Reasons for convening the Extraordinary General Meeting

The Company's investment manager, Edinburgh Fund Managers plc, informed the Board on 16 July 2002 that the net assets of the Company were valued at close of business on 12 July 2002, taking into account the entitlement of the holders of zero dividend preference shares in ELIT Zeros 2008 plc, at less than half of its called up share capital. As at 7 August 2002 (the latest practicable date prior to the publication of this document), the net assets of the Company (valued on the same basis) amounted to nil following further falls in the stock market.

Under the Companies Act 1985, if the net assets of a public company amount to half or less of its called-up share capital the directors of that company are required to convene an extraordinary general meeting for the purpose of considering what steps (if any) should be taken to deal with the situation. The Board has accordingly convened an extraordinary general meeting to consider how the situation should be dealt with. Your Board, after due and careful consideration, and consultation with the Company's bankers, the Bank of Scotland, is of the opinion that the Company should continue as described below. No specific resolution is being proposed at the Extraordinary General Meeting.

Background

In the Chairman's statement accompanying the report and accounts for the period to 28 February 2002 it was stated that as at 15 April 2002 total assets, less current liabilities, were £35.9m. Since then stock markets have fallen sharply and this has had a negative effect on the valuation of both the equity portfolio which invests in smaller companies and the income portfolio which has investments in a number of split capital investment trust ordinary and income shares. Despite reducing the bank loan and increasing cash balances mainly through sales in the small capital portfolio, the fall in the stock market and its impact on the portfolio valuation have led to the Company's net assets falling to less than half of its called up share capital.

In April 2002, following a review from its financial advisers, HSBC, the Company announced various policy decisions to reduce costs and so conserve cash. The principal cost savings were a reduced management fee payable to Edinburgh Fund Managers and a 50% cut in director's fees. In addition, the allocation of expenses was changed so that 80% of management costs and interest were charged against revenue and 20% against capital reserves.

As reported, gearing was reduced through the repayment in March 2002 of £5.75 million of the debt to the Bank of Scotland. In addition, the Board agreed with the Bank of Scotland that in calculating the asset cover over the loan the level of cash deposited with them may be offset against the loan liability.

The Company declared a first interim dividend on the convertible income shares and ordinary shares in respect of the year ending 28 February 2003 on 25 June 2002; at that time the trust satisfied the requirements of section 264 of the Companies Act 1985 to enable it to pay dividends. Due to significant falls in the stock market since the declaration this is no longer the case and the directors have therefore announced with regret that the first interim dividend for the convertible income shares and ordinary shares will not be paid.

More Recent Events

The Board of Edinburgh Leveraged Income Trust announced on 17 July 2002 that the Company was in breach of its assets to loan bank covenant ratio. Following such announcement the Company has taken the following steps.

- The Board has agreed with the Bank of Scotland that the Company will sell the remainder of its small capital portfolio.
- Following the sale of the small capital portfolio, the Company will repay to the Bank of Scotland the majority of its cash surplus.
- The running costs of the Company have been reduced as a result of Edinburgh Fund Managers and the Directors agreeing to waive in full their management and secretarial fees and directors' fees, respectively, for the foreseeable future.
- Interest and other costs of the Company will now be charged 100% to income, and surplus income will be used for the foreseeable future to reduce the amount of principal due to the Bank of Scotland.

Following the repayment to the Bank of Scotland, the Company's assets are expected to be principally comprised of its portfolio of split capital investment trust shares, valued at £9.2 million, based on mid market prices as at 7 August 2002 (although it may not be possible to realise it at this level in current market conditions), plus approximately £1.8 million in cash, part of which it is retaining to meet certain subscription liabilities to its subsidiary, ELIT Zeros 2008 plc.

The principal sum due to the Bank of Scotland will be reduced to approximately £10 million after the repayment referred to above. The Board will continue to review the position of the Company with the Bank of Scotland, who remain supportive.

The Immediate Future

The Directors and Edinburgh Fund Managers intend to continue to manage the split capital portfolio with a view to realising the best possible returns for shareholders over time. The Directors announce with regret that no dividends are likely to be paid for the foreseeable future and that there are currently no assets attributable to ordinary shareholders. The Directors will continue to review the best possible course of action to address the problems facing the Company.

Extraordinary General Meeting

An Extraordinary General Meeting of the Company will be held on 28 August 2002 at noon at Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD.

For further information, please contact :

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