

STOCKS CONVERTIBLE TRUST PLC



REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2005

STOCKS CONVERTIBLE TRUST PLC

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STOCKS CONVERTIBLE TRUST PLC

Objective of the Company

The objective of the Company is to maximise Shareholder value by investing principally in a portfolio of convertible securities anywhere in the world.

The Company's investments are still principally in Australia and New Zealand but they will be progressively realised and the proceeds invested in convertible securities worldwide.

Highlights for the Year

- Fully-diluted consolidated net asset value per share in sterling increased 20.6% to 135.8p.
- Shareholder funds increased by 29.4%.
- Australian dollar strengthened 6.4% against sterling.
- Dividend, interest and other income increased by 22.2%.
- Total revenue expenses decreased by 8.4%.
- Proposed dividend of 1.50p, up from 1.00p, an increase of 50%.

Awards

In the Financial Times Money Guide Funds Watch published on 25 June 2005, the Company was ranked as follows:

Investment Trust Global Growth and Income Sector

- 1 year to 31 May 2005 – Ranked No. 1, Growth 30.01%
- 3 years to 31 May 2005 – Ranked No. 1, Growth 135.73%
- 5 years to 31 May 2005 – Ranked No. 1, Growth 259.17%

Investment Trusts magazine award for the Best Growth and Income Trust for its performance in 2003.

Investment Trusts magazine award for the Best Specialist Trust for its performance in 2001.

STOCKS CONVERTIBLE TRUST PLC

Chairman's Statement

In the year to 31 May 2005 the fully diluted net asset value (NAV) rose by 20.6% to 135.8 pence, while over the four years 31 May 2001 to 31 May 2005 the NAV has nearly doubled rising by 97.7% from 68.7 pence to the current 135.8 pence, a period during which most major markets have fallen by between a few percentage points and up to 25%, apart from the Australian market which has risen by 23%. The ASX Small Ordinaries index, which is used as the Company's benchmark while most of the Company's investments are still in Australia, rose in sterling adjusted terms by 25.8% in the year to 31 May 2005 and by 54% over the four years since May 2001. Over the year the Australian dollar strengthened by 6.4% against sterling from A\$2.5693 to A\$2.4049.

Dividend, interest and other income of the Group rose by 22.2% from £739,000 to £903,000 over the year, while revenue expenses declined by 8.4% from £394,000 to £361,000. The income available for distribution by the Company, after tax adjustments, is £192,000. The directors therefore propose a dividend of 1.50 pence per share, compared with 1.00 pence the previous year, which is a 94% payout ratio.

The rate of GDP growth has slowed in Australia from 3.2% in the year to March 2004 to 1.9% in the year to March 2005. The lower rate of GDP growth is attributable to slowing retail sales, lower manufacturing output, an easing in the housing market and weaker agricultural output due to the drought. This latter factor has helped to push the Current Account deficit to a record A\$15.6 billion in the March 2005 quarter, which is 6.8% of GDP. The Reserve Bank lifted official interest rates to 5.5% in December 2004 to moderate domestic demand, which might otherwise have increased inflationary pressures. As a result, inflation remains subdued at 2.4% in the year to May 2005. In spite of slackening economic growth, the Australian stock market as measured by the All Ordinaries Index rose by 17.8% to 4070 in the year to end May 2005, while the ASX Small Ordinaries Index also rose by 17.8% to 2251.

The Company's investment policy currently tends to be to have a concentrated portfolio of a limited number of well researched securities. As a result, five stocks comprise 80% of total assets with Trust Company of Australia alone forming 48%. This stock has performed well rising by 24% over the year, as did The Taverners Trust, a UK registered investment trust comprising 8% of total assets, which rose by 33%. Offsetting these rises ERG, an automated transport fare collection system designer comprising 10% of total assets, has fallen by 31%. Since the end of the Company's financial year the Company's holding in The Taverners Trust has been sold for cash at 136 pence a share, which represents a rise of 43.8% on the average purchase cost. Overall, the Company's investment performance remains strong. In the Financial Times Money Guide of 25 June 2005 the Company is ranked first in the Global Growth and Income section of investment trusts over one year to 31 May 2005 and, first among all investment trusts over three and five years.

Although the Company's expense ratio on total assets is reasonable at 1.54% and has fallen from the previous year's level of 1.81%, the board is conscious that assets under management need to be increased in order to make overall management more economic. However, prior to any capital raising it will probably be desirable to arrange for the existing issue of 3.5% Convertible Subordinated Unsecured Loan Stock 2007 to be converted. It also may be appropriate to wait for the Court hearing of our case in relation to New Cap Reinsurance Corporation, referred to in note 24 in the notes to the financial statements, which is scheduled for September 2005. At the time of any capital raising it will be necessary to reconsider the Company's investment mandate. While historically 68% of the Company's portfolio remains in Australia, the intention had been to diversify into a portfolio of convertible securities anywhere in the world. However, although 27% of the Company's investments are in convertible securities, many of the opportunities in the convertible market when the Company's investment objective was changed three years ago are no longer available. Consequently a freer investment mandate will probably be proposed.



Anthony Bushell
Chairman
2 September 2005

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Directors

Anthony Bushell*†, Chairman, aged 72, is also non-executive chairman of Smaller Companies Value Trust plc. He was previously Chief Investment Manager of the Bank of England.

Peter Burrows AO*, aged 58, a senior stockbroker with Bell Potter Securities. He was formerly the chairman/chief executive of Burrows Limited (which merged with McIntosh Baring Limited and was subsequently acquired by Merrill Lynch), chairman of Garratts Limited and, a director of FTR Holdings Limited, CRI Limited and ASX (Sydney) Limited.

Bruce Hervey*†, aged 63, spent over 35 years in the Australian stockbroking industry. Originally a partner in an Australian company, he has latterly served with UBS Warburg and HSBC Securities Limited.

Warren McLeland*†, aged 59, formerly a stockbroker and investment banker, is now an adviser in fund management and business strategy to companies. He is a director of Trust Company of Australia Limited and Intellect Holdings Limited, in which the Company has investments.

All Directors are non-executive.

* Independent

† Audit and Management Engagement Committee member

Investment Manager

Ingot Capital Management Pty Ltd holds an Australian Financial Services Licence.

Administrator and Secretary

Phoenix Administration Services Limited acts as Administrator and Secretary to the Company.

STOCKS CONVERTIBLE TRUST PLC

Analysis of Investments by Value as at 31 May 2005

(Ordinary shares unless otherwise stated)

Company	Sector	£'000	%
Trust Company of Australia	Financial	11,896	48.05
ERG	Software & Computer Services	2,514	10.16
The Taverners Trust	Investment Trust	2,040	8.24
Intellect Holdings (Ordinary, 4% Conv Note 5/01/10 & Options 31/12/09)	Software and Computer Services	1,792	7.24
Global Equity Market Securities (0% 18/01/08)	Investment Company	1,546	6.25
PD Ports (6% Convertible 30/06/09)	Transport	1,095	4.42
eBet (10% Redeemable Conv Notes 29/11/06)	Software & Computer Services	1,007	4.07
Utilico IT (3.75% CULS 30/11/2009)	Investment Trust	1,001	4.04
Invesco Inc Trust (4.75% CULS 01/10/2009)	Investment Trust	815	3.29
JDV	Financial	405	1.64
Ten largest investments		24,111	97.40
S&P 500 Index Put Options (long)		856	3.46
S&P 500 Index Put Options (short)		(323)	(1.31)
Other investments (17)		725	2.93
Total investments		25,369	102.48
Cash at bank and short-term deposits		482	1.95
Current assets less current liabilities		(1,097)	(4.43)
Total assets less current liabilities		24,754	100.00

Classification of Assets

	2005		2004	
	£'000	%	£'000	%
Equities	18,548	74.93	13,913	67.79
Convertible securities	6,768	27.34	2,868	13.97
Fixed interest securities	53	0.21	96	0.47
Total investments	25,369	102.48	16,877	82.23
Current (liabilities) / assets	(615)	(2.48)	3,648	17.77
Total assets less current liabilities	24,754	100.00	20,525	100.00

Geographical Analysis

	2005		2004	
	£'000	%	£'000	%
Australia	17,735	71.64	13,901	67.73
New Zealand	1,691	6.83	2,123	10.34
United Kingdom	5,357	21.64	732	3.57
United States	586	2.37	121	0.59
Total investments	25,369	102.48	16,877	82.23
Current (liabilities) / assets	(615)	(2.48)	3,648	17.77
Total assets less current liabilities	24,754	100.00	20,525	100.00

STOCKS CONVERTIBLE TRUST PLC

Investment Manager's Report

Investment Policy

The Company's assets are currently invested predominantly in Australian and New Zealand denominated securities largely due to our legacy holding in Trust Company of Australia which comprises 48% of total assets. Consequently there are currency exchange risks that may effect the value of the Company's shares and convertible notes denominated in sterling.

Convertible Securities Markets

Generally, our convertible note portfolio has performed well in the current year. While the global convertible market continues to grow impressively in terms of size, the increase in equity markets has negated some of the attractions of investing in this sector, being yield pick-up, cheap equity exposure and the free put option.

We continued to sell our residual ordinary shareholdings during the year and our remaining ordinary shareholdings will be managed in a manner that maximises the value for shareholders.

Australian Economy

The economic growth rate of Australia has slowed during the year as reflected by annual GDP growth in the March quarter of 1.9% (0.7% for the quarter) compared to 3.2% last year.

The decline in GDP growth is largely due to falls in domestic demand and weaker agricultural production. Domestic demand has eased as reflected in weakening retail sales, lower manufacturing production and easing of the housing market. Farm production has fallen 16% over the year due to the drought that is affecting much of Australia.

The Current Account Deficit reached a record A\$15.6 billion in March which is a ratio of 6.8% to GDP compared to 5.1% last year. Whilst the quarter's result was partly due to the poor agricultural export performance, of note is the longer term trend in the Current Account Deficit which has steadily declined from A\$3 billion in June 2001.

Monetary settings were marginally tightened by the Reserve Bank with a quarter percent increase in official rates in December to 5.5%. The increase has had the desired effect of curbing domestic demand which the Bank considered to be the cause of imbalances in the economy and could result in a reawakening of inflationary pressures. Market interest rates at the shorter end of the yield curve have consequently increased during the year with the 90 Day Bank Bill increasing from 5.5% last year to 5.7% in May this year. Conversely the 10 Year Bond rate declined from 5.8% last year to 5.2% in May this year.

Inflation remains subdued at 2.4% at May after declining due to the interest rate increase. The labour market continues to be robust with the unemployment rate at 5.1% in May compared to 5.5% last year.

In commenting recently upon Australia's economic performance, the Reserve Bank governor noted that the slowdown in economic activity was a healthy correction for an economy in its 14th year of expansion and that the situation was evolving favourably with domestic demand continuing to slow to a sustainable level.

STOCKS CONVERTIBLE TRUST PLC

Investment Manager's Report continued

Australian Dollar

The Australian Dollar has strengthened against the US Dollar increasing from 71.4 cents last year to 75.5 cents in May. Similarly against Sterling the Australian Dollar increased from 38.9 pence last year to 41.6 pence in May.

Australian Stock Market

The Australian stock market as reflected by the All Ordinaries Index increased from 3457 last year to 4070 in May. The Small Cap Index increased from 1911 last year to 2251 in May. Market conditions have been buoyant throughout the year as reflected by the steadily rising indices. Market sentiment has remained positive notwithstanding the weakening economy which is partially due to the weight of investment funds generated by compulsory retirement savings and investments realised on takeovers.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews

Trust Company of Australia

ASX Code	: TRU	12 Month Range	: A\$7.50 – A\$10.20
Issued Shares	: 32.4 million	SCT Investment	: £11.9 million
Market Capitalisation	: A\$302 million		(9.5% of TRU)

Trust Company of Australia is a registered corporate trustee offering a range of services to individuals and institutions.

The share price of Trust Company of Australia has increased from A\$7.50 in May 2004 to A\$9.32 in May 2005.

Trust Company of Australia continued to report stronger operating performance during the year to February. Revenue was A\$74.5m and Net Profit was A\$13.8m compared to A\$63.9m and A\$10.8m respectively in the previous year. The result equated to an earnings per share of 47 cents and a PE ratio of 19.5. Dividends of 48 cents were declared during the year including a special dividend of 10 cents which has been paid to capital.

Subsequent to the year end, Trust Company of Australia announced the sale of its securitisation business into a joint venture with the Bank of New York. Whilst acknowledging that the sale would detract from profitability in the short term it is believed that performance would be enhanced in the medium term due to the joint venture's enhanced growth prospects. A special dividend of 20 cents was paid from the proceeds of the transaction.

ERG

ASX Code	: ERG	12 Month Range	: A\$0.25 – A\$0.39
Issued Shares	: 610.4 million	SCT Investment	: £2.5 million
Market Capitalisation	: A\$164 million		(3.7% of ERG)

ERG manufactures, installs and services automated fare collection equipment and systems for the transit industry. ERG also develops smart card systems.

The price of the shares has decreased from an adjusted 39 cents at May 2004 to 27 cents at May 2005.

ERG reported improved results for the half year to December. Revenue increased to A\$118m from A\$100m prior December half year, EBITDA was A\$10.7m compared to a A\$5.7m loss previously and Net Profit was A\$15.9m compared to a A\$43m loss previously.

During the year ERG completed a 5 to 4 rights issue priced at 20 cents.

In a recent announcement to the market ERG noted that whilst it expects revenues to be in the A\$215m - A\$230m range it expects results to be below those achieved in the December half.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews continued

The Taverners Trust

Code	: TVT	12 Month Range	: £0.92 – £1.2
Issued Shares	: 15.9 million	SCT Investment	: £2.0 million
Market Capitalisation	: £20 million		(10% of TVT)

The Taverners Trust is a UK investment trust that invests in breweries, pubs and restaurants.

The Company acquired its shares during the year at an average cost of 95 pence. The share price of the Taverners Trust increased to £1.26 at May 2005.

The Taverners Trust has consistently traded at a discount to net asset value which was 141 pence at May. The Taverners Trust has announced in June that it would seek support from shareholders to change the company's investment objective and fund manager. The changes would involve the realisation of the existing portfolio at a 7% discount to asset value, the acquisition of a multi-asset portfolio to achieve absolute returns and the implementation discount control mechanism by instituting an active share buy back program.

This holding was sold post year end.

Intellect Holdings (Ordinary, Convertible notes & Options)

ASX Code	: IHG	12 Month Range	: A\$0.25 – A\$0.61
Issued Shares	: 1.1 billion	SCT Investment	: £0.8 million
Market Capitalisation	: A\$28.8 million		(7.7% of IHG)

Unlisted	: IHGG	12 Month Range	: N/A
Issued Notes	: 7.5 million	SCT Investment	: £0.9 million
Issue Value	: A\$7.5 million		(26.7% of IHG)

Intellect Holdings designs, develops and distributes security and electronic funds transfer keyboard technology. The company's products include smart cards, electronic funds transfer and commerce products distributed worldwide.

The Company holds both ordinary shares (which were acquired by the exercise of the rights attached to its holding of convertible notes), convertible notes which are not listed, and options.

The price of the ordinary shares declined from 6.1 cents in May 2004 to 2.5 cents in May 2005. The loan notes were subscribed for at A\$1. In January IHG completed a rights issue at 2.5 cents. Intellect Holdings for the half-year to December recorded revenue of A\$27m and an operating profit of A\$1.8m compared to A\$23m and an operating loss of A\$15.2m previously. Intellect Holdings has undergone major balance sheet restructuring following upon losses that required the divestment of operating entities, raising of loan and equity funds, negotiating a financial accommodation with creditors and changes to the board of directors.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews continued

Global Equity Market Securities

NZSE Code	: GEM1	12 Month Range	: NZ\$1.05 – NZ\$1.08
Issued Shares	: 50 million	SCT Investment	: £1.5 million
Market Capitalisation	: NZ\$ 52 million		(7.5% of GEM1)

Global Equity Market Securities is a capital protected investment product that provides exposure to increases in the S&P 500, FTSE 100 or Nikkei 225 indices. On maturity in January 2008 holders receive NZ\$1 plus 67% of the increase in the best performing of the indices from inception in December 2002.

The capital protection is provided by securities issued by the National Bank, a major New Zealand commercial bank.

The share price of Global Equity Market Securities decreased from NZ\$1.08 in May 2004 to NZ\$1.05 in May 2005.

PD Ports (Convertible notes)

LSE Code	: PDP	12 Month Range	: £0.76 – £1.08
Issued Shares	: 175 million	SCT Investment	: £1.1 million
Market Capitalisation	: £100 million		(0.5% of PDP)

PD Ports operates ports (Teesport, Tees and Hartlepool) and offers stevedoring and maritime services. PD Ports also provides warehousing and freight-forwarding services, owns real estate and retails Mercedes trucks.

PD Ports was floated on the AIM in July pursuant to a sale of the business by Nikko Principal Investments.

The Company holds 1.0m 6% convertible bonds acquired at £1. The bonds price increased to £1.12 at May 2005.

For the year to March 2005 PD Ports reported revenue of £113m and net profit of £6.5m compared to £161m and £12.5m previously. Earnings per share was 3.6 pence and it is trading on a PE of 27.

eBet (Convertible notes)

ASX Code	: EBTG	12 Month Range	: A\$22 – A\$32
Issued Notes	: 0.2 million	SCT Investment	: £1 million
Market Capitalisation	: A\$5.9 million		(40% of EBTG)

eBet develops and operates internet-based wagering systems for licensed gaming operators in international markets. eBet also develops networked gaming systems for gaming venues.

The Company's exposure to eBet is through the 10% convertible notes redeemable in 2006 (convertible at 20 cents).

The share price of eBet increased from 10 cents at May 2004 to 23 cents at May 2005 and the price of the convertible notes increased from A\$25 in May 2004 to A\$29 in May 2005.

eBet reported for the half year to December revenue of A\$7.7m and a net loss of A\$0.7m. The result was negatively impacted by costs in establishing a gaming system in California.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews continued

Utilico Investment Trust (Convertible unsecured loan stock)

LSE Code	: UILA	12 Month Range	: £1.00 – £1.21
Issued Shares	: 20 million	SCT Investment	: £1 million
Market Capitalisation	: £24.3 million		(4.1% of UILA)

Utilico Investment Trust is a UK investment trust that invests in utilities and related companies. Utilico Investment Trust has a split capital structure comprising ordinary shares, zero dividend preference shares and convertible unsecured loan stock and warrants.

The Company holds convertible unsecured loan stock which is convertible at £1.33 from 2006 to 2009. The price of the convertible loan stock has increased from £1 at issue in November 2004 to £1.21 in May 2005. The price of the ordinary shares increased from £1.08 in May 2004 to £1.53 in May 2005.

Utilico Investment Trust had a net asset value of £1.61 at May 2005.

Invesco Income Trust (Convertible unsecured loan stock)

LSE Code	: IVIA	12 Month Range	: £1.06 – £1.16
Issued Notes	: 19 million	SCT Investment	: £0.8 million
Market Capitalisation	: £20.8 million		(3.9% of IVA)

Invesco Income Trust is a UK investment company that invests in mainly higher yielding UK equities.

The Company holds 4% 2009 convertible unsecured loan stock. The share price of the ordinary shares increased from £1.52 in May 2004 to £1.68 in May 2005. The Company acquired the loan notes at an average cost of £1.08 during the year and were priced at £1.09 at May 2005.

The net asset value of Invesco Income Trust was £1.89 at May 2005.

S&P options

We have established a hedging program against our exposure to global stock market indices due to our holding of Global Equity Market Securities. As a proxy for that exposure we are utilising S&P put options to protect against downside movements in the S&P Index. Our strategy has been to sell short dated puts and buy long dated puts with the aim of applying the premium generated by the sales to fund the cost of the long dated puts.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors for the year ended 31 May 2005

The Directors submit their Report together with the audited financial statements of the Company and Group for the year ended 31 May 2005.

Results and Dividend

The revenue return for the financial year ended 31 May 2005 after taxation amounted to £214,000 (2004: revenue return of £98,000). A dividend of 1.50p per ordinary share is proposed in respect of the year ended 31 May 2005 (2004: 1.00p per ordinary share). If approved by shareholders the dividend will be paid on 28 October 2005 to shareholders whose names appear on the register at close of business on 7 October 2005 (ex-dividend 5 October 2005).

Status of the Company

The Directors have conducted the affairs of the Company with a view to maintaining approval as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 in order to obtain exemption from United Kingdom taxation on capital gains. However, such approval is only given retrospectively in respect of each accounting period of the Company and Inland Revenue approval has been given for the year ended 31 May 2004.

The Company is registered as an investment company under Section 266 of the Companies Act 1985.

The Company has made a notification to the London Stock Exchange that it does not intend to hold more than 15% of its gross assets in other listed investment companies.

The Company is a member of the Association of Investment Trust Companies ("AITC"). It acknowledges the Code of Best Practice issued by the AITC and adheres to its principals except where otherwise disclosed below.

Review of the Year

A review of the year and commentary on the future outlook are presented in the Chairman's Statement on page 2 and the Investment Manager's Report on pages 5 and 6.

Directors

Details of the Directors who served throughout the year are set out on page 3.

In accordance with Article 89(A) of the Company's Articles of Association, Mr McLeland retires at the forthcoming Annual General Meeting and being eligible offers himself for re-election.

In accordance with Section 293(5) of the Companies Act 1985, the Company has received special notice to propose at the forthcoming Annual General Meeting that Mr A Bushell be re-elected a Director of the Company notwithstanding that he is age 72.

The Board does not accept that length of service will necessarily affect the independence of a Director and, indeed considers that a long period of familiarity with the Company's affairs can be an asset to the Board's deliberations. The Board accordingly supports the re-election of both Mr Bushell and Mr McLeland and recommends that shareholders vote in favour of the Resolutions proposing their re-election.

Directors Interests

The interests of the Directors in the securities of the Company are set out below.

	25p Ordinary Shares	
	31 May 2005	31 May 2004
A F Bushell	30,000	30,000
P I Burrows	1,740,000	1,740,000
B C Hervey	—	—
W J McLeland	50,000	50,000

No changes in the above interests occurred between 31 May 2005 and 2 September 2005. None of the Directors have been granted or exercised any rights to subscribe for shares or loan stock of the Company.

No Director was a party to, or had an interest in, any contract or arrangement with the Company.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors continued

Investment Manager

The Investment Manager, Ingot Capital Management Pty Ltd ("Ingot") is engaged under terms of a Management Agreement dated 28 February 1996, amended in 1999, which may be terminated by not less than twelve months notice by either party to expire on 31 July in any year. Details of the fees payable to Ingot under the Agreement can be found in Note 7 on page 27. Where investments include voting rights, in the absence of specific instruction from the Directors or Custodian, Ingot has discretion to vote such rights on behalf of the Company.

During the year the Management Engagement Committee conducted a review of the performance of Ingot which it considers is satisfactory. The Board, having received the Committee's report are of the opinion that the continued engagement of Ingot under the current terms is in the interests of shareholders.

Substantial Shareholdings

At 2 September 2005 the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company:

	No of Ordinary 25p Shares	% of Issued Share Capital
National Life and Pensions Fund Limited	3,120,000	25.96
Peter Burrows	1,740,000	14.48
Apollo Fund Plc	1,250,000	10.40
Lazard Freres Asset Management Limited	1,250,000	10.40
Modesto Limited	770,587	6.41
Deutsche Bank AG	400,000	3.30

Ingot Capital Management Pty Ltd, the Manager, is associated with Modesto Limited and National Life and Pensions Fund Limited who, in addition to the above shareholdings, hold 6,772,666 units of 3.5per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007.

Changes in Capital Structure

The Company's capital structure currently comprises 12,014,657 ordinary shares and 6,863,802 units of 3.5 per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007. Further details of changes during the year to 31 May 2005 are contained in notes 15 and 16 to the Financial Statements.

The convertible loan stock may be converted into ordinary shares in November each year. The next opportunity to convert loan stock into ordinary shares will be on 31 October 2005 or soon thereafter, details of which will be provided in a reminder notice to be dispatched to loan stock holders in September 2005.

Annual General Meeting

The notice convening the Annual General Meeting ("AGM") of the Company for 13 October 2005 is set out at the end of this document.

Ordinary business

Resolutions 1 to 6 in the notice convening the AGM set out the routine ordinary business to be transacted at the meeting. These resolutions involve the receipt and adoption of the annual report and accounts, approval of the Director's Remuneration Report, the declaration of a dividend, the re-appointment of Directors, the re-appointment of RSM Robson Rhodes LLP as auditor and the authorisation of the Directors to set the auditor's remuneration.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors continued

Special business

Resolution 7 – authority to allot unissued shares

In terms of resolution 7, the Directors will be seeking authority from shareholders to allot unissued share capital up to an aggregate nominal amount of £1,001,000 (equivalent to 4,004,000 ordinary shares or approximately 33% of the Company's existing issued ordinary share capital). The Directors will only issue new shares if they believe it is advantageous to the Company's existing shareholders to do so and, would not result in any dilution of net asset value per share. Resolution 7 will be proposed as an ordinary resolution.

Resolution 8 – disapplication of statutory pre-emption rights

The Directors consider it advisable to renew their authority to allot equity securities for cash, other than to existing shareholders pro-rata to their holdings. This limited disapplication will enable the Directors to allot equity securities wholly for cash in connection with a rights issue or otherwise up to an aggregate nominal amount of £150,183, representing 5% of the issued equity share capital as at 2 September 2005. Resolution 8 will be proposed as a special resolution.

Creditors' Payment Policy

It is the Company's policy to obtain the best terms for all business including purchases of investments, and to abide by those agreed terms. As at 31 May 2005 the Company had no trade creditors (creditors' days: nil) (31 May 2004 the Company had no trade creditors (creditors' days: nil)).

Statement of Directors' Responsibilities for the Annual Report

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the revenue of the Group for that period. In preparing these financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom law and accounting standards; and
- prepared the financial statements on the going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Report of the Directors and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

The Company is reviewing the potential impact of preparing future financial statements in accordance with International Financial Reporting Standards (IFRS). However, the Directors believe that this will not have a material effect on the overall value of the Company, nor will the adoption by investee companies of IFRS have a significant impact on the Company's balance sheet.

Auditor

RSM Robson Rhodes LLP, Chartered Accountants, have indicated their willingness to continue in office and, in accordance with Section 385 of the Companies Act 1985, a resolution will be proposed at the forthcoming Annual General Meeting to re-appoint them as auditor and authorise the Directors to determine the auditor's remuneration for the ensuing year.

On behalf of the Board

Phoenix Administration Services Limited
Secretary
2 September 2005

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement

The Board of Directors continues to support high standards of corporate governance. The Board has carried out a review of the principles of good governance and the code of best practice as revised (the “Combined Code”) appended to the Listing Rules of the Financial Services Authority and, confirms that arrangements are in place to enable compliance with section 1 of the Combined Code, as required by the Listing Rule 12.43A.

The Board considers that the Group has complied with the provisions of Section 1 of the Combined Code throughout the accounting period to 31 May 2005 except where disclosed below and, this Statement describes how the relevant principles of governance are applied to the Group.

Internal Control

The Board of Directors confirms that there is an ongoing process for identifying, evaluating and managing those risks which are significant for the Group and that this process reflects the guidance provided by the Turnbull Committee in September 1999. This process has been in place for the year ended 31 May 2005 and up to the date of approval of the Annual Report and Financial Statements, and has been regularly reviewed by the Board.

The Board has ultimate responsibility for the system of internal control and for reviewing its effectiveness. The key elements of the system are the appointment of an independent Custodian with responsibility for safeguarding the Group’s assets and clearly defined responsibilities between the Board, the Custodian and the Manager, who has detailed operating procedures. The internal controls operated by the Board include the authorisation of the investment strategy and regular reviews of the investment performance and financial results. The system is designed to manage rather than eliminate the risk of being unable to meet business objectives and can provide reasonable but not absolute assurance against material misstatements or loss. The Board has reviewed the operation and effectiveness of the Group’s system of internal controls during the year through its ongoing assessment and management of the organisation’s key risks, including an annual review.

The Board has contractually delegated the management of the investment portfolio to the Manager, Ingot Capital Management Pty Ltd, the day to day administration and company secretarial requirements to Phoenix Administration Services Limited and, the custodial services which include the safeguarding of the assets to The Northern Trust Company. These contracts are only entered into after full consideration by the Board of the services undertaken. The Manager, Administrator and the Custodian of the Group’s assets, maintain their own systems of internal and financial controls.

The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal controls operated on behalf of its clients. The Manager’s compliance and risk department assesses and reports to the Board on the effectiveness of the internal controls and the business risk exposure of the Manager.

The Administrator’s internal controls provide an effective means of control covering business, operational, compliance and financial risk of the Group and a report on these internal controls is provided to the Board annually.

Since the Group’s investment management, accounting and custodial activities are carried out by third party service providers, the Board does not consider it necessary or appropriate to have a separate internal audit function.

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement continued

Directors

The Board consists of four members, all of whom are non-executive and independent of the Group's Manager. Particulars of the Directors are set out on page 3. The Board has considered the need to appoint a senior independent Director but believes this is not necessary as all of the Directors, including the Chairman, are independent.

The Directors normally meet as a Board on a quarterly basis. The Board lays down guidelines within which the Manager implements investment policy and has a schedule of matters reserved for the resolution of the Directors. All Board members have access to the advice and services of the Company Secretary, the removal or replacement of whom is a matter for the Board as a whole. The Directors also have the facility to take independent professional advice if necessary, at the Group's expense.

A full report on the investment holdings and performance is received from the Manager at Board meetings. The Manager also reports regularly to the Board on the Group's financial position.

During the year the Board reviewed its performance and composition and, was content with the findings. In addition, following the evaluation of the performance of the Board, its committees and individual Directors, the Board is satisfied that the performance of both Directors who are seeking re-appointment continues to be effective and they have demonstrated commitment to their roles.

Attendance by Directors at Board and Committee meetings is as follows:

	Board	Audit	Mgt Engagement	Remuneration
No of meetings held	4	2	1	1
Mr A Bushell	4	2	1	1
Mr P Burrows	4	n/a	n/a	n/a
Mr B Hervey	4	2	1	1
Mr W McLeland	4	2	1	1

Nomination Committee

The Board as a whole fulfils the function of a Nomination Committee. The Company's Articles of Association require newly appointed Directors to submit themselves for election by shareholders at the next Annual General Meeting. The Company's Articles of Association also provide that each Director of the Company is under an obligation to retire and seek re-election at least once in every three Annual General Meetings.

Accountability and Audit

The Group's Audit Committee comprises Messrs A F Bushell (as Chairman), B C Hervey and W J McLeland who are all independent, meets at least twice per year. The Board is aware of the recommendations in the Smith Report on Corporate Governance but, as only two of the Directors are based in the UK it considers that Chairmanship of the Audit Committee by the Chairman of the Board is the most appropriate arrangement for the Company.

It also meets with representatives of the Manager who report on the conduct of business in accordance with the regulatory environment in which both the Group and the Manager operate. Proceedings are formally recorded and reported to the Board by the Audit Committee Chairman. The Group's external auditor attends the Committee at its request, at least once a year, and reports on its work procedures,

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement continued

the quality and effectiveness of the Group's accounting procedures and their findings in relation to the Group's statutory audit. The responsibilities of the Audit Committee include review of internal controls, accounting policies, financial statements and, the carrying value of unquoted investments.

The Audit Committee monitors and reviews annually the objectivity, effectiveness and qualification of the auditor, the auditor's independence (in particular requiring that any non-audit work is not undertaken by auditor's staff providing audit services) and, the scope and fees for non-audit work. Based on the monitoring and audit process, the Audit Committee makes recommendations to the Board on appointment, re-appointment, remuneration and removal of the external auditor. Copies of the terms of reference of the Audit Committee, which have been recently updated, are available from the Company Secretary.

Because the Company does not have any direct employees neither the Audit Committee nor the Board consider it necessary to establish whistle blowing procedures.

Remuneration Committee

The Board as a whole fulfils the function of a Remuneration Committee. The maximum aggregate Directors' fees according to the Company's Articles of Association are £75,000 per financial year. The remuneration terms are reviewed annually.

Management Engagement Committee

Messrs A F Bushell, B C Hervey and W J McLeland comprise the Management Engagement Committee and reviews the terms, fees and other remuneration payable to Ingot Capital Management Pty Ltd and Phoenix Administration Services Limited, which are set out in note 7 to the Financial Statements.

Social, Economic and Environmental Matters

As the Company does not have any employees and many of its investments are convertible stocks, it does not have any direct impact on social, economic or environmental issues.

Shareholder Relations

The Company, through the Manager, has regular contact with its institutional shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private investors and has implemented the provisions of the Combined Code in this report for the forthcoming Annual General Meeting.

Going Concern

After considering the Group's current financial resources and, as the majority of the net assets of the Group are securities which are traded on recognised stock exchanges, the Directors are satisfied that its resources are adequate for continuing in business for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

STOCKS CONVERTIBLE TRUST PLC

Directors' Remuneration Report for the year ended 31 May 2005

The Board has prepared this Report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this Report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires your Company's auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in their report on pages 19 and 20.

Remuneration Committee

The Board comprises four non-executive Directors and as a whole fulfils the function of a Remuneration Committee. Remuneration terms are reviewed annually by the Board.

Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts which are similar in size, have a similar capital structure and, have a similar investment objective. It is intended that this policy will continue for the year to 31 May 2006 and subsequent years.

The maximum aggregate Directors' fees (see note 6 to the Financial Statements) according to the Company's Articles of Association are £75,000 per financial year. No Director may vote on his own remuneration. Directors are not eligible for bonuses, performance remuneration, pension entitlements, share options, long-term incentive schemes or other benefits.

Director's Service Contracts

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to election at the first Annual General Meeting after their appointment and at least every three years after that. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

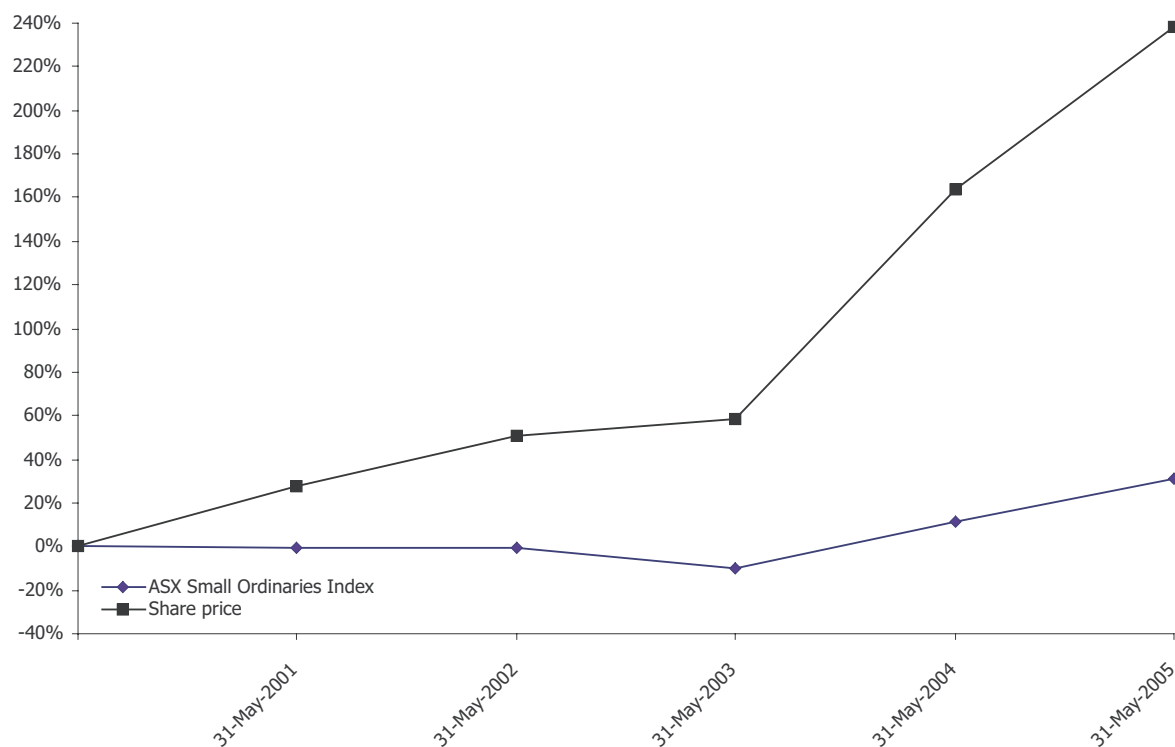
Your Company's Performance

The graph on page 18 compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of similar kinds and number as those by reference to which the ASX Small Ordinaries Index is calculated. This index was chosen for comparison purposes as it currently is the index that closest approximates the composition of the Company's portfolio.

STOCKS CONVERTIBLE TRUST PLC

Directors' Remuneration Report continued

Total shareholder return performance for Stocks Convertible Trust plc and the ASX Small Ordinaries Index for the five years to 31 May 2005



Director's Emoluments for the year ended 31 May 2005 (audited)

	2005 £'000	2004 £'000
A F Bushell*	20,000	20,000
P I Burrows†	10,000	10,000
B C Hervey	10,000	10,000
W J McLeland	10,000	10,000

* Chairman of the Board and Audit Committee

† Received emoluments by way of consultancy fees (see note 6, page 27)

This Remuneration Report was approved by the Directors on 2 September 2005 and signed on their behalf by:

Anthony Bushell
Chairman

STOCKS CONVERTIBLE TRUST PLC

Report of the Independent Auditor

Independent Auditor's Report to the Shareholders of Stocks Convertible Trust PLC

We have audited the Financial Statements on pages 21 to 41. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the parts of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the parts of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2003 specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises the Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report, the Corporate Governance Statement and the Five Year Financial Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the parts of the Directors' Remuneration Report to be audited. 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.

STOCKS CONVERTIBLE TRUST PLC

Report of the Independent Auditor continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the parts of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of affairs of the Company and the Group as at 31 May 2005 and of the Group's net revenue, total return and cashflow for the year then ended; and
- the Financial Statements and the parts of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditor
London, England

2 September 2005

STOCKS CONVERTIBLE TRUST PLC

Consolidated Statement of Total Return incorporating the revenue account for the year ended 31 May 2005

	Notes	2005			2004		
		Revenue* £'000	Capital £'000	Total £'000	Revenue* £'000	Capital £'000	Total £'000
Gains on investments	12	—	4,851	4,851	—	4,667	4,667
Exchange differences		—	(31)	(31)	—	(259)	(259)
Income	3	903	124	1,027	739	218	957
Investment management fees	4	(117)	—	(117)	(109)	(25)	(134)
Other expenses	5	(244)	(719)	(963)	(285)	(265)	(550)
Net return before finance costs and taxation		542	4,225	4,767	345	4,336	4,681
Interest payable and similar charges	8	(253)	—	(253)	(218)	—	(218)
Return on ordinary activities before tax		289	4,225	4,514	127	4,336	4,463
Tax on ordinary activities	9	(75)	(37)	(112)	(29)	(58)	(87)
Return on ordinary activities after tax for the financial year		214	4,188	4,402	98	4,278	4,376
Dividends in respect of equity shares	10	(180)	—	(180)	(120)	—	(120)
Transfer to/(from) reserves		34	4,188	4,222	(22)	4,278	4,256
Return per ordinary share:	11						
Basic		<u>1.8p</u>	<u>34.8p</u>	<u>36.6p</u>	<u>0.8p</u>	<u>35.6p</u>	<u>36.4p</u>
Diluted		<u>2.0p</u>	<u>23.0p</u>	<u>25.0p</u>	<u>1.4p</u>	<u>23.5p</u>	<u>24.9p</u>

All revenue and capital items in the above statement derive from continuing operations.

*The revenue account in this statement represents the profit and loss account of the Group for the financial year.

The notes on pages 25 to 41 form part of these accounts.

STOCKS CONVERTIBLE TRUST PLC

Consolidated Balance Sheet as at 31 May 2005

	Notes	2005		2004	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	12		25,369		16,877
Current assets					
Debtors	13	738		258	
Investments		2		2	
Cash at bank and short-term deposits		482		3,781	
		<u>1,222</u>		<u>4,041</u>	
Creditors: amounts falling due within one year	14	(1,837)		(393)	
Net current (liabilities)/assets			<u>(615)</u>		<u>3,648</u>
Total assets less current liabilities			<u>24,754</u>		<u>20,525</u>
Creditors: amounts falling due after more than one year					
Convertible loan stock	15		(6,153)		(6,148)
			<u>18,601</u>		<u>14,377</u>
Capital and reserves					
Called up share capital	16		3,004		3,003
Share premium account	17		2,519		2,518
Capital reserve – realised	18		8,947		7,112
Capital reserve – unrealised	18		5,178		2,825
Capital redemption reserve			500		500
Revenue reserve	19		(1,547)		(1,581)
Equity shareholders' funds	20		<u>18,601</u>		<u>14,377</u>
Net asset value per share:					
Ordinary	21				
– Basic			154.8p		119.7p
– Fully-diluted			135.8p		112.6p

The Financial Statements on pages 21 to 41 were approved by the Board of Directors on 2 September 2005 and were signed on its behalf by:

Anthony Bushell
Chairman

The notes on pages 25 to 41 form part of these Financial Statements.

STOCKS CONVERTIBLE TRUST PLC

Company Balance Sheet as at 31 May 2005

	Notes	2005		2004	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	12		25,371		16,879
Current assets					
Debtors	13	738		258	
Cash at bank and short-term deposits		482		3,781	
		<u>1,220</u>		<u>4,039</u>	
Creditors: amounts falling due within one year	14	<u>(1,909)</u>		<u>(443)</u>	
Net current (liabilities)/assets			<u>(689)</u>		<u>3,596</u>
Total assets less current liabilities			<u>24,682</u>		<u>20,475</u>
Creditors: amounts falling due after more than one year					
Convertible loan stock	15		<u>(6,153)</u>		<u>(6,148)</u>
			<u>(18,529)</u>		<u>14,327</u>
Capital and reserves					
Called up share capital	16		3,004		3,003
Share premium account	17		2,519		2,518
Capital reserve – realised	18		8,947		7,112
Capital reserve – unrealised	18		2,864		511
Capital redemption reserve			500		500
Revenue reserve	19		695		683
Equity shareholders' funds	20		<u>18,529</u>		<u>14,327</u>

The Financial Statements on pages 21 to 41 were approved by the Board of Directors on 2 September 2005 and were signed on its behalf by:

Anthony Bushell
Chairman

The notes on pages 25 to 41 form part of these Financial Statements.

STOCKS CONVERTIBLE TRUST PLC

Consolidated Cash Flow Statement for the year ended 31 May 2005

	Notes	2005		2004	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	22a		540		1,415
Returns on investments and servicing of finance	22b		(241)		(218)
Taxation			(193)		(256)
Financial investment	22b		(4,748)		3,323
			<u>(4,642)</u>		<u>4,264</u>
Equity dividends paid			<u>(120)</u>		<u>(252)</u>
			<u>(4,762)</u>		<u>4,012</u>
Financing	22b		947		—
(Decrease)/increase in cash			<u>(3,815)</u>		<u>4,012</u>
Reconciliation of net cash flow to movement in net debt					
(Decrease)/increase in cash in the year			(3,815)		4,012
Cash inflow from movement in debt			<u>(947)</u>		<u>—</u>
Change in net debt resulting from cash flows			(4,762)		4,012
Exchange movements			(31)		(259)
Other non-cash flow movements			(5)		(8)
Opening net debt			<u>(2,367)</u>		<u>(6,112)</u>
Closing net debt	22c		<u>(7,165)</u>		<u>(2,367)</u>

The notes on pages 25 to 41 form part of these Financial Statements.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements

1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the year, is set out below:

- (i) The Group prepares its annual accounts under the historical cost accounting convention, as modified by the revaluation of investments, in compliance with the requirements of the Companies Act 1985, and in accordance with applicable accounting standards and with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies” issued by the Association of Investment Trust Companies in January 2003.
The consolidated accounts of the Group consolidate the accounts of its wholly owned subsidiary, Stocks Convertible Limited (see note 12).
- (ii) Dividend income from investments is taken into account by reference to the date the security becomes ex-dividend. Interest from short-term deposits and fixed interest investments is accounted for on an accruals basis, as are interest payable and other expenses. In accordance with Financial Reporting Standard (FRS) 16 “Current Tax” dividends received from UK companies are not grossed up by the imputed tax credit, but instead recorded at the amount receivable. Overseas dividends and other income that is subject to withholding tax continue to be grossed up. Special dividends received by the Company are recognised as income unless there is evidence to have them credited to capital.
- (iii) Realised and unrealised capital surpluses and deficits on revaluations of investments are taken direct to the capital reserve.
- (iv) Listed investments are stated at closing middle market prices on recognised stock exchanges.
- (v) Unlisted investments are carried at the Board’s estimate of fair value which will be cost unless subsequent financings or other events indicate that a different valuation is warranted. Except in exceptional circumstances where the Directors consider it to be appropriate, no adjustments are made to the valuation in anticipation of such events. The valuation of unlisted investments reflects current circumstances; realisable value in the short-term could differ materially from the amount at which these investments are included in the accounts.
- (vi) The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 19.
- (vii) All investment management fees are charged to the revenue account.
- (viii) Transactions in a foreign currency, whether of a revenue or capital nature, are translated into sterling at the rates of exchange ruling on the dates of such transactions. Revenue items accrued and other foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange ruling on that date. Any profits or losses on foreign currency held, whether realised or unrealised, are taken direct to capital reserves.
- (ix) The value of investments in foreign currencies are expressed in sterling at the rates of exchange prevailing at the balance sheet date. Surpluses and deficits arising from conversion at this rate of exchange are taken directly to the capital reserve.
- (x) All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:
 - expenses which are incidental to the acquisition of an investment are included within the cost of the investment.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

1 Accounting policies continued

- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of an investment.
 - additional expenses incurred which are incidental to the acquisition/disposal or maintenance/enhancement of value of an investment are excluded from the cost of the investment or disposal proceeds of an investment and are charged to capital reserve.
 - investment incentive fees are charged to the capital reserve.
- (xi) As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company has not been separately presented in the financial statements.
- (xii) Finance costs are accounted for on an accruals basis, and in accordance with the provisions of FRS 4 “Capital Instruments”. Finance costs of debt are charged 100% to the revenue account.
- (xiii) Current asset investments are stated at the lower of cost and net realisable value as at the balance sheet date.

2 Year-end exchange rates

The relevant rates of exchange ruling at 31 May 2005 were 2.4049 Australian dollars to the pound sterling (2004: 2.5693) and 2.5804 New Zealand dollars to the pound sterling (2004: 2.9179).

3 Income

	2005	2004
	£'000	£'000
Income from investments		
Overseas investment income	641	678
UK investment income	19	10
Overseas fixed interest income	105	105
UK fixed interest income	194	—
	<u>959</u>	<u>793</u>
Other income		
Deposit interest	36	164
Underwriting income	32	—
	<u>68</u>	<u>164</u>
Total income comprises:		
Dividends - income	536	470
Dividends - capital	124	218
Interest	335	269
Other	32	—
	<u>1,027</u>	<u>957</u>

4 Investment management fees

	2005	2004
	£'000	£'000
Investment management fee	117	109
Investment incentive fee - capital (see note 7)	—	25
	<u>117</u>	<u>134</u>

Details of the investment management agreement are disclosed in note 7 to the Financial Statements.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

5 Other expenses

	2005	2004
	£'000	£'000
Administration fee	70	70
Directors' emoluments (see note 6)	50	50
Auditor's remuneration for:		
– audit	19	17
– other services to the Group	5	8
Other	<u>100</u>	<u>140</u>
	244	285
Transaction charges - capital	2	3
Legal fees - capital (see note 24)	<u>717</u>	<u>262</u>
	<u><u>963</u></u>	<u><u>550</u></u>

6 Director's emoluments

Fees totalling £10,000 have been waived by 1 Director (2004: £10,000 – 1 Director) who received emoluments by way of consultancy fees. The consultancy fees are included in the table below:

	2004	2003
	£'000	£'000
Directors' fees	<u>50</u>	<u>50</u>

There were no pension contributions paid or payable.

The Company has no employees (2004: None).

7 Disclosure of interests

In accordance with an investment management agreement dated 28 February 1996 (as amended) between the Company and Ingot Capital Management Pty Ltd ("Ingot"), Ingot has been appointed to provide investment management services to the Company for which Ingot receives an annual fee of 0.5 per cent. of gross assets less current liabilities (excluding the Convertible Loan Stock) of the Company and an incentive fee subject to a hurdle rate, if the Company's performance exceeds the benchmark which is temporarily the ASX Small Ordinaries Index. No incentive fee is payable in respect of the year ended 31 May 2005 (2004: £25,000). The amounts charged during the year are shown in note 4 and as at 31 May 2005 £10,000 (2004: £67,000) of the investment management fee was outstanding. This agreement is terminable by either party on one year's notice.

In accordance with an administration agreement dated 9 January 2002 between the Company and Phoenix Administration Services Limited ("Phoenix"), Phoenix provides administration and company secretarial services to the Company for which Phoenix receives an annual fee of £70,000 (2004: £70,000). This agreement is terminable by either party on three months notice.

8 Interest payable and similar charges

	2005	2004
	£'000	£'000
On bank loans and overdrafts	37	2
Convertible Subordinated Unsecured Loan Stock 2007	<u>216</u>	<u>216</u>
	<u><u>253</u></u>	<u><u>218</u></u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

9 Taxation

The tax charge on the profit on ordinary activities for the year was as follows:

	2005			2004		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
UK Corporation tax at 30% (2004: 30%)	75	37	112	83	65	148
Overseas tax - double tax relief	(10)	(8)	(18)	(12)	—	(12)
	<u>65</u>	<u>29</u>	<u>94</u>	<u>71</u>	<u>65</u>	<u>136</u>
Overseas tax suffered	10	8	18	12	—	12
Tax relief on expenses charged to capital	—	—	—	7	(7)	—
Tax charge in respect of the current year	<u>75</u>	<u>37</u>	<u>112</u>	<u>90</u>	<u>58</u>	<u>148</u>
Deferred tax	—	—	—	(61)	—	(61)
	<u>75</u>	<u>37</u>	<u>112</u>	<u>29</u>	<u>58</u>	<u>87</u>

Current taxation

The current taxation charge for the year is different from the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2005	2004
	£'000	£'000
Revenue on ordinary activities before taxation	<u>289</u>	<u>127</u>
Theoretical tax at UK corporation tax rate of 30% (2004: 30%)	87	38
Effects of:		
– UK dividends which are not taxable	(6)	(3)
– Timing differences on the taxation of income	—	61
– Marginal rate relief	—	(6)
– Utilisation of tax losses	(6)	—
Actual current tax charge	<u>75</u>	<u>90</u>

The parent Company is an investment trust and therefore is not taxable on capital gains subject to the approval of the Inland Revenue.

Deferred taxation

	2005	2004
	£'000	£'000
Accrued income taxable on receipt	<u>—</u>	<u>—</u>
The movement in the provision is as follows:		
	£'000	£'000
Provision at start of year	—	61
Deferred tax credit in revenue account	—	(61)
Provision at end of year	<u>—</u>	<u>—</u>

Deferred tax has been provided at 30% (2004: 30%).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

10 Dividends and other appropriations

	2005	2004
	£'000	£'000
Dividends on equity shares:		
– ordinary – final proposed of 1.50p per share (2004: 1.00p)	<u>180</u>	<u>120</u>

The Directors have proposed the payment of a final dividend of 1.50p (2004: 1.00p) per ordinary share payable on 28 October 2005, subject to shareholder approval, to shareholders registered on 7 October 2005 (ex-dividend 5 October 2005).

11 Return per ordinary share

(i) Basic Returns

Revenue Return:

The calculation of the basic Revenue Return per ordinary share of 25 pence each is based on net revenue profit on ordinary activities after taxation of £214,000 (2004: profit £98,000) divided by 12,013,923 ordinary shares (2004: 12,012,417) being the weighted average number of ordinary shares in issue during the year.

Capital Return:

The calculation of the basic Capital Return per ordinary share of 25 pence each is based on the net capital profit for the financial year of £4,188,000 (2004: profit £4,278,000) divided by 12,013,923 ordinary shares (2004: 12,012,417) being the weighted average number of ordinary shares in issue during the year.

(ii) Diluted Returns

The Diluted Returns per ordinary share of 25 pence each have been calculated on the assumption that the Convertible Subordinated Unsecured Loan Stock 2007 was fully converted on the first day of the financial year, giving a weighted average of 18,229,504 ordinary shares (2004: 18,229,504) and based on net revenue profit on ordinary activities after taxation of £366,000 (2004: profit £249,000) and net capital profit of £4,188,000 (2004: profit £4,278,000). The anti-dilutive Revenue Return of 2.0p (2004: anti-dilutive 1.4p) includes the savings of finance costs on the loan stock after taxation.

Net Revenue of the Company

Net revenue after taxation and dividends of £12,000 has been dealt with in the accounts of the Company (2004: £22,000).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

12 Investments

Group

	Unlisted Investments £'000	Listed Investments £'000	Total 2005 £'000
Valuation at year end	906	24,463	25,369
Opening book cost*	3,181	10,871	14,052
Opening unrealised (depreciation)/appreciation*	(3,117)	5,942	2,825
Opening valuation*	64	16,813	16,877
Movements in the year:			
Purchases at cost	761	10,789	11,550
Sales – proceeds	—	(7,909)	(7,909)
– realised gains on sales	—	2,498	2,498
Increase in unrealised appreciation	81	2,272	2,353
Closing valuation	906	24,463	25,369
Closing book cost	3,942	16,249	20,191
Closing unrealised (depreciation)/appreciation	(3,036)	8,214	5,178
	906	24,463	25,369
Sale proceeds	—	7,909	7,909
Investments at cost	—	(5,411)	(5,411)
Realised gains on sales based on historical cost	—	2,498	2,498
Less gains recognised as unrealised in previous year	—	(1,123)	(1,123)
Realised gains on sales based on carrying value at previous year's balance sheet date	—	1,375	1,375
Unrealised appreciation for the year	81	3,395	3,476
	81	4,770	4,851

*Adjusted to reflect the de-listing during the year of Energis 9.5% Convertible 15/6/2009 which under a scheme of arrangement, the holding was converted into Chelys GDR's and Chelys Preference GDR's which are unlisted securities.

Company

In addition to the investments listed above under "Group", the Company has the following subsidiary, which has a cost of £2 and a loan from the parent undertaking (fully provided against and therefore written down to a nominal value of £2,000) of £2,316,000. No further provision was made in the Company's accounts during the year to 31 May 2005 (2004: nil).

Subsidiary	Principal Activity	Percentage of Equity held
Stocks Convertible Limited	Security trading	100%

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

13 Debtors

	Group	Company	Group	Company
	2005	2005	2004	2004
	£'000	£'000	£'000	£'000
Amounts due from brokers	630	630	141	141
Other debtors	4	4	5	5
Prepayments and accrued income	104	104	112	112
	<u>738</u>	<u>738</u>	<u>258</u>	<u>258</u>

14 Creditors: amounts falling due within one year

	Group	Company	Group	Company
	2005	2005	2004	2004
	£'000	£'000	£'000	£'000
Banks loans and overdraft	1,494	1,494	—	—
Amounts due to brokers	2	2	—	—
Amounts due to subsidiary undertaking	—	72	—	50
Corporation tax payable	94	94	136	136
Accruals and deferred income	67	67	137	137
Proposed dividends	180	180	120	120
	<u>1,837</u>	<u>1,909</u>	<u>393</u>	<u>443</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

15 Creditors: Convertible Subordinated Unsecured Loan Stock 2007

	2005		2004	
	No of units 000's	£'000	No of units 000's	£'000
Convertible Subordinated Unsecured Loan Stock 2007				
Balance at beginning of year	6,865	6,148	6,866	6,140
Units converted during the year	(2)	(2)	(1)	(1)
Amortisation of reorganisation costs	—	7	—	9
Balance at end of year	<u>6,863</u>	<u>6,153</u>	<u>6,865</u>	<u>6,148</u>

The 3.5 per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007 was issued on 25 March 1996 at a par value of 90p. The terms provided that the proceeds of the issue would be managed in a separate portfolio until 30 September 1997, at which time the Conversion Rate was calculated as set out in the Trust Deed dated 3 April 1996. On 9 October 1997 the Company announced that the Conversion Ratio was 22.6363p in nominal amount of ordinary share capital for each 90p in nominal amount of loan stock. Accordingly, each unit of loan stock may be converted into one ordinary share of 25 pence nominal amount at the rate of 0.90545251 of an ordinary share for each unit of loan stock converted. On 3 November 2004 1,910 units of loan stock (7 November 2003: 1,300) were converted into 1,729 ordinary shares (7 November 2003: 1,177).

Loan stock holders have further opportunities to convert on 31 October or soon thereafter in each of the years 2005 to 2007.

Unless previously converted, purchased or redeemed by the Company, the Convertible Loan Stock Units will be redeemed at their principal amount on 30 November 2007.

16 Called up share capital

	2005		2004	
	No of shares 000's	£'000	No of shares 000's	£'000
Authorised: Ordinary shares of 25 pence each	<u>42,000</u>	<u>10,500</u>	<u>42,000</u>	<u>10,500</u>
Issued and fully paid:				
Balance at beginning of year	12,013	3,003	12,012	3,003
Conversion of 2007 Loan Stock units in year	2	1	1	—
Balance at end of year	<u>12,015</u>	<u>3,004</u>	<u>12,013</u>	<u>3,003</u>

On 3 November 2004 1,910 (7 November 2003: 1,300) Convertible Subordinated Unsecured Loan Stock 2007 units were converted into 1,729 (7 November 2003: 1,177) ordinary shares.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

17 Share premium

	2005	2004
	£'000	£'000
Balance at beginning of year	2,518	2,517
Conversion of 2007 Loan Stock units in year	1	1
Balance at end of year	2,519	2,518

18 Capital reserve

	Realised	Unrealised	Total
Group	2005	2005	2005
	£'000	£'000	£'000
Balance at beginning of year	7,112	2,825	9,937
Net realised gains on investments	1,375	—	1,375
Increase in unrealised appreciation	—	3,476	3,476
Transfer on disposal of investments	1,123	(1,123)	—
Foreign currency exchange differences	(31)	—	(31)
Dividends taken to capital	124	—	124
Capital expenses on investment	(719)	—	(719)
Tax charged to capital	(37)	—	(37)
Balance at end of year	8,947	5,178	14,125

Company

	Realised	Unrealised	Total
	2005	2005	2005
	£'000	£'000	£'000
Balance at beginning of year	7,112	511	7,623
Net realised gains on investments	1,375	—	1,375
Increase in unrealised appreciation	—	3,476	3,476
Transfer on disposal of investments	1,123	(1,123)	—
Foreign currency exchange differences	(31)	—	(31)
Dividends taken to capital	124	—	124
Capital expenses on investment	(719)	—	(719)
Tax charged to capital	(37)	—	(37)
Balance at end of year	8,947	2,864	11,811

19 Revenue reserve

	Group	Company
	2005	2005
	£'000	£'000
Balance at beginning of year	(1,581)	683
Transfer from reserve account	34	12
Balance at end of year	(1,547)	695

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

20 Reconciliation of movements in shareholders' funds

	Group 2005 £'000	Company 2005 £'000	Group 2004 £'000	Company 2004 £'000
Opening shareholders' funds	14,377	14,327	10,120	10,070
Net revenue for year	214	192	98	98
Dividend	(180)	(180)	(120)	(120)
Conversion of 2007 Loan Stock	2	2	1	1
Capital surplus for year	4,188	4,188	4,278	4,278
Closing shareholders' funds	<u>18,601</u>	<u>18,529</u>	<u>14,377</u>	<u>14,327</u>

21 Net asset value per share

The consolidated net asset value per share and the net asset values attributable to each class of share at the year end calculated in accordance with the Articles of Association were as follows:

	Net asset value per share attributable		Net asset values attributable	
	2005	2004	2005	2004
	p	p	£'000	£'000
Ordinary shares (basic)	<u>154.8</u>	<u>119.7</u>	<u>18,601</u>	<u>14,377</u>

The movements during the year of the assets attributable to each class of share were as follows:

	Ordinary shares (basic) £'000
Total net assets attributable at beginning of year	14,377
Total recognised gains for the year	4,402
Dividends appropriated in the year	(180)
Conversion of 2007 Loan Stock – share capital	1
– share premium	1
Total net assets attributable at end of year	<u>18,601</u>

Basic net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the convertible debt at par) and on 12,014,657 (2004: 12,012,928) ordinary shares, being the number of ordinary shares in issue at the year end.

The fully-diluted consolidated net asset value per ordinary share is 135.8p (2004: 112.6p). This has been calculated on the assumption that the 2007 Loan Stock was converted at the rates described in note 15, giving 18,229,504 (2004: 18,229,504) shares at the year end and based on net assets (adjusted to reflect the conversion of the convertible debt at par) of £24,754,000 (2004: £20,525,000).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

22 Cash flow statement

(a) Reconciliation of net operating revenue to operating cash flows

	2005 £'000	2004 £'000
Net return before finance costs and taxation	542	345
Decrease in other debtors	—	726
Decrease in accrued income	46	289
(Decrease)/increase in creditors	(55)	46
Add back amortisation of reorganisation costs	7	9
Net cash inflow from operating activities	540	1,415

(b) Analysis of cash flows for headings netted in the cash flow statement

	2005 £'000	2004 £'000
Servicing of finance		
Interest paid	(241)	(218)
Net cash outflow from servicing of finance	(241)	(218)

	2005 £'000	2004 £'000
Financial investment		
Purchases of investments	(11,548)	(3,667)
Sales of investments	7,420	7,103
Dividends taken to capital	124	218
Capital expenses on investment	(744)	(331)
Net cash (outflow)/inflow for financial investments	(4,748)	3,323

	2005 £'000	2004 £'000
Financing		
The Royal Bank of Scotland multi-currency overdraft facility	962	—
Exchange movement	(15)	—
Net cash inflow from financing	947	—

(c) Analysis of net debt

	At 1 June 2004 £'000	Cash Flow £'000	Other non-cash changes £,000	Exchange movement £'000	At 31 May 2005 £'000
Cash at bank	3,781	(3,291)	—	(8)	482
Multi-currency overdraft facility	—	(947)	—	(15)	(962)
Overdrafts	—	(524)	—	(8)	(532)
	3,781	(4,762)	—	(31)	(1,012)
Debt due within 1 year	(6,148)	—	(5)	—	(6,153)
Total	(2,367)	(4,762)	(5)	(31)	(7,165)

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile

The investment objective of the Company is to maximise Shareholder value by investing principally in a portfolio of convertible securities anywhere in the world.

In addition, the Company holds cash and liquid resources and various items such as debtors/creditors which arise directly from its operations.

The Company also enters occasionally into derivative and swap contracts in order to manage the risks arising from its investment activities. As at the year end there were eleven put option contracts outstanding.

The Company, as stated in the Directors' Report on page 11, conducts its affairs so as to enable it to qualify as an investment trust. As part of the rules governing this status, no investment at the time of purchase may represent more than 15% by value of the Company's portfolio of investments.

The Company, itself, does not undertake any trading in financial instruments. Through its subsidiary, Stocks Convertible Limited, the Group does undertake trading in financial instruments but such activities represent less than 10% of the Group's activities. There existed one current asset investment holding in the subsidiary company as at the year end, details of which are disclosed in note 12 to the Financial Statements.

The two main risks arising from the Group's financial instruments are market price risk and foreign currency risk. The Directors review and agree policies with the Manager, Ingot Capital Management Pty Ltd, for managing these risks. The policies have remained unchanged since 1 June 2004.

The Company is currently engaged in litigation over the investment in New Cap Reinsurance Corporation. This could result in sizeable legal costs being incurred by the Company or damages being awarded to the Company.

The Company on occasions has large investments in the securities issued by individual companies.

There is no detailed disclosure of credit risk as this is not considered material in the context of the Group's overall activities.

Short-term debtors and creditors are excluded from the analysis of the financial assets/liabilities, maturity and fair value disclosures.

Market price risk

The Company's exposure to market price risk comprises mainly movements in the value of the Company's investments. As at the year end the spread of the Company's investment portfolio analysed by sector was as set out on page 4.

The Investment Manager purchases long dated Put Option contracts to provide protection to the investment portfolio whilst at the same time sells short dated Put Option contracts to cover the long dated premiums.

Foreign currency risk

The base currency for the Company is sterling and, therefore the total return and capital value of the Company can be affected by exchange rate movements as the Company's assets and income are denominated primarily in Australian dollars. The Company does not currently hedge the sterling value of investments priced in currencies other than sterling.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

Interest rate risk profile of financial assets and liabilities

Substantially all of the Company's assets are either equity investments, convertible investments or fixed interest securities. The Company's non-equity investments earn interest and its Loan Stock incurs interest on the following terms:

	31 May 2005			Total £'000
	Non-interest £'000	Floating £'000	Fixed £'000	
<i>Financial assets</i>				
Equity investments				
Australian Dollar	15,799	—	—	15,799
New Zealand Dollar	146	—	—	146
Sterling	2,070	—	—	2,070
US Dollar	533	—	—	533
Non-equity investments (current and fixed asset)				
Australian Dollar	14	—	1,924	1,938
New Zealand Dollar	1,545	—	—	1,545
Sterling	—	—	3,287	3,287
US Dollar	53	—	—	53
Cash at bank and short-term deposits				
Australian Dollar	—	—	—	—
New Zealand Dollar	—	—	4	4
Sterling	—	1	—	1
US Dollar	477	—	—	477
	<u>20,637</u>	<u>1</u>	<u>5,215</u>	<u>25,853</u>
<i>Financial liabilities</i>				
Overdrafts				
Australian Dollar	—	(161)	(962)	(1,123)
US Dollar	(272)	—	—	(272)
Sterling	—	(99)	—	(99)
Convertible Subordinated Unsecured Loan Stock 2007				
Sterling	—	—	(6,153)	(6,153)
	<u>20,365</u>	<u>(259)</u>	<u>(1,900)</u>	<u>18,206</u>

The sterling and Australian dollar overdrafts were incurring overdraft interest as at the year end of 6.25%, and 9.35% respectively.

The Australian dollar multi-currency overdraft facility incurred overdraft interest at the fixed rate of 7.75% as at the year end.

The Company's liquidity is held in sterling and New Zealand dollars entirely on overnight interest bearing accounts or short-term deposits and produced an average rate of interest as at the year end of 3.50%, and 3.55% respectively.

The Company has an overdraft facility with the Bank of Scotland of £150,000 to allow short-term funding flexibility.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

	31 May 2004			Total £'000
	Non-interest £'000	Floating £'000	Fixed £'000	
<i>Financial assets</i>				
Equity investments				
Australian Dollar	12,757	—	—	12,757
New Zealand Dollar	645	—	—	645
Sterling	471	—	—	471
US Dollar	40	—	—	40
Non-equity investments (current and fixed asset)				
Australian Dollar	282	—	864	1,146
New Zealand Dollar	701	—	777	1,478
Sterling	246	—	—	246
Euro	15	—	—	15
US Dollar	81	—	—	81
Cash at bank and short-term deposits				
Australian Dollar	—	745	1,946	2,691
New Zealand Dollar	—	—	156	156
Sterling	—	462	—	462
Euro	—	5	433	438
US Dollar	—	34	—	34
	<u>15,238</u>	<u>1,246</u>	<u>4,176</u>	<u>20,660</u>
<i>Financial liabilities</i>				
Convertible Subordinated Unsecured				
Loan Stock 2007				
Sterling	—	—	(6,148)	(6,148)
	<u>15,238</u>	<u>1,246</u>	<u>(1,972)</u>	<u>14,512</u>

The Company's liquidity is held in sterling, US Dollars, Euros, New Zealand Dollars and Australian Dollars entirely on overnight interest bearing accounts or short-term deposits and produced an average rate of interest as at the year end of 3.0%, 0.3%, 1.9%, 5.5% and 4.62% respectively.

The Company has an overdraft facility of £150,000 to allow short-term funding flexibility.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

The weighted average interest rates, together with the weighted average maturity dates, of the fixed rate financial assets and liabilities, analysed by currency, as at the year end were as follows:

	31 May 2005		31 May 2004	
	Weighted average interest rate	Weighted average maturity date	Weighted average interest rate	Weighted average maturity date
Financial assets – non-equity investments:				
Australian Dollar	7.294%	14-Apr-08	9.684%	9-Jan-07
New Zealand Dollar	—	—	8.000%	30-Jun-05
Sterling	5.013%	26-Oct-09	—	—
	<u>5.855%</u>	<u>2-Apr-09</u>	<u>8.887%</u>	<u>20-Apr-06</u>
Financial liabilities – The Royal Bank of Scotland multi-currency overdraft facility:				
Australian Dollar	<u>7.750%</u>	<u>31-Aug-07</u>	<u>—</u>	<u>—</u>
Financial liabilities – Convertible Subordinated Unsecured Loan Stock 2007:				
Sterling	<u>3.500%</u>	<u>30-Nov-07</u>	<u>3.500%</u>	<u>30-Nov-07</u>

The weighted average maturity date represents the weighted average date for those loans outstanding on 31 May 2005.

S&P 500 Index Put Option contracts

As at 31 May 2005 the Company had the following Put Option Contracts outstanding:

290 (long position) S&P 500 Index Put Option contracts. The option premium paid on the purchase of these contracts was £1,265,000 and their market value as at 31 May 2005 was £856,000. These contracts are made up of a number of smaller positions which have varying maturity dates between 17 December 2005 and 16 December 2006, and are included in investments.

290 (short position) S&P 500 Index Put Option contracts. The option premium received on the sale of these contracts was £591,000 and their market value as at 31 May 2005 was £(323,000). These contracts are made up of a number of smaller positions which have varying maturity dates between 18 June 2005 and 17 June 2006, and are deducted from investments.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

Currency exposures

As at 31 May 2005 the Group's net currency exposures were as follows:

	*Sterling £'000	A\$ £'000	NZ\$ £'000	US\$ £'000	Total £'000
Fixed asset investments	5,357	17,735	1,691	586	25,369
Cash and overdrafts	(98)	(161)	4	205	(50)
Multi-currency overdraft facility	—	(962)	—	—	(962)
Convertible Subordinated					
Unsecured Loan Stock 2007	(6,153)	—	—	—	(6,153)
Current asset investments	—	2	—	—	2
Amounts due from brokers	479	151	—	—	630
Amount due to brokers	—	(2)	—	—	(2)
Other net current assets/(liabilities)	(269)	36	—	—	(233)
	<u>(684)</u>	<u>16,799</u>	<u>1,695</u>	<u>791</u>	<u>18,601</u>
	(3.7%)	90.3%	9.1%	4.3%	100.0%

As at 31 May 2004 the Group's net currency exposures were as follows:

	*Sterling £'000	A\$ £'000	NZ\$ £'000	Euro £'000	US\$ £'000	Total £'000
Fixed asset investments	717	13,901	2,123	15	121	16,877
Cash and overdrafts	462	2,691	156	438	34	3,781
Convertible Subordinated						
Unsecured Loan Stock 2007	(6,148)	—	—	—	—	(6,148)
Current asset investments	—	2	—	—	—	2
Amounts due from brokers	—	141	—	—	—	141
Other net current assets/(liabilities)	(350)	76	(2)	—	—	(276)
	<u>(5,319)</u>	<u>16,811</u>	<u>2,277</u>	<u>453</u>	<u>155</u>	<u>14,377</u>
	(37.0%)	116.9%	15.8%	3.2%	1.1%	100.0%

*The currency profile for FRS13 does not require the disclosure of sterling (£) assets and liabilities, nor non-monetary assets and liabilities, however they are included here for completeness.

Maturity of financial liabilities

The Group's financial liabilities, other than short-term creditors, are the Convertible Subordinated Unsecured Loan Stock 2007 which is repayable at par on 30 November 2007, the multi-currency overdraft facility and bank overdrafts which are repayable on demand.

The maturity profile of the Group's financial liabilities as at 31 May was as follows:

	2005 £'000	2004 £'000
In one year or less, or on demand	<u>7,647</u>	<u>6,148</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

Borrowing facilities

On 21 February 2005 the Company entered into a multi-currency overdraft facility with The Royal Bank of Scotland to the sterling equivalent of up to £1 million. As at the year end A\$2,313,000 (sterling equivalent £962,000) had been drawn down. This facility expires on 31 August 2007.

The overdraft facility at the Bank of Scotland expires on 31 March 2006 and the Board will review the renewal of this facility for a further year prior to expiry.

Fair values of financial assets and financial liabilities

Set out below is a comparison by book values and fair values of all the Group's financial assets and financial liabilities as at 31 May:

	2005		2004	
	Book value £'000	Fair Value £'000	Book value £'000	Fair Value £'000
Primary financial instruments:				
Short-term loans and overdrafts	(532)	(532)	—	—
Multicurrency overdraft facility	(962)	(962)	—	—
Convertible Subordinated Unsecured				
Loan Stock 2007	(6,153)	(8,854)	(6,148)	(6,213)
Equity investments (fixed asset)	18,548	18,548	13,913	13,913
Non-equity investments (current and fixed asset)	6,823	6,823	2,966	2,966
Cash	482	482	3,781	3,781

The fair value of the Convertible Subordinated Unsecured Loan Stock 2007 is based on the middle market price.

24 Contingent liabilities

As at 31 May 2005 there were no contingent liabilities or financial commitments. (31 May 2004: none).

Guarantee

The Company has established Bank Guarantees to the plaintiffs and investments with a market value of A\$16,310,000 (sterling equivalent £6,782,000) as at 31 May 2005 (2004: A\$13,125,000, sterling equivalent £5,108,000) which are held at HSBC Australia as security against any prospective adverse costs regarding legal action in connection with the Company's investment in New Cap Reinsurance.

Included within other expenses are legal fees of £717,000 (2004: £262,000) in connection with a claim for damages related to one of the Company's investments. The investment is carried in the Company's accounts at a negligible value.

25 Total expense ratios	2005	2004
Total assets	1.54%	1.81%
Shareholders' funds	2.08%	2.52%

The above total expense ratios are based on average total assets of £23,485,000 (2004: £21,733,000) and average shareholders funds of £17,336,000 (2004: £15,590,000) calculated at the end of each month during the period and operating expenses incurred during the year of £361,000 (2004: £394,000).

26 Related party disclosure

Ingot Capital Management Pty Ltd acts as Manager to the Company. The amounts paid to the Manager are disclosed in note 4 to the Financial Statements and further details of the relationship between the Company and the Manager are set out in note 7 to the Financial Statements. Full details of Director's interests are set out in the Report of the Directors on page 11.

STOCKS CONVERTIBLE TRUST PLC

Five Year Financial Summary

	2001	2002	2003	2004	2005
	£'000	£'000	£'000	£'000	£'000
Capital	6,018	5,519	5,520	5,521	5,523
Total reserves	1,756	5,544	4,600	8,856	13,078
Convertible Loan Stock 2007	6,114	6,127	6,140	6,148	6,153
Net operating revenue	173	603	676	345	542
Taxation	20	58	120	29	75
Net revenue	(209)	262	336	98	214
Dividend	56	192	252	120	180
Earnings per 25p ordinary share	(1.5)p	2.1p	2.8p	0.8p	1.8p
Dividend per 25p ordinary share	0.40p	1.60p	2.10p	1.00p	1.50p
Gross interest per unit of Loan Stock 2007	3.5p	3.5p	3.5p	3.5p	3.5p
Fully-diluted net asset value per ordinary share	68.7p	94.3p	89.2p	112.6p	135.8p

STOCKS CONVERTIBLE TRUST PLC

Notice of Annual General Meeting

Notice is hereby given that the 2005 Annual General Meeting of Stocks Convertible Trust PLC will be held at 68 Lombard Street, London EC2Y 9HT on Thursday 13 October 2005 at 12.00 noon for the following purposes:

Ordinary Business

1. to receive and adopt the accounts and the reports of the Directors and the Auditor for the year ended 31 May 2005;
2. to approve the Directors' Remuneration Report for the year ended 31 May 2005;
3. to declare a dividend of 1.50p per ordinary share;
4. to re-appoint Mr McLeland as a Director of the Company;
5. to re-appoint Mr A Bushell, who is age 72, as a Director of the Company (special notice to propose this resolution having been received);
6. to re-appoint RSM Robson Rhodes LLP as Auditor to the Company and authorise the Directors to determine the auditor's remuneration.

Special Business

7. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT the Directors be generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the “Act”) to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £1,001,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on 12 October 2010, save that the Company may before such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.”
8. To consider and, if thought fit, pass the following resolution as a special resolution:

“THAT

 - (a) the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the “Act”) to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority available to the Directors under Section 80 of the Act as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited:
 - (i) to the allotment of equity securities in connection with a rights issue; or
 - (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £150,183;and shall expire on the date of the next Annual General Meeting or the date 15 months after the passing of this resolution, whichever is the earlier, save that the Company may before such expiry make offers or agreements which would or might require securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired;
 - (b) for the purpose of this resolution, words and expressions defined in or for the purpose of Part IV of the Act shall bear the same meaning in this resolution; and

STOCKS CONVERTIBLE TRUST PLC

Notice of Annual General Meeting continued

- (c) for the purposes of this resolution “rights issue” means an offer of equity securities open for acceptance for a period fixed by the Company made to holders on the register on a fixed record date of ordinary shares in proportion to their respective holdings but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or a stock exchange in, any territory.

Dated this 2nd day of September 2005

By order of the Board

Phoenix Administration Services Limited
Secretary

Notes

- (i) Only holders of the ordinary shares of the Company are entitled to attend and vote at the meeting. This notice is sent for information only to Loan Stock holders.
- (ii) A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of that member. A proxy need not be a member of the Company.
- (iii) Shareholders are invited to complete and return the reply paid Form of Proxy which accompanies this report. Lodgement of the Form of Proxy will not prevent them from attending and voting at the meeting if they so decide.
- (iv) The Register of Director’s interests will be available for inspection at the Annual General Meeting.
- (v) Director’s service contracts will not be available for inspection at the Annual General Meeting as all Directors are non executive and there are no such contracts.

STOCKS CONVERTIBLE TRUST PLC

Company Information

Directors

A F Bushell (Chairman)
P I Burrows
B C Hervey
W J McLeland

Investment Manager

Ingot Capital Management Pty Ltd
P O Box 2073
Rose Bay North
New South Wales 2030
Australia
www.ingotcm.com

Company Secretary and Registered Office

Phoenix Administration Services Limited
2nd Floor, Springfield Lodge
Colchester Road
Chelmsford
Essex
CM2 5PW
info@phoenixadmin.co.uk

Auditor

RSM Robson Rhodes LLP
186 City Road
London Road
EC1V 2NU

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Custodian

The Northern Trust Company
London Branch
155 Bishopsgate
London
EC2M 3XS

Brokers

Arbuthnot Securities Limited
20 Ropemaker Street
London
EC2Y 9AR
www.arbuthnot.co.uk

Shareholder Relations

The Company's share price for ordinary shares is listed daily in the Financial Times. In addition the Company subscribes to Hemscott, an on-line internet service updated daily and made available to shareholders free of charge. Information includes 15 minute delayed prices, all RNS news announcements, customised shareprice graph and a dealing on-line facility. The web site address is www.hemscott.net

Individual Savings Account ('ISA')

Stocks Convertible Trust PLC is eligible in full to be held in a Maxi ISA allowing investment of up to £7,000 in the tax year 2005/2006.

Registered in England and Wales No: 2133976

STOCKS CONVERTIBLE TRUST PLC

STOCKS CONVERTIBLE TRUST PLC

Form of Proxy

Name(s) in full
 (BLOCK CAPITALS PLEASE)

I/We, the undersigned, being (a) member(s) of the above Company, hereby appoint the Chairman of the Meeting or
 (see note 3) as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 13 October 2005 and at any adjournment thereof, in the following manner:

- | | FOR* | AGAINST* | |
|----|--------------------------|--------------------------|--|
| 1. | <input type="checkbox"/> | <input type="checkbox"/> | To receive and adopt the accounts and the reports of the Directors and the Auditor for the year ended 31 May 2005; |
| 2. | <input type="checkbox"/> | <input type="checkbox"/> | To approve the Directors' Remuneration Report for the year ended 31 May 2005; |
| 3. | <input type="checkbox"/> | <input type="checkbox"/> | To declare a dividend of 1.50p per ordinary share; |
| 4. | <input type="checkbox"/> | <input type="checkbox"/> | To re-appoint Mr McLeland as a Director of the Company; |
| 5. | <input type="checkbox"/> | <input type="checkbox"/> | To re-appoint Mr A Bushell, who is age 72, as a Director of the Company; |
| 6. | <input type="checkbox"/> | <input type="checkbox"/> | To re-appoint RSM Robson Rhodes LLP as Auditor to the Company and authorise the Directors to determine the auditor's remuneration; |
| 7. | <input type="checkbox"/> | <input type="checkbox"/> | To authorise the Directors to unconditionally allot shares; |
| 8. | <input type="checkbox"/> | <input type="checkbox"/> | Special resolution to disapply statutory pre-emption rights. |

*Please indicate by marking "X" in the appropriate space how you wish your vote to be cast.

As WITNESS my/our hand(s) this day of 2005

Signature(s)

Notes:

1. If this form is returned without any indication as to how the person(s) appointed as proxy shall vote, they will exercise their discretion as to how they vote or whether they abstain from voting.
2. This form of proxy, duly signed and any power of attorney under which it is executed must be deposited at the offices of the Company's Registrars not less than 48 hours before the time fixed for holding the meeting or an adjourned meeting.
3. A member may appoint a proxy of their own choice by deleting the reference to the Chairman and inserting the name of their proxy in the space provided. A proxy need not be a member of the Company but must attend the meeting in person to represent the member. A proxy may vote only in the event of a poll.
4. A corporation should complete this form under its common seal or under the hand of a duly authorised officer or attorney.
5. In the case of joint holders, this form may be signed by any one of the holders, but the names of all of them should be stated.

Third Fold and Tuck in

BUSINESS REPLY SERVICE
Licence No. MB 122

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Capita Registrars (Proxies)
PO Box 25
Beckenham
Kent
BR3 4BR

First Fold

Second Fold