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Directors and Directory of Advisers

Directors

MR Cornwall-Jones MA, ACIS (67) Chairman
Appointed a director on 1 November 1994. Mr Cornwall-Jones is chairman of the Ecclesiastical Insurance Group and a director of other companies.

JC Morton DL, FCA (61)
Appointed a director on 6 November 1998. Mr Morton is the chairman of the company's Audit Committee. Mr Morton was a partner in Price Waterhouse and subsequently PricewaterhouseCoopers. He is chairman of Ulster Supported Employment Limited.

TR Pattison MSI (Dip) (49)
Appointed a director in 1984. Mr Pattison is an executive director of Capel Cure Sharp Limited.

RPA Spiller MA (Oxon), MSI (Dip) (51)
Appointed a director in 1986. Mr Spiller is a partner in Cazenove & Co and director of Cazenove Fund Management Limited.

Secretary and Registered Office

JC Morton DL, FCA
Royston House
34 Upper Queen Street
Belfast
BT1 6HG

Registrars

PricewaterhouseCoopers
34 Upper Queen Street
Belfast
BT1 6HG

Investment Management Services

Cazenove Fund Management Limited
London

Portfolio Management Services

Capel Cure Sharp Limited
London

Bankers

Northern Bank Limited
Belfast
BT1 6LT

Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

Registered Number

NI 5574

Manager's Report and Portfolio Analysis

The past year has been one of mixed fortunes. The first half of our fiscal year saw stock markets depressed, but aggressive additions of liquidity by the central banks under the leadership of the Federal Reserve led to a dramatic turnaround in October. This monetary stimulation encouraged more rapid economic growth, with its associated increase in corporate profits. As importantly, it gave credence to the idea of the 'Greenspan put', the naïve belief that equity investment entailed limited risk, since the Federal Reserve would always ensure that any incipient bear market would be offset by substantial injections of liquidity. The result was an enthusiasm for shares, particularly in the areas of telephone, media and technology, that can only be described as manic. Your company benefited from substantial rises in Fleming India, North Atlantic Smaller Companies, Lloyds Smaller Company capital shares, which were all sold before the year end, and Scottish Value whose perceptive management exploited trusts with exposure in New Japan and in high technology. The shares more than doubled and our holding was markedly reduced in the early part of 2000. Profitable reconstruction occurred in Commodities Trust, Value Realisation, Martin Currie Smaller Companies Trust, Venturi, Aberdeen Development and, just after the year end, Five Arrows Chile.

Overall, though, a cautious attitude was adopted throughout because of the exceptionally poor valuation of equity markets relative to history and to bond and cash interest rates. High exposures were maintained to the zero preference market, which, however, produced a very modest return; issuance overwhelmed demand. Our portfolio is of short duration and now offers highly attractive returns for little risk in the particular holdings in the portfolio. The bond holdings were mixed. The US Index-Linked Treasuries ('TIPS') benefited from a higher rating and a strong currency, but bonds denominated in Euros suffered. Latin America Extra Yield, a trust that owns Brady Bonds, saw its discount narrow in anticipation of reconstruction, but the Asian High Yield Bond Fund saw the discount actually widen to over 50%; prospective returns seem quite exciting. Performance attribution therefore would credit almost the whole increase in assets of 9.7% to the 30% of the portfolio held in equities.

Outlook

With an overheated economy as well as a highly valued stock market, the outlook for the US is poor. The economy has been allowed to grow at above trend rates because of an initial absence of inflation, but this has been achieved by a huge expansion of credit; a soft landing seems difficult to achieve. Unfortunately, if a general bear market does develop in the US, as opposed to a correction in the NASDAQ, the effects will be felt in all equity markets. We therefore continue to believe that risk aversion is appropriate for long term private funds.

Within the equity holdings, Siam Selective and Five Arrows Chile are in the process of liquidating and Electra will tender for 25% of its own shares. Fleming Income and Growth capital has been repaid after the year end. The largest equity holding is in Tor Capital shares, which are due to mature in July 2001 and there is a good investment in British Assets Growth shares and Investors Capital Growth shares where corporate developments are likely in or before September 2001. In short, the opportunities for shareholders to benefit from narrowing discounts in trusts with good quality assets remain attractive.

In the fixed interest portfolio, a weaker sterling might increase the gains made from eventually lower interest rates as economies cool down in 2001. The zero preference portfolio is of good quality and should produce a return of about 8%.

RPA Spiller
2 June 2000

Manager's Report and Portfolio Analysis (continued)

MAJOR INVESTMENTS OF THE COMPANY

	2000	1999
	£	£
Investment Trust Ordinary Shares:		
Scottish Value Trust	695,500	831,250
London St Lawrence Investment Trust	666,250	935,250
Investment Trust Capital Shares:		
Tor Investment Trust	1,084,500	877,500
Investment Trust Preference Shares and Other:		
Fleming Income and Growth	1,520,063	1,267,000
Fleming Income and Capital Investment Trust – Zero Dividend	1,249,500	1,194,250
M&G Income Investment Trust – Zero Dividend	1,077,000	1,029,000
Johnson Fry Utilities Investment Trust – Zero Dividend	1,055,905	955,733
JOS Holdings – Zero Dividend	977,313	969,000
Gartmore Shared Equity Investment Trust – Zero Dividend	776,250	724,500
Jupiter Split Investment Trust – Zero Dividend	744,489	722,191
Johnson Fry Euro – Zero Dividend	734,000	792,000
Henderson Eurotrust – Zero Dividend	702,000	681,000

Report by the Directors (continued)

Contracts

There were no contracts existing either during the year or at the end of the year in which any of the directors are or were materially interested other than as disclosed.

Retiring directors

RPA Spiller retires by rotation and, being eligible, will be proposed for re-election.

Management

The company is self-managed with the investment management carried out by Cazenove Fund Management Limited.

CORPORATE GOVERNANCE

The directors are committed to a system of sound corporate governance and have given full consideration to the Principles of Good Governance and Code of Best Practice issued by the London Stock Exchange in June 1998. The following paragraphs demonstrate how the Principles of the Combined Code have been applied. Details of provisions of the Code which were not complied with during the year are also provided.

The board has established procedures necessary to implement the requirements of the Combined Code relating to internal control as reflected in the September 1999 guidance "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance). In respect of the application of principle D2 of the Combined Code, the board has adopted the transitional approach to disclosure set out in the letter from the London Stock Exchange dated 27 September 1999 and therefore the comments below relate to internal financial control procedures.

Directors

The board of directors comprises four non-executive directors, the majority of whom are independent of the company's investment manager. The company has no executive directors nor any employees. A management agreement between the company and Capital Gearing Management Limited lapsed during the year. All matters are reserved for the approval of the board. The board has engaged external firms to undertake the investment management, registration and custodial activities of the company. Clearly documented contractual arrangements are in place between the company and these firms which set out the areas where the board has delegated authority to them. The board meets quarterly to review the overall business of the company and to consider the matters specifically reserved for it to decide on. Detailed information is provided by the managers and registrars for these meetings which enable the directors to monitor the investment performance of the company compared to its benchmark. The directors review the company's activity over the quarter to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change in policy.

Mr J C Morton is the senior independent director. As the board is small there is no formal Nomination Committee and appointments of new directors are considered by the board as a whole. Directors are subject to re-election by shareholders at the intervals specified in the company's Articles of Association and the directors consider that this meets the requirement of the Combined Code that directors are appointed for specific periods and that their re-appointment should not be automatic.

Directors' remuneration

There is no formal remuneration committee and decisions in relation to directors' emoluments are taken by the Board as a whole. Directors' remuneration comprises solely of directors' fees, details of which are shown in note 5 to the accounts. No director has a contract of service with the company.

Relations with shareholders

Shareholders have the opportunity to attend and vote at the Annual General Meeting during which the directors are available to discuss key issues affecting the company.

Cash Flow Statement
for the year ended 5 April 2000

	<i>Notes</i>	<i>2000</i>	<i>1999</i>
		£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	16	348,497	246,458
TAXATION			
Corporation tax recovered/(paid)		12,921	(13,187)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire investments		(12,323,954)	(14,364,605)
Receipts from sale of investments		11,235,875	13,561,068
Maturity of life assurance policies		-	621,471
		(1,088,079)	(182,066)
EQUITY DIVIDENDS PAID		(116,545)	(61,350)
FINANCING			
Issue of ordinary share capital		-	920,500
(DECREASE)/INCREASE IN CASH	18	(843,206)	910,355

The notes on pages 16 to 23 form an integral part of these accounts.

Notes to the Accounts *(continued)*
for the year ended 5 April 2000

(h) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end.

(i) Capital reserves

• **Capital reserve – realised**

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.

• **Capital reserve – unrealised**

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end;
- unrealised exchange differences of a capital nature.

2 INCOME

	2000	1999
	£	£
Income from investments:		
Franked investment income	139,666	147,629
UK unfranked investment income	9,204	14,984
Overseas dividends	29,729	26,261
Overseas interest	124,274	48,721
Foreign income dividends	5,500	6,984
	<u>308,373</u>	<u>244,579</u>
Other income:		
Deposit interest	28,574	50,760
Total income	<u><u>336,947</u></u>	<u><u>295,339</u></u>
Total income comprises:		
Dividends	174,895	180,874
Interest	162,052	114,465
	<u>336,947</u>	<u>295,339</u>
Income from investments:		
Listed UK	148,870	162,613
Listed overseas	159,503	81,966
	<u>308,373</u>	<u>244,579</u>

Notes to the Accounts (continued)
for the year ended 5 April 2000

6 TAX ON ORDINARY ACTIVITIES

	Revenue 2000 £	Capital 2000 £	Total 2000 £	Revenue 1999 £	Capital 1999 £	Total 1999 £
UK Corporation tax - prior year	-	-	-	(3,545)	-	(3,545)
Taxation on dividends received	2,250	-	2,250	24,621	-	24,621
	<u>2,250</u>	<u>-</u>	<u>2,250</u>	<u>21,076</u>	<u>-</u>	<u>21,076</u>

The tax suffered on Franked Investment Income has fallen as a percentage of the relevant income due to the abolition of Advance Corporation Tax.

The balance of taxable income is extinguished by management expenses. Future years' tax charges will benefit from excess management expenses carried forward of approximately £170,000.

7 RETURN PER ORDINARY SHARE

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £201,802 (1999 - £157,880) and on 2,330,906 (1999 - 2,235,073) ordinary shares, being the weighted average number of ordinary shares in issue in each year.

Capital return per ordinary share is based on the net capital gains for the financial year of £2,041,551 (1999 - £750,267) and on 2,330,906 (1999 - 2,235,073) ordinary shares, being the weighted average of the number of ordinary shares in issue in each year.

There was no dilution of the above returns in either year.

8 LISTED INVESTMENTS

	2000 £	1999 £
Investments comprise -		
Listed Investment Trusts:		
Incorporated in the United Kingdom	17,662,537	16,839,450
Incorporated Overseas	2,354,882	805,565
UK Gilts	515,945	7
Overseas treasury stocks	1,035,157	-
Overseas fixed interest securities	1,720,661	2,398,512
Miscellaneous	33,650	-
	<u>23,322,832</u>	<u>20,043,534</u>
Market Value of Investments held at 6 April 1999	£ 20,043,534	
Unrealised appreciation at 6 April 1999	(3,043,057)	
Cost of Investments held at 6 April 1999	17,000,477	
Additions at cost	12,323,954	
Disposals at cost	(9,650,072)	
Cost of Investments held at 5 April 2000	19,674,359	
Unrealised appreciation at 5 April 2000	3,648,473	
Market Value of Investments held at 5 April 2000	<u>23,322,832</u>	
	2000	1999
	£	£
Net realised gains on sales	1,585,803	1,579,948
Net increase/(decrease) in unrealised appreciation	605,416	(705,696)
	<u>2,191,219</u>	<u>874,252</u>

Notes to the Accounts (continued)
for the year ended 5 April 2000

14 NET ASSET VALUE PER SHARE

The 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

	2000	1999
Ordinary shares (basic)*	998.9p	909.7p
Net asset values attributable		
Ordinary shares (basic)*	£ 23,284,111	£ 21,203,921

The movements during the year of the assets attributable to the ordinary shares were as follows:

	Ordinary shares (basic)
	£
Total net assets attributable at 6 April 1999	21,203,921
Total recognised gains for year	2,243,353
Dividends appropriated in year	(163,163)
Total net assets attributable at 5 April 2000	23,284,111

Net asset value per ordinary share is based on net assets, as shown above, and on 2,330,906 (1999 – 2,330,906) ordinary shares being the number of ordinary shares in issue at the year end.

* There was no dilution of net asset value at either date.

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000	1999
	£	£
Opening equity shareholders' funds	21,203,921	19,491,819
Total recognised gains and losses	2,243,353	908,147
Dividends	(163,163)	(116,545)
Issue of shares	–	920,500
Closing equity shareholders' funds	23,284,111	21,203,921

16 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000	1999
	£	£
Net revenue before finance costs and taxation	204,052	178,956
Investment management fee charged to capital	(149,668)	(49,644)
Other expenses charged to capital	–	(85,452)
Increase in accrued income	(8,287)	(69,093)
Increase/(decrease) in creditors	35,964	(512,170)
Decrease in debtors	268,686	808,482
Tax on franked investment income deducted at source	(2,250)	(24,621)
NET CASH INFLOW FROM OPERATING ACTIVITIES	348,497	246,458

Notes to the Accounts (continued)
for the year ended 5 April 2000

Interest rate risk

Financial assets

Bond and preference share yields, and as a consequence their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short-term interest rates and international market comparisons. The investment manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Returns from bond and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. This means that if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase level and a profit or loss may be incurred.

The interest rate profile of the company at 30 September 1999 is as follows:

	Total (as per Balance Sheet) £	Floating rate £	Fixed rate £	Financial assets/ (liabilities) on which no interest is paid £	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
Assets						
Investment Trusts	20,017,419	–	–	20,017,419	–	–
Gilts	1,551,102	515,945	1,035,157	–	3.35	28.0
Overseas fixed interest	1,720,661	–	1,720,661	–	5.17	28.4
Miscellaneous	33,650	–	–	33,650	–	–
Cash at bank	104,717	104,717	–	–	–	–
Debtors	606,904	–	–	606,904	–	–
Liabilities						
Creditors	(750,342)	–	–	(750,342)	–	–
Total net assets	23,284,111	620,662	2,755,818	19,907,631		

Credit risk

In addition to the interest rate risk the company's investment in bonds is also exposed to credit risk which reflects the ability of a borrower to meet its obligations. Generally, the higher the quality of the issue, the lower the interest rate at which they can borrow money. Issuers of a lower quality will tend to have to pay more to borrow money to compensate the lender for the extra risk taken. The investment manager assesses the risk associated with these investments by prior financial analysis of the issuing companies as part of his normal scrutiny of prospective investments.

Foreign currency risk

The company's investments in foreign currency securities are subject to the risk of currency fluctuations. The investment manager monitors current and forward exchange rate movement in order to mitigate this risk.