ELECTRA

Electra Investment Trust PLC

303062

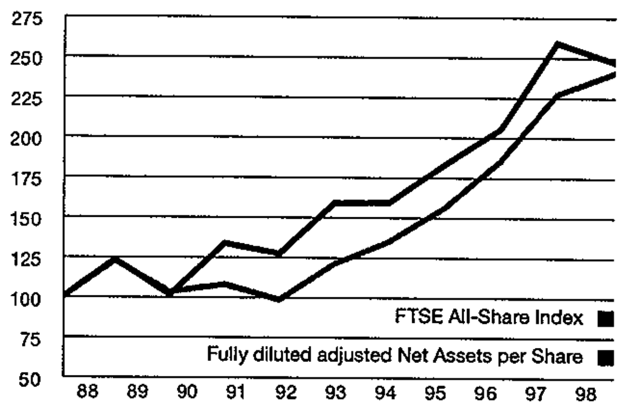
Annual Report for the year ended 30 September 1998

References in this Report to Electra Investment Trust PLC have been abbreviated to EIT.

Assets

As at 30 September	Net Assets £'000	Fully diluted adjusted Net Asset Value per Share p
1988	456,888	281.53
1989	567,765	345.73
1990	467,668	291.71
1991	491,743	304.53
1992	470,793	277.87
1993	580,614	341.30
1994	643,924	380.70
1995	748,588	440.49
1996	886,206	522.13
1997	1,082,802	640.04
1998	1,145,319	676.15

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

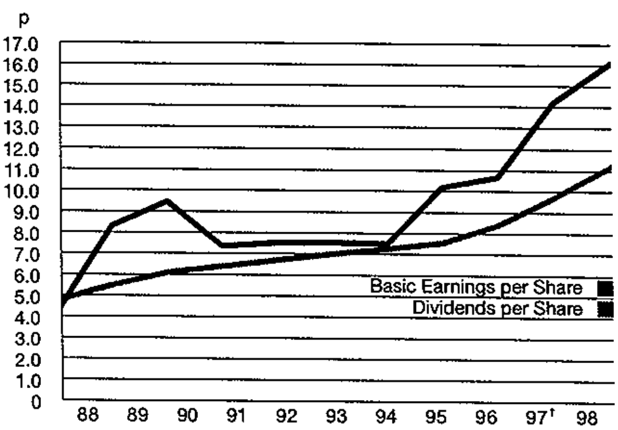


30 September 1988 = 100

Revenue

Year ended 30 September	Basic Earnings per Share p	Dividends per Share p
1988	4.486	4.80
1989	8.323	5.50
1990	9.463	6.10
1991	7.351	6.40
1992	7.526	6.70
1993	7.544	7.00
1994	7.498	7.25
1995	10.186	7.55
1996	10.684	8.40
1997	14.181	† 9.70
1998	16.030	11.175

Basic Earnings and Dividends per Share



† Excludes special dividend of 0.55p per share

Highlights

For the year ended 30 September 1998	Increase %
Total adjusted return of £82.905 million, a return of 7.5% on adjusted opening shareholders' funds	
Adjusted net asset value per share increased from 640.04p to 676.15p	5.6
Revenue return after tax increased from £24.547 million to £27.747 million	13.0
Recommended final dividend of 6.0p per share, making a total dividend for the year of 11.175p (1997: 9.7p excluding a special dividend of 0.55p per share)	15.2

Five Year Record

For the year ended 30 September	1994	1995	1996	1997	1998
Adjusted total return (£'000)	79,943	113,570	155,786	222,809	82,905
Return on adjusted opening shareholders' funds (%)	12.54	17.26	20.43	24.65	7.48
Adjusted net asset value per share (p)	380.70	440.49	522.13	640.04	676.15
Revenue return after tax (£'000)	12,975	17,632	18,494	24,547	27,747
Total ordinary dividends per share (p)	7.25	7.55	8.40	9.70	11.175
Special dividend per share (p)	–	–	–	0.55	–

Note
Adjusted net asset value per share at 30 September 1998 comprised net assets of £1,145,319,000 (1997: £1,082,802,000) per the Consolidated Balance Sheet and £25,095,000 in respect of the interest in Electra Fleming (1997: £25,095,000) and 173,098,534 ordinary shares of 25p in issue (1997: 173,098,534).

Total return for the year to 30 September 1998 was £82.9 million ...

Performance
Total return for the year to 30 September 1998 was £82.9 million, representing a return of 7.5% on opening shareholders' funds after adjustment for EIT's interest in Electra Fleming, its management company. For the first six months of the year, the adjusted net asset value increased by 15.1%, although the annual increase was reduced to 5.6% principally due to the decline in UK and US stock markets in the last quarter. However, this performance was very satisfactory when measured against the 4.5% decline in the FTSE All-Share Index and the 14.9% decline in the FTSE SmallCap Index for the year. In addition EIT outperformed the FTSE All-Share Index over the three, five and twelve year periods ended 30 September 1998 as well as the FTSE SmallCap Index (which was established in 1992) over the three and five year periods ended 30 September 1998.

Dividend
Your Board is recommending the payment of a final dividend of 6.0p per share which, together with the interim dividend of 5.175p per share, amounts to 11.175p per share – a total increase of 15.2% over last year. As indicated in my Interim Statement, the Board is proposing that payment of the final dividend be delayed until the abolition of Advance Corporation Tax in April 1999. Subject to approval by shareholders at the Annual General Meeting, the final dividend will be paid on 8 April 1999 to shareholders on the Register of Members at the close of business on 12 February 1999.

After providing for such dividends, £8.1 million will be added to consolidated revenue reserves which will then total £48.6 million.

Unlisted Portfolio
We have maintained our prudent approach to the valuation of unlisted investments and once again this has been validated by a successful realisation programme. A buoyant corporate mergers and acquisitions market until the last quarter resulted in realisations of £371 million over the year. Overall cash realisations exceeded purchases by £43 million over the year. At the year end EIT's net borrowings had been reduced to £6.3 million from £42.3 million at the beginning of the year.

We rejected a number of potential transactions which we concluded to be highly priced and at the peak of their market, although during the year £328 million was invested of which 51% was in the UK, 28% in Continental Europe and 21% in the USA and elsewhere. These additions to our portfolio are well diversified, both geographically and by industry sector.

Listed Portfolio
The listed portfolio performed strongly in the first six months of the year, although the sharp decline in the small cap sector in the last quarter resulted in a disappointing performance for the full year. However, the 10.4% decrease over the year is to be compared with the 14.9% decline in the FTSE SmallCap Index. It is our intention to reduce further our holdings in listed securities, which at the year end accounted for 23% of the portfolio. This will enable EIT to increase further the proportion of unlisted investments in the portfolio.

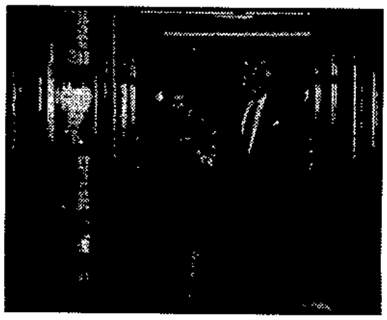
Electra Fleming

Electra Fleming now has investment management teams in London, Continental Europe, the USA, Latin America and Asia with the result that it continues to be well positioned to source and structure new transactions to meet EIT's investment requirements.

During the year Electra Fleming increased the pace of EIT's new investment activity in Continental Europe – of the 19 European transactions completed during the year, 9 were in Continental Europe.

Return of Capital

We are committed to maximising value for shareholders. In pursuit of this objective, and as outlined in my Statement this time last year, the Board now believes that it is in the interests of shareholders to return some capital. The Board therefore intends to conduct a buy-in, by way of on-market purchases, of some 10% of shares for cancellation after 6 April 1999 following the abolition of Advance Corporation Tax. Details will be announced in due course. The Board will keep under review other measures to maximise value for shareholders.



Royal Visit

On 18 November 1998 we were greatly honoured to receive Her Majesty The Queen at our offices as part of a tour of City institutions. During her visit, she met your Board and the management of three of our unlisted investments who gave presentations on their businesses.

The Board

Professor George Bain joined the Board on 1 September 1998. As indicated last year, I will be retiring from the Board at the conclusion of the Annual General Meeting to be held on 17 February 1999 and will be succeeded as Chairman by Brian Williamson, the current Deputy Chairman. Since I joined EIT in 1974, the Company has developed into a significant investor in UK private equity and it is a source of enormous satisfaction to have been involved in that process.

Conclusion

The substantial funds available for investment in private equity have increased competition and, although it may be difficult to repeat the rates of return achieved over recent years, I am confident that EIT should continue to outperform its premier benchmark, the FTSE All-Share Index.

I would like to thank my fellow Directors and the management of Electra Fleming for their support during the many years that I have been Chairman.

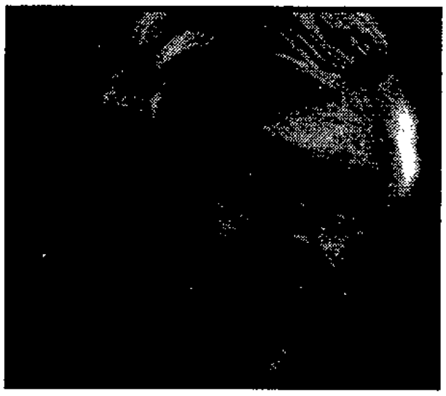
Michael Stoddart

Michael Stoddart
Chairman

16 December 1998

Left to right

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








Michael Stoddart
Chairman
Aged 66, was appointed a Director of the Company in 1973 and Chairman in 1986, having previously been Joint Chief Executive of Singer & Friedlander. A Chartered Accountant, he has had wide ranging experience in the financing of small and medium sized companies and in unlisted investments.

He is also Chairman of Britax International and Gartmore Venture Capital Trust and a Director of a number of public and private companies. He is a member of the Development Board of the London Business School.

He will retire as Chairman and a Director of the Company at the conclusion of the February 1999 Annual General Meeting.

Brian Williamson CBE *
Deputy Chairman
Aged 53, was appointed a Director in 1994. He will succeed Michael Stoddart as Chairman of the Company in February 1999. He is currently Chairman of the London International Financial Futures & Options Exchange. He is a former Governor of the National Association of Securities Dealers in the USA and Chairman of NASDAQ's International Markets Advisory Board.

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

He will relinquish his role as Chairman of the Audit Committee and as a member of the Remuneration Committee on 1 January 1999, and will resign from the Board of Electra Fleming Holdings on that date.

Ronald Armstrong *
Aged 54, was appointed a Director in 1994. Having qualified as a Mechanical Engineer, his career has spanned the petrochemical, aerospace and consumer goods industries. Most of his career has been spent in companies in which the application of technology is critical to success and he has considerable experience of this process across a wide range of industries.

He is currently Chief Executive of the Pera Group, a consultancy and technology business with 14 offices in eight countries.

He is also a Director of the Fleming Worldwide Income Investment Trust and is a Visiting Professor at the University of Nottingham.

He will become Chairman of the Audit Committee on 1 January 1999, and will join the Board of Electra Fleming Holdings on that date.

Professor George Bain *
Aged 59, was appointed a Director on 1 September 1998. He is currently President and Vice-Chancellor of The Queen's University of Belfast, having held senior academic posts at the London Business School and the University of Warwick. He is also Chairman of the Low Pay Commission and is on the Boards of Bombardier Aerospace, Short Brothers, the Canada Life Assurance Company and The Economist Group.

The Rt Hon Tom King CH MP *
Aged 65, was appointed a Director in 1992. A Member of Parliament since 1970, he has held a variety of senior Cabinet posts and was Secretary of State for Defence from 1989 to 1992. He has been a member of the Nolan Committee and is Chairman of the Intelligence and Security Committee.

Before entering Parliament he was a senior manager in DRG, the printing and packaging group, and subsequently Chairman of Sale Tilney.

Sir Michael Pickard *
Aged 66, was appointed a Director in 1989. A Chartered Accountant, he has had substantial experience in the hotel, catering and brewing industries where he has held a variety of posts, including Managing Director of Trusthouse Forte and Chairman of Courage and of Imperial Brewing and Leisure. He was the Founder Chairman of the Happy Eater chain of restaurants and Chairman of London Docklands Development Corporation. He has also had substantial experience in retailing and mail order and was formerly Chief Executive of Sears and Chairman of Grattan and Freemans.

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

Stephen Robert *
Aged 58, was appointed a Director in 1996. He is the Chancellor of Brown University. He was Chairman and Co-Chief Executive Officer of Oppenheimer & Co until it was acquired by CIBC Wood Gundy Securities in 1997. He is a Board member of NAC Re Corporation, The New York Philharmonic, Thirteen/WNET, The Manhattan Institute, the Polish-American Enterprise Fund, the New York City Economic Development Corporation and Blackstone Alternative Asset Management.

Peter Williams *
Aged 56, was appointed a Director in 1994. He is currently Chief Executive of David S Smith Holdings, one of the UK's leading packaging, paper and office products companies. He is also a Director of RPC Group, one of the UK's largest producers of plastic packaging. He is a former Director of Reed International.

He is Chairman of the Remuneration Committee and is one of EIT's two representatives on the Board of Electra Fleming Holdings.

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

Twenty Largest Investments

Company	Valuation of holding at 30 Sept 1998 £'000	Cost of holding at 30 Sept 1998 £'000	Percentage of adjusted net assets %
THE STATIONERY OFFICE	48,400	27,115	4.13
PHS	48,192	20,458	4.12
SLD HOLDINGS	35,200	25,712	3.01
ELECTRA FLEMING HOLDINGS *	30,627	2,592	2.62
DEUTSCHE WOOLWORTH	29,815	29,815	2.55
WILLIAM COOK HOLDINGS	24,400	20,909	2.08
NEWMOND	23,163	30,884	1.98
VENDCROWN	22,000	16,059	1.88
AMTICO	19,900	17,067	1.70
BEZIER	19,178	19,178	1.64
LEINER HEALTH PRODUCTS	17,653	12,033	1.51
UGC (UNIPART)	17,500	73	1.49
CENTUM	17,462	9,962	1.49
MOTORSPORT DEALERS INTERNATIONAL	16,239	16,239	1.39
SUPERMERCADOS NORTE	16,123	5,978	1.38
CANDOVER INVESTMENTS †	15,600	603	1.33
VANTIOS	12,562	4,287	1.07
KNOWLEDGE TECHNOLOGIES INTERNATIONAL	11,652	11,652	1.00
ORTHOFIX INTERNATIONAL	11,029	700	0.94
ENERGY POWER RESOURCES	10,915	10,915	0.93
	447,610	282,231	38.24

Set out above are the 20 largest investments of the Group at 30 September 1998. These investments are held in the unlisted portfolio except where shown.

* An associated undertaking. As such it is not included in the consolidated portfolio valuation but is included in the adjusted net asset value at 30 September 1998 at a valuation of £30,627,000.

† Held in the listed portfolio.

Portfolio

EIT aims to outperform the FTSE All-Share and SmallCap Indices through a portfolio comprising unlisted and listed securities. The portfolio will normally be weighted principally towards unlisted securities but the proportion may vary depending on market conditions. In particular the percentage in unlisted securities will reflect the availability of suitable opportunities and the level of disposals from the portfolio. The proportion in unlisted securities is currently 77% of the total portfolio.

Unlisted investments are selected on the basis that they will provide a return representing a significant premium over that anticipated from the FTSE All-Share Index. Historically the majority of new unlisted transactions have been derived from the UK and US markets. These are likely to remain the most important sources of transactions in the future, although more are expected to be sourced from Continental Europe.

Listed securities held in the portfolio fall into three broad groupings. Firstly, a number of listed stocks will be held for liquidity purposes to allow flexibility in light of the unpredictable nature of dealflow for unlisted transactions. Secondly, the listed portfolio will contain a number of companies which have been transferred from the unlisted portfolio and retained where prospects are considered to be above average. The third category consists of investments which are believed to have potential for above average returns.

The portfolio will normally be weighted principally towards unlisted securities...

Portfolio Management

Electra Fleming, chaired by Fred Vinton, aged 60, undertakes the management of EIT's portfolio and of the funds of a number of international institutional investors. At 30 September 1998 funds under the management of Electra Fleming exceeded £1.6 billion.

Hugh Mumford, aged 53, is Managing Director of Electra Fleming. His responsibilities include the supervision of all investment activities, including the investments of EIT. He joined the Group in 1981 and is Chairman of the investment committee of Electra Fleming. He is supported by 10 Investment Directors and 57 Investment Managers. Electra Fleming has a total of 131 staff located in its offices in London, Continental Europe, the USA, Latin America and Asia.

Overall Portfolio Changes

Summary of Changes to Overall Portfolio
Year ended 30 September 1998

	Valuation at 30 Sept 1997 £'000	New investment £'000	Sales £'000	Net transfers £'000	Net capital appreciation/ (depreciation) £'000	**Valuation at 30 Sept 1998 £'000**
Unlisted	837,767	327,527	(371,474)	(3,930)	88,278	**878,168**
Listed	275,909	74,131	(69,637)	3,930	(28,772)	**255,561**
Total Portfolio	1,113,676	401,658	(441,111)	–	59,506	**1,133,729**

The overall investment portfolio appreciated in capital value by £59.5 million...

During the year to 30 September 1998 the total return to shareholders was £82.9 million, representing a 7.5% return on adjusted shareholders' funds at 30 September 1997. The overall investment portfolio appreciated in capital value by £59.5 million after accounting for the effects of adverse currency movements of £17.2 million. Before and after currency adjustments this represents a growth in capital value of the portfolio of 6.9% and 5.3% respectively. The main contribution to the year's performance was provided by the unlisted portfolio, which, before currency adjustments, recorded growth in capital value of 12.6%.

At 30 September 1998 the total investment portfolio was £1.1 billion, of which 77% was invested in securities classified as unlisted and 23% in securities classified as listed. Included in the securities classified as unlisted are securities which have a market listing but are illiquid due to restrictions on sale. The total value of securities falling into this category was £52.7 million (1997: £54.5 million). Securities listed during the year and free of restriction, and securities where trading restrictions were lifted during the year are shown as transfers.

Electra Fleming

EIT has a 50% equity interest in its management company, Electra Fleming. As an associated undertaking, Electra Fleming is not included in the consolidated portfolio valuation, but is included in the adjusted net asset value. At 30 September 1998 EIT's interest in Electra Fleming was included in the adjusted net asset value at £30.6 million, comprising a £25.095 million valuation adjustment to the consolidated net assets.

Principles of Valuation of Unlisted Investments

In valuing unlisted investments, the Directors follow a number of general principles which are set out below:

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

Unlisted Portfolio Review

During the year investments to a value of £375 million, including transfers, were realised – a level some 50% higher than the previous record set in 1997.

Summary

The year to 30 September 1998 proved to be an exceptional year for EIT's unlisted activities as new records were set for the purchase and sale of unlisted investments. In a year in which the FTSE All-Share Index declined by 4.5%, EIT's unlisted portfolio appreciated by 12.6% before adjusting for adverse currency movements, the appreciation of the portfolio being mainly attributable to realised profits. The valuation of the retained portfolio declined over the year, partly as a result of the fall of price earnings multiples.

During the year investments totalling £328 million were added to the portfolio – significantly above the previous record of £230 million. This increase in the rate of investment resulted from a greater coverage of markets outside the UK and the USA. Investments in Continental Europe increased significantly to a total of £93 million.

High prices in the market provided attractive exit opportunities and realisations of investments from the portfolio were very strong. During the year investments to a value of £375 million, including transfers, were realised – a level some 50% higher than the previous record set in 1997. Total realisations represented 45% of the valuation of the unlisted portfolio at the beginning of the year.

As a result of the year's activity the unlisted portfolio increased from £837 million to £878 million. This increase was due to net appreciation of £88 million after currency adjustments offset by net disinvestment of £47 million.

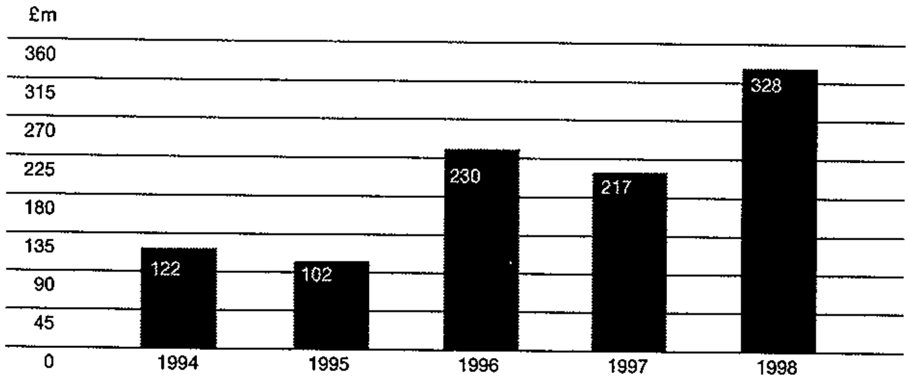
New Investments

The investment focus continued to be on management buy-outs which accounted for 66% of new investments made. In a market which was highly priced for most of the year, the emphasis has been on identifying transactions which provided the opportunity to add value through restructuring, rationalisation or consolidation.

New investments made during the year totalled £328 million. Of this amount £58 million related to the purchase of investments from Electra Private Equity Partners at the date of termination of that partnership. This purchase comprised investments in 14 companies all of which were already held in EIT's portfolio. The amount invested in Continental Europe increased significantly and nine new transactions were completed in Continental Europe for a total investment of £85 million, compared to £14 million in the previous year. This increase provided tangible evidence of the benefits derived from the development of Electra Fleming's Continental European offices. The turmoil in several Asian markets provided few opportunities for profitable investment. Several potential opportunities were considered in South America and this resulted in investments and commitments to that region of £23 million.

The largest investments completed during the year included Deutsche Woolworth, Bezier and Motorsport Dealers International. EIT invested £29.8 million in Deutsche Woolworth, a management buy-out in which the Woolworth retail stores in Germany and Austria were acquired for £350 million. The price paid reflected a discount to the real estate value of the property portfolio and was financed with the aid of long term bank loans on favourable terms. The existing stores are believed to have considerable potential when the benefits from the current refurbishment programme begin to materialise. In the Bezier transaction, EIT invested £19.2 million in a £53 million buy-out of the specialist printing operations of Wace. The businesses acquired represented an opportunity to bring added focus to both profitability and cash flow. EIT invested £16.2 million in Motorsport Dealers International, one of the market leaders in the UK for motorcycles and it is intended to capitalise from consolidation opportunities which currently exist in the motorcycle industry.

Purchases of Unlisted Investments



Other investments of note were made in Knowledge Technologies International and Energy Power Resources. Knowledge Technologies International, in which EIT invested £11.7 million, was formed to purchase the worldwide rights to the ICAD System which provides computer aided design software and related consultancy services. Energy Power Resources develops and invests in power stations generating electricity from waste and other non-fossil fuels. EIT invested £10.9 million in this company for the first two power stations and may invest further amounts as qualifying projects come to fruition. In Brazil EIT committed £15 million to SuperVia, a company set up to refurbish and operate the suburban railway system in Rio de Janeiro.

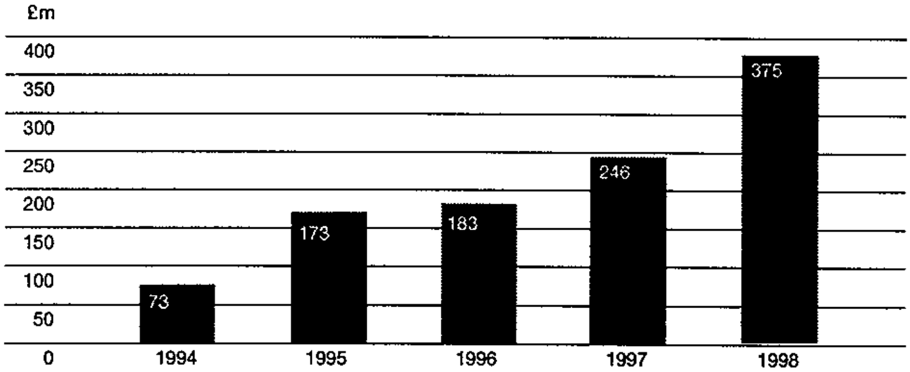
In total 25 new companies were added to the portfolio: 10 in the UK, 9 in Continental Europe, 4 in the USA, 1 in Asia and 1 in South America.

In total 25 new companies were added to the portfolio...

Major acquisitions

Company	Country of Incorporation	Type of Security	Acquisition Cost £'000
Deutsche Woolworth	Germany	Equity & Loan	29,815
Bezier	UK	Equity & Loan	19,178
Motorsport Dealers International	UK	Equity & Loan	16,239
Knowledge Technologies International	Luxembourg	Equity & Loan	11,652
Energy Power Resources	UK	Equity & Loan	10,915
Wap Reinigungssysteme	Germany	Equity & Loan	10,329
Aspen Healthcare	UK	Equity & Loan	10,159
Loyalty Rewards	UK	Loan	9,963
Hygiène Medica	France	Equity & Loan	9,951
Regal Cinemas	USA	Equity	9,649
Psych Partners	USA	Equity	9,229
OMNA Medical Partners	USA	Equity	9,127
Dinamia	Spain	Equity	8,065
Media Partners	Italy	Equity	7,461
Dolcis	UK	Equity & Loan	7,009
Gaz Liquifiés Industrie	France	Equity & Loan	6,937
Leisure Parcs	UK	Equity & Loan	5,753
Polybox	Italy	Equity & Loan	5,474
			196,905

Realisations of Investments



Realisations

Taking advantage of favourable market conditions, the year to 30 September 1998 proved to be an excellent year for disposals. Additionally falling interest rates provided a number of refinancing opportunities for portfolio companies. In excess of £371 million of cash was generated from the sale and refinancing of portfolio companies and a further £50 million of sales were in progress for completion after the year end.

In excess of £371 million of cash was generated from the sale and refinancing of portfolio companies...

The majority of realisations were achieved through sales to trade and other purchasers. The largest disposal was that of Fritidsresor (Transpool) to the Thomson Group which gave rise to cash proceeds of £61.5 million. Other significant disposals included the sale of ACT III Cinemas to KKR for £43.8 million, Oppenheimer Group to CIBC Wood Gundy for £27 million, Holt Lloyd to Allied Signal for £24.3 million and Inspectorate to the British Standards Institution for £21.9 million. Also of note were realisations in two of the emerging private equity markets in which EIT has a small exposure – in India the realisation of CBSI, and in Argentina, shortly after the year end, of part of EIT's holding in Supermercados Norte. All these realisations resulted in satisfactory rates of return for EIT.

Major Realisations

Company	Country of incorporation	Type of security	Proceeds £'000	Directors' valuation of holding at 30 Sept 1998 £'000	Total £'000	Directors' valuation of holding at 30 Sept 1997 £'000	Cost £'000
Fritidsresor (Transpool)	Sweden	Equity & Loan	61,480	–	61,480	* 18,672	* 14,088
ACT III Cinemas	USA	Equity	43,767	–	43,767	42,746	3,841
Aegis	UK	Equity	37,730	–	37,730	* 29,221	* 17,126
TM Group	UK	Equity & Loan	34,129	2,073	36,202	* 30,600	* 14,800
Oppenheimer Group	USA	Equity	26,968	3,726	30,694	29,439	3,395
Holt Lloyd	UK	Equity & Loan	24,251	–	24,251	22,351	15,491
Inspectorate	UK	Equity & Loan	21,894	–	21,894	* 16,392	* 11,495
Loyalty Management	Canada	Equity & Loan	11,658	–	11,658	5,460	2,177
Annington Homes	UK	Equity & Loan	7,950	1,000	8,950	6,413	6,413
Sphere Drake Holdings	Bermuda	Equity	7,806	–	7,806	8,515	2,396
			277,633	**6,799**	**284,432**	**209,809**	**91,222**

* Adjusted for subsequent purchases

While only two portfolio companies were listed during the year, the strength of the stock markets prior to August provided opportunities to realise listed stocks held in the unlisted portfolio. Securities to a value of £89 million were realised through the market, the most significant sale relating to EIT's holding in Aegis. This holding was converted to ordinary shares and successfully placed in the market, realising proceeds of £38 million.

Redemptions from, and refinancing of existing portfolio companies also provided significant cash proceeds during the year. Proceeds from these sources amounted to £65 million, of which £34 million arose from the refinancing of TM Group in the bond market. As a result of this refinancing EIT received over twice its original investment and retained an equity interest in the ongoing business of 26%.

The largest contribution to realised profits was provided by the sale of Fritidsresor (Transpool) which gave rise to a realised profit of £43 million.

Performance

Before adjusting for currency movements the unlisted portfolio appreciated in value during the year by £105.5 million – an increase of 12.6%. Adverse currency movements amounted to £17.2 million, reducing the overall increase in the unlisted portfolio to 10.5%.

A feature of the year was the high level of realised gains which exceeded the net increase in valuation of the portfolio. The largest contribution to realised profits was provided by the sale of Fritidsresor (Transpool) which gave rise to a realised profit of £43 million. Other significant realised profits included £6.2 million from the sale of Loyalty Management, a Canadian company, and £6.8 million from the sale of BPC. In October EIT received £9.6 million from the sale of half its holding in Supermercados Norte against an original cost two years ago of £3.0 million. The remaining half of the investment is subject to put and call arrangements.

Prospects

Until the correction in the stock markets in August of this year, the pricing of unlisted transactions, particularly large management buy-outs, was being pushed up by increasing competition in the private equity market and by the availability of bank and other lending on increasingly favourable terms. The fall in the stock markets in August, together with the reduced availability of bank credit, have both had an impact on the pricing of private equity transactions, creating opportunities to buy on more favourable terms. While pricing has moderated, the volume of funds available for private equity investments remains high and the market therefore is likely to remain competitive, particularly in the UK and the USA. Electra Fleming has made good progress in the establishment of an international network and should the availability of transactions in the UK and the USA fall, we believe Electra Fleming is well placed to identify suitable transactions outside these markets. EIT should continue to find a satisfactory level of attractive investment opportunities, although the high rate of investment achieved in the year ended 30 September 1998 is unlikely to be sustained.

The existing portfolio contains a mixture of new and maturing investments with exposure to a number of different economies. In the absence of an economic downturn we believe that realisations will continue at a reasonable pace, albeit at a lower level than that achieved during the year ended 30 September 1998, allowing further growth in the value of the portfolio to be recognised.

Largest Unlisted Investments

THE STATIONERY OFFICE	Location: UK

Equity Ownership	40.2%
Valuation	£48,400,000
Cost	£27,115,000

Valuation based on multiple of earnings

In 1996 EIT invested in the management buy-in of Her Majesty's Stationery Office, subsequently renamed The Stationery Office ("TSO"). The transaction involved total financing of £125 million. TSO is a supplier to Parliament and the Government of publishing, passport production, document management, printing and business supplies.

Since the buy-in TSO has recruited a new senior management team and a rationalisation programme has been undertaken to reduce overmanning and to allow the business to compete more effectively. In the year to 31 December 1997 TSO reported an operating profit of £13.1 million and generated over £40 million of net cash from operating activities before restructuring payments.

PHS	Location: UK

Equity Ownership	66.7%
Valuation	£48,192,000
Cost	£20,458,000

Valuation based on multiple of earnings

In 1995 EIT invested £14.4 million in the £50 million institutional buy-out of PHS from a private vendor. In February 1998 EIT purchased, from investors in Electra Private Equity Partners, an additional holding in PHS at a cost of £6.0 million.

PHS provides a full range of products and services associated with commercial and industrial washrooms as well as air-fresheners, filters, dustmats and plants. The company's head office is in Caerphilly in South Wales and operations are conducted from a network of 21 licensed waste transfer stations, five specialist dustmat service depots and nine plant depots.

PHS performed strongly in the year to 31 March 1998. In this period turnover increased by 12% to £45 million and operating profit was ahead by 32% to £8.5 million. Some small acquisitions have been made out of cashflow in the current year.

SLD HOLDINGS	Location: UK

Equity Ownership	55.1%
Valuation	£35,200,000
Cost	£25,712,000

Valuation based on multiple of earnings

EIT originally invested £13.4 million in the £90 million management buy-out of SLD Holdings from Hanson in 1993. In February 1998 EIT purchased, from investors in Electra Private Equity Partners, an additional holding in SLD Holdings at a cost of £12.3 million.

The principal division is involved in specialist plant hire and comprises SLD Pumps and SLD Genlite, a growing business that hires generators and lighting. The products of the manufacturing division range from electronic temperature and pressure control devices to rubber components.

For the year to 30 September 1998 the company is forecasting an operating profit of £11.7 million.

DEUTSCHE WOOLWORTH	Location: Germany

Equity Ownership	49.3%
Valuation	£29,815,000
Cost	£29,815,000

Valuation – cost

In September 1998 EIT invested DM85 million (£29.8 million) in the company formed to undertake the DM950 million management buy-out of the German and Austrian retailing operations of Woolworth.

Deutsche Woolworth operates 357 stores throughout Germany and seven in Austria. These are typically located in town centres and city suburbs and offer a wide range of clothing, toiletries, household and other goods.

Under the direction of existing management the group has undertaken a restructuring programme, focusing particularly on buying, logistics and personnel. In the year to 31 January 1998 the group reported earnings before interest and tax of DM47 million on turnover of DM2.3 billion.

WILLIAM COOK HOLDINGS	Location: UK

Equity Ownership	48.8%
Valuation	£24,400,000
Cost	£20,909,000

Valuation based on multiple of earnings

In 1997 EIT invested £20.9 million in the £80 million management buy-out of the publicly quoted William Cook. The company at that time was the subject of a hostile bid and Electra Fleming was invited by the Board to act as a 'white knight'. The company is a large specialist steel castings manufacturer and is based in Sheffield. It supplies castings for armoured vehicles, construction plant, mining machinery, fork lift trucks, power generation and transport equipment.
In the year to 28 March 1998 the Group produced pro-forma earnings before interest and tax of £16 million on turnover of £123 million.

The valuation has been increased since 30 September 1997 to reflect the amount of debt repaid since the management buy-out.

NEWMOND	Location: UK

Equity Ownership	13.5%
Valuation	£23,163,000
Cost	£30,884,000

Valuation based on multiple of earnings

In 1996 EIT invested £30.9 million in the management buy-out of the building products division of Williams Holdings. The transaction involved total financing of £360 million and Williams Holdings reinvested £57.5 million of the equity element on the same terms as the institutional investors. The company comprises nine business groupings which include: Aqualisa (high performance showers); Heatrae Sadia (water heating products); Valor (gas fires); Rawlplug (building fixings). In the year ended 31 December 1997 the company made operating profits (before acquisition and reorganisation costs) of £36 million on turnover of £268 million. The Swish curtain tracks and poles business has been sold and the proceeds, net of reinvestment in some small add-on acquisitions, have contributed towards a reduction in net debt by approximately £50 million since the management buy-out.

VENDCROWN

Location: UK

Equity Ownership	32.6%
Valuation	£22,000,000
Cost	£16,059,000

Valuation based on multiple of earnings

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

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

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

In the year to 31 December 1997 the company's operating profits before acquisition costs were £10.6 million.

AMTICO

Location: UK

Equity Ownership	49.5%
Valuation	£19,900,000
Cost	£17,067,000

Valuation based on multiple of earnings

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

Amtico is a designer and manufacturer of high quality synthetic flooring aimed at replicating natural materials. The company has manufacturing operations in the UK, Germany and the USA and is a supplier to many of the UK's retail groups. It is also active in the residential market in the UK, and has a sales network operating in the UK, Germany, Australia and the USA.

For the year to 31 March 1998 Amtico reported earnings before interest and tax of £5.5 million.

BEZIER

Location: UK

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

Valuation – cost

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

Bezier comprises four specialist printing businesses: greetings cards; point-of-purchase advertising materials; food labels; and quality corporate documents. A key underlying focus is a high service offering and the new Chief Executive has a strong service orientated background.

In the year to 31 December 1997 the group made an adjusted operating profit of £6.6 million on a turnover of £78 million.

LEINER HEALTH PRODUCTS	Location: USA

Equity Ownership	13.1%
Valuation	£17,653,000
Cost	£12,033,000

Valuation based on multiple of earnings

In 1997 EIT invested $20 million in a transaction led by Electra Fleming's New York office as part of an $80.4 million equity investment in a leveraged recapitalisation of Leiner Health Products Group. Leiner is a manufacturer of vitamins, minerals and nutritional supplements in the USA.

Based in California, Leiner distributes its products primarily through mass market retailers. As at 31 March 1998 Leiner had a 20% share of the vitamin sales market in the USA and a 45% share of the private label segment for these products.

UGC (UNIPART)	Location: UK

Equity Ownership	13.9%
Valuation	£17,500,000
Cost	£73,000

Valuation based on multiple of earnings

In 1987 EIT invested in the management buy-out of UGC (Unipart) from the Rover Group. EIT's investment of £2.9 million was substantially repaid in 1989.

UGC is engaged in the design and manufacture of original equipment components and in the sale and distribution of automotive parts, components, accessories and cellular telephones. Its customers include the Rover Group, Jaguar, Land Rover, Daihatsu (UK) and Volkswagen. Non-automotive customers include Hewlett-Packard and Bull.

In 1998 Rover Group decided to terminate with effect from 2002 its parts supply contract with UGC. UGC's management have already taken steps to mitigate the impact of the loss of this contract. UGC reported pre-tax profits for the six months to 30 June 1998 of £15.5 million (1997: £13.1 million). The group had pre-tax profits of £28.6 million (1996 restated: £22.0 million) on sales of £1.1 billion for the year to 31 December 1997.

MOTORSPORT DEALERS INTERNATIONAL	Location: UK

Equity Ownership	50.0%
Valuation	£16,239,000
Cost	£16,239,000

Valuation – cost

In November 1997 EIT invested £15.4 million in the management buy-out of Motorsport Dealers International ("MDI") which trades as Motorcycle City, the UK's leading motorcycle retailer. Additional funding of £3.3 million was committed at the time of the investment to assist with further acquisitions, of which £0.8 million has been drawn down to date. The investment was made to further develop and enhance the group through the acquisition of underperforming single-site motorcycle dealerships. As at 30 September 1998 MDI had 20 outlets across the UK.

Based on management accounts for the year ended 30 September 1998 MDI generated turnover of approximately £71 million and earnings before interest and tax of approximately £4.3 million.

SUPERMERCADOS NORTE	Location: Argentina

Equity Ownership	4.7%
Valuation	£16,123,000
Cost	£5,978,000

Valuation based on agreed part disposal

In 1996 EIT invested $10 million in the $448 million leveraged buy-out of Supermercados Norte. The company is a large grocery operator in Argentina with total selling space (as at 31 May 1998) of 165,000 square metres. Since the investment was made sales have increased by 63% and the number of stores has increased from 24 to 64.

In October 1998 the company sold 49% of its business to the French retailer, Promodes, for a consideration of $420 million in cash which was distributed to the investor group. The partnership with Promodes will assist Norte in continuing its store expansion programme. The agreement with Promodes contains provisions which give the original shareholders rights to sell their remaining 51% holding.

VANTIOS	Location: UK, Spain and Italy

Equity Ownership	12.6%
Valuation	£12,562,000
Cost	£4,287,000

Valuation based on multiple of earnings

In 1994 EIT invested in the management buy-out of Dollond & Aitchison, subsequently renamed Vantios . EIT's investment of £3.8 million was subsequently repaid. The transaction involved total financing of £117 million. In February 1998 EIT purchased, from investors in Electra Private Equity Partners, an additional holding in Vantios at a cost of £4.2 million.

Vantios primarily comprises three optical retail chains in the UK, Spain and Italy, having as at 30 September 1998, over 400 shops as well as franchised outlets.

KNOWLEDGE TECHNOLOGIES INTERNATIONAL	Location: Luxembourg

Equity Ownership	72.5%
Valuation	£11,652,000
Cost	£11,652,000

Valuation – cost

In May 1998 Knowledge Technologies International ("KTI") was formed to acquire the ICAD business from a NASDAQ quoted software company. ICAD is a market-leading software programme which partly automates the design process and is used in the aerospace and automotive industries. Customers include Boeing, British Aerospace, Airbus, Ford, General Motors and Jaguar.

The intention of the company is to improve and expand the product and increase related consultancy services in order to place the business in a position to better capitalise on the significant potential for the application of knowledge based software.

ENERGY POWER RESOURCES	Location: UK

Equity Ownership	49.6%
Valuation	£10,915,000
Cost	£10,915,000

Valuation – cost

In February 1998 EIT invested £6.9 million in Energy Power Resources ("EPR"). This funding was made up of an investment in the equity of EPR and the first drawdown from a £20 million loan facility provided by EIT to fund equity investment by EPR in the individual power station projects that it develops. EPR made a second drawdown from this facility in September.

EPR develops and invests in power stations generating electricity from renewable sources (waste and other non-fossil fuels). The most advanced is a 9.8 megawatt power station currently being built in Fife, Scotland that will burn poultry litter. EPR's second project is a 32 megawatt power station being built near Ely, Cambridgeshire that will burn straw. Power and revenue generation for these two projects is expected by management to start in 2000. EPR has a number of other power station projects at various stages of development.

WAP REINIGUNGSSYSTEME	Location: Germany

Equity Ownership	61.3%
Valuation	£10,907,000
Cost	£10,329,000

Valuation – cost adjusted for currency movements

In March 1998 EIT invested DM31 million in the management buy-out of Wap Reinigungssysteme ("Wap") from Jungheinrich. Wap is a producer in Germany of high pressure cleaning systems for commercial use. The company's products are used by local authorities and industrial companies, as well as contract cleaning businesses, tradesmen and farmers. Wap sells its products throughout Western Europe, predominantly in Germany.

In the year to 31 December 1997 Wap had sales of DM236 million and made an operating profit of DM11 million.

HYGIENE MEDICA	Location: France

Equity Ownership	40.5%
Valuation	£10,719,000
Cost	£9,951,000

Valuation – cost adjusted for currency movements

In March 1998 EIT invested FF102 million in the FF576 million management buy-out of Hygiène Medica, a French manufacturer of disposable personal hygiene products. Hygiène Medica's customers are mainly medical institutions such as hospitals and nursing homes. The company exports 35-40% of its sales, mainly to Europe.

The company is currently developing new products which will be less sensitive to raw material price movements. In the year to 31 December 1997 Hygiène Medica achieved earnings before interest of FF102 million on turnover of FF555 million.

CHARCO NINETY-NINE — Location: UK

Equity Ownership	37.5%
Valuation	£10,705,000
Cost	£188,000

Valuation based on multiple of earnings

Charco Ninety-Nine is the holding company which was used to effect the management buy-in of the Gower Group in 1988. Gower manufactures self-assembly kitchens, bedrooms and occasional furniture for distribution through major trade retailers.

The results for the year to 31 March 1998 showed sales of £60 million. Operating profits were £5.5 million – an increase of 14% over the previous year. Market conditions remain competitive but the Group continues to expand its sales.

The Group continues to seek acquisitions. The most recent acquisition of Smallbone Kitchens is trading in line with management's expectations.

CE HEATH — Location: UK

Equity Ownership	15.7%
Valuation	£10,617,000
Cost	£10,617,000

Valuation – cost

In 1997 EIT invested £10.6 million in the £106 million management buy-out of CE Heath which involved its stock market de-listing.

CE Heath is an insurance broker with an international market broking division based in London having revenues of £67 million, and an overseas broking division with revenues of £26 million in the year ended 31 March 1998. Insurance broking markets are currently under pressure due to ongoing structural changes and the low pricing of insurance.

Since making the investment, three non-core businesses and various investments have been sold. Together with a strong cash flow this has resulted in the repayment of all the acquisition debt of £55 million.

ASPEN HEALTHCARE — Location: UK

Equity Ownership	44.0%
Valuation	£10,159,000
Cost	£10,159,000

Valuation – cost

In March 1998 EIT invested £10.2 million in equity and loan stock to complete the management buy-out of Paracelsus UK from its German parent. The company subsequently changed its name to Aspen Healthcare.

The company owns and manages two private acute-care hospitals in London – Parkside in Wimbledon and Holly House in Buckhurst Hill. Both hospitals are established in their local communities. They should both continue to benefit from growth in the private healthcare sector generally and from particular specialist areas, including in-vitro fertilisation at Holly House and neurosurgery at Parkside.

The company reported turnover of £20.1 million and operating profits of £4.9 million for the year ended 31 December 1997.

United Kingdom and Continental Europe

Company	Directors' valuation of holding at 30 Sept 1997 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 1998 £'000	Cost of holding at 30 Sept 1998 £'000
THE STATIONERY OFFICE Supplier of printing, publishing and office products	33,115	–	15,285	48,400	27,115
PHS Commercial washroom products and services	30,598	6,049	11,545	48,192	20,458
SLD HOLDINGS Group of companies comprising principally a specialist plant hire business	17,708	12,332	5,160	35,200	25,712
DEUTSCHE WOOLWORTH General merchandise retailer	–	29,815	–	29,815	29,815
WILLIAM COOK HOLDINGS Steel castings	20,987	(78)	3,491	24,400	20,909
NEWMOND Building products	30,884	–	(7,721)	23,163	30,884
VENDCROWN Insurance premium finance	16,059	–	5,941	22,000	16,059
AMTICO Luxury flooring manufacturer	19,900	–	–	19,900	17,067
BEZIER Printing services	–	19,178	–	19,178	19,178
UGC (UNIPART) Automotive spare parts manufacturer	37,400	–	(19,900)	17,500	73
CENTUM Industrial holding company	9,962	–	7,500	17,462	9,962
MOTORSPORT DEALERS INTERNATIONAL Motorcycle retailer	–	16,239	–	16,239	16,239
VANTIOS Optical retailer	6,957	4,196	1,409	12,562	4,287
KNOWLEDGE TECHNOLOGIES INTERNATIONAL Knowledge based software and consultancy	–	11,652	–	11,652	11,652
ENERGY POWER RESOURCES Renewable energy power stations	–	10,915	–	10,915	10,915
WAP REINIGUNGSSYSTEME Manufacturer of commercial cleaning equipment	–	10,329	578	10,907	10,329
VIRGIN RAIL GROUP Train operating company	3,011	–	7,796	10,807	3,011
HYGIENE MEDICA Manufacturer of personal hygiene products	–	9,951	768	10,719	9,951

United Kingdom and Continental Europe

Company	Directors' valuation of holding at 30 Sept 1997 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 1998 £'000	Cost of holding at 30 Sept 1998 £'000
CHARCO NINETY-NINE Manufacturer of kitchen and occasional furniture	11,900	(195)	(1,000)	10,705	188
CE HEATH Insurance broker	10,617	–	–	10,617	10,617
ASPEN HEALTHCARE Independent healthcare provider	–	10,159	–	10,159	10,159
DERBY COUNTY Football club	10,013	–	–	10,013	10,013
NAXOS (HERMES METAL) Shelving and checkout manufacturer	4,996	41	4,412	9,449	6,044
EUROGESTION Pest control company	5,703	–	3,536	9,239	6,178
PRIZE FOODS Food manufacturer	6,974	2,192	–	9,166	9,166
INVICTA LEISURE Golf, racquet and health clubs	7,273	1,693	–	8,966	8,966
ROBERT FLEMING HOLDINGS Investment bank	11,791	–	(2,964)	8,827	8,829
	295,848	144,468	35,836	476,152	353,776

USA and Elsewhere

Company	Directors' valuation of holding at 30 Sept 1997 £'000	Net purchases/ (sales) £'000	Performance in year £'000	Directors' valuation of holding at 30 Sept 1998 £'000	Cost of holding at 30 Sept 1998 £'000
LEINER HEALTH PRODUCTS Manufacturer of vitamin supplements	12,395	–	5,258	17,653	12,033
SUPERMERCADOS NORTE Argentinian supermarket group	6,198	–	9,925	16,123	5,978
ORTHOFIX INTERNATIONAL Orthopaedic related medical devices	12,741	–	(1,712)	11,029	700
REGAL CINEMAS Film exhibitor	–	9,649	(234)	9,415	9,649
CAREER EDUCATION CORPORATION Vocational schools	8,987	–	340	9,327	6,045
OMNA MEDICAL PARTNERS Medical practice management company	–	9,127	(153)	8,974	9,127
PSYCH PARTNERS Behavioural health practice management	–	9,229	(407)	8,822	9,229
FAMILY BOOKSTORES Christian bookstores	4,997	(2,598)	5,160	7,559	599
REHAB DESIGNS Rehabilitation centres	4,338	3,397	(276)	7,459	7,609
ICIL Software	5,485	–	1,576	7,061	5,502
	55,141	28,804	19,477	103,422	66,471

The unlisted investments shown above and on pages 23 and 24 represent 66% of the Group's fixed asset unlisted investments at 30 September 1998.

Listed Portfolio Review

The two most significant contributions to performance over the year were from Nestor Healthcare and Diagonal which rose 124% and 94% in value respectively.

At 30 September 1998 the listed portfolio was valued at £256 million and was wholly invested in the UK with a weighting oriented towards smaller companies. The portfolio provides liquidity for making unquoted investments and also holds a number of former unquoted investments that have successfully floated on the market. At the end of the year 18% of its investments were in the FTSE 100, 27% in the FTSE MidCap and 55% in smaller companies. For performance measurement purposes we use a composite index comprising 20% of the FTSE 100, 30% of the FTSE MidCap and 50% of the FTSE SmallCap Indices.

During the year the portfolio declined in value by 10.4% which compared with decreases of 14.9% and 9.9% respectively in the FTSE SmallCap Index and our composite index. The portfolio commenced the year overweight in smaller companies compared with our composite index, a position which eventually contributed to its underperformance when the FTSE SmallCap Index peaked at the end of May 1998 and subsequently fell by 29%. These results reflected a period of volatility in UK equity markets and, in the case of smaller companies, a significant decline in liquidity. By the end of May the value of the listed portfolio had increased by 23% compared to a rise of 18% in our composite index. The subsequent collapse in the smaller companies sector was exacerbated by investors trying to secure their historic gains in a market with a lack of liquidity.

The two most significant contributions to performance over the year were from Nestor Healthcare and Diagonal which rose 124% and 94% in value respectively. Nestor Healthcare provides nursing staff to the NHS. Diagonal is an IT consultancy specialising in the implementation of SAP software and has a strong niche market position. The worst performance in our listed portfolio in terms of value was from Astec (BSR) which fell by 61%. Emerson Electric gained Board control without making a bid for the minority shares. This led to a loss of investor confidence. In addition trading at Astec (BSR) was affected by the economic slowdown in Asia.

During the year two former unquoted investments, Kier and Aegis, were acquired for the portfolio. The largest purchase in the year was of JJB Sports as a result of a rights issue to fund its acquisition of Sports Division. The rights issue was affected by the UK equity market downturn and as a sub-underwriter EIT was obliged to take up its entitlement and was unable to reduce its holding as liquidity evaporated. EIT also acquired holdings in PowerGen and Legal & General, two FTSE 100 companies, for their ability to maintain value during an economic downturn. Sales in the year realised £69.6 million of which the majority were through takeovers including T&N, Britton Group, Healthcall and Eurodollar. Shares in Pillar Property performed strongly in the first half and we realised £3.8 million from our holding. EIT also realised holdings in a number of companies where trading prospects had deteriorated. These included Guardian Royal Exchange, Caradon and Fairey Group.

United Kingdom

Company	Valuation of holding at 30 Sept 1997 £'000	Net purchases & transfers/(sales) £'000	Performance in year £'000	Valuation of holding at 30 Sept 1998 £'000	Cost of holding at 30 Sept 1998 £'000
CANDOVER INVESTMENTS †	14,540	–	1,060	15,600	603
HAYS †	10,530	(2,564)	2,600	10,566	445
PILLAR PROPERTY †	12,295	(3,800)	672	9,167	11,504
NESTOR HEALTHCARE	3,948	(366)	4,893	8,475	2,049
JJB	–	9,655	(2,561)	7,094	9,655
GLAXO WELLCOME	6,275	(38)	1,542	7,779	2,870
STAKIS	8,599	–	(1,503)	7,096	4,117
KINGFISHER	5,434	106	1,554	7,094	3,718
DIAGONAL	3,095	–	2,917	6,012	2,132
CORPORATE SERVICES GROUP	4,601	2,024	(1,013)	5,612	5,203
BERISFORD INTERNATIONAL†	5,573	400	(586)	5,387	6,591
BBA GROUP	7,005	133	(2,034)	5,104	2,433
WICKES	4,981	–	98	5,079	5,636
JARVIS HOTELS †	6,888	–	(1,975)	4,913	2,842
MONUMENT OIL AND GAS †	8,325	1,375	(4,825)	4,875	8,286
VODAFONE	1,995	661	2,173	4,829	2,661
CLUBHAUS	3,919	897	(184)	4,632	4,665
FKI	8,240	–	(3,680)	4,560	3,608
KIER	–	4,633	(241)	4,392	4,633
	116,243	13,116	(1,093)	128,266	83,651

The above investments represent 50% of the Group's fixed asset listed investments at 30 September 1998.

† Originally transferred from unlisted portfolio.

Classification and Distribution of Investments

	UK and Continental Europe		USA and Elsewhere		
	Unlisted %	Listed %	Unlisted %	Total 1998 %	Total 1997 %
EQUITIES					
Mineral Extraction					
Oil, Integrated	–	–	0.01	**0.01**	0.11
Oil, Exploration and Production	–	0.46	–	**0.46**	0.80
	–	0.46	0.01	**0.47**	0.91
General Manufacturers					
Building and Construction	0.50	1.12	0.02	**1.64**	1.13
Building Materials and Merchants	2.48	–	0.50	**2.98**	3.16
Chemicals	–	0.03	0.24	**0.27**	0.48
Diversified Industries	5.35	0.82	0.44	**6.61**	6.01
Electronic and Electrical Equipment	1.61	0.37	0.99	**2.97**	3.37
Engineering	3.82	1.77	0.79	**6.38**	7.33
Engineering, Vehicles	0.18	–	0.02	**0.20**	0.66
Paper, Packaging and Printing	2.84	0.17	0.39	**3.40**	2.09
	16.78	4.28	3.39	**24.45**	24.23
Consumer Groups					
Spirits, Wines and Ciders	–	–	–	–	0.18
Food Producers	–	0.71	0.56	**1.27**	1.68
Household Goods and Textiles	3.65	0.59	0.72	**4.96**	5.98
Health Care	2.81	0.80	6.21	**9.82**	6.00
Pharmaceuticals	0.51	1.59	–	**2.10**	1.81
	6.97	3.69	7.49	**18.15**	15.65

	UK and Continental Europe Unlisted %	UK and Continental Europe Listed %	USA and Elsewhere Unlisted %	Total 1998 %	Total 1997 %
Services					
Distributors	6.89	0.09	0.18	**7.16**	8.02
Leisure and Hotels	2.90	2.73	0.87	**6.50**	9.69
Media	1.02	1.17	1.93	**4.12**	4.42
Retailers, Food	–	0.91	3.31	**4.22**	1.81
Retailers, General	6.36	1.07	1.24	**8.67**	6.66
Telecommunications	–	0.43	0.39	**0.82**	1.69
Breweries, Pubs and Restaurants	–	0.46	–	**0.46**	0.28
Support Services	5.14	2.74	0.65	**8.53**	7.61
Transport	1.18	–	0.28	**1.46**	1.09
	23.49	9.60	8.85	**41.94**	41.27
Other Services and Business Utilities					
Electricity	0.96	0.37	–	**1.33**	–
Water	0.02	–	–	**0.02**	0.19
	0.98	0.37	–	**1.35**	0.19
Financials					
Banks, Retail	–	0.12	0.20	**0.32**	0.20
Insurance	1.22	0.57	0.68	**2.47**	3.98
Life Assurance	–	–	–	**–**	0.17
Other Financial	4.66	0.40	1.73	**6.79**	8.34
Property	0.80	1.67	0.21	**2.68**	3.53
	6.68	2.76	2.82	**12.26**	16.22
Investment Trusts	–	1.38	–	**1.38**	1.53
TOTAL 1998	**54.90**	**22.54**	**22.56**	**100.00**	–
TOTAL 1997	45.49	24.77	29.74	–	100.00

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 1998 and their Report on its affairs. A review of the business of the Group is given on pages 4 to 29.

Group Activities
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 for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 September 1997 and the Company's affairs have been directed so as to enable it to continue to seek such approval. 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 and associated undertakings are set out in Note 19 to the Accounts.

Fund Management Arrangements
Electra Fleming Holdings Limited ("Electra Fleming") 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 the investment policy. Electra Fleming manages the Company's investments in accordance with guidelines determined by the Company's Directors and as specified in limited partnership, management and investment guideline agreements. The majority of the Company's investments are made as a limited partner of limited partnership funds.

Results and Dividends
Revenue return attributable to shareholders amounted to £27,747,000. An interim dividend of 5.175p per share was paid on 13 August 1998. The Directors recommend the payment of a final dividend of 6.00p per share, giving rise to total dividends for the year of 11.175p per share. Such dividends amount to £19,344,000 and will result in a transfer to consolidated revenue reserves of £8,403,000. The proposed final dividend will, if approved by shareholders, be paid on 8 April 1999 to shareholders on the Register of Members at the close of business on 12 February 1999.

Multi-Currency Loan Facility

At 30 September 1998 the equivalent of £211.6 million had been drawn down under a £300 million multi-currency loan facility.

Directors

The current Directors of the Company are listed on page 6. Mr MC Stoddart, Mr RB Williamson, Mr RA Armstrong, the Rt Hon Tom King, Sir Michael Pickard, Mr S Robert and Mr JP Williams were Directors of the Company throughout the year ended 30 September 1998. Lord Vinson retired as Deputy Chairman and a Director on 19 February 1998. Professor George Bain was appointed a Director on 1 September 1998 and in accordance with the Company's Articles of Association he retires and offers himself for re-election at the forthcoming Annual General Meeting. Apart from these persons no other person was a Director of the Company during any part of the year. Mr MC Stoddart will retire as Chairman and a Director at the conclusion of the forthcoming Annual General Meeting when he will be succeeded by Mr RB Williamson as Chairman. Mr RA Armstrong and Mr JP Williams both retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' Interests

The beneficial interests of the Directors in the ordinary shares of the Company are shown below. Save as disclosed, no Director had any notifiable interest in the securities of 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 1998 and 16 December 1998.

	30 September 1998 Number	1 October 1997 Number
MC Stoddart	**327,671**	277,671
RB Williamson	**9,500**	8,000
RA Armstrong	**15,000**	15,000
Professor George Bain	**0**	* 0
The Rt Hon Tom King	**15,000**	15,000
Sir Michael Pickard	**28,500**	28,500
S Robert	**85,000**	40,000
JP Williams	**50,000**	50,000

* On date of appointment

As disclosed in the Interim Report, Electra Private Equity Partners ("EPEP"), a private equity fund in which the Company was a major investor, came to the end of its eight year life in February 1998. As a result of EPEP achieving its investment performance threshold at termination, the Company received additional securities which had a value of £15.1 million. Under the terms by which EPEP was established in 1990, former executives of the Company and executives of its management company also received securities at EPEP's termination with an aggregate value of £15.1 million. As a former executive of the management company, Mr MC Stoddart received 14.0% of these securities.

Substantial Shareholders

At 10 December 1998 the following shareholders had notified an interest of 3% or more in the Company's ordinary shares:

	Number	%
Prudential Corporation group of companies	9,487,967	5.48
The Equitable Life Assurance Society and its wholly owned subsidiary, the University Life Assurance Society	7,843,104	4.53
The Standard Life Group	6,493,542	3.75
Legal & General Investment Management	6,383,462	3.69
General Electric Pension Trust	6,000,000	3.47
Franklin Resources Inc and its affiliates, including Franklin Mutual Advisers Inc and Templeton Worldwide Inc	5,925,200	3.42
United States Steel and Carnegie Pension Fund	5,390,000	3.11

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 charitable donations totalling £30,194 (1997: £29,000). No political donations were made.

Auditors

The Company's Auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the Directors appointed the new firm, PricewaterhouseCoopers, as Auditors. A resolution proposing the re-appointment of PricewaterhouseCoopers as the Company's Auditors and authorising the Directors to fix their remuneration will be considered at the Annual General Meeting.

Annual General Meeting

The 1999 Annual General Meeting will be held on Wednesday, 17 February 1999. Details of the business to be considered at the Annual General Meeting are set out in the Notice of Annual General Meeting on page 60.

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 1998 was one day (1997: one day) and that of the Company was one day (1997: one day).

By order of the Board of Directors
PJ Dyke, Secretary, 65 Kingsway, London WC2B 6QT
16 December 1998

Corporate Governance

The Directors of EIT confirm that during the year the Company has complied with the Code of Best Practice ("the Code") issued by the Cadbury Committee on the Financial Aspects of Corporate Governance.

Board and Committees

It is the responsibility of the Board to ensure that there is adequate and effective stewardship of the Company's affairs. The Board, which meets regularly, is comprised of eight Directors, all of whom are non-executive. The Chairman devotes approximately three days per week to the affairs of the Company. Seven of the Directors are considered to be wholly independent and one non-independent under the Code. The Board has agreed a schedule of matters reserved for its specific approval, which includes the regular review of the Company's management agreements with Electra Fleming, together with the monitoring of the performance thereunder. The management agreements set out the matters over which Electra Fleming has authority in accordance with the policies and directions of the Board. Two Directors of the Company have been nominated to act as Directors of Electra Fleming. Individual Directors may seek independent professional advice at the Company's expense within certain parameters.

The Board has an Audit Committee comprising all the Directors with specified terms of reference. Lord Vinson was Chairman of this Committee until he retired on 19 February 1998, when Mr RB Williamson became Chairman. The principal role of the Chairman of the Audit Committee is to review the content of the Annual and Interim Accounts, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements. The Committee has direct access to the Company's Auditors and the senior executives of Electra Fleming.

A Remuneration Committee meets once a year to determine the emoluments of the Directors and of the Chairman. It comprises all the Directors of the Company other than the Chairman who takes no part in determining his own remuneration. Lord Vinson was Chairman of this Committee until he retired on 19 February 1998 when Mr JP Williams became Chairman. Details of Directors' remuneration are shown in Note 4 to the Accounts. New appointments to the Board are considered by the Board as a whole.

Internal Financial Control

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

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

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

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

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

Year 2000 Compliance

The Company itself has no business critical systems, although the Directors have obtained assurance from Electra Fleming that steps are being taken to ensure, so far as possible, that EIT will not suffer any significant disruption to its operations deriving from the use of computer systems. In addition Electra Fleming has advised the Board of the steps it has taken to monitor Year 2000 compliance by companies in which the Company is invested. While the Board has been informed that Electra Fleming expects to achieve an acceptable state of readiness, it is not possible, given the complexity of the problem, for any organisation to guarantee Year 2000 compliance. All costs in respect of Year 2000 compliance have been incurred by Electra Fleming as part of an upgrade to Electra Fleming's computer systems.

The Euro

The Directors have obtained assurance from Electra Fleming that steps continue to be taken to ensure, so far as possible, that the Company will not suffer any significant disruption to its operations deriving from the introduction of the Euro.

Going Concern

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

Directors' Responsibilities for Preparing the Accounts

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

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

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

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

Report by the Auditors to Electra Investment Trust on Corporate Governance Matters

In addition to our audit of the Accounts, we have reviewed the Directors' statements on pages 33 and 34 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice ("the Code") specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the Accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v) of the London Stock Exchange.

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group and Company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on pages 33 and 34 and going concern on page 34, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the Accounts.

Based on enquiry of certain Directors and Officers of the Company and examination of relevant documents, in our opinion the Directors' statement on page 33 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
16 December 1998

Report of the Auditors

To the Members of Electra Investment Trust PLC
We have audited the financial statements of Electra Investment Trust PLC on pages 37 to 56, which have been prepared under the historic cost convention as modified by the revaluation of certain fixed asset investments and the accounting policies on pages 42 to 44.

Respective Responsibilities of Directors and Auditors
As described on page 34 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 1998 and of the total return and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
16 December 1998

Consolidated Statement of Total Return (incorporating the Revenue Account)

Note	For the year ended 30 September	Revenue £'000	Capital £'000	1998 Total £'000	Revenue £'000	Capital £'000	1997 Total £'000
	Gains/(losses) on investments:						
17	Realised	–	75,100	75,100	–	80,172	80,172
17	Unrealised	–	(15,594)	(15,594)	–	109,435	109,435
	Gains/(losses) on revaluation of foreign currencies:						
17	Realised	–	(141)	(141)	–	(124)	(124)
17	Unrealised	–	3,709	3,709	–	6,828	6,828
		–	63,074	63,074	–	196,311	196,311
1	Income of the investment trust	50,531	–	50,531	44,086	–	44,086
2	Income of subsidiary undertakings	3,709	–	3,709	2,173	–	2,173
3	Expenses:						
	Priority profit share paid to General Partners	(7,336)	(7,336)	(14,672)	(5,964)	(5,964)	(11,928)
	Other expenses	(3,255)	–	(3,255)	(2,214)	–	(2,214)
	Reversal of income accruals	(5,275)	–	(5,275)	–	–	–
	Net Return before Finance Costs and Taxation	38,374	55,738	94,112	38,081	190,347	228,428
6	Interest payable and similar charges	(4,421)	(4,421)	(8,842)	(4,888)	(4,888)	(9,776)
	Income from interest in associated undertaking	4,981	–	4,981	2,873	–	2,873
	Return on Ordinary Activities before Taxation	38,934	51,317	90,251	36,066	185,459	221,525
7	Taxation on ordinary activities	(11,187)	3,841	(7,346)	(11,519)	5,303	(6,216)
	Return on Ordinary Activities after Taxation	27,747	55,158	82,905	24,547	190,762	215,309
9	Ordinary dividend	(19,344)	–	(19,344)	(16,791)	–	(16,791)
9	Special dividend	–	–	–	(952)	–	(952)
	Transfers to Reserves for the Year	8,403	55,158	63,561	6,804	190,762	197,566
	Exchange differences arising on consolidation	(259)	(785)	(1,044)	(223)	(747)	(970)
17	**Net Transfers to Reserves for the Year**	8,144	54,373	62,517	6,581	190,015	196,596
10	**Return to Shareholders per Ordinary Share**	16.03p	31.86p	47.89p	14.18p	110.21p	124.39p

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

Consolidated Balance Sheet

Note		As at 30 Sept 1998 £'000	As at 30 Sept 1998 £'000	As at 30 Sept 1997 £'000	As at 30 Sept 1997 £'000
	Fixed Assets				
11	Investments:				
	Associated undertaking		5,532		3,812
	Unlisted		878,168		837,767
	Listed		255,561		275,909
			1,139,261		1,117,488
	Current Assets				
12	Debtors	29,843		28,364	
13	Investments	2,826		964	
	Cash at bank and in hand	205,269		97,860	
		237,938		127,188	
	Current Liabilities				
14	Creditors: amounts falling due within one year	20,270		21,739	
	Net Current Assets		217,668		105,449
	Total Assets less Current Liabilities		1,356,929		1,222,937
15	Creditors: amounts falling due after more than one year		211,610		140,135
	Net Assets		1,145,319		1,082,802
	Capital and Reserves				
16	Called-up share capital		43,275		43,275
17	Non-distributable – realised profits	982,641		778,981	
17	Non-distributable – unrealised profits	70,775		220,062	
17	Distributable – revenue profits	48,628		40,484	
			1,102,044		1,039,527
	Total Equity Shareholders' Funds		1,145,319		1,082,802

Reconciliation of Total Shareholders' Funds

	Year to 30 Sept 1998 £'000	Year to 30 Sept 1997 £'000
Total Return	82,905	215,309
Ordinary dividend	(19,344)	(16,791)
Special dividend	–	(952)
	63,561	197,566
Exchange differences arising on consolidation	(1,044)	(970)
Movements in Total Equity Shareholders' Funds	62,517	196,596
Total Equity Shareholders' Funds at 1 October	1,082,802	886,206
Total Equity Shareholders' Funds at 30 September	1,145,319	1,082,802

Balance Sheet

Note		As at 30 Sept 1998 £'000	As at 30 Sept 1998 £'000	As at 30 Sept 1997 £'000	As at 30 Sept 1997 £'000
	Fixed Assets				
11	Investments:				
	Subsidiary undertakings		**9,044**		9,044
	Associated undertaking		**30,627**		28,907
	Unlisted		**871,481**		831,141
	Listed		**255,561**		275,909
			1,166,713		1,145,001
	Current Assets				
12	Debtors	**35,883**		32,408	
	Cash at bank and in hand	**204,878**		95,980	
		240,761		128,388	
	Current Liabilities				
14	Creditors: amounts falling due within one year	**32,936**		34,559	
	Net Current Assets		**207,825**		93,829
	Total Assets less Current Liabilities		**1,374,538**		1,238,830
15	Creditors: amounts falling due after more than one year		**211,610**		140,135
	Net Assets		**1,162,928**		1,098,695
	Capital and Reserves				
16	Called-up share capital		**43,275**		43,275
17	Non-distributable – realised profits	**988,733**		783,282	
17	Non-distributable – unrealised profits	**101,040**		248,149	
17	Distributable – revenue profits	**29,880**		23,989	
			1,119,653		1,055,420
	Total Equity Shareholders' Funds		**1,162,928**		1,098,695

The Accounts on pages 37 to 56 were approved by the Directors on 16 December 1998 and were signed on their behalf by:
Michael Stoddart, *Chairman*

Consolidated Cash Flow Statement

Note	For the year ended 30 September	£'000	1998 £'000	£'000	1997 £'000
	Operating Activities				
	Franked investment income	7,563		2,743	
	Unfranked investment income	8,243		5,882	
	Partnership income	2,262		1,575	
	Dividend from associated undertaking	1,950		–	
	Interest income	3,987		6,027	
	Other income	3,185		1,108	
	Expenses	(4,060)		(1,948)	
a	**Net Cash Inflow from Operating Activities**		23,130		15,387
	Returns on Investments and Servicing of Finance				
	Interest paid	(9,254)		(9,714)	
	Net Cash Outflow from Returns on Investments and Servicing of Finance		(9,254)		(9,714)
	Taxation Paid				
	Corporation tax	(1,806)		(1,681)	
	Overseas tax	(127)		(81)	
	Total Taxation Paid		(1,933)		(1,762)
	Capital Expenditure and Financial Investment				
	Purchases of investments	(417,956)		(280,228)	
	Sales of investments	457,135		300,273	
	Net Cash Inflow from Capital Expenditure and Financial Investment		39,179		20,045
	Equity Dividends Paid		(18,908)		(15,581)
	Net Cash Inflow before Management of Liquid Resources and Financing		32,214		8,375
b	**Management of Liquid Resources**		(78,200)		20,000
b	**Financing**				
	Bank loans	75,184		–	
	Loans received	1,821		30,144	
	Loans advanced	(1,669)		(9,325)	
	Net Cash Inflow from Financing		75,336		20,819
	Increase in Cash in the Year		29,350		49,194

Notes to the Consolidated Cash Flow Statement

		Year to 30 Sept 1998 £'000	Year to 30 Sept 1997 £'000
a	**Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Inflow from Operating Activities**		
	Net return before finance costs and taxation but including interest in associated undertaking	**43,355**	40,954
	Priority profit share charged to capital	**(7,336)**	(5,964)
	Profit on sale of current assets investments	**(1,011)**	(254)
	Exchange difference	**(259)**	(221)
	Decrease in trade creditors	**(213)**	(7)
	Increase in other debtors and prepayments	**(5,618)**	(12,943)
	Taxation deducted at source on investment income	**(5,053)**	(3,448)
	Increase in other creditors and accruals	**2,168**	143
	Decrease in trade debtors	**128**	–
	Share of profit of associated undertaking	**(4,981)**	(2,873)
	Dividend received from associated undertaking	**1,950**	–
	Net Cash Inflow from Operating Activities	**23,130**	15,387

b Analysis of Net Debt

	At 1 Oct 1997 £'000	Cash Flow £'000	Exchange Movements £'000	At 30 Sept 1998 £'000
Net cash:				
Cash at bank and in hand	97,860	107,550	(141)	205,269
Less deposits treated as liquid resources	(7,000)	(78,200)	-	(85,200)
	90,860	29,350	(141)	120,069
Liquid resources:				
Deposits on money market	7,000	78,200	-	85,200
Debt:				
Bank loans	(140,135)	(75,184)	3,709	(211,610)
	(42,275)	32,366	3,568	(6,341)

Statement of Accounting Policies

Principal Accounting Policies
The Accounts have been prepared in accordance with Accounting Standards applicable in the United Kingdom except for the policies relating to unlisted investments described below.

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

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

Basis of Consolidation
The consolidated Accounts include in full the Company and its subsidiary undertakings. Where subsidiaries are acquired or sold during the year their results are included in the consolidated Accounts from the date of acquisition and up to the date of disposal respectively. Goodwill arising on acquisition is written off to reserves.

Limited Partnership Funds
Investments made by the Company in limited partnership funds managed by Electra Fleming, an associated undertaking, are accounted for as listed or unlisted investments, dependent on the underlying nature of the investments held within the limited partnership funds. The Group consolidates 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 11).

Listed Investments
The listed investment portfolio is held within a limited partnership fund managed by Electra Fleming, an associated undertaking. The investments comprising the Group's interest in this fund are disclosed as listed investments (see Note 11).

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

Unlisted Investments
Unlisted investments and long term leasehold investment properties are held at Directors' current valuation. Investments may be held through limited partnership funds or directly by the Company. Investments are made with the express intention of capital appreciation and receipt of income. The terms of investment are such that Electra Fleming, as manager of these investments, often has the right, directly or indirectly, to influence the overall direction of an investee company. However, Electra Fleming does not participate in the day-to-day management of such companies. Investments, which are held directly, may therefore fall within the definition of associated undertakings contained in the Companies Act 1985 (as amended) and the Financial Reporting Standard No 9. The Standard requires such investments held by investment funds to be treated as fixed asset investments at cost or valuation. The Act requires that the Group should equity account its share of the net assets and results of such investments.

Unlisted Investments continued

The Directors consider that it would be misleading to conform with the Act and to equity account for such investments with the remainder held at valuation since all these investments are held for capital appreciation. Furthermore they consider it inappropriate to include the Group's share of an investee company's undistributed profits in the Consolidated Statement of Total Return when most of those profits are unlikely to be realised as income but rather as capital gains within non-distributable reserves. For these reasons, in the opinion of the Directors, the Accounts would not give a true and fair view if associated undertakings in the unlisted investment portfolio were to be equity accounted. The effect of equity accounting is set out in Note 21. The latest available published or management accounts have been used in the preparation of the information contained in Note 21.

Associated Undertakings

Companies over which a significant influence is exercised are accounted for as associated undertakings where the Group holds a participating interest which is intended to contribute to the long term development of the Group, rather than normal investment portfolio capital appreciation or income. The Group's share of profits less losses of associated undertakings is included in the Consolidated Statement of Total Return and the Group's share of its net assets is included in the Consolidated Balance Sheet.

Current Asset Investments

Investments held for dealing are held as current asset investments and individually stated at the lower of cost or mid-market price for listed investments and at the lower of cost or Directors' current valuation for unlisted investments.

Foreign Currencies

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

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

Income

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

Priority Profit Share

The majority of the investments are made by the Company in limited partnership funds managed by Electra Fleming, an associated undertaking. The General Partners of these funds are subsidiary undertakings of Electra Fleming. 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 loan 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 allocated 50% to capital and 50% to revenue in line with the Board's expected long term split of returns in the form of capital gains and income respectively from the investment portfolio of the Company.

Finance Costs

Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, are allocated 50% to realised capital reserves and 50% to revenue in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company. The tax effect associated with the above is allocated between capital and revenues on the same basis.

Notes to the Accounts

1 Income of the Investment Trust

	£'000	Year to 30 Sept 1998 £'000	£'000	Year to 30 Sept 1997 £'000
Franked Investment Income from Fixed Asset Investments				
Unlisted – UK	7,816		7,633	
Listed – UK	7,590		7,707	
		15,406		15,340
Unfranked Investment Income from Fixed Asset Investments				
Unlisted – UK	14,689		2,124	
Unlisted – overseas	1,676		3,815	
Partnership interests – UK†	14,094		15,982	
		30,459		21,921
		45,865		37,261
Interest Receivable and Other Income				
Bank interest receivable	3,971		5,995	
Underwriting commission	438		529	
Rents receivable	244		244	
Other income	13		57	
		4,666		6,825
		50,531		44,086

† This represents the income that has been appropriated by Electra Fleming's General Partners of the limited partnership funds (see Note 3).

2 Income of Subsidiary Undertakings

	£'000	Year to 30 Sept 1998 £'000	£'000	Year to 30 Sept 1997 £'000
Unfranked Investment Income from Fixed Asset Investments				
Partnership interests – UK	249		248	
Partnership interests – overseas	40		1,327	
		289		1,575
Investment Income from Current Asset Investments				
Listed – UK – franked		30		49
		319		1,624
Interest Receivable and Other Income				
Bank interest receivable	16		17	
Underwriting commission	9		278	
Investment dealing	3,365		254	
		3,390		549
		3,709		2,173

3 Expenses

Year to 30 September	Revenue £'000	Capital £'000	1998 Total £'000	Revenue £'000	Capital £'000	1997 Total £'000
Priority profit share paid to General Partners	**7,336**	**7,336**	**14,672**	5,964	5,964	11,928

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 loan 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.

The priority profit share is allocated 50% to capital and 50% to revenue in line with the Board's expected long term split of returns in the form of capital gains and income respectively from the investment portfolio of the Company.

Other expenses						
Administrative expenses	**1,914**	**–**	**1,914**	1,835	–	1,835
Directors' remuneration (see Note 4)	**1,221**	**–**	**1,221**	259	–	259
Auditors' remuneration (Company 1998: £120,000; 1997: £120,000)	**120**	**–**	**120**	120	–	120
	3,255	**–**	**3,255**	2,214	–	2,214

Remuneration of the Company's auditors for provision of non-audit services to the Company and its UK subsidiary undertakings was £170,000 (1997: £319,000).

Reversal of income accrual	**5,275**	**–**	**5,275**	–	–	–

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 1998 £'000	Year to 30 Sept 1997 £'000
Chairman's remuneration	**89**	69
Directors' fees	**165**	129
Long term performance related bonus	**967**	–
Bonus	**–**	61
	1,221	259
Emoluments		
Chairman and highest paid Director: remuneration	**89**	69
Long term performance related bonus	**967**	–
Bonus	**–**	61
	1,056	130

Long Term Performance Related Bonus

As previously reported Mr MC Stoddart was granted a long term Performance Related Bonus Scheme in July 1995. During the year, the Remuneration Committee approved the payment of £967,000 being a cash payment in respect of this Scheme. The payment was made to Railike Limited, a company through whom Mr Stoddart's services are provided to the Company. The Scheme rules permitted such payment if the market price of the Company's shares over the three year period from August 1995 had outperformed the FTSE All-Share Index by more than 10%. The price of the Company's shares had increased from 358p per share to 592.5p per share in the period, a rise of 65.5%, such figures being the average figures for the first 14 days of August 1995 and 1998 as set out in the Scheme Rules. This performance criteria was met and the payment is equivalent to the increase in value of 375,000 ordinary shares of the Company over the three year period, plus National Insurance contributions. The Chairman received assets on the termination of the EPEP partnerships (See Note 22).

4 Directors' Remuneration continued

In addition the Chairman received fees amounting to £59,000 (1997: £57,000) from Electra Fleming and £37,000 (1997: £96,000) in respect of Directorships held by him in companies in which the Company held an investment. No pension contributions were made in respect of any Directors and no Director will receive any pension from any company within the Group. The number of Directors of the Company whose emoluments were within the following bands are set out below:

	1998 Number	1997 Number		1998 Number	1997 Number
£ 0 – £ 5,000	–	1	£ 25,001 – £ 30,000	2	1
£15,001 – £20,000	–	4	£130,001 – £135,000	–	1
£20,001 – £25,000	6	1	£1,055,001 – £1,060,000	1	–

During the year no Directors (1997: two) waived remuneration amounting to £nil (1997: £20,000).

5 Employees (Excluding Directors)

The Company has no employees (1997: nil).

6 Interest Payable

Year to 30 September	Revenue £'000	Capital £'000	1998 Total £'000	Revenue £'000	Capital £'000	1997 Total £'000
Loans Repayable between One and Five Years						
Foreign currency bank loans	**4,419**	**4,419**	**8,838**	4,886	4,886	9,772
Loans Repayable within One Year						
Bank loans	**2**	**2**	**4**	2	2	4
	4,421	**4,421**	**8,842**	4,888	4,888	9,776

7 Taxation on Ordinary Activities

Year to 30 September	Revenue £'000	Capital £'000	1998 Total £'000	Revenue £'000	Capital £'000	1997 Total £'000
Based on the Profits for the Year						
Corporation tax at 31% (1997: 32%)						
Current taxation	**5,351**	**(1,567)**	**3,784**	2,506	(1,564)	942
Prior year adjustment	**64**	**–**	**64**	1,831	(1,831)	–
Tax on priority profit share	**2,274**	**(2,274)**	**–**	1,908	(1,908)	–
Recoverable ACT (1997: irrecoverable)	**(1,215)**	**–**	**(1,215)**	1,215	–	1,215
Tax credits on franked investment income	**3,087**	**–**	**3,087**	3,069	–	3,069
Overseas taxation	**207**	**–**	**207**	105	–	105
Double taxation relief	**(80)**	**–**	**(80)**	(24)	–	(24)
	9,688	**(3,841)**	**5,847**	10,610	(5,303)	5,307
Associated undertaking	**1,499**	**–**	**1,499**	909	–	909
	11,187	**(3,841)**	**7,346**	11,519	(5,303)	6,216

8 Revenue Return Attributable to Shareholders

The Revenue Return attributable to shareholders includes £25,235,000 (1997: £20,650,000) which has been dealt with in the Accounts of the Company.

9 Dividends

	Per share p	Year to 30 Sept 1998 £'000	Per share p	Year to 30 Sept 1997 £'000
Interim paid	**5.175**	**8,958**	4.50	7,790
Proposed final	**6.000**	**10,386**	5.20	9,001
Proposed special	**–**	**–**	0.55	952
	11.175	**19,344**	10.25	17,743

10 Return to Shareholders per Ordinary Share

The calculation of revenue return per share is based on the revenue return attributable to shareholders of £27,747,000 (1997: £24,547,000) and on a weighted average number of 173,098,534 (1997: 173,098,534) ordinary shares of 25p.
The calculation of capital return per share is based on the capital return attributable to ordinary shareholders of £55,158,000 (1997: £190,762,000) and on a weighted average number of 173,098,534 (1997: 173,098,534) ordinary shares of 25p.

11 Fixed Asset Investments

	Group		Company	
	30 Sept 1998 £'000	30 Sept 1997 £'000	30 Sept 1998 £'000	30 Sept 1997 £'000
Subsidiary Undertakings at Directors' Valuation				
Unlisted – UK and Continental Europe	**–**	–	**1,445**	1,445
Unlisted – USA and Other	**–**	–	**7,599**	7,599
	–	–	**9,044**	9,044
Associated Undertaking				
Unlisted – UK and Continental Europe	**5,532**	3,812	**30,627**	28,907

In the Group the associated undertaking is stated in the Balance Sheet at the Group's share of net assets. In the Company the associated undertaking is stated in the Balance Sheet at Directors' valuation.

Unlisted at Directors' Valuation				
UK and Continental Europe	**600,936**	493,055	**600,936**	493,055
USA and Other	**195,724**	260,220	**193,214**	258,021
Partnership interests – UK and Continental Europe	**21,403**	13,559	**18,757**	11,066
Partnership interests – USA and Other	**60,105**	70,933	**58,574**	68,999
	878,168	837,767	**871,481**	831,141
Listed at Market Value				
UK and Continental Europe	**255,561**	275,909	**255,561**	275,909

The market value of investments listed on a recognised investment exchange is £255,561,000 (1997: £275,909,000).

11 Fixed Asset Investments continued

	Group Investments £'000	Group Associate £'000	Company £'000
Valuation at 1 October 1997			
Investments	1,113,676	–	1,107,050
Subsidiary undertakings	–	–	9,044
Associated undertaking	–	3,812	28,907
	1,113,676	3,812	1,145,001
Changes due to currency movements	66	–	–
Net income from associated undertaking credited through consolidated statement of total return	–	1,582	–
Prior year adjustment	–	138	–
	1,113,742	5,532	1,145,001
Purchases – at cost	405,588	–	404,997
	1,519,330	5,532	1,549,998
Disposals – at valuation 1 October 1997	370,007	–	371,472
	1,149,323	5,532	1,178,526
Decrease in valuation	(15,594)	–	(11,813)
Valuation at 30 September 1998	1,133,729	5,532	1,166,713
Cost at 30 September 1998	1,075,168	2,592	1,078,170

The amount of investments held in limited partnership funds that are managed by Electra Fleming is £924,764,000 (1997: £728,666,000).

12 Debtors

	Group 30 Sept 1998 £'000	Group 30 Sept 1997 £'000	Company 30 Sept 1998 £'000	Company 30 Sept 1997 £'000
Amounts Falling Due within One Year				
Sales for future settlement	3,755	3,524	3,755	3,524
Trade debtors	–	129	–	–
Taxation recoverable	3,191	4,419	3,191	4,083
ACT recoverable	–	748	–	748
Amounts owed by subsidiary undertakings	–	–	6,648	5,457
Amounts owed by associated undertaking	908	1,955	712	1,732
Other debtors	3,172	12,191	2,760	11,466
Prepayments and accrued income	18,817	5,398	18,817	5,398
	29,843	28,364	35,883	32,408

13 Current Asset Investments

Listed – UK	2,826	964	–	–

The market value of listed investments at 30 September 1998 is £2,993,000 (1997: £984,000). Of this total £2,993,000 relates to investments listed on a recognised investment exchange (1997: £944,000).

14 Creditors

	Group 30 Sept 1998 £'000	Group 30 Sept 1997 £'000	Company 30 Sept 1998 £'000	Company 30 Sept 1997 £'000
Amount Falling Due within One Year				
Purchases for future settlement	1,956	1,599	1,956	1,599
Trade creditors	39	213	–	–
Amounts owed to subsidiary undertakings	–	–	13,808	13,812
Amounts owed to associated undertaking	4,338	74	4,321	58
Proposed final dividend	10,386	9,953	10,386	9,953
Corporation tax	2,215	3,368	1,139	3,036
ACT payable	–	1,963	–	1,963
Other taxation	8	6	1	–
Other creditors	1,328	4,563	1,325	4,138
	20,270	21,739	32,936	34,559

15 Creditors

	Group 30 Sept 1998 £'000	Group 30 Sept 1997 £'000	Company 30 Sept 1998 £'000	Company 30 Sept 1997 £'000
Amount Falling Due after more than One Year				
Bank loans	211,610	140,135	211,610	140,135

Bank loans represent loans at variable interest rates which are repayable not later than 23 June 2002.

16 Share Capital

	30 Sept 1998 £'000	30 Sept 1997 £'000
Allotted, called-up and fully paid 173,098,534 (1997: 173,098,534) ordinary shares of 25p each	43,275	43,275
Unissued 26,901,466 (1997: 26,901,466) ordinary shares of 25p each	6,725	6,725
Authorised 200,000,000 ordinary shares of 25p each	50,000	50,000

17 Reserves

	Group 30 Sept 1998 £'000	Company 30 Sept 1998 £'000
a **Realised Profits – Non-Distributable** *		
At 1 October 1997	778,981	783,282
Profits less losses on realisation of investments during the year	75,100	74,503
Costs charged to capital (net of taxation of £3,841,000, (1997: £5,303,000))	(7,916)	(7,916)
Net losses on revaluation of foreign currencies	(141)	(141)
Exchange differences arising on consolidation	(785)	–
Unrealised net appreciation at 1 October 1997 on investments sold during the year	137,402	139,005
At 30 September 1998	982,641	988,733

* Includes Share Premium at 30 September 1998 of £24,147,000 (1997: £24,147,000).

17 Reserves continued

		Group 30 Sept 1998 £'000	Company 30 Sept 1998 £'000
b	**Unrealised Profits – Non-Distributable**		
	At 1 October 1997	220,062	248,149
	Decrease in value of fixed asset investments	(15,594)	(11,813)
	Profits on revaluation of foreign currency loans	3,709	3,709
	Unrealised net appreciation at 1 October 1997 on investments sold during the year transferred to realised profits	(137,402)	(139,005)
	At 30 September 1998	70,775	101,040
c	**Revenue Profits – Distributable**		
	At 1 October 1997	40,484	23,989
	Net revenue transfer for the year	8,144	5,891
	At 30 September 1998	48,628	29,880
	Total reserves at 30 September 1998	1,102,044	1,119,653
	Total reserves at 30 September 1997	1,039,527	1,055,420

18 Contingent Liabilities and Commitments

The Company has undertaken to invest up to a further US$109,028,000 (1997: US$54,608,000) 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 £37,683,000 (1997: £44,126,000).

At 30 September 1998 the Company had uncalled commitments to four (1997: four) limited partnership funds managed by Electra Fleming of £209,000,000 (1996: £384,000,000).

As a limited partner in a number of limited partnership funds, the Company has entered into agreements with subsidiaries of Electra Fleming 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 calculation of this priority profit share is based on the value of the investment portfolio held within each respective limited partnership fund. The management agreements are rolling contracts which allow for termination by either party at the conclusion of a three year notice period.

19 Particulars of Holdings in Principal Subsidiary and Associated Undertaking

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 Undertaking

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.

Associated Undertaking

Electra Fleming Holdings Limited
6,045,002 'X' shares of 1p each (par value) representing 100% of that class of share.
The associate is 50% owned and held directly by the Company.

19 Particulars of Holdings in Principal Subsidiary and Associated Undertaking continued

600,000 preference shares in a subsidiary of Electra Fleming Holdings Limited are also held directly by the Company. It is not possible to identify the inter-company profit arising from transactions between the Company and the associate which would be eliminated on consolidation and no adjustments in respect of this have been made. Shown below are the abridged Consolidated Balance Sheet and Consolidated Profit and Loss Account of Electra Fleming Holdings Limited.

Consolidated Balance Sheet
As at 30 September 1998

	1998 £'000	1997 £'000
Fixed Assets	**4,622**	3,446
Current Assets	**20,637**	17,489
	25,259	20,935
Creditors – amounts falling due within one year	**14,210**	13,027
	11,049	7,908
Provisions for liabilities and charges	**210**	–
	10,839	7,908
Minorities	**691**	742
Net Assets	**10,148**	7,166

Consolidated Profit and Loss Account
Year to 30 September 1998

	1998 £'000	1997 £'000
Amount received from EIT limited partnerships	**14,672**	11,928
Other income	**14,867**	11,394
Expenses	**(19,523)**	(17,446)
Profit on ordinary activities before taxation	**10,016**	5,876
Taxation	**(2,998)**	(1,818)
Profit on ordinary activities after taxation	**7,018**	4,058
Minorities	**(56)**	(131)
Profit attributable to shareholders	**6,962**	3,927
Dividends	**(3,900)**	–
Transferred to Reserves for the Year	**3,062**	3,927

20 Particulars of Holdings in Other Companies

All companies are incorporated in Great Britain and registered in England and Wales unless otherwise stated.
All companies operate in their country of incorporation.
The principal companies in which the Group had an interest in 20% or more in nominal value of securities at 30 September 1998 are:

	Total capital and reserves £'000	Percentage of share and loan capital held by the Group %
Charco Ninety-Nine		
Ordinary shares of £1	110	–
Convertible participating ordinary shares of £1	330	50.00
Cumulative redeemable preference shares of £1	457	50.00
Profit for the year	3,509	–
Reserves at 28 March 1998	5,715	–

The principal companies in which the Group had interests in 10% or more in nominal value of securities at 30 September 1998 are:

	Holding as percentage in each class of share %
Orthofix International (Netherlands Antilles)	
Common stock US$0.01	13.65
UGC (Unipart)	
'A' Ordinary shares of 5p	16.67

Significant Interests in Investee Undertakings

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

	Cost £'000
Amtico	**17,067**
Ordinary shares 49.54%	
Loan stock 66.10%	
Bezier	**19,178**
Ordinary shares 47.50%	
Loan notes 66.67%	
Candover Investments	**603**
Ordinary shares 8.79%	
Centum	**9,962**
Loan notes 50.00%	
Warrants to subscribe for ordinary shares 50.00%	
Deutsche Woolworth (Germany)	**29,815**
Ordinary shares 49.29%	
Shareholders loans 57.64%	
Knowledge Technologies International (Luxembourg)	**11,652**
'A' Ordinary shares 95.00%	
Preference shares 100.00%	
Loan stock 100.00%	

20 Particulars of Holdings in Other Companies continued

	Cost £'000
Leiner Health Products (USA) Partnership interest 18.20%	12,033
Motorsport Dealers International Ordinary shares 50.00% Loan stock 66.33%	16,239
Newmond 'B' Preferred ordinary shares 40.49% Preference shares 16.76%	30,884
PHS Ordinary shares 66.67% Loan stock 72.79%	20,458
SLD Holdings Ordinary shares 55.13% Shareholders loan stock 71.10% Unsecured loan stock 35.55%	25,712
Supermercados Norte (Argentina) Partnership interest 4.65%	5,978
The Stationery Office Ordinary shares 43.84% Preference shares 59.84% Mezzanine loan stock 10.87% Loan stock 60.10%	27,115
UGC (Unipart) 'A' Ordinary shares 16.67%	73
Vantios Ordinary shares 12.60%	4,287
Vendcrown 'B' Ordinary shares 49.24% Preference shares 39.29% Loan stock 34.41%	16,059
William Cook Holdings Ordinary shares 48.77% Convertible ordinary shares 56.09% Preference shares 59.25% Loan stock 59.25% Mezzanine loan 66.67%	20,909

21 Full Consolidation

The effect due to the accounting policy as stated on pages 42 to 44 of equity accounting for associated undertakings is set out below. For the purposes of this note, all investments in which the Group has a significant interest in the ordinary share capital have been accounted for as associated undertakings. The Group's share of negative assets has only been included where there is a commitment to further funding. Investments against which full provisions have been made have not been equity accounted.

	Consolidated Balance Sheets			
	As at 30 Sept 1998		As at 30 Sept 1997	
	Published £'000	**Restated £'000**	Published £'000	Restated £'000
Fixed Assets				
Investments:				
Associated undertakings	**5,532**	**8,298**	3,812	7,210
Unlisted	**878,168**	**867,463**	837,767	783,121
Listed	**255,561**	**255,561**	275,909	275,909
	1,139,261	**1,131,322**	1,117,488	1,066,240
Current Assets				
Debtors	**29,843**	**29,843**	28,364	28,364
Investments	**2,826**	**2,826**	964	964
Cash at bank and in hand	**205,269**	**205,269**	97,860	97,860
	237,938	**237,938**	127,188	127,188
Current Liabilities				
Creditors: amounts falling due within one year	**20,270**	**20,270**	21,739	21,739
Net Current Assets	**217,668**	**217,668**	105,449	105,449
Total Assets less Current Liabilities	**1,356,929**	**1,348,990**	1,222,937	1,171,689
Creditors: amounts falling due after more than one year	**211,610**	**211,610**	140,135	140,135
Net Assets	**1,145,319**	**1,137,380**	1,082,802	1,031,554
Capital and Reserves				
Called-up share capital	**43,275**	**43,275**	43,275	43,275
Non-distributable – realised profits *	**982,641**	**985,219**	778,981	778,155
Non-distributable – unrealised profits	**70,775**	**60,258**	220,062	169,640
Distributable – revenue profits	**48,628**	**48,628**	40,484	40,484
Total Shareholders' Funds	**1,145,319**	**1,137,380**	1,082,802	1,031,554

* includes distributable reserves of associated undertakings

21 Full Consolidation continued

	Consolidated Revenue Accounts Year to 30 Sept 1998 £'000	Year to 30 Sept 1997 £'000
Return to Shareholders – as published	**27,747**	24,547
Net income from Associated Undertakings	**1,197**	2,321
Return to Shareholders – Restated	**28,944**	26,868
Dividends	**19,344**	17,743
	9,600	9,125
Transfer to Revenue Reserves	**8,403**	6,804
Transfer to Capital Reserves	**1,197**	2,321
	9,600	9,125

22 Related Party Transactions

The Company operates carried interest and co-investment schemes for employees and executives (the "participants") of the Electra Fleming Group. Under these schemes the participants invest in every new investment made by the Company. In return the participants receive a percentage of the total capital and revenue profits made on each investment. The participants do not receive any profits until the Company has received back its initial investment. During the year ended 30 September 1998 the participants received £4,497,000 (1997: £4,977,000) under these schemes and had unrealised gains of £7,731,000 (1997: £4,793,000). The unrealised gains have been deducted from the valuation of the Company's unlisted portfolio. In addition the participants are entitled to a percentage of the incremental value of unlisted investments held at the 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. At 30 September 1998 the unrealised value was £1,200,000 (1997: £945,000). These unrealised gains have been deducted from the valuation of the Company's unlisted portfolio. No Directors of EIT participate in the above-mentioned schemes. The participants held, as at 30 September 1998, 248,865 (1997: 195,265) ordinary shares of the Company.

As disclosed in the Interim Report, Electra Private Equity Partners ("EPEP"), a private equity fund in which the Company was a major investor, came to the end of its eight year life in February 1998. As a result of EPEP achieving its investment performance threshold at termination, the Company received additional securities which had a value of £15.1 million. Under the terms by which EPEP was established in 1990, former executives of the Company and executives of its management company also received securities at EPEP's termination with an aggregate value of £15.1 million. As a former executive of the management company, Mr MC Stoddart received 14.0% of these securities.

Under the arrangements relating to the management of the listed portfolio, certain executives of the Electra Fleming Group will receive bonuses over a two year period if the listed portfolio outperforms a composite index.

The Fleming Investment Trusts Share Plan

Share Plan

The Fleming Investment Trusts Share Plan ("Share Plan") provides an economical and convenient way for any investor to start or increase a holding in EIT. Shares can be purchased by lump sum (minimum £400), regular saving (from £40 per month) or dividend reinvestment. In addition EIT shares currently held in certificated form can be transferred into the Share Plan free of charge.

The Share Plan works on an execution-only and uncertificated basis so that no investment advice or recommendations are provided and certificates are not issued to participants, all of whose shares are held by the Plan's nominee. Investment statements and valuations are sent out twice a year.

For further information on the Share Plan, please ring the Brochureline on freephone 0500 500161. This service is available from 8am to 9pm seven days a week.

Note

The information in relation to the Fleming Investment Trusts Share Plan is issued and has been approved for the purposes of the Financial Services Act 1986 by Fleming Investment Trust Services Limited, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ, which is regulated by the Personal Investment Authority and only sells unit trusts, recognised collective investment schemes, PEPs, life assurance and pension products offered by the Fleming Asset Management Marketing Group.

Please remember that the value of shares and the income from them can fall as well as rise and you may not get back the full amount invested. Past performance is not necessarily a guide to the future.

For trusts investing in Emerging Markets the risk to your capital is greater. Exchange rate changes may cause the value of overseas investments to rise or fall. Unquoted investments may be illiquid and difficult to value and may be more volatile.

Electra Investment Trust PLC

Board of Directors
Michael Stoddart Chairman
Brian Williamson CBE Deputy Chairman
Ronald Armstrong
Professor George Bain
The Rt Hon Tom King CH MP
Sir Michael Pickard
Stephen Robert
Peter Williams

Manager
Electra Fleming Group

Financial Advisor
Lazard Brothers & Co Limited

Secretary
Philip Dyke

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Company Number
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Share Plan
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Account queries 0800 136666

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Chartered Accountants
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Bankers
National Westminster Bank PLC
JP Morgan & Co Inc

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Notice is hereby given that the sixty-fourth Annual General Meeting of Electra Investment Trust PLC will be held at 11.00 am on Wednesday, 17 February 1999 in The Fitzalan & Arundel Suites at The Howard Hotel, Temple Place, London WC2R 2PR for the following purposes:

To receive and adopt the reports of the Directors and Auditors and the Group Accounts for the year ended 30 September 1998;

To declare a final dividend for the year ended 30 September 1998 which the Directors recommend should be at the rate of 6.00p per ordinary share;

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

To re-elect Mr RA Armstrong as a Director of the Company;

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

To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:
That PricewaterhouseCoopers be reappointed Auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Coopers & Lybrand) to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.

By order of the Board of Directors
PJ Dyke, Secretary, 65 Kingsway, London WC2B 6QT
4 January 1999

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. To be effective, proxy forms and any power of attorney under which they are executed (or a duly certified copy of such power) must reach the Company's Registrars 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 proxy form will not prevent a member from attending and voting at the meeting.

2 In accordance with Regulation 34 of the Uncertificated Securities Regulations 1995, only those holders of ordinary shares entered on the register of members of the Company as at 6.00 pm on Monday, 15 February 1999 ("the specified time") shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6.00 pm on Monday, 15 February 1999 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

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.

3 The following documents will be available for inspection at the registered office of the Company during the usual business hours on any week day (Saturday excluded) from the date of this notice until the meeting, and will be available at the Annual General Meeting from 10.45 am until the conclusion of the meeting:

(a) the Register of Directors' Interests in the share capital of the Company maintained in accordance with Section 325 of the Companies Act 1985; and

(b) the Memorandum and Articles of Association of the Company.

4 Short biographical details regarding Professor George Bain, Mr RA Armstrong, and Mr JP Williams are contained on page 7.