

STOCKS CONVERTIBLE TRUST PLC



REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2003

STOCKS CONVERTIBLE TRUST PLC

Contents

	<i>Page</i>
Objective of the Company	1
Highlights for the Year	1
Chairman's Statement	2
Directors, Investment Manager, Administrator and Secretary	3
Analysis of Fixed Asset Investments by Value	4
Investment Manager's Report	5
Company Reviews	7
Report of the Directors	11
Corporate Governance Statement	14
Directors' Remuneration Report	17
Report of the Independent Auditor	19
Consolidated Statement of Total Return	21
Consolidated Balance Sheet	22
Company Balance Sheet	23
Consolidated Cash Flow Statement	24
Notes to the Financial Statements	25
Five Year Financial Summary	42
Notice of Annual General Meeting	43
Company Information	45
Form of Proxy	47

STOCKS CONVERTIBLE TRUST PLC

Objective of the Company

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

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

Highlights for the Year

- Fully-diluted consolidated net asset value per share in sterling declined 5.4% to 89.2p.
- A\$ strengthened 2.7% against sterling.
- Dividend, interest and other income increased by 4.8%.
- Total expenses reduced by 4.6%.
- Proposed dividend of 2.10p, up from 1.60p, an increase of 31.3%.
- Proportion of investments in Australia and New Zealand reduced and proceeds invested in international convertibles.

STOCKS CONVERTIBLE TRUST PLC

Chairman's Statement

In the year to 31 May 2003 the fully diluted net asset value (NAV) fell by 5.4% to 89.2 pence, which is a pleasing performance, particularly in a period when yet again the major world stockmarkets suffered substantial falls. The Australian Small Capitalisation Index, which fell by 6.9% in sterling adjusted terms, is continuing to be used as a benchmark temporarily while most of the Company's investments are still in Australia and New Zealand. At the Annual General Meeting last year shareholders agreed to a change in investment policy to one focusing on international convertible securities and an associated change of name of the Company. It will take time to realise investments presently in Australia and New Zealand at appropriate prices, particularly in the case of the larger holdings, in order to diversify into international convertible issues. Even so over 11% of the Company's assets are currently in convertible securities. When more assets are held in international convertible securities an appropriate convertible benchmark will be selected. Over the year to 31 May 2003 the Australian dollar strengthened against sterling by 2.7% from A\$2.5849 to A\$2.5141 and the New Zealand dollar strengthened by 7.1% from NZ\$3.0549 to NZ\$2.8377.

Dividend, interest and other income rose over the year by 4.8% from £925,000 to £969,000, while total expenses fell by 4.6% from £307,000 to £293,000. As a result the return per share increased from 2.3 pence to 2.8 pence. The Directors therefore propose a net dividend of 2.10 pence per share, compared with 1.60 pence the previous year.

International convertibles have continued to outperform equities in the current year, although they have underperformed straight debt markets. Yields have fallen in both the USA and Europe as a result of credit spread tightening, the strength of the bond markets, reduced volatility and increased investor demand for current income. The average yield in Europe is currently around 2.5% compared with 5.0% at the end of 2002. The large falls in international equity markets at the end of 2002 and early 2003 resulted in increasing the convertible bond premium generally to record levels. This encouraged large US and European companies to issue new convertible bonds. Issues of new convertibles in the USA for the first six months of 2003 were \$54 billion compared with \$40 billion for the same period in 2002 and \$51 billion for the whole of 2002. European issues of new convertibles for the first six months of 2003 were \$24 billion compared with \$24 billion for the whole of 2002. Increased investor demand for convertibles, high levels of premium and the reluctance by companies to issue new equity at current low equity price levels (with companies seeing the issue of convertibles at high premium levels as a means of selling forward equity at a substantial premium level to today's equity prices) have encouraged the increased issuance. This can be expected to continue for the rest of 2003.

The Australian economy grew at a more subdued level with GDP increasing by 2.9% in the year to March, compared with 4.2% the previous year. The major contributors to growth were domestic consumption and business investment. However, the current account deficit widened sharply from A\$5.5 billion (2.7% of GDP) last year to A\$10.1 billion (5.1% of GDP) in the year to March 2003, reflecting lower net exports as a result of weaker global demand and the effect of the severe drought on the agricultural sector. The stronger Australian dollar also impacted export performance. Inflation rose modestly to 3.4% in the year to March, compared with 2.9% the previous year. The Reserve Bank is forecasting that economic growth for the year 2003 will be around the present level of 3.0%. The New Zealand economy was slightly more buoyant with growth of 3.5% in the year to December 2002, compared with 2.9% the previous year, with domestic consumption again being the main contributor. The Australian stockmarket as measured by the All Ordinaries Index fell over the year to 31 May 2003 by 10.4% to 2979, which was modest compared with the falls in most world markets over the period; during the year the index traded between a high of 3325 and a low of 2666 in mid March, when most other world markets also hit lows. The Australian Small Capitalisation Index fell by 9.4% to 1546, having traded between 1719 and 1372. By contrast the New Zealand All Ordinaries Index showed little change over the year, declining by 1.4% from 776 to 765, with highs and lows of 786 and 694.

Since the end of the financial year the Company's NAV has risen further to 104.73p on 31 August 2003 and the Directors consider that the Company's portfolio is well positioned for the future.



Anthony Bushell
Chairman
25 September 2003

STOCKS CONVERTIBLE TRUST PLC

Directors

Anthony Bushell*†, Chairman, aged 70, is non-executive chairman of Smaller Companies Value Trust plc and on the advisory board of the Pan European Smaller Companies Fund. He was previously Chief Investment Manager of the Bank of England.

Peter Burrows AO*, aged 56, a stockbroker, merged his stockbroking business, Burrows Limited, with McIntosh Baring in 1997, which was subsequently acquired by Merrill Lynch. He is chairman of Garratt's Ltd and a director of FTR Holdings Ltd and CRI Ltd.

Bruce Hervey*†, aged 61, spent over 35 years in the Australian stockbroking industry. Originally a partner in an Australian company, he has latterly served with UBS Warburg and HSBC Securities Limited.

Warren McLeland*†, aged 57, is a principal of FEC Consultants and advises Australian and Asian domiciled financial institutions in business strategy and asset management. He was formerly with Chase Manhattan Bank and a stockbroker with Deutsche Morgan Grenfell. He is a director of Trust Company of Australia, in which the Company has made an investment.

All Directors are non executive

* Independent

† Audit and Management Engagement Committee member

Investment Manager

Ingot Capital Management Pty Ltd holds a Dealer's Licence issued by the Australian Securities Commission.

Administrator and Secretary

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

STOCKS CONVERTIBLE TRUST PLC

Analysis of Fixed Asset Investments by Value

(Ordinary shares unless otherwise stated)	£'000	Sector			Total %
		Financial %	Investment %	Industrial %	
Trust Company of Australia	6,471	41.37			
Guinness Peat Group 8% Conv 30/6/05	784	5.01			
Tower	298	1.90			48.28
Infratil	1,264		8.08		8.08
ERG New Deferred	2,829			18.08	
Resolute Mining	956			6.11	
News & Media NZ Preferred	737			4.71	
eBet 10% Redeemable Conv 29/11/06	471			3.01	
Reinsurance Australia	406			2.60	
Colt Telecom Group 2% Conv 6/8/05	339			2.17	36.68
Ten largest investments	14,555	48.28	8.08	36.68	93.04
Other investments (18)	1,088	1.88	0.23	4.85	6.96
Total fixed asset investments at 31 May 2003	<u>15,643</u>	<u>50.16</u>	<u>8.31</u>	<u>41.53</u>	<u>100.00</u>

Classification of Investments

	2003		2002	
	£'000	%	£'000	%
Equities	13,441	85.92	11,564	73.14
Convertible securities	1,771	11.32	3,979	25.16
Fixed interest securities	431	2.76	269	1.70
	<u>15,643</u>	<u>100.00</u>	<u>15,812</u>	<u>100.00</u>

Geographical Analysis

	2003		2002	
	£'000	%	£'000	%
Australia	12,093	77.30	12,823	81.10
New Zealand	3,119	19.94	2,720	17.20
United Kingdom	341	2.18	192	1.21
United States	90	0.58	77	0.49
	<u>15,643</u>	<u>100.00</u>	<u>15,812</u>	<u>100.00</u>

STOCKS CONVERTIBLE TRUST PLC

Investment Manager's Report

Investment Policy

We have changed our investment policy as disclosed at last year's meeting of shareholders.

We are in the process of re-focusing the portfolio to invest principally in Convertible Securities from the previous policy of investing in Australasian listed shares principally in financial services, investment and small cap industrial companies.

The Company's assets are currently invested predominately in Australian and New Zealand denominated securities. Consequently there are currency exchange risks that may affect the value of the Company's shares and convertible notes which are denominated in sterling.

Convertible Securities Markets

Generally the convertible note market has been bullish on international markets. The decline of yields on bonds and money market instruments have increased the attractiveness of convertibles to investors seeking enhanced income returns. The declines in equity markets have also impacted positively on convertibles which often have defensive characteristics to protect the investment by redemption or variable conversion pricing mechanisms.

Corporations are taking advantage of the buoyant convertible market with substantial increases in new issuances in both Europe and the USA. The increased level of activity is a reflection of the attraction of convertibles to be issued at a premium to the current low equity price levels.

We are proceeding cautiously to dispose of the current portfolio of Australasian listed shares due to the present stock market trading conditions. In order to preserve an enhanced value we aim to exit investments when the individual stocks market fundamentals are favourable.

At 31 May 2003, excluding the recently converted ERG holding, 11% of the portfolio was invested in convertibles. This portion of the fund has shown pleasing results to date.

Australian Economy

The Australian economy has grown at subdued levels this year as reflected in the increase in GDP to March of 2.9% compared to 4.2% last year. The major contributors to economic growth have been domestic consumption and business investment. The factors supporting consumption remain strong with retail sales robust and gains in consumer confidence.

The factors detracting from economic growth are reflected in the rising Current Account Deficit which at A\$10.1billion in March was at a ratio of 5.1% to GDP compared to A\$5.5billion and 2.7% respectively last year. The increase was due to the reduction in net exports as a result of the continued weakness in global demand and the effects of the severe drought that has impacted upon the agricultural sector. Compounding these factors has been the strength of the Australian Dollar which has further affected upon export performance.

Inflationary pressures have built up in the economy with annual inflation at 3.4% in March compared to 2.9% last year and 3.0% in December. The labour market continues to be relatively strong with the unemployment rate at 6% in May.

The Reserve Bank has maintained static monetary settings during the period as notwithstanding the growth outcomes especially domestic demand it is mindful of the weak and uncertain global economic outlook. Market interest rates have declined moderately as evidenced by 90 Day Bank Bills decreasing over the period from 4.9% last year to 4.8% in May this year and 10 Year Bonds declining from 6.2% to 4.8%.

STOCKS CONVERTIBLE TRUST PLC

Investment Manager's Report *continued*

In a recent address the Reserve Bank governor lowered his forecast of economic growth for 2003 to 3.0% citing the rising Australian Dollar and weakening global economies as the negative factors detracting from growth. He stated that if global demand does not improve the monetary settings will be lowered to stimulate demand.

Given these factors we would expect continued subdued growth in the current climate and that a return to more robust growth will be predicated upon an improvement in global economic performance.

Australian Dollar

The Australian Dollar against the US Dollar declined from 56.7 cents in May 2002 to 53.5 cents in August and then recovered strongly to 65.2 cents in May 2003. The Australian dollar declined against sterling from 38.9 pence in May 2002 to 34.2 pence in July and rallied to 39.9 pence in May 2003. The decline of the US Dollar against global currencies and the relatively high interest rate settings have provided the impetus to the Australian Dollar performance this year.

Australian Stock Market

The stock market as reflected in the ASX All Ordinaries Index declined from 3325 in May 2002 to 2666 in March and then rallied to 2979 in May 2003 and mainly traded between 2900 to 3000 during the year. The Small Cap Index declined from 1708 in May 2002 to 1372 in March before partially recovering to 1546 in May 2003. The relatively poor performance of small cap stocks is a reflection of the market sentiment to the sector which in uncertain times tends to be shunned by the investors who are attracted to the perceived security of large cap stocks.

New Zealand Economy

New Zealand GDP growth was 3.5% for the year to December 2002 compared to 2.9% previously. Domestic consumption has continued to contribute to the economic growth whereas exports are subdued because of the decline in global demand. The Current Account Deficit at NZ\$1.8bn was 3.1% of GDP in December but it is expected to deteriorate due to the continued weakness in exports.

The labour market was firm with the unemployment rate at 5% in March reflecting the strength of the economy's domestic performance. Inflation has remained relatively stable at 2.52% in March compared to 2.59% last year.

Monetary settings were initially tightened from 5.5% in May 2002 to 5.75% in July and were then cut by 25bp in April to 5.5%. 90 Day Bills initially increased from 5.86% in May 2002 to 6.04% in July before declining to 5.24% in May 2003 and 10 Year Bonds declined from 6.78% in May 2002 to 5.36% in May 2003.

New Zealand Dollar

The New Zealand Dollar against the US Dollar increased from 48 cents in May 2002 to 57 cents in May 2003 and against sterling increased from 33 pence in May 2002 to 35 pence in May 2003.

New Zealand Stock Market

The NZSE Top 40 Index declined from 2139 in May 2002 to 1857 in March and then partially recovered to 2060 in May 2003.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews

Trust Company of Australia

ASX Code	: TRU	12 Month Range	: A\$4.66 – A\$6.75
Issued Shares	: 32.4 million	SCT Investment	: £3.9 million
Market Capitalisation	: A\$171 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 decreased from A\$6.75 in May 2002 to A\$5.30 in May 2003.

The merger of our two largest investments in December 2002 to form Trust Company of Australia has resulted in our largest investment holding constituting 41% of our portfolio at year end. In a briefing to the market in April, Trust Company of Australia confirmed that annualised savings of A\$5m had been achieved following the merger and would be reflected in the year to February 2004. The savings in isolation would equate to 11 cents in EPS.

Resolute Mining

ASX Code	: RSG	12 Month Range	: A\$0.59 – A\$0.89
Issued Shares	: 164.5 million	SCT Investment	: £0.9 million
Market Capitalisation	: A\$105 million		(2.3% of RSG)

Resolute Mining is a mining company with gold projects in Africa.

The share price of Resolute Mining decreased from 89 cents at May 2002 to 64 cents at May 2003.

Resolute Mining has closed its Obotan mine in Ghana leaving Golden Pride in Tanzania its sole operating mine. Resolute Mining has however entered into joint ventures and strategic investments in prospective gold properties principally in Tanzania and Mali to augment gold production.

ERG

ASX Code	: ERGG	12 Month Range	: A\$3.82 – A\$10.05
Issued Notes	: 18.5 million	SCT Investment	: £2.6 million
Market Capitalisation	: A\$122 million		(5.8% of ERGG)

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

The Company's interest was in 7.5% convertible notes that were redeemable in 2005 at A\$13.50. ERG completed a capital reconstruction and converted the notes into shares (90 shares per note). The reconstruction was undertaken to strengthen the balance sheet and improve profitability by eliminating the interest expense associated with the notes.

The price of the shares have increased from a convertible note adjusted 7.3 cents at May 2002 to 8.3 cents at May 2003.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews continued

Infratil

NZSE Code	: IFT	12 Month Range	: NZ\$1.56 - NZ\$2.05
Issued Shares	: 182.5 million	SCT Investment	: £1.1 million
Market Capitalisation	: NZ\$374 million		(1.0% of IFT)

Infratil is a New Zealand based company that invests in infrastructure and utility companies. Its portfolio includes investments in Trustpower (electricity), Tauranga Port, Glasgow Prestwick International Airport and Wellington International Airport.

The share price of Infratil has increased from our entry price of NZ\$1.76 to NZ\$2.05 in May 2003.

News & Media NZ

NZSE Code	: NMNPA	12 Month Range	: NZ\$7.64– NZ\$8.11
Issued Shares	: 22.7 million	SCT Investment	: £0.7 million
Market Capitalisation	: NZ\$184 million		(1.1% of NMNPA)

The Company's exposure in News and Media is in the form of a New Zealand listed converting preference share that provides conversion into ordinary shares of Irish based Independent News & Media (INP) that principally holds media investments in Ireland, Australia and South Africa.

Holder of News and Media preference shares can elect to either receive 2 INP shares or NZ\$8.00 in cash in November 2003.

The share price of News and Media has decreased marginally from NZ\$8.11 in May 2002 to NZ\$8.10 in May 2003.

Fixed cumulative dividends of 40 cents are paid and it is trading at a yield of 4.9%.

Ebet

ASX Code	: EBTG	12 Month Range	: A\$23 – A\$25
Issued Notes	: 2.15 million	SCT Investment	: £0.5 million
Market Capitalisation	: A\$49 million		(2.4% of EBTG)

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

Our exposure to Ebet is through 10% convertible notes redeemable in 2006 and convertible at 20 cents.

Reinsurance Australia

ASX Code	: RAC	12 Month Range	: A\$0.11 – A\$0.23
Issued Shares	: 201 million	SCT Investment	: £0.3 million
Market Capitalisation	: A\$44 million		(2.3% of RAC)

Reinsurance Australia is an Australian based reinsurance company that has gone in run off and is liquidating its assets and commuting its cedant relationships.

The share price of Reinsurance Australia increased from 13 cents in May 2002 to 22 cents in May 2003.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews continued

Tower

NZSE Code	: TWR	12 Month Range	: NZ\$1.28 – NZ\$4.04
Issued Shares	: 175 million	SCT Investment	: £0.4 million
Market Capitalisation	: NZ\$234 million		(0.36% of TWR)

Tower is a diversified financial service company providing investment, asset management and insurance products in New Zealand and Australia.

The share price of Tower decreased from our average entry cost of NZ\$1.82 to NZ\$1.51 in May 2003

Guinness Peat Group

NZSE Code	: GPGGA	12 Month Range	: NZ\$0.86 – NZ\$1.60
Issued Shares	: 38.6 million	SCT Investment	: £0.6 million
Market Capitalisation	: NZ\$36 million		(6.2% of GPGGA)

Guinness Peat Group is an investment holding company operating in Australia, New Zealand and the United Kingdom. Investments include funds management, property and insurance. Guinness Peat Group is listed in the UK, New Zealand and Australia.

The Company's exposure is through convertible 8% loan notes which were issued in June 2000. The principal can be redeemed in 5 equal instalments from June 2001 at 50p or, at the option of the holder, converted into shares, before bonus issues, at prices ranging from 50p in 2001 to 70p in 2005. Due to bonus issues the current conversion price is 45.5p.

Colt Telecom Group

B'Berg Code	: COLTEL2	12 Month Range	: DM47 – DM94
Issued Notes	: 294m	SCT Investment	: £0.2 million
Market Capitalisation	: DM264 million		(0.5% of COLTEL2)

Colt Telecom provides telecommunications services in 32 major European cities in 13 countries, principally to multinational customers. It has a wholly owned backbone network connecting the cities that it operates in, upon which it leases capacity to other operators.

The Company's interest is in the 2% Deutsche Mark denominated convertible notes that mature in August 2005. The note price has increased from DM47 at May 2002 to DM90 at May 2003. The Colt share price has increased from 49p in May 2002 to 64p in May 2003. During the year Colt Telecom has bought back a significant number of bonds but has stated that with the price approaching parity it was no longer in the market.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews *continued*

Challenger International

Code	: Unlisted	12 Month Range	: n/a
Issued Notes	: 37.5m	SCT Investment	: £0.2 million
Market Capitalisation	: n/a		

Challenger International is an investment bank providing fund management, life insurance and pension services specialising in annuities backed by rental flows from property holdings.

The Company has an investment in unlisted convertible notes that were placed in November 2002 at A\$2.

Austrim Nylex

ASX Code	: ANTG	12 Month Range	: A\$17 - A\$32
Issued Notes	: 1m	SCT Investment	: £0.1 million
Market Capitalisation	: A\$26m		(1.4% of ANTG)

Austrim Nylex is a diversified manufacturer of automotive, building and engineered products.

The Company has an investment in the converting unsecured 9.5% coupon notes. The notes convert at a 7.5% discount to the ordinary shares which were 24 cents in May 2003 and the notes were A\$26.50.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors for the year ended 31 May 2003

The Directors submit their report together with the audited financial statements of the Company and Group for the year ended 31 May 2003.

Results and Dividend

The revenue return for the financial year ended 31 May 2003 after taxation amounted to £336,000 (2002: revenue return of £262,000). A dividend of 2.10p is proposed in respect of the year ended 31 May 2003 (2002: 1.60p per ordinary share). The dividend will be paid on 13 November 2003 to shareholders whose names appear on the register at close of business on 10 October 2003 (ex dividend date 8 October 2003).

Status of the Company

The Directors have conducted the affairs of the Company with a view to maintaining approval as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 in order to obtain exemption from United Kingdom taxation on capital gains. However, such approval is only given retrospectively in respect of each accounting period of the Company and Inland Revenue approval has been given for the year ended 31 May 2002.

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

Review of the Year

On 14 October 2002, the Company's name was changed from Australian Opportunities Investment Trust plc to Stocks Convertible Trust plc.

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

Directors

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

In accordance with Article 89(A) of the Company's Articles of Association, Mr P I 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 of the intention to propose at the forthcoming Annual General Meeting that Mr A F Bushell be re-elected a Director of the Company notwithstanding that he has attained the age of 70.

Directors Interests

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

	25p Ordinary Shares	
	31 May 2003	31 May 2002
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 2003 and 25 September 2003. None of the Directors have been granted or exercised any rights to subscribe for shares or loan stock of the Company.

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

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors continued

Substantial Shareholdings

At 25 September 2003 the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company:

	No of Ordinary 25p Shares	% of Issued Share Capital
National Life and Pensions Fund Limited	2,400,000	19.98
Peter Burrows	1,740,000	14.49
Modesto Limited	1,490,587	12.41
Quilter & Co Ltd	1,300,000	10.82
Lazard Freres Asset Management	1,250,000	10.41

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

Changes in Capital Structure

The next opportunity to convert loan stock into ordinary shares will be on 31 October 2003 or soon thereafter, details of which will be provided in a reminder notice to be dispatched to loan stock holders in October 2003.

The Company's capital structure currently comprises 12,011,751 ordinary shares and 6,867,012 units of 3.5 per cent (gross) Convertible Subordinated Unsecured Loan Stock 2007. Further details of changes during the year to 31 May 2003 are contained in notes 16 and 17 to the Financial Statements.

Annual General Meeting

The notice convening the Annual General Meeting ("AGM") of the Company for 3 November 2003 is set out at the end of this document.

Ordinary business

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

Special business

Resolution 7 – authority to allot unissued shares

In terms of resolution 7, the Directors will be seeking authority from shareholders to allot unissued share capital up to an aggregate nominal amount of £1,000,750 (equivalent to 4,003,000 ordinary shares or approximately 33% of the Company's existing issued ordinary share capital). The purpose of seeking such authority is to take advantage of opportunities in the market as they arise. The Directors currently have no specific opportunities in mind and will only issue new shares if they believe it is advantageous to the Company's existing shareholders to do so and would not result in any dilution of net asset value per share. Resolution 7 will be proposed as an ordinary resolution.

Resolution 8 – disapplication of statutory pre-emption rights

The Directors consider it advisable to renew their authority to allot equity securities for cash, other than to existing shareholders pro rata to their holdings, which is due to expire at this year's AGM. This

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors *continued*

authority will enable the Directors, at any time until 2 February 2005, to allot equity securities wholly for cash in connection with a rights issue or otherwise up to an aggregate nominal amount of £150,146. This limited disapplication will allow the Directors to allot up to 600,587 ordinary shares, representing 5% of the issued equity share capital as at 25 September 2003. Resolution 8 will be proposed as a special resolution.

Creditors' Payment Policy

It is the Company's policy to obtain the best terms for all business including purchases of investments, and to abide by those agreed terms. As at 31 May 2003 the Company had no trade creditors (creditors' days: nil) (31 May 2002 the Company had no trade creditors (creditors, days: nil)).

Statement of Directors' Responsibilities for the Annual Report

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

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

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

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

Auditors

On 3 May 2003 RSM Robson Rhodes transferred their business to a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000, and are now known as RSM Robson Rhodes LLP.

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

On behalf of the Board

Phoenix Administration Services Limited

Secretary

25 September 2003

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement

The Board of Directors continues to support high standards of corporate governance. The Board has carried out a review of the principles of good governance and the code of best practice (hereinafter referred to as the “Combined Code”) appended to the Listing Rules of the Financial Services Authority.

The Board confirms that arrangements are in place to enable compliance with section 1 of the Combined Code, as required by the Listing Rule 12.43A issued by the Financial Services Authority.

The Board considers that the Group has complied with the provisions of Section 1 of the Combined Code throughout the accounting period to 31 May 2003, except where disclosed below, and this statement describes how the relevant principles of governance are applied to the Group.

Internal Control

The Board of Directors confirms that there is an ongoing process for identifying, evaluating and managing those risks which are significant for the Group and that this process reflects the guidance provided by the Turnbull Committee in September 1999. This process has been in place for the year ended 31 May 2003 and up to the date of approval of the annual report and financial statements, and it has been regularly reviewed by the Board.

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

The Board has contractually delegated the management of the investment portfolio to the Investment Manager, Ingot Capital Management Pty Ltd, the day to day administration and the 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 Investment Manager, Administrator and the Custodian of the Group’s assets, maintain their own systems of internal and financial controls.

The Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal controls operated on behalf of its clients. The Investment 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 Investment 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 to have a separate internal audit function.

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement *continued*

Directors

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

The Directors normally meet as a Board on a quarterly basis. The Board lays down guidelines within which the Manager implements investment policy and has a schedule of matters reserved for the resolution of the Directors. All Board members have access to the advice and services of the Company Secretary, the removal or replacement of whom is a matter of 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.

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

Accountability and Audit

The Group's Audit Committee which comprises Messrs A F Bushell (as Chairman), B C Hervey and W J McLeland are all independent and meet, at least twice per year, representatives of the Manager who report on the proper conduct of business in accordance with the regulatory environment in which both the Group and the Manager operate. Minutes of meetings are formally recorded and reported to the Board by the Audit Committee Chairman. The Group's external auditors also attend the Committee at its request, at least once a year, and report on their work procedures, the quality and effectiveness of the Group's accounting procedures and their findings in relation to the Group's statutory audit. The responsibilities of the Audit Committee include review of internal controls, accounting policies, financial statements, the Auditors appointment and remuneration and the carrying value of unquoted investments.

Directors' and Manager's Remuneration

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 is £75,000 per annum. The remuneration terms are reviewed annually. Messrs A F Bushell, B C Hervey and W J McLeland comprise the Management Engagement Committee. Terms, fees and other remuneration payable to Ingot Capital Management Pty Ltd and Phoenix Administration Services Limited set out in note 7 to the financial statements, are kept under review.

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement *continued*

Shareholder Relations

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

Going Concern

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

STOCKS CONVERTIBLE TRUST PLC

Directors' Remuneration Report for the year ended 31 May 2003

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time for this financial year. 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 auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in their report on pages 19 and 20.

Remuneration Committee

The Company has four Non-Executive Directors. The Board as a whole fulfils the function of a Remuneration Committee. Remuneration terms are reviewed annually by the Board.

The Board carried out a review of the level of Directors' fees during the year, and it was agreed that the Chairman's fee be increased from £15,000 to £20,000 and that Directors' fees be increased from £7,500 to £10,000 effective from 1 July 2002.

Policy on Directors' fees

The Board's policy is that the remuneration of Non-Executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that 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 ending 31 May 2004 and subsequent years.

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

Directors' Service Contracts

It is the Board's policy that none of the Directors have 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.

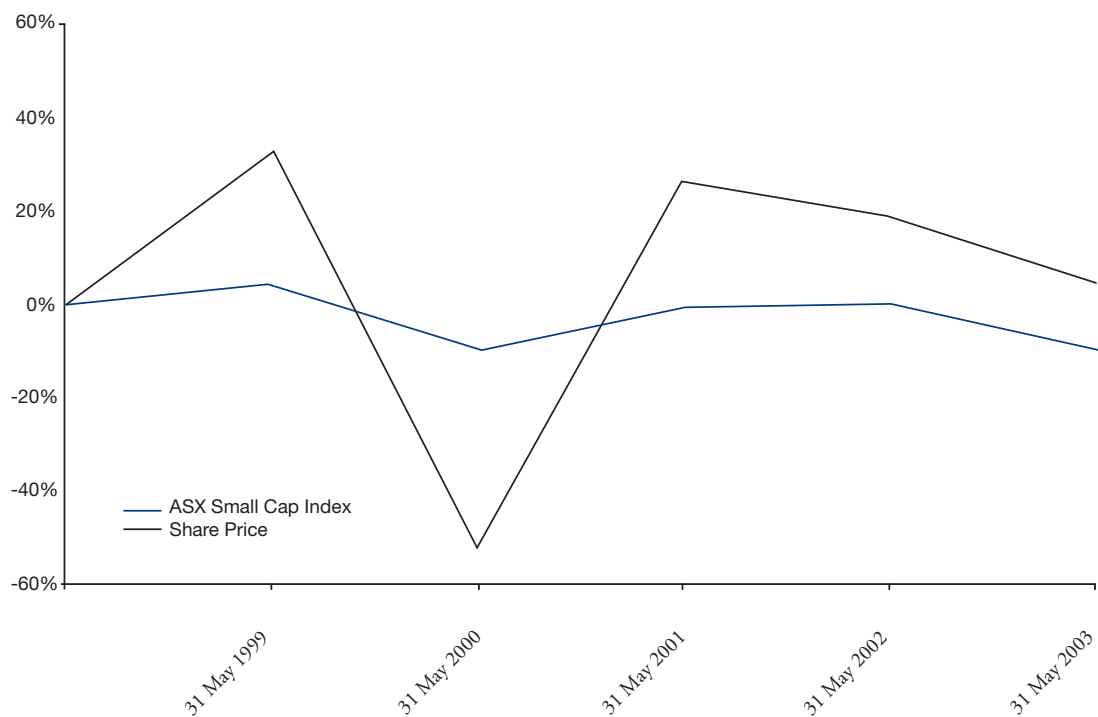
Your Company's Performance

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 Cap Index is calculated. This index was chosen for comparison purposes as it is the index that closest approximates the composition of the Company's portfolio.

STOCKS CONVERTIBLE TRUST PLC

Directors' Remuneration Report continued

Share price performance relative to the ASX Small Cap Index



Directors' Emoluments for the year ended 31 May 2003 (audited part)

	2003 £'000	2002 £'000
Anthony Bushell*	19,583	15,000
Peter Burrows	9,792	7,500
Bruce Hervey	9,792	2,700
Warren McLeland	9,792	7,500
Peter O' Connor	—	4,375

* (Chairman of the Board and Audit Committee)

On behalf of the Board

Anthony Bushell

Chairman

25 September 2003

STOCKS CONVERTIBLE TRUST PLC

Report of the Independent Auditor

Independent Auditors Report to the Shareholders of Stocks Convertible Trust PLC

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

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

Respective Responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards. 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. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the 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 the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. 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 outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practises 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 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

STOCKS CONVERTIBLE TRUST PLC

Report of the Independent Auditor continued

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 financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 May 2003 and of the Groups' net revenue, total return and cashflow for the year then ended; and
- 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.

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

25 September 2003

STOCKS CONVERTIBLE TRUST PLC

Consolidated Statement of Total Return incorporating the revenue account for the year ended 31 May 2003

	Notes	2003			2002		
		Revenue* £'000	Capital £'000	Total £'000	Revenue* £'000	Capital £'000	Total £'000
(Losses)/gains on investments	12	—	(801)	(801)	—	4,234	4,234
Exchange differences		—	20	20	—	81	81
Trading loss of subsidiary	3	—	—	—	(15)	—	(15)
Income	3	969	—	969	925	—	925
Investment management fee	4	(60)	—	(60)	(61)	(100)	(161)
Other expenses	5	(233)	(123)	(356)	(246)	(109)	(355)
Net return/(deficit) before finance costs and taxation		676	(904)	(228)	603	4,106	4,709
Interest payable and similar charges	8	(220)	—	(220)	(283)	—	(283)
Return/(deficit) on ordinary activities before tax		456	(904)	(448)	320	4,106	4,426
Tax on ordinary activities	9	(120)	(124)	(244)	(58)	32	(26)
Return/(deficit) on ordinary activities after tax for the financial year		336	(1,028)	(692)	262	4,138	4,400
Dividends in respect of equity shares	10	(252)	—	(252)	(192)	—	(192)
Transfer to/(from) reserves		84	(1,028)	(944)	70	4,138	4,208
Return/(loss) per ordinary share:	11						
Basic		<u>2.8p</u>	<u>(8.6p)</u>	<u>(5.8p)</u>	<u>2.1p</u>	<u>33.4p</u>	<u>35.5p</u>
Diluted		<u>2.7p</u>	<u>(5.6p)</u>	<u>(2.9p)</u>	<u>2.2p</u>	<u>22.2p</u>	<u>24.4p</u>

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

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

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

STOCKS CONVERTIBLE TRUST PLC

Consolidated Balance Sheet as at 31 May 2003

		2003		2002	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Investments	12		15,643		15,812
Current assets					
Debtors	14	1,280		766	
Investments	13	2		2	
Cash at bank and short-term deposits		177		1,177	
		1,459		1,945	
Creditors: amounts falling due within one year	15	(842)		(567)	
Convertible loan stock	16	(6,140)		(6,127)	
		(6,982)		(6,694)	
Net current liabilities			(5,523)		(4,749)
Total assets less current liabilities			10,120		11,063
Capital and reserves					
Called up share capital	17		3,003		3,003
Share premium account	18		2,517		2,516
			5,520		5,519
Capital reserve – realised	19		8,153		7,513
Capital reserve – unrealised	19		(2,494)		(826)
Capital redemption reserve			500		500
Revenue reserve	20		(1,559)		(1,643)
Equity shareholders' funds	21		10,120		11,063
Net asset value per share:	22				
Ordinary					
– Basic			84.3p		92.1p
– Fully-diluted			89.2p		94.3p

The financial statements on pages 21 to 41 were approved by the Board of Directors on 25 September 2003 and were signed on its behalf by:

Anthony Bushell
Chairman

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

STOCKS CONVERTIBLE TRUST PLC

Company Balance Sheet as at 31 May 2003

		2003		2002	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Investments	12		15,645		15,814
Current assets					
Debtors	14	1,280		766	
Cash at bank and short-term deposits		177		1,177	
		1,457		1,943	
Creditors: amounts falling due within one year	15	(892)		(617)	
Convertible loan stock	16	(6,140)		(6,127)	
		(7,032)		(6,744)	
Net current liabilities			(5,575)		(4,801)
Total assets less current liabilities			10,070		11,013
Capital and reserves					
Called up share capital	17		3,003		3,003
Share premium account	18		2,517		2,516
			5,520		5,519
Capital reserve – realised	19		8,153		7,513
Capital reserve – unrealised	19		(4,808)		(3,140)
Capital redemption reserve			500		500
Revenue reserve	20		705		621
Equity shareholders' funds	21		10,070		11,013

The financial statements on pages 21 to 41 were approved by the Board of Directors on 25 September 2003 and were signed on its behalf by:

Anthony Bushell
Chairman

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

STOCKS CONVERTIBLE TRUST PLC

Consolidated Cash Flow Statement for the year ended 31 May 2003

		2003		2002	
	Notes	£'000	£'000	£'000	£'000
Net cash (outflow)/inflow from operating activities	23a		(173)		683
Returns on investments and servicing of finance	23b		(177)		(335)
Taxation			(52)		(32)
Financial investment	23b		(575)		3,318
			<u>(977)</u>		<u>3,634</u>
Equity dividends paid			<u>(192)</u>		<u>(56)</u>
			<u>(1,169)</u>		<u>3,578</u>
Financing	23b		—		(2,371)
(Decrease)/increase in cash			<u>(1,169)</u>		<u>1,207</u>
Reconciliation of net cash flow to movement in net debt					
(Decrease)/increase in cash in the year			(1,169)	1,207	
Cash outflow from movement in debt			<u>—</u>	<u>1,451</u>	
Change in net debt resulting from cash flows			(1,169)		2,658
Exchange movements			20		81
Other non-cash flow movements			(13)		(13)
Opening net debt			<u>(4,950)</u>		<u>(7,676)</u>
Closing net debt	23c		<u>(6,112)</u>		<u>(4,950)</u>

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

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements

1 Accounting policies

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

- (i) The Group prepares its annual accounts under the historical cost accounting convention, as modified by the revaluation of investments, in compliance with the requirements of the Companies Act 1985, and in accordance with applicable accounting standards and with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies” issued by the Association of Investment Trust Companies in December 1995.
The consolidated accounts of the Group consolidate the accounts of its wholly owned subsidiary, Stocks Convertible Limited (formerly AOIT Limited) (see note 12).
- (ii) Dividend income from investments is taken into account by reference to the date the security becomes ex-dividend. Interest from short-term deposits and fixed interest investments is accounted for on an accruals basis, as are interest payable and other expenses. In accordance with FRS 16 “Current Tax” dividends received from UK companies are not grossed up by the imputed tax credit, but instead recorded at the amount receivable. Overseas dividends and other income that is subject to withholding tax continue to be grossed up.
- (iii) Realised and unrealised capital surpluses and deficits on revaluations of investments are taken direct to the capital reserve.
- (iv) Listed investments are stated at closing middle market prices on recognised stock exchanges.
- (v) Unlisted investments are valued by the Directors at cost unless subsequent financings or other events indicate that a different valuation is warranted. Except in exceptional circumstances where the Directors consider it to be appropriate, no adjustments are made to the valuation in anticipation of such events. The valuation of unlisted investments reflects current circumstances; realisable value in the short term could differ materially from the amount at which these investments are included in the accounts.
- (vi) The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by Financial Reporting Standard 19.
- (vii) All investment management fees are charged to the revenue account.
- (viii) Transactions in a foreign currency, whether of a revenue or capital nature, are translated into sterling at the rates of exchange ruling on the dates of such transactions. Revenue items accrued and other foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange ruling on that date. Any profits or losses on foreign currency held, whether realised or unrealised, are taken direct to capital reserves.
- (ix) The value of investments in foreign currencies are expressed in sterling at the rates of exchange prevailing at the balance sheet date. Surpluses and deficits arising from conversion at this rate of exchange are taken directly to the capital reserve.
- (x) All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:
 - expenses which are incidental to the acquisition of an investment are included within the cost of the investment.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

1 Accounting policies continued

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

2 Year-end exchange rates

The relevant rates of exchange ruling at 31 May 2003 were 2.5141 Australian dollars to the pound sterling (2002: 2.5849) and 2.8377 New Zealand dollars to the pound sterling (2002: 3.0549).

3 Income

	2003	2002
	£'000	£'000
Income from investments		
Overseas investment income	386	598
Overseas fixed interest income	347	288
	<u>733</u>	<u>886</u>
Other income		
Deposit interest	30	9
Underwriting income	14	22
Loan Guarantee Fee	192	—
Other	—	8
	<u>236</u>	<u>39</u>
Trading loss – Stocks Convertible Limited (see note 13)	—	(15)
	<u>236</u>	<u>24</u>
Total income comprises:		
Dividends	386	598
Interest	377	297
Other	206	30
	<u>969</u>	<u>925</u>
Trading loss – Stocks Convertible Limited (see note 13)	—	(15)
	<u>969</u>	<u>910</u>

4 Investment management fees

	2003	2002
	£'000	£'000
Investment management fee	60	61
Investment incentive fee - capital (see note 7)	—	100
	<u>60</u>	<u>161</u>

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

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

5 Other expenses

	2003 £'000	2002 £'000
Administration fee	70	70
Directors' emoluments (see note 6)	49	37
Auditors' remuneration for:		
– audit	16	15
– other services to the Group	10	18
Other	88	106
	<u>233</u>	<u>246</u>
Transaction charges - capital	10	9
Legal fees - capital (see note 25)	113	100
	<u>356</u>	<u>355</u>

6 Directors emoluments

Fees totalling £9,792 have been waived by 1 Director (2002: £11,875 – 2 Directors) who received emoluments by way of consultancy fees. The consultancy fees are reflected in the table below:

	2003 £'000	2002 £'000
Directors' fees	<u>49</u>	<u>37</u>

There were no pension contributions paid or payable.

The Company has no employees (2002: None).

7 Disclosure of interests

In accordance with an investment management agreement dated 28 February 1996 between the Company and Ingot Capital Management Pty Ltd (“Ingot”), Ingot has been appointed to provide investment management services to the Company for which Ingot receives an annual fee of 0.4 per cent. of gross assets less current liabilities of the Company and an incentive fee subject to a hurdle rate, if the Company's performance exceeds the benchmark which is temporarily the Australian Small Cap Index, until it is more appropriate to move to a convertible securities index. There is no incentive fee payable in respect of the year ended 31 May 2003 (2002: £100,000). The amount charged during the year is shown in note 4. £20,500 (2002: £10,850) of the investment management fee was outstanding as at the balance sheet date. This agreement is terminable by either party on one year's notice.

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

8 Interest payable and similar charges

	2003 £'000	2002 £'000
On bank loans and overdrafts	4	67
Convertible Subordinated Unsecured Loan Stock 2007	216	216
	<u>220</u>	<u>283</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

9 Taxation

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

	2003			2002		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
UK Corporation tax at 30% (2002: 30%)	104	124	228	93	—	93
Over provision in prior year	(17)	—	(17)	(61)	—	(61)
Overseas tax - double tax relief	(22)	—	(22)	(32)	—	(32)
	<u>65</u>	<u>124</u>	<u>189</u>	<u>—</u>	<u>—</u>	<u>—</u>
Overseas tax suffered	22	—	22	32	—	32
Tax relief on expenses charged to capital	—	—	—	32	(32)	—
Tax charge in respect of the current year	<u>87</u>	<u>124</u>	<u>211</u>	<u>64</u>	<u>(32)</u>	<u>32</u>
Deferred tax	33	—	33	(6)	—	(6)
	<u>120</u>	<u>124</u>	<u>244</u>	<u>58</u>	<u>(32)</u>	<u>26</u>

Current taxation

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

	2003	2002
	£'000	£'000
Revenue on ordinary activities before taxation	<u>456</u>	<u>320</u>
Theoretical tax at UK corporation tax rate of 30% (2002: 30%)	137	96
Effects of:		
– Timing differences on the taxation of income	(33)	10
– Other expenditure which is not tax deductible	—	44
– Reduction in rate to actual rate payable of 20%	—	(25)
– Over provision in prior year	(17)	(61)
Actual current tax charge	<u>87</u>	<u>64</u>

The parent Company is an investment trust and therefore is not taxable on capital gains.

Deferred taxation

	2003	2002
	£'000	£'000
Accrued income taxable on receipt	<u>61</u>	<u>28</u>
The movement in the provision is as follows:		
	£'000	£'000
Provision at start of year	28	34
Deferred tax credit in revenue account	<u>33</u>	<u>(6)</u>
Provision at end of year	<u>61</u>	<u>28</u>

Deferred tax has been provided at 30% (2002: 30%).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

10 Dividends and other appropriations

	2003	2002
	£'000	£'000
Dividends on equity shares:		
– ordinary – final proposed of 2.10p per share (2002: 1.60p)	<u>252</u>	<u>192</u>

The Directors have proposed the payment of a final dividend of 2.10p (2002: 1.60p) per ordinary share payable on 13 November 2003 to shareholders registered on 10 October 2003.

11 Return per ordinary share

(i) Basic Returns

Revenue Return:

The calculation of the basic Revenue Return per ordinary share of 25 pence each is based on net revenue on ordinary activities after taxation of £336,000 (2002: profit £262,000) divided by 12,011,393 ordinary shares (2002: 12,410,679) being the weighted average number of ordinary shares in issue during the year.

Capital Return:

The calculation of the basic Capital Return per ordinary share of 25 pence each is based on the net capital deficit for the financial year of £(1,028,000) (2002: profit £4,138,000) divided by 12,011,393 ordinary shares (2002: 12,410,679) being the weighted average number of ordinary shares in issue during the year.

(ii) Diluted Returns

The Diluted Returns per ordinary share of 25 pence each have been calculated on the assumption that the Convertible Subordinated Unsecured Loan Stock 2007 was fully converted on the first day of the financial year, giving a weighted average of 18,229,505 ordinary shares (2002: 18,629,506) and based on net revenue on ordinary activities after taxation of £488,000 (2002: profit £414,000) and net capital deficit of £(1,028,000) (2002: profit £4,138,000). The diluted Revenue Return of 2.7p (2002: anti-dilutive 2.2p) includes the savings of finance costs on the loan stock after taxation.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

12 Investments

Group

	Unlisted Investments £'000	Listed Investments £'000	Total 2003 £'000
Investments listed on a recognised investment exchange	—	15,253	15,253
Unlisted investments	390	—	390
Valuation at year end	<u>390</u>	<u>15,253</u>	<u>15,643</u>
Opening book cost	4,900	11,738	16,638
Book cost re-classification on de-listing	1,170	(1,170)	—
Opening unrealised (depreciation)/appreciation	(4,752)	3,926	(826)
Depreciation re-classification on de-listing	(1,166)	1,166	—
Opening valuation	152*	15,660*	15,812
Movements in the year:			
Purchases at cost	176	3,043	3,219
Sales – proceeds	—	(2,587)	(2,587)
– realised gains on sales	—	867	867
Decrease/(increase) in unrealised depreciation	62	(1,730)	(1,668)
Closing valuation	<u>390</u>	<u>15,253</u>	<u>15,643</u>
Closing book cost	6,246	11,891	18,137
Closing unrealised (depreciation)/appreciation	(5,856)	3,362	(2,494)
	<u>390</u>	<u>15,253</u>	<u>15,643</u>
Sale proceeds	—	2,587	2,587
Investments at cost	—	(1,720)	(1,720)
Realised gains on sales based on historical cost	—	867	867
Less gains recognised as unrealised in previous year	—	(499)	(499)
Realised gains on sales based on carrying value at previous year's balance sheet date	—	368	368
Unrealised appreciation/(depreciation) for the year	62	(1,231)	(1,169)
	<u>62</u>	<u>(863)</u>	<u>(801)</u>

*Adjusted to reflect the de-listing of two investments.

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 2003 (2002: £15,000).

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

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

13 Current asset investments

The Company's only current asset investment, held on the dealing account of Stocks Convertible Limited, is 4,751,970 New Cap Reinsurance Corporation 7.57% Unsecured Convertible Notes 30 November 2001, a holding in an Australian reinsurance company now in liquidation. This investment has been valued by the Directors at A\$0.001 per loan unit (2002:A\$0.001) on the basis of announcements made by the liquidators (see note 24 on page 36).

14 Debtors

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Amounts due from brokers	144	144	486	486
Other debtors	730	730	55	55
Prepayments and accrued income	<u>406</u>	<u>406</u>	<u>225</u>	<u>225</u>
	<u>1,280</u>	<u>1,280</u>	<u>766</u>	<u>766</u>

15 Creditors: amounts falling due within one year

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Banks loans and overdraft	149	149	—	—
Amounts due to brokers	—	—	27	27
Amounts due to subsidiary undertaking	—	50	—	50
Corporation tax payable	206	206	61	61
Deferred tax	61	61	28	28
Other taxation and social security	43	43	1	1
Accruals and deferred income	131	131	258	258
Proposed dividends	<u>252</u>	<u>252</u>	<u>192</u>	<u>192</u>
	<u>842</u>	<u>892</u>	<u>567</u>	<u>617</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

16 Creditors: Convertible Subordinated Unsecured Loan Stock 2007

	2003		2002	
	No of units 000's	£'000	No of units 000's	£'000
Convertible Subordinated Unsecured Loan Stock 2007				
Balance at beginning of year	6,867	6,127	6,868	6,114
Units converted during the year	(1)	(1)	(1)	(1)
Amortisation of reorganisation costs	—	14	—	14
Balance at end of year	<u>6,866</u>	<u>6,140</u>	<u>6,867</u>	<u>6,127</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 5 November 2002 921 units of loan stock (2001: 626) were converted into 833 ordinary shares (2001: 566).

Loan stock holders have further opportunities to convert on 31 October or soon thereafter in each of the years 2003 to 2007.

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

17 Called up share capital

	2003		2002	
	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	12,011	3,003	14,010	3,503
Share buy back 8 August 2001	—	—	(2,000)	(500)
Conversion of 2007 Loan Stock units in year	1	—	1	—
Balance at end of year	<u>12,012</u>	<u>3,003</u>	<u>12,011</u>	<u>3,003</u>

On 5 November 2002 921 (2001: 626) Convertible Subordinated Unsecured Loan Stock 2007 units were converted into 833 (2001: 566) ordinary shares.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

18 Share premium

	2003	2002
	£'000	£'000
Balance at beginning of year	2,516	2,515
Conversion of 2007 Loan Stock units in year	1	1
Balance at end of year	2,517	2,516

19 Capital reserve

	Realised	Unrealised	Total
	2003	2003	2003
	£'000	£'000	£'000
Balance at beginning of year	7,513	(826)	6,687
Net realised gains on investments	368	—	368
Increase in unrealised depreciation	—	(1,169)	(1,169)
Transfer on disposal of investments	499	(499)	—
Foreign currency exchange differences	20	—	20
Capital expenses on investment	(123)	—	(123)
Tax charged to capital	(124)	—	(124)
Balance at end of year	8,153	(2,494)	5,659
Company	Realised	Unrealised	Total
	2003	2003	2003
	£'000	£'000	£'000
Balance at beginning of year	7,513	(3,140)	4,373
Net realised gains on investments	368	—	368
Increase in unrealised depreciation	—	(1,169)	(1,169)
Transfer on disposal of investments	499	(499)	—
Foreign currency exchange differences	20	—	20
Capital expenses on investment	(123)	—	(123)
Tax charged to capital	(124)	—	(124)
Balance at end of year	8,153	(4,808)	3,345

20 Revenue reserve

	Group	Company
	2003	2003
	£'000	£'000
Balance at beginning of year	(1,643)	621
Transfer to reserve account	84	84
Balance at end of year	(1,559)	705

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

21 Reconciliation of movements in shareholders' funds

	Group 2003 £'000	Company 2003 £'000
Opening shareholders' funds	11,063	11,013
Net revenue for year	336	336
Dividend	(252)	(252)
Conversion of 2007 Loan Stock	1	1
Capital deficit for year	(1,028)	(1,028)
Closing shareholders' funds	<u>10,120</u>	<u>10,070</u>

22 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	
	2003	2002	2003	2002
	p	p	£'000	£'000
Ordinary shares (basic)	<u>84.3</u>	<u>92.1</u>	<u>10,120</u>	<u>11,063</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	11,063
Total recognised losses for the year	(692)
Dividends appropriated in the year	(252)
Conversion of 2007 Loan Stock – share capital	—
– share premium	1
Total net assets attributable at end of year	<u>10,120</u>

Basic net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the convertible debt at par) and on 12,011,751 (2002: 12,010,918) 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 89.2p (2002: 94.3p). This has been calculated on the assumption that the 2007 Loan Stock was converted at the rates described in note 16, giving 18,229,504 (2002: 18,229,505) shares at the year end and based on net assets (adjusted to reflect the conversion of the convertible debt at par) of £16,260,000 (2002: £17,190,000).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements *continued*

23 Cash flow statement

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

	2003	2002
	£'000	£'000
Net return before finance costs and taxation	677	603
Add back unrealised trading loss of subsidiary	—	15
(Increase)/decrease in other debtors	(671)	63
Increase in accrued income	(186)	(6)
Decrease in creditors	(7)	(6)
Add back amortisation of reorganisation costs	14	14
	<u>(173)</u>	<u>683</u>

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

	2003	2002
	£'000	£'000
Servicing of finance		
Interest paid	(177)	(335)
Net cash outflow from servicing of finance	<u>(177)</u>	<u>(335)</u>

	2003	2002
	£'000	£'000
Financial investment		
Purchases of investments	(3,246)	(3,982)
Sales of investments	2,929	7,318
Capital expenses on investment	(258)	(18)
Net cash (outflow)/inflow for financial investments	<u>(575)</u>	<u>3,318</u>

Financing		
Exchange movement	—	18
Repayment of loan facility	—	(1,469)
Repurchase of ordinary shares	—	(920)
Net cash outflow from financing	<u>—</u>	<u>(2,371)</u>

(c) Analysis of net debt

	At 1 June 2002 £'000	Cash Flow £'000	Other non-cash changes £,000	Exchange movement £'000	At 31 May 2003 £'000
Cash at bank	1,177	(1,020)	—	20	177
Overdrafts	—	(149)	—	—	(149)
	<u>1,177</u>	<u>(1,169)</u>	<u>—</u>	<u>20</u>	<u>28</u>
Debt due within 1 year	(6,127)	—	(13)	—	(6,140)
Total	<u>(4,950)</u>	<u>(1,169)</u>	<u>(13)</u>	<u>20</u>	<u>(6,112)</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements *continued*

24 Financial instruments and risk profile

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

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

The Company also enters occasionally into derivative and swap contracts in order to manage the risks arising from its investment activities. There were no such contracts outstanding as at the year end.

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

The Company, itself, does not undertake any trading in financial instruments. Through its subsidiary, Stocks Convertible Limited, the Group does undertake trading in financial instruments but such activities represent less than 10% of the Group's activities. There existed one current asset investment holding in the subsidiary company as at the year end, details of which are disclosed in note 13 to the Financial Statements.

The two main risks arising from the Group's financial instruments are market price risk and foreign currency risk. The Directors review and agree policies with the investment manager, Ingot Capital Management Pty Ltd, for managing these risks. The policies have remained unchanged since 1 June 2002.

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

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

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

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

Market price risk

The Company's exposure to market price risk comprises mainly movements in the value of the Company's investments. As at the year end the spread of the Company's investment portfolio analysed by sector was as set out on page 4. The fund did not hedge against movements in the value of these investments during the year.

Foreign currency risk

The base currency for the Company is sterling and, therefore, the Company's principal exposure to foreign currency risk comprises investments in equities priced in other currencies, principally Australian dollars and loan facilities in currencies other than sterling. At 31 May 2003 the Company had no open forward currency contracts (2002: none).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

24 Financial instruments and risk profile continued

Interest rate risk profile of financial assets and liabilities

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

	31 May 2003			Total £'000
	Non-interest £'000	Floating £'000	Fixed £'000	
<i>Financial assets</i>				
Equity investments				
Australian Dollar	11,106	—	—	11,106
New Zealand Dollar	2,335	—	—	2,335
Non-equity investments (current and fixed asset)				
Australian Dollar	154	—	835	989
New Zealand Dollar	—	—	784	784
Sterling	2	—	—	2
Euro	—	—	339	339
US Dollar	90	—	—	90
Cash at bank and short-term deposits				
Australian Dollar	130	33	—	163
New Zealand Dollar	—	14	—	14
	<u>13,817</u>	<u>47</u>	<u>1,958</u>	<u>15,822</u>
<i>Financial liabilities</i>				
Overdrafts				
Sterling	—	(149)	—	(149)
Convertible Subordinated Unsecured Loan Stock 2007				
Sterling	—	—	(6,140)	(6,140)
	<u>13,817</u>	<u>(102)</u>	<u>(4,182)</u>	<u>9,533</u>

Aggregate currency position

	31 May 2003				%
	Non-interest £'000	Floating £'000	Fixed £'000	Total £'000	
Australian Dollar	11,390	33	835	12,258	128.6
New Zealand Dollar	2,335	14	784	3,133	32.9
Sterling	2	(149)	(6,140)	(6,287)	(66.0)
Euro	—	—	339	339	3.6
US Dollar	90	—	—	90	0.9
	<u>13,817</u>	<u>(102)</u>	<u>(4,182)</u>	<u>9,533</u>	<u>100.0</u>

The sterling overdraft was incurring interest at the Bank of Scotland base rate plus 1.5% giving an overdraft interest rate of 5.25% per annum as at the year end date.

The cash balance of £33,000 denominated in Australia Dollars and £14,000 denominated in New Zealand Dollars received interest at the Northern Trust Deposit rate of 2.58% and 2.895% per annum respectively as at the end date.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

24 Financial instruments and risk profile continued

	31 May 2002			Total £'000	
	Non-interest £'000	Floating £'000	Fixed £'000		
<i>Financial assets</i>					
Equity investments					
Australian Dollar	10,076	—	—	10,076	
New Zealand Dollar	1,488	—	—	1,488	
Non-equity investments (current and fixed asset)					
Australian Dollar	9	—	2,740	2,749	
New Zealand Dollar	—	—	1,232	1,232	
Sterling	15	—	—	15	
Euro	—	—	177	177	
US Dollar	—	—	77	77	
Cash at bank and short-term deposits					
Australian Dollar	—	1,147	—	1,147	
New Zealand Dollar	21	—	—	21	
Sterling	9	—	—	9	
	<u>11,618</u>	<u>1,147</u>	<u>4,226</u>	<u>16,991</u>	
<i>Financial liabilities</i>					
Convertible Subordinated Unsecured					
Loan Stock 2007					
Sterling	—	—	(6,127)	(6,127)	
	<u>11,618</u>	<u>1,147</u>	<u>(1,901)</u>	<u>10,864</u>	
Aggregate currency position					
	31 May 2002				
	Non-interest £'000	Floating £'000	Fixed £'000	Total £'000	%
Australian Dollar	10,085	1,147	2,740	13,972	128.6
New Zealand Dollar	1,509	—	1,232	2,741	25.3
Sterling	24	—	(6,127)	(6,103)	(56.2)
Euro	—	—	177	177	1.6
US Dollar	—	—	77	77	0.7
	<u>11,618</u>	<u>1,147</u>	<u>(1,901)</u>	<u>10,864</u>	<u>100.0</u>

The cash balance of £1,147,000 denominated in Australian Dollars received interest at a rate of 2.90% per annum as at the year end.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

24 Financial instruments and risk profile continued

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

	31 May 2003		31 May 2002	
	Weighted average interest rate	Weighted average maturity date	Weighted average interest rate	Weighted average maturity date
Financial assets – non-equity investments:				
Australian dollar	9.365%	9-Dec-06	7.613%	19-Jan-06
New Zealand dollar	8.000%	30-Jun-05	8.000%	30-Jun-05
Euro	2.000%	6-Aug-05	2.000%	6-Aug-05
US Dollar	—	—	11.750%	15-Feb-08
	<u>7.545%</u>	<u>16-Feb-06</u>	<u>7.565%</u>	<u>27-Nov-05</u>
Financial liabilities – Convertible Subordinated				
Unsecured Loan Stock 2007:				
Sterling	<u>3.500%</u>	<u>30-Nov-07</u>	<u>3.500%</u>	<u>30-Nov-07</u>

The weighted average maturity date represents the weighted average date for those loans outstanding on 31 May 2003.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

24 Financial instruments and risk profile continued

Currency exposures

As at 31 May 2003 the Group's net currency exposures were as follows:

	*Sterling £'000	A\$ £'000	NZ\$ £'000	Euro £'000	US\$ £'000	Total £'000
Fixed asset investments	2	12,093	3,119	339	90	15,643
Cash and overdrafts	(149)	163	14	—	—	28
Convertible Subordinated						
Unsecured Loan Stock 2007	(6,140)	—	—	—	—	(6,140)
Current asset investments	—	2	—	—	—	2
Amounts due from brokers	—	144	—	—	—	144
Other net current assets/(liabilities)	(578)	972	43	6	—	443
	<u>(6,865)</u>	<u>13,374</u>	<u>3,176</u>	<u>345</u>	<u>90</u>	<u>10,120</u>
	(67.8%)	132.1%	31.4%	3.4%	0.9%	100.0%

As at 31 May 2002 the Group's net currency exposures were as follows:

	*Sterling £'000	A\$ £'000	NZ\$ £'000	Euro £'000	US\$ £'000	Total £'000
Fixed asset investments	15	12,823	2,720	177	77	15,812
Cash and overdrafts	9	1,147	21	—	—	1,177
Convertible Subordinated						
Unsecured Loan Stock 2007	(6,127)	—	—	—	—	(6,127)
Current asset investments	—	2	—	—	—	2
Amounts due from brokers	—	486	—	—	—	486
Amounts due to brokers	—	(27)	—	—	—	(27)
Other net current assets/(liabilities)	(369)	107	(4)	6	—	(260)
	<u>(6,472)</u>	<u>14,538</u>	<u>2,737</u>	<u>183</u>	<u>77</u>	<u>11,063</u>
	(58.5%)	131.4%	24.7%	1.7%	0.7%	100.0%

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

Maturity of financial liabilities

The Group's financial liabilities, other than short-term creditors, is the Convertible Subordinated Unsecured Loan Stock 2007 which is repayable at par on 30 November 2007.

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

	2003 £'000	2002 £'000
In one year or less, or on demand	<u>6,289</u>	<u>6,127</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

24 Financial instruments and risk profile continued

Borrowing facilities

The Group had no borrowing facilities at the year end other than the overdraft at the Bank of Scotland. This facility expires on 31 March 2004 and the Board will review the renewal of this facility for a further year prior to expiry.

Fair values of financial assets and financial liabilities

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

	2003		2002	
	Book value £'000	Fair Value £'000	Book value £'000	Fair Value £'000
Primary financial instruments:				
Short-term loans and overdrafts	(149)	(149)	—	—
Convertible Subordinated Unsecured				
Loan Stock 2007	(6,140)	(6,215)	(6,127)	(4,911)
Equity investments (fixed asset)	13,441	13,441	11,564	11,564
Non-equity investments (current and fixed asset)	2,204	2,204	4,250	4,250
Cash	177	177	1,177	1,177

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

25 Contingent liabilities

As at 31st May 2003 there were no contingent liabilities or financial commitments. (31 May 2002: A\$1,000,000 (£387,000)).

Guarantee

On 24th July 2002 the Company deposited A\$1,000,000 with HSBC Australia and on 7 March 2003 the Company deposited a further A\$792,653 with HSBC Australia to establish Bank Guarantees to the plaintiffs as security against any prospective adverse costs regarding legal action in connection with the Company's investment in New Cap Reinsurance. On 28 August 2003 HSBC Australia repaid A\$1,792,653 to the Company and investments with a market value of A\$6,625,000 (sterling equivalent £2,635,000) as at 31 May 2003 were transferred to HSBC Australia as security.

Included within other expenses are legal fees of £113,000 (2002: £100,000) in connection with a claim for damages related to one of the Company's investments. The investment is carried in the Company's accounts at a negligible value.

26 Total expense ratios	2003	2002
Total assets	1.96%	2.11%
Shareholders funds	3.32%	3.65%

The above total expense ratios are based on average total assets of £14,950,000 (2002: £14,521,000) and average shareholders funds of £8,818,000 (2002: £8,402,000) calculated at the end of each month during the period and operating expenses incurred during the year of £293,000 (2002: £307,000).

27 Related party disclosure

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

STOCKS CONVERTIBLE TRUST PLC

Five Year Financial Summary

	1999	2000	2001	2002	2003
	£'000	£'000	£'000	£'000	£'000
Capital	6,014	6,015	6,018	5,519	5,520
Total reserves	7,904	1,568	1,756	5,544	4,600
Convertible Loan Stock 2007	6,090	6,103	6,114	6,127	6,140
Net operating revenue/(deficit)	(924)	840	173	603	676
Taxation	191	(8)	20	58	120
Net revenue	(1,501)	371	(209)	262	336
Dividend	252	315	56	192	252
Earnings per 25p ordinary share	(10.7)p	2.7p	(1.5)p	2.1p	2.8p
Dividend per 25p ordinary share	1.80p	2.25p	0.40p	1.60p	2.10p
Gross interest per unit of Loan Stock 2007	3.5p	3.5p	3.5p	3.5p	3.5p
Fully-diluted net asset value per ordinary share	98.9p	67.7p	68.7p	94.3p	89.2p

STOCKS CONVERTIBLE TRUST PLC

Notice of Annual General Meeting

Notice is hereby given that the 2003 Annual General Meeting of Stocks Convertible Trust PLC will be held at 68 Lombard Street, London EC3V 9LJ on Monday 3 November 2003 at 12.00 noon for the following purposes:

Ordinary Business

1. to receive and adopt the accounts and the reports of the Directors and Auditors for the year ended 31 May 2003;
2. to approve the Directors' Remuneration Report for the year ended 31 May 2003;
3. to declare a dividend of 2.10p per share;
4. to re-appoint Mr P Burrows as a Director of the Company;
5. to re-appoint Mr A Bushell, who has attained the age of 70, as a Director of the Company (special notice to propose this resolution has been received);
6. to re-appoint RSM Robson Rhodes LLP as Auditors of the Company and authorise the Directors to determine their remuneration.

Special Business

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

“THAT the Directors be generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the “Act”) to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £1,000,750 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on 2 November 2008, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.”
8. To consider and, if thought fit, pass the following resolution as a special resolution:

“THAT

 - (a) the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the “Act”) to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority available to the Directors under Section 80 of the Act as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited:
 - (i) to the allotment of equity securities in connection with a rights issue and,
 - (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £150,146;and shall expire on the date of the next Annual General Meeting or the date 15 months after the passing of this resolution, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require securities to be allotted after such expiry and the board may allot equity securities in pursuance of such an offer or agreement as if the power hereby had not expired;
 - (b) for the purpose of this resolution, words and expressions defined in or for the purpose of Part IV of the Act shall bear the same meaning in this resolution; and

STOCKS CONVERTIBLE TRUST PLC

Notice of Annual General Meeting continued

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

Dated this 25th day of September 2003

By order of the Board

Phoenix Administration Services Limited
Secretary

Notes

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

STOCKS CONVERTIBLE TRUST PLC

Company Information

Directors

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

Investment Manager

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

Company Secretary and Registered Office

Phoenix Administration Services Limited
77a High Street
Brentwood
Essex
CM14 4RR

Auditors

RSM Robson Rhodes LLP
186 City Road
London
EC1V 2NU

Registrars

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

Custodian

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

Brokers

Collins Stewart
9th Floor
88 Wood Street
London
EC2V 4QR

Shareholder Relations

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

Individual Savings Account ('ISA')

Stocks Convertible Trust PLC is eligible in full to be held in a Maxi ISA allowing investment of up to £7,000 in the tax year 2003/2004.

STOCKS CONVERTIBLE TRUST PLC

STOCKS CONVERTIBLE TRUST PLC

Form of Proxy

Name(s) in full
(BLOCK CAPITALS PLEASE)

I/We, the undersigned, being (a) member(s) of the above Company, hereby appoint the Chairman of the Meeting or
(see note 3) as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 3 November 2003 and at any adjournment thereof, in the following manner:

- | | FOR* | AGAINST* | |
|----|--------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to receive and adopt the accounts and the reports of the Directors and Auditors for the year ended 31 May 2003; |
| 2. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to approve the Directors' Remuneration Report for the year ended 31 May 2003; |
| 3. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to declare a dividend of 2.10p per share; |
| 4. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-appoint Mr P Burrows as a Director of the Company; |
| 5. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-appoint Mr A Bushell, who has attained the age of 70, as a Director of the Company; |
| 6. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-appoint RSM Robson Rhodes LLP as Auditors of the Company and authorise the Directors to determine their remuneration; |
| 7. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to authorise the Directors to unconditionally allot shares; |
| 8. | <input type="checkbox"/> | <input type="checkbox"/> | the special resolution to disapply statutory pre-emption rights. |

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

As WITNESS my/our hand(s) this day of 2003

Signature(s)

Notes:

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

Third Fold and Tuck in

BUSINESS REPLY SERVICE
Licence No. MB 122

2



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

First Fold

Second Fold

