–**	8.39
	9.80	1.88	5.46	**17.14**	25.30
Information Technology					
Information Technology Hardware	0.03	–	2.85	**2.88**	4.36
Software and Computer Services	–	–	1.91	**1.91**	2.09
	0.03	–	4.76	**4.79**	6.45
Fixed Interest					
Debentures & loans	28.54	–	–	**28.54**	–
TOTAL 2004	**80.53**	**3.69**	**15.78**	**100.00**	
TOTAL 2003	72.80	2.98	24.22		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 2004 and their Report on its affairs. A review of the business of the Group is given on pages 3 to 25.

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 2003. 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 18 to the Accounts.

Investment Strategy

Electra's investment strategy was reviewed by the Board in 2004. Following this review, with input from its advisers and Electra Partners, the Board concluded that, in the short term, Electra's strategy should remain unchanged from that approved by shareholders in June 2001 and which concentrated on realisations and capital returns. Under this strategy the realisation of the portfolio as at June 2001 will continue with at least two-thirds of future cash flow from such realisations being returned to shareholders. Subject to maintaining appropriate levels of gearing, the balance of cash flow from realisations will be available for follow-on investments and investment opportunities generated by Electra Partners.

Investment Management Arrangements

The Company's assets are managed by Electra Partners, the independent private equity fund management group. As detailed in the Corporate Governance statement on pages 31 and 33, the Board reviews the activities of Electra Partners on an ongoing basis and in light of this ongoing review believes the continuing appointment of Electra Partners on the terms agreed is in the interests of shareholders as a whole.

Electra Partners is 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 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.

The contract with Electra Partners has a rolling one year notice period and therefore can be terminated on one year's notice, without penalty.

Electra Partners receives 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 Company operates carried interest and co-investment schemes for employees and executives of Electra Partners, details of these are contained in Note 20.

Results and Dividend

A revenue profit attributable to shareholders of £3.557 million (2003: loss of £1.660 million) was transferred to (2003: from) Revenue Reserves. The Directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2004 (2003: £nil).

Authority to make Market Purchases of Shares

During the year under review the Company made the following purchases of its own shares in the market under the authority granted by shareholders at the Annual General Meeting in March 2003:

Shares Purchased for Cancellation	Date of Purchase	Price per share
10,000	10 December 2003	630p
50,000	11 December 2003	between 639p and 648p
12,000	15 December 2003	665p
50,000	17 December 2003	660p

In addition, under the authority granted by shareholders at the Annual General Meeting held in March 2004, the Company made the following purchases of its own shares:

Shares Purchased for Cancellation	Date of Purchase	Price per share
3,450,000	4 August 2004	760p
1,400,000	16 September 2004	792p
110,000	17 September 2004	792p
1,150,000	28 September 2004	792p

Tender Offer

A Tender Offer returning £100 million to shareholders at a price of £8.16 per share was completed in July 2004 resulting in the purchase for cancellation of 12,253,774 ordinary shares of nominal value of 25p each.

Multi-Currency Loan Facility

At 30 September 2004 borrowings under the £350 million multi-currency facility amounted to £160,034,000 (2003: £193,271,000).

Directors

The current Directors of the Company are listed on page 6. Sir Brian Williamson, Mr RA Armstrong, Professor Sir George Bain, Lord King of Bridgwater, Mr MED'A Walton and Mr JP Williams were Directors throughout the year ended 30 September 2004. Apart from these persons no other person was a Director of the Company during any part of the year. In accordance with either the Company's Articles of Association or the Combined Code (1998) on Corporate Governance, Mr RA Armstrong, Professor Sir George Bain, Lord King of Bridgwater, Mr JP Williams and Sir Brian Williamson will all retire at the Annual General Meeting in 2005 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 2004 and 15 November 2004.

	30 September 2004 Shares	1 October 2003 Shares
Sir Brian Williamson	**30,000**	30,000
RA Armstrong	**23,723**	30,000
Professor Sir George Bain	**2,000**	2,000
Lord King of Bridgwater	**15,615**	20,000
MED'A Walton	**54,979**	67,774
JP Williams	**50,000**	50,000

Substantial Shareholders

At 15 November 2004 the following shareholders had notified an interest of 3% or more in the Company's ordinary shares:

	Shares	%
Deutsche Bank AG, and its subsidiary companies *	5,013,299	10.72
Legal & General Group plc and/or its subsidiaries	1,687,857	3.61

* Deutsche Bank AG 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 (2003: £nil). No political donations were made during the year (2002: £nil).

Auditors
A resolution to re-appoint PricewaterhouseCoopers LLP as Auditors to the Company will be proposed at the Annual General Meeting. A separate resolution will be proposed at the Annual General Meeting authorising the Directors to determine the remuneration of the Auditors.

Creditor Payment Policy
The Company agrees the terms of payment with its suppliers when agreeing the terms of each agreement. Suppliers are aware of the terms of payment and the Company abides by the terms of payment. The Group's average creditor payment period at 30 September 2004 was one day (2003: one day) and that of the Company was one day (2003: 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 Wednesday 9 February 2005. 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, until the conclusion of the Company's Annual General Meeting in 2006, the Board's authority to buy up to 7,007,189 of the Company's ordinary shares (or such lesser number of shares as is equal to 14.99% of the total number of ordinary shares in issue at the date of the passing of the resolution) 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. Should any shares be purchased under this authority, it is the intention of the Board that such shares be cancelled.

By order of the Board of Directors
PJ Dyke, Secretary, 65 Kingsway, London WC2B 6QT
15 November 2004

Directors' Remuneration Report

The Directors submit this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An Ordinary Resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such.

Remuneration Committee

The Remuneration Committee is comprised of 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.

The number of Directors of the Company has remained at six for the year to 30 September 2004. There was no change to the remuneration of the Directors during the year.

The Committee has relied upon general salary surveys rather than advice or services by any person in respect of its consideration of the Directors' remuneration.

Policy on Directors' Remuneration

The policy of the Remuneration Committee is that remuneration of non-executive Directors should be fair and sufficient to attract and retain Directors to properly oversee the affairs of the Company and should reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2005 and subsequent years. Non-executive Directors are not eligible to receive bonuses, pension benefits, share options or other benefits.

Directors' Service Contracts

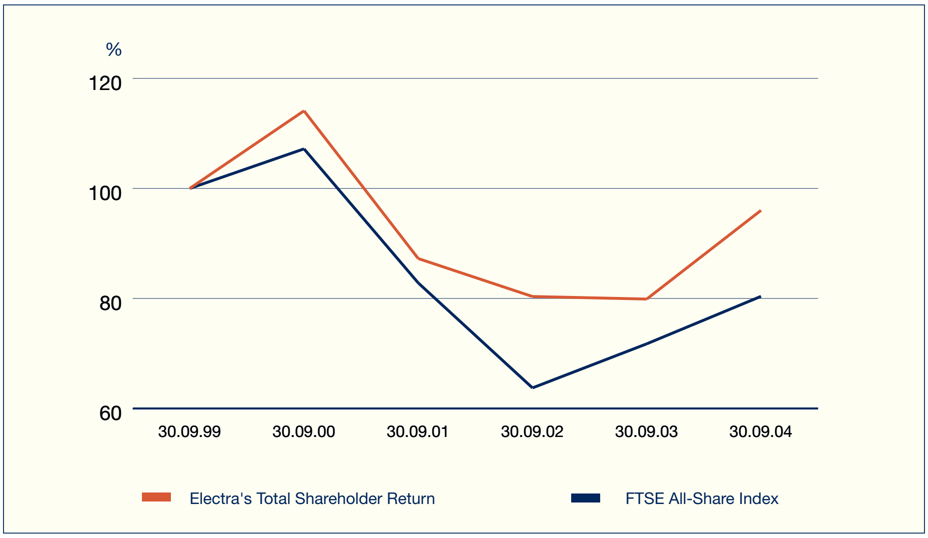
None of the Directors has a service contract with the Company. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors to compensation for loss of office.

Total Shareholder Return

Pursuant to the Directors Remuneration Report Regulations 2002, the Company has been required to show a graph of total shareholder return against a suitable benchmark index in its Directors Remuneration Report for all accounting year ends since 30 September 2003.

The graph below compares the Company's total shareholder return over the five financial years to 30 September 2004 with the FTSE All-Share Index. The Directors consider that since the Company invests in a broad range of commercial sectors the FTSE All- Share Index is the most appropriate index against which to compare the Company's performance.

Electra Investment Trust Total Shareholder Return versus FTSE All-Share Index



Directors' Remuneration for the Year (audited)

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

	30 September 2004 £000	30 September 2003 £000
Sir Brian Williamson (Chairman & highest paid Director)	**150.0**	150.0
RA Armstrong	**28.5**	28.5
Professor Sir George Bain	**28.5**	28.5
Lord King of Bridgwater	**28.5**	28.5
MED'A Walton	**38.5**	38.5
JP Williams	**28.5**	28.5
Total	**302.5**	302.5

The Directors fees include £31,000 (2003: £67,000) paid to third parties for making available the services of two of the Directors (2003: two).

By order of the Board of Directors
PJ Dyke, Secretary, 65 Kingsway, London
15 November 2004

Corporate Governance

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

In July 2003 the Financial Reporting Council issued a revised Combined Code (the "new Code") which applies to accounting periods commencing on or after 1 November 2003. The Board considered the new Code during the year and procedures have been instituted to ensure that the Company will be compliant with the new Code for the year commencing 1 October 2004. The Board, which meets regularly, comprised of six Directors as at 30 September 2004, all of whom were non-executive. The Board has nominated Mr JP Williams as the Senior Independent Director.

Independence of the Board

All the Directors who held office during the year to 30 September 2004 have been considered by the Board to be wholly independent under the Code.

The Board has also particularly considered the question of the independence of each Director in the light of the new Code's provisions on that subject. Since 1999 the Directors have pursued a programme of maximising returns to shareholders in accordance with the strategy formulated by the Board. This strategy and its implementation has benefited from the Directors' experience of Electra's private equity investments as did the investment strategy review undertaken in 2004. Continued review of Electra's investment strategy remains an important topic for Directors and is undertaken by the Board which mainly comprises those Directors who have been involved in the realisation process from the outset.

Sir Brian Williamson, Mr JP Williams, Lord King of Bridgwater and Mr RA Armstrong have served on the Board for more than nine years and Lord King has a family relationship with a senior executive of Electra Partners. The Board has carefully considered the independence of each Director under the provisions of the new Code and has concluded that each Director is wholly independent on the basis that the Board firmly believes that independence is a state of mind and the character and judgement which accompany this are distinct from and are not compromised by length of service or family relationships. The Directors (including the Chairman) who have been in office for more than nine years will submit themselves to annual re-election.

Performance Appraisal

During the year and in recognition of the new Code's requirements relating to performance appraisals of Directors which will apply to Electra for the year commencing 1 October 2004, the Chairman carried out a formal appraisal of each of the Directors. Additionally the Board, under the leadership of the Senior Independent Director, similarly appraised the Chairman. This written appraisal process was prepared in conjunction with Electra Partners and relevant matters considered included attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution made by the relevant Director. As a result of this process, the Chairman has confirmed that the performance of each of the Directors being proposed for re–election continues to be effective and that each of them continues to show commitment to his role. The Senior Independent Director has also confirmed the continuing effectiveness and commitment of the Chairman. Discussions have been held by the Chairman and the Senior Independent Director with Hanson Green, who specialise in the recruitment of independent non–executive directors, so that this process will be externally reviewed for the year ending 30 September 2005.

Re-election of Directors

In accordance with the new Code's provisions or the Company's Articles, each of Sir Brian Williamson, Mr RA Armstrong, Professor Sir George Bain, Lord King of Bridgwater and Mr JP Williams will retire at the Annual General Meeting to be held in 2005 and each offers himself for re-election.

Matters Reserved for the Board

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.

Independent Professional Advice

Individual Directors may seek independent professional advice in furtherance of their duties at the Company's expense within certain parameters. All Directors have access to the advice and services of the Company Secretary. Any 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, other than the Chairman of the Board who resigned from the Committee in May this year with Mr RA Armstrong as Chairman of the Committee. The principal role of the Committee is to review the content of the Annual and Interim Accounts, the accounting policies applied therein, to ensure compliance with financial and regulatory reporting requirements and to monitor the performance and independence of the Company's Auditors. The Audit Committee has direct access to the Company's Auditors and the senior executives of Electra Partners.

The Remuneration Committee

The Remuneration Committee is chaired by Mr JP Williams and comprises all the Directors of the Company, other than the Chairman of the Board who takes no part in determining his own remuneration. Full details of its role are set out in the Directors Remuneration Report.

The Nomination Committee

The Nomination Committee meets on an ad hoc basis to consider suitable candidates for appointment as Director. It comprises all the Directors 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 has reviewed its effectiveness for the year ended 30 September 2004. 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 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 controls of Electra Partners as follows:
- The Board reviews the terms of the management agreements and receives regular reports from Electra Partners' executives.
- The Board reviews the certificates provided by Electra Partners on a six monthly basis verifying compliance with documented controls.
- Custodians are required to produce on a regular basis a report (available for review by the Directors) on their internal controls and their operations including a report by an independent firm of accountants.

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.

Ten Year Record of Earnings and Dividends

Year ended 30 September	Basic Earnings per Share p	Dividends per Share p
1995	10.202	7.550
1996	10.722	8.400
1997	14.052	† 9.700
1998	15.880	11.175
1999	(3.882)	–
2000	(19.119)	–
2001	(22.941)	–
2002	(8.947)	–
2003	(2.545)	–
2004	5.707	–

† 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.

Report of the Independent 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 Consolidated Statement of Total Return, the Reconciliation of Total Shareholders' Funds, the Consolidated Balance Sheet, the Balance Sheet, and the Consolidated Cash flow Statement, the Statement of Accounting Policies and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A of the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective Responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the 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 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 unaudited part of the Directors' Remuneration Report, the Investment Manager's Review, the Corporate Governance Statement and the other items described in the contents section.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2004 and of its total return and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
15 November 2004

- The financial statements are published on www.electratrust.com, which is a website maintained by the Company's Manager, Electra Partners Limited ('EPL').
- The maintenance and integrity of the www.electratrust.com website, maintained by EPL or any of its subsidiaries, in so far as it relates to the Company, is the responsibility of EPL; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for the information presented on this website or any website upon which the financial statements may be published.
- Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Consolidated Statement of Total Return (incorporating the Revenue Account)

Note	For the year ended 30 September	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
	Gains/(losses) on investments:						
16	Realised	–	103,102	103,102	–	4,949	4,949
16	Unrealised	–	(27,134)	(27,134)	–	(2,585)	(2,585)
	Gains/(losses) on revaluation of foreign currencies:						
16	Realised	–	30	30	–	(705)	(705)
16	Unrealised	–	10,801	10,801	–	2,742	2,742
		–	86,799	86,799	–	4,401	4,401
1	Income of the investment trust	14,756	–	14,756	18,181	–	18,181
2	Income/(net expenses) of subsidiary undertakings	5,588	–	5,588	(327)	–	(327)
3	Expenses:						
	Priority profit share paid to general partners	(9,511)	–	(9,511)	(9,840)	–	(9,840)
	Other expenses	(2,701)	–	(2,701)	(3,346)	–	(3,346)
	Reversal of income accruals	–	–	–	(276)	–	(276)
	Net Return before Finance Costs and Taxation	8,132	86,799	94,931	4,392	4,401	8,793
6	Interest payable and similar charges	(3,965)	–	(3,965)	(5,649)	–	(5,649)
	Return on Ordinary Activities before Taxation	4,167	86,799	90,966	(1,257)	4,401	3,144
7	Taxation on ordinary activities	–	–	–	–	–	–
	Return on Ordinary Activities after Taxation	4,167	86,799	90,966	(1,257)	4,401	3,144
	Exchange differences arising on consolidation	(610)	(9,378)	(9,988)	(403)	(5,573)	(5,976)
16	**Net Transfers to/(from) Reserves for the Year**	3,557	77,421	80,978	(1,660)	(1,172)	(2,832)
9	**Return to Shareholders per Ordinary Share**	5.71p	124.22p	129.93p	(2.54p)	(1.80p)	(4.34p)

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

	2004	2003
Number of Ordinary Shares in issue at 30 September	46,745,759	65,231,533

The notes on pages 45 to 57 are an integral part of the financial statements.

Reconciliation of Total Shareholders' Funds

	Year to 30 Sept 2004 £'000	Year to 30 Sept 2003 £'000
Total Return	**90,966**	3,144
Exchange differences arising on consolidation	**(9,988)**	(5,976)
Repurchase of own shares	**(145,131)**	–
Nominal value of own shares purchased	**(4,622)**	–
Movements in Total Equity Shareholders' Funds	**(68,775)**	(2,832)
Total Equity Shareholders' Funds at 1 October	**495,498**	498,330
Total Equity Shareholders' Funds at 30 September	**426,723**	495,498

Consolidated Balance Sheet

Note		As at 30 Sept 2004 £'000	As at 30 Sept 2004 £'000	As at 30 Sept 2003 £'000	As at 30 Sept 2003 £'000
	Fixed Assets				
10	Investments:				
	Unlisted		391,760		659,376
	Floating rate notes		164,997		–
	Listed		21,328		20,235
			578,085		679,611
	Current Assets				
11	Debtors	25,550		36,585	
	Cash at bank and in hand	12,880		6,055	
		38,430		42,640	
	Current Liabilities				
12	Creditors: amounts falling due within one year	12,749		6,497	
	Net Current Assets		25,681		36,143
	Total Assets less Current Liabilities		603,766		715,754
13	Creditors: amounts falling due after more than one year		160,034		193,271
			443,732		522,483
21	Provision for liabilities and charges		17,009		26,985
	Net Assets		426,723		495,498
	Capital and Reserves				
15	Called-up share capital		11,686		16,308
16	Share premium	24,147		24,147	
16	Capital redemption reserve	31,589		26,967	
16	Realised capital profits	567,693		538,914	
16	Unrealised capital losses	(202,672)		(101,561)	
16	Revenue reserve	(5,720)		(9,277)	
			415,037		479,190
	Total Equity Shareholders' Funds		426,723		495,498
	Net Asset Value per Ordinary Share		912.86p		759.60p
	Ordinary Shares in issue 30 September		46,745,759		65,231,533

The notes on pages 45 to 57 are an integral part of the financial statements.

Balance Sheet

Note		As at 30 Sept 2004 £'000	As at 30 Sept 2004 £'000	As at 30 Sept 2003 £'000	As at 30 Sept 2003 £'000
	Fixed Assets				
10	Investments:				
	Subsidiary undertakings		**7,979**		7,979
	Unlisted		**327,789**		567,696
	Floating Rate Notes		**164,997**		–
	Listed		**21,328**		20,235
			522,093		595,910
	Current Assets				
11	Debtors	**27,638**		44,532	
	Cash at bank and in hand	**12,769**		5,768	
		40,407		50,300	
	Current Liabilities				
12	Creditors: amounts falling due within one year	**119,377**		101,890	
	Net Current Liabilities		**(78,970)**		(51,590)
			443,123		544,320
21	Provision for Liabilities and Charges		**17,009**		26,985
			426,114		517,335
	Capital and Reserves				
15	Called-up share capital		**11,686**		16,308
16	Share premium	**24,147**		24,147	
16	Capital redemption reserve	**31,589**		26,967	
16	Realised capital profits	**602,380**		577,988	
16	Unrealised capital losses	**(241,528)**		(129,444)	
16	Revenue reserve	**(2,160)**		1,369	
			414,428		501,027
	Total Equity Shareholders' Funds		**426,114**		517,335

The notes on pages 45 to 57 are an integral part of the financial statements.

The Accounts on pages 37 to 57 were approved by the Directors on 15 November 2004 and were signed on their behalf by:

Sir Brian Williamson, *Chairman*

Consolidated Cash Flow Statement

Note	For the year ended 30 September	£'000	2004 £'000	£'000	2003 £'000
	Operating Activities				
	UK dividend income	**955**		914	
	Unfranked investment income	**31,405**		7,762	
	Interest income	**1,402**		184	
	Other income	**371**		296	
	Proceeds from sale of current asset investment	**–**		838	
	Expenses	**(12,566)**		(12,850)	
a	**Net Cash Inflow/(Outflow) from Operating Activities**		**21,567**		(2,856)
	Returns on Investments and Servicing of Finance				
	Interest paid	**(3,735)**		(6,103)	
	Net Cash Outflow from Returns on Investments and Servicing of Finance		**(3,735)**		(6,103)
	Total Taxation		**–**		–
	Capital Expenditure and Financial Investment				
	Purchases of investments	**(213,440)**		(39,182)	
	Amounts paid under incentive scheme	**(20,935)**		–	
	Sales of investments	**387,741**		53,803	
	Net Cash Inflow from Capital Expenditure and Financial Investment		**153,366**		14,621
	Net Cash Inflow before Management of Liquid Resources and Financing		**171,198**		5,662
b	**Management of Liquid Resources**		**3,400**		9,900
	Financing				
	Bank loans drawn	**108,617**		32,000	
	Bank loans repaid	**(130,362)**		(45,801)	
	Repurchase of own shares	**(140,581)**		–	
	Loans advanced	**(1,386)**		(1,935)	
	Net Cash Outflow from Financing		**(163,712)**		(15,736)
	Increase/(Decrease) in Cash in the Year		**10,886**		(174)
	Reconciliation of Net Cash Flow to Movement in Net Debt				
	Increase/(Decrease) in cash in the year		**10,886**		(174)
	Cash outflow from debt financing	**21,745**		13,748	
	Cash inflow from change in liquid resources	**(3,400)**		(9,900)	
			18,345		3,848
	Change in Net Debt Resulting from Cash Flows		**29,231**		3,674
	Translations difference		**10,831**		2,037
	Movement in Net Debt		**40,062**		5,711
	Net debt brought forward		**(187,216)**		(192,927)
	Net Debt carried forward		**(147,154)**		(187,216)

Notes to the Consolidated Cash Flow Statement

	Year to 30 Sept 2004 £'000	Year to 30 Sept 2003 £'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	**8,427**	4,392
Loss on sale of current assets investments	**–**	330
Exchange difference	**(499)**	(257)
Decrease/(Increase) in other debtors and prepayments	**14,982**	(8,064)
Taxation (deducted)/recovered at source on investment income	**(1,193)**	48
(Decrease)/Increase in other creditors and accruals	**(150)**	695
Net Cash Inflow/(Outflow) from Operating Activities	**21,567**	(2,856)

b Analysis of Net Debt

	At 1 Oct 2003 £'000	Cash Flow £'000	Exchange Movements £'000	At 30 Sept 2004 £'000
Net cash:				
Cash at bank and in hand	6,055	7,486	(661)	12,880
Less deposits treated as liquid resources	(3,400)	3,400	–	–
	2,655	10,886	(661)	12,880
Liquid resources				
Deposits on money market	3,400	(3,400)	–	–
Debt:				
Bank loans	(193,271)	21,745	11,492	(160,034)
	(187,216)	29,231	10,831	(147,154)

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" 1995 (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.

The structures through which Electra's investments are made mean that for the purposes of consolidation, Electra is deemed not to have significant influence or control over the operating and financial decisions of the investee companies. Consequently, Limited Partnerships and any significant investment holdings are not consolidated. Control in all cases vests with parties outside the Electra Group.

Limited Partnership Funds
Significant 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 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.

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

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. Deferred Tax is accounted for in accordance with FRS19 'Deferred Tax'. Deferred Tax is provided on all timing differences that have originated but not reversed by the Balance Sheet date. A Deferred Tax asset is only recognised to the extent that it is regarded as recoverable.

Notes to the Accounts

1 Income of the Investment Trust

	£'000	Year to 30 Sept 2004 £'000	£'000	Year to 30 Sept 2003 £'000
UK Dividend Income from Fixed Asset Investments				
Unlisted – UK	**719**		311	
Partnership interests – UK†	**544**		615	
		1,263		926
Unfranked Investment Income from Fixed Asset Investments				
Unlisted – UK	**5,405**		16,283	
Unlisted – overseas	**197**		188	
Partnership interests – UK†	**6,118**		304	
		11,720		16,775
		12,983		17,701
Interest Receivable and Other Income				
Bank interest receivable	**1,402**		160	
Rents receivable	**298**		298	
Partnership interests – UK	**73**		22	
		1,773		480
		14,756		18,181

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

2 Income/(net expenses) of subsidiary undertakings

	£'000	Year to 30 Sept 2004 £'000	£'000	Year to 30 Sept 2003 £'000
Unfranked Investment Income from Fixed Asset Investments				
Unlisted – UK	**5,588**		3	
		5,588		3
Interest Receivable and Other Income				
Investment dealing	**–**		(330)	
		–		(330)
		5,588		(327)

3 Expenses

	Year to 30 Sept 2004 £'000	Year to 30 Sept 2003 £'000
Priority profit share paid to General Partner	**9,511**	9,840

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	**2,083**	2,594
Directors' remuneration (see Note 4)	**303**	303
Auditors' remuneration	**315**	449
	2,701	3,346

The Audit Committee reviews non-audit assignments annually, and approves all assignments above a set threshold cost.

It is the Group's practice to employ PricewaterhouseCoopers LLP on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally tax advice and compliance matters, or where they are awarded assignments on a competitive basis.

During the year PricewaterhouseCoopers LLP earned the following fees. In addition, an amount of £6,000 (2003 £42,000) was paid to PricewaterhouseCoopers Inc, USA in relation to taxationAdvisery services.

Audit fees		
Company	**145**	170
Group companies	**30**	48
Limited Partnership Funds	**25**	26
Half year review	**40**	40
	240	284
Advisory services		
Tax advice and compliance services	**35**	45
Other	**34**	78
Auditors' Remuneration	**309**	407
Reversal of Income Accruals	**–**	276

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 2004 £'000	Year to 30 Sept 2003 £'000
Chairman's remuneration for year	**150**	150
Directors' fees	**153**	153
	303	303

Emoluments

Chairman and highest paid Director:	**150**	150
	150	150

4 Directors' Remuneration continued

See Directors' Remuneration Report on page 29.

No pension contributions were made in respect of any of the 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:

	2004 Number	2003 Number		**2004 Number**	2003 Number
£25,001 – £30,000	**4**	4	£145,001 – £150,000	**1**	1
£35,001 – £40,000	**1**	1			

During the year no Director (2003: nil) waived remuneration amounting to £nil (2003: £nil).

The Directors' fees include £31,000 (2003: £67,000) paid to third parties for making available the services of two of the Directors (2002: two).

5 Employees (Excluding Directors)

The Company has no employees (2003: nil).

6 Interest Payable

	Year to 30 Sept 2004 £'000	Year to 30 Sept 2003 £'000
Loans Repayable between One and Three Years		
Bank loans	**3,965**	5,649
	3,965	5,649

7 Taxation on Ordinary Activities

No charge to tax arose in the year to 30 September 2004 (2003: £nil). Corporation tax at 30% (2003: 30%).

The actual tax charge reconciles to the tax charge on revenue before tax based on the standard rate of corporation tax of 30% as follows:

	Year to 30 Sept 2004 £'000	Year to 30 Sept 2003 £'000
Return on ordinary activities before taxation	**4,167**	(1,257)
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2002: 30%)	**1,250**	(377)
Dividend income	**(216)**	(93)
Disallowable expenses	**152**	163
Priority profit share of partnership income appropriated by General Partners	**854**	2,757
Non UK group company losses written off	**–**	2
Brought forward losses utilised	**(2,038)**	(3,256)
Capital allowances	**(2)**	(3)
Unutilised losses arising in the year	**–**	807
Tax charge	**–**	–

The deferred tax asset of £246,000 (2003: £807,000) in respect of unutilised expenses at 30 September 2004 has not been recognised as it is unlikely that these expenses will be utilised.

8 Revenue Return Attributable to Shareholders

The Revenue Return attributable to shareholders includes a loss of £3,529,000 (2003: loss of £10,269,000) 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 profits attributable to shareholders of £3,557,000 (2003: loss of £1,660,000) and on a weighted average number of 62,323,721 (2003: 65,231,533) ordinary shares of 25p in issue. The calculation of capital return per share is based on the capital profit attributable to ordinary shareholders of £77,421,000 (2003: loss of £1,172,000) and on a weighted average number of 62,323,721 (2003: 65,231,533) ordinary shares of 25p in issue.

10 Fixed Asset Investments

	Group		Company	
	30 Sept 2004 £'000	30 Sept 2003 £'000	**30 Sept 2004 £'000**	30 Sept 2003 £'000
Subsidiary Undertakings at Directors' Valuation				
Unlisted – UK and Continental Europe	**–**	–	**1,345**	1,345
Unlisted – USA and Other	**–**	–	**6,634**	6,634
	–	–	**7,979**	7,979
Unlisted at Directors' Valuation				
UK and Continental Europe	**274,840**	459,432	**215,412**	374,429
Floating Rate Notes	**164,997**	–	**164,997**	–
USA and Other	**56,133**	112,028	**56,133**	112,028
Partnership interests – UK and Continental Europe	**25,515**	35,321	**24,818**	31,825
Partnership interests – USA and Other	**35,272**	52,595	**31,426**	49,414
	556,757	659,376	**492,786**	567,696
Listed at Market Value				
UK and Continental Europe	**21,328**	20,235	**21,328**	20,235

The market value of investments listed on a recognised stock exchange is £21,328,000 (2003: £20,235,000).

	Group £'000	Company £'000
Valuation at 1 October 2003		
Investments	**679,611**	**587,931**
Subsidiary undertakings	**–**	**7,979**
	679,611	**595,910**
Changes due to currency movements	**(9,488)**	**(9,228)**
	670,123	**586,682**
Purchases – at cost	**213,440**	**238,762**
	883,563	**825,444**
Disposals – at valuation 1 October 2003	**(289,303)**	**(284,193)**
	594,260	**541,251**
Decrease in valuation	**(16,175)**	**(19,158)**
Valuation at 30 September 2004	**578,085**	**522,093**
Cost 30 September 2004	**788,169**	**729,368**

The amount of investments held in limited partnership funds that are managed by Electra Partners is £231,535,000 (2003: £510,787,000).

11 Debtors

	Group		Company	
	30 Sept 2004 £'000	30 Sept 2003 £'000	**30 Sept 2004 £'000**	30 Sept 2003 £'000
Amounts Falling Due within One Year				
Sales for future settlement	**4,664**	–	**4,664**	–
Taxation recoverable	**1,019**	1,434	**1,159**	1,572
Amounts owed by subsidiary undertakings	**–**	–	**7,633**	7,901
Other debtors	**4,094**	3,532	**3,996**	3,440
Prepayments and accrued income	**15,773**	31,619	**10,186**	31,619
	25,550	36,585	**27,638**	44,532

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

12 Creditors

	Group		Company	
	30 Sept 2004 £'000	30 Sept 2003 £'000	**30 Sept 2004 £'000**	30 Sept 2003 £'000
Amounts Falling Due within One Year				
Amounts owed to subsidiary undertakings	**–**	–	**107,019**	95,535
Other creditors	**12,749**	6,497	**12,358**	6,355
	12,749	6,497	**119,377**	101,890

13 Creditors

Amounts Falling Due after more than One Year				
Bank loans				
one to two years	**160,034**	193,271	**–**	–

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

14 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 15 to 18.
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 multi-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 this 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 disposals in the period of both listed and unlisted investments, which have been used to repay loan facilities. As a result the Group's liquidity has increased marginally during the year. Short-term flexibility is achieved through the revolving loan facility.

The maturity of the Group's existing borrowings are set out in part (iv) of this 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 43.

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, Euros and Sterling, which partially offset exchange risks suffered during the current and previous years on foreign fixed asset investments.

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

14 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 2004.

Currency As at 30 September	Foreign currency monetary assets 2004 £'000	 2003 £'000	Foreign currency monetary liabilities 2004 £'000	 2003 £'000	Net foreign currency monetary assets 2004 £'000	 2003 £'000
US Dollar	**65,467**	154,552	**(110,522)**	(131,816)	**(45,055)**	22,736
Other	**69,496**	99,054	**(44,512)**	(45,455)	**24,984**	53,599
Total	**134,963**	253,606	**(155,034)**	(177,271)	**(20,071)**	76,335

(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 2004.

Currency As at 30 September 2004	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	**456,002**	**175,900**	**67,556**	**212,546**
US Dollar	**65,467**	**1,526**	**15,519**	**48,422**
Other	**69,496**	**451**	**1,169**	**67,876**
Total	**590,965**	**177,877**	**84,244**	**328,844**

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

Currency As at 30 September 2003	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	432,060	4,496	127,521	300,043
US Dollar	154,552	1,231	16,384	136,937
Other	99,054	328	1,194	97,532
Total	685,666	6,055	145,099	534,512

Currency As at 30 September	Fixed rate financial assets weighted average interest rate 2004 %	 2003 %	Fixed rate financial assets on which no interest is paid weighted average period until maturity 2004 years	 2003 years
Sterling	**9.3**	9.3	**4.0**	0.8
US Dollar	**5.0**	5.0	**5.0**	0.2
Other	**5.0**	5.0	**0.0**	1.5

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

14 Financial Instruments continued

Financial Liabilities

The interest rate profile of the financial liabilities as at 30 September 2004 was:

Currency As at 30 September	Floating rate financial liabilities 2004 £'000	 2003 £'000
US Dollar	**110,522**	131,816
Other	**44,512**	45,455
Sterling	**5,000**	16,000
Total	**160,034**	193,271
Total loan facility	**350,000**	350,000

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 2004 was:

As at 30 September	2004 £'000	2003 £'000
Between one and three years	**160,034**	193,271

(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 2004 £'000	 2003 £'000
Primary Financial Assets Held		
Equity shares	**277,743**	399,754
Non-equity shares	**12,624**	75,742
Fixed interest securities	**287,718**	204,115
Cash at bank and in hand	**12,880**	6,055
Primary Financial Liabilities held to Finance the Group's Operations		
Long-term borrowings	**160,034**	193,271

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:

Earnings multiple;
Price of recent investment; or
Net assets.

The Principles of Valuation of Unlisted Investments are detailed on pages 13 and 14.

15 Share Capital

	30 Sept 2004 £'000	30 Sept 2003 £'000
Allotted, called-up and fully paid 46,745,759 (2003: 65,231,533) ordinary shares of 25p each	**11,686**	16,308
Unissued 153,254,241 (2003: 134,768,467) ordinary shares of 25p each	**38,314**	33,692
Authorised 200,000,000 ordinary shares of 25p each	**50,000**	50,000

During the year ended 30 September 2004, the Company made a tender offer to shareholders for 12,253,774 ordinary shares of 25p at £8.16 per share. The Company also purchased from shareholders 6,232,000 ordinary shares of 25p at prices between £6.30 and £7.92 per share. The cost of acquiring 18,485,774 ordinary shares of 25p including expenses of £1,680,000 amounted to £149,753,000.

16 Reserves

		Group 30 Sept 2004 £'000	Company 30 Sept 2004 £'000
a	**Share Premium**		
	Share premium at 1 October 2003 and 30 September 2004	**24,147**	**24,147**
b	**Capital Redemption Reserve**		
	At 1 October 2003	**26,967**	**26,967**
	Share capital redeemed during the year	**4,622**	**4,622**
	At 30 September 2004	**31,589**	**31,589**
c	**Realised Capital Profits**		
	At 1 October 2003	**538,914**	**577,988**
	Net profits on realisation of investments during the year	**103,102**	**102,369**
	Profits on repayment of foreign currency bank loans	**691**	**26**
	Net losses on revaluation of foreign currencies	**(661)**	**(661)**
	Unrealised net depreciation at 1 October 2003 on bank loans repaid during the year	**2,027**	**–**
	Exchange differences arising on consolidation	**(9,378)**	**(9,556)**
	Repurchase of own shares	**(149,753)**	**(149,753)**
	Unrealised net depreciation at 1 October 2003 on investments sold during the year	**82,751**	**81,967**
	At 30 September 2004	**567,693**	**602,380**
d	**Unrealised Capital Profits**		
	At 1 October 2003	**(101,561)**	**(129,444)**
	Decrease in value of fixed asset investments	**(16,175)**	**(19,158)**
	Increase in incentive provisions (see Note 21)	**(10,959)**	**(10,959)**
	Profit on revaluation of foreign currency loans	**10,801**	**–**
	Unrealised net depreciation at 1 October 2003 on investments sold during the year transferred to realised capital profits	**(82,751)**	**(81,967)**
	Unrealised net appreciation at 1 October 2003 on bank loans repaid during the year transferred to realised capital profits	**(2,027)**	**–**
	At 30 September 2004	**(202,672)**	**(241,528)**

16 **Reserves** continued

		Group 30 Sept 2004 £'000	Company 30 Sept 2004 £'000
e	**Revenue Profits**		
	At 1 October 2003	**(9,277)**	**1,369**
	Net revenue surplus/(deficit) transfer for the year	**3,557**	**(3,529)**
	At 30 September 2004	**(5,720)**	**(2,160)**
	Total reserves at 30 September 2004	**415,037**	**414,428**
	Total reserves at 30 September 2003	479,190	501,027

17 Contingent Liabilities and Commitments

The Company has undertaken to invest up to a further US$14,358,000 (2003: US$18,713,000) 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 £1,893,000 (2003: £17,425,000).

At 30 September 2004 the Company had uncalled commitments of £3,742,000 to a limited partnership fund managed by Electra Partners (2003: £10,083,000).

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

18 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 directly by the Company.

19 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 2003 £'000	**Carrying value at 30 Sept 2004 £'000**	**Cost 30 Sept 2004 £'000**
Abbey National	–	**25,000**	**25,013**
Accrued income	–	**54**	
Floating rate notes 100.0%			
Allflex	27,161	**35,700**	**24,813**
Accrued income	1,785	**2,363**	
Ordinary shares 47.0%			
Preferred ordinary shares 50.9%			
Loan stock 71.5%			
Amtico	28,653	**30,500**	**17,056**
Accrued income	259	**1,037**	
Ordinary shares 48.4%			
Loan stock 66.1%			
Bank of Scotland	–	**25,000**	**25,013**
Accrued income	–	**78**	
Floating rate notes 100.0%			
Barclays Bank	–	**50,000**	**50,025**
Accrued income	–	**367**	
Floating rate notes 100.0%			
Baxi Holdings	–	**14,908**	**14,908**
Ordinary shares 9.9%			
Unsecured deep discount bond 9.9%			
Bezier	10,559	**10,666**	**19,178**
Ordinary shares 66.6%			
Loan notes 66.7%			
Candover Investments	9,000	**10,845**	**226**
Accrued income	90	**113**	
Ordinary shares 3.4%			
Capital Safety Group	31,317	**39,129**	**30,326**
Accrued income	3,380	**5,588**	
Ordinary shares 51.3%			
Preference shares 62.3%			
Loan stock 62.3%			
Dinamia	8,007	**8,469**	**8,070**
Ordinary shares 10.4%			
Energy Power Resources	10,500	**11,394**	**25,761**
Ordinary shares 52.4%			
Loan stock 80.4%			

19 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 2003 £'000	**Carrying value at 30 Sept 2004 £'000**	**Cost 30 Sept 2004 £'000**
Esporta	15,492	**16,916**	**26,041**
Accrued income	2,119	**4,216**	
'B' ordinary shares 4.0%			
Shareholder loans 4.8%			
Vendor loan note I 100.0%			
Vendor loan note II 21.5%			
European Investment Bank	–	**39,997**	**40,017**
Accrued income	–	**35**	
Floating rate notes 100.0%			
FibroThetford	–	**9,346**	**9,346**
Loans 100%			
Forthpanel	12,516	**9,383**	**10,738**
Ordinary shares 92.1%			
Freightliner	14,022	**21,618**	**37**
'A' ordinary shares 50.0%			
Hornby	7,658	**7,518**	**138**
Ordinary shares 8.1%			
Inchcape Shipping Services	26,318	**26,387**	**15,471**
Ordinary shares 68.0%			
Cumulative redeemable preference shares 100.0%			
Leiner Health Products (USA)	–	**8,704**	**8,818**
Partnership interest 18.2%			
Lloyds Bank	–	**25,000**	**25,013**
Accrued income	–	**285**	
Floating rate notes 100.0%			
Moser Baer (India)	28,856	**16,452**	**1,900**
Ordinary shares 6.0%			
Orthofix International (USA)	7,256	**6,276**	**122**
Common stock 2.2%			
Prize Foods Group	14,010	**9,185**	**9,166**
Accrued income	334	**332**	
Ordinary shares 18.9%			
Loan notes 24.4%			
UGC	4,094	**5,916**	**882**
'A' Ordinary shares			
Zensar Technologies	5,367	**6,616**	**4,211**
Ordinary shares 22.1%			

20 Related Party Transactions

The Company operates carried interest and co-investment schemes for certain 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 2004 the participants received £20,935,000 (2003: £1,538,000) under these schemes and had unrealised gains of £14,376,000 (2003: £24,347,000). 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 2004 the participants received £nil (2003: nil) under the scheme and had unrealised gains of £772,000 (2003: £777,000).

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 2004 the unrealised gain under these arrangements was £1,861,000 (2003: £1,861,000). No Directors of Electra participate in the above schemes.

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.

21 Provision for Liabilities and Charges

	Group **30 Sept 2004** **£’000**	Company **30 Sept 2004** **£’000**
At 1 October 2003	**26,985**	**26,985**
Amounts paid under incentive schemes	**(20,935)**	**(20,935)**
	6,050	**6,050**
Increase in incentive scheme provision	**10,959**	**10,959**
At 30 September 2004	**17,009**	**17,009**

Current and former executives of the Electra Partners group, the manager of Electra Investment Trust PLC are entitled to incentives on performance of investments in Electra Investment Trust PLC. Under the current contractual terms of the Realisation Incentive Schemes, executives receive the value of any amounts that were due at 30 September 2000 and 8% on uplifts in value from that date.

Notice is hereby given that the seventieth Annual General Meeting of Electra Investment Trust PLC will be held at 12.00 noon on Wednesday 9 February 2005 in the Clement's, Thavies & Lincoln Meeting Room at the Renaissance Chancery Court Hotel, 252 High Holborn, London WC1V 7EN 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 2004.
2. To approve the Directors' Remuneration Report for the year ended 30 September 2004 which is set out in the Annual Report and Accounts of the Company for the year ended 30 September 2004.
3. To re-elect Mr RA Armstrong as a Director of the Company.
4. To re-elect Professor Sir George Bain as a Director of the Company.
5. To re-elect Lord King of Bridgwater, aged 71, as a Director of the Company, special notice having been received of the intention to propose the resolution as an ordinary resolution.
6. To re-elect Mr JP Williams as a Director of the Company.
7. To re-elect Sir Brian Williamson as a Director of the Company.
8. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
9. 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:

10. 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 7,007,189 or such lesser number of shares as is equal to 14.99 per cent of the total number of ordinary shares in issue as at the date of the passing of this resolution;
    (ii) the minimum price which may be paid for an ordinary share shall be 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 2006 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
15 November 2004

Notes

1 Any member of the Company who is entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. Such proxy need not be a member of the Company.

2 A Form of Proxy is 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 6ZH, 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 7 February 2005 ("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 7 February 2005 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 Mr RA Armstrong, Professor Sir George Bain, Lord King of Bridgwater, Mr JP Williams and Sir Brian Williamson are contained on page 6.

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