Impax Environmental Markets plc

REPORT AND ACCOUNTS

for the year ended 31 December 2003

Registered in England and Wales No. 4348393

KEY FEATURES

INVESTMENT OBJECTIVE

The Company was formed to enable investors to benefit from rapid and sustained growth anticipated by the directors in the markets for cleaner or more efficient delivery of basic services of energy, water and waste. Investments are made predominantly in quoted companies which provide, utilise, implement or advise upon technology-based systems, products or services in environmental markets, particularly those of alternative energy and energy efficiency, water treatment and pollution control, and waste technology and resource management.

PERFORMANCE

	At 31 December 2003
Net asset value ("NAV") per share	66.29p
Share price	55.50p

DURATION

The Company does not have a fixed life but will have a vote for continuation at the Annual General Meeting to be held in 2007.

FINANCIAL CALENDAR

Annual General Meeting	21 April 2004, at 4 p.m., *Crusader House* *145-157 St John Street* *London EC1V 4RU*

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CHAIRMAN'S STATEMENT

I am pleased to report that, since my last statement as part of the Interim Report 2003, Impax Environmental Markets plc ("IEM" or "the Company") has continued to recover well. This reflects a significant recent improvement in the financial performance and outlook of the majority of companies operating in the Environmental Markets sector, which has occurred against a backdrop of rising global equity markets.

Performance and Current Status

During the year, the net asset value ("NAV") rose 21.9% from 54.40p to 66.29p, while the share price rose 21.3% from 45.75p to 55.50p. This result represents an outperformance over the MSCI World Index, which rose by 17.6%.

The outlook for Environmental Markets is currently positive, with environmental issues continuing to feature prominently in the news and policy agenda. In the UK, for example, we have seen the Government respond to concerns from the financial community and extend the Renewables Obligation, that provides a subsidy for electricity generated from renewable sources, to 2015. In addition, we have seen new legislation to control carbon dioxide emissions, ban the use of certain toxic materials, and reduce the pollution of groundwater. All these developments continue to create a market in the basic services industries that favours the providers of cleaner and more efficient solutions such as the companies in the IEM portfolio.

Financial Results and Directors

In line with their focus on capturing growth opportunities, most companies in the portfolio are reinvesting the majority of free cash and do not pay dividends. Therefore, as expected, the Company's revenue for the year was relatively low, and after expenses and tax represented a small profit of 0.05p per share. The directors do not recommend the payment of a final dividend.

In October, Robin Bidwell resigned as a director. On behalf of the Board, I would like to thank Robin for supporting the successful launch of the Company and for his subsequent contribution.

Outlook

After a difficult first year for the Company, the Environmental Markets sector has strengthened considerably since March 2003, and we are optimistic about the coming year. As power outages, energy security, water shortages and climate change are increasingly perceived as risks in the minds of global investors, the IEM portfolio offers an interesting diversification option for the long term. In the meantime, the pickup in capital spending on both sides of the Atlantic is driving both growth and profitability of many of our companies and, with a number of multinationals showing a strategic interest in the sector, we expect corporate activity to be a further driver of value for the Company.

At the time of writing, equity markets have started the year cautiously with strong economic growth and good financial performance of companies being weighed against the imbalances in the global economy and the continuing fall of the US dollar. Since the year end, IEM has outperformed the MSCI World Index, which on 11 March 2004 was down 0.4% – the Company's NAV had risen 1.6% to 67.38p while the share price had risen 11.3% to 61.75p.

The directors continue to believe that prospects for the Company remain strong, and that current valuations in the sector are attractive.

Richard Bernays
18 March 2004

MANAGER'S REPORT

Following a difficult 2002, we have been encouraged by the Company's performance during 2003 and into the current year. As the global economy has revived and capital spending budgets have increased, the majority of our companies have seen a pickup in their fortunes in orders, profitability and share price performance. Alongside the positive news from the sector, we have seen a partial re-rating of Environmental Markets companies during the year, and expect that this will continue.

The Development of Environmental Markets

We continue to believe that Environmental Markets are developing as a result of three main drivers: government policies to liberalise basic services; tightening legislation designed to reduce or reverse environmental damage; and the falling cost of technology. Overall, we believe that these drivers have strengthened during the year and observe that governments have concluded that many of the key risks facing the global economy can be mitigated through increased investment in environmental infrastructure and technology.

Liberalisation of basic services

Private sector involvement in basic services and the liberalisation of energy, water and waste markets continues to grow. Momentum is increasing in Europe with the adoption of the amended Electricity Directive in 2003 and the deadline for opening the market in July 2004. In the US, although the approach to deregulation of the power sector is still under review, the political will to provide incentives for private companies to invest in grid infrastructure has strengthened considerably since the blackout in August 2003.

Municipalities around the world continue to outsource their water and waste functions with China, Eastern Europe and the US being the strongest markets. Veolia Environnement, Suez and RWE remain the market leaders, though competition exists in all local markets (e.g. Aqua America in the US) and there is an increasing trend for these companies to outsource provision of technology-based solutions, which we believe is positive for companies in the IEM portfolio.

Tightening environmental standards

Additional environmental policy initiatives were implemented in 2003 with a number of important developments in each of the IEM sub-sectors. Although the Kyoto Protocol was again not ratified during the year (due to procrastination by Russia), considerable progress was made in Europe with the Emissions Trading Scheme ("ETS"). The UK was one of the first countries to publish a draft plan to allocate carbon dioxide (CO2) allowances to industry, thereby paving the way for EU emissions trading in 2005. This mechanism will provide further incentives for power producers to invest in low-carbon generation capacity, particularly renewable energy.

In the water sector, regulators have been turning their attention to non-bacterial "environmental contaminants". Standards in the US were tightened in 2003 for NDMA, 1,4 dioxane, perchlorate and MTBE which are all carcinogenic, and authorities on both sides of the Atlantic are now considering limits for controlling endocrine disruptors, various pesticides and algal toxins. New threats to human health and the natural environment continue to emerge, and as legislation is brought into force, industrial companies will need to spend more capital on environmental technology solutions, which is positive for many of the IEM companies active in this sector.

There were a number of developments in the UK to improve the level of recycling in line with the rest of Europe. Firstly DEFRA announced that recycling targets for packaging would increase by 20% from the 2003 level to 70% in 2008. Meanwhile, the UK Government passed the Waste and Emissions Trading Act, a tradable permits mechanism that will allow the UK to comply with the EU Landfill Directive. In addition, national governments began to prepare implementing legislation for the End of Life Vehicle ("ELV"), Waste from Electrical and Electronic Equipment ("WEEE"), and Restriction of Hazardous Substances ("ROHS") Directives, and the first requirements are expected to come into force within the next 12 months. This legislative pipeline from the EU is expected to lead to significant changes in the European waste industry, and we expect that a number of the IEM holdings will be major beneficiaries.

Falling costs of technology

Cost reduction is critical both for pre-commercial technologies to become competitive and for existing technologies to grow the market and gain market share. During the year we have seen fuel cell companies selling backup power products in the telecom market, indicating that the cost of installed fuel cell based power systems is now approaching USD3,000/kW (i.e. close to the price point for volume markets). Flywheels are gaining traction in the uninterruptible power supply ("UPS") market following a decline in costs of 30% since 2001 and excellent performance during the blackouts. The economics of ethanol from biomass using enzymes have improved dramatically (-90%) as part of an US EPA research and development programme which involves a number of IEM companies. Other markets that have seen big cost reductions include gas sensing (-33% since 2001) and reverse vending machines (-10% since 2001).

Progress by Companies in the Sector

Against a background of strengthening fundamentals, companies operating in Environmental Markets have reported strong financial performance and signal optimism for the future. In addition, the sector as a whole has experienced a partial re-rating following the weakness that was seen in 2002. We expect this re-rating to continue as the long term growth potential and attractive risk profile of Environmental Markets is appreciated by the capital markets.

Alternative energy & energy efficiency

The prices of alternative energy stocks are driven not only by financial performance but also by news flow, which has consistently highlighted the need for substantial investment in alternative energy solutions. Although the blackouts were the primary driver of share prices during the year, the backdrop of high oil (and other energy) prices and increased concerns about climate change, energy security, and urban air quality have all been positive for companies operating in this area.

The hydrogen sector has developed positively during the year, with fuel cell solutions prominent. In his State of the Union address in January 2003, President Bush launched the USD1.2 billion Freedom Fuel Initiative, while in July the Japanese government set a target of five million fuel cell vehicles by 2020. The strong policy backdrop, the pickup in capital spending and the blackouts in the third quarter combined to create a strong business environment for the fuel cell and hydrogen companies, and during the year we have seen both sector consolidation (e.g. the acquisition of Global Thermoelectric by Fuel Cell Energy) and additional capital raising to finance the next phase of the business development (e.g. Hydrogenics and Quantum Fuel).

The wind market has been through a period of consolidation during 2003 but still delivered annual growth of more than 10%. Although Germany and Spain, the largest markets, fell slightly, this was compensated by a good year in the US and other new markets. Looking forward, the lack of a production tax credit in the US is the main uncertainty that will affect the short term growth rate, but longer term we are confident that the wind market will continue to grow at 10% or better. The wind turbine market has seen considerable price pressure in recent years as over 10 producers were competing for business, and 2003 saw the number of producers reduced with two regional consolidations - MADE was bought by Gamesa in Spain and NEG Micon agreed to merge with Vestas in Denmark.

Elsewhere in the energy sector, we are excited by the prospects for Itron following its acquisition of Schlumberger's electric meter business. As power utilities seek to better understand customers' usage patterns and to design systems for more efficient electricity supply, Itron is expected to take advantage of its dominant position in US markets for automated meter reading and utility software that it gains from this acquisition.

Water treatment & pollution control

Industrial capital spending improved in the second half of the year which benefited a number of the Company's holdings particularly the three multi-technology water treatment companies, Ionics (US), BWT (Austria) and Kurita Water (Japan). These companies have received an additional boost from the expanding semiconductor industry which has a high demand for ultra pure water equipment.

We believe that M&A will continue to be a key driver of value in the water technology and treatment sector. The dynamics of the industry have been shifting as the two French utilities (Veolia Environnement and Suez) have both started to dispose of their treatment technology and water chemicals assets to focus on the outsourcing market. In the meantime, we have seen a number of new players emerging alongside General Electric, as ITT Industries acquired the UV disinfection company Wedeco (an IEM "top ten" holding) and Pentair increased its water portfolio with the acquisition of Everpure from Veolia Environnement.

Two particular areas where we have seen exciting developments are environmental contaminants (highlighted above) and stormwater management. As concerns increase about the new pollutants, IEM companies have developed unique solutions to these emerging problems. For example, Trojan Technologies is combining ultraviolet with peroxide to control NDMA and 1,4 dioxane and Calgon Carbon is the only company with a solution for the mitigation of perchlorate pollution. The growth in the market for stormwater management systems is driven by new standards in Europe and the US to improve flood prevention and control sewer overflow. A small UK company, Hydro International, provides innovative products to this market and saw strong growth in its business during 2003.

Waste technologies & resource management

The UK waste industry experienced both stabilisation and consolidation during the year. Pricing pressure in the market eased and the main operators began to pass through additional costs to their local authority customers. There were two major acquisitions: Biffa was able to buy Hales from RMC

Group; and the private equity fund Terra Firma bought Waste Recycling Group (an IEM holding). The latter transaction leaves Shanks Group as the only quoted independent integrated waste operator in the UK.

Environmental consultancy is still an important investment area for IEM and we made solid gains in each of our investments in this area i.e. RPS Group (UK), Tetra Tech (US), Stantec (Canada) and Arcadis (Netherlands). The global market for environmental consultancy services is growing at around 10% per annum and, in each case, the companies have pursued a strategy of growth through acquisition which, due to strong management, has led to higher rates of earning growth.

The Company invested in a number of recycling companies during the year. As legislation starts to bite and technology costs decline, attractive investment opportunities are emerging. In the ELV market, Universal Salvage saw a pickup in business from local authorities and OEMs, which partially compensated for the weakness in its traditional insurance market. As local authorities seek to comply with Government targets, the market for recycling and composting bins has been growing rapidly as indicated by the initial public offering ("IPO") of Straight plc onto the UK Alternative Investment Market ("AIM") in the last quarter of the year.

Corporate Activity in Environmental Markets

In each of the three investment areas, corporate activity is emerging as a key theme and driver of value for the Company both through mergers and acquisitions and the issuance of new equity (either IPO or secondary offerings). Since the launch of IEM, there have been over fifteen mergers and acquisitions among quoted companies in the Environmental Markets sector, each with a transaction value of over $50m. Six IEM portfolio companies have been taken over at an average premium of 35%. In addition, we have seen three IPOs and fifteen secondary offerings, which have brought a further $500 million to the Environmental Markets sector.

We expect this trend to continue and to drive value for the Company. As these key strategic sectors increase in size and importance, we expect that the small cap companies that are the focus of the portfolio are either going to grow rapidly and emerge as leaders in the marketplace or will be swallowed up either by competitors or by the multinational companies such as General Electric that have identified areas such as alternative energy and water technology as key strategic targets. Under both scenarios, the shareholders of small cap Environmental Markets companies can expect to see a good return on invested capital.

Portfolio Activity and Current Structure

The Company started the year with 52 stocks. Since that time, following further research and company visits, we have increased the number of holdings, with the result that the Company held a total of 56 stocks on 31 December 2003. Our universe now includes nearly 300 quoted companies.

The IEM portfolio has continued to focus on profitable, industrial growth companies that are benefiting from the changes taking place in the energy, water and waste sectors. At the time of the blackouts, we increased our exposure to the more speculative alternative energy companies, and at the end of the year held 15% of the Company's assets in loss making companies, compared with 12% at the end of 2002.

The proportion of the IEM portfolio in companies with a market capitalization less than £100m rose slightly over the year from 20% to 21%. We continue to view smaller companies as having the greatest potential for substantial growth and the area where Impax Asset Management can add the most value given our focus and expertise in the Environmental Markets sector.

Finally, the majority (88%) of the Company's portfolio is invested in overseas securities with 34% in US dollar denominated stocks. It is not the Company's policy to hedge against foreign currency movements.

Outlook for 2004

We believe that the long-term outlook for Environmental Markets remains strong with the key drivers continuing to favour the sector. We are confident that capital spending will continue into the second half of 2004 and that this will be positive for the Company's portfolio. We remain watchful of the capital imbalances in the global economy and acknowledge that it may take some time for these to be worked through. For this reason we are maintaining a relatively conservative approach to the IEM portfolio with an emphasis on profitable companies that are generating free cash.

The de-rating of the EM sector, on which we commented last year, has largely been redressed as investors have appreciated the growth potential of companies in the sector. The IEM portfolio currently trades at a slightly higher earnings multiple than the market, but with considerable growth expectations for the coming year, we believe that valuations remain attractive.

We will continue to post monthly updates on sector news and on the Company's performance on www.impax.co.uk.

Impax Asset Management Ltd.
18 March 2004

TEN LARGEST HOLDINGS

AS AT 31 DECEMBER 2003

RPS Group (United Kingdom)

RPS is an independent environmental, health, safety and risk consultancy, which provides scientific planning and design advice to customers in the government and commercial sectors. The company is addressing a market of over £1 billion and has a strong track record in acquiring and integrating smaller competitors. During 2003, RPS continued to make acquisitions including a large acquisition that expanded the addressable market to include environmental consultancy in the energy sector. Earnings per share during the year grew at 16% in line with historic performance. We continue to see considerable potential for growth and see its valuation as attractive.

Casella Waste (US)

Casella is an integrated waste management company with a dominant position in the eastern United States and the largest proportion of revenues from recycling of all the US waste operators. Casella has made considerable progress during the year with developing its new growth opportunities and the share price has re-rated considerably. Despite the re-rating, we believe that the valuation does not fully reflect the opportunities that Casella has to expand its business in the coming years.

BWT (Austria)

BWT AG develops and markets water treatment technologies. The Company produces filters, water softeners, disinfection devices, dosing systems, and designs and constructs water supply and wastewater treatment plants. After a difficult year in 2003 when capital spending, particularly in Germany, has been weak, we expect BWT to be a beneficiary in the economic turnaround that is taking place in Europe. The company has a portfolio of innovative products that respond to the increasingly stringent demands of the water market and the valuation compares favourably to similar US companies.

Vestas Windsystems (Denmark)

Vestas is the world's largest manufacturer of wind turbines. The company had a busy year in 2003 firstly beating analyst expectations for the first half but then issuing a profits warning in November as the visibility on US wind markets deteriorated. In December, Vestas announced the merger with NEG Micon (see main text) which, though representing considerable integration challenges, will consolidate the industry and should lead to improved pricing power and margins for the turbine producers. We believe that Vestas is well-positioned to benefit from the long-term growth potential of the wind industry.

Wedeco (Germany)

Wedeco is a global water company focused on water disinfection alternatives with strong businesses in both ultraviolet and ozone solutions. The company was taken over during 2003 at a 30% premium to the market price by ITT Industries (see corporate activity section of main text). IEM received the cash for its shares in January 2004.

Tetra Tech (US)

Tetra Tech is a major independent provider of environmental consultancy and engineering services in the United States. The company is active in consultancy projects in the water/ground-water pollution control and waste management sector as well as providing design services for a wide range of infrastructure projects. Similar to RPS Group in the UK, Tetra Tech has a strong track record of growing EPS through acquisition and consolidation of the sector. Despite a dramatic re-rating during 2003, we believe that the company is attractively valued given the strong order book and increasing margins.

Ionics (US)

Ionics is a multi-technology water treatment company involved in the manufacture and sales of membranes and related equipment for the purification, concentration, treatment and analysis of water and wastewater. The company is a world leader in desalination projects in which it maintains a minority ownership position. After a difficult start to 2003, Ionics has seen a change in management, undergone a major restructuring and made a significant acquisition (see main text) to increase recurring revenues. While execution risk remains, Ionics ends the year with a clear path to increased profitability and represents a key strategic asset in the US water market.

Hydrogenics (Canada)

Hydrogenics is a leader in the development of integrated hydrogen and fuel cell systems for clean power generation. The company also owns a profitable Fuel Cells Test Division, Greenlight Power Technologies, that independently offers fuel cell test products and testing services. As well have having world-leading technology in the fuel cell sector, the management team have a proven track record of creating a sustainable business for the fuel cell and hydrogen market. Given the market opportunities facing the company and relative valuations in the sector, we see Hydrogenics as the most attractive fuel cell investment opportunity.

Shanks (United Kingdom)

Shanks Group is one of Europe's largest independent waste management companies offering integrated waste management services in the UK, Belgium and Holland. The company has suffered in recent years from very difficult market conditions in the UK but in the second half of 2003 this situation has stabilised and the company is now facing huge opportunities in this market. Shanks does require a recapitalisation but given the opportunities, the valuation appears attractive for what is a key strategic asset in the European waste market.

Trojan Technologies (Canada)

Trojan is a leading manufacturer and distributor of ultra-violet systems for use in wastewater, drinking water, industrial and environmental contaminant markets. The company is a technology leader (spending nearly 5% of revenues on research and development) and has been recently developing solutions for the treatment of newly regulated pollutants such as NDMA and 1,4 dioxin. After a difficult year in 2003, the company expects 20% organic top line growth this year and, trading on significantly lower multiples than Wedeco's (see above) acquisition price, we see Trojan as an attractive water technology investment.

STRUCTURE OF PORTFOLIO

AS AT 31 DECEMBER 2003

DETAILS OF INDIVIDUAL HOLDINGS

AT 31 DECEMBER 2003

Stock description	*Country*	*Holding*	*Current value £'000*	*% Portfolio*
RPS Group	United Kingdom	965,000	1,421	4.32%
Casella Waste Systems	United States	168,000	1,288	3.92%
Wedeco	Germany	95,708	1,205	3.66%
Vestas Wind Systems	Denmark	130,600	1,186	3.61%
BWT AG	Austria	112,808	1,176	3.58%
Ionics Inc	United States	64,400	1,149	3.49%
Tetra Tech	United States	82,000	1,142	3.47%
Hydrogenics	Canada	304,300	1,051	3.20%
Shanks Group	United Kingdom	797,000	925	2.81%
Trojan Technology	Canada	282,900	898	2.73%
Itron	United States	87,100	896	2.72%
Impco Technologies	United States	181,300	885	2.69%
Kurita Water Industries	Japan	130,000	877	2.67%
Tomra Systems	Norway	257,000	865	2.63%
Veolia Environnement	France	51,500	773	2.35%
Insituform Technologies	United States	81,900	757	2.30%
Quantum Fuel	United States	159,100	716	2.18%
Energy Developments	Australia	675,000	714	2.17%
Newalta	Canada	102,500	714	2.17%
Ballard Power Systems	Canada	103,000	682	2.07%
Esco Tech	United States	27,500	672	2.04%
Cuno	United States	24,000	605	1.84%
Grupo Auxiliar Metalurgico	Spain	32,000	588	1.79%
Ricardo	United Kingdom	300,000	579	1.76%
Novozymes	Denmark	26,800	547	1.66%
Zenon Environmental	Canada	65,000	527	1.60%
Active Power	United States	323,345	525	1.59%
Global Power Equipment	United States	138,700	519	1.58%
Abengoa	Spain	125,000	508	1.55%
Westport Innovations	Canada	731,700	474	1.44%
BW Technologies	Canada	48,000	468	1.42%
Repower Systems	Germany	33,300	448	1.36%
Stantec	Canada	46,300	442	1.34%
Horiba	Japan	70,000	438	1.33%
Seche Environment	France	28,585	436	1.32%
Lassila & Tikanoja Oyj	Finland	22,200	430	1.31%
Fuelcell Energy	United States	55,100	402	1.22%
Mayr Melnhof Karton	Austria	5,800	390	1.18%
Badger Meter	United States	16,400	350	1.07%

DETAILS OF INDIVIDUAL HOLDINGS

AT 31 DECEMBER 2003 (CONTINUED)

Stock description	*Country*	*Holding*	*Current value £'000*	*% Portfolio*
Domnick Hunter Group	United Kingdom	82,000	344	1.05%
Calgon Carbon	United States	95,400	332	1.01%
Canadian Hydro Developers	Canada	346,100	329	1.00%
Arcadis	Netherlands	48,980	322	0.98%
Zenon Environmental Class 'A' inc	Canada	44,400	301	0.92%
Neg Micon	Denmark	31,200	283	0.86%
Bioteq Environmental Technologies	Canada	780,000	246	0.75%
Capstone Turbine Corp	United States	213,000	222	0.67%
Evergreen Solar Series 'A'	United States	225,000	213	0.65%
Hydro International	United Kingdom	130,000	213	0.65%
Universal Salvage	United Kingdom	200,000	212	0.64%
Evergreen Solar Common Stock	United States	221,428	209	0.63%
Clarcor	United States	7,000	173	0.53%
Straight	United Kingdom	200,000	171	0.52%
Porvair	United Kingdom	125,000	170	0.52%
Chloride Group	United Kingdom	300,000	153	0.47%
Catalytica Energy Systems	United States	73,600	144	0.44%
Vacon Oyj	Finland	16,000	111	0.34%
Senea AB	Sweden	312,000	76	0.23%
Bioteq Environmental warrants	Canada	752,500	0	0.00%
Total Investments			**32,892**	**100.00%**

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2003. The Company was incorporated on 7 January 2002 and business operations commenced on 22 February 2002.

BUSINESS ACTIVITIES

In the opinion of the directors, the Company has conducted its affairs so as to be able to seek approved investment trust status from the Inland Revenue under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2003. The Company will seek such approval when these accounts are submitted. Approval of investment trust status has been received for the period ended 31 December 2002.

INVESTMENT OBJECTIVE

The Company was formed to enable investors to benefit from rapid and sustained growth anticipated by the directors in the markets for cleaner or more efficient delivery of basic services of energy, water and waste. Further details are given in the investment manager's report.

RESULTS AND DIVIDENDS

The Company's revenue profit after tax and appropriations for the year amounted to £25,000 (2002: loss £15,000). The directors are not proposing that the Company will pay a final dividend. Therefore this amount will be transferred to distributable reserves.

INVESTMENT REPORT AND OUTLOOK

The Chairman's Statement incorporates a review of the highlights of the year.

RENEWAL OF AUTHORITY TO PURCHASE OWN SHARES

The authority for the Company to purchase its own shares granted by the Annual General Meeting held on 7 May 2003 will expire at the conclusion of the Annual General Meeting on 21 April 2004, unless renewed. The directors recommend that the authority be re-issued and a resolution to that effect will be put to the Annual General Meeting.

MARKET INFORMATION

The Company's share capital is listed on the London Stock Exchange. The market price is shown daily in the Financial Times. The NAV per share is calculated and released daily to the London Stock Exchange.

BANKING ARRANGEMENTS AND BORROWING

Lloyds TSB Bank plc was the Company's banker throughout the year.

The Company intends to maintain a fully invested position. In order to provide short-term liquidity for efficient portfolio management, borrowings of up to ten per cent of NAV may be utilised. The Company does not currently intend to take out any long-term borrowings. Any such borrowings, and any borrowings in excess of ten per cent of NAV, would require the separate authorisation of the directors. Under the Articles borrowings of the Company may not exceed one third of the NAV. The Company did not utilise its borrowing powers during the year.

CUSTODY

Custody of the Company's investments was contracted to The Northern Trust Company throughout the year.

THE BOARD

Mr Bernays and Mr Niven were appointed as directors of the Company upon its incorporation. Dr Arnott was appointed as a director by the Board on 8 January 2002 and Mr Brown was appointed as a director by the Board on 31 January 2002. Dr Bidwell resigned as a director on 3 October 2003. All other directors have served during the entire period since their appointment.

Richard Bernays (Chairman, aged 61) Mr Bernays retired in March 2001 from the post of chief executive of Old Mutual International after 30 years in the financial services industry. Following a number of years in advertising, Richard Bernays joined Mercury Asset Management in 1971 and was responsible for the establishment and development of its unit trust arm from 1975 to 1985. He was vice chairman of Mercury Asset Management from 1987 to 1991 when he left to become chief executive of Hill Samuel Asset Management. He joined Old Mutual International in 1998. Mr Bernays is chairman of Planestation Group plc and a director of Singer & Friedlander Group plc. He is also a director of a number of investment companies.

Dr Robert Arnott (aged 46) Following a D. Phil. in geology he joined Shell International in 1983 and worked in exploration and as an economist for Shell Expro. In 1991 he joined Hoare Govett as an oil analyst, and subsequently worked for UBS Warburg, Goldman Sachs and Morgan Stanley Dean Witter. In October 2000 he joined HSBC Investment Bank plc as head of Global Energy Equity Research. In December 2001 Dr Arnott joined the Oxford Institute for Energy Studies as a Senior Research Fellow. Dr Arnott has written two books on the valuation of oil and gas companies. He is also a director of Vienco Limited.

Bill Brown (aged 41) Mr Brown is Head of Pan European Small Companies at ISIS Asset Management plc, the fund management company. He has been involved in the fund management sector since 1988, initially as a venture capitalist, and since 1995 has specialised in small publicly traded companies. He was responsible for the launch of four investment trusts including Active Capital Trust plc of which he remains manager. Mr Brown is a member of the London Stock Exchange's Exchange Markets Group and the chairman of the AIM Advisory Group. He is a chartered accountant.

Keith Niven (aged 55) Mr Niven retired from Schroder Investment Management Limited ("SIM") in October 2001. He joined Schroders in 1973 and was appointed a director of SIM, its fund management arm, in 1985. Mr Niven held a number of posts in SIM, becoming joint vice chairman in 2000. He is a non-executive director of Schroder Income Growth Fund plc and Schroder UK Growth Fund plc. Mr Niven is also a trustee of the Charities Aid Foundation ("CAF"), chairman of CAF's Investment Advisory Committee and an investment adviser to the Rolls Royce Pension Fund.

All directors are independent of the fund manager, Impax Asset Management Limited. There were no contracts subsisting during or at the end of the year in which a director was or is materially interested.

A policy of insurance against directors' and officers' liabilities is maintained by the Company.

In accordance with the Company's Articles of Association, Dr Arnott will retire by rotation and will offer himself for re-election.

At 31 December 2003 and at the date of this report the directors had the following shareholdings in the Company, all of which were beneficially owned.

	At 31 December 2003 and at the date of this report	*At 1 January 2003*
R Bernays	7,500	7,500
Dr R Arnott	7,500	7,500
W Brown	7,500	7,500
K Niven	7,500	7,500

MANAGEMENT

Since its launch the management of the Company's investments has been contracted to Impax Asset Management Limited, which is regulated by the Financial Services Authority. The individuals primarily responsible for the management of the Company's investments are Ian Simm and Bruce Jenkyn-Jones.

The manager is appointed under a contract subject to twelve months' notice and is entitled to remuneration equivalent to one twelfth of one per cent of the net assets of the Company payable monthly in arrears and calculated at the end of each month.

MANAGEMENT ENGAGEMENT

In accordance with the recent changes to the Listing Rules, the Management Engagement Committee confirms that it has reviewed whether to retain Impax Asset Management Limited ("IAM") as the Manager of IEM. It has been concluded that, given the overall performance of the Company in the short time it has been in existence and the expertise of the Manager in the environmental markets investment management area, it is in the best interests of shareholders as a whole to continue with IAM's engagement.

COMPANY SECRETARY AND ADMINISTRATOR

Cavendish Administration Limited ("Cavendish") was the secretary of the Company for the entire year under review. Cavendish is also responsible for all administrative matters. Cavendish receives a monthly secretarial fee at a rate of £1,666.67 plus a monthly administration fee equal to one twelfth of 0.075 per cent of the net asset value of the Company at the end of the month in respect of which the administration fee is calculated.

DIRECTORS' REPORT

CONTINUED

PAYMENT OF SUPPLIERS

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company contracts with its suppliers the terms on which business will take place and abides by such terms; a high proportion of expenses, including management and administration fees, are paid within the month when invoiced. There were no invoices from trade creditors outstanding at 31 December 2003.

SIGNIFICANT SHAREHOLDINGS

The directors have been notified of, or have identified, at the date of this report the following shareholdings comprising 3 per cent or more of the issued share capital of the Company:

	Ordinary Shares %
Universities Superannuation Scheme Limited	9.99
Co-operative Insurance Society Limited	8.00
Sun Life Unit Assurance Limited	5.80
British Empires Securities and General Trust	5.62
Perpetual Income & Growth Investment Trust	4.50
Derbyshire County Council	4.00
East Riding of Yorkshire Council	4.00
Bank of England Pension Fund	3.80
Apollo Fund Limited	3.70

SETTLEMENT OF ORDINARY SHARE TRANSACTIONS

Ordinary share transactions in the Company are settled by the CREST share settlement system.

DONATIONS

The Company did not make any donations during the year under review.

GOING CONCERN

After making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going-concern basis in preparing the accounts.

AUDITORS

In accordance with section 385 of the Companies Act 1985, a resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put forward at the forthcoming Annual General Meeting.

18 March 2004

By order of the Board
Cavendish Administration Limited
Company Secretary

J.C. Crafford

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is appropriate for the Company. This enables it to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code") published by the Committee on Corporate Governance in June 1998 and taking into account the Guidance for directors on the Combined Code (the Turnbull committee report) issued in September 1999.

The Board considers that the Company has complied with the provisions contained within Section 1 of the Combined Code throughout the year ended 31 December 2003, except where disclosed below, and this statement describes how the relevant principles of governance are applied to the Company.

The Combined Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the aspects covered by the Turnbull guidance and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the directors have kept under review the effectiveness of the internal control system throughout the year and up to the date of this report.

The Board has contractually delegated to external agencies, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company.

ASSESSMENT BY THE BOARD OF OBJECTIVES, RISKS AND CONTROLS

The Board holds at least four regular meetings each year, plus additional meetings as required. Between these meetings there is regular contact with the investment manager and the administrator.

The manager reports in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary. The manager's compliance officer issues her own report directly to the Audit Committee concerning the internal controls applicable to the manager's dealing, investment and general office procedures.

Directors receive and consider regular monthly reports from the administrator, giving full details of all holdings in the portfolio and of all transactions and of all aspects of the financial position of the Company. The administrator reports separately in writing to the Board concerning risks and internal control matters within its purview, including internal financial control procedures and secretarial matters, highlighting any changes which have occurred. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the manager and the administrator enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. These matters are assessed on an ongoing basis through the year and again, formally, at year end.

FINANCIAL ASPECTS OF INTERNAL CONTROL

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the investment manager and the administrator to provide reasonable assurance on the effectiveness of internal financial controls. The Board does not consider that an internal audit function would be appropriate to the nature and circumstances of the Company.

The key procedures include monthly production of management accounts and NAV calculations, monitoring of performance at regular board meetings, supervision by directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and of both from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, the Board keeps under its own direct control all material payments out of the Company other than for investment purposes. Payment of management and administration fees is authorised only by directors after they have studied the financial data upon which those fees are based.

The Statement of Directors' Responsibilities in respect of the accounts is on page 22 and a statement of going concern is on page 16. The report of the independent auditors is on page 23.

STRUCTURE OF THE BOARD

The Board currently consists of four non-executive directors, including the Chairman. All are independent of the investment manager. The directors' biographies are given on page 14. The structure of the Board is such that it is considered unnecessary to identify a senior non-executive director other than the Chairman.

The directors have appointment letters which do not state any specific term. They are subject to re-election by shareholders at a maximum interval of three years.

A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

BOARD COMMITTEES

There is no formal schedule of matters reserved for the Board. Such a schedule would be inappropriate since the Board decides on all aspects of the activities of the Company, except for investment management, and is of sufficiently small size to decide upon most such matters as a full Board. However, it has been considered appropriate that the Board should form Audit, Remuneration and Management Engagement, and Nominations committees comprising the whole Board.

The Audit Committee meets formally at least twice a year for the purpose of considering the appointment, independence and remuneration of the auditor and to review the annual accounts and interim report.

The Remuneration and Management Engagement Committee meets formally on at least an annual basis for the purpose of considering the appointment and remuneration of the investment manager and of suppliers of services to the Company, as well as the fees of non-executive directors.

The Nominations Committee has been established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nominations Committee meets as and when it is required.

DIRECTORS' REMUNERATION

A directors' remuneration report is included on page 20 of these financial statements.

RELATIONS WITH SHAREHOLDERS

The Company welcomes all shareholders to attend the Annual General Meeting and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue.

EXERCISE OF VOTING POWERS

The Company does not automatically follow a fixed policy always to vote on its holdings, but each case is treated on its merits.

DIRECTORS' REMUNERATION REPORT

This report has been prepared 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 forward at the forthcoming Annual General Meeting.

REMUNERATION AND MANAGEMENT ENAGAGEMENT COMMITTEE

The Company has four non-executive directors. The Remuneration and Management Engagement Committee comprises the whole Board.

The Board has carried out a review of the level of directors' fees and concluded that the level of fees should remain unchanged at present.

POLICY ON DIRECTORS' FEES

The Board's policy is that the remuneration of non-executive directors should be fair and should reflect the experience of the Board as a whole. The non-executive directors' fees are determined within the limits set out in the Company's Articles of Association and they are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits.

DIRECTORS' SERVICE CONTRACTS

The directors do not have service contracts. The directors have appointment letters which do not state any specific term. However, they are subject to re-election by shareholders at a maximum interval of three years.

PERFORMANCE

The following chart shows the performance of the Company's shares by comparison to the MSCI World Index, both on a total return (dividends reinvested) basis:

DIRECTORS' REMUNERATION REPORT

CONTINUED

DIRECTORS' EMOLUMENTS FOR THE YEAR*

The directors who served during the year received the following emoluments in the form of fees.

	Fees 2003 £'000	*Fees 2002 £'000*
Richard Bernays	18	15
Dr Robert Arnott	12	10
Bill Brown	12	10
Keith Niven	12	10
Dr Robin Bidwell (resigned 3 October 2003)	9	10

The fees for 2002 were for the period from the Company's launch on 22 February 2002 to 31 December 2002.

SUMS PAYABLE TO THIRD PARTIES*

Fees for Bill Brown's services as a director of the Company were paid to ISIS Asset Management plc.

* The above marked information is audited.

By order of the Board
Cavendish Administration Limited
Company Secretary
18 March 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for the year. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- 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 ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF IMPAX ENVIRONMENTAL MARKETS PLC

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement, and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein. 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 members, 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 members 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 members 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 are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

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 Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company 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 company'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. This other information comprises the Key Features, Chairman's Statement, Manager's Report, Ten Largest Investments, Structure of Portfolio, Details of Individual Holdings, Directors' Report, Corporate Governance, the unaudited part of the Directors' Remuneration Report, Statement of Directors' Responsibilities, Directors, Managers and Advisers and Notice of Meeting. 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.

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 as at 31 December 2003 and of its return 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
18 March 2004

STATEMENT OF TOTAL RETURN

(INCORPORATING THE PROFIT AND LOSS ACCOUNT*)

FOR THE YEAR ENDED 31 DECEMBER 2003

Notes		2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
	Gains/(losses) on investments						
	– realised	—	(5,295)	(5,295)	—	(5,991)	(5,991)
	– unrealised	—	11,472	11,472	—	(15,642)	(15,642)
3	Income	396	—	396	316	—	316
4	Investment management fee	(86)	(256)	(342)	(92)	(277)	(369)
4	Other expenses	(257)	—	(257)	(221)	—	(221)
	Return on ordinary activities before taxation	53	5,921	5,974	3	(21,910)	(21,907)
6	Taxation	(28)	—	(28)	(18)	—	(18)
	Return on ordinary activities after taxation	25	5,921	5,946	(15)	(21,910)	(21,925)
	Ordinary dividends payable	—	—	—	—	—	—
	Transfer to/(from) *reserves*	25	5,921	5,946	(15)	(21,910)	(21,925)
7	Return per ordinary share	0.05p	11.84p	11.89p	(0.03)p	(43.82)p	(43.85)p

* The revenue column of this statement is the profit and loss account of the Company.

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

No operations were acquired or discontinued during the year.

The comparatives relate to the period from 7 January 2002 to 31 December 2002.

The notes on pages 28 to 33 form part of these accounts

BALANCE SHEET

AT 31 DECEMBER 2003

Notes		2003 £'000	2002 £'000
	FIXED ASSETS		
8	Investments at market value	32,892	26,710
	CURRENT ASSETS		
	Income receivable	24	13
	Sales – future settlements	94	—
	Taxation recoverable	16	16
	Other debtors	9	9
	Cash at bank and in hand	319	560
		462	598
	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
	Purchases – future settlements	(88)	—
	Accrued liabilities	(120)	(108)
		(208)	(108)
	NET CURRENT ASSETS	254	490
	TOTAL NET ASSETS	33,146	27,200
	CAPITAL AND RESERVES		
9	Share capital	5,000	5,000
10	Share premium account	—	—
11	Share purchase reserve	44,125	44,125
12	Realised capital reserve	(11,819)	(6,268)
13	Unrealised capital reserve	(4,170)	(15,642)
14	Revenue reserve	10	(15)
15	EQUITY SHAREHOLDERS' FUNDS	33,146	27,200
16	Net assets per ordinary share	66.29p	54.40p

Approved by the Board of directors on 18 March 2004 and signed on their behalf by:

R. Bernays

K. Niven

The notes on pages 28 to 33 form part of these accounts.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

Notes		2003 £'000	2002 £'000
17	NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(231)	(222)
	FINANCIAL INVESTMENT		
	Payments to acquire fixed asset investments	(9,211)	(62,021)
	Receipts on disposal of fixed asset investments	9,239	13,882
	Exchange losses	(38)	(204)
	NET CASH FLOW FROM INVESTING ACTIVITIES	(10)	(48,343)
	NET CASH FLOW BEFORE FINANCING	(241)	(48,565)
	FINANCING		
	Issue of Share Capital (net of expenses)	—	49,125
	NET CASH FLOW FROM FINANCING	—	49,125
18	(DECREASE)/INCREASE IN CASH	(241)	560

The comparatives relate to the period from 7 January 2002 to 31 December 2002.

The notes on pages 28 to 33 form part of these accounts.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below:

(a) Basis of Accounting

The accounts are prepared under the historical cost convention as modified by the revaluation of investments and in accordance with applicable accounting standards and the Statement of Recommended Practice "Financial statements of investment trust companies" ("SORP"), issued by the AITC.

(b) Investments

Securities of companies quoted on regulated stock exchanges are valued by reference to their official mid-market prices at the close of the period.

(c) Income from Investments

Investment income from shares is accounted for on the basis of ex-dividend dates. Unfranked dividend income is grossed up at the appropriate rate of tax credit, but franked income is not grossed up, since no element of withholding tax is involved.

Special Dividends are assessed on their individual merits and may be credited to capital reserve if considered to be closely linked to reconstructions of the investee company or other capital transactions; with this exception all investment income is taken to revenue account. Interest receivable is accrued on a time apportionment basis.

(d) Capital Reserves

The Company is precluded by its Articles from distributing as dividend surpluses arising upon the realisation of investments. Realised profits and losses on disposals of investments are dealt with in the realised capital reserve. Unrealised revaluation movements are dealt with through the unrealised capital reserve.

(e) Investment Management Fees

Three quarters of investment management fees, net of attributable tax, are charged to the realised capital reserve.

(f) Deferred Taxation

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that a liability will crystallise. Deferred tax is recorded in accordance with FRS19 'Deferred tax'. Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. A deferred tax asset is only recognised to the extent that it is regarded as recoverable.

(g) Foreign currency translation

All transactions in foreign currencies are translated into sterling at the rates of exchange on the dates of such transactions. Foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserves or in the revenue account depending on the nature of the gain or loss.

2. INVESTMENT COMPANY STATUS

The Company is an investment company within the meaning of Section 266 of the Companies Act 1985.

3. INCOME

	2003 *£'000*	*2002* *£'000*
Income from investments:		
Franked dividends from listed investments	104	64
Unfranked dividends from overseas investments	266	156
	370	220
Other income:		
Interest receivable	26	96
Total income	396	316

4. ADMINISTRATION EXPENSES

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Investment management fees	86	256	342	92	277	369
Administration fees	49	—	49	48	—	48
Custodian's fees	18	—	18	25	—	25
Directors' fees	71	—	71	60	—	60
Auditors' fees – audit	17	—	17	13	—	13
– other	3	—	3	4	—	4
Legal fees	6	—	6	6	—	6
Insurance	20	—	20	11	—	11
Printing	4	—	4	4	—	4
London stock exchange fees	13	—	13	11	—	11
Brokers fees	50	—	50	35	—	35
Miscellaneous expenses	6	—	6	4	—	4
	257	—	257	221	—	221
Total administration expenses	343	256	599	313	277	590

The total of expenses represented 1.81% (2002: 2.17%) of the total net asset value at the end of the year.

5. DIRECTORS' FEES

The fees of the Chairman are £18,000 per year and those of the other directors £12,000 each per year. There were no other emoluments. Employers' National Insurance or VAT upon the fees is included as appropriate in the total shown as directors' fees under note 4.

6. TAXATION

a) **Analysis of charge in the period:**

	2003 £'000	*2002 £'000*
Irrecoverable foreign tax	28	18

b) **Factors affecting current tax charge for the period:**

The tax charge for the year is higher than the standard rate of corporation tax in the UK for an investment company of 30% (2002: 30%).

The differences are explained below:

	2003 £'000	*2002 £'000*
Net income before taxation	53	3
Corporation tax at 30% (2002: 30%)	16	1
Effects of:		
Non taxable UK dividends	(31)	(19)
Overseas taxation	19	12
Overseas dividends taxable on receipt	(2)	—
Relief for expenses charged to capital	(76)	(83)
Movement in excess expenses	102	107
	12	17
Tax charge in period	28	18

Investment companies, which have been approved by the Inland Revenue under s842 ICTA 1988, are exempt from tax on capital gains. It has been assumed that the s842 criteria will be met for the year and therefore any capital return is not included in the above reconciliation.

c) The Company has unrelieved excess management expenses of £689,701 (2002: £356,179). It is unlikely that the company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

7. RETURNS PER ORDINARY SHARE

Basic revenue loss per share is based on the net profit on ordinary activities after taxation of £25,000 (2002: loss of £15,000) attributable to the weighted average of 50,000,000 ordinary shares of 100p in issue since launch.

Basic capital return per share is based on the net capital gains for the financial year of £5,921,000 (2002: net losses of £21,910,000) attributable to the weighted average of 50,000,000 ordinary shares of 100p in issue since launch.

8. INVESTMENTS AT MARKET VALUE

	2003 *£'000*	*2002* *£'000*
Analysis of closing balance:		
UK listed securities	4,188	3,571
Overseas securities	28,704	23,139
Total fixed asset investments	32,892	26,710
Movements during the year:		
Opening balance of investments, at cost	42,352	—
Additions, at cost	9,299	62,021
Disposals, at cost	(14,589)	(19,669)
Cost of investments at 31 December	37,062	42,352
Revaluation of investments to market value:		
Opening balance of revaluation account	(15,642)	—
Decrease in unrealised appreciation, credited to capital reserve	11,472	(15,642)
Balance at 31 December	(4,170)	(15,642)
Market value of investments at 31 December	32,892	26,710

9. SHARE CAPITAL

At 31 December		2003		2002
Authorised				
Ordinary shares of 10p	Number	200,000,000	Number	200,000,000
	£'000	20,000	£'000	20,000
Allotted, issued and fully paid				
Ordinary shares of 10p	Number	50,000,000	Number	50,000,000
	£'000	5,000	£'000	5,000

Pursuant to the Listing Particulars dated 15 February 2002 the Company allotted and issued for cash 50,000,000 ordinary shares of 10p each, issued at 100p. The total consideration was £50,000,000 and the aggregate nominal value of the shares was £5,000,000.

10. SHARE PREMIUM ACCOUNT

	2003 £'000	2002 £'000
Opening balance	—	—
Issue of share capital	—	45,000
Share issue expenses	—	(875)
Transfer to share purchase reserve	—	(44,125)
Balance at 31 December	—	—

11. SHARE PURCHASE RESERVE

	2003 £'000	2002 £'000
Opening balance	44,125	—
Transfer from share premium account	—	44,125
Balance at 31 December	44,125	44,125

12. REALISED CAPITAL RESERVE

	2003 £'000	2002 £'000
Opening balance	(6,268)	—
Transfer to unrealised capital reserve on disposal of investments	(5,843)	—
Net profit/(loss) on disposal of investments	587	(5,787)
Investment management fees charged to capital	(256)	(277)
Net foreign exchange loss	(39)	(204)
Balance of realised capital reserve at 31 December	(11,819)	(6,268)

13. UNREALISED CAPITAL RESERVE

	2003 £'000	2002 £'000
Opening balance	(15,642)	—
Transfer from unrealised capital reserve on disposal of investments	5,843	—
Revaluation of investments	5,629	(15,642)
Balance of unrealised capital reserve at 31 December	(4,170)	(15,642)

14. MOVEMENT IN REVENUE RESERVE

	2003 £'000	2002 £'000
Opening balance	(15)	—
Retained profit/(loss) for year	25	(15)
Balance at 31 December	10	(15)

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003 £'000	2002 £'000
Distributable Profits		
Revenue available for distribution	25	(15)
Dividends	—	—
Transfer to distributable reserves	25	(15)
Non-distributable Profits		
Recognised capital losses transferred to non-distributable reserves	6,177	(21,633)
Expenses attributable to Capital	(256)	(277)
Total Profits and Gains	5,921	(21,925)
Gross proceeds of Placing	—	50,000
Less: expenses of issue	—	(875)
Net proceeds of issue	—	49,125
Net increase in shareholders' funds	5,946	27,200
Opening shareholders' funds	27,200	—
Closing shareholders' funds	33,146	27,200

16. NET ASSETS PER ORDINARY SHARE

The figure for net assets per ordinary share is based on £33,146,000 (2002: £27,200,000) divided by 50,000,000 (2002: 50,000,000) Ordinary Shares in issue at the Balance Sheet date.

17. RECONCILIATION OF NET REVENUE BEFORE TAXATION TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2003 £'000	2002 £'000
Operating profit	53	3
Less: tax deducted at source on income from investments	(28)	(34)
Less: expenses of capital management	(256)	(277)
	(231)	(308)
Increase in debtors	(12)	(22)
Increase in creditors	12	108
Net cash outflow from operating activities	(231)	(222)

18. CASH

	2003 £'000	2002 £'000
Opening balance	560	—
Net cash flow	(241)	560
Closing balance	319	560

19. RELATED PARTY TRANSACTIONS

Details of the management contract and the administration and secretarial contract can be found in the Directors' Report on page 15. Fees payable to the investment manager and to the administrator/company secretary are detailed in note 4 on page 29; the relevant amounts outstanding as accruals comprised a monthly management fee of £32,455 (2002: £26,667) and an administration fee of £4,392 (2002: £3,958) all figures including VAT.

20. RISK PROFILE

The objective of the Company is detailed on the Key Features page.

Market risk

General market price risk arises from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

Currency risk

The majority of the Company's portfolio is invested in overseas' securities. The value of holdings, of which the quoted currency is not sterling, is given in the table below. The sterling value of overseas holdings is affected by exchange rate fluctuations. It is not the Company's policy to hedge against foreign currency movements.

Interest rate risk

The Company holds a limited amount of cash, which is subject to interest rate fluctuations.

Financial assets and liabilities

For the purposes of the disclosures that follow, short-term debtors and creditors (including sales and purchases for future settlement) have been excluded.

The Company's financial assets and liabilities at 31 December 2003 comprised:

		2003			*2002*	
	Interest Bearing £'000	*Non-interest Bearing £'000*	*Total £'000*	*Interest Bearing £'000*	*Non-interest Bearing £'000*	*Total £'000*
Assets						
Investments						
– Sterling	—	4,188	4,188	—	3,571	3,571
– US Dollar	—	11,199	11,199	—	8,312	8,312
– Euro	—	6,387	6,387	—	7,116	7,116
– Canadian Dollar	—	6,133	6,133	—	3,383	3,383
– Danish Kroner	—	2,016	2,016	—	1,780	1,780
– Norwegian Kroner	—	865	865	—	1,039	1,039
– Japanese Yen	—	1,315	1,315	—	938	938
– Australian Dollar	—	713	713	—	571	571
– Swedish Kroner	—	76	76	—	—	—
	—	32,892	32,892	—	26,710	26,710
Cash at bank						
Floating rate – £ sterling	320	—	320	560	—	560
	320	32,892	33,212	560	26,710	27,270

Cash at bank at 31 December 2003 included £238,000 held by the Company's custodian, The Northern Trust Company.

All assets and liabilities are included at fair value.

DIRECTORS, MANAGER AND ADVISERS

DIRECTORS
Richard Bernays (Chairman)
Dr Robert Arnott[1]
Bill Brown[2]
Keith Niven[3]
Dr Robin Bidwell CBE (resigned 3 October 2003)

INVESTMENT MANAGER
Impax Asset Management Limited
Broughton House
6-8 Sackville Street
London W1S 3DG

STOCKBROKERS
Dresdner Kleinwort Wasserstein
Securities Limited
20 Fenchurch Street
London EC3P 3DB

SECRETARY & REGISTERED OFFICE*
Cavendish Administration Limited
Crusader House
145-157 St John Street
London EC1V 4RU

SOLICITOR
CMS Cameron McKenna
Mitre House
160 Aldersgate Street
London EC1A 4DD

ADMINISTRATOR
Cavendish Administration Limited
Crusader House
145-157 St John Street
London EC1V 4RU

BANKER
Lloyds TSB Bank plc
Moorgate Branch
34 Moorgate
London EC2R 6PL

AUDITORS
Ernst & Young LLP
1 More London Place
London SE1 2AF

REGISTRARS
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

CUSTODIAN
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

*Registered in England no. 4348393

1 Chairman of Remuneration and Management Engagement Committee.
2 Chairman of Nominations Committee.
3 Chairman of Audit Committee.

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Impax Environmental Markets plc will be held at Crusader House, 145-157 St John Street, London, EC1V 4R on 21 April 2004 at 4.00 p.m. for the following purposes:

ORDINARY BUSINESS:

1. To receive and adopt the financial statements for the year ended 31 December 2003, with the reports of the directors and auditors thereon.

2. To approve the directors' remuneration report included in the financial statements.

3. To re-elect Dr R Arnott as a director of the Company, who retires by rotation.

4. To re-appoint Ernst & Young LLP as auditors to the Company and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS:

To consider and if thought fit pass the following resolution as a special resolutions.

5. THAT the Company be and is hereby authorised in accordance with section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of section 163 of the Act) of Ordinary Shares of 10p each in the capital of the Company ("Ordinary Shares"), provided that:

    a. the maximum number of Ordinary Shares hereby authorised to be purchased shall be 7,495,000;

    b. the minimum price which may be paid for an Ordinary Share is 10p;

    c. the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the Ordinary Share is purchased;

    d. the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2005 or, if earlier, on the expiry of 12 months from the passing of this Resolution, unless such authority is renewed prior to such time; and the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract; and

    e. any Ordinary Shares so purchased shall be cancelled.

Registered Office:
Crusader House
145-157 St John Street
London EC1V 4RU

By order of the Board
CAVENDISH ADMINISTRATION LIMITED
Company Secretary
18 March 2004

NOTES

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting.
3. The register of interests of directors kept by the company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the meeting.
4. No director has a contract of service with the Company.