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**AURORA INVESTMENT TRUST plc**

**REPORT & ACCOUNTS**

**2000**



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## FINANCIAL HIGHLIGHTS

- ▶ NET ASSET VALUE: up 75% in year  
up 120% since launch
- ▶ OUTPERFORMANCE OF BENCHMARK: by 69% in year  
by 81% since launch
- ▶ DIVIDEND: up 2.0%
- ▶ SHARE PRICE: up 88% in year

## CONTENTS

	<i>Page</i>
Financial Highlights	1
Directors, Manager and Advisers	2
Chairman's Statement	3
Manager's Report	5
Top Ten Holdings	9
Portfolio Analysis	9
Analysis of Companies by Sector	10
Directors' Report	12
Corporate Governance	16
Statement of Directors' Responsibilities	18
Report of the Auditors	19
Consolidated Statement of Total Return	20
Consolidated Balance Sheet	21
Company Balance Sheet	22
Consolidated Cash Flow Statement	23
Notes to the Accounts	24
Notice of Meeting	29

## OBJECTIVE

Capital appreciation through investments listed on the London Stock Exchange

## POLICY

To invest primarily in equities but with some exposure also to Fixed Interest. In general the portfolio will be weighted towards the larger rather than smaller capitalised stocks.

A distinctive feature is an emphasis on investments in companies with exposure to economies growing at a faster rate than the UK.

## BENCHMARK

The FTSE All-Share Index

## DIRECTORS, MANAGER AND ADVISERS

### DIRECTORS

BR Adams (chairman)  
MJ Barstow FCA  
MF Heathcoat Amory  
DH Hunter

### INVESTMENT MANAGER

Mars Asset Management Limited  
Audrey House  
Ely Place  
London EC1N 6SN  
Telephone: 020 7410 0025

### STOCKBROKER

Warburg Dillon Read  
1 Finsbury Avenue  
London EC2M 2PA

### SECRETARY & REGISTERED OFFICE

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

### BANKERS

Lloyds Bank Plc  
4/6 Cophall Avenue  
London EC2R 7DA

### ADMINISTRATORS

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

### CUSTODIANS

Lloyds Securities Services  
1 Legg Street  
Chelmsford  
Essex CM1 1JS

### AUDITORS

RSM Robson Rhodes  
186 City Road  
London EC1V 2NU

### REGISTRARS

Northern Registrars Limited  
Northern House  
Penistone Road  
Fenay Bridge  
Huddersfield HD8 0LA

### SOLICITORS

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

A MEMBER OF THE ASSOCIATION OF INVESTMENT TRUST COMPANIES

## CHAIRMAN'S STATEMENT

In this Company's third annual review I am pleased to report a most successful outcome for the year.

### **Assets**

During the year the Group's net assets increased from £18.544 million to £32.467 million. This translates into an increase of Net Asset Value (NAV) per share from 122.75p to 214.91p. This rise of 75% bears favourable comparison with the FTSE All-Share Index which rose 5.8%. Furthermore, shareholders enjoyed a rise in the price of their ordinary shares from 100p to 188p. As a result, the discount in the share price to underlying assets narrowed from 18.5% at the start of the year to 13% at the end.

### **Share Purchase Facility**

Your Board is seeking shareholders' approval to put in place a power to repurchase your Company's shares. Any such repurchase will seek to enhance value for long-term shareholders. Reasons for this proposal, which requires amendments to the Company's Articles of Association, are set out in a separate letter enclosed with this report.

### **Revenue and Dividend**

Pre-tax and post-tax revenue for the year were £622,000 and £519,000 respectively. These revenues enable your Board to recommend a dividend for the year of 2.509p per share representing an increase of 2.0% in line with inflation. If approved at the AGM the dividend will be paid to shareholders on the register at 8 May 2000. In addition to the payment of that dividend the sum of £140,000 has been transferred to Group revenue reserves, which now stand at £442,000.

### **Gearing**

During the year your Company made substantial use of borrowing to enhance performance.

Under the Company's Article of Association total borrowings are restricted to 15% of assets, as stated at the Company's year end. In a period of strong performance, such as that enjoyed by your Company in the last quarter of the year, this restriction resulted in the Company becoming less geared at a time when your manager wished to take advantage of a number of short term opportunities.

Your Board is therefore seeking shareholders' approval to lift this restriction to a level of 25% of year end net assets. Your Board will continue to review the level of gearing with your manager with the aim of controlling risk and enhancing shareholder value.

### **Review of the Year**

The financial year began with a continuation of the recovery in share prices from the sharp decline seen in the previous autumn due to the Asian crisis and the problems at the Long Term Capital Management Fund; the reductions in base rate were a significant influence.

Within the market there were differing trends. Whereas long bonds declined for much of the year, the FTSE 100 made little overall headway, despite a surge towards the end of the year which proved unsustainable. Meanwhile small companies, to which the fund was well exposed at the start of the year

# CHAIRMAN'S STATEMENT

CONTINUED

due to their relative low valuation, made good progress throughout the period. As already reported at the interim stage, the fund modestly outperformed the market in the first half, but made excellent progress in the second half once growth stocks came to the fore.

## **Prospects**

Shareholders will be aware that since the Company's year end sharp falls have occurred in world stockmarkets. Most affected have been some of the high growth stocks, featured prominently in your Company's portfolio. Fortunately, your manager took the opportunity to take some profits on these stocks prior to their most recent falls. However, shareholders should be aware that your Company regards the holding of growth stocks as core to its long-term investment policy.

This means that your portfolio has not been immune to some of the more severe falls seen recently. However, given your manager's record, I have every confidence that his well-diversified, actively managed portfolio will continue to outperform the Company's benchmark. In his report your manager remains "steadfastly optimistic" about prospects.

Consequently, I expect to report further progress in both the share price and the net asset value per share in the year ahead.

## **Annual General Meeting**

The Annual General Meeting will take place at 4 pm on Wednesday 31 May 2000 at Crusader House, 145-157 St. John Street, London EC1V 4RU. All shareholders will be welcome.

In the Notice of the Annual General Meeting contained in this report, there are a total of five special resolutions (resolutions 5-9). The first of these will, if passed, put in place the authority to repurchase the Company's own shares, to which I have referred above, and the second is to amend the Articles of Association in such manner as to enable investment company status to be retained while making share repurchases. The background to these two resolutions (numbers 5 and 6) is explained in more detail in a Circular enclosed with this report.

The third and fourth special resolutions (numbers 7 and 8) will, if passed, restore the power to issue a limited number of shares for cash, which we held during 1998/9 but did not use. This power, together with that to repurchase shares, would give the Company a degree of scope to adjust its share capital upward or downward according to circumstances. Finally, resolution 9 concerns the increase in borrowing powers to which I have referred above.

I hope very much that you will feel able to support the Board in making these various adjustments and I assure you once again that we shall utilise the additional powers concerned with the utmost care.

ROGER ADAMS

25 April 2000

## MANAGER'S REVIEW AND OUTLOOK

After a difficult year last year I am thrilled to report to shareholders a sparkling set of figures. At the same time I wish to express my gratitude for the loyalty and patience displayed by shareholders, the support from the Board and all the helpful advice received from our brokers and particularly from my colleague, Francis, without which this would not have been possible. I hope that the late Bill Stuttaford, who so generously helped me to get started, would have felt his actions were justified by the three year record of some 81% outperformance over the market in terms of net asset value.

In brief, it was a year of two distinct parts; indeed this year will go down in history as the year when the dichotomy between the 'old' and the 'new' economy became apparent in the stockmarket. During the first part, when cyclicals outperformed, we managed to keep our head above water, thereafter, on the advent of the new techMARK index, growth stocks took over the running (worries over the millennium bug problem having evaporated) and we thrived. We took great care, however, to take profits both before and after the year-end from some of the most successful holdings, e.g. Baltimore, Misys, Geo Interactive Media, London Pacific and Logica in order to replace them with stocks such as Gallaher and Arriva, which not only represented greater value, but which are likely to produce higher levels of income as well. The holding in Vodafone was also increased, in view of its dominant position in the mobile industry following its successful take-over of Mannesmann. The exposure to Eire was further augmented.

The performance, it must be admitted, can be attributed to a narrow portion of the market whilst the majority of sectors declined - hence the unusual concentration of the portfolio in a few stocks. I make no apologies since this is not a closet index tracking fund. It is as important to wield the red pencil to avoid impending disasters, of which there were legion in the stockmarket last year, as it is to select the winners.

The prudent use of gearing was also a contributory factor to our performance; indeed even more so for having borrowed in Euros, to an increasing extent as the year progressed, with beneficial effects for both the balance sheet (a saving of some 14%) and the profit and loss account (2-3%).

Despite the fact that most commentators favoured the prospects for the Euro, relative to Sterling, it appeared otherwise to me. The Eurozone suffers from the following disadvantageous features :- geographically differing rates of inflation yet only a single interest rate to control it; social security and labour costs off the top of the scale relative to Eastern Europe and other emerging economies; a technological base which is inferior to that in the USA in most areas; a monetary authority to date lacking in credibility; commissioners who have behaved like Roman emperors, and above all a parliament which is doing its best to replicate the tower of Babel. With such conditions prevailing I lost little sleep at night due to my borrowing policy. Furthermore, even if the currency had appreciated, the risk was covered by the holdings of Irish shares.

Little more needs to be said about the past year except to issue a prayer that during the coming one we will be able to identify more stocks like Geo Interactive Media, a company which is involved in the compression of data in order to stream it for audio and video solutions over the internet. The bulk of the holding was bought at 35p - close to its cash value per share - to be sold three months afterwards at four times the price. Repurchased at £1.67 six months later, then heavily pruned on rising prices up to its year end price of £20, and even more severely at prices in excess of £30; the stuff of fund managers' dreams.

## MANAGER'S REVIEW AND OUTLOOK

CONTINUED

Last year I wrote that the Governor of the Bank of England would be sharpening his quill pen to explain why the rate of inflation had fallen to the bottom of the range. To date I have been proved premature, yet remain confident that he will be doing so in future. Although inflation is well below the top band it has been held up by the unexpectedly high price of oil, the latest increases in duties on fuel and tobacco and by the firmness in the cost of services. The trend of prices of goods in general, however, is sharply downwards as a direct result of the three 'E's. These comprise: - the Euro (transparency of pricing within the zone), E-mail (modern technology/communications) and E-merging markets (i.e. very low labour costs relative to the developed world).

Overall, assisted by the knowledge that short term Sterling interest rate futures appear to have recently changed trend, I feel sure that interest rates in this country are not far away, both in terms of time and level, from their peak. The portfolio should therefore soon benefit from a change in sentiment towards interest sensitive stocks, such as financials and construction companies, to which it is heavily exposed. There are also good prospects for renewed bouts of consolidation within the financial sector - a trend which has only just commenced amongst UK banks. Bank of Scotland is now the only retail bank which is free to merge with any other UK bank and so looks well placed to benefit.

Housebuilding companies, well represented in the portfolio by Barratt, Berkeley, Persimmon and Abbey, have in my opinion been harshly treated without due justification by the market place, despite good profit increases and bullish statements. In the coming year I hope that it will be recognised that they possess both characteristics which are so sought after by fund managers, namely pricing power and growth prospects. Whereas this sector deserved to be accorded a large discount to the market average p/e multiple during the short economic cycles of the 1970's and 1980's such treatment is no longer appropriate in these days of low inflation and extended economic cycles. Furthermore, despite a static UK population, the sector stands to benefit from a rapid rise in household formation due to the combined features of: - later marriage, increased prevalence of divorce, a greater propensity for a bereaved grandparent to live alone, more second homes as weekend/holiday retreats, not to mention a large influx of foreigners- currently estimated by the Government as 95,000 p.a. A scarcity of supply (output is in the region of 170,000 new houses each year) relative to demand looks set to persist for many years to come, due to the tightness of planning controls, and this is likely to result in rising house prices - a rosy scenario of increasing profitability for those companies with the appropriate management skills and endowed with a long landbank bought at sensible prices.

In passing, whereas many commentators consider that rising house prices will prove my theories on inflation incorrect, I strongly disagree on the grounds that, in an age of universal job insecurity, there is little chance of a repeat of the high degree of mortgage 'leakage' which took place in the late 1980's. In any case, a policy to liberalise planning permission would appear a more effective method of controlling rising house prices than the raising of interest rates, which is so detrimental to the hard pressed manufacturer/exporter, a class which is expressly under-represented in the portfolio.

The Irish stockmarket, about which I enthused last year, has been a great disappointment in recent months. It was not the absence of economic growth which caused this - Eire once more produced an increase of c.10% in GDP according to latest estimates- but two other features which I had failed to anticipate. Firstly, the advent of the Euro necessitated Irish pension fund managers to divest their portfolios of domestic stocks to a much greater degree than forecast in order to obtain their Continental weightings. To date this was a move not yet matched by any reciprocation from their Continental

## MANAGER'S REVIEW AND OUTLOOK

CONTINUED

counterparts, perhaps due to the fact that the Irish market represents only 1% of European weightings. Secondly, there has been a plethora of ill considered negative press comment which has had the effect of deterring potential investors by suggesting that rapidly rising house prices will cause the economy to suddenly implode and enter recession.

I, however, remain steadfastly optimistic about prospects, not only in the coming year but for several more thereafter. Rapid growth will be encouraged by the following most advantageous characteristics which Eire is fortunate to possess, namely:- the most favourable demographic profile in Europe with 40% of the population under the age of 25, inward migration of skilled labour for the first time for centuries, a business friendly Government which has set corporation tax at 12.5% for all companies from 2003, with the express agreement of Brussels until 2020. They further comprise: - a relatively high standard of education- with particular emphasis at university level being given to technology; a much more modern profile of industry than most of W. Europe; a rapidly falling Government debt to GDP ratio; the English language; excellent relations with US politicians as well as with companies which are using it as a platform for export to the rest of the EU. Most importantly, not only are labour costs at two thirds the level prevailing in core Europe but interest rates are artificially low, indeed close to being negative in real terms.

It remains my strong contention that only when labour costs are above those prevailing in Continental Europe will the country price itself out of its current highly competitive position, because foreign inward investors attach importance to post-tax, not pre-tax, returns. Since the ratings of many companies appear low in relation to their growth prospects I see excellent prospects ahead, indeed I think the boom in Irish oil shares of a few years ago is a minor foreshadow of what is to come. Succinctly put, this is a golden opportunity for Eurosceptic investors to benefit from the folly of a single interest rate policy throughout the Eurozone. Manna from heaven.

The most frequent question I have had to answer in recent weeks is whether or not the internet bubble is bursting. My simple reply is as follows. Myriads of bubbles burst with every wave that broke on the shore around King Canute's feet yet it did not prevent the tide from coming in; he was therefore forced to move. Even more bubbles burst in a tidal wave and it is not advisable to confront it!

The arrival of the internet represents nothing less than a knowledge based revolution which has been described as important as the invention of the wheel, the printing press and the automobile combined. Its effects over the coming decade will change the ground rules and the speed for doing business through the provision of instant information around the globe, thus enabling a hitherto small unknown company to trade with the giants of industry with no requirement for an intermediary and often little working capital. Companies need to have a strategy for coping with it or be swept away.

Similarly, investment managers have to decide upon the make-up of portfolios—whether to own the cheap stocks of the old economy or buy stocks on lofty multiples in the new. My attitude towards this problem is clear and unequivocal. Following the invention of electricity it would have been foolish to have invested one's whole fortune in tallow chandlery, yet it would have been prudent to have kept a few candles in the house in case of powercuts. In other words, one should always look forwards not backwards in the field of investment; there are short periods, however, when changing conditions require a degree of flexibility.

## MANAGER'S REVIEW AND OUTLOOK

CONTINUED

Using the analogy of the gold mining boom, this portfolio will be invested in the "picks and shovels" companies, which help facilitate the internet through the provision of the necessary infrastructure, rather than in the speculative properties where large nuggets might possibly be found. Accordingly, the exposure is heavily weighted towards Software companies, such as Misys, Logica, Admiral, Sherwood and Geo, in internet carriers via Cable & Wireless, in future internet access through Vodafone and for the provision of security through Baltimore. There are no Business to Consumer dot com.s.

As stated earlier, I expect that interest rates are closer to a peak than many realise. Cash flows, whether from buyback programmes or from investors, remain strong and the process of consolidation taking place in Europe, particularly in the financial sector, has only recently begun; furthermore the internet revolution is in its infancy. The filling of a glass of champagne causes much exhilaration on the part of the consumer and, if inexpertly poured, froth from burst bubbles. However, once that froth has cleared away, the focus of attention reverts to the bubbles as they rise from the bottom.

In summary, there will be plenty of opportunities in the UK stockmarket from which to benefit in the coming year.

MJ BARSTOW

25 April 2000

## TOP TEN HOLDINGS IN COMPANIES

AT 29 FEBRUARY 2000

*All holdings are of ordinary shares, unless otherwise stated*

	<i>By valuation £'000</i>	<i>Percentage of Portfolio</i>
Geo Interactive Media Group	3,827	10.73
Vodafone Airtouch	3,553	9.96
Baltimore Technologies	3,190	8.94
Gallaher Group	2,774	7.77
Herald Investment Trust <i>Warrants</i>	2,738	7.67
Misys	1,900	5.33
Cable & Wireless (incl. CW Comms.)	1,727	4.84
Gartmore Irish Growth Fund	1,605	4.50
London Pacific Group	1,350	3.78
SmithKline Beecham	887	2.49
	23,551	66.01
Other holdings	12,127	33.99
<b>Total investments</b>	<b>35,678</b>	<b>100.00</b>

## PORTFOLIO ANALYSIS

AT 29 FEBRUARY 2000

	<i>Percentage of Portfolio</i>
Fixed Interest	2.29
Resources	2.44
General Industrials	5.21
Consumer Goods	13.01
Services	33.09
Information Technology	2.75
Telecommunications	14.80
Utilities	0.97
Financials	13.27
Investment Companies	12.17
	100.00

# ANALYSIS OF COMPANIES BY SECTOR

AT 29 FEBRUARY 2000

*All holdings are of ordinary shares, unless otherwise indicated*

	<i>Company</i>	<i>Value £'000</i>	<i>Percentage of Portfolio</i>
<b>Fixed interest</b>	Cheltenham & Gloucester <i>11.75% PIBS</i>	818	2.29
<b>Banks, Retail</b>	Allied Irish Banks	443*	1.24
	Bank of Ireland	521*	1.46
	Bank of Scotland	847	2.38
	Standard Chartered	536	1.50
	Irish Life and Permanent	182	0.51
		<u>2,529</u>	
<b>Construction</b>	Abbey	682	1.91
	Barratt Developments	688	1.93
	Berkeley Group	157	0.44
	Hanson	122	0.34
	Persimmon	208	0.58
		<u>1,857</u>	
<b>Distributors</b>	Diploma	397	1.11
<b>Electricity</b>	National Grid Group	344	0.96
<b>Financials</b>	London Pacific Group	1,350	3.78
<b>Information Technologies</b>	Logica	540	1.51
	Sherwood International	442	1.24
		<u>982</u>	
<b>Investment Trusts</b>	Gartmore Irish Growth Fund	1,605	4.50
	Herald Investment Trust <i>Warrants</i>	2,738	7.67
		<u>4,343</u>	
<b>Insurance</b>	Prudential	280	0.79
	SVB Holdings	482	1.35
		<u>762</u>	
<b>Life Assurance</b>	St James Place Capital	94	0.27
<b>Oil, Integrated</b>	Shell Transport and Trading Company	871	2.44
<b>Pharmaceuticals</b>	AstraZeneca	412	1.15
	Glaxo Wellcome	531	1.49
	SmithKline Beecham	887	2.49
		<u>1,830</u>	

# ANALYSIS OF COMPANIES BY SECTOR

CONTINUED

*All holdings are of ordinary shares, unless otherwise indicated*

	<i>Company</i>	<i>Value £'000</i>	<i>Percentage of Portfolio</i>
<b>Support Services</b>	Admiral	636	1.78
	Baltimore Technologies	3,190	8.94
	Capita Group	479	1.34
	Geo Interactive Media Group	3,827	10.73
	Merant	561	1.57
	Misys	1,900	5.33
		<hr/> 10,593	
<b>Telecommunications</b>	Cable & Wireless Group	921	2.58
	Cable & Wireless Communications	806	2.26
	Vodafone Airtouch	3,553	9.96
		<hr/> 5,280	
<b>Tobacco</b>	British American Tobacco	39	0.12
	Gallaher Group	2,774	7.77
		<hr/> 2,813	
<b>Transport</b>	Arriva	341	0.96
	Firstgroup	213	0.60
	National Express Group	261	0.73
		<hr/> 815	
	<b>Total Portfolio</b>	<hr/> <b>35,678</b> <hr/>	<hr/> <b>100</b> <hr/>

\*Companies quoted in Euros on the London Stock Exchange.

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 29 February 2000. This report deals with the results of Aurora Investment Trust plc and its subsidiary ("the Group").

### BUSINESS ACTIVITIES

The Company was approved as an investment trust for the year ended 28 February 1999 and has since been managed so as to enable it to approach the Inland Revenue for re-approval as such under Section 842 of the Income and Corporation Taxes Act 1988 when these accounts are submitted. Under Section 266 of the Companies Act 1985 the Company is an investment company and operates as such. The Company is not a close company for taxation purposes.

The Company's wholly-owned subsidiary AIT Trading Limited ("AIT") undertakes purchases of investments for re-sale in the shorter term, with the objective of achieving a trading profit. At 29 February 2000 AIT held no investments.

### INVESTMENT POLICY AND OBJECTIVES

The Company's principal investment objective is to achieve capital growth with the aim of providing a capital return in excess of the FTSE All-Share Index. This objective is pursued through investments in securities which usually are listed on the London Stock Exchange, predominantly comprising equities but allowing exposure to fixed interest and equity related securities. In general the portfolio is weighted towards the larger rather than smaller capitalised stocks. A distinctive feature is an emphasis on investments in companies with exposure to economies growing at a faster rate than the UK. The manager has also sought to achieve an initial net dividend yield of 2.4%, rising in line with inflation.

### RESULTS AND DIVIDENDS

The Group's profit after tax for the period amounted to £519,139 (1999: £444,962).

At the Annual General Meeting on 31 May 2000 a resolution will be proposed to approve a final dividend of 2.509p (1999: 2.46p) per ordinary share, absorbing £379,041 (1999: £371,638). The amount transferred to Group distributable reserves will be £140,098 (1999: £73,324). The final dividend will be paid on 7 June 2000 to shareholders on the register at 8 May 2000. The ordinary shares will go ex-dividend on 2 May 2000.

### INVESTMENT REPORT AND OUTLOOK

The Chairman's Statement incorporates a review of the highlights of the period. It also reports on the change in the Net Asset Value ("NAV").

The directors expect companies to continue to benefit from further growth in the gross domestic product of the UK economy in the next year.

### PURCHASE OF OWN SHARES

Resolutions are to be proposed at the Annual General Meeting which, if passed, will empower the Company to purchase its own shares and to amend the Articles of Association so as to enable it to make such purchases while retaining investment company status. Further details are given in a circular dated 25 April 2000, a copy of which is being sent to shareholders with this report.

### ISSUE OF OWN SHARES FOR CASH

Resolution 7 in the Notice of the Annual General Meeting will, if passed, give the directors the general power to allot securities up to an aggregate nominal amount of £188,840 representing 5% of the issued share capital of the Company at the date of this document. Resolution 8 will, if passed,

# DIRECTORS' REPORT

CONTINUED

empower the directors until the earlier of 15 months from the passing of the resolution and the conclusion of the next Annual General Meeting to make allotments of shares for cash other than in accordance with the statutory pre-emption rights which require all shares issued for cash to be offered first to all existing shareholders. This authority would provide the directors with flexibility to issue to applicants on demand a limited number of Ordinary Shares (representing approximately 5% of the current issued share capital of the Company) for cash on a non-pre-emptive basis.

Under the terms of the Listing Rules of the London Stock Exchange relating to investment trust companies the Company, being a closed-end investment trust, cannot make an issue of shares for cash in this way unless the price per share at which such shares are issued is not less than the net asset value of such shares.

## BORROWINGS

The Company has power to borrow up to a sum equal to 15% of Group NAV, disregarding borrowing within the Group. At 29 February 2000 the gross external borrowings of the Company and of the Group were £2,747,613 (1999: £2,591,183) all of which comprised Euro borrowings (1999: £979,900). Cash balances were also held with Lloyds TSB Bank and the net debt of the Group to Lloyds TSB Bank was £2,061,338 (1999: £2,192,663). At the date of this report the gross debt was £2,775,093 and the net debt was £2,000,526.

During the year the Company advanced funds to AIT to finance AIT's purchases of investments. AIT achieved realised profits which enabled it to repay these advances in full and then to advance sums to the Company. At 29 February 2000 the indebtedness on the part of the Company to AIT was £383,311 (1999: £213,266 owed by AIT to the Company).

## INCREASE IN BORROWING POWERS

As described in the Chairman's statement on page 3, a special resolution is to be put to the Annual General Meeting to increase the maximum permitted borrowing level to 25% of NAV.

## MARKET INFORMATION

The Company's share capital is listed on the London Stock Exchange. The market price is shown daily in the *Financial Times* and *The Daily Telegraph*. The NAV per share is calculated bi-monthly and released to the London Stock Exchange and the Association of Investment Trust Companies.

## CUSTODY

Custody of the Group's investments was contracted to Lloyds TSB Bank plc during the year. Lloyds TSB Bank announced its intention to discontinue the provision of custody services and gave notice to the Company and to AIT. The Company and AIT each propose to appoint The Northern Trust Limited as their new custodian and it is expected that the transfer of custody will take place on 16 May 2000.

Lloyds TSB Bank Plc was the Group's banker throughout the year and continues to be so.

## THE BOARD

The persons listed below have served as directors both of the Company and of AIT during the year. All directors are non-executive:

**Roger Adams**, (Chairman)\* aged 60, was until 1998 an executive director, Closed End Funds, at Warburg Dillon Read, a division of UBS AG. He is a non-executive director of Finsbury Income and Growth Investment Trust plc, Gartmore Shared Equity Trust plc, The Investment Trust of Investment Trusts plc and North Atlantic Smaller Companies Investment Trust plc.

\*member of the Audit Committee

# DIRECTORS' REPORT

CONTINUED

**James Barstow** FCA, aged 50, is the Managing Director of Mars Asset Management Limited. He is the fund manager primarily responsible for the Company and for formulating the investment rationale and policies of Mars Asset Management Limited.

**Michael Heathcoat Amory\***, aged 58, is joint Deputy Chief Executive of Jupiter International Group PLC, Chairman of Jupiter International Green Investment Trust PLC and a director of a number of other investment trusts and various financial and industrial companies.

**David H. Hunter\***, aged 61, is a former managing partner of L Messel & Co. who became a director of Shearson Lehman Brothers Securities following its takeover of L Messel & Co. He is currently a director of NCL Investments Limited; he is a non-executive director of Foreign & Colonial U.S. Smaller Companies Trust Plc and an adviser to the currency fund, Pancurri Inc., as well as to an international investment company, Bermuda Capital.

The directors other than Mr. Barstow are entirely independent of the fund manager, Mars Asset Management Limited, of which Mr. Barstow is a director and shareholder. Mars Asset Management Limited supplied fund management services to the Company throughout the period under a contract described under "Management" below. With this exception, there were no contracts subsisting during or at the end of the year in which a director was or is materially interested.

The directors' shareholdings in the Company, all of which were beneficially owned, were:

		At 29 February 2000 and at the date of this report	At 28 February 1999
BR Adams	Ordinary shares	40,000	10,000
MJ Barstow	Ordinary shares	415,000	300,000
MF Heathcoat Amory	Ordinary shares	20,000	Nil
DH Hunter	Ordinary shares	20,000	10,000

No shares in AIT were held by any director.

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

Mr Barstow is due to retire by rotation at the Annual General Meeting. Being eligible, he offers himself for re-election.

## MANAGEMENT

Since its launch the management of the Company's investments has been contracted to Mars Asset Management Limited, which is regulated by IMRO. The principal participants in the management of the Company's investments are James Barstow (managing director) and Francis, Lord Northbrook.

The manager is appointed under a contract subject to twelve months' notice, and is remunerated at a rate of 0.75% per year of the Group's Total Assets, payable monthly in arrears. The manager is also entitled to an annual performance-related fee equal to 10% of any outperformance by the Group's NAV over the FTSE All-Share Index, up to a maximum of 0.75% of Group NAV (before deduction of the performance fee). For this purpose, NAV is the value of the Group's shareholders' funds; Total Assets are the Group's shareholders' funds plus borrowings, less the current-year revenue balance. A performance fee was earned in respect of the year ended 29 February 2000, for which an accrual has been made in the accounts of £288,465 (1999: Nil).

\*member of the Audit Committee

# DIRECTORS' REPORT

CONTINUED

## COMPANY SECRETARY AND ADMINISTRATOR

Cavendish Administration Limited ("Cavendish") was the secretary of the Company for the entire year under review, and remains so. Cavendish is also responsible for all administrative matters. Cavendish is appointed under a contract subject to 180 days' notice and receives a fee of 0.125% per year of Total Assets.

## 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. By far the most important supplier of services to the Company is the investment manager, as described above. The investment manager is reimbursed according to Group Total Assets at the close of each month and is due to be paid within the month following; the Company has maintained payments according to this schedule throughout the year.

There were no invoiced, unpaid trade creditors outstanding at 29 February 2000; amounts shown as creditors in the Balance Sheet comprised accrued expenses and other uninvoiced short-term liabilities. Brokers' commissions are paid in accordance with Stock Exchange terms and are included in Sales for Future Settlement and Purchases for Future Settlement.

## SIGNIFICANT SHAREHOLDINGS

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

	<i>Ordinary Shares</i>	
Clients of Cawood Smithie & Co	1,829,668	12.1%
Clients of Jupiter Asset Management	1,357,000	9.0%
Clients of Greig Middleton & Co	1,343,000	8.9%
Nutraco Nominees	1,056,000	7.0%
BFS Absolute Return Trust	925,000	6.1%
Clients of Williams de Broe	657,230	4.4%
Clients of Ely Fund Managers	527,399	3.5%
Clients of Rathbone Neilson Cobbold	520,400	3.4%

## SETTLEMENT OF ORDINARY SHARE TRANSACTIONS

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

## YEAR 2000 COMPLIANCE

The Company and the Group are not aware of any adverse effect suffered by them by reason of the inability of some computer systems to accommodate the year 2000 and beyond. No costs have been incurred by the Company or Group in achieving Year 2000 compliance, since outside suppliers of services have been responsible for the performance of all systems. The position is kept under continuing review.

## DONATIONS

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

# DIRECTORS' REPORT

CONTINUED

## AUDITORS

During the year ended 29 February 2000 KPMG Audit Plc resigned as auditor to the Company and the directors appointed RSM Robson Rhodes to fill the resulting vacancy.


The Company has received special notice of a resolution to re-appoint RSM Robson Rhodes as auditor, pursuant to Section 388(3) of the Companies Act 1985. Accordingly, a resolution proposing that RSM Robson Rhodes be re-appointed as auditor of the Company will be put to the Annual General Meeting.

## GOING CONCERN

After making inquiries, the directors have a reasonable expectation that the Company and Group 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.

25 April 2000

By order of the Board

  
CAVENDISH ADMINISTRATION LIMITED  
*Company Secretary*

## 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 and which enables it to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code") prepared by the Committee on Corporate Governance and published in June 1998.

The Board considers that the Company has complied with the provisions contained within Section 1 of the Combined Code throughout the year to 29 February 2000 except where disclosed below and this statement describes how the relevant principles of governance are applied to the Company.

The Combined Code also requires the Board to review the effectiveness of the Company's system of internal controls, extending the previous focus on financial aspects to encompass all controls. The Board has identified risk management controls in the key areas of accounting, custody, banking, insurance and physical and computer security as areas for the extended review.

The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. However, the Turnbull Report, the formal guidance for the review of non-financial controls, was published only in September 1999. Consequently, as permitted by the London Stock Exchange, the Company has adopted the transitional approach for the internal control aspects of the Combined Code.

The Board has undertaken a review of the aspects covered by the Turnbull guidance and believes that the existing arrangements, set out below, represent an appropriate framework substantially in place to meet the internal control requirements. Guidance notes for directors of investment trust companies on monitoring internal control have been drafted by the AITC. The Board's monitoring process will be finalised in the light of this guidance to enable full compliance for the year ending 28 February 2001.

# CORPORATE GOVERNANCE

CONTINUED

## THE BOARD

The Board currently consists of four non-executive directors, including the Chairman. Three directors, including the Chairman, are independent of the investment manager. The directors' biographies are given on pages 13–14. The structure of the Board is such that it is considered unnecessary to identify a senior non-executive director other than the Chairman.

The Board has contractually delegated to external agencies, including the investment manager, 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.

The Board holds regular quarterly meetings, plus additional meetings as required. Between these meetings there is regular contact with the investment manager. Directors receive and consider regular monthly reports from the investment manager and 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. 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.

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 and is of sufficiently small size to decide upon most such matters as a full Board. For this reason, a nominations committee to make recommendations on the appointment of new directors has not been established. In this respect, the Company does not comply with Code provision A5. It is considered appropriate, however, that issues related to the review of the annual accounts, the appointment of the auditor and the appointment and remuneration of the investment manager should be considered by those directors who are independent. Therefore the Board has formed an Audit Committee and a Management Engagement Committee, each of which is comprised of non-executive directors who are independent of the investment manager and has formal terms of reference.

The directors have appointment letters which do not state any specific term. The Company's Articles of Association state that a third of the directors, or the nearest whole number not exceeding one-third, retire by rotation at each Annual General Meeting. If the number of directors is not divisible exactly by three, the effect of the Articles is that directors will not be subject to re-election at a maximum interval of three years. In this respect, the Company does not comply with Code provision A6.

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

## DIRECTORS' REMUNERATION

Under the London Stock Exchange Listing Rule 21.20 (i), where an investment trust company has no executive directors the Code principles relating to directors' remuneration do not apply.

## RELATIONS WITH SHAREHOLDERS

The investment manager has a programme of meetings with institutional shareholders and reports back to the Board on these meetings. 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.

# CORPORATE GOVERNANCE

CONTINUED

## EXERCISE OF VOTING POWERS

Since the Company's investments are usually in large companies and form only a small proportion of their issued capital, the Company does not have a fixed policy always to vote its holdings, but treats each case on its merits.

## ACCOUNTABILITY AND AUDIT

The directors' statement of responsibilities in respect of the accounts is on page 18 and a statement of going concern is on page 16. The report of the auditors is on page 19.

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 key procedures include bi-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 insurances 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, including at least one independent director, after they have studied the financial data upon which those fees are based.

These systems of internal financial control are designed to provide reasonable but not absolute assurance against material misstatement or loss. By the procedures set out above the directors have kept under review the effectiveness of the internal financial controls throughout the year.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the year and of the surplus or deficit 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 accounts 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF AURORA INVESTMENT TRUST PLC

We have audited the financial statements on pages 20 to 28 which have been prepared on the basis of the accounting policies set out on page 24.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 18 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 Group is not disclosed.

We review whether the statement on page 16 reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange 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 to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## BASIS OF AUDIT OPINION

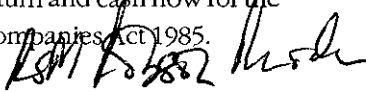
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 29 February 2000 and of the Group's net revenue, total return and cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

25 April 2000

  
RSM Robson Rhodes  
Chartered Accountants  
Registered Auditor  
London



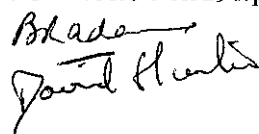
# CONSOLIDATED BALANCE SHEET

AT 29 FEBRUARY 2000

<i>Notes</i>	2000 £'000	1999 £'000
<b>FIXED ASSETS</b>		
9 Investments at market value	35,678	21,099
<b>CURRENT ASSETS</b>		
Sales for future settlement	96	277
Other debtors	35	85
Taxation recoverable	26	28
Debtors	157	390
Cash at bank and in hand	687	399
	844	789
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>		
Bank loans and overdraft	2,748	2,591
Purchases for future settlement	558	313
Taxation payable	4	7
Other creditors	366	61
Dividends payable	379	372
	4,055	3,344
<b>NET CURRENT LIABILITIES</b>	<b>(3,211)</b>	<b>(2,555)</b>
<b>TOTAL NET ASSETS</b>	<b>32,467</b>	<b>18,544</b>
<b>CAPITAL AND RESERVES</b>		
11 Called up share capital	3,777	3,777
12 Share premium account	10,997	10,997
13 Capital reserves	17,251	3,468
14 Revenue reserve	442	302
	32,467	18,544
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<b>32,467</b>	<b>18,544</b>
16 Net assets per ordinary share	214.91p	122.75p

Approved by the the Board of Directors on 25 April 2000 and signed on their behalf by:

B R Adams  
D H Hunter



*The notes on pages 24 to 28 form part of these accounts*

# COMPANY BALANCE SHEET

AT 29 FEBRUARY 2000

<i>Notes</i>	<u>2000</u> £'000	<u>1999</u> £'000
<b>FIXED ASSETS</b>		
9 Investments at market value	35,678	21,099
<b>CURRENT ASSETS</b>		
Sales for future settlement	96	-
Amounts owed by group undertakings	250	253
Other debtors	34	83
Taxation recoverable	24	19
Debtors	<u>404</u>	<u>355</u>
<i>Cash at bank and in hand</i>	<u>554</u>	<u>340</u>
	<u>958</u>	<u>695</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>		
Bank loans and overdraft	2,748	2,591
Purchases for future settlement	460	313
Amounts owed to group undertakings	383	-
Other creditors	366	61
Dividends payable	<u>379</u>	<u>372</u>
	<u>4,336</u>	<u>3,337</u>
<b>NET CURRENT LIABILITIES</b>	<u>(3,378)</u>	<u>(2,642)</u>
<b>TOTAL NET ASSETS</b>	<b>32,300</b>	<b>18,457</b>
<b>CAPITAL AND RESERVES</b>		
11 Called up share capital	3,777	3,777
12 Share premium account	10,997	10,997
13 Capital reserves	17,251	3,468
14 Revenue reserve	<u>275</u>	<u>215</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<u>32,300</u>	<u>18,457</u>
16 Net assets per ordinary share	213.80p	122.17p

Approved by the the Board of Directors on 25 April 2000 and signed on their behalf by:

BR Adams  
DH Hunter

*BR Adams*  
*David Hunter*

*The notes on pages 24 to 28 form part of these accounts*

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 29 FEBRUARY 2000

<i>Notes</i>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>	
17	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	935	(100)
	SERVICING OF FINANCE		
	Interest paid	(112)	(172)
	TAXATION		
	Tax paid	-	(10)
	Tax recovered	18	111
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
	Payments to acquire fixed asset investments	(13,840)	(9,922)
	Receipts on disposal of fixed asset investments	<u>13,306</u>	<u>9,669</u>
	NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(534)</u>	<u>(253)</u>
	EQUITY DIVIDENDS PAID	<u>(372)</u>	<u>(363)</u>
	NET CASH OUTFLOW BEFORE FINANCING	<u>(65)</u>	<u>(787)</u>
18	DECREASE IN CASH	<u>(65)</u>	<u>(787)</u>

*The notes on pages 24 to 28 form part of these accounts*

# NOTES TO THE ACCOUNTS

## 1. ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice for the Financial Statements of Investment Trust Companies ("SORP"). The particular accounting policies adopted are described below:

(a) *Accounting Convention*

The accounts are prepared under the historical cost convention, as modified by the revaluation of investments.

(b) *Basis of Consolidation*

The Group accounts consolidate the accounts of the Company and of its subsidiary AIT Trading Limited ("AIT"), both drawn up to 28 or 29 February each year. As permitted by section 230 of the Companies Act 1985, no revenue or profit and loss account is presented for the Company.

(c) *Investments*

Securities of companies quoted on the London Stock Exchange are valued by reference to the Official List of the London Stock Exchange at their mid-market quoted prices at the close of the period.

The investment of the Company in AIT is valued at cost and the directors are satisfied that this valuation is appropriate.

(d) *Income from Investments*

Investment income from ordinary shares is accounted for on the basis of ex-dividend dates. Income from fixed interest shares and securities is accounted for on an accruals basis. Dividend income other than from Foreign Income Dividends is grossed up at the appropriate rate of tax credit. Special Dividends are assessed on their individual merits and are credited to capital reserve if the substance of the payment is a return of capital; with this exception all investment income is taken to revenue account. Income from gilts and bank interest receivable is accounted for on an accruals basis.

(e) *Capital Reserves*

The Company is precluded by its Articles from making any distribution of capital profits. 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.

(f) *Investment Management Fees*

Monthly management fees are charged equally between capital and revenue. Performance-related fees, net of attributable tax, are charged to the realised capital reserve.

(g) *Finance Costs*

Finance costs are allocated between capital and revenue according to the Board's expected long-term split of returns between capital gains and income. One-half of finance costs, net of attributable tax, are charged to the realised capital reserve.

(h) *Deferred Taxation*

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that the liability will crystallise. Currently there is no such provision.

(i) *Foreign currency*

Balances in foreign currency are translated into sterling at the exchange rate as at the Balance Sheet date and gains or losses arising are carried to the unrealised capital reserve. Transactions in foreign currency are effected at the exchange rate as at the date of the transaction.

## 2. INCOME

	2000 £'000	1999 £'000
<b>Income from investments:</b>		
Franked dividends from listed investments	440	533
Foreign income dividends (FIDs)	-	99
Income from listed fixed interest securities	60	123
Unfranked income from listed investments	98	6
Interest on UK government securities	-	7
	598	768
<b>Other income:</b>		
Interest receivable	13	35
	13	35
	611	803

# NOTES TO THE ACCOUNTS

CONTINUED

3. INVESTMENT MANAGEMENT FEES AND OTHER EXPENSES	2000			1999		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fees – monthly	110	110	220	91	91	182
– performance	-	289	289	-	-	-
Administration fees	37	-	37	30	-	30
Custodian's fees	8	-	8	8	-	8
Registrar's fees	6	-	6	7	-	7
Directors' fees	23	-	23	25	-	25
Auditors' fees – audit	18	-	18	14	-	14
– other services	15	-	15	6	-	6
Miscellaneous expenses	25	-	25	18	-	18
	<u>242</u>	<u>399</u>	<u>641</u>	<u>199</u>	<u>91</u>	<u>290</u>

## 4. DIRECTORS' FEES

The fees paid or accrued were as follows: Mr Adams £9,000 (1999: £1,210) Mr Hunter £7,000 (1999: £6,667) Mr Heathcoat Amory £7,000 (1999: £5,331) Sir William Stuttaford £Nil (1999: £7,098) Mr Gaunt £Nil (1999: £2,000). Mr Barstow received no fee (1999: £Nil). There were no other emoluments.

5. INTEREST PAYABLE AND SIMILAR CHARGES	2000			1999		
	Revenue	Capital	Total	Revenue restated	Capital restated	Total restated
	£'000	£'000	£'000	£'000	£'000	£'000
Interest payable	55	55	110	86	86	172
Facility and arrangement fees	1	1	2	-	-	-
	<u>56</u>	<u>56</u>	<u>112</u>	<u>86</u>	<u>86</u>	<u>172</u>

## 6. TAXATION

	2000			1999		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Tax credits on franked investment income	47	-	47	107	-	107
Corporation tax at 21% on trading gains (AIT)	4	-	4	7	-	7
Prior year adjustment (AIT)	-	-	-	(28)	-	(28)
Foreign tax	4	-	4	-	-	-
Tax relief transferred to capital reserves	48	(48)	-	-	-	-
	<u>103</u>	<u>(48)</u>	<u>55</u>	<u>86</u>	<u>-</u>	<u>86</u>

	2000 £'000	1999 £'000
Tax recoverable comprised:		
Income tax on unfranked income	24	19
Advance Corporation Tax (AIT)	2	9
	<u>26</u>	<u>28</u>
Tax payable comprised:		
Corporation Tax (AIT)	4	7
	<u>4</u>	<u>7</u>

## 7. ORDINARY DIVIDENDS

The directors recommend a net dividend of 2,509p per ordinary share (1999: 2,46p).

# NOTES TO THE ACCOUNTS

CONTINUED

## 8. RETURNS PER ORDINARY SHARE

Basic revenue return per share is based on the net revenue on ordinary activities after taxation of £519,139 (1999: £484,962), attributable to 15,107,250 (1999: 15,107,250) ordinary shares of 25p.

Basic capital return per share is based on the net capital gains for the financial year of £13,782,725 (1999: losses £1,519,734), attributable to 15,107,250 ordinary shares of 25p.

## 9. FIXED ASSET INVESTMENTS

	2000 £'000	1999 £'000
UK listed securities	35,678	21,099
Total fixed asset investments	35,678	21,099
<i>Movements during the year:</i>		
Opening balance of investments, at cost	17,876	16,863
Additions, at cost	13,987	10,009
Disposals, at cost	(8,257)	(8,996)
Cost of investments at 29 February	23,606	17,876
<i>Revaluation of investments to market value:</i>		
Opening balance of revaluation account	3,223	5,038
Increase/(decrease) in unrealised appreciation, credited to capital reserve	8,849	(1,815)
Balance at 29 February	12,072	3,223
Market value of investments at 29 February	35,678	21,099

## 10. SUBSIDIARY

The Company held an investment in AIT Trading Limited, a wholly owned subsidiary incorporated in England and Wales, which comprised two ordinary shares of £1 each. AIT undertakes purchases of investments for re-sale in the shorter term, with the objective of achieving a trading profit. The profit before tax of AIT for the year was £336,170 (1999 £36,761). The net assets of AIT at the Balance Sheet date were £167,034.

## 11. SHARE CAPITAL

	2000 Number	2000 £'000	1999 Number	1999 £'000
At 28 February:				
<i>Authorised</i>				
Ordinary shares of 25p	40,000,000	10,000	40,000,000	10,000
<i>Allotted, issued and fully paid</i>				
Ordinary shares of 25p	15,107,250	3,777	15,107,250	3,777

## 12. SHARE PREMIUM ACCOUNT

	2000 £'000	1999 £'000
Opening balance	10,997	10,997
Balance at 29 February	10,997	10,997

# NOTES TO THE ACCOUNTS

CONTINUED

13. CAPITAL RESERVES	2000	1999		
	£'000	£'000		
<i>Realised</i>				
Opening balance as previously reported	225	(7)		
Prior year adjustment	-	(43)		
	225	(50)		
Net gains and losses on realisation of investments	5,145	452		
Expenses of capital management: management fees	(399)	(91)		
finance costs	(56)	(86)		
Less: attributable taxation	48	-		
Net expenses	(407)	(177)		
Total transfer to realised capital reserve	4,738	275		
Balance of realised capital reserve at 29 February	4,963	225		
<i>Unrealised</i>				
Opening balance	3,243	5,038		
Revaluation of investments – listed	8,849	(1,815)		
Revaluation of euro loan account balance	196	20		
Balance of unrealised capital reserve at 29 February	12,288	3,243		
Total capital reserve at 29 February	17,251	3,468		
14. MOVEMENT IN REVENUE RESERVE				
	2000	2000	1999	1999
	Company	Group	Company	Group
	£'000	£'000	£'000	£'000
Opening balance	215	302	114	185
Prior year adjustment	-	-	44	44
Profit for year	439	519	429	445
Dividends	(379)	(379)	(372)	(372)
Balance at 29 February	275	442	215	302
15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS				
			2000	1999
			£'000	£'000
<i>Distributable Profits</i>				
Revenue available for distribution			519	445
Dividends			(379)	(372)
Transfer to distributable reserves			140	73
<i>Non-distributable Profits</i>				
Recognised capital gains and losses transferred to non-distributable reserves			13,783	(1,519)
Net (decrease)/increase in shareholders funds			13,923	(1,446)
Opening balance of shareholders funds			18,544	19,990
Net (decrease)/increase in shareholders' funds			13,923	(1,446)
Shareholders' funds at 29 February			32,467	18,544
16. NET ASSETS PER ORDINARY SHARE				

The figure for net assets per ordinary share is based on £32,466,728 (1999: £18,543,904) divided by 15,107,250 (1999: 15,107,250) Ordinary Shares in issue.

# NOTES TO THE ACCOUNTS

CONTINUED

17. RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES		2000	1999	
		£'000	£'000	
Operating Profit		678	617	
less: tax deducted at source on income from investments		(74)	(126)	
less: management fees charged to capital		(399)	(91)	
		205	400	
Decrease/(increase) in debtors		327	(302)	
Increase/(decrease) in creditors		403	(198)	
Net cash flow from operating activities		935	(100)	
18. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		£'000	£'000	
Decrease in cash in the period		(65)	(787)	
Translation difference		196	20	
Movement in net debt in the period		131	(767)	
Net debt at 1 March 1999		(2,192)	(1,425)	
Net debt at 29 February 2000		(2,061)	(2,192)	
19. ANALYSIS OF NET DEBT				
	<i>At 1 March</i>	Cash	Exchange	At 29 February
	1999	Flow	movement	2000
	£'000	£'000	£'000	£'000
Cash at bank and in hand	399	288	-	687
Overdrafts	(2,591)	(353)	196	(2,748)
Total	(2,192)	(65)	196	(2,061)

## 20. RELATED PARTY TRANSACTIONS

Intra-Group transactions between the Company and AIT comprised a net dividend of £250,000 from AIT to the Company (1999: £40,000 net). During the first nine months of the year the Company advanced interest-free short term loans to AIT to finance its trading operations; from December 1999 AIT, having achieved gains upon those operations, made interest-free loans back to the Company. At 29 February 2000 the amount outstanding to AIT was £383,311 (1999: £213,266 owed by AIT).

Details of the management, administration and secretarial contracts can be found in the Directors' Report on page 14. Fees payable to the investment manager are detailed in note 3 on page 25; the amounts outstanding as an accrual comprised a monthly management fee of £26,039 (1999: £15,551), performance fee accrual of £288,465 (1999: Nil) and administration fee of £4,340 (1999: £2,592), all figures including VAT.

## 21. RISK PROFILE

The investment policy and objectives of the Company are stated on page 2.

### Market risks

An element of risk is inherent in investment undertaken on a selective basis. The Company seeks to mitigate the degree of risk by investing only in securities in substantial organisations, normally listed on the London Stock Exchange, and by spreading its investments across a range of such securities. No use was made of derivatives during the period ended 29 February 2000.

### Liquidity

Liquidity risks are considered to be small, because the portfolio is invested in readily realisable securities.

### Financial assets and liabilities

There is no material difference between fair value and carrying value of financial assets and liabilities. Cash balances earn interest at a variable interest rate. The Company undertakes borrowing for investment purposes and has an overdraft facility with Lloyds TSB Bank plc, upon which interest is charged at the bank's variable interest rate. The facility is secured upon the shares and securities of the Company. It is repayable upon demand, but normally is reviewed annually by the bank. It was increased during February 2000 to £5 million (or the equivalent in Euros) but the current undrawn facility is not to be used until increased borrowing powers are granted by shareholders.

The list of the Company's holdings on pages 10 to 11 includes details of the split between equities and fixed interest securities.

### Currency risks

All the securities listed on pages 10 to 11 are quoted on the London market, but where the currency of quotation is not sterling this is noted. The Company held no cash or financial instruments in any foreign currency. The Company owed €4,465,292 at 29 February 2000, which is stated in the accounts in sterling at the exchange rate as at the Balance Sheet date. An unrealised capital exchange gain of £195,661 (1999: £20,100) was made on the euro overdraft.

## NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Aurora Investment Trust plc will be held on the third floor, Crusader House, 145-157 St John Street, London EC1V 4RU on Wednesday 31 May 2000, at 4.00 pm, for the following purposes:

### ORDINARY BUSINESS:

1. To receive and adopt the financial statements for the year ended 29 February 2000, with the reports of the directors and auditors thereon.
2. To re-elect Mr Barstow as a director of the Company, who retires by rotation.
3. To re-appoint RSM Robson Rhodes as registered auditor to the Company, having been appointed by the directors since the last annual general meeting, and to authorise the directors to fix their remuneration.
4. To approve a dividend of 2.509p (net) per ordinary share in respect of the year ended 29 February 2000.

### SPECIAL BUSINESS:

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


5. THAT, conditionally on the passing of resolution 6 set out in the notice convening the Annual General Meeting of the company dated 25 April 2000, the Company be and is hereby generally 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 25p 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 2,264,570;
  - (b) the minimum price which may be paid for an Ordinary Share is 25p;
  - (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) unless previously varied, revoked or renewed the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2001 or, if earlier, on the expiry of 12 months from the passing of this resolution, and
  - (e) 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.
6. THAT the articles of association of the Company be amended as follows:
  - (a) in article 126(a) at the end of such article after the words "(within the meaning of section 263 of the Act)" by the addition of the words "otherwise than by way of the redemption or purchase of any of the Company's own shares in accordance with section 160 or 162 of the Act";
  - (b) in article 129(a) at the end of such article after the words "recommended by the Board" by the addition of the words "Provided always that nothing contained in this article shall prejudice the Company's ability to distribute any of its capital profits by way of the redemption or purchase of any of the Company's own shares in accordance with section 160 or 162 of the Act";

# NOTICE OF MEETING

CONTINUED

- (c) in each of articles 129(e) and 129(f) at the end of such articles after the words “(as defined in section 263(2) of the Act)” by the addition of the words “otherwise than by way of the redemption or purchase of any of the Company’s own shares in accordance with section 160 or 162 of the Act”;
- (d) in article 137 at the end of such article after the words “to members as fully paid” by the addition of the words “Provided Further that nothing contained in this article shall prejudice the Company’s ability to distribute any of its capital profits by way of the redemption or purchase of any of the Company’s own shares in accordance with section 160 or 162 of the Act”.
7. THAT, in substitution for any existing power under section 80 of the Companies Act 1985 (“the Act”) but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £188,840 PROVIDED THAT this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, whichever should first occur, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
8. THAT, subject to the passing of resolution 7, and in substitution for any existing power under Section 95 of the Companies Act 1985 (the “Act”) but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) pursuant to the authority and during the period of the authority conferred by resolution 7, wholly for cash up to an aggregate nominal amount of £188,840, as if Section 89(1) of the Act did not apply to such allotment.
9. THAT the articles of association of the Company be amended as follows:  
in article 97(b) by replacing “15 per cent” by “25 per cent”.

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

By order of the Board  
  
CAVENDISH ADMINISTRATION LIMITED  
Company Secretary  
25 April 2000

## 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 shareholder 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. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if he so wishes.
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.
5. If the dividend recommended by the Directors is approved, it will be payable on 7 June 2000 to shareholders on the register at 8 May 2000.
6. Copies of the Articles of Association as proposed to be amended are available for inspection at the Company’s registered office during normal business hours on any business day until the close of the Annual General Meeting, and will be at the place of the Annual General Meeting from 15 minutes prior to and during the meeting.

# FORM OF PROXY

## Aurora Investment Trust plc

I/We .....

of .....  
(BLOCK CAPITALS PLEASE)

being (a) member(s) of Aurora Investment Trust plc appoint the chairman of the meeting or (see note 1) .....

of .....

as my/our proxy to attend and vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at Crusader House, 145-157 St John Street, London EC1V 4RU on 31 May 2000 at 4.00pm and at any adjournment thereof.

*Please indicate with an X in the spaces provided how you wish your votes to be cast on the resolutions specified.*

RESOLUTION	FOR	AGAINST
1. To receive and adopt the directors' report, the annual accounts and the auditors' report for the year ended 29 February 2000.		
2. To re-elect Mr Barstow as a director.		
3. To re-appoint RSM Robson Rhodes as auditors to the Company and the authorise the directors to fix their remuneration.		
4. To declare a dividend of 2.509p (net) per ordinary share in respect of the year ended 29 February 2000.		
5. To authorise the Company to purchase its own shares.		
6. To amend the articles of association in respect of purchases of the Company's own shares.		
7. To authorise the directors to allot securities.		
8. To authorise the directors to allot such securities referred to in resolution 7 free from pre-emption rights.		
9. To amend the articles of association to increase the Company's borrowing powers.		

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature ..... Dated this ..... day of ..... 2000

**NOTES**

1. If you so desire you may delete the words 'chairman of the meeting' and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.
2. The proxy form must be lodged at the Company's registrars, Northern Registrars, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if he so wishes.
3. A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.
4. If this proxy form is executed under a power of attorney or other authority, such power of attorney or other authority or a notorially certified copy thereof must be lodged with the Registrars with the proxy form.
5. In the case of joint holders the vote of the senior shall be accepted to the exclusion of the other joint holders, seniority being determined by the order in which the names stand in the register in respect of the joint holding.



THIRD FOLD

BUSINESS REPLY SERVICE  
Licence No HF106



Northern Registrars Limited  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0JQ

SECOND FOLD

FIRST FOLD