

STOCKS CONVERTIBLE TRUST PLC



REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2004

STOCKS CONVERTIBLE TRUST PLC

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STOCKS CONVERTIBLE TRUST PLC

Objective of the Company

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

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

Highlights for the Year

- Fully-diluted consolidated net asset value per share in sterling increased 26.2% to 112.6p.
- Shareholder funds increased by 42.1%.
- Australian dollar weakend 2.2% against sterling.
- Dividend, interest and other income declined by 23.7%.
- Total expenses increased by 34.5%.
- Proposed dividend of 1.00p, down from 2.10p.

Awards

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

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

STOCKS CONVERTIBLE TRUST PLC

Chairman's Statement

In the year to 31 May 2004 the fully diluted net asset value (NAV) rose strongly by 26.2% to 112.6 pence, while over the three years 31 May 2001 to 31 May 2004 the NAV has risen by 63.9% from 68.7 pence to the current 112.6 pence, a period during which most developed markets have fallen by between 11% and 36%, apart from the Australian market which has risen by 4%. The ASX Small Ordinaries Index, which is now to be used as the benchmark while most of the Company's investments are still in Australia, rose in sterling adjusted terms by 20.9% in the year to 31 May 2004. When more of the Company's assets are invested in international convertible securities an appropriate new benchmark will be selected. Over the year to 31 May 2004 the Australian dollar weakened by 2.2% from A\$2.5141 to A\$2.5693.

Dividend, interest and other income declined over the year from £969,000 to £739,000, but total expenses rose 34.5% from £293,000 to £394,000, principally because the Directors agreed to a rise in the basic management fee from 0.4% to 0.5%, which is still a low percentage, as well as to a rise in the total value of the portfolio. Also, extra legal costs were incurred. In addition, a performance fee of £25,000 is payable to the Manager out of the capital account. As a result of lower income and higher total expenses in the income account the return per share fell from 2.8 pence to 0.8 pence. The Directors therefore propose a dividend of 1.00 pence per share compared with 2.10 pence the previous year.

The Australian economy has continued to grow strongly, with GDP rising by 3.2% in the year to March 2004, a slight increase on the previous year of 2.9%. Personal consumption and investment were the major contributors to growth. Exports also improved, but this was more than offset by higher imports, which lead to the current account deficit increasing further from A\$ 10.1 billion to A\$ 11.9 billion (5.1% of GDP) in the year to March 2004. The Reserve Bank is forecasting GDP growth will strengthen further in 2004 to 3.75% with underlying inflation at about 2%. It has therefore lifted official interest rates by 0.5% to 5.25% to restrain growth and any consequent inflationary pressures. Reflecting this expected strong growth, the Australian stock market as measured by the All Ordinaries Index rose by 16.0% to 3457 over the year to 31 May 2004, while the ASX Small Ordinaries Index rose by 23.6% to 1911 over the same period.

The convertible markets performed strongly in 2003, aided by lower bond yields and significant rallies in major equity markets. This strong performance has continued into 2004, but on a lesser scale. However, market volatility has increased mainly due to uncertainty surrounding future US interest rate rises and international events such as the Madrid terrorist bombings and the ongoing problems in Iraq and Saudi Arabia. There was a large volume of new issues of convertibles in 2003 as companies sought to take advantage of the buoyant convertibles market. However, this seems to be slowing down, while at the same time the number of retirements of convertibles has started to exceed new issues, but demand for convertibles continues to exceed supply. This has resulted in higher valuations of convertibles in the major markets and so the premium over the underlying equity has declined. So far yields on convertibles have been resistant to rising bond yields.

As a result it is becoming increasingly challenging to identify undervalued convertible securities. Thus the latitude afforded within the Company's objective to invest in other categories of securities, including special situations, will probably need to be increasingly used for the investment of available liquid funds for the time being. It may still be a while before the bulk of the Company's assets in Australia and New Zealand can be realised, so the Company's main focus will inevitably remain in those areas for the immediate future.

Now that the NAV of the ordinary shares is well above the conversion price of the 3.5 per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007 into ordinary shares, the Directors are considering proposing the revision of the terms of the Loan Stock so that stock holders will be invited to convert or be repaid at the par value of 90 pence. When the proposal has been further developed a circular will be prepared for stock holders and ordinary shareholders to vote on.

The Board has a strong and professional relationship with the Manager in respect of both investment and business management. The Manager reports to the Board regularly and its performance is monitored against a number of criteria. As can be seen from my comments above, the performance of the Manager against the Board's chosen benchmarks has been good. The Board are therefore satisfied that the continuing appointment of the Manager is in the best interests of the Company.



Anthony Bushell
Chairman
12 August 2004

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Directors

Anthony Bushell*†, Chairman, aged 71, is non-executive chairman of Smaller Companies Value Trust plc and is 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 57, a senior stockbroker with Bell Potter Securities. He was formerly the chairman/chief executive of Burrows Limited (which merged with McIntosh Baring Limited and was subsequently acquired by Merrill Lynch), chairman of Garratts Limited and, a director of FTR Holdings Limited, CRI Limited and ASX (Sydney) Limited.

Bruce Hervey*†, aged 62, 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 58, formerly a stockbroker and investment banker, is now an adviser in fund management and business strategy to companies. He is a director of Trust Company of Australia Limited, in which the Company has an investment.

All Directors are non-executive

* Independent

† Audit and Management Engagement Committee member

Investment Manager

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

Administrator and Secretary

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

STOCKS CONVERTIBLE TRUST PLC

Analysis of Investments by Value as at 31 May 2004

(Ordinary shares unless otherwise stated)

Company	Sector	£'000	%
Trust Company of Australia	Financial	8,960	43.66%
ERG	Telecommunications Services	2,146	10.46%
eBet 10% Redeemable Conv Notes 29/11/06 & Ord	Software and Computer Services	1,114	5.43%
Guinness Peat Group 8% CULS 30/06/05	Financial	777	3.79%
Global Equity Market Securities 0% 18/01/08	Investment Company	701	3.41%
Tower	Financial	606	2.95%
Reinsurance Australia	Insurance	557	2.71%
Real Estate Opportunities 7.5% Conv 31/05/11 & Zero Div Prefs 31/05/11	Investment Company	491	2.39%
Village Roadshow Prefs 'A'	Leisure, Entertainment and Hotels	397	1.93%
JDV	Financial	252	1.23%
Ten largest investments		16,001	77.96%
Other investments (16)		876	4.27%
Total investments		16,877	82.23%
Cash at bank and short-term deposits		3,781	18.42%
Current assets less current liabilities		(133)	(0.65%)
Gross assets		20,525	100.00%

Classification of Assets

	2004		2003	
	£'000	%	£'000	%
Equities	13,913	67.79	13,441	82.66
Convertible securities	2,868	13.97	1,771	10.89
Fixed interest securities	96	0.47	431	2.65
Total investments	16,877	82.23	15,643	96.20
Current assets	3,648	17.77	617	3.80
Gross assets	20,525	100.00	16,260	100.00

Geographical Analysis

	2004		2003	
	£'000	%	£'000	%
Australia	13,901	67.73	12,093	74.37
New Zealand	2,123	10.34	3,119	19.18
United Kingdom	732	3.57	341	2.10
United States	121	0.59	90	0.55
Total investments	16,877	82.23	15,643	96.20
Current assets	3,648	17.77	617	3.80
Gross assets	20,525	100.00	16,260	100.00

STOCKS CONVERTIBLE TRUST PLC

Investment Manager's Report

Investment Policy and Approach

The Company seeks to identify and invest in undervalued convertible securities.

The Company generally aims to invest in companies that can provide capital appreciation and income while at the same time minimise risk by having the option to receive a return of the funds invested where investments are less than successful.

The Company's previous investment policy was to invest in Australasian listed companies principally in financial services, investment companies and smaller industrials. Since the change of investment policy the Manager has continued to refocus the portfolio from Australasian investments to a portfolio of convertibles but only realising the Australasian investments at an appropriate and opportune time.

Investment Performance

We are pleased to note this investment policy and approach has been successful as shareholders funds increased by 42.1% during the year in challenging markets. Our performance was acknowledged by Investment Trusts magazine who awarded your Company the 'Best Growth and Income Trust' for the 2003 calendar year.

Currency Risk

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

Convertible Markets

Convertible markets performance in 2003 were favourably aided by lower bond yields and significant rallies in the major equity markets. This positive trend has continued into 2004 but at a reduced rate.

Market volatility has increased mainly due to uncertainty surrounding future US interest rate rises and international events such as the Madrid terrorist bombings and the ongoing problems in Saudi Arabia and Iraq.

The previous year witnessed large new issuances of convertibles as companies sought to take advantage of the buoyant convertibles market. However, demand for convertibles continues to exceed supply. This has resulted in higher valuations of convertibles in major markets and these higher valuations make finding undervalued investment opportunities increasingly difficult.

Australian Economy

The Australian economy has continued to grow, albeit at a lower rate, as reflected in the increase in GDP in the year to March quarter of 3.2% (0.2% for the quarter) compared to 3.9% in the year to December quarter.

STOCKS CONVERTIBLE TRUST PLC

Investment Manager's Report continued

Household consumption and investment were the major contributors to growth in the year. Whilst Australian export performance has improved it is more than offset by higher imports which consequently have detracted from GDP growth as reflected in the Current Account Deficit at A\$11.9bn in March which is a ratio of 5.1% to GDP.

The Reserve Bank tightened monetary settings and raised official interest rates by 0.5% in the December quarter to 5.25% which has slowed the previously strong growth in construction and dwelling investment. Although expectations in early 2004 were for further increases in the official rate, the weakening housing market has forestalled such action. Market interest rates have consequently increased as evidenced by 90 Day Bank Bills increasing over the period from 4.8% last year to 5.5% in May this year and 10 Year Bonds increasing from 4.8% to 5.8%.

Inflation remains well within Reserve Bank parameters at 2% compared to 3.4% last year. The labour market continues to perform well with the unemployment rate at May being 5.5% compared to 6% last year.

The March quarter is expected to be the low point in the current cycle with economic activity to regain momentum from continuing domestic demand, higher investment activity and improved export performance.

Australian Dollar

The Australian Dollar against the US Dollar increased from 65.2 cents in May 2003 to 78.9 cents in February 2004 and then declined to 71.4 cents in May 2004. The Australian dollar against sterling increased from 39.9 pence in May 2003 to 42.7 pence in November 2003 and then declined to 38.9 pence in May 2004.

Australian Stock Market

The stock market as reflected in the ASX All Ordinaries Index increased from 2979 in May 2003 to 3457 in May 2004 and mainly traded in the 3000 to 3200 range during the year. The ASX Small Ordinaries Index increased from 1546 in May 2003 to 1911 in May 2004 and mainly traded between 1800 and 1900 during the year. The improved performance of small cap stocks is a reflection of the improved market sentiment to the sector after being shunned by investors in recent years.

Outlook

The markets in general remain difficult with a number of opposing issues unsettling investor's confidence. The outlook for interest rates to rise will impact negatively on yield-based investments which include convertibles.

If convertible markets remain difficult then the investment managers will look to invest surplus liquid funds in other securities including special situations.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews

Trust Company of Australia

ASX Code	: TRU	12 Month Range	: A\$5.30 – A\$8.35
Issued Shares	: 32.4 million	SCT Investment	: £8.9 million
Market Capitalisation	: A\$243 million		(9.5% of TRU)

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

The share price of Trust Company of Australia has increased from A\$5.30 in May 2003 to A\$7.50 in May 2004.

Trust Company of Australia has exceeded expectations in the financial results for the year to February 2004. Operating revenue was A\$63.9m and operating profit was A\$17.3m. Net profit was A\$10.8m which equated to an EPS of 33.3 cents. Dividends of 50 cents were paid during the year including a special dividend of 15 cents.

This is significantly the Company's largest investment.

ERG

ASX Code	: ERG	12 Month Range	: A\$0.62 – A\$1.45
Issued Shares	: 267.5 million	SCT Investment	: £2.1 million
Market Capitalisation	: A\$166 million		(3.3% of ERG)

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 has decreased from an adjusted 83 cents at May 2003 to 62 cents at May 2004.

ERG has reported a net loss of A\$43m for the half year to December which includes net write downs and provisions of A\$25m. Revenue for the period was A\$100m and EBITDA was a loss of A\$5m. The operating cash deficit was A\$15.5m.

In commenting upon the results the newly appointed CEO Alan Sullivan noted that the operating deficit was largely caused by the commencement of new major projects where in the early stages of development revenue recognition is low. He also said that further restructuring would be undertaken to reduce costs and to that end a provision of A\$5m was made. Whilst ERG would not report positive results for the year to June 2004 due to the write downs in the half year, Sullivan said that ERG would return to profit and be cash flow positive in 2005. Since the Company's year end ERG has raised A\$67million through an underwritten rights issue which should have a positive impact on the company.

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Company Reviews continued

eBet

ASX Code	: EBTG	12 Month Range	: A\$21 – A\$25
Issued Notes	: 0.28 million	SCT Investment	: £0.8 million
Market Capitalisation	: A\$7.1 million		(27.9% of EBTG)

ASX Code	: EBT	12 Month Range	: A\$0.098 – A\$0.14
Issued Shares	: 163.9 million	SCT Investment	: £0.3 million
Market Capitalisation	: A\$16.4 million		(5.3% of EBT)

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

Our exposure to eBet is mainly through the 10% convertible notes redeemable in 2006 (convertible at 20 cents).

The share price of eBet declined from 10.5 cents at May 2003 to 10 cents at May 2004 and the price of the convertible notes increased from A\$23 in May 2003 to A\$25 in May 2004.

eBet has reported on its results for the six months to December 2003 and recorded sales revenue of A\$8.1m and EBITDA of A\$1.2m compared to A\$8.2m and EBITDA of A\$0.9m in the June half year. eBet also recorded a maiden profit, albeit modest, for the half year of A\$0.24m.

eBet has announced that it had secured agreements to supply and operate a gaming system for a number of Californian Native American casinos. It is anticipated that the initial contract will generate revenues of A\$7m and anticipated EBITDA of A\$1m.

Guinness Peat Group

NZSE Code	: GPGGA	12 Month Range	: NZ\$0.62 – NZ\$0.95
Issued Notes	: 31.3 million	SCT Investment	: £0.8 million
Market Capitalisation	: NZ\$27.9 million		(8.3% of GPGGA)

Guinness Peat Group is an investment holding company operating in Australia, New Zealand and the United Kingdom. Investments include fund 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 or has been 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 48.8p.

The price of the convertible 8% loan notes increased from an adjusted NZ\$0.67 in May 2003 to NZ\$0.89 in May 2004. The share price of the ordinary shares increased from 48 pence in May 2003 to 66 pence in May 2004.

Guinness Peat Group has reported a profit of £63.9m for the 2004 year which equates to an EPS of 6.78p compared to 5.39p previously. Guinness Peat Group has maintained strong liquidity holding £272m in cash but noted that this level would reduce in coming months.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews continued

Global Equity Market Securities

NZSE Code	: GEM1	12 Month Range	: NZ\$ 0.97–NZ\$ 1.10
Issued Shares	: 50 million	SCT Investment	: £0.7 million
Market Capitalisation	: NZ\$ 54 million		(1.4% of GEM1)

Global Equity Market Securities is a capital protected investment product that provides exposure to increases in the S&P 500, FTSE 100 and Nikkei 225 indices. On maturity in January 2008 holders receive NZ\$1.00 per security plus 67% of the increase in the best performing of the indices from inception in December 2002 to various stipulated dates.

The capital of NZ\$1.00 per security is protected by securities issued by the National Bank, a major New Zealand commercial bank owned by ANZ Bank.

Tower

NZSE Code	: TWR	12 Month Range	: NZ\$1.14 – NZ\$1.71
Issued Shares	: 409 million	SCT Investment	: £0.6 million
Market Capitalisation	: NZ\$668 million		(0.2% 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 increased from NZ\$1.14 in May 2003 to NZ\$1.63 in May 2004.

For the year to September, Tower incurred a net loss of NZ\$148m. The loss was largely a result of revaluation of the carrying values of subsidiaries in the first half. For the second half year Tower reported a profit of NZ\$5.5m. Following the NZ\$210m rights issue the balance sheet has been substantially strengthened as evidenced by debt ratio of 22%.

At the AGM the chairman noted that Tower reported results in the first quarter in line with their budget and that the Australian operations had returned to profitability. Tower expects to report a significantly improved result for the year 2004.

STOCKS CONVERTIBLE TRUST PLC

Company Reviews continued

Reinsurance Australia

ASX Code	: RAC	12 Month Range	: A\$0.19 – A\$0.61
Issued Shares	: 201 million	SCT Investment	: £0.5 million
Market Capitalisation	: A\$106.5 million		(1.3% of RAC)

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

The share price of Reinsurance Australia increased strongly from 22 cents in May 2003 to 53 cents in May 2004. Reinsurance Australia reported a net profit for the year to December 2003 of A\$39.6m (2002 A\$0.9m).

The run off is now substantially complete and Reinsurance Australia holds 7.8 times the minimum capital level required by regulatory prudential standards. Reinsurance Australia is exploring options for future operations and intends applying for a general insurance licence to offer niche products. Reinsurance Australia also intends to provide expertise to other companies in running off reinsurance contracts.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors for the year ended 31 May 2004

The Directors submit their Report together with the audited financial statements of the Company and Group for the year ended 31 May 2004.

Results and Dividend

The revenue return for the financial year ended 31 May 2004 after taxation amounted to £98,000 (2003: revenue return of £336,000). A dividend of 1.00p per ordinary share is proposed in respect of the year ended 31 May 2004 (2003: 2.10p per ordinary share). If approved by shareholders the dividend will be paid on 22 October 2004 to shareholders whose names appear on the register at close of business on 1 October 2004 (ex-dividend 29 September 2004).

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 2003.

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

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

Review of the Year

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

Directors

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

In accordance with Article 89(A) of the Company's Articles of Association, Mr B Hervey 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 Bushell be re-elected a Director of the Company notwithstanding that he is age 71.

Directors Interests

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

	25p Ordinary Shares	
	31 May 2004	31 May 2003
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 2004 and 12 August 2004. 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 12 August 2004 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	14.48
Modesto Limited	1,490,587	12.41
Quilter & Co Limited	1,300,000	10.82
Lazard Freres Asset Management	1,250,000	10.41
Apollo Fund Plc	425,000	3.53

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

Changes in Capital Structure

The next opportunity to convert loan stock into ordinary shares will be on 1 November 2004 or soon thereafter, details of which will be provided in a reminder notice to be dispatched to loan stock holders in September 2004.

The Company's capital structure currently comprises 12,012,928 ordinary shares and 6,865,712 units of 3.5 per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007. Further details of changes during the year to 31 May 2004 are contained in notes 15 and 16 to the Financial Statements.

Annual General Meeting

The notice convening the Annual General Meeting ("AGM") of the Company for 14 October 2004 is set out at the end of this document.

Ordinary business

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

Special business

Resolution 7 – authority to allot unissued shares

In terms of resolution 7, the Directors will be seeking authority from shareholders to allot unissued share capital up to an aggregate nominal amount of £1,001,000 (equivalent to 4,004,000 ordinary shares or approximately 33% of the Company's existing issued ordinary share capital). The 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.

STOCKS CONVERTIBLE TRUST PLC

Report of the Directors continued

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 authority will enable the Directors to allot equity securities wholly for cash in connection with a rights issue or otherwise up to an aggregate nominal amount of £150,162. This limited disapplication will allow the Directors to allot up to 600,646 ordinary shares, representing 5% of the issued equity share capital as at 12 August 2004. 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 2004 the Company had no trade creditors (creditors' days: nil) (31 May 2003 the Company had no trade creditors (creditors' days: nil)).

Statement of Directors' Responsibilities for the Annual Report

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

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

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

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

Auditor

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

On behalf of the Board

Phoenix Administration Services Limited

Secretary

12 August 2004

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 2004, except where disclosed below, and this Statement describes how the relevant principles of governance are applied to the Group.

A revised Combined Code was issued in July 2003, which is effective for companies with financial years beginning on or after 1 November 2003. The Board is reviewing the Company’s compliance with the revised Code and the additional requirements contained therein.

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 2004 and up to the date of approval of the Annual Report and Financial Statements, and has been regularly reviewed by the Board.

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

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

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

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

STOCKS CONVERTIBLE TRUST PLC

Corporate Governance Statement continued

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.

Directors

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

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

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

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 auditor also attends the Committee at its request, at least once a year, and reports on its work procedures, the quality and effectiveness of the Group's accounting procedures and 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 Auditor's appointment and remuneration and the carrying value of unquoted investments.

Directors' and Management 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 are £75,000 per financial year. 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 2004

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

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

Remuneration Committee

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

Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts which are similar in size, have a similar capital structure and, have a similar investment objective. It is intended that this policy will continue for the year to 31 May 2005 and subsequent years.

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

Director's Service Contracts

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

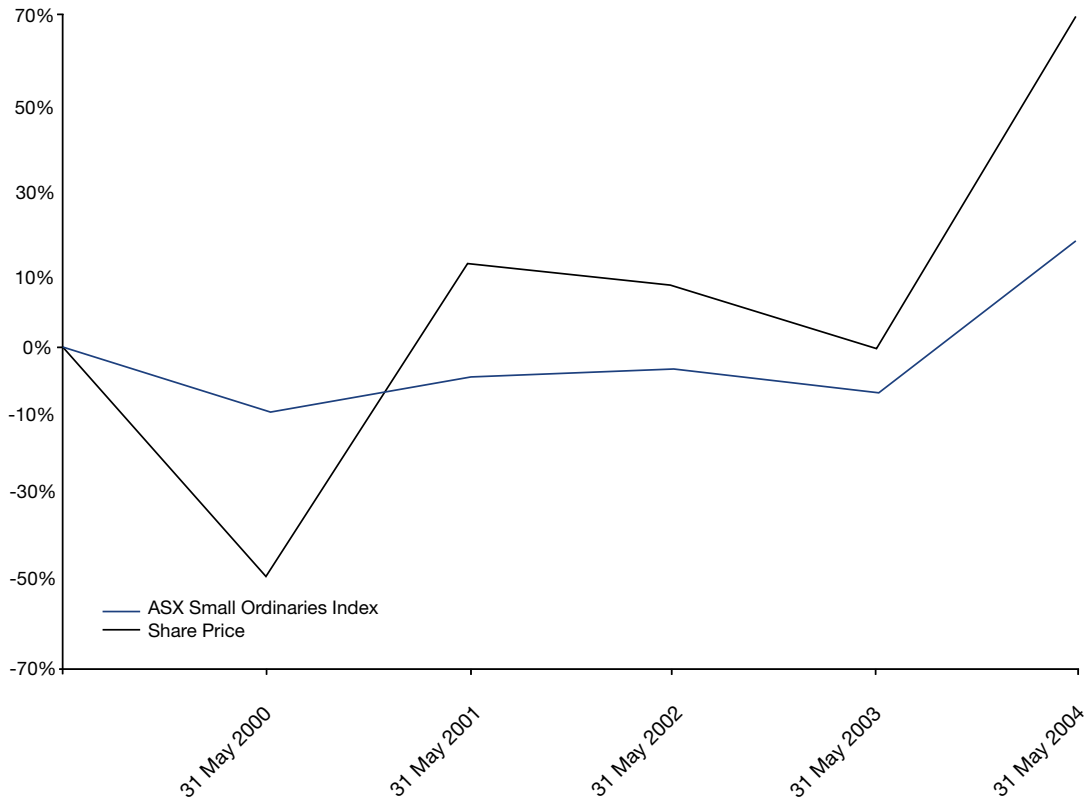
Your Company's Performance

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

STOCKS CONVERTIBLE TRUST PLC

Directors' Remuneration Report continued

Total shareholder return performance for Stocks Convertible Trust plc and the ASX Small Ordinaries Index for the five years to 31 May 2004



Director's Emoluments for the year ended 31 May 2004 (audited part)

	2004 £'000	2003 £'000
A F Bushell*	20,000	19,583
P I Burrows	10,000	9,792
B C Hervey	10,000	9,792
W J McLeland	10,000	9,792

* Chairman of the Board and Audit Committee

On behalf of the Board

Anthony Bushell
Chairman
12 August 2004

STOCKS CONVERTIBLE TRUST PLC

Report of the Independent Auditor

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

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

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

Respective responsibilities of Directors and Auditors

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

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

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

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

Basis of audit opinion

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

Report of the Independent Auditor continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the 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 2004 and of the Group's 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 Auditor
London, England

12 August 2004

STOCKS CONVERTIBLE TRUST PLC

Consolidated Statement of Total Return incorporating the revenue account for the year ended 31 May 2004

	Notes	2004			2003		
		Revenue* £'000	Capital £'000	Total £'000	Revenue* £'000	Capital £'000	Total £'000
Gains/(losses) on investments	12	—	4,667	4,667	—	(801)	(801)
Exchange differences		—	(259)	(259)	—	20	20
Income	3	739	218	957	969	—	969
Investment management fees	4	(109)	(25)	(134)	(60)	—	(60)
Other expenses	5	(285)	(265)	(550)	(233)	(123)	(356)
Net return/(deficit) before finance costs and taxation		345	4,336	4,681	676	(904)	(228)
Interest payable and similar charges	8	(218)	—	(218)	(220)	—	(220)
Return/(deficit) on ordinary activities before tax		127	4,336	4,463	456	(904)	(448)
Tax on ordinary activities	9	(29)	(58)	(87)	(120)	(124)	(244)
Return/(deficit) on ordinary activities after tax for the financial year		98	4,278	4,376	336	(1,028)	(692)
Dividends in respect of equity shares	10	(120)	—	(120)	(252)	—	(252)
Transfer (from)/to reserves		(22)	4,278	4,256	84	(1,028)	(944)
Return/(loss) per ordinary share:	11						
Basic		<u>0.8p</u>	<u>35.6p</u>	<u>36.4p</u>	<u>2.8p</u>	<u>(8.6p)</u>	<u>(5.8p)</u>
Diluted		<u>1.4p</u>	<u>23.5p</u>	<u>24.9p</u>	<u>2.7p</u>	<u>(5.6p)</u>	<u>(2.9p)</u>

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

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

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

STOCKS CONVERTIBLE TRUST PLC

Consolidated Balance Sheet as at 31 May 2004

	Notes	2004		2003	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	12		16,877		15,643
Current assets					
Debtors	13	258		1,280	
Investments		2		2	
Cash at bank and short-term deposits		3,781		177	
		<u>4,041</u>		<u>1,459</u>	
Creditors: amounts falling due within					
one year	14	(393)		(842)	
Convertible loan stock	15	<u>(6,148)</u>		<u>(6,140)</u>	
		(6,541)		(6,982)	
Net current liabilities			<u>(2,500)</u>		<u>(5,523)</u>
Total assets less current liabilities			<u>14,377</u>		<u>10,120</u>
Capital and reserves					
Called up share capital	16		3,003		3,003
Share premium account	17		2,518		2,517
Capital reserve – realised	18		7,112		8,153
Capital reserve – unrealised	18		2,825		(2,494)
Capital redemption reserve			500		500
Revenue reserve	19		<u>(1,581)</u>		<u>(1,559)</u>
Equity shareholders' funds	20		<u>14,377</u>		<u>10,120</u>
Net asset value per share:					
Ordinary	21				
– Basic			119.7p		84.3p
– Fully-diluted			112.6p		89.2p

The financial statements on pages 21 to 41 were approved by the Board of Directors on 12 August 2004 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 2004

		2004		2003	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Investments	12		16,879		15,645
Current assets					
Debtors	13	258		1,280	
Cash at bank and short-term deposits		3,781		177	
		4,039		1,457	
Creditors: amounts falling due within one year	14	(443)		(892)	
Convertible loan stock	15	(6,148)		(6,140)	
		(6,591)		(7,032)	
Net current liabilities			(2,552)		(5,575)
Total assets less current liabilities			14,327		10,070
Capital and reserves					
Called up share capital	16		3,003		3,003
Share premium account	17		2,518		2,517
Capital reserve – realised	18		7,112		8,153
Capital reserve – unrealised	18		511		(4,808)
Capital redemption reserve			500		500
Revenue reserve	19		683		705
Equity shareholders' funds	20		14,327		10,070

The financial statements on pages 21 to 41 were approved by the Board of Directors on 12 August 2004 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 2004

	Notes	2004		2003	
		£'000	£'000	£'000	£'000
Net cash inflow/(outflow) from operating activities	22a		1,415		(173)
Returns on investments and servicing of finance	22b		(218)		(177)
Taxation			(256)		(52)
Financial investment	22b		3,323		(575)
			<u>4,264</u>		<u>(977)</u>
Equity dividends paid			(252)		(192)
Increase/(decrease) in cash			<u>4,012</u>		<u>(1,169)</u>
Reconciliation of net cash flow to movement in net debt					
Increase/(decrease) in cash in the year		4,012		(1,169)	
Cash outflow from movement in debt		<u>—</u>		<u>—</u>	
Change in net debt resulting from cash flows			4,012		(1,169)
Exchange movements			(259)		20
Other non-cash flow movements			(8)		(13)
Opening net debt			<u>(6,112)</u>		<u>(4,950)</u>
Closing net debt	22c		<u>(2,367)</u>		<u>(6,112)</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 January 2003.
The consolidated accounts of the Group consolidate the accounts of its wholly owned subsidiary, Stocks Convertible Limited (see note 12).
- (ii) Dividend income from investments is taken into account by reference to the date the security becomes ex-dividend. Interest from short-term deposits and fixed interest investments is accounted for on an accruals basis, as are interest payable and other expenses. In accordance with Financial Reporting Standard (FRS) 16 “Current Tax” dividends received from UK companies are not grossed up by the imputed tax credit, but instead recorded at the amount receivable. Overseas dividends and other income that is subject to withholding tax continue to be grossed up. Special dividends received by the Company are recognised as income unless there is evidence to have them credited to capital.
- (iii) Realised and unrealised capital surpluses and deficits on revaluations of investments are taken direct to the capital reserve.
- (iv) Listed investments are stated at closing middle market prices on recognised stock exchanges.
- (v) Unlisted investments are carried at the Board’s estimate of fair value which will be cost unless subsequent financings or other events indicate that a different valuation is warranted. Except in exceptional circumstances where the Directors consider it to be appropriate, no adjustments are made to the valuation in anticipation of such events. The valuation of unlisted investments reflects current circumstances; realisable value in the short-term could differ materially from the amount at which these investments are included in the accounts.
- (vi) The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 19.
- (vii) All investment management fees are charged to the revenue account.
- (viii) Transactions in a foreign currency, whether of a revenue or capital nature, are translated into sterling at the rates of exchange ruling on the dates of such transactions. Revenue items accrued and other foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange ruling on that date. Any profits or losses on foreign currency held, whether realised or unrealised, are taken direct to capital reserves.
- (ix) The value of investments in foreign currencies are expressed in sterling at the rates of exchange prevailing at the balance sheet date. Surpluses and deficits arising from conversion at this rate of exchange are taken directly to the capital reserve.
- (x) All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:
 - expenses which are incidental to the acquisition of an investment are included within the cost of the investment.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

1 Accounting policies continued

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

2 Year-end exchange rates

The relevant rates of exchange ruling at 31 May 2004 were 2.5693 Australian dollars to the pound sterling (2003: 2.5141) and 2.9179 New Zealand dollars to the pound sterling (2003: 2.8377).

3 Income

	2004	2003
	£'000	£'000
Income from investments		
Overseas investment income	678	386
UK investment income	10	—
Overseas fixed interest income	105	347
	<u>793</u>	<u>733</u>
Other income		
Deposit interest	164	30
Underwriting income	—	14
Loan Guarantee Fee	—	192
	<u>164</u>	<u>236</u>
Total income comprises:		
Dividends - income	470	386
Dividends - capital	218	—
Interest	269	377
Other	—	206
	<u>957</u>	<u>969</u>
4 Investment management fees		
	2004	2003
	£'000	£'000
Investment management fee	109	60
Investment incentive fee - capital (see note 7)	25	—
	<u>134</u>	<u>60</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

	2004	2003
	£'000	£'000
Administration fee	70	70
Directors' emoluments (see note 6)	50	49
Auditor's remuneration for:		
– audit	17	16
– other services to the Group	8	10
Other	<u>140</u>	<u>88</u>
	285	233
Transaction charges - capital	3	10
Legal fees - capital (see note 24)	<u>262</u>	<u>113</u>
	<u><u>550</u></u>	<u><u>356</u></u>

6 Director's emoluments

Fees totalling £10,000 have been waived by 1 Director (2003: £9,792 – 1 Director) who received emoluments by way of consultancy fees. The consultancy fees are included in the table below:

	2004	2003
	£'000	£'000
Directors' fees	<u>50</u>	<u>49</u>

There were no pension contributions paid or payable.

The Company has no employees (2003: 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 0.5 per cent. (increased from 0.4 per cent. on 1 June 2003) 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 ASX Small Ordinaries Index, until it is more appropriate to move to a convertible securities index. An incentive fee of £25,000 is payable in respect of the year ended 31 May 2004 (2003: nil). The amounts charged during the year are shown in note 4. At 31 May 2004 £67,000 (2003: £20,500) of the investment management fee and £25,000 (2003: nil) of the incentive fee were outstanding. This agreement is terminable by either party on one year's notice.

In accordance with an administration agreement dated 9 January 2002 between the Company and Phoenix Administration Services Limited ("Phoenix"), Phoenix provides administration services to the Company for which Phoenix receives an annual fee of £70,000 (2003: £70,000). This agreement is terminable by either party on three months notice.

8 Interest payable and similar charges

	2004	2003
	£'000	£'000
On bank loans and overdrafts	2	4
Convertible Subordinated Unsecured Loan Stock 2007	<u>216</u>	<u>216</u>
	<u><u>218</u></u>	<u><u>220</u></u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

9 Taxation

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

	2004			2003		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
UK Corporation tax at 30% (2003: 30%)	83	65	148	104	124	228
Over provision in prior year	—	—	—	(17)	—	(17)
Overseas tax - double tax relief	(12)	—	(12)	(22)	—	(22)
	<u>71</u>	<u>65</u>	<u>136</u>	<u>65</u>	<u>124</u>	<u>189</u>
Overseas tax suffered	12	—	12	22	—	22
Tax relief on expenses charged to capital	7	(7)	—	—	—	—
Tax charge in respect of the current year	<u>90</u>	<u>58</u>	<u>148</u>	<u>87</u>	<u>124</u>	<u>211</u>
Deferred tax	(61)	—	(61)	33	—	33
	<u>29</u>	<u>58</u>	<u>87</u>	<u>120</u>	<u>124</u>	<u>244</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.

	2004	2003
	£'000	£'000
Revenue on ordinary activities before taxation	<u>127</u>	<u>456</u>
Theoretical tax at UK corporation tax rate of 30% (2003: 30%)	38	137
Effects of:		
– UK dividends which are not taxable	(3)	—
– Timing differences on the taxation of income	61	(33)
– Marginal rate relief	(6)	—
– Over provision in prior year	—	(17)
Actual current tax charge	<u>90</u>	<u>87</u>

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

Deferred taxation

	2004	2003
	£'000	£'000
Accrued income taxable on receipt	<u>—</u>	<u>61</u>
The movement in the provision is as follows:		
	£'000	£'000
Provision at start of year	61	28
Deferred tax (credit)/charge in revenue account	(61)	33
Provision at end of year	<u>—</u>	<u>61</u>

Deferred tax has been provided at 30% (2003: 30%).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

10 Dividends and other appropriations

	2004	2003
	£'000	£'000
Dividends on equity shares:		
– ordinary – final proposed of 1.00p per share (2003: 2.10p)	<u>120</u>	<u>252</u>

The Directors have proposed the payment of a final dividend of 1.00p (2003: 2.10p) per ordinary share payable on 22 October 2004, subject to shareholder approval, to shareholders registered on 1 October 2004 (ex-dividend 29 September 2004).

11 Return per ordinary share

(i) Basic Returns

Revenue Return:

The calculation of the basic Revenue Return per ordinary share of 25 pence each is based on net revenue profit on ordinary activities after taxation of £98,000 (2003: profit £336,000) divided by 12,012,417 ordinary shares (2003: 12,011,393) being the weighted average number of ordinary shares in issue during the year.

Capital Return:

The calculation of the basic Capital Return per ordinary share of 25 pence each is based on the net capital profit for the financial year of £4,278,000 (2003: loss £1,028,000) divided by 12,012,417 ordinary shares (2003: 12,011,393) being the weighted average number of ordinary shares in issue during the year.

(ii) Diluted Returns

The Diluted Returns per ordinary share of 25 pence each have been calculated on the assumption that the Convertible Subordinated Unsecured Loan Stock 2007 was fully converted on the first day of the financial year, giving a weighted average of 18,229,504 ordinary shares (2003: 18,229,505) and based on net revenue profit on ordinary activities after taxation of £249,000 (2003: profit £488,000) and net capital profit of £4,278,000 (2003: loss £1,028,000). The anti-dilutive Revenue Return of 1.4p (2003: diluted 2.7p) 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 2004 £'000
Investments listed on a recognised investment exchange	—	16,828	16,828
Unlisted investments	49	—	49
Valuation at year end	49	16,828	16,877
Opening book cost	6,246	11,891	18,137
Opening unrealised (depreciation)/appreciation	(5,856)	3,362	(2,494)
Opening valuation	390	15,253	15,643
Movements in the year:			
Purchases at cost	—	3,667	3,667
Sales – proceeds	(295)	(6,805)	(7,100)
– realised (losses)/gains on sales	(2,856)	2,204	(652)
Decrease/increase in unrealised depreciation/appreciation	2,810	2,509	5,319
Closing valuation	49	16,828	16,877
Closing book cost	3,095	10,957	14,052
Closing unrealised (depreciation)/appreciation	(3,046)	5,871	2,825
	49	16,828	16,877
Sale proceeds	295	6,805	7,100
Investments at cost	(3,151)	(4,601)	(7,752)
Realised (losses)/gains on sales based on historical cost	(2,856)	2,204	(652)
Less losses/(gains) recognised as unrealised in previous year	2,722	(123)	2,599
Realised (losses)/gains on sales based on carrying value at previous year's balance sheet date	(134)	2,081	1,947
Unrealised appreciation for the year	88	2,632	2,720
	(46)	4,713	4,667

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 2004 (2003: nil).

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

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

13 Debtors

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Amounts due from brokers	141	141	144	144
Other debtors	5	5	730	730
Prepayments and accrued income	112	112	406	406
	<u>258</u>	<u>258</u>	<u>1,280</u>	<u>1,280</u>

14 Creditors: amounts falling due within one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Banks loans and overdraft	—	—	149	149
Amounts due to subsidiary undertaking	—	50	—	50
Corporation tax payable	136	136	206	206
Deferred tax	—	—	61	61
Other taxation and social security	—	—	43	43
Accruals and deferred income	137	137	131	131
Proposed dividends	120	120	252	252
	<u>393</u>	<u>443</u>	<u>842</u>	<u>892</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

15 Creditors: Convertible Subordinated Unsecured Loan Stock 2007

	2004		2003	
	No of units 000's	£'000	No of units 000's	£'000
Convertible Subordinated Unsecured Loan Stock 2007				
Balance at beginning of year	6,866	6,140	6,867	6,127
Units converted during the year	(1)	(1)	(1)	(1)
Amortisation of reorganisation costs	—	9	—	14
Balance at end of year	<u>6,865</u>	<u>6,148</u>	<u>6,866</u>	<u>6,140</u>

The 3.5 per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007 was issued on 25 March 1996 at a par value of 90p. The terms provided that the proceeds of the issue would be managed in a separate portfolio until 30 September 1997, at which time the Conversion Rate was calculated as set out in the Trust Deed dated 3 April 1996. On 9 October 1997 the Company announced that the Conversion Ratio was 22.6363p in nominal amount of ordinary share capital for each 90p in nominal amount of loan stock. Accordingly, each unit of loan stock may be converted into one ordinary share of 25 pence nominal amount at the rate of 0.90545251 of an ordinary share for each unit of loan stock converted. On 7 November 2003 1,300 units of loan stock (5 November 2002: 921) were converted into 1,177 ordinary shares (5 November 2002: 833).

Loan stock holders have further opportunities to convert on 31 October or soon thereafter in each of the years 2004 to 2007.

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

16 Called up share capital

	2004		2003	
	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	12,012	3,003	12,011	3,003
Conversion of 2007 Loan Stock units in year	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>
Balance at end of year	<u>12,013</u>	<u>3,003</u>	<u>12,012</u>	<u>3,003</u>

On 7 November 2003 1,300 (5 November 2002: 921) Convertible Subordinated Unsecured Loan Stock 2007 units were converted into 1,177 (5 November 2002: 833) ordinary shares.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

17 Share premium

	2004	2003
	£'000	£'000
Balance at beginning of year	2,517	2,516
Conversion of 2007 Loan Stock units in year	1	1
Balance at end of year	2,518	2,517

18 Capital reserve

	Realised	Unrealised	Total
	2004	2004	2004
	£'000	£'000	£'000
Group			
Balance at beginning of year	8,153	(2,494)	5,659
Net realised gains on investments	1,947	—	1,947
Decrease in unrealised depreciation	—	2,720	2,720
Transfer on disposal of investments	(2,599)	2,599	—
Foreign currency exchange differences	(259)	—	(259)
Incentive fee charged to capital	(25)	—	(25)
Dividends taken to capital	218	—	218
Capital expenses on investment	(265)	—	(265)
Tax charged to capital	(58)	—	(58)
Balance at end of year	7,112	2,825	9,937
Company			
Balance at beginning of year	8,153	(4,808)	3,345
Net realised gains on investments	1,947	—	1,947
Decrease in unrealised depreciation	—	2,720	2,720
Transfer on disposal of investments	(2,599)	2,599	—
Foreign currency exchange differences	(259)	—	(259)
Incentive fee charged to capital	(25)	—	(25)
Dividends taken to capital	218	—	218
Capital expenses on investment	(265)	—	(265)
Tax charged to capital	(58)	—	(58)
Balance at end of year	7,112	511	7,623

19 Revenue reserve

	Group	Company
	2004	2004
	£'000	£'000
Balance at beginning of year	(1,559)	705
Transfer from reserve account	(22)	(22)
Balance at end of year	(1,581)	683

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

20 Reconciliation of movements in shareholders' funds

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Opening shareholders' funds	10,120	10,070	11,063	11,013
Net revenue for year	98	98	336	336
Dividend	(120)	(120)	(252)	(252)
Conversion of 2007 Loan Stock	1	1	1	1
Capital surplus/(deficit) for year	4,278	4,278	(1,028)	(1,028)
Closing shareholders' funds	<u>14,377</u>	<u>14,327</u>	<u>10,120</u>	<u>10,070</u>

21 Net asset value per share

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

	Net asset value per share attributable		Net asset values attributable	
	2004 p	2003 p	2004 £'000	2003 £'000
Ordinary shares (basic)	<u>119.7</u>	<u>84.3</u>	<u>14,377</u>	<u>10,120</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	10,120
Total recognised gains for the year	4,376
Dividends appropriated in the year	(120)
Conversion of 2007 Loan Stock – share capital	—
– share premium	1
Total net assets attributable at end of year	<u>14,377</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 12,012,928 (2003: 12,011,751) 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 112.6p (2003: 89.2p). This has been calculated on the assumption that the 2007 Loan Stock was converted at the rates described in note 15, giving 18,229,504 (2003: 18,229,504) shares at the year end and based on net assets (adjusted to reflect the conversion of the convertible debt at par) of £20,525,000 (2003: £16,260,000).

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

22 Cash flow statement

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

	2004	2003
	£'000	£'000
Net return before finance costs and taxation	345	676
Decrease/(increase) in other debtors	726	(670)
Decrease/(increase) in accrued income	289	(186)
Increase/(decrease) in creditors	46	(7)
Add back amortisation of reorganisation costs	9	14
Net cash inflow/(outflow) from operating activities	<u>1,415</u>	<u>(173)</u>

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

	2004	2003
	£'000	£'000
Servicing of finance		
Interest paid	<u>(218)</u>	<u>(177)</u>
Net cash outflow from servicing of finance	<u>(218)</u>	<u>(177)</u>

	2004	2003
	£'000	£'000
Financial investment		
Purchases of investments	(3,667)	(3,246)
Sales of investments	7,103	2,929
Dividends taken to capital	218	—
Capital expenses on investment	<u>(331)</u>	<u>(258)</u>
Net cash inflow/(outflow) for financial investments	<u>3,323</u>	<u>(575)</u>

(c) Analysis of net debt

	At 1 June 2003 £'000	Cash Flow £'000	Other non-cash changes £,000	Exchange movement £'000	At 31 May 2004 £'000
Cash at bank	177	3,863	—	(259)	3,781
Overdrafts	(149)	149	—	—	—
	<u>28</u>	<u>4,012</u>	<u>—</u>	<u>(259)</u>	<u>3,781</u>
Debt due within 1 year	(6,140)	—	(8)	—	(6,148)
Total	<u>(6,112)</u>	<u>4,012</u>	<u>(8)</u>	<u>(259)</u>	<u>(2,367)</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile

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

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

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

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

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

The two main risks arising from the Group's financial instruments are market price risk and foreign currency risk. The Directors review and agree policies with the Manager, Ingot Capital Management Pty Ltd, for managing these risks. The policies have remained unchanged since 1 June 2003.

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

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

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

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

Market price risk

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

Foreign currency risk

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

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

Interest rate risk profile of financial assets and liabilities

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

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

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

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

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

	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>

The Company had an overdraft facility of £150,000 to allow short-term funding flexibility. 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 Australian 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 year end date.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

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

	31 May 2004		31 May 2003	
	Weighted average interest rate	Weighted average maturity date	Weighted average interest rate	Weighted average maturity date
Financial assets – non-equity investments:				
Australian Dollar	9.684%	9-Jan-07	9.365%	9-Dec-06
New Zealand Dollar	8.000%	30-Jun-05	8.000%	30-Jun-05
Euro	—	—	2.000%	6-Aug-05
	<u>8.887%</u>	<u>20-Apr-06</u>	<u>7.545%</u>	<u>16-Feb-06</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 2004.

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

Currency exposures

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

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

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>
	<u>(67.8%)</u>	<u>132.1%</u>	<u>31.4%</u>	<u>3.4%</u>	<u>0.9%</u>	<u>100.0%</u>

*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, are the Convertible Subordinated Unsecured Loan Stock 2007 which is repayable at par on 30 November 2007 and overdrafts which are repayable on demand.

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

	2004 £'000	2003 £'000
In one year or less, or on demand	<u>6,148</u>	<u>6,289</u>

STOCKS CONVERTIBLE TRUST PLC

Notes to the Financial Statements continued

23 Financial instruments and risk profile continued

Borrowing facilities

The Group had no borrowing facilities at the year end other than the overdraft facility at the Bank of Scotland. This facility expires on 31 March 2005 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:

	2004		2003	
	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	(6,148)	(6,213)	(6,140)	(6,215)
Equity investments (fixed asset)	13,913	13,913	13,441	13,441
Non-equity investments (current and fixed asset)	2,966	2,966	2,204	2,204
Cash	3,781	3,781	177	177

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

24 Contingent liabilities

As at 31 May 2004 there were no contingent liabilities or financial commitments. (31 May 2003: none).

Guarantee

The Company has established Bank Guarantees to the plaintiffs and investments with a market value of A\$13,125,000 (sterling equivalent £5,108,000) as at 31 May 2004 (2003: A\$6,625,000, sterling equivalent £2,635,000) which are held at HSBC Australia as security against any prospective adverse costs regarding legal action in connection with the Company's investment in New Cap Reinsurance.

Included within other expenses are legal fees of £262,000 (2003: £113,000) in connection with a claim for damages related to one of the Company's investments. The investment is carried in the Company's accounts at a negligible value.

25 Total expense ratios	2004	2003
Total assets	1.81%	1.96%
Shareholders' funds	2.52%	3.32%

The above total expense ratios are based on average total assets of £21,733,000 (2003: £14,950,000) and average shareholders funds of £15,590,000 (2003: £8,818,000) calculated at the end of each month during the period and operating expenses incurred during the year of £394,000 (2003: £293,000).

26 Related party disclosure

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

STOCKS CONVERTIBLE TRUST PLC

Five Year Financial Summary

	2000	2001	2002	2003	2004
	£'000	£'000	£'000	£'000	£'000
Capital	6,015	6,018	5,519	5,520	5,521
Total reserves	1,568	1,756	5,544	4,600	8,856
Convertible Loan Stock 2007	6,103	6,114	6,127	6,140	6,148
Net operating revenue	840	173	603	676	345
Taxation	(8)	20	58	120	29
Net revenue	371	(209)	262	336	98
Dividend	315	56	192	252	120
Earnings per 25p ordinary share	2.7p	(1.5)p	2.1p	2.8p	0.8p
Dividend per 25p ordinary share	2.25p	0.40p	1.60p	2.10p	1.00p
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	67.7p	68.7p	94.3p	89.2p	112.6p

STOCKS CONVERTIBLE TRUST PLC

Notice of Annual General Meeting

Notice is hereby given that the 2004 Annual General Meeting of Stocks Convertible Trust PLC will be held at 1 Ropemaker Street, London EC2Y 9HT on Thursday 14 October 2004 at 12.00 noon for the following purposes:

Ordinary Business

1. to receive and adopt the accounts and the reports of the Directors and the Auditor for the year ended 31 May 2004;
2. to approve the Directors' Remuneration Report for the year ended 31 May 2004;
3. to declare a dividend of 1.00p per ordinary share;
4. to re-appoint Mr B Hervey as a Director of the Company;
5. to re-appoint Mr A Bushell, who is age 71, as a Director of the Company (special notice to propose this resolution has been received);
6. to re-appoint RSM Robson Rhodes LLP as Auditor to the Company and authorise the Directors to determine the auditor's remuneration.

Special Business

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

“THAT the Directors be generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the “Act”) to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £1,001,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on 13 October 2009, save that the Company may before such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.”
8. To consider and, if thought fit, pass the following resolution as a special resolution:

“THAT

 - (a) the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the “Act”) to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority available to the Directors under Section 80 of the Act as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited:
 - (i) to the allotment of equity securities in connection with a rights issue; or
 - (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £150,162;and shall expire on the date of the next Annual General Meeting or the date 15 months after the passing of this resolution, whichever is the earlier, save that the Company may before such expiry make offers or agreements which would or might require securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired;
 - (b) for the purpose of this resolution, words and expressions defined in or for the purpose of Part IV of the Act shall bear the same meaning in this resolution; and

STOCKS CONVERTIBLE TRUST PLC

Notice of Annual General Meeting continued

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

Dated this 12th day of August 2004

By order of the Board

Phoenix Administration Services Limited
Secretary

Notes

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

STOCKS CONVERTIBLE TRUST PLC

Company Information

Directors

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

Investment Manager

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Capita Registrars
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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 2004/2005.

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 14 October 2004 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 the Auditor for the year ended 31 May 2004; |
| 2. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to approve the Directors' Remuneration Report for the year ended 31 May 2004; |
| 3. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to declare a dividend of 1.00p per ordinary share; |
| 4. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-appoint Mr B Hervey as a Director of the Company; |
| 5. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-appoint Mr A Bushell, who is age 71, as a Director of the Company; |
| 6. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-appoint RSM Robson Rhodes LLP as Auditor to the Company and authorise the Directors to determine the auditor's remuneration; |
| 7. | <input type="checkbox"/> | <input type="checkbox"/> | 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 2004

Signature(s)

Notes:

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

Third Fold and Tuck in

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

First Fold

Second Fold