

STOCKS CONVERTIBLE TRUST PLC



ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2006

STOCKS CONVERTIBLE TRUST PLC

Contents

- 1 Objective of the Company, Highlights for the Year, Awards
- 2 Chairman's Statement
- 3 Directors, Investment Manager, Administrator and Secretary
- 4 Analysis of Investments by Value, Classification of Assets, Geographical Analysis
- 5 Investment Manager's Report
- 6 Review of Top Ten Holdings
- 10 Report of the Directors
- 13 Corporate Governance Statement
- 17 Directors' Remuneration Report
- 19 Report of the Independent Auditor
- 21 Consolidated Income Statement
- 22 Consolidated and Company Statements of Changes in Equity
- 23 Consolidated Balance Sheet
- 24 Company Balance Sheet
- 25 Consolidated and Company Cash Flow Statements
- 26 Notes to the Financial Statements
- 48 Five Year Financial Summary
- 49 Company Information

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 are being progressively realised and the proceeds will be invested in accordance with the investment objective of the Company.

Proposals are being put to shareholders to amend the investment objective of the Company, as described in the Chairman's Statement and the Circular to shareholders and stockholders dated 19 September 2006 which accompanies this Annual Report.

Highlights for the Year

- Diluted consolidated net asset value per share in sterling increased 0.9% to 137.2p.
- Shareholder funds increased by 0.2%.
- Dividend, interest and other income increased by 1.2%.
- Proposed dividend of 1.50p, maintained at the same level as last year.

Awards

March 2006 - Money Observer Magazine - Best Global Trust for consistently superior performance in each of the three previous calendar years

June 2005 - Financial Times Money Guide Funds Watch - Investment Trust Global Growth and Income Sector, ranked No. 1 in each of the one, three and five years to 31 May 2005.

STOCKS CONVERTIBLE TRUST PLC

Chairman's Statement

In the year to 31 May 2006 the fully diluted net asset value (NAV) rose marginally by 1.2 pence (0.9%) to 137.2 pence. While this may initially seem disappointing compared to a rise of 22.5% in the Company's benchmark, the sterling adjusted ASX Small Ordinaries Index, over the same period, it does follow a very strong performance in the Company's NAV over the previous four years when the NAV increased by 98% compared to a rise of 54% in the benchmark. Reflecting this strong performance, Money Observer Magazine gave the Company the award of Best Global Trust in recognition of consistently superior investment performance in each of the three immediate past calendar years. However, as I have mentioned in previous years, the Company's concentrated portfolio, with the top five stocks representing 84% of total assets less current liabilities, does mean that movements in the NAV can and do show large deviations from the benchmark. Over the year the Australian dollar weakened by 3.2% against sterling from A\$2.4049 to A\$2.4830.

Dividend, interest and other income of the Group rose by 1.2% from £903,000 to £914,000 over the year, while revenue expenses increased by 13.6% from £354,000 to £402,000. The directors, therefore, propose a dividend of 1.50 pence per share, the same as last year.

The rate of Australian GDP growth accelerated from a sub-trend of 1.9% in the year to March 2005 to 3.1% in the year to March 2006. The major contributors to this faster growth were stronger domestic consumption, increasing business investment, adding capacity especially in the mining sector, and rising exports. Against this background, the labour market has continued to be strong, with the unemployment rate falling over the year from 5.1% to 4.9%, while inflationary pressures have increased with the Consumer Price Index rising 3.0% over the year, compared with 2.4% the previous year. Consequently official interest rates were lifted by 0.25% to 5.75% in May this year and looking ahead a further increase may be needed to restrain inflationary pressures. However, the current account deficit has contracted modestly to A\$14 billion in the March 2006 quarter, which is 5.6% of GDP, compared to 6.5% in the March quarter last year.

The stockmarket has been very strong throughout the Company's year, with the All Ordinaries Index rising 22% from 4070 to 4972 and the ASX Small Ordinaries Index rising by 26% from 2251 to 2846. Within the Company's portfolio, Trust Company of Australia, which represents 52% of total assets less current liabilities, rose by 15%, and Resolute Mining, a gold producer, by 117%, but these movements were offset by ERG, which provides automated fare collection equipment and systems, falling by 63%.

The action which the Company brought in the Supreme Court of New South Wales in relation to New Cap Reinsurance Corporation, started last October and continues with final written submissions by our counsel and by the defence counsels. The judge has now retired to consider his decision based on these final submissions but this is not expected until late 2006 or early 2007.

Despite the Company's consistently good performance, as I have indicated in my past two Chairman's Statements the Board feels that the current investment mandate is too restrictive and, although the Company's expense ratio to total assets is reasonable at approximately 1.56% per annum, the Company's assets need to be increased to make overall management more economic. Whilst the Company awaits the judgement in relation to the legal proceedings concerning New Cap Reinsurance Corporation, the Board believes that it would be appropriate to proceed with other issues affecting the Company ahead of any fund raising, including conversion of the outstanding Loan Stock into Ordinary Shares and broadening the investment mandate, together with a change of name of the Company. Full details of the Company's proposals on these and other matters are set out in the Circular to shareholders and stockholders dated 19 September 2006 which is being circulated with this Annual Report.



Anthony Bushell
Chairman
18 September 2006

STOCKS CONVERTIBLE TRUST PLC

Directors

Anthony Bushell†, Chairman, aged 73, is also non-executive chairman of Smaller Companies Value Trust plc. He was previously Chief Investment Manager of the Bank of England. Appointed to the Board on 1 April 1992 (when the Company's name was The First Spanish Investment Trust plc) and appointed as Chairman on 26 March 1996.

Peter Burrows AO, aged 59, 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. Appointed to the Board on 6 April 1998.

Bruce Hervey†, aged 64, 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. Appointed to the Board on 22 January 2002.

Warren McLeland†, aged 60, 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. Appointed to the Board on 6 April 1998.

All Directors are non-executive and 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 2006

(Ordinary shares unless otherwise stated)

Company	Sector	£'000	%
Trust Company of Australia	Financial	13,122	52.47
Global Equity Market Securities (0% 18/01/08)	Investment Company	2,955	11.82
Law Debenture Corporation	Investment Trust	1,827	7.30
Intellect Holdings (Ordinary, 4% Conv Note 5/01/10 & Options 31/12/09)	Software & Computer Services	1,533	6.13
ERG	Software & Computer Services	1,500	6.00
Utilico IT (3.75% CULS 30/11/2009)	Investment Trust	1,165	4.66
Invesco Income Growth Trust (4.75% CULS 01/10/2009)	Investment Trust	1,065	4.26
eBet (10% Redeemable Conv Notes 29/11/06)	Software & Computer Services	774	3.09
Datang International Power (0.75% Conv Notes 09/09/2008)	Electricity	564	2.25
Resolute Mining	Mining	314	1.26
Ten largest investments		24,819	99.24
Other investments (15)		881	3.52
Total investments		25,700	102.76
Cash at bank and short-term deposits		575	2.30
Current assets less current liabilities		(1,266)	(5.06)
Total assets less current liabilities		25,009	100.00

Classification of Assets

	2006		2005*	
	£'000	%	£'000	%
Equities	18,067	72.24	17,954	72.44
Convertible securities	7,633	30.52	6,681	26.95
Fixed interest securities	—	—	53	0.21
Total investments	25,700	102.76	24,688	99.60
Current (liabilities) / assets	(691)	(2.76)	98	0.40
Total assets less current liabilities	25,009	100.00	24,786	100.00

Geographical Analysis

	2006		2005*	
	£'000	%	£'000	%
Australia	17,370	69.45	17,688	71.36
United Kingdom	4,369	17.47	5,302	21.39
New Zealand	3,212	12.84	1,645	6.64
China	564	2.26	—	—
Europe	185	0.74	—	—
United States	—	—	53	0.21
Total investments	25,700	102.76	24,688	99.60
Current (liabilities) / assets	(691)	(2.76)	98	0.40
Total assets less current liabilities	25,009	100.00	24,786	100.00

* Restated to reflect the restatement of balances at and for the year ended 31 May 2005 (see note 23 on page 45).

STOCKS CONVERTIBLE TRUST PLC

Investment Manager's Report

Investment Policy

The Company's assets continue to be invested predominantly in Australian and New Zealand denominated securities, with the consequent exchange risks that may affect the value of the Company's shares and convertible notes denominated in sterling.

As outlined in the Chairman's Statement, proposals are being put to shareholders to, inter alia, change the investment objective and policy of the Company.

Global Economics

Over the period, global economics have been relatively stable with a steady growth trend and consistent inflationary and interest rate environments. However, rising oil prices continue to put pressure on economic performance, leading to concerns for future inflationary and interest rate movements.

Stock Markets

All major markets performed strongly during the year, driven by strong corporate performance and dividend growth. High levels of corporate activity continued to drive markets up. This performance was offset to some extent around the year-end, since when markets entered into a turbulent phase and have continued to show volatility. Longer term, market opportunities remain attractive.

The Australian stock market, as reflected by the All Ordinaries Index, increased from 4070 last year to 5207 in April 2006 before declining to 4972 in May 2006. The ASX Small Ordinaries Index increased from 2251 last year to 2965 in April 2006 before declining to 2846 in May 2006. Market conditions have been buoyant throughout much of the year as reflected by the rising indices before the decrease in May in line with the decline in global indices.

Convertible Securities Markets

The size of the global convertible market has drifted downwards over the period although there are now signs of increasing levels of issues in recent quarters. Overall, convertible indices have shown reasonable returns, though outperformed by the equity markets since the year end. Equity markets are expected to continue to show signs of volatility.

Portfolio Review

During the year under review, total assets less current liabilities rose marginally to £25.0 million, resulting in a moderate increase in fully diluted NAV per share to 137.2 pence. The value of the top ten investments, which accounted for 99% of total investments less current liabilities at the year end, rose by 2.9%, offset by a decline in the value of the balance of the portfolio. Within the top ten holdings, the investments in Taverners Trust, PD Ports and JDV were sold and investments made in Law Debenture Corporation, Datang International Power and Resolute Mining.

A review of each of the top ten holdings is set out on pages 6 to 9.

STOCKS CONVERTIBLE TRUST PLC

Review of Top Ten Holdings

Trust Company of Australia

ASX Code	: TRU	12 Month Range	: A\$9.32 – A\$11.20
Issued Shares	: 32.4 million	SCT Investment	: £13.1 million
Market Capitalisation	: A\$347 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\$9.32 to A\$10.72 over the year under review. In July 2005, a special dividend of 20 cents per share was paid following the sale of the securitisation business into a joint venture with The Bank of New York, a relationship which Trust Company of Australia hopes will create further business opportunities.

In the year to 28 February 2006, Trust Company of Australia increased revenues and EBITDA from ongoing businesses by 9% and 39% respectively and completed a restructuring of operations into two discrete divisions: financial services and institutional services. Earnings per share on continuing operations was 55.8 cents, equating to a PE ratio at 31 May 2006 of 19.2x.

Global Equity Market Securities

LSE Code	: GEMSNZ	12 Month Range	: NZ\$1.05 – NZ\$1.40
Issued Shares	: 50.0 million	SCT Investment	: £3.0 million
Market Capitalisation	: NZ\$67 million		(13.2% of GEMSNZ)

Global Equity Market Securities is a capital protected investment product that provides exposure to increases in the S&P 500, FTSE 100 and 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 increased from NZ\$1.05 in May 2005 to NZ\$1.36 at 31 May 2006.

Law Debenture Corporation

LSE Code	: LWDB	12 Month Range	: £2.53 – £3.35
Issued Shares	: 117.1 million	SCT Investment	: £1.8 million
Market Capitalisation	: £356 million		(0.5% of LWDB)

Law Debenture Corporation is a UK based company that has two main business segments, a global growth investment trust that is externally managed and a provider of trustee and related services to wholesale markets and occupational pension schemes.

The share price of Law Debenture Corporation increased from £2.53 in May 2005 to £3.03 at 31 May 2006. The Net Asset Value per share increased from £2.42 to £2.85 in the same period.

For the year to 31 December 2005, Law Debenture Corporation announced earnings per share of 10.05p and dividends per share of 9.05p, with net asset value total return of 28.5%.

STOCKS CONVERTIBLE TRUST PLC

Review of Top Ten Holdings continued

Intellect Holdings (Ordinary, Convertible notes & Options)

ASX Code	: IHG	12 Month Range	: A\$0.17 – A\$0.48
Issued Shares	: 57.8 million	SCT Investment	: £0.7 million
Market Capitalisation	: A\$23 million		(7.7% of IHG)

Unlisted	: IHGG	12 Month Range	: N/A
Issued Notes	: 0.4 million	SCT Investment	: £0.9 million
Issue Value	: A\$7 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 ordinary shares (which were acquired by the exercise of the rights attaching to its holding of convertible notes) and convertible notes and options which are not listed.

Intellect reported revenues of A\$51 million for the year to 30 June 2005 with a post-tax loss of A\$1 million with significant improvement in the second half following completion of the financial restructuring and reduction in cost base.

The share price of the ordinary shares decreased from 50 cents in May 2005 to 39 cents at 31 May 2006. In July 2006, Intellect announced a proposed merger with Cadmus Technology, valuing Intellect's ordinary shares at 60 cents based on the Cadmus Technology share price at the date of the announcement. Under the terms of the proposed merger, Intellect shareholders will receive Cadmus Technology ordinary shares and the holders of convertible notes and options will receive similar instruments in Cadmus Technology. The merger is conditional on appropriate stakeholder and Australian Court approvals.

Cadmus Technology, a New Zealand listed company, designs, develops and implements point-of-sale payment solutions for customers in New Zealand and the global market including banks, retailers and merchant businesses and had revenue of NZ\$20 million in the year to 30 June 2005.

ERG

ASX Code	: ERG	12 Month Range	: A\$0.10 – A\$0.30
Issued Shares	: 855.8 million	SCT Investment	: £1.5 million
Market Capitalisation	: A\$ 86 million		(4.4% 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 27 cents in May 2005 to 10 cents at 31 May 2006

For the six months to 31 December 2005, ERG reported revenue of A\$91m compared to A\$116m in the corresponding period last year and a net loss of A\$38m (compared to a profit of A\$17m). In commenting upon the results ERG noted that the operating loss of A\$19m was largely due to an increase in costs associated with the delivery of major contracts and, in addition, the company wrote off A\$19m in the value of its MASS system (software application). Net tangible assets per share at the reporting date were 17 cents.

STOCKS CONVERTIBLE TRUST PLC

Review of Top Ten Holdings continued

ERG continued

In its AGM statement, the company stated that it remains firmly committed to delivering its existing major supply contracts in 2006 and 2007 although some delays and increased costs have been experienced.

Utilico Investment Trust (Convertible unsecured loan stock)

LSE Code	: UILA	12 Month Range	: £1.21 – £1.43
Issued loan stock	: 20.0 million	SCT Investment	: £1.2 million
Market Capitalisation	: £29 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, 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 unsecured loan stock has increased from £1 at issue in November 2004 to £1.43 at 31 May 2006 (£1.21 in May 2005). The price of the ordinary shares increased from £1.53 in May 2005 to £1.87 at 31 May 2006.

Utilico Investment Trust had a net asset value per share of £1.92 at 31 May 2006.

Invesco Income Growth Trust (Convertible unsecured loan stock)

LSE Code	: IVIA	12 Month Range	: £1.09 – £1.30
Issued Notes	: 19.0 million	SCT Investment	: £1.1 million
Market Capitalisation	: £24 million		(3.9% of IVA)

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

The Company holds 4.75% 2009 convertible unsecured loan notes. The share price of the ordinary shares increased from £1.68 in May 2005 to £1.92 at 31 May 2006. The convertible unsecured loan notes increased from £1.09 to £1.26 over the period.

The net asset value per share of Invesco Income Growth Trust was £2.15 at 31 May 2006.

eBet (Convertible notes)

ASX Code	: EBTG	12 Month Range	: A\$21 – A\$26
Issued Notes	: 0.2 million	SCT Investment	: £0.8 million
Market Capitalisation	: A\$5 million		(41.8% 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 main exposure to eBet is through the 10% convertible notes redeemable in 2006 (convertible at 20 cents) but it also holds a small holding of ordinary shares.

STOCKS CONVERTIBLE TRUST PLC

Review of Top Ten Holdings continued

eBet (Convertible notes) continued

The share price of eBet decreased from 23 cents in May 2005 to 10.5 cents at 31 May 2006 and the price of the convertible notes decreased from A\$29 to A\$23 during the period.

eBet reported an interim profit after tax of A\$0.47m for the six months to 31 December 2005 compared to a loss of A\$0.6m in the corresponding period, with revenue increasing by 27% to A\$9.8m and operating cashflow of A\$1.7m compared to a cash outflow of A\$1.3m.

Datang International Power (Convertible notes)

Euro-Dollar Code	: BEIDATO	12 Month Range	: US\$104 – US\$114
Issued Notes	: US\$154.0 million	SCT Investment	: £0.6 million
Market Capitalisation	: US\$164 million		(0.6% of BEIDATO)

Datang International Power is a Chinese electricity generation company, mainly using coal but increasingly investing in hydro, nuclear and renewable energy sources.

The Company holds US\$ denominated 0.8% convertible notes 2008. The price of the convertible notes was US\$106.37 at 31 May 2006, compared to the investment cost of US\$104.75.

In the year to 31 December 2005 revenues grew by 32% to HK\$17.5 billion and net profit by 2.5% to HK\$2.3 billion.

Resolute Mining

ASX Code	: RSG	12 Month Range	: A\$0.86 – A\$2.57
Issued Shares	: 229.1 million	SCT Investment	: £0.3 million
Market Capitalisation	: A\$449 million		(0.2% of RSG)

Resolute Mining is a developer and operator of gold projects in Australia and Africa.

The Company holds ordinary shares of Resolute Mining. The ordinary share price at 31 May 2006 was A\$1.96, up from A\$0.90 at 31 May 2005.

For the year to 30 June 2005, Resolute Mining had a profit after tax of A\$13.9 million and net assets of A\$166 million.

Significant holdings in investments

Where the Company's holding comprises 3% or more of any class of capital of an investment and the holding is material in the context of the Company's financial statements, the relevant percentage of that class is shown in the above review. There are no other holdings of 3% or more of any class of capital of an investment which are material to the Company's financial statements.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors for the year ended 31 May 2006

The Directors submit their Report together with the audited financial statements of the Company and Group for the year ended 31 May 2006.

Results and Dividend

The profit for the year was £218,000, of which £31,000 is attributable to revenue (2004: restated £4,264,000, of which £48,000 was attributable to revenue). A dividend of 1.50p per ordinary share is proposed in respect of the year ended 31 May 2006 (2005: 1.50p per ordinary share). If approved by shareholders the dividend will be paid on 3 November 2006 to shareholders whose names appear on the register at close of business on 13 October 2006 (ex-dividend 11 October 2006).

Activities and Status

The Directors conduct 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. Such approval is given retrospectively by HM Revenue and Customs (HMRC) in respect of each accounting period of the Company and whilst HMRC approval has been given for the year ended 31 May 2005, this does not preclude HMRC from undertaking a subsequent enquiry into the Company's tax return.

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

Business Review

An analysis of the development and performance of the Company's business during the year is discussed in the Chairman's Statement on page 2 and the Investment Manager's Report on page 5. The performance of the Company's NAV against its benchmark key performance indicator and the proposed changes affecting the future development of the business are both discussed in the Chairman's Statement.

The principal risks encountered relate to financial instruments and details of how these are managed are discussed in note 18 to the Financial Statements on pages 37 to 42.

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 Burrows 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 as a Director of the Company notwithstanding that he is age 73.

The Board does not accept that length of service will necessarily affect the independence of a Director and 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 Burrows and Mr Bushell 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 2006	31 May 2005
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 2006 and 11 September 2006. None of the Directors have been granted or exercised any rights to subscribe for shares or loan stock of the Company.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors continued

Directors' Interests (continued)

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

Investment Manager

The Investment Manager, Ingot Capital Management Pty Ltd ("Ingot"), is engaged under the terms of a new Investment Management Agreement dated 15 September 2006 which may be terminated by not less than twelve months notice by either party. Details of the fees payable to Ingot under the terms of the previous agreement can be found in note 6 to the Financial Statements on page 30. 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 11 September 2006 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 & Pensions (L) Limited	3,120,000	25.96
Peter Burrows	1,740,000	14.48
Apollo Fund Plc	1,375,000	11.44
Lazard Asset Management LLC Group	1,201,000	9.99
Modesto Limited	770,587	6.41
Deutsche Bank AG	400,000	3.33

Ingot Capital Management Pty Ltd, the Manager, is connected with National Life & Pensions (L) Limited which, in addition to the above shareholding, holds 6,772,666 units of 3.5 per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007 and is connected with Modesto Limited.

Changes in Capital Structure

The Company's capital structure currently comprises 12,018,876 ordinary shares and 6,859,142 units of 3.5 per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007. Further details of changes during the year to 31 May 2006 are contained in notes 14 and 15 to the Financial Statements on page 35.

The convertible loan stock may be converted into ordinary shares on 31 October each year and further details on the procedures for conversion at 31 October 2006 are set out in a reminder notice dated 19 September 2006 issued to loan stock holders.

Annual General Meeting

The notice convening the Annual General Meeting of the Company for 20 October 2006 is set out in the Circular to the shareholders and loan stock holders of the Company which accompanies this Annual Report.

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. The Company had no trade creditors (creditors' days: nil) at either 31 May 2006 or 31 May 2005.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors continued

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent Company financial statements on the same basis.

The Group and parent Company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations.

Auditor Information

Each Director has taken all steps that he ought to have taken in order to:

- make himself aware of any information relevant to the audit;
- establish that the Company's auditors are aware of that information; and
- ensure that, as far as the Director is aware, there is no information relevant to the audit of which the Company's auditors are unaware.

Auditor

RSM Robson Rhodes LLP, Chartered Accountants, have indicated their willingness to continue in office and 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
18 September 2006

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement

The Board supports high standards of corporate governance. On 3rd February 2006, the Financial Reporting Council confirmed that investment company boards who report against the AITC Code of Corporate Governance ("AITC Code") and who follow the AITC's Corporate Governance Guide for Investment Companies ("AITC Guide") will be meeting their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules.

The Board has carried out a review of the principles set out in the Combined Code and AITC Code and in the AITC Guide and considers that the Group complies with the Combined Code and AITC Code subject to those aspects explained below where the Group has not complied or the Board does not feel it appropriate to do so.

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 2006 and up to the date of approval of the Annual Report and Financial Statements, and is 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, all of whom have detailed operating procedures in place. 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 Group'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.

Board Independence

The Board, which is fully independent, recognises that its prime purpose is to direct the business to maximise shareholder value within a framework of proper controls.

Board Structure

There is a clear division of responsibility between the Chairman, the Board, the Manager and other third party service providers. The Chairman leads the Board and ensures that the Directors receive accurate, timely and clear information. The Board leads on matters concerning the Company's investment

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement continued

objective, gearing, capital structure, governance, the appointment of service providers and keeps in touch with shareholders. It is the sole responsibility of the Manager to take decisions on the purchase and sale of individual investments. Representatives of the Manager, the Secretary and Administrator attend or participate in each Board meeting, and the Board, the Manager and Secretary operate in a supportive and cooperative manner.

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 ordinarily 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.

Attendance or participation by Directors at meetings for the year under review was as follows:

	Board	Audit	Management Engagement	Remuneration
No. of meetings held	4	2	1	1
A F Bushell	4	2	1	1
P I Burrows	4	n/a	n/a	n/a
B C Hervey	4	2	1	1
W J McLeland	4	2	1	1

Subsequent to the year-end, the Board conducted an evaluation of the performance of the Board, Committees, individual Directors and third party service providers. The evaluation was led by the Chairman, other than in respect of appraisal of his own performance which was led by Mr Hervey, using regular informal evaluations. The Board is satisfied from the results of the appraisals that the Board, its Committees and its third party providers function effectively, collectively and individually, and that the Board contains an appropriate balance of skills and experience for the effective management of the Company.

The Board is satisfied that the performance of both Directors who are seeking re-appointment at the forthcoming Annual General Meeting continues to be effective and they have demonstrated commitment to their roles. The Board accordingly recommends that shareholders vote in favour of their re-appointment.

Under the UK Listing Rules, where an investment trust company has no executive directors, the Code's provisions relating to directors' remuneration do not apply. Details of the Directors' fees are given in the Directors' remuneration report on pages 17 and 18.

Nomination Committee

The Board as a whole fulfils the function of a Nomination Committee. The Nomination Committee considers appointments to the Board and makes recommendations to the Board on such appointments. The Directors have many years' experience within the industry between them and a broad knowledge of individuals who would have the necessary skills to promote and develop the Company. Accordingly, the Nomination Committee does not consider it necessary to engage the services of third party search consultants unless no such suitably skilled individuals can be identified. The terms of reference of the Committee are available from the Company Secretary.

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement continued

Accountability and Audit

The Group's Audit Committee, which comprises 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.

The Audit Committee 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, the quality and effectiveness of the Group's accounting procedures and the auditor's 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, the scope and fees for non-audit work and, in particular, requires that any non-audit work is undertaken by the auditor's staff not engaged in the provision of audit services. 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. The external auditor currently provides tax compliance services to the Company. The scope of any additional non-audit services has to be reviewed and agreed by the Audit Committee in advance of engagement.

The Audit Committee reviews the whistle blowing procedures of the Manager but as the Company has no employees, it is not considered necessary to establish whistle blowing procedures for the Company. The terms of reference of the Committee are available from the Company Secretary.

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. The terms of reference of the Committee are available from the Company Secretary.

Management Engagement Committee

A F Bushell, B C Hervey and W J McLeland comprise the Management Engagement Committee which reviews the terms, fees and other remuneration payable to Ingot Capital Management Pty Ltd and Phoenix Administration Services Limited, details of which are set out in note 6 to the Financial Statements. The terms of reference of the Committee are available from the Company Secretary.

Voting Policy

The Company has authorised the Investment Manager to vote at its discretion but with a view to preserving the best interests of the Company on ordinary business proposed by investee companies but the Manager is required to consult with the Chairman before voting on special business.

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. The Board however considers that as many of the companies in which the Company invests are significant employers, it is likely that they will have high regard for the interests of their staff and the environments in which they operate.

Corporate Governance Statement continued

Shareholder Relations

The Company, through the Manager, has regular contact with its institutional shareholders. The Board considers that the Annual General Meeting affords private investors with the opportunity to communicate with Directors and recommends that shareholders attend the meeting where the Directors present will be able to answer any questions shareholders may have in relation to the Company and its activities. The provisions of the Combined Code where appropriate for the Company have been implemented in this Report and with regard to proxy voting at 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.

Annual General Meeting

The Annual General Meeting of the Company will be held on Friday 20 October 2006 and all shareholders are encouraged to attend. In accordance with best practice under the Combined Code, the Notice of Meeting is circulated more than 20 working days before the meeting. Details of the proxy votes received in respect of each resolution will be available to shareholders at the meeting.

STOCKS CONVERTIBLE TRUST PLC

Directors' Remuneration Report for the year ended 31 May 2006

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

As the Board comprises four non-executive Directors, the Board 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 the non-executive Directors should reflect the experience of the Board as a whole and 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 2007 and subsequent years.

Pursuant to the Company's Articles of Association, Directors' fees are limited to a maximum aggregate of £75,000 per financial year. Directors' fees paid for the year under review are shown on page 18. Directors are not eligible for bonuses, performance remuneration, pension entitlements, share options, long-term incentive schemes or other benefits. No Director may vote on his own remuneration.

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.

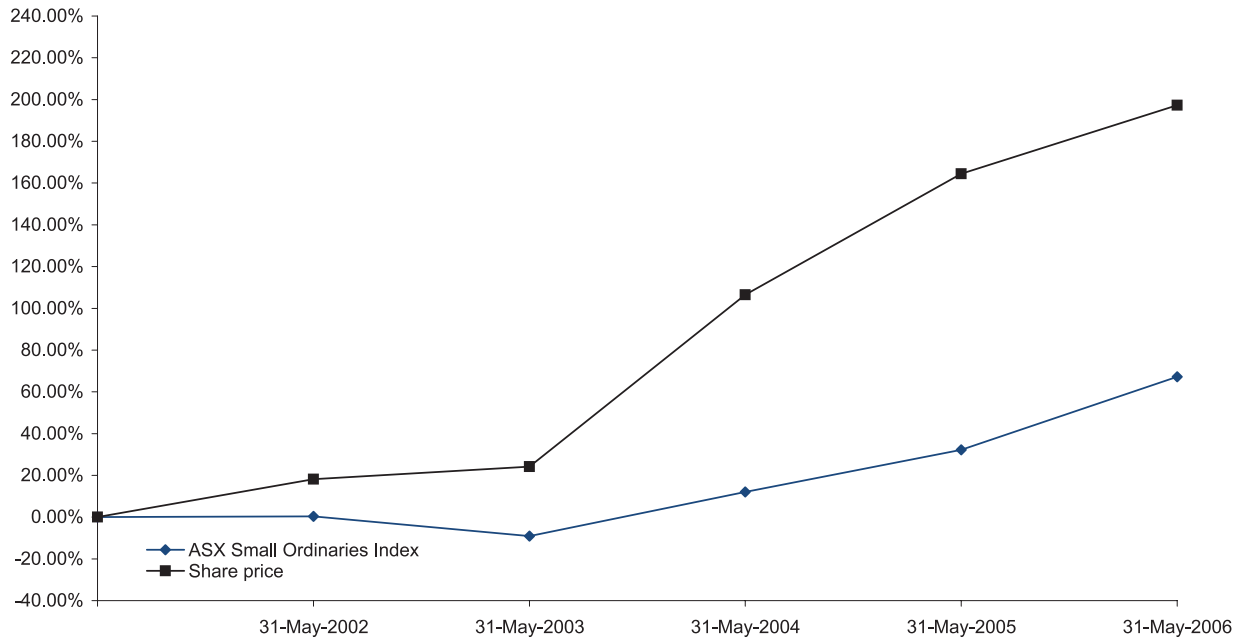
Your Company's Performance

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 comparative purposes as the Directors consider it to be the index that most closely approximates to the composition of the Company's current 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 2006



Director's Emoluments for the year ended 31 May 2006 (audited)

	2006 £	2005 £
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

† Paid to Trabatu Pty Limited for the services of P I Burrows to act as a Director of the Company.

This Remuneration Report was approved by the Directors on 18 September 2006 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 group and parent company financial statements ("the financial statements") on pages 21 to 47. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report of the Directors and 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 International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code 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 Group financial statements. The other information comprises only the Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investments 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.

We report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and the Investment Manager's Report that is cross-referred from the Business Review section of the Report of the Directors.

Report of the Independent Auditor continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part 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 Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of affairs of the Group as at 31 May 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of affairs of the parent company as at 31 May 2006.
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
London, England
18 September 2006

STOCKS CONVERTIBLE TRUST PLC

Consolidated Income Statement for the year ended 31 May 2006

	Notes	2006			2005 Restated (see note 23)		
		Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Income							
Investment income	2	879	260	1,139	835	124	959
Other income	3	35	—	35	68	—	68
Gains on investment held at fair value:							
Non current assets	11	—	745	745	—	4,720	4,720
Gains on current assets held at fair value:							
Derivatives - option contracts		—	234	234	—	159	159
Forward currency contracts		—	149	149	—	—	—
Exchange differences		—	97	97	—	(31)	(31)
		<u>914</u>	<u>1,485</u>	<u>2,399</u>	<u>903</u>	<u>4,972</u>	<u>5,875</u>
Expenses							
Investment management fee	4	(129)	—	(129)	(117)	—	(117)
Other expenses	5	(273)	(1,252)	(1,525)	(237)	(719)	(956)
Finance costs	7	(496)	—	(496)	(426)	—	(426)
		<u>(898)</u>	<u>(1,252)</u>	<u>(2,150)</u>	<u>(780)</u>	<u>(719)</u>	<u>(1,499)</u>
Profit before tax		16	233	249	123	4,253	4,376
Taxation	8	15	(46)	(31)	(75)	(37)	(112)
Profit for the year		<u>31</u>	<u>187</u>	<u>218</u>	<u>48</u>	<u>4,216</u>	<u>4,264</u>
Earnings per ordinary share							
Basic - ordinary shares	10	<u>0.26p</u>	<u>1.56p</u>	<u>1.82p</u>	<u>0.40p</u>	<u>35.08p</u>	<u>35.48p</u>
Diluted - ordinary shares*		<u>1.71p</u>	<u>1.03p</u>	<u>2.74p</u>	<u>1.10p</u>	<u>23.12p</u>	<u>24.22p</u>

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The revenue return and capital return columns are supplementary to this and are prepared under the guidance published by the Association of Investment Trust Companies. All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of Stocks Convertible Trust plc. There are no minority interests.

* Where the earnings per ordinary share are anti-dilutive (2006: revenue and total earnings, 2005: revenue earnings), they are shown above for completeness only.

The notes on pages 26 to 47 form part of these accounts.

STOCKS CONVERTIBLE TRUST PLC

Consolidated and Company Statements of Changes in Equity for the year ended 31 May 2006

	Group Year ended 31 May 2005 Restated (see note 23)							
	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	CULS reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
	At 31 May 2004	3,003	2,518	500	566	7,112	2,649	(1,398)
Profit for the period	—	—	—	—	1,835	2,381	48	4,264
Ordinary dividend paid (see note 9)	—	—	—	—	—	—	(120)	(120)
Transfer to retained earnings (see note 1 (l))	—	—	—	(173)	—	—	173	—
Conversion of 2007 Loan Stock	1	1	—	—	—	—	—	2
At 31 May 2005	<u>3,004</u>	<u>2,519</u>	<u>500</u>	<u>393</u>	<u>8,947</u>	<u>5,030</u>	<u>(1,297)</u>	<u>19,096</u>

	Group Year ended 31 May 2006							
	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	CULS reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
	At 31 May 2005	3,004	2,519	500	393	8,947	5,030	(1,297)
Profit for the period	—	—	—	—	1,266	(1,079)	31	218
Ordinary dividend paid (see note 9)	—	—	—	—	—	—	(180)	(180)
Transfer to retained earnings (see note 1 (l))	—	—	—	(185)	—	—	185	—
Conversion of 2007 Loan Stock	1	3	—	—	—	—	—	4
At 31 May 2006	<u>3,005</u>	<u>2,522</u>	<u>500</u>	<u>208</u>	<u>10,213</u>	<u>3,951</u>	<u>(1,261)</u>	<u>19,138</u>

	Company Year ended 31 May 2005 Restated (see note 23)							
	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	CULS reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
	At 31 May 2004	3,003	2,518	500	566	7,112	335	866
Profit for the period	—	—	—	—	1,835	2,381	26	4,242
Ordinary dividend paid (see note 9)	—	—	—	—	—	—	(120)	(120)
Transfer to retained earnings (see note 1 (l))	—	—	—	(173)	—	—	173	—
Conversion of 2007 Loan Stock	1	1	—	—	—	—	—	2
At 31 May 2005	<u>3,004</u>	<u>2,519</u>	<u>500</u>	<u>393</u>	<u>8,947</u>	<u>2,716</u>	<u>945</u>	<u>19,024</u>

	Company Year ended 31 May 2006							
	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	CULS reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
	At 31 May 2005	3,004	2,519	500	393	8,947	2,716	945
Profit for the period	—	—	—	—	1,266	(1,079)	31	218
Ordinary dividend paid (see note 9)	—	—	—	—	—	—	(180)	(180)
Transfer to retained earnings (see note 1 (l))	—	—	—	(185)	—	—	185	—
Conversion of 2007 Loan Stock	1	3	—	—	—	—	—	4
At 31 May 2006	<u>3,005</u>	<u>2,522</u>	<u>500</u>	<u>208</u>	<u>10,213</u>	<u>1,637</u>	<u>981</u>	<u>19,066</u>

The notes on pages 26 to 47 form part of these accounts.

STOCKS CONVERTIBLE TRUST PLC

Consolidated Balance Sheet as at 31 May 2006

	Notes	2006 £'000	2005 Restated (see note 23) £'000
Non current assets			
Investments held at fair value through profit or loss	11	<u>25,700</u>	<u>24,688</u>
Current assets			
Investments held at fair value through profit or loss		2	2
Derivatives held at fair value through profit or loss		1,271	856
Forward currency contracts held at fair value through profit or loss		3,499	—
Other receivables	12	90	738
Cash and cash equivalents		<u>575</u>	<u>482</u>
		<u>5,437</u>	<u>2,078</u>
Total assets		<u>31,137</u>	<u>26,766</u>
Current liabilities			
Derivatives held at fair value through profit or loss		(446)	(323)
Forward currency contracts held at fair value through profit of loss		(3,470)	—
Corporation tax payable		(16)	(94)
Other payables	13	(126)	(69)
Bank overdrafts and loans		<u>(2,070)</u>	<u>(1,494)</u>
		<u>(6,128)</u>	<u>(1,980)</u>
Total assets less current liabilities		<u>25,009</u>	<u>24,786</u>
Non current liabilities			
Convertible Loan Stock 2007	14	<u>(5,871)</u>	<u>(5,690)</u>
Net assets		<u>19,138</u>	<u>19,096</u>
Equity attributable to equity shareholders			
Ordinary share capital	15	3,005	3,004
Share premium		2,522	2,519
Capital redemption reserve		500	500
Equity component of Convertible Loan Stock 2007		208	393
Capital reserve - realised		10,213	8,947
Capital reserve - unrealised		3,951	5,030
Revenue reserve		<u>(1,261)</u>	<u>(1,297)</u>
Total equity		<u>19,138</u>	<u>19,096</u>
Net asset value per ordinary share:			
– Basic	16	<u>159.23p</u>	<u>158.93p</u>
– Diluted		<u>137.19p</u>	<u>135.96p</u>

The Financial Statements on pages 21 to 47 were approved by the Board of Directors on 18 September 2006 and were signed on its behalf by:

Anthony Bushell – Chairman

The notes on pages 26 to 47 form part of these Financial Statements.

STOCKS CONVERTIBLE TRUST PLC

Company Balance Sheet as at 31 May 2006

	Notes	2006 £'000	2005 Restated (see note 23) £'000
Non current assets			
Investments held at fair value through profit or loss	11	<u>25,702</u>	<u>24,690</u>
Current assets			
Derivatives held at fair value through profit or loss		1,271	856
Forward currency contracts held at fair value through profit or loss		3,499	—
Other receivables	12	90	738
Cash and cash equivalents		<u>575</u>	<u>482</u>
		<u>5,435</u>	<u>2,076</u>
Total assets		<u>31,137</u>	<u>26,766</u>
Current liabilities			
Derivatives held at fair value through profit or loss		(446)	(323)
Forward currency contracts held at fair value through profit or loss		(3,470)	—
Corporation tax payable		(16)	(94)
Other payables	13	(198)	(141)
Bank overdrafts and loans		<u>(2,070)</u>	<u>(1,494)</u>
		<u>(6,200)</u>	<u>(2,052)</u>
Total assets less current liabilities		<u>24,937</u>	<u>24,714</u>
Non current liabilities			
Convertible Loan Stock 2007	14	<u>(5,871)</u>	<u>(5,690)</u>
Net assets		<u>19,066</u>	<u>19,024</u>
Equity attributable to equity shareholders			
Ordinary share capital	15	3,005	3,004
Share premium		2,522	2,519
Capital redemption reserve		500	500
Equity component of Convertible Loan Stock 2007		208	393
Capital reserve - realised		10,213	8,947
Capital reserve - unrealised		1,637	2,716
Revenue reserve		981	945
Total equity		<u>19,066</u>	<u>19,024</u>

The Financial Statements on pages 21 to 47 were approved by the Board of Directors on 18 September 2006 and were signed on its behalf by:

Anthony Bushell – Chairman

The notes on pages 26 to 47 form part of these Financial Statements.

STOCKS CONVERTIBLE TRUST PLC

Consolidated and Company Cash Flow Statements for the year ended 31 May 2006

		Group and Company 2006	Group 2005 Restated (see note 23)	Company 2005 Restated (see note 23)
	Notes	£'000	£'000	£'000
Net cash outflow from operating activities		<u>(761)</u>	<u>(850)</u>	<u>(850)</u>
Investing activities				
Purchases of investments		(5,617)	(9,594)	(9,594)
Sales of investments		5,978	5,802	5,802
Net cash inflow/(outflow) from investing activities		<u>361</u>	<u>(3,792)</u>	<u>(3,792)</u>
Net cash outflow before financing		(400)	(4,642)	(4,642)
Net cash inflow from financing activities	17(a)	<u>1,027</u>	<u>827</u>	<u>827</u>
Increase/(decrease) in cash and cash equivalents		627	(3,815)	(3,815)
Exchange movements		<u>(2)</u>	<u>(16)</u>	<u>(16)</u>
Change in cash and cash equivalents		625	(3,831)	(3,831)
Cash and cash equivalents at beginning of year		<u>(50)</u>	<u>3,781</u>	<u>3,781</u>
Cash and cash equivalents at end of year	17(b)	<u><u>575</u></u>	<u><u>(50)</u></u>	<u><u>(50)</u></u>
Reconciliation of profit before taxation to net cash outflow from operating activities				
Profit before taxation		249	4,376	4,354
Gains on investments held at fair value		(745)	(4,720)	(4,720)
Exchange differences		(97)	31	31
Increase in other debtors		(3,926)	(813)	(813)
Decrease in accrued income		31	46	46
Increase in creditors		3,650	250	272
Taxation		(108)	(193)	(193)
Notional interest charge CULS 2007	1(l)	<u>185</u>	<u>173</u>	<u>173</u>
Net cash outflow from operating activities		<u><u>(761)</u></u>	<u><u>(850)</u></u>	<u><u>(850)</u></u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements

1 Accounting policies

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in notes 22 and 23 on pages 43 to 47.

The functional currency of the Group is pounds sterling because this is the currency of the primary economic environment in which the Group operates. The financial statements are also presented in pounds sterling.

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Trust Companies ("the AITC") in January 2003 (revised in December 2005) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

(b) Basis of consolidation

The Group accounts consolidate the accounts of the Company and its wholly-owned subsidiary undertaking, Stocks Convertible Limited.

(c) Presentation of Income Statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AITC, supplementary information which analyses the Income Statement between items of revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 842 of the Income and Corporation Taxes Act 1988.

(d) Income

Dividends receivable on equity shares are recognised as revenue for the period on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received. The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares. Interest receivable from cash and short-term deposits is accrued to the end of the year. Underwriting commission is recognised as earned. Special dividends are taken to capital unless there is sufficient information available to determine otherwise.

(e) Expenses

All expenses and interest payable are accounted for on an accruals basis. Expenses have been treated as revenue except as follows:

- transaction costs incurred on the acquisition or disposal of investments are expensed and included in gains on investments;
- expenses are presented as capital where a connection with the maintenance or enhancement of the value of investments can be demonstrated;
- any performance fees payable are allocated wholly to the capital.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

1 Accounting policies (continued)

(f) Taxation

The tax charged is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Income Statement, then no tax relief is transferred to the capital return column.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with within equity.

(g) Investments held at fair value through profit or loss

When a purchase or sale is made under a contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All the Group's and Company's investments are defined by IFRS as investments designated at fair value through profit or loss but are also described in these financial statements as investments held at fair value.

All investments are designated upon initial recognition as held at fair value, and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

Fair values for unquoted investments, or for investments for which there is only an inactive market, are established by using various valuation techniques. These may include recent arm's length market transactions, the current fair value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised. Where no reliable fair value can be estimated for such instruments, they are carried at cost, subject to any provision for impairment.

Investments held by the subsidiary undertaking are classified as "held for trading" and are valued at fair value in accordance with the policies above for listed and unlisted holdings. Profits or losses on investments "held for trading" are taken to revenue.

(h) Movements in fair value

Changes in fair value to all investments held at fair value are recognised in the Income Statement. On disposal, realised gains and losses are also recognised in the Income Statement.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

1 Accounting policies (continued)

(i) Cash and cash equivalents

Cash comprises cash in hand and in banks and short-term deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

(j) Dividends payable

Final dividends are recognised in the period in which they are approved by shareholders.

(k) Foreign currency translation

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rate ruling on the balance sheet date. Foreign exchange differences arising on translation are recognised in the Income Statement.

(l) Convertible Loan Stock 2007

Convertible loan stock issued by the Company is regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan stock and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan stock based on their relative carrying amounts at the date of issue. The proportion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan stock. As the change to the liability becomes fully reflected in the accounts as a realised loss by virtue of the additional interest charge, then the portion of the proceeds initially credited directly to equity becomes a profit for legal purposes to the same extent therefore offsets the loss arising through the higher effect of the interest charge.

(m) Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in market prices, foreign currency exchange rates and interest rates. Derivative transactions which the Group may enter into comprise forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Group's investing activities) and quoted options on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings). The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies as approved by the Board.

Changes in the fair value of derivative financial instruments are recognised in the Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Income Statement.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

2	Investment Income	2006	2005
		£'000	£'000
	Overseas investment income	805	641
	UK investment income	64	19
	Overseas fixed interest income	171	105
	UK fixed interest income	99	194
		<u>1,139</u>	<u>959</u>
	Investment income comprises		
	Dividends - income	609	536
	Special dividends - capital	260	124
	Interest	270	299
		<u>1,139</u>	<u>959</u>
3	Other income	2006	2005
		£'000	£'000
	Deposit interest	14	36
	Underwriting income	21	32
		<u>35</u>	<u>68</u>
4	Investment management fees	2006	2005
		£'000	£'000
	Investment management fee	129	117
		<u>129</u>	<u>117</u>
	Details of the investment management agreement are disclosed in note 6 to the Financial Statements.		
5	Other expenses	2006	2005
			Restated
			(see note 23)
		£'000	£'000
	Administration fee	74	70
	Directors' emoluments	50	50
	Auditor's remuneration for:		
	– audit	21	19
	– other services to the Group	6	5
	Other	122	93
		<u>273</u>	<u>237</u>
	Transaction charges - capital	1	2
	Legal fees - capital (see note 19)	1,251	717
		<u>1,525</u>	<u>956</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

6 Disclosure of interests

In accordance with the terms of the previous investment management agreement dated 28 February 1996 (as amended) between the Company and Ingot Capital Management Pty Ltd (“Ingot”), Ingot provided investment management services to the Company for which Ingot received an annual fee of 0.5 per cent. of gross assets less current liabilities (excluding borrowings and the Convertible Loan Stock) of the Company and a performance fee equal to 15 per cent. of the amount by which the net asset value of the Company at the end of any accounting period, after adding back any distributions made by the Company during the relevant accounting period, exceeds the total return on the Company’s benchmark index (which is temporarily the ASX Small Ordinaries Index) plus two percentage points, subject to a high water mark. No performance fee is payable in respect of the year ended 31 May 2006 (2005: Nil). The amounts charged during the year are shown in note 4 and as at 31 May 2006 £53,000 (2005: £10,000) of the investment management fee was outstanding. This agreement has now been replaced by a new investment management agreement dated 15 September 2006 between the Company and Ingot, 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 £80,000 (2005: £70,000). This agreement is terminable by either party on three months’ notice.

7 Finance costs

	2006 £’000	2005 Restated £’000
On Bank loans and overdrafts	95	37
Convertible Subordinated Unsecured Loan Stock 2007	401	389
	<u>496</u>	<u>426</u>

8 Taxation

(a) Analysis of the charge for the year

	Revenue £’000	2006 Capital £’000	Total £’000	Revenue £’000	2005 Capital £’000	Total £’000
UK Corporation tax at 19% (2005: 30%)	—	40	40	75	37	112
Overseas tax - double tax relief	(11)	(13)	(24)	(10)	(8)	(18)
	<u>(11)</u>	<u>27</u>	<u>16</u>	<u>65</u>	<u>29</u>	<u>94</u>
Overseas tax suffered	12	13	25	10	8	18
Tax relief on expenses charged to income	(9)	9	—	—	—	—
Withholding tax reclaims	(1)	—	(1)	—	—	—
Tax charge in respect of the current year	<u>(9)</u>	<u>49</u>	<u>40</u>	<u>75</u>	<u>37</u>	<u>112</u>
Prior year adjustment	(6)	(3)	(9)	—	—	—
Total current tax for the year (see note 8 (b))	<u>(15)</u>	<u>46</u>	<u>31</u>	<u>75</u>	<u>37</u>	<u>112</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

8 Taxation continued

(b) Factors affecting the current tax charge for the year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK for a large company (30%). The difference is explained below.

	2006 £'000	2005 £'000
Profit before taxation	249	4,376
Corporation tax at 30%	75	1,313
Effects of:		
– UK dividends which are not taxable	(19)	(6)
– Marginal rate relief	(23)	—
– Utilisation of tax losses	—	(6)
– Non taxable gains on investments held at fair value through profit or loss	(368)	(1,454)
– Disallowed expenses	375	265
– Prior year adjustment	(9)	—
Current tax charge for the year	<u>31</u>	<u>112</u>

(c) Deferred tax

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

9 Dividends

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 May 2005 of 1.50p (2004: 1.00p) per ordinary share	<u>180</u>	<u>120</u>

Set out below is the final dividend proposed on ordinary shares in respect of the financial year, which is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered.

	2006 £'000	2005 £'000
Proposed final dividend for the year ended 31 May 2006 of 1.50p (2005: 1.50p) per ordinary share	<u>180</u>	<u>180</u>

International Accounting Standard (IAS) 10 "Events after the Balance Sheet date" does not permit proposed dividends to be included in the profit or loss account, with the corresponding liability in the balance sheet. Dividend distributions are now recognised as a liability in the period which they are approved by the Company's shareholders.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

10 Earnings per ordinary share

(i) Basic earnings

The basic earnings per ordinary share figure is based on the net profit for the year of £218,000 (year ended 31 May 2005: £4,264,000, as restated in note 23) and on 12,016,911 ordinary shares (year ended 31 May 2005: 12,013,923), being the weighted average number of ordinary shares in issue during the year.

The basic earnings per ordinary share figures detailed above can be further analysed between revenue and capital, as below.

Revenue earnings:

The revenue earnings per ordinary share figure is based on the net profit for the year of £31,000 (year ended 31 May 2005: £48,000, as restated in note 23) and on 12,016,911 ordinary shares (year ended 31 May 2005: 12,013,923), being the weighted average number of ordinary shares in issue during the year.

Capital earnings:

The capital earnings per ordinary share figure is based on the net profit for the year of £187,000 (year ended 31 May 2005: £4,216,000, as restated in note 23) and on 12,016,911 ordinary shares (year ended 31 May 2005: 12,013,923), being the weighted average number of ordinary shares in issue during the year.

(ii) Diluted earnings

The diluted earnings per ordinary share 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 (year ended 31 May 2005: 18,229,504) and based on net profit for the year of £499,000 (year ended 31 May 2005: £4,416,000). The anti-dilutive earnings per ordinary share of 2.74p (2005: diluted 24.22p) includes the savings of finance costs on the loan stock after taxation.

The diluted earnings per ordinary share figures detailed above can be further analysed between revenue and capital, as below.

Diluted revenue earnings:

The diluted revenue earnings per ordinary share 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 (year ended 31 May 2005: 18,229,504) and based on net revenue earnings on ordinary activities after taxation of £312,000 (year ended 31 May 2005: £200,000). The anti-dilutive revenue earnings per ordinary share of 1.71p (2005: anti-dilutive 1.10p) includes the savings of finance costs on the loan stock after taxation.

Diluted capital earnings:

The diluted capital earnings per ordinary share 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 (year ended 31 May 2005: 18,229,504) and based on net capital earnings on ordinary activities after taxation of £187,000 (year ended 31 May 2005: £4,216,000).

Net profit of the Company

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own Income Statement. Net profit after taxation of £218,000 has been dealt with in the accounts of the Company (year ended 2005: £4,242,000).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

11 Investments held at fair value through profit or loss

Group

	Unlisted Investments £'000	Listed Investments £'000	Total 2006 £'000
Fair value at year end	836	24,864	25,700
Opening book cost	3,942	15,576	19,518
Opening unrealised (depreciation)/appreciation	(3,036)	8,206	5,170
Opening fair value (restated - see note 23)	906	23,782	24,688
Movements in the year:			
Purchases at cost	—	5,615	5,615
Sales – proceeds	—	(5,348)	(5,348)
– realised(losses)/gains on sales	(7)	1,737	1,730
Increase in unrealised depreciation	(63)	(922)	(985)
Closing fair value	836	24,864	25,700
Closing book cost	3,935	17,580	21,515
Closing unrealised (depreciation)/appreciation	(3,099)	7,284	4,185
	836	24,864	25,700
Sale proceeds	—	5,348	5,348
Investments at cost	(7)	(3,611)	(3,618)
Realised (losses)/gains on sales based on historical cost	(7)	1,737	1,730
Less gains recognised as unrealised in previous year	(2)	(860)	(862)
Realised (losses)/gains on sales based on carrying value at previous year's balance sheet date	(9)	877	868
Unrealised depreciation for the year	(61)	(62)	(123)
Net (losses)/gains per the Income Statement	(70)	815	745

Investment transaction costs on purchases and sales of investments during the year to 31 May 2006 amounted to £29,000 and £16,000 respectively (2005: £30,000 and £20,000 respectively).

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 2006 (2005: nil).

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

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

12 Other receivables

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Sales for future settlement	—	—	630	630
Prepayments and accrued income	45	45	104	104
Other debtors	45	45	4	4
	<u>90</u>	<u>90</u>	<u>738</u>	<u>738</u>

13 Other payables

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Purchases for future settlement	—	—	2	2
Amounts due to subsidiary undertaking	—	72	—	72
Accruals and deferred income	126	126	67	67
	<u>126</u>	<u>198</u>	<u>69</u>	<u>141</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

14 Non current liabilities: Convertible Subordinated Unsecured Loan Stock 2007

	2006		2005	
	No. of units 000's	£'000	No. of units 000's	£'000
Convertible Subordinated Unsecured Loan Stock 2007			Restated (see note 23)	
Balance at beginning of year	6,863	5,690	6,865	5,519
Units converted during the year	(4)	(4)	(2)	(2)
Additional finance charge to the Income Statement (see note 1 (I))	—	185	—	173
Balance at end of year	<u>6,859</u>	<u>5,871</u>	<u>6,863</u>	<u>5,690</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 7 November 2005 4,660 units of loan stock (3 November 2004: 1,910) were converted into 4,219 ordinary shares (3 November 2004: 1,729).

Loan stock holders have a further opportunity to convert on 31 October 2006.

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.

15 Called up share capital

	2006		2005	
	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	12,015	3,004	12,013	3,003
Conversion of 2007 Loan Stock units in year	4	1	2	1
Balance at end of year	<u>12,019</u>	<u>3,005</u>	<u>12,015</u>	<u>3,004</u>

On 7 November 2005 4,660 (3 November 2004: 1,910) Convertible Subordinated Unsecured Loan Stock 2007 units were converted into 4,219 (3 November 2004: 1,729) ordinary shares.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

16 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	
	Restated		Restated	
	(see note 23)		(see note 23)	
	2006	2005	2006	2005
	p	p	£'000	£'000
Ordinary shares (basic)	<u>159.23</u>	<u>158.93</u>	<u>19,138</u>	<u>19,096</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 (as restated - see note 23)	19,096
Profit for the year	218
Dividends paid in the year on ordinary shares (see note 9)	(180)
Conversion of 2007 Loan Stock	4
Total net assets attributable at end of year	<u>19,138</u>

Basic net asset value per ordinary share is based on net assets of £19,138,000 (2005: £19,096,000) (adjusted to reflect the deduction of the liability component of the Convertible Loan Stock) and on 12,018,876 (2005: 12,014,657) 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 137.19p (2005: 135.96p as restated - see note 23). This has been calculated on the assumption that the 2007 Loan Stock was converted at the rates described in note 14, giving 18,229,504 (2005: 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 £25,009,000 (2005: £24,786,000 as restated - see note 23).

17 Cash flow statement

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

	2006	2005
	£'000	£'000
Financing		
The Royal Bank of Scotland International multi-currency loan facility	1,108	962
Exchange movement	99	(15)
Equity dividend paid	(180)	(120)
Net cash inflow from financing activities	<u>1,027</u>	<u>827</u>

(b) Analysis of cash and cash equivalents at end of year

	At 1 June 2005	Cash Flow	Exchange movement	At 31 May 2006
	£'000	£'000	£'000	£'000
Cash at bank	482	88	5	575
Overdrafts	(532)	539	(7)	—
Total	<u>(50)</u>	<u>627</u>	<u>(2)</u>	<u>575</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

18 Fund 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 that arise directly from its operations.

The Company also enters into derivative transactions which comprise forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Company's investing activities) and quoted options on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings).

The Company, as stated in the Report of the Directors on page 10, 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 can represent more than 15% by value of the Company's portfolio of investments.

The Company, itself, does not generally 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. At the year end Stocks Convertible Limited held one investment, in New Cap Reinsurance Corporation.

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, see note 19.

The main risks arising from the Group's financial instruments are market price risk, which includes equity price changes, foreign currency risk, interest rate risk and liquidity risk. The Directors review and agree policies with the Investment Manager, Ingot Capital Management Pty Ltd, for managing these risks. The policies have remained unchanged since 1 June 2005.

The Company on occasions has large investments in the securities issued by individual companies. Details of these investments at 31 May 2006 are provided in the Review of Top Ten Holdings on pages 6 to 9.

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

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 is responsible for actively monitoring the portfolio and seeks to ensure that individual stocks meet an acceptable risk reward profile.

Currency risk

The value of the Company's assets and the total return earned by the Company's shareholders can be affected by exchange rate movements as the Company's assets and income are denominated primarily in Australian dollars and loan facilities in currencies other than sterling. The Company has hedged the foreign currency exchange movement of the Australian and New Zealand investments in the portfolio from time to time during the year by use of forward currency contracts. At the year end, there were two forward currency contracts open.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

18 Fund risk profile (continued)

Interest rate risk

The Company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board. The Company has a multi-currency loan facility with The Royal Bank of Scotland International to the sterling equivalent of up to £5 million at floating rates of interest. As at the year end, a sterling equivalent of £2,070,000 had been drawn down in various currencies, but principally in Australian dollars and US dollars. The facility expires on 31 December 2008.

Liquidity risk

The Company's investments mainly comprise listed equities and are for the most part readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdrafts and the multi-currency loan facility as required.

Currency exposures

Financial Assets

The Group's financial assets comprise equity investments, fixed interest securities, convertible securities, long option contracts, cash balances and short term trade receivables.

As at 31 May 2006 the Group's currency cash-flow profile of those financial assets were as follows:

	£'000 Sterling	£'000 A\$	£'000 NZ\$	£'000 US\$	£'000 Other	£'000 Total
Investment held at fair value through profit or loss	4,369	17,370	3,212	564	185	25,700
Investments	—	2	—	—	—	2
Derivatives held at fair value through profit or loss	—	101	—	610	560	1,271
Forward currency contracts held at value through profit or loss	3,499	—	—	—	—	3,499
Cash at bank	108	392	7	24	44	575
Debtors	48	41	—	1	—	90
	<u>8,024</u>	<u>17,906</u>	<u>3,219</u>	<u>1,199</u>	<u>789</u>	<u>31,137</u>

As at 31 May 2005 the Group's currency cash-flow profile of those financial assets were as follows (restated see note 23):

	£'000 Sterling	£'000 A\$	£'000 NZ\$	£'000 US\$	£'000 Other	£'000 Total
Investment held at fair value through profit or loss	5,302	17,688	1,645	53	—	24,688
Investments	—	2	—	—	—	2
Derivatives held at fair value through profit or loss	—	—	—	856	—	856
Cash at bank	1	—	4	477	—	482
Debtors	540	198	—	—	—	738
	<u>5,843</u>	<u>17,888</u>	<u>1,649</u>	<u>1,386</u>	<u>—</u>	<u>26,766</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

18 Fund risk profile (continued)

Currency exposures (continued)

Financial Liabilities

The Group's financial liabilities comprise of short option contracts, The Royal Bank of Scotland International (RBSI) multi-currency loan facility, the convertible loan stock and other short-term trade payables.

As at 31 May 2006 the Group's currency cash-flow profile of those financial liabilities were as follows:

	£'000 Sterling	£'000 A\$	£'000 NZ\$	£'000 US\$	£'000 Other	£'000 Total
Derivatives held at fair value through profit or loss	—	—	—	(54)	(392)	(446)
RBSI multi-currency loan facility	169	(1,274)	(193)	(561)	(211)	(2,070)
Convertible Subordinated						
Unsecured Loan Stock 2007	(5,871)	—	—	—	—	(5,871)
Forward currency contracts held at fair value through profit or loss	—	(1,954)	(1,516)	—	—	(3,470)
Creditors	(118)	(17)	(1)	(5)	(1)	(142)
	<u>(5,820)</u>	<u>(3,245)</u>	<u>(1,710)</u>	<u>(620)</u>	<u>(604)</u>	<u>(11,999)</u>

As at 31 May 2005 the Group's currency cash-flow profile of those financial liabilities were as follows (restated see note 23):

	£'000 Sterling	£'000 A\$	£'000 NZ\$	£'000 US\$	£'000 Other	£'000 Total
Derivatives held at fair value through profit or loss	—	—	—	(323)	—	(323)
RBSI multi-currency loan facility	—	(962)	—	—	—	(962)
Overdrafts	(99)	(161)	—	(272)	—	(532)
Convertible Subordinated						
Unsecured Loan Stock 2007	(5,690)	—	—	—	—	(5,690)
Creditors	(149)	(14)	—	—	—	(163)
	<u>(5,938)</u>	<u>(1,137)</u>	<u>—</u>	<u>(595)</u>	<u>—</u>	<u>(7,670)</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

18 Fund risk profile (continued)

Interest rate risk profile of financial assets and financial liabilities

As at 31 May 2006, the carrying amount, by the earlier of contractual re-pricing or maturity date, of the Group's financial instruments was as follows:

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 3 years but not more than 4 years £'000	In more than 4 years but not more than 5 years £'000	Total £'000
Fair value interest rate risk						
Financial assets at fair value through profit or loss						
– Non-current assets	774	99	564	3,178	59	4,674

The effective interest rate of financial assets at fair value in less than one year is 10.87%, in 1 to 2 years is 6.68%, in 2 to 3 years is 0.71%, in 3 to 4 years is 3.58% and in 4 to 5 years is 6.25%.

The effective interest rate of financial liabilities in less than one year is 7.00%, and in 2 to 3 years is 7.56%.

Cash flow interest rate risk

Loans and receivables						
– Cash at bank	492	—	—	—	—	492
Financial liabilities						
– Multi-currency loan facility Convertible Subordinated Unsecured Loan Stock 2007	(5,871)	—	(2,070)	—	—	(5,871)

No interest rate risk

Financial assets at fair value through profit or loss						
– Non-current assets	21,026	—	—	—	—	21,026
– Investments	2	—	—	—	—	2
– Derivatives held at fair value through profit or loss	1,271	—	—	—	—	1,271
Loans and receivables						
– Cash at bank	83	—	—	—	—	83
– Forward currency contracts at fair value through profit or loss	3,499	—	—	—	—	3,499
– Debtors	55	—	—	—	—	55
– Derivatives held at fair value through profit or loss	(446)	—	—	—	—	(446)
– Forward currency contracts at fair value through profit or loss	(3,470)	—	—	—	—	(3,470)
Other financial liabilities						
– Creditors	(126)	—	—	—	—	(126)

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

18 Fund risk profile (continued)

Interest rate risk profile of financial assets and financial liabilities continued

As at 31 May 2005, the carrying amount, by the earlier of contractual re-pricing or maturity date, of the Group's financial instruments was as follows (restated see note 23):

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 4 years but not more than 5 years £'000	In more than 5 years but not more than 6 years £'000	Total £'000
Fair value interest rate risk						
Financial assets at fair value through profit or loss						
– Non-current assets	—	1,007	98	3,799	264	5,168

The effective interest rate of financial assets at fair value in 1 to 2 years is 8.62%, in 2 to 3 years is 6.96%, in 4 to 5 years is 5.85% and in 5 to 6 years is 6.98%.

The effective interest rate of financial liabilities in less than one year is 7.05%, and in 2 to 3 years is 7.75%.

Cash flow interest rate risk

Loans and receivables

– Cash at bank	5	—	—	—	—	5
Financial liabilities						
– Multi-currency loan facility	—	—	(962)	—	—	(962)
– Convertible Subordinated Unsecured Loan Stock 2007	(5,690)	—	—	—	—	(5,690)
– Overdrafts	(260)	—	—	—	—	(260)

No interest rate risk

Financial assets at fair value through profit or loss

– Non-current assets	19,520	—	—	—	—	19,520
– Investments	2	—	—	—	—	2
Derivatives held at fair value through profit or loss						
– Derivatives held at fair value through profit or loss	856	—	—	—	—	856
Loans and receivables						
– Cash at bank	477	—	—	—	—	477
– Debtors	716	—	—	—	—	716
Derivatives held at fair value through profit or loss						
– Derivatives held at fair value through profit or loss	(323)	—	—	—	—	(323)
Other financial liabilities						
– Overdrafts	(272)	—	—	—	—	(272)
– Creditors	(69)	—	—	—	—	(69)

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

18 Fund risk profile (continued)

Borrowing facilities

On 21 February 2005 the Company entered into a multi-currency loan facility with The Royal Bank of Scotland International to the sterling equivalent of up to £1 million. On 14 February 2006 the Company entered into a new multi-currency loan facility with The Royal Bank of Scotland International to the sterling equivalent of up to £5 million. This loan facility is secured against the assets of the fund other than those assets held by HSBC Australia as disclosed in note 19 below. As at the year end a sterling equivalent of £2,070,000 has been drawn down. This facility expires on 31 December 2008.

The Group also has an overdraft facility at the Bank of Scotland of up to £150,000. This facility expires on 31 March 2007 and the Board will review the renewal of this facility for a further year prior to expiry.

Derivative transactions

As at 31 May 2006, there were two open forward foreign exchange contracts reducing the exposure of the Australian dollar and New Zealand dollar investments to the value of A\$4,862,000 and NZ\$4,500,000 against sterling of £2,000,000 and £1,499,000 for value 28 June 2006 and 29 August 2006 respectively.

The Company also had various long and short Put and Call Options outstanding in the S&P500 Index and Nikkei 225 Index with varying maturity dates between 9 June 2006 and 22 December 2007. The Company also had a long Put Option in Gold Eurostyle with a maturity date of 31 March 2008.

The option premiums paid on the purchase of these long position contracts was £1,323,000 and their market value as at 31 May 2006 was £1,271,000.

The option premiums received on the sale of these short position contracts was £235,000 and their market value as at 31 May 2006 was £(446,000).

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:

	2006		2005	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Primary financial instruments				
Short-term loans and overdrafts	—	—	(532)	(532)
Multi-currency loan facility	(2,070)	(2,070)	(962)	(962)
Convertible Subordinated Unsecured				
Loan Stock 2007	(5,871)	(9,191)	(5,690)	(8,854)
Equity investments	18,067	18,067	17,954	17,954
Non-equity investments	7,635	7,635	6,736	6,736
Derivatives-long option contracts	1,271	1,271	856	856
Derivatives-short option contracts	(446)	(446)	(323)	(323)
Cash	575	575	482	482

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

19 Contingent liabilities

As at 31 May 2006 there were no contingent liabilities or financial commitments. (31 May 2005: none).

Guarantee

The Company has established Bank Guarantees to the plaintiffs and investments with a market value of A\$18,742,000 (sterling equivalent £7,548,000) as at 31 May 2006 (2005: A\$16,310,000, sterling equivalent £6,782,000) 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 Corporation.

Included within other expenses are legal fees of £1,251,000 (2005: £717,000) in connection with a claim for damages related to the Company's investment in New Cap Reinsurance Corporation. The investment is carried in the Company's accounts at a negligible value.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

20	Total expense ratios	2006	2005
	Total assets	1.56%	1.51%
	Shareholders' funds	2.05%	2.04%

The above total expense ratios are based on average total assets of £25,696,000 (2005: £23,485,000) and average shareholders funds of £19,567,000 (2005: £17,336,000) calculated at the end of each month during the period and revenue operating expenses incurred during the year of £402,000 (2005: £354,000).

21 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 6 to the Financial Statements. Full details of Director's interests are set out in the Report of the Directors on pages 10 and 11.

22 Restatement of opening balances as at 31 May 2004

At 1 June 2005 the Company adopted International Financial Reporting Standards. In accordance with IFRS 1, (First Time Adoption of International Financial Reporting Standards) the following is a reconciliation of the results as at and for the year ended 31 May 2004 previously reported under the applicable UK Accounting Standards and with the SORP, to the restated IFRS results.

Group		Previously reported 31 May 2004 £'000	Effect of transition to IFRS £'000	Restated 31 May 2004 £'000
	Notes			
Investments	1	16,877	(216)	16,661
Current assets	1	4,041	44	4,085
Creditors: amounts falling due within one year	1,2	(393)	116	(277)
Total assets less current liabilities		20,525	(56)	20,469
Creditors: amounts falling due after more than one year	3	(6,148)	629	(5,519)
		<u>14,377</u>	<u>573</u>	<u>14,950</u>
Capital and reserves				
Called up ordinary share capital		3,003	—	3,003
Share premium		2,518	—	2,518
Capital redemption reserve		500	—	500
Equity component of Convertible Loan Stock 2007	3	—	566	566
Capital reserve - realised		7,112	—	7,112
Capital reserve - unrealised	1	2,825	(176)	2,649
Revenue reserve	2,3	(1,581)	183	(1,398)
		<u>14,377</u>	<u>573</u>	<u>14,950</u>
Net asset value per ordinary share - Basic		119.68p	4.78p	124.46p
Net asset value per ordinary share - diluted		112.59p	(0.30)p	112.29p

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

22 Restatement of opening balances as at 31 May 2004 (continued)

Company

		Previously reported 31 May 2004 £'000	Effect of transition to IFRS £'000	Restated 31 May 2004 £'000
Investments	Notes 1	16,879	(216)	16,663
Current assets	1	4,039	44	4,083
Creditors: amounts falling due within one year	1,2	(443)	116	(327)
Total assets less current liabilities		20,475	(56)	20,419
Creditors: amounts falling due after more than one year	3	(6,148)	629	(5,519)
		<u>14,327</u>	<u>573</u>	<u>14,900</u>
Capital and reserves				
Called up ordinary share capital		3,003	—	3,003
Share premium		2,518	—	2,518
Capital redemption reserve		500	—	500
Equity component of Convertible Loan Stock 2007	3	—	566	566
Capital reserve - realised		7,112	—	7,112
Capital reserve - unrealised	1	511	(176)	335
Revenue reserve	2,3	683	183	866
		<u>14,327</u>	<u>573</u>	<u>14,900</u>
Net asset value per ordinary share - Basic		119.26p	4.78p	124.04p
Net asset value per ordinary share - Diluted		112.31p	(0.30)p	112.01p

Notes to the reconciliation

- Investments (excluding S&P 500 Index Put Options) are designated as held at fair value under IFRS and are carried at bid prices which total their fair value of £16,661,000 for the Group and £16,663,000 for the Company. Previously under UK GAAP they were carried at mid prices. The aggregate differences, being a revaluation downwards of £176,000, also decreased capital reserve - unrealised. The S&P 500 Index Put Options have been designated as held at fair value through profit or loss. The unrealised gain of £44,000 on the long position has been re-analysed under current assets, previously analysed as an asset within investments. The unrealised loss of £4,000 on the short position has been re-analysed under creditors: amounts falling due within one year, previously analysed as a liability within Investments.
- No provision has been made for the final dividend on the ordinary shares for the year ended 31 May 2004 of £120,000. Under IFRS, the final dividend is not recognised until approved by the shareholders.
- Under IFRS and in accordance with accounting policy 1(l) the convertible loan stock is treated as a compound instrument. £5,519,000 represents the liability component and £566,000 represents the equity component as at the year end 31 May 2004. Issue costs previously charged to revenue reserve of £63,000 have been apportioned between the liability and equity components of the convertible loan stock.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 (a) Restatement of opening balances as at 31 May 2005

At 1 June 2005 the Company adopted International Financial Reporting Standards. In accordance with IFRS 1, (First Time Adoption of International Financial Reporting Standards) the following is a reconciliation of the results as at and for the year ended 31 May 2005 previously reported under the applicable UK Accounting Standards and with the SORP, to the restated IFRS results.

Group		Previously reported 31 May 2005 £'000	Effect of transition to IFRS £'000	Restated 31 May 2005 £'000
	Notes			
Investments	1	25,369	(681)	24,688
Current assets	1	1,222	856	2,078
Creditors: amounts falling due within one year	1,2	(1,837)	(143)	(1,980)
Total assets less current liabilities		<u>24,754</u>	<u>32</u>	<u>24,786</u>
Creditors: amounts falling due after more than one year	3	(6,153)	463	(5,690)
		<u>18,601</u>	<u>495</u>	<u>19,096</u>
Capital and reserves				
Called up ordinary share capital		3,004	—	3,004
Share premium		2,519	—	2,519
Capital redemption reserve		500	—	500
Equity component of Convertible Loan Stock 2007	3	—	393	393
Capital reserve - realised		8,947	—	8,947
Capital reserve - unrealised	1	5,178	(148)	5,030
Revenue reserve	2,3	(1,547)	250	(1,297)
		<u>18,601</u>	<u>495</u>	<u>19,096</u>
Net asset value per ordinary share - Basic		154.82p	4.11p	158.93p
Net asset value per ordinary share - Diluted		135.79p	0.17p	135.96p

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 (a) Restatement of opening balances as at 31 May 2005 (continued)

Company		Previously reported 31 May 2005 £'000	Effect of transition to IFRS £'000	Restated 31 May 2005 £'000
	Notes			
Investments	1	25,371	(681)	24,690
Current assets	1	1,220	856	2,076
Creditors: amounts falling due within one year	1,2	(1,909)	(143)	(2,052)
Total assets less current liabilities		24,682	32	24,714
Creditors: amounts falling due after more than one year	3	(6,153)	463	(5,690)
		<u>18,529</u>	<u>495</u>	<u>19,024</u>
Capital and reserves				
Called up ordinary share capital		3,004	—	3,004
Share premium		2,519	—	2,519
Capital redemption reserve		500	—	500
Equity component of Convertible Loan Stock 2007	3	—	393	393
Capital reserve - realised		8,947	—	8,947
Capital reserve - unrealised	1	2,864	(148)	2,716
Revenue reserve	2,3	695	250	945
		<u>18,529</u>	<u>495</u>	<u>19,024</u>
Net asset value per ordinary share - Basic		154.22p	4.11p	158.33p
Net asset value per ordinary share - Diluted		135.39p	0.17p	135.56p

Notes to the reconciliation

- Investments (excluding S&P 500 Index Put Options) are designated as held at fair value under IFRS and are carried at bid prices which total their fair value of £24,688,000 for the Group and £24,690,000 for the Company. Previously, under UK GAAP, they were carried at mid prices. The aggregate differences, being a revaluation downwards of £148,000, also decreased capital reserve - unrealised. The S&P 500 Index Put Options have been designated as held at fair value through profit or loss. The unrealised gain of £856,000 on the long position has been re-analysed under current assets, previously analysed as an asset within Investments. The unrealised loss of £323,000 on the short position has been re-analysed under creditors: amounts falling due within one year, previously analysed as a liability within Investments.
- No provision has been made for the final dividend on the ordinary shares for the year ended 31 May 2005 of £180,000. Under IFRS, the final dividend is not recognised until approved by the shareholders.
- Under IFRS and in accordance with accounting policy 1(l) the convertible loan stock is treated as a compound instrument. £5,690,000 represents the liability component and £393,000 represents the equity component as at the year end 31 May 2005. Issue costs previously charged to revenue reserve of £70,000 have been apportioned between the liability and equity components of the convertible loan stock.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 (b) Reconciliation of the Statement of Total Return to the Income Statement for the year ended 31 May 2005

Under IFRS the Income Statement is the equivalent of the Statement of Total Return reported previously.

Group	Notes	£'000	Basic EPS impact pence	Fully-diluted EPS impact pence
Total transfer to reserves per the Statement of Total Return		4,222	—	—
Add back dividends paid and proposed	1	180	—	—
Investments held at fair value changed from mid to bid basis at 31 May 2004	2	176	1.46	0.96
Investments held at fair value changed from mid to bid basis at 31 May 2005	2	(148)	(1.24)	(0.81)
Effect of transition to IFRS on CULS 2007 (see note 1 (l))	3	(166)	(1.38)	(0.91)
Net profit per the Income Statement		<u>4,264</u>	<u>(1.16)</u>	<u>(0.76)</u>

Notes to the reconciliation

1. Ordinary dividends declared and paid during the period are dealt with through the Statement of Changes in Equity.
2. The portfolio valuations at 31 May 2004 and 31 May 2005 are required to be valued at fair value under IFRS. These values are lower than the previous valuations by £176,000 and £148,000 respectively.
3. Under IFRS and in accordance with accounting policy 1 (l) notional interest of £173,000 has been charged to the revenue reserve and issue costs previously charged to revenue reserve of £7,000 have been apportioned between the liability and equity components of the convertible loan stock.

(c) Reconciliation of the Cash Flow Statement for the year ended 31 May 2005

Group and Company

	Notes	Previously reported cash flows £'000	Effect of transition to IFRS £'000	Adjusted cash flows £'000
Net cash inflow / (outflow) from operating activities	1,2	540	(1,390)	(850)
Returns on investments and servicing of finance	1	(241)	241	—
Taxation	1	(193)	193	—
Net cash outflow from financial investment	2	(4,748)	956	(3,792)
Equity dividends paid	3	(120)	120	—
Net cash outflow before financing		<u>(4,762)</u>	<u>120</u>	<u>(4,642)</u>
Financing	3	947	(120)	827
Decrease in cash		<u>(3,815)</u>	<u>—</u>	<u>(3,815)</u>

Notes to the reconciliation

1. Bank interest, Loan Stock 2007 interest and taxation have now been analysed within operating activities.
2. S&P 500 Index Put Options capital expenses and dividends taken to capital have now been analysed within operating activities.
3. Ordinary dividends paid are now analysed within financing.

STOCKS CONVERTIBLE TRUST PLC

Five Year Financial Summary

	2002	2003	2004*	2005*	2006
	£'000	£'000	£'000	£'000	£'000
Capital	5,519	5,520	5,521	5,523	5,527
Total reserves	5,544	4,600	9,429	13,573	13,611
Convertible Loan Stock 2007	6,127	6,140	5,519	5,690	5,871
Net operating revenue	603	676	352	549	512
Taxation	58	120	29	75	(15)
Net revenue	262	336	(55)	48	31
Dividend	192	252	120	180	180
Revenue earnings per 25p ordinary share	2.1p	2.8p	(0.5)p	0.4p	0.3p
Dividend per 25p ordinary share	1.60p	2.10p	1.00p	1.50p	1.50p
Gross interest per unit of Loan Stock 2007	3.5p	3.5p	3.5p	3.5p	3.5p
Diluted net asset value per ordinary share	94.3p	89.2p	112.3p	136.0p	137.2p

* Restated in accordance with IFRS

STOCKS CONVERTIBLE TRUST PLC

Company Information

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P I Burrows
B C Hervey
W J McLeland

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Shareholder Relations

The price of the Company's ordinary shares is listed daily in the Financial Times. The Company's web site at www.stockseclectic.com is updated daily and provides information about the Company including 15 minute delayed prices, all RNS news announcements and a share price graph. An on-line share dealing facility is available from Hemscott Group Ltd - see link on the Company's web-site.

Individual Savings Account ('ISA')

Stocks Convertible Trust plc is eligible to be held in an ISA account.

Registered in England and Wales No: 2133976

