# DIRECTORS AND ADVISERS

P. F. Simms LL.B. *(Chairman)*
S. J. Cockburn *(Managing Director)*
Miss J. B. Webb
P. S. Allen
R. B. Wild

**P. F. Simms LL.B.** Solicitor. Appointed a Director in January 1988 and Chairman in September 1994. He is Senior Partner of Bower Cotton and is a non-executive director of several private companies.

**S. J. Cockburn** was appointed Managing Director in September 1994. He is chairman of Archimedes Investment Trust plc and a director of seven other Investment Trusts. He is also Chairman of Ionian Group Limited.

**Miss J. B. Webb** is a retired librarian and teacher and was a leader in the Guide movement for over 30 years. She is a director of the parent company, New Centurion Trust Limited.

**P. S. Allen** trained as an investment analyst with Kleinwort Benson. For many years he has managed portfolios specialising in preference shares.

**R. B. Wild** was for 24 years a specialist in fixed income securities with Gilbert Eliott & Co. He is a director of Aberdeen Preferred Income Trust plc.

**Secretary and Registered Office**
R. J. M. Neal
18th Floor, Royex House
Aldermanbury Square
London EC2V 7HR

**Auditors**
Saffery Champness
Fairfax House
Fulwood Place
Gray's Inn
London WC1V 6UB

**Solicitors**
Bower Cotton
36 Whitefriars Street
London EC4Y 8BH

**Bankers**
Barclays Bank plc
6 Clarence Street
Kingston upon Thames
Surrey KT1 1NY

**Registrars**
Independent Registrars Group
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

# CHAIRMAN'S STATEMENT

I explained last year the way in which the capital reorganisation in 1996 had introduced gearing to the underlying asset value of the ordinary shares. In my Interim Statement I pointed out that the asset value per ordinary share had risen from 150.04p to 201.79p in the six months to 30th September 1997. I am pleased to say that the net asset value at 31st March 1998 was 270.51p. We stated at the time of declaring an interim dividend last December that we expected at least to maintain the final dividend. In the light of the outcome for the year your Directors decided to recommend an increase in the final dividend of 50% and the net distribution will amount to 3p (1997: 2p), making a total for the year of $4^1/2$p (1997: 3p). As a result of this the Participating Preference Shares will be entitled to an additional 0.625p per share payable on 1st October 1998 making a total annual payment of 7.625p per Participating Preference Share (1997: 7.25p).

As previously announced we were able to purchase 150,000 Participating Preference Shares for cancellation last September at a price of $97^3/4$p and on 10th February 1998 we purchased 64,000 Ordinary Shares at 175p which were subsequently cancelled. It can be seen that both of these purchases boosted the asset value of each Ordinary Share that remained in issue. At 31st March this benefit amounted to 2.19p per share.

Shareholders may be surprised to see the extent of the Foreign Income Dividends in our Revenue Account. We were surprised as well. This came about as a result of the extraordinary tax treatment at the time of the repayment by BOC Group of its three issues of preference shares in February. It transpired that because BOC Group had recently offered scrip dividends to its ordinary shareholders and because one of the preference issues had originally been offered to ordinary shareholders by way of bonus and rights in January 1931 and another by way of rights in April 1945, under Section 211 of the Income and Corporation Taxes Act 1988 the Inland Revenue treats what was intended as a return of capital partially as a distribution. Furthermore, under recent legislation introduced by Kenneth Clarke when Chancellor of the Exchequer, this distribution is treated as a Foreign Income Dividend although it does not in fact arise from foreign income. BOC Group failed to announce to its preference shareholders that this would be the impact of its decision to repay the preference shares and indeed we doubt whether the directors of BOC had the slightest inkling of the effect on their preference shareholders of offering scrip dividends to their ordinary shareholders. Nevertheless it has happened and has substantially increased, indeed distorted, the Revenue Account for the year.

Your Directors, with the support of the Auditors, decided that since the receipt was called a Foreign Income Dividend and is taxed as a Foreign Income Dividend it should be shown in the accounts as a Foreign Income Dividend. The redemption of the shares at what is in reality a substantial profit has therefore somewhat strangely resulted in a substantial capital loss for accounting and tax purposes which has been deducted from the capital gains during the year. Already Burmah Castrol has discovered that the redemption of its preference shares will result in similar interference under the terms of Section 211 to the nature of the money in preference shareholders' hands. In our concern to protect preference shareholders' interests we are now drawing the attention of Boards of Directors of public companies to the possible impact on their preference shareholders' position of offering scrip dividend options to their ordinary shareholders.

It does not of course affect the preference shareholders unless and until such companies decide to redeem or repay the capital. However this is a trend which is gathering pace and as may be seen from the absence from our list of several of the largest holdings that were there at 31st March 1997 we have enjoyed a number of redemptions, most notably Grand Metropolitan, RPH, Rolls Royce Power Engineering, Dalgety and King & Shaxson (holdings numbers 1, 2, 6, 12 and 20 in our Top Twenty list last year). The announcement of similar intentions by Burmah Castrol and Vickers (numbers 7 and 9 in last year's list) will eliminate two more. Other smaller holdings to be repaid, in addition to the BOC Group issues, were Kennings, Joplings, Grampian Holdings, Smith St Aubyn and Everards Brewery. It may be seen that this represents a significant up-turn in the rate of redemptions over previous years and is of course a reflection of the present low rates of interest which make the repayment of preference shares financially sensible. This trend is also a function of the enormous increase in the equity capitalisation of companies resulting from the long and still strong bull market of the last few years. This has condemned the proportion of outstanding preference capital in many companies to be an absurdly small percentage of the total market capitalisation.

Takeover bids caused several other very profitable departures from our portfolio. Cater Allen, Bridon, Property Security Investment Trust, APV Holdings and Manders all saw their preference issues taken out for cash as a result of acquisition by other companies.

Arising from so many liquidated positions we have been obliged to seek investment opportunities in convertible preference shares because the demand for low coupon preference issues has now out-stripped the supply which was never large. Indeed our portfolio had been built up over many years of patient accumulation. In consequence we now have holdings in several companies such as Hartstone and Crest Nicholson as well as Coutts Consulting Group where the shares offer attractive yields when considered as straight preference stocks irrespective of the conversion option.

# CHAIRMAN'S STATEMENT *continued*

Due to the loss of Section 242 relief we are no longer able to recover tax suffered on dividends against our expenses. Thus the deposit interest being earned on our cash funds awaiting investment is particularly welcome since it is paid gross and can be offset against expenses.

While the opportunities to add to our portfolio on attractive terms are rare at present the securities we hold seem likely to continue to provide opportunities for capital gain while the basic income stream has usually been regular and of high quality. The Directors expect another satisfactory year in 1998/99.

**P. F. Simms**
Chairman

# DIRECTORS' REPORT

The Directors have pleasure in presenting to the Members the Company's financial statements for the year ended 31st March 1998.

### Review of Business

The principal activities of the Company are investment in preference shares and prior charge investments with a view to achieving a high rate of income and capital growth over the medium term.

### Results and Dividends

The net revenue on ordinary activities, after taxation, is £1,255,728 (1997: £763,357).

Your Directors recommend the payment of a final dividend of 3.0p net per ordinary share which together with the interim dividend of 1.5p net makes a total of 4.5p net for the year. This, after taking into account the tax credit, is equivalent to 5.625p gross. Half-yearly dividends have been paid on the Participating Preference shares of 3.75p net (4.6875p gross) on 1st October 1997 and of 3.5p net (4.375p gross) on 1st April 1998.

### Future Developments

The Directors consider that the general policies adopted over the last few years should be as successful in the future as they have been in the past. Companies continue to simplify their balance sheets by the redemption or buy out of their preference share issues at prices which usually result in profits for the Company.

### Directors and their Interests

The Directors holding office during the year were:

| | |
|---|---|
| *P. F. Simms | Chairman |
| S. J. Cockburn | Managing Director |
| *Miss J. B. Webb | |
| *Peter S. Allen | |
| *Robert B. Wild | |

*Non-executive

The beneficial share interests of the Directors in office at the end of the financial year were:

| | 31st March 1998 | | 31st March 1997 | |
|---|---|---|---|---|
| | **Ordinary 50p** | **Participating Pref. 50p** | Ordinary 50p | Participating Pref. 50p |
| Estate of Major G. L. Webb | **1,717,565*** | **4,072,144*** | 1,717,565* | 4,072,144* |
| P. F. Simms | **5,000** | **–** | 5,000 | – |
| S. J. Cockburn | **81,047** | **28,000** | 49,136 | 28,000 |
| Miss J. B. Webb | **51,200** | **204,800** | 51,200 | 204,800 |
| Peter S. Allen | **20,000** | **–** | – | – |
| Robert B. Wild | **28,000** | **92,000** | 23,000 | 92,000 |

*These shares are held by New Centurion Trust Limited which is controlled by the Estate of Major Webb, whose Executors are Miss J. B. Webb and Mr P. F. Simms. Miss Webb is also a beneficiary under Major Webb's will.

In addition, Mr S. J. Cockburn has a non-beneficial interest in 7,500 ordinary shares and 14,000 participating preference shares.

There have been no changes in the above interests since 31st March 1998.

**Directors' interests in contracts**

Details of Directors' interests in contracts are shown in Note 13 to the financial statements and Mr Cockburn's interest in the management agreement entered into with Ionian Investment Management is referred to in the Report of the Remuneration Committee on page 8.

**Substantial interests**

At the date hereof the Company had been notified of holdings of 3% or more of the ordinary share capital as follows:

| | Ordinary shares |
|---|---|
| Estate of Major G. L. Webb (held by New Centurion Trust Limited) | 61.37% |
| Funds managed by Aberdeen Asset Management plc (including 7.85% held by Jove Investment Trust plc) | 8.56% |
| Pyman Bell (Holdings) Limited | 5.85% |

Miss J. B. Webb and Mr P. F. Simms are directors of New Centurion Trust Limited.
Mr S. J. Cockburn is a non-executive director of Jove Investment Trust plc.

**Purchase of own shares**

At an Extraordinary General Meeting held on 11th September 1997 the Directors were authorised to make on-market purchases of the Company's ordinary shares up to 14.9% of the amount then in issue and of its participating preference shares up to 20% of the amount then in issue. The Company has subsequently purchased and cancelled 64,000 of its ordinary shares and 150,000 of its participating preference shares. Particulars of the consequent changes to the Company's issued share capital are shown in Note 10 on pages 15 and 16. A resolution will be proposed at the Annual General Meeting to extend the period of Directors' authorisation to make purchases.

**Corporate Governance**

The Directors support the recommendations of the Cadbury Committee and during the year have complied with the recommendations of the Code of Best Practice, having regard to the size and nature of the Company's business and its management structure. Following the appointment of the two additional non-executive Directors in August 1996, which ensured the independence of the Board from the Company's controlling shareholder, the Directors consider that the function of an Audit Committee is most effectively carried out by the whole Board. The Remuneration Committee now consists of the four non-executive Directors and its report is set out on page 8.

**Going Concern**

The Directors believe that it is appropriate to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities which are readily realisable. The Directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly have continued to adopt the going concern basis in preparing the financial statements.

**Internal Financial Controls**

The Directors have overall responsibility for establishing and maintaining internal financial control procedures which have the aim of safeguarding the Company's assets against unauthorised use or disposition and of ensuring the reliability of financial information upon which business decisions are made or which is used for publication. The Board has contractually delegated to external agencies, including Ionian Investment Management, day to day accounting and company secretarial duties and also the safe custody and (since 1st April 1998) the management of its investments. The Board has also delegated registration services to the Company's registrars. The internal financial control procedures are designed to monitor the functioning of these agencies. By their nature such procedures can provide only reasonable and not absolute assurance against material loss or misstatement. The Board has kept under review and in its opinion has been satisfied as to the effectiveness of these procedures throughout the year ended 31st March 1998 and in the subsequent period to the date of this report.

**Reporting**

The Company's Auditors, Messrs Saffery Champness, have confirmed that, in their opinion, with respect to the Directors' statements on Going Concern and Internal Financial Controls the Directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the Directors' other statements above appropriately reflect the Company's compliance with the other paragraphs of the Cadbury Code specified for their review by Listing Rule 12.43(j). They were not required to perform the additional work necessary and did not express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

**Year 2000 compliance**

As the Company's administrative functions have been contractually delegated, the Board is obtaining assurances from all relevant service providers that they have reviewed their computer systems and have, so far as is possible, ascertained that those systems will be unaffected by problems associated with the year 2000 or, where this is not the case, that any such problems are being duly addressed.

**Creditor payment policy**

The Company's policy is to pay suppliers by return of post.

**Taxation Status**

The Company is not a close Company within the meaning of the Income and Corporation Taxes Act 1988, there having been no change in this respect since the end of the financial year.

**Annual General Meeting**

Notice of the Annual General Meeting, which is to be held at Fairfax House, Fulwood Place, Gray's Inn, London WC1V 6UB at 12 noon on Wednesday 29th July 1998 is set out on pages 22 and 23.

**Auditors**

Saffery Champness have expressed their willingness to continue in office as Auditors and in accordance with the provisions of the Companies Act 1985 a resolution for their reappointment will be proposed at the Annual General Meeting.

18th Floor
Royex House
Aldermanbury Square
London EC2V 7HR

6th July 1998

by Order of the Board
**Robert J. M. Neal**
Secretary

Robert J M Neal

# REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee consisting of all the Company's non-executive Directors (that is all the Directors other than Mr S. J. Cockburn) met on 20th March 1998 to consider the remuneration of Mr Cockburn who, as Managing Director, is the Company's sole executive Director.

Mr Cockburn has been paid since his appointment in 1994 an executive salary of £50,000 in addition to a Director's fee which, since August 1996, has been a fixed annual sum of £10,000. In addition the Company has paid to the Ionian Group of companies, in which Mr Cockburn is substantially interested as a shareholder and as Executive Chairman, fees in respect of administration services including the provision of the services of the present Secretary, Mr Neal, and his predecessor, Mr Osborn. In respect of the financial year 1997/98 the Committee decided to award Mr Cockburn a bonus of 25% of his executive salary.

Since it was proposed that the Company enter into a new management agreement with Ionian Investment Management (a division within the Ionian Group) covering the full range of investment and administration services, including the provision of the services of Mr Cockburn, the Committee considered it appropriate that Mr Cockburn's remuneration be considered as part of the overall annual fee payable to Ionian Investment Management. This fee, it was agreed, would be calculated as 1% of the value of the Company's funds subject to a maximum of £200,000 per annum, with a minimum of £120,000 per annum.

The Committee considered this fee rate to be commensurate with the management charges paid by comparable listed investment companies or investment trusts and took into account not only certain additional duties to be carried out by Ionian Investment Management but also the increase in salary to which Mr Cockburn might personally have been entitled if this had continued to be paid to him as under the previous arrangements. Accordingly, as from 1st April 1998, Mr Cockburn himself will receive no remuneration other than a Director's fee of £10,000 (which fee will be a deduction from the amount agreed as payable to Ionian Investment Management).

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law 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 of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# AUDITORS' REPORT

**Report of the Auditors to the shareholders**

We have audited the financial statements on pages 11 to 19.

**Respective responsibilities of Directors and Auditors**

As described in the above Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of Opinion**

We conducted our audit in accordance with 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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31st March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Saffery Champness

**Saffery Champness**
Chartered Accountants and
Registered Auditors

Fairfax House
Fulwood Place
Gray's Inn
London WC1V 6UB

6th July 1998

## REVENUE ACCOUNT

For the year ended 31st March 1998

| | Notes | Year to 31st March 1998 £ | Year to 31st March 1997 £ |
|---|---|---|---|
| **Total income** | 2 | **1,856,841** | 1,220,112 |
| Expenses | 3 | **248,110** | 255,419 |
| | | **1,608,731** | 964,693 |
| Interest payable | 4 | **–** | 422 |
| | | **1,608,731** | 964,271 |
| Taxation | 5 | **353,003** | 200,914 |
| Net revenue, after taxation | | **1,255,728** | 763,357 |
| Dividends paid and proposed | 6 | **922,801** | 859,406 |
| Transfer to/(from) reserves | 11 | **332,927** | (96,049) |
| Earnings per Ordinary share | 7 | **16.43p** | (0.36p) |
| Net asset value per Ordinary share | | **270.51p** | 150.04p |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st March 1998

| | 1998 £ | 1997 £ |
|---|---|---|
| **Distributable profits** | | |
| Net revenue, after taxation | **1,255,728** | 763,357 |
| Purchase of own shares | **(260,454)** | – |
| | **995,274** | 763,357 |
| **Non-distributable profits** | | |
| Net profit on disposals of investments | **1,800,631** | 254,439 |
| Litigation expenses written off | **–** | (358,274) |
| Share capital purchased | **107,000** | – |
| Unrealised appreciation of investments | **1,252,327** | 1,681,002 |
| | **3,159,958** | 1,577,167 |
| Total recognised gains and losses | **4,155,232** | 2,340,524 |

# BALANCE SHEET

As at 31st March 1998

| | Notes | At 31st March 1998 £ | £ | At 31st March 1997 £ | £ |
|---|---|---|---|---|---|
| Investments (at cost) | | | **12,680,924** | | 13,508,115 |
| Unrealised appreciation | | | **3,570,510** | | 2,318,183 |
| Investments at market value | 8 | | **16,251,434** | | 15,826,298 |
| **Current assets** | | | | | |
| Debtors | 9 | **37,403** | | 82,715 | |
| Cash at bank | | **2,764,218** | | 172,380 | |
| | | **2,801,621** | | 255,095 | |
| **Current liabilities** | | | | | |
| Dividends | 6 | **465,472** | | 444,016 | |
| Other creditors | | **116,771** | | 291,971 | |
| | | **582,243** | | 735,987 | |
| **Net current assets/(liabilities)** | | | **2,219,378** | | (480,892) |
| **Net assets** | | | **18,470,812** | | 15,345,406 |
| **Capital and reserves** | | | | | |
| Called up share capital | 10 | | **6,899,495** | | 7,006,520 |
| Revaluation reserve | 11 | | **3,570,510** | | 2,318,183 |
| Capital reserve brought forward | 11 | **1,261,052** | | 1,364,887 | |
| Realised profits in the period | 11 | **1,800,631** | | 254,439 | |
| Litigation expenses written off | 11 | **–** | | (358,274) | |
| Capital reserve carried forward | | | **3,061,683** | | 1,261,052 |
| Capital redemption reserve | | | | | |
| Share capital purchased | 11 | | **107,000** | | – |
| Revenue reserves brought forward | 11 | **4,759,651** | | 4,855,700 | |
| Net revenue for the period | 11 | **332,927** | | (96,049) | |
| Purchase of own shares | 10 | **(260,454)** | | – | |
| Revenue reserves carried forward | | | **4,832,124** | | 4,759,651 |
| Shareholders' funds | 15 | | **18,470,812** | | 15,345,406 |

| | 1998 | 1997 |
|---|---|---|
| Net asset value per: | | |
| Participating Preference share of 50p (10,900,407 shares) | **100.00p** | 100.00p |
| Ordinary share of 50p (2,798,584 shares) | **270.51p** | 150.04p |

**P. F. Simms**
**S. J. Cockburn**
Directors

Approved by the Board
6th July 1998

# NOTES ON THE ACCOUNTS

For the year ended 31st March 1998

1 **Accounting Policies**

(a) **Convention**

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards.

(b) **Revenue and Expenditure**

Revenue includes dividends and interest from investments payable on or before the balance sheet date. UK dividends are shown inclusive of the tax credit. Deposit interest receivable, expenses and interest payable are accounted for on an accruals basis.

(c) **Investments**

All investments held as fixed assets are shown in the balance sheet at valuation. The difference between book cost and valuation is shown in note 8. Profits and losses on the realisation of investments held as fixed assets are taken to capital reserve.

Investments listed on a recognised Stock Exchange have been valued at middle market prices at the close of business on the balance sheet date. Unlisted investments have been valued by the Directors at the year end based upon dealing prices where available or stockbrokers' valuations, net asset values or other relevant information.

2. **Total Income**

| | 1998 £ | 1997 £ |
|---|---|---|
| Franked income | **1,303,935** | 1,207,022 |
| Unfranked income | **11,453** | 5,116 |
| Foreign income dividends | **460,114** | – |
| Commissions | **1,708** | 3,125 |
| Interest | **79,631** | 4,849 |
| Total income | **1,856,841** | 1,220,112 |

3. **Administrative Expenses**

| | 1998 £ | 1997 £ |
|---|---|---|
| Staff costs (see note 3a) | **138,197** | 113,351 |
| Management expenses | **93,763** | 96,421 |
| Capital reorganisation costs | **–** | 30,171 |
| Audit fees | **8,000** | 8,000 |
| Non audit fees | **8,150** | 7,476 |
| | **248,110** | 255,419 |

| (a) Staff costs during the year: | 1998 £ | 1997 £ |
|---|---|---|
| Salaries and fees (see note 3b) | **102,500** | 78,535 |
| Social Security costs | **2,806** | 2,301 |
| Pension costs | **32,891** | 32,515 |
| | **138,197** | 113,351 |

| | Number | Number |
|---|---|---|
| The average number of persons employed by the Company during the year was | **5** | 4 |

| (b) Directors' remuneration: Staff costs include the following remuneration in respect of directors | 1998 £ | 1997 £ |
|---|---|---|
| Fees | **40,000** | 28,535 |
| Salaries and remuneration | **62,500** | 50,000 |
| | **102,500** | 78,535 |

**3. Administrative Expenses** *(continued)*

The Director's remuneration of £102,500 (1997: £78,535) comprised £72,500 (1997: £58,090) in respect of Mr Cockburn (including £62,500 paid to Stephen Cockburn Limited), £10,000 (1997: £8,089) to Miss J. B. Webb, £10,000 (1997: £6,178) to Mr P. S. Allen and £10,000 (1997: £6,178) to Mr R. B. Wild.

Mr P. F. Simms received no fee as chairman but as indicated in Note 13, Bower Cotton received fees for legal services provided.

Also described in Note 13 are fees paid to companies in the Ionian group, in which Mr Cockburn has an interest, for the services of Mr Neal as company secretary and for administrative services.

**4. Interest Payable**

| | 1998 £ | 1997 £ |
|---|---|---|
| On overdrafts | – | 422 |

**5. Taxation**

| | 1998 £ | 1997 £ |
|---|---|---|
| Tax credits on franked investment income | 260,980 | 242,678 |
| Tax credits on foreign income dividends | 92,023 | – |
| Repayable in respect of current year | – | (31,784) |
| Repayable in respect of prior years | – | (9,980) |
| | 353,003 | 200,914 |

**6. Dividends**

| | 1998 £ | 1997 £ |
|---|---|---|
| Non-Equity: On Participating Preference Shares | 795,904 | 773,528 |
| Equity: On Ordinary Shares: | | |
| Interim 1.5p (1997: 1p) | 42,939 | 28,626 |
| Final proposed 3p (1997: 2p) | 83,958 | 57,252 |
| | 922,801 | 859,406 |
| Outstanding at start of year | (444,016) | – |
| Paid during the year | 901,345 | 415,390 |
| Outstanding at year end | 465,472 | 444,016 |
| | 922,801 | 859,406 |

**7. Earnings per Share**

| | 1998 £ | 1997 £ |
|---|---|---|
| The calculation of the earnings per share on the net basis, is based on the following: | | |
| Revenue after taxation | 1,255,728 | 763,357 |
| Preference dividend | (795,904) | (773,528) |
| | 459,824 | (10,171) |
| Ordinary shares of 50p each | 2,798,584 | 2,862,608 |
| Earnings/(loss) per share | 16.43p | (0.36p) |

**8. Fixed Asset Investments**

| | 1998 £ | 1997 £ |
|---|---|---|
| Valuation at 1st April 1997 | **15,826,298** | 14,430,270 |
| Unrealised appreciation at 1st April 1997 | **(2,318,183)** | (637,181) |
| Cost at 1st April 1997 | **13,508,115** | 13,793,089 |
| Additions | **2,176,523** | 926,245 |
| Cost of disposals | **(3,003,714)** | (1,211,219) |
| Cost at 31st March 1998 | **12,680,924** | 13,508,115 |
| Unrealised appreciation at 31st March 1998 | **3,570,510** | 2,318,183 |
| Valuation at 31st March 1998 | **16,251,434** | 15,826,298 |
| Aggregate value of investments listed on a recognised Stock Exchange | **13,913,582** | 13,718,087 |
| Other investments at Directors' valuation | **2,337,852** | 2,108,211 |
| | **16,251,434** | 15,826,298 |

Holdings exceeding 3% of a class of share capital carrying unrestricted voting rights were held in the following companies at 31st March 1998:

| Company | Net coupon | Shares/Stock | % of issue |
|---|---|---|---|
| A.P.I. Group | 3.85% | (formerly 5.5%) cum pref £1 | 26.25 |
| Brixton Estate | 3.50% | (formerly 5%) cum pref 50p | 8.33 |
| Burmah Castrol | 4.20% | (formerly 6%) 1st cum pref £1 | 15.07 |
| Cookson Group | 4.90% | (formerly 7%) non-cum pfd ord 50p | 10.65 |
| James Finlay & Co. | 4.20% | (formerly 6%) 1st cum pref £1 | 12.88 |
| Illingworth Morris (Saltaire) | 4.90% | (formerly 7%) non-cum pref 50p | 11.69 |
| Johnson Group Cleaners | 6.30% | (formerly 9%) cum pref £1 | 14.37 |
| P&O Co. | 3.50% | (formerly 5%) cum pfd £1 | 6.65 |
| Royal Bank of Scotland Group | 7.70% | (formerly 11%) cum pref £1 | 6.81 |
| Second Alliance Trust | 3.15% | (formerly 4½%) cum pref stock | 3.67 |
| Simon Engineering | 4.20% | (formerly 6%) cum pref £1 | 22.26 |
| Vickers | 3.50% | (formerly 5%) non-cum pref £1 | 23.70 |
| Vickers | 3.50% | (formerly 5%) non-cum pfd £1 | 9.93 |
| Vickers | 5.00% | (tax-free to 30p) cum pref £1 | 3.71 |

**9. Debtors due within one year**

| | 1998 £ | 1997 £ |
|---|---|---|
| Taxation recoverable | **34,646** | 82,715 |
| Other debtors | **2,757** | – |
| | **37,403** | 82,715 |

**10. Share Capital**

| | 1998 £ | 1997 £ |
|---|---|---|
| **Authorised** | | |
| 3,260,000 Ordinary shares of 50p each | **1,630,000** | 1,630,000 |
| 12,640,000 Participating Preference Shares of 50p each | **6,320,000** | 6,320,000 |
| 100,000 Deferred shares of 50p each | **50,000** | 50,000 |
| | **8,000,000** | 8,000,000 |
| **Allotted, issued and fully paid** | | |
| Non-Equity: | | |
| 10,900,407 (1997: 11,050,432) Participating Preference Shares of 50p each | **5,450,203** | 5,525,216 |
| 100,000 Deferred Shares of 50p each | **50,000** | 50,000 |
| Equity: | | |
| 2,798,584 (1997: 2,862,608) Ordinary Shares of 50p each | **1,399,292** | 1,431,304 |
| | **6,899,495** | 7,006,520 |

**10. Share Capital *continued***

The Participating Preference Shares entitle the holders, in priority to the payment of any dividend to the holders of all or any other shares in the capital of the Company, to a fixed net cash cumulative dividend at the rate per annum of 7p per share. In addition, holders are entitled to a participating dividend at the rate of 25% of any dividends paid on the Ordinary Shares in excess of 2p net per share for any year, subject to a maximum participating dividend in respect of any year of 3p net per share. Upon a return of capital holders of the Participating Preference Shares are entitled to repayment of the nominal amount of capital of 50p paid up on each share together with a premium of an additional 50p per share in priority to the distribution of any surplus assets amongst the holders of the Ordinary Shares. The Participating Preference Shares confer voting rights only in certain circumstances.

The Deferred Shares confer no voting or dividend rights and negligible rights upon a repayment of capital. The Directors intend that application will be made to the High Court for their cancellation in due course.

During the year the Company purchased 150,000 of its own Participating Preference Shares of 50p each at a cost of £147,359. It also purchased 64,000 of its own Ordinary Shares of 50p each at a cost of £113,120. Both shareholdings were then cancelled and the excess of the purchase prices over the nominal value has been charged to the Revenue Account.

**11. Reserves**

| | 1998 £ | 1997 £ |
|---|---|---|
| Revaluation reserve (Note 8) | | |
| Balance at 1st April 1997 | **2,318,183** | 637,181 |
| Appreciation in market value of investments | **1,252,327** | 1,681,002 |
| Balance at 31st March 1998 | **3,570,510** | 2,318,183 |
| Other Reserves: | | |
| Capital Reserve – realised | | |
| Balance at 1st April 1997 | **1,261,052** | 1,364,887 |
| Profit on sales of investments (page 11) | **1,800,631** | 254,439 |
| Litigation expenses | **–** | (358,274) |
| Balance at 31st March 1998 | **3,061,683** | 1,261,052 |
| Capital Redemption Reserve: | | |
| Share capital purchased | **107,000** | – |
| Balance at 31st March 1998 | **107,000** | – |
| Revenue Account: | | |
| Balance at 1st April 1997 | **4,759,651** | 4,855,700 |
| Retained earnings for the year | **332,927** | (96,049) |
| Purchase of own shares | **(260,454)** | – |
| Balance at 31st March 1998 | **4,832,124** | 4,759,651 |
| Total Reserves | **11,571,317** | 8,338,886 |

**12. Ultimate Holding Company**

The ultimate holding company is New Centurion Trust Limited, registered in England and Wales. Copies of the accounts prepared by the holding company will be lodged at Companies House where they may be inspected.

**13. Directors' Interests**

During the year the Company paid £13,141 (1997: £18,621) to Bower Cotton, a firm in which Mr P. F. Simms is senior partner, for legal services provided.

During the year the Company paid £34,179 (1997: £26,458) to the Ionian group of companies, in which Mr S. J. Cockburn is interested as a director and substantial shareholder, for the services of Mr R. J. M. Neal as Company Secretary and for other administrative services. During the year Ionian Investment Management arranged the execution of bargains on behalf of the Company in the normal course of business. Commission on such bargains amounted to £434 (1997: Nil).

**14. Contingent Liabilities**

There were no contingent liabilities at 31st March 1998 (1997: Nil).

**15. Reconciliation of Movements in Shareholders' Funds**

| | 1998 £ | 1997 £ |
|---|---|---|
| Revenue for the financial year | **1,255,728** | 763,357 |
| Dividends | **(922,801)** | (859,406) |
| Purchase of own shares | **(260,454)** | – |
| | **72,473** | (96,049) |
| Other recognised gains relating to the year (page 11) | **3,159,958** | 1,577,167 |
| Net additions to shareholders' funds | **3,232,431** | 1,481,118 |
| Opening shareholders' funds | **15,345,406** | 13,864,288 |
| Share capital cancelled | **(107,025)** | – |
| Closing shareholders' funds | **18,470,812** | 15,345,406 |
| Represented by: | | |
| Non-equity shareholders | **10,900,407** | 11,100,432 |
| Equity shareholders | **7,570,405** | 4,244,974 |
| | **18,470,812** | 15,345,406 |

The non-equity shareholders' interests are the interests in the Participating Preference Shares, no value being attributable to the Deferred Shares.

# CASH FLOW STATEMENT

For the year ended 31st March 1998

| | Notes | 1998 £ | 1998 £ | 1997 £ | 1997 £ |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Cash received from investments | | 1,424,223 | | 983,011 | |
| Interest received | | 77,265 | | 4,849 | |
| Cash paid to and on behalf of employees | | (119,300) | | (98,459) | |
| Other cash payments | | (111,005) | | (215,626) | |
| **Net cash inflow from operating activities** | 1 | | 1,271,183 | | 673,775 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest paid | | – | | (737) | |
| Non-equity dividends paid | | (801,155) | | (386,764) | |
| **Net cash outflow from returns on investments and servicing of finance** | | | (801,155) | | (387,501) |
| **Taxation** | | | | | |
| UK corporation tax repaid | | | 50,931 | | 61,691 |
| **Capital expenditure and financial investment** | | | | | |
| Purchase of investments | | (2,176,523) | | (928,858) | |
| Sale of investments | | 4,804,345 | | 1,513,768 | |
| Purchase of own shares | | (260,479) | | – | |
| Litigation expenses paid | | (201,481) | | (156,793) | |
| **Net cash inflow from capital expenditure and financial investment** | | | 2,165,862 | | 428,117 |
| **Equity dividends paid** | | | (100,190) | | (463,737) |
| **Unclaimed dividends** | | | 5,207 | | – |
| **Increase in cash and cash equivalents** | 2 | | 2,591,838 | | 312,345 |

# NOTES ON THE CASH FLOW STATEMENT

For the year ended 31st March 1998

| | | 1998<br>£ | 1997<br>£ |
|---|---|---|---|
| 1. | Reconciliation of operating profit to net cash inflow from operations: | | |
| | Income before interest payable and taxation | **1,608,731** | 964,693 |
| | Decrease/(increase) in debtors | **(2,757)** | 10,777 |
| | Increase/(decrease) in creditors | **21,074** | (56,880) |
| | Tax on franked and unfranked investment income | **(355,865)** | (244,815) |
| | | **1,271,183** | 673,775 |

2. Analysis of net funds

| | At 31st March 1998<br>£ | Cash Flow<br>£ | At 1st April 1997<br>£ |
|---|---|---|---|
| Cash at bank | **2,764,218** | 2,591,838 | 172,380 |

# TWENTY LARGEST INVESTMENTS

At 31st March 1998

| | Stock† | Number | % Issue | Book | Market | % of total portfolio |
|---|---|---|---|---|---|---|
| 1. | **Airsprung Group** | | | | | |
| | 10% (net) cum pref £1†† | 535,000 | 17.83% | 533,837 | 577,800†† | 3.56% |
| 2. | **Courtaulds** | | | | | |
| | 5% 1st cum pref £1 | 147,260 | 18.90% | 72,859 | 106,027 | |
| | 6% 2nd cum red pref £1 | 501,716 | 18.58% | 348,143 | 426,459 | |
| | | | | 421,002 | 532,486 | 3.28% |
| 3. | **Warburg (S.G. Group)** | | | | | |
| | 7.625% (net) cum pref £1 | 400,000 | 3.66% | 384,483 | 512,000 | 3.15% |
| 4. | **Illingworth Morris and subsidiary company** | | | | | |
| | I.M. (Saltaire) 4½% cum pref £1 | 68,200 | 6.82% | 26,047 | 38,192 | |
| | I.M. (Saltaire) 7% non-cum pref 50p§ | 140,223 | 11.69% | 41,609 | 56,089 | |
| | I.M. 6½% 2nd cum pref £1 | 241,923 | 24.19% | 136,373 | 186,281 | |
| | I.M. 6½% cum pref £1 | 267,667 | 26.77% | 146,605 | 206,104 | |
| | | | | 350,634 | 486,666 | 2.99% |
| 5. | **Vaux Group** | | | | | |
| | 4½% 'A' cum pref £1 | 337,256 | 28.40% | 172,267 | 236,079 | |
| | 6½% 'A' cum pref £1 | 183,489 | 12.23% | 119,008 | 166,975 | |
| | 7% cum pref £1 | 75,514 | 19.46% | 52,773 | 72,493 | |
| | | | | 344,048 | 475,547 | 2.93% |
| 6. | **Rio Tinto** | | | | | |
| | 3.325% 'A' (net) cum pref £1 | 566,284 | 7.32% | 290,316 | 419,050 | 2.58% |
| 7. | **Vickers** | | | | | |
| | 5% (net) cum pref £1 (tax free to 30p)§ | 254,928 | 3.71% | 168,075 | 244,731 | |
| | 5% non cum preference stock £1§ | 177,749 | 23.70% | 82,899 | 119,092 | |
| | 5% non cum preferred stock £1§ | 74,500 | 9.93% | 35,566 | 49,915 | |
| | | | | 286,540 | 413,738 | 2.55% |
| 8. | **Reed International** | | | | | |
| | 3.15% (net) (fmly 4.5%) cum red pref £1 | 181,922 | 12.13% | 91,581 | 121,888 | |
| | 3.5% (net) (fmly 5%) cum pref £1 | 111,239 | 35.01% | 55,717 | 81,204 | |
| | 3.85% (net) (fmly 5.5%) cum red pref £1 | 142,563 | 11.88% | 66,215 | 111,199 | |
| | 4.9% (net) (fmly 7%) cum pref £1 | 93,439 | 8.89% | 62,422 | 84,095 | |
| | | | | 275,935 | 398,386 | 2.45% |
| 9. | **Automotive Products** | | | | | |
| | 3.5% (net) cum pref £1 | 132,800 | 26.56% | 58,137 | 63,744 | |
| | 4.55% (net) 2nd cum pref £1 | 130,886 | 4.19% | 68,079 | 81,149 | |
| | 9% (net) cum pref £1 | 250,000 | 3.33% | 231,150 | 247,500 | |
| | | | | 357,366 | 392,393 | 2.41% |
| 10. | **Coats Viyella** | | | | | |
| | 4.9% (net) cum pref £1 | 450,683 | 3.08% | 304,734 | 378,574 | 2.33% |
| 11. | **Staveley Industries** | | | | | |
| | 5¼% cum pref £1 | 493,800 | 52.53% | 248,095 | 365,412 | 2.25% |

At 31st March 1998

| Stock† | Number | % Issue | Book | Market | % of total portfolio |
|---|---|---|---|---|---|
| 12. **Burmah Castrol** | | | | | |
| 6% 1st cum pref £1§ | 37,675 | 15.07% | 21,326 | 35,415 | |
| 6% 2nd cum pref £1§ | 20,000 | 2.67% | 9,680 | 18,800 | |
| 7¼% cum red pref £1 | 294,683 | 1.96% | 213,748 | 271,845 | |
| 8% cum pref £1 | 37,334 | 1.24% | 22,885 | 39,201 | |
| | | | 267,639 | 365,261 | 2.25% |
| 13. **Coutts Consulting Group** | | | | | |
| 5p (net) cnv pref £1 | 300,000 | 6.00% | 179,394 | 150,000†† | |
| 8p (net) cnv pref £1 | 195,000 | 5.20% | 195,840 | 180,375 | |
| | | | 375,234 | 330,375 | 2.03% |
| 14. **Simon Group** | | | | | |
| 4.2% (net) (fmly 6%) cum pref £1§ | 205,315 | 22.26% | 99,560 | 135,508 | |
| 5.4% (net) cum pref £1 | 194,618 | 27.80% | 127,768 | 155,694 | |
| | | | 227,328 | 291,202 | 1.79% |
| 15. **John Cotton (Mirfield)††** | | | | | |
| 13¼% (net) cum pref £1 | 290,000 | 38.67% | 246,931 | 290,000†† | 1.78% |
| 16. **Oceonics††** | | | | | |
| 6% (net) cum cnv red pref 1999 £1 | 278,810 | 6.03% | 165,864 | 278,810†† | 1.72% |
| 17. **Cookson Group** | | | | | |
| 4.9% (net) cum pref £1 | 264,639 | 19.66% | 174,989 | 230,236 | |
| 4.9% (net) non-cum pfd ord 50p§ | 96,898 | 10.65% | 35,001 | 47,480 | |
| | | | 209,990 | 277,716 | 1.71% |
| 18. **Lex Service** | | | | | |
| 6½% cum pref £1 | 323,208 | 32.04% | 215,728 | 261,798 | 1.61% |
| 19. **Amalgamated Metal** | | | | | |
| 5.4% (net) cum pref £1 | 229,650 | 16.34% | 127,191 | 172,238 | |
| 6% (4.2% net) cum pref £1 | 148,000 | 16.44% | 63,372 | 87,320 | |
| | | | 190,563 | 259,558 | 1.59% |
| 20. **Finlay (James)** | | | | | |
| 4.2% (net) 1st cum pref £1 | 64,400 | 12.88% | 43,152 | 54,740 | |
| 4.2% (net) 2nd cum pref £1 | 111,886 | 35.81% | 64,293 | 95,103 | |
| 5% (net) 2nd cum pref £1 | 108,110 | 27.46% | 76,555 | 98,380 | |
| | | | 184,000 | 248,223 | 1.53% |
| | | | 5,880,267 | 7,554,995 | 46.49% |

† All coupons are gross unless expressed otherwise

§ Voting

†† Unlisted investments at Directors' Valuation

The Company has 186 holdings in a total of 140 companies.

# NOTICE OF MEETING

Notice is hereby given that the 131st ANNUAL GENERAL MEETING of members will be held at FAIRFAX HOUSE, FULWOOD PLACE, GRAY'S INN, LONDON, WC1V 6UB at 12 noon on Wednesday 29th July 1998 for the following purposes;

**Ordinary Business**

1. To receive and adopt the Directors' report and accounts for the year ended 31st March 1998.
2. To declare a final dividend on the ordinary shares.
3. To re-elect Miss J. B. Webb as a Director.
4. To reappoint the Auditors and to authorise the Directors to determine their remuneration.

**Special Business**

To consider and if thought fit to pass the following Resolutions which will be proposed as Ordinary Resolutions:

5. That the authority conferred by Article 10(B) of the Articles of Association of the Company (as adopted at the Extraordinary General Meeting of the Company held on 11th September 1997) to make market purchases of Ordinary Shares of 50p each and of Participating Preference Shares of 50p each in its capital be renewed so that the authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 1999 but not so as to prejudice the completion of a purchase contracted before that date, and be varied as follows:

   (a) the maximum amount of Ordinary Shares which may be so acquired is 416,989; and

   (b) the maximum amount of Participating Preference Shares which may be so acquired is 2,180,081.

6. That the power conferred by Resolution 4 passed at the Extraordinary General Meeting of the Company held on 11th September 1997 and expiring at the conclusion of this Annual General Meeting be renewed to the effect that the Board be empowered pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to a maximum of the authorised but unissued share capital of each class of share capital of the Company as if Section 89(1) of the Act did not apply to such allotment and provided that this authority shall expire 15 months from the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting

of the Company, save that the Company may prior to the expiry of such authority make an offer or agreement under which relevant securities would or might fall to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

Registered Office:
18th Floor
Royex House
Aldermanbury Square
London EC2V 7HR

By Order of the Board
**Robert J. M. Neal**
Secretary

Robert J. Neal

Dated this 6th day of July 1998

Notes:
A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.

To be valid a duly executed form of proxy (and any power of attorney or other authority under which it is executed) must be lodged with the Company's registrars, Independent Registrars Group, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR, not later than 12 noon on Monday, 27th July 1998. Lodgement of a form of proxy will not prevent a holder from attending and voting in person.

There will be available for inspection at 18th Floor, Royex House, Aldermanbury Square, London EC2V 7HR, during business hours on any weekday (Saturday's and public holidays excepted) from the date of this notice until the conclusion of the meeting the Register of Directors' interests in the share capital of the Company.

None of the Directors has a contract of service with the Company.

**Dividend Warrants:**
Subject to the approval of the final ordinary dividend at the Annual General Meeting, the dividend will be payable on 31st August 1998.