AURORA INVESTMENT TRUST plc

REPORT & ACCOUNTS
2005

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OBJECTIVE

Capital appreciation through investments listed mainly on the London Stock Exchange

POLICY

To invest primarily in equities but with some exposure also to Fixed Interest. 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

FINANCIAL HIGHLIGHTS

	Year ended 28 February 2005	Since launch (1997)
Net Asset Value	+23.4%	+134.3%*
Performance compared to Benchmark	+10.97%	+102.42%
Share Price	+22.60%	+111.50%

* by reference to a starting value of 97.78p (net of launch expenses)

DIRECTORS, MANAGER AND ADVISERS

DIRECTORS
RA Hammond-Chambers (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
website: marsassetmanagement.co.uk

STOCKBROKER
UBS Warburg
1 Finsbury Avenue
London EC2M 2PA

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

BANKER
Lloyds TSB Bank plc
34 Moorgate
London EC2R 6PL

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

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

AUDITOR
RSM Robson Rhodes LLP
186 City Road
London EC1V 2NU

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

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

A MEMBER OF THE ASSOCIATION OF INVESTMENT TRUST COMPANIES

CHAIRMAN'S STATEMENT

The Year's Results: **NAV: +23.4% to 229.1p; Benchmark: +11.2%**

I am pleased to be able to report to shareholders an excellent result for the year ended 28 February 2005. The net asset value rose from 185.6p to 229.1p per share, an increase of 23.4%. Given that our stated goal for shareholders is the growth of capital, it is a thoroughly acceptable result and our thanks and congratulations go to James Barstow and his colleagues for it. Making money for shareholders has got to be the purpose of our endeavours, for who would be happy to invest in any share and lose money just because the share in question did better than an index? It is a preposterous idea and yet it pervades so much professional fund management.

Investors become shareholders not only because they expect to make a profit but also because they expect Aurora to do better than other investment trusts and also better than the market generally. In this respect these results were better than all but two of the seventeen trusts in the Association of Investment Trust Companies' UK Growth Sector. Furthermore the performance of the stock market generally, as measured by the FTSE All-Share Index – which covers the share price performance of about the 1,000 largest companies – rose by 11.2%, a perfectly acceptable return but a lot less than James' 23.4% for shareholders. So this year at least the primary and secondary aims have also been achieved.

The investment income earned from the Company's portfolio this year is circa £100,000 lower that last year and the Group net income is down from £741,000 to £562,000. Nevertheless there is enough income to increase the dividend again – another of our aims – and the Board is recommending to shareholders a dividend of 2.9p per share, against one of 2.85p per share last year.

An attribution analysis of the year's results shows – in approximate terms – the following:

Net Asset Value (beginning year)		**185.65p per share**
Effect of the Stock Market	+11.2%	+20.79p per share
Effect of Stock Selection	+8.9%	+16.43p per share
Effect of Gearing	+3.3%	+6.22p per share
Net Asset Value (end year)	+23.4%	**229.09p per share**

But for the good stock selection and the gearing, the net asset value would have ended the year at approximately 206.5p per share. The main reason for the excellent stock selection came from the portfolio's exposure to Ireland. Of the increase in the net asset value of circa 43.44p per share, the Irish portfolio of stocks added circa 30p per share; James's report to shareholders, which follows this, expounds on the favourable economic position that Ireland finds itself in – in part because of some of the absurdities of the European Union and its Euro and in part because it has been intelligently governed in the last several years. Despite the adverse publicity surrounding housing companies our exposure to Persimmon, Abbey and McCarthy & Stone added circa 12p per share to our net asset value. There were inevitably poor performers with BTG (–4.25p per share) and Gresham Computing (–2.25p per share) being the worst two; James comments on them too.

Top 5 Contributors	*Addition to NAV Per share*	*Bottom 5 Contributors*	*Detraction from NAV per share*
Gartmore Irish Growth	+13.50p	BTG Group	-4.25p
Anglo Irish Bank	+12.50p	Gresham Computing	-2.50p
Emblaze	+12.00p	B Sky B	-1.00p
Persimmon	+5.25p	SVB	-1.00p
Abbey	+3.50p	Premier Farnell	-0.75p

Long Term Returns:

NAV: 5 Years: +11.6% to 229.1p; Benchmark: -20.2%
Since launch: +134.3% to 229.1p; Benchmark: +1.7%

The nature of James' approach to investing is essentially a long term one (of which more later); indeed the nature of successful investing is long term. Share prices are volatile; they are affected by economic cycles and the effect that they have on corporate profits and dividends. In recent years that volatility has been exaggerated by the institutionalisation of the market with its volatility of expectations and the huge increase in the use of derivatives. It is certain that all but a few investors are unable to make successful short term bets (for that is what they are) on the direction of stocks generally or individually. It is for this reason that your Board of Directors does not look at the year's results when undertaking its annual evaluation of the Manager. This year's evaluation, which is reported later in the annual report (page 21), looked at the ability, experience, commitment and performance of all those individuals involved in the management of all of the Company's affairs – whether it be portfolio management or corporate administration – as well as the five year returns. Over the last five years the net asset value has risen by 11.6%, a good performance considering that the base date coincided with the top of the dot.com bubble; the FTSE All-Share Index. our benchmark, has fallen by 20.2% since then. It is our belief that it is because James takes a long term approach and because he is so committed to the success of the Company – he spends the majority of his time managing the portfolio and he has a large shareholding in its shares – that he has produced such good long term results.

The Board's Policies concerning Gearing, Dividends and Investment in other Investment Trusts

The Board of Directors has determined that borrowings under normal circumstances – that is when markets are not obviously very over or undervalued – should be around 20% of shareholders funds ("the gearing"). Our Articles of Association restrict us to gearing of no more than 25%; we wish to increase that to 30%, not because we wish to change our gearing policy but because we wish to have the flexibility not to have to sell shares when the market has fallen and thereby be selling at depressed prices.

Following the recent changes to the Listing Rules, Investment Trusts must state their policy in relation to investing in the shares of other investment trusts and companies. We have adopted a policy restricting such investment to less than 15% of total assets. However it should be noted that we will use that 15% from time to time to obtain general portfolio exposure to areas where James does not have as much investment knowledge or experience as can be obtained through third party investment. Our commitment to Gartmore Irish Growth at the moment provides an example of this policy in action.

Your Board of Directors is aware that there is an ever increasing requirement from investors for current income from their investments – be they equities, bonds or property. It stems from the ageing of the investor population, resulting in investors being much more yield conscious when deciding what shares to own. Our own dividend to shareholders in any one year will be determined largely by the income that the portfolio generated in that year. However we would expect the dividend to grow over the long term and at a rate at least as high as that of inflation.

Annual General Meeting:

at 12 pm on 29 June 2005 at 145-157 St John St., London EC1

I do urge as many shareholders as possible to attend the Annual General Meeting. which will be held at 12 pm on 29 June 2005 at Cavendish Administration's offices at Crusader House 145-157 St John Street. London (Farringdon tube station). It is the one occasion in the year when shareholders can meet all of the Directors and ask questions or make comments or suggestions which we would welcome and which we feel that all shareholders should have the benefit of hearing. ***Please come and join us.***

Corporate Governance:

Evaluation of Board's Governance

During this past year we have undertaken our first evaluation of the Board of Directors' governance of the Company. We have not sought to tinker with our governance, conscious that it is an ongoing duty of the Directors to make improvements to its modus operandi at all times, not just once a year. However the annual evaluation of the Board's governance gives us a chance to think about how better governance can make a difference to the Company's results. We have therefore adopted a goals-based approach, asking ourselves how we as a board of directors could improve our governance in such a way as to make a material difference to the prospects of the Company. It is reported on later in the annual report (page 21).

Our Investment Policy:

Assessment of long term fundamentals and trends and making appropriate portfolio exposures.

Ever since the Company was formed in 1997, James has laid out his understanding of the trends in social, economic and financial fundamentals. He has said that he believes that the extraordinary progress of technology, the consequences of competitive globalisation, the emergence of China as the prime manufacturing country in the world and the ageing of populations are all working to produce an era of disinflation turning into deflation. At some stage, much as it did in Japan after 1989, high levels of debt start to decline and they then become a fiercely deflationary force. In such a world companies find that they have little pricing power, making sales and profits growth difficult to achieve. Our investment policy has focussed on identifying some of those areas where he feels that companies do still have a chance to increase their profits without the threat of fierce price competition.

Shareholders will be familiar with certain of his themes which include the peculiarities of the housing market in the UK, companies with growth prospects enhanced by exposure to the economy of China, Ireland benefiting from the idiocies of the European Union and the Euro with its one rule which doesn't fit-all interest rate policy, special technology companies with exceptional and unusual niches, companies benefiting from the greying societies and so on. All of these themes are long term trends and likely to be at work for many years.

However, just as the rise in inflation in the years up to the early 1980s was punctuated with short periods when the rate of inflation declined, so the disinflationary and deflationary trends of our present era also have periods when inflation rates increase, as is possibly the case at the moment. These periods will be relatively short – in relation to the long term basic trend; their durations will be difficult to assess. At such times the shares in those areas in the stock market that benefit from inflation will do well while the deflation beneficiaries will suffer. Because James is a long term investor he does not try to make short term bets on countertrends, whose long term duration he doesn't believe in. It will therefore mean that there will be periods when the portfolio does not perform well, but as long as his fundamental assessments are right – and his boardroom colleagues believe they are – the valuations will always bounce back and then some. The last eight years, since the Company was launched, has seen this happen and we expect it to happen in the future; the last eight years have produced excellent returns, even if each and every quarter or year hasn't.

Current Outlook and Prospects:

As I mentioned above, it does look as if we are in a period of – I believe temporary – rising inflation. Interest rates have risen in the growth economies of the Anglo Saxon world and China, the very economies which are driving world growth. In the Anglo Saxon economies the economic driver is the consumer and in most cases a very indebted one; it seems unlikely that he/she can go on getting even more in debt and thus keep yesterday's growth rates going. In China, and some of its neighbouring economies, the economic driver has been capital investment, required to increase capacity to produce evermore consumer goods to supply to those Anglo Saxon consumers. It is a bit of a pressure pot and it is not surprising therefore that there should be a (temporary) rise in the rate of inflation. However the world's major central banks are independent of government (USA, Canada, UK, EU, Japan etc) and are likely to create tight enough money to quash inflation. The danger is that, unwittingly, they overdo it because it is difficult to judge just how far and how long to pursue such policies.

Markets do not seem to be unduly concerned by fears of deflation but they are concerned about the USA's two deficits, about oil prices remaining high, about rising inflation and the consequent rising interest rates and thence about slowing economies. This probably explains why markets, which are not generally and obviously overvalued, are cautious, fearing the effect that slower growth might have on corporate profits, currently benefiting from high profit margins, and on dividends.

These issues aside, our own prospects are a function of our own ability to choose the right companies to back and thereby make positive returns for shareholders. James, committed as he is to Aurora's success, has managed that pretty well in the last eight years and we see no reason to suppose that he won't continue to do so.

ALEX HAMMOND-CHAMBERS 18 May 2005

MANAGER'S REVIEW AND OUTLOOK

The British are well renowned for grumbling about the weather. We were not alone last year; it will go down in history as being the worst on record for natural disasters for decades, if not for several centuries.

The radical alteration to two of my favourite salmon pools, due to the deluge in the Tyne valley, was the least notable event amongst many calamities. Serious flooding caused havoc in the city of Carlisle and destroyed most of a village in Cornwall; typhoons devastated parts of Japan, and a series of four major hurricanes ripped into the South East corner of the USA. On Boxing Day, however, all these disasters paled into insignificance. An enormous earthquake occurred in the sea off the coast of Indonesia resulting in a tidal wave, which killed some 300,000 people around the Indian Ocean.

Fortunately, the UK stock-market, including the insurance sector, was almost unscathed by all these tragic events; by comparison, it was a haven of peace and tranquillity, being becalmed for much of the earlier part of the company's financial year although eventually producing a gain of 10%.

Indeed it was not until September that the London market, as ever shown the lead by Wall Street, started to make headway, despite the continuation of strong growth in the UK economy. Prior to September the market had been mainly in negative territory since the start of the year, on account of the rising price of oil, interest rate increases and related inflationary worries.

Meanwhile, the portfolio, which was throughout the period underweight in oils and defensive sectors, such as foods, drinks, property, tobacco and utilities, lagged the market. But, in the late autumn, as investor confidence began to increase, so sentiment became more positive. At long last, the emphasis changed to favour growth stocks. Thus the portfolio eventually came into its own, producing an out-performance of some 10.97% over its benchmark.

Two years ago, as previously mentioned, a single cerebral City damsel in a Verbier wine bar had helped me to pinpoint the exact moment of the turning point in the market; this benefited the portfolio enormously. This year I must attribute due credit to 'girls' and even 'angels' for much of the out-performance. In case the reader is left feeling slightly bemused, I am of course referring to the stock exchange 'epic' codes for the portfolio's two best performing stocks (up some 58% and 45% respectively) namely Gartmore Irish Growth Investment Trust and Anglo-Irish Bank. So successful have these holdings been that they had begun to dominate the portfolio until I made a series of small reductions, despite their excellent prospects for further price appreciation.

Not before time the world is waking up to the stupidity of the premature introduction of the Euro necessitating a single interest rate thoughout the zone before harmonisation of taxation, regulation, legislation and greater mobility of labour. As I have previously predicted, there is in Europe today no Stability, no Growth and now no longer any Pact. Growth amongst the major Continental economies is about as visible as a cigarette in a Dublin pub, albeit perhaps, however, slightly less invisible than an unqualified audit report for the EU commission. Indeed, the only conspicuous growth is that of the level of official unemployment in Germany, currently 5.2m. people. Mr Trichet may continue to huff and puff about raising interest rates, yet until the problem of rising unemployment abates, the chance of a rate rise is negligible.

Accordingly, the prospects for the Irish market, which achieved a new all-time high early in the New Year, remain excellent. More precisely, in my opinion, Ireland will continue to enjoy, in the absence of a severe exogenous shock, a near unstoppable period of boom conditions. Interest rates ought to be closer to 6% rather than 2% for this economy, which will probably produce growth in excess of 6% in 2005. As the market rises the more the successful Irish investor will be happy to continue to spend, thereby improving the prospects for companies in the area where I invest - namely, in the domestic non-traded goods sector only.

Too few investors have yet appreciated that for a few more years to come Ireland is the China of Western Europe in terms of growth prospects. Profit from this golden opportunity - it is the only free gift the bureaucrats in Brussels will ever provide.

Anglo-Irish Bank, which has produced a phenomenal compound annual earnings growth of no less than 41% over the last five years, appears well placed to continue to grow, albeit in future at a lesser pace. Its speciality of lending to small corporate borrowers, in my opinion, positions it at the epi-centre of the forthcoming boom in Ireland. Moreover, having a cost-income ratio of 27%, which is about half that of the average UK based clearing bank, enables me to sleep soundly at night, despite holding such a large position. Lowest cost producers rarely go into liquidation.

Gartmore Irish Growth is also well placed for further price appreciation from a combination of rapid earnings growth, further p/e re-ratings and the benefit of gearing in a rising market. This stock, however, is no longer priced at a discount to its net asset value, although I do expect the premium to increase once more when the forthcoming placing of Treasury stock has been achieved.

The remaining Irish exposure is through a holding in Bank of Ireland, which currently appears undervalued, and also Abbey, the house-builder, which earns half its profits there and the rest from the UK.

This latter company, which is, in my opinion, rather publicity shy and excessively defensive, has recently made two interesting changes. It has started a new division in the Czech Republic and bought potential building land outside Prague on the supposition that Ireland will eventually start to lose business and employment to Eastern Europe. Moreover it has abandoned its full quote and joined AIM, in order that shareholders of two years' standing can benefit from the absence of IHT and a lower rate for Capital Gains tax. An increase in a future Budget in the rate of Inheritance Tax to 50% by the Chancellor, who appears anxious to redistribute hard-earned wealth, would probably cause a rush by ageing private clients to buy such a solid and attractive share from a range which is somewhat limited.

The house-building sector remains as controversial as ever with two diametrically opposing views. I consider that the bears are thoughtlessly giving heed to the graph of house prices to average incomes, which in my view is completely irrelevant. How courteously would one's partner reply to the other at the following suggestion? 'Darling, we must sell this lovely home, because today I saw a graph which showed that house price/income ratios have reached the same record level as in 1990 prior to the housing crash'. Not very, I would suggest! Of much greater relevance, however, is the chart of monthly out-goings as a proportion of income. In this respect, the current position continues to remain well into affordable territory, barring any further significant increase in interest rates which I consider is unlikely to occur, in the light of the recent travails of the retail industry.

I strongly contend that house-builders, despite rapid increases in dividends in recent years, still hold great potential for a re-rating. The rise in house-hold formation will outstrip by a considerable margin the rate of new housing supply for many years to come, despite the Barker Report which highlighted this problem and advocated a radical increase in new supply. In addition the rented sector of the housing market has been well supported by the huge inflows of immigrants from Eastern European countries which acceded to the EU on 1 May 2004. More-over the advent of pension fund 'A' day will enable any person with a pension fund, designated a SIPP, to buy a second/third residential property on a 50% mortgage and enjoy the capital gain free of any CGT liability. Both of these are features whose full significance has not yet been fully appreciated.

I therefore stubbornly retain my bullish stance and foresee no coming collapse in the UK housing market, although am happy to acknowledge that the period of strongly rising prices has been ended by the series of increases in Base Rate.

Persimmon and McCarthy & Stone, both amongst the large holdings in the portfolio, each performed well during the year, despite the unfounded predictions of the bears of the housing market. I feel confident that Persimmon will shortly make a suitable acquisition which will finally take it to a well deserved place within the FTSE100.

By contrast, McCarthy & Stone, which has in the recent past produced very reasonable increases in profits and dividends, together with a mouth watering return on capital employed, may be a victim of unwanted hostile activity from a predatory private equity fund. Despite the fact that the share price has broken into new high ground earlier this year for the first time since 1988, its rating remains excessively low in view of its many attractive attributes. Not only is the company addressing the fastest growing age range in the population but is also well positioned, as their customers 'trade down' in property values, to be a more reliable future provider of pensions than the life industry, which has performed so miserably in this respect in recent years.

I only hope that the management will stir themselves soon and learn from the huge success of Saga Holidays (eventually sold on a multiple of some 21 times) so that this stock, with such exciting future potential, can remain in the portfolio for many years to come. I had the confidence to name it as my stock of the year in a New Year poll of investors.

Since 2000 when the major 'telcos' became highly indebted as a result of intense competition for '3G' licences, new capital investment programmes have been placed on hold. Having now rebuilt their balance sheets with the aid of strong cash flows, the telecom industry is finally starting to engage in new capital investment programmes relating to 2.5G and 3G.

A major beneficiary addressing that area is Emblaze, which produced good gains, albeit from an oversold position. On a recent holiday in South Africa with a glamorous companion who was sending messages to her family as adeptly as any experienced signals officer, even from the summit of Table Mountain, I was left with the distinct feeling of being a techno-coolie. Yet I remain ever keener to hold the stock to participate in the coming telecommunications revolution.

Meanwhile, the rapid deployment of broadband around the world, with the Far East in the vanguard, is creating a new industry called Internet Protocol TV. This will enable customers in the comfort of their own home to watch any film of their choice for $5 at the time of their choosing - Video on Demand. Independent forecasters are currently stating that this industry has the potential to grow its revenues at the rate of 100% p.a. for the next seven years. Surely a fertile area for a future mini stock-market bubble?

Orca Interactive, which was spun out of Emblaze last autumn, having already gained contracts in India (2), Taiwan, the Philippines, Norway and Ireland appears well placed to benefit from the probable future explosive demand, particularly in Asia.

Ironically the largest loss sustained by the portfolio last year happened to be by a company which appears to me to have the best potential over the next five years. No company to date, including Ford, IBM, Coca-Cola and Microsoft has ever achieved a global monopoly. I retain, however, high hopes that Gresham Computing will do so through its joint venture with Cable & Wireless for the Real-time Nostro accounting software system.

This system is designed to facilitate the instant transmission of money between the world's 7,600 international banks, saving them a large amount of money in reduced overheads, while simultaneously pleasing the ever more demanding banking regulators. To date, twelve of the largest banks in the world have agreed to provide the necessary information to the network; more over, the threat of competition appears to have evaporated. The potential earning stream is enormous. It goes without saying that the more successful the network is the more powerful will be its magnetism to encourage other banks to join. The hope that some 5000 banks will become users of the system does not currently appear unrealistic. The passage of time alone will show how accurate that forecast will prove.

The second largest loss sustained was through the holding of BTG. In this case the company is waiting permission to restart trials in the USA, in the hope of one day gaining approval for its revolutionary pain-free treatment of varicose veins. Since there are estimated to be some 150m sufferers in the developed world the potential is enormous, yet the bureaucracy to achieve it is both time consuming and expensive.

As mentioned earlier, the portfolio was underweight in both energy and resource stocks last year. A small consolation, however, is that the portfolio has no exposure to intensive energy users such as chemicals, airlines or automobiles - the profitable holding in Tomkins was sold. Your fund manager has now woken up to the error of his ways - the world has a growing shortage of energy which is not going to be rectified by increasing Iraqi oil production. The new holding in Cairn Energy replaced half the holding in Shell at the time of the announcement of the shortfall in the latter's reserves; an addition was made to the holding in BG, which performed superbly during the year, and new positions taken in BHP Billiton, Asia Energy (Bangladesh coal deposit) and Torotrak (energy saving automotive transmission systems) as well as more to come.

The current market debate is whether or not resources, whose prices have risen considerably, are in a normal cycle soon to turn down. Having given the matter great consideration, I am now of the view that this is not a normal, but a super cycle, which may last two or even three decades in the case of certain basic resources. The argument runs as follows:

The average income per head in China is today some $1000. Growth there will probably continue at a rapid rate, with 6% being a bad year; when combined with inflation and an eventual currency revaluation, the average will rise before too long to $8000+. Furthermore, the propensity to spend a marginal dollar of income per head on basic materials such as iron ore and cement is much greater in China than amongst the richer nations, which are more inclined to spend it on services. China has, after many years of strong growth, now become the largest importer in the world of many materials and therefore likely to produce a strong influence on their future pricing for years to come.

The retail sector has never before had a representation in the portfolio until now, on account of a general and increasing shortage of 'pricing power'. In November last year, for the first time in my life, I saw a sign which read '50% off' in the window of a well known West End store. I therefore need to explain that Bright Futures, which currently is a tiny company, has huge ambitions to retail 'mobility equipment' to the elderly; an activity which well suits one of our favourite themes, namely the ageing demographic profile of the population. This company was brought to my attention by my new staff member, Andrew, who joined my loyal colleague Francis and me in May. I feel confident that both he and the company will together live up to the name.

As one who still possesses vivid memories of the economic woes of the 1970's, I find it quite amazing that fifty consecutive quarters of growth have now been achieved by the UK economy. This success can be directly attributed to the reforms carried out mainly by Lady Thatcher, but with some credit also due to the Chancellor, who made the Bank of England responsible for the setting of interest rates.

Higher taxes are inevitable after the General Election, to finance the current level of government spending. There is a possibility of further serious rises in the price of oil and other commodities. Otherwise I can detect few dangers lurking on the horizon at the moment likely to prevent the economy from exceeding the growth rate of Continental Europe by a considerable margin. In such a light I continue to remain optimistic for the portfolio as a whole, but particularly so for some of the growth stocks whose time has yet to come.

MJ BARSTOW 18 May 2005

TOP TEN HOLDINGS IN COMPANIES

AT 28 FEBRUARY 2005

All holdings are of ordinary shares, unless otherwise stated

	By valuation £'000	*Percentage of Portfolio*
Gartmore Irish Growth Fund	4,760	11.38
Anglo Irish Bank	4,394	10.50
Emblaze	3,713	8.88
Gresham Computing	3,382	8.09
McCarthy & Stone	3,120	7.46
Persimmon	2,914	6.96
Abbey	2,360	5.64
Orca Interactive	2,023	4.83
BTG	1,990	4.76
UK Coal	1,729	4.13
	30,385	72.63
Other holdings	11,451	27.37
Total investments	41,836	100.00

PORTFOLIO SECTOR ANALYSIS

AT 28 FEBRUARY 2005

	Percentage of Portfolio
Information Technology	22.00
Resources	9.54
General Industries	0.46
Basic Industries	20.06
Consumer Goods	1.19
Services	9.33
Financials	20.74
Fixed Interest	3.20
Investment Companies	13.48
	100.00

ANALYSIS OF INVESTMENTS BY SECTOR

AT 28 FEBRUARY 2005

All holdings are of ordinary shares, unless otherwise stated

	Company	*Value £'000*	*Percentage of Portfolio*
Fixed income	Cheltenham & Gloucester 11.75% PIBS	468	1.12
	Standard Chartered 8.25% Non-Cum Pref	575	1.38
	Royal & Sun Alliance 7.375% Cum Pref £1	295	0.70
		1,338	3.2
Banks, Retail	Bank of Ireland	611	1.46
	Anglo Irish Bank	4,394	10.50
	Standard Chartered	764	1.83
		5,769	13.79
Construction	Abbey	2,360	5.64
	McCarthy & Stone	3,120	7.46
	Persimmon	2,914	6.96
		8,394	20.06
Engineering	Torotrak	191	0.46
Other Financials	Brewin Dolphin Holdings	937	2.24
	Icap	292	0.70
	Man Group	687	1.64
		1,916	4.58
Information Technology	Gresham Computing	3,382	8.09
Insurance	Wellington Underwriting	661	1.58
	SVB Holdings	330	0.79
		991	2.37
Investment Trusts	Gartmore Irish Growth Fund	4,760	11.38
	Amerindo Internet Fund	878	2.10
		5,638	13.48
Media	British Sky Broadcasting	57	0.14
Mining	UK Coal	1,729	4.13
	Asia Energy	229	0.54
	BHP Billiton	311	0.74
		2,269	5.41

ANALYSIS OF INVESTMENTS BY SECTOR

CONTINUED

All holdings are of ordinary shares, unless otherwise stated

	Company	*Value £'000*	*Percentage of Portfolio*
Oil, Integrated	Shell Transport & Trading	488	1.17
	Bg Group	612	1.46
	Cairn Energy	629	1.50
		1,729	4.13
Pharmaceuticals	GlaxoSmithKline	497	1.19
Retail	Bright Futures	267	0.64
Software	Emblaze	3,713	8.87
	Adamind	87	0.21
	Orca Interactive	2,023	4.83
		5,823	13.91
Support Services	BTG	1,990	4.76
	Premier Farnell	273	0.65
		2,263	5.41
Transport	Arriva	1,312	3.14
	Total Portfolio	**41,836**	**100.00**

Ordinary shares	40,498
Preference shares	870
Fixed interest securities	468
Denominated in sterling	36,831
Denominated in euros	5,005

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 28 February 2005. This report deals with the results of Aurora Investment Trust plc and its subsidiary ("the Group").

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 28 February 2005. The Company will continue to seek approval each year. Approval of investment trust status has been received for all years to 29 February 2004. Under Section 266 of the Companies Act 1985 the Company is an investment company and operates as such.

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 28 February 2005 AIT held no investments.

INVESTMENT POLICY AND OBJECTIVES

The Company's principal investment objective is to achieve capital growth with the secondary aim of providing a capital return in excess of the FTSE All-Share Index. This objective is pursued through investments in securities the majority of which are listed on the London Stock Exchange, predominantly comprising equities but allowing exposure to fixed interest and equity related securities. 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 a net dividend rising in line with inflation from an original level of 2.4%.

RESULTS AND DIVIDENDS

The Group's profit after tax for the period amounted to £562,662 *(2004: £741,125)*.

At the Annual General Meeting on 29 June 2005 a resolution will be proposed to approve a final dividend of 2.9p *(2004: 2.85p)* per ordinary share, absorbing £438,110 *(2004: £430,557)*. The amount transferred to Group distributable reserves will be £124,552 *(2004: £310,568)*. The final dividend will be paid on 12 July 2005 to shareholders on the register at 27 May 2005. The ordinary shares will go ex-dividend on 25 May 2005.

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").

PURCHASE OF OWN SHARES

A resolution is to be proposed at the Annual General Meeting to renew the Company's powers to purchase its own shares. This is item 9 in the Notice of Meeting. No use was made during the year ended 28 February 2005 of the equivalent powers which were put in place at the Annual General Meeting last year, but the directors recommend that they continue to be held in reserve in case of need.

HOLDING SHARES IN TREASURY

The Board is considering whether repurchased shares should be held in Treasury. No decision has been made to do so, but Resolution 9 includes a clause to the effect that repurchased shares may be held in Treasury. They would then be available for re-issue under the terms of Resolutions 10 and 11, described below.

ISSUE OF OWN SHARES FOR CASH

The directors recommend that their powers to issue shares for cash, granted at the last Annual General Meeting, be renewed, providing them 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.

Resolution 10 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 11 will, if passed, empower the directors to make allotments of shares for cash other than according to the statutory pre-emption rights which require all shares issued for cash to be offered first to all existing shareholders.

THE BOARD AND RE-ELECTION OF DIRECTORS

The persons listed below are the current directors both of the Company and of AIT. All directors are non-executive:

Alex Hammond-Chambers (Chairman)
James Barstow FCA
Michael Heathcoat Amory
David H. Hunter

Mr Heathcoat Amory is due to retire by rotation at the Annual General Meeting and will offer himself for re-election. Mr Barstow, being a representative of the Manager is subject to annual re-election and will offer himself for re-election. Furthermore, the Board has determined as a matter of policy that all directors will in future submit to annual re-election. Therefore resolutions to re-appoint Mr Hammond-Chambers and Mr Hunter will also be put to the Annual General Meeting.

The report on Corporate Governance on pages 21 to 26 below contains a description of the Board's composition, of its method of operation, of its work during the year and that of its Committees and of how its performance has been evaluated. The Board recommends that all directors should be re-elected.

Under the Articles, the directors are indemnified by the Company against losses and liabilities incurred in the performance of their duties. The Articles permit insurance cover against directors' and officers' liabilities to be arranged by the Company and such a policy is maintained.

DIRECTORS' SHAREHOLDINGS

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

	At 28 February 2005 and at the date of this report Ordinary shares	*At 29 February 2004* *Ordinary shares*
A Hammond-Chambers	15,000	15,000
MJ Barstow	620,000	595,000
MF Heathcoat Amory	40,000	40,000
DH Hunter	20,000	20,000

During the year, rights to subscribe for shares in or debentures of the Company or its subsidiary have not been granted to, or exercised by, any director or a member of his immediate family. No shares in AIT were held by any director.

MANAGEMENT

Since its launch the management of the Company's investments has been contracted to Mars Asset Management Limited, which is regulated by the FSA. The principal participant in the management of the Company's investments is James Barstow (managing director).

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 Actuaries' Index. If the Group's NAV underperforms the Index, the amount of that underperformance will be carried forward and no further performance-related fee will be payable until the NAV has both recovered the underperformance carried forward and exceeded the performance on a cumulative basis (and such performance fee would then be calculated only on the amount of the cumulative outperformance). Any performance fee in excess of 0.75% of NAV must be invested by the Manager, net of tax, in the Company's ordinary shares, which must then be held by the Manager for at least five years.

For the purposes of fee calculation, NAV is the value of the Group's shareholders' funds and Total Assets are the Group's shareholders' funds plus borrowings, less the current-year revenue balance. A performance fee of £382,698, excluding VAT *(2004: 417,115)* was earned in respect of the year ended 28 February 2005.

MANAGEMENT ENGAGEMENT

The Remuneration Committee and the Board have reviewed the position of the Manager. The process of evaluation is described in the report on Corporate Governance on pages 23-24. Having taken into account the good performance of the fund over the past five years, the Committee and the Board have concluded that the continuation of the existing management contract is in the interests of shareholders.

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.

BORROWINGS

The Company has power to borrow up to a sum equal to 25% of audited Group NAV, disregarding borrowing within the Group. As described in the Chairman's Report on page 5, the Board has concluded that this maximum level should be increased to 30% and a special resolution to this effect will be put to the Annual General Meeting (item 12 in the Notice of Meeting).

At 28 February 2005 the gross external borrowings of the Company and of the Group were £6,751,001 *(2004: £6,405,735)*, of which Euro borrowings comprised £114,198 *(2004: £191,402)* and US dollar borrowings comprised £2,027,223 *(2004: £2,055,933)*. Cash balances were also held with Lloyds TSB Bank and the total net debt of the Group to Lloyds TSB Bank was £6,682,668 *(2004: £6,395,497)*.

During the year the Company advanced funds to AIT to finance AIT's purchases of investments. At 28 February 2005 these advances had been entirely repaid and AIT owed £Nil *(2004: £44,037)* to the Company.

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 twice monthly and released twice monthly to the London Stock Exchange and monthly to the Association of Investment Trust Companies. The Company subscribes to the website www.trustnet.com, which compares the Company's performance to that of its peer group.

CUSTODY AND BANKING

The Northern Trust Company was custodian to the Group throughout the year. Lloyds TSB Bank plc was the Group's banker throughout the year.

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 28 February 2005; 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:

	Ordinary Shares	*Percentage*
Clients of Brewin Dolphin	2,380,967	15.8
Clients of Jupiter Asset Management	1,035,000	6.8
Clients of Adam & Company	854,219	5.7
Clients of Rathbone Neilson Cobbold	837,745	5.5
Clients of Pershing Keen	722,157	4.8
Clients of JM Finn	716,510	4.7
Clients of Williams de Broe	658,482	4.4
MJ Barstow	620,000	4.1
Clients of Carr Sheppards Crosthwaite	533,995	3.5
Clients of Greig Middleton	531,472	3.5

DIRECTORS' REPORT

CONTINUED

SETTLEMENT OF ORDINARY SHARE TRANSACTIONS

Ordinary shares 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.

AUDITOR

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that RSM Robson Rhodes LLP be re-appointed as auditor of the Company will be put to the Annual General Meeting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company will adopt IFRS for the year ending 28 February 2006. The financial statements are currently prepared in accordance with GAAP. If IRFS had been applied as at 28 February 2005, the main effect would be the valuation of investments on a bid price basis and the inclusion in the financial statements of final dividends paid rather than final dividends proposed.

18 May 2005

By order of the Board

J.C. Cutforth

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. In doing so, the Board is guided first by the AITC Code of Corporate Governance issued by the Association of Investment Trust Companies in July 2003. The resulting procedures enable the Company to comply with all those provisions relevant to the Company in the Principles and Provisions of Good Governance ("the Combined Code") published in revised form by the Financial Reporting Council in July 2003. Those instances where the Company's practice differs from that of the AITC Code or the Combined Code are stated and explained at the foot of this report.

THE BOARD

Board composition

The Board currently consists of a non-executive Chairman, Mr Hammond-Chambers, and three non-executive directors, Mr Barstow, Mr Heathcoat Amory and Mr Hunter. All Board members except Mr Barstow are independent of the investment 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" in the Directors' Report. 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.

Alex Hammond-Chambers, aged 62, worked for Ivory & Sime for 27 years, serving as chairman during 1985-91. He currently sits on a number of investment trust and company boards, including (serving as chairman) American Opportunity Trust, Fidelity Japanese Values, Fidelity Special Values and Ivory & Sime Optimum Income Trust. He is currently chairman of the AITC.

James Barstow FCA, aged 55, 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 63, is Chairman of London & Devonshire Trust, a non-executive director of Jupiter Global Green Investment Trust, was a director of Jupiter International Group PLC until May 2005, and is a director of various financial and industrial companies.

David H. Hunter, aged 68, 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 Smith & Williamson; he is a non-executive director of Foreign & Colonial U.S. Smaller Companies Trust Plc, Bermuda Capital Company Limited and Mid Ocean World Investments Limited and an adviser to the currency fund, Pancurri Inc.

As described below under "Evaluation of Board Performance" the Board conducts a review of its strengths and weaknesses, with the aim of ensuring that there is available a good balance of attributes that are useful to the direction of the Company, in addition to the skills and commitment of the Manager. The Chairman has extremely wide and deep experience of the governance of investment trusts through the other relevant directorships that he has held and his close involvement with the AITC. Mr Heathcoat Amory has a long track record of success in the fields of investment and asset management, while Mr Hunter brings to the Board both a good knowledge of the UK market and a wider perspective regarding international matters and currency movements. The Board confirms that its members are highly experienced, both generally and in respect of the direction of an investment trust, and that the backgrounds and seniority of the independent directors provide the Board with a high overall level of independence.

Policy with regard to tenure and reappointment

The Board considers that the benefits of experience and seniority should outweigh those to be gained from change, provided that the Board keeps its performance under continuing review and remains aware of the danger of becoming outdated or stale. Therefore the Board's policy will not be to follow rigid procedures in the matter of requiring directors to cease to act either at the end of nine years' service or on reaching the age of 70.

Nevertheless, the Board recognises that different shareholders may have different views on issues of tenure and reappointment. Bearing this in mind, the Board has decided that each director will be subject to annual re-election by shareholders, although this is not a requirement of the Articles.

How the Board operates

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 undertakes no executive functions, but is responsible to shareholders for the overall strategy and performance of the Company. It reviews and evaluates all aspects of the Company's performance and all functions performed by the service providers.

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

Attendance at Board meetings

The Board normally holds at least four meetings a year. In most circumstances the Manager and the Administrator are expected to be present.

During the year ended 28 February 2005 there were five meetings of the Board. The attendance was as follows: Mr Hammond-Chambers, five meetings; Mr Barstow, five meetings; Mr Hunter, five meetings; Mr Heathcoat Amory, four meetings.

Evaluation of Board performance

The Board has instituted a procedure for the evaluation of director performance, whereby each director reports to the Chairman upon his ability to meet a given set of criteria. These criteria relate to the director's personal qualities, his competence and experience, both generally and with specific reference to the Company's business, his contribution to boardroom proceedings and his independence, including a review of any potential conflicts of interest. Each director indicates to the Chairman whether there are any areas in which additional training or other assistance would enable him to perform his duties better. The Board then evaluates the Chairman in a similar way.

Directors' Remuneration

A report on directors' remuneration is included on page 27 below.

BOARD COMMITTEES

Since there are only four directors, all of whom are non-executive and since the Chairman is both non-executive and independent, the Board considers, first, that it is unnecessary for Committees to have separate chairmen and secondly that Committee meetings should be attended by all directors except on those occasions when, as described below, it is inappropriate for the representative of the Manager to be involved. The main purpose of the Committees in the context of the Company's structure is that their existence ensures that time is set aside on a formal basis to cover certain important issues of governance, without those issues being obscured by or obscuring the flow of general Board business. The Committees have formal terms of reference, which are available to shareholders upon request from the Company's registered office.

Audit Committee

It is considered appropriate that issues related to the review of the annual accounts and the appointment of the auditor should be considered by those directors who are independent. Therefore the Board has formed an Audit Committee, which is comprised of those directors who are independent of the investment manager, namely Mr Hammond-Chambers, Mr Heathcoat Amory and Mr Hunter.

Mr Hammond-Chambers acts as chairman of the Committee, which is not in accordance with the guidance of the Smith report, but is considered appropriate to the circumstances of the Company.

The Audit Committee also reviews any non-audit services provided by the auditor. Such services have been, and are, limited to the provision of advice on tax compliance. The Committee considers that such advice can be more efficiently and economically provided by the same firm as that conducting the audit, particularly in view of the fact that the audit of an investment trust cannot be completed without a review of its tax status. The Committee is satisfied that the provision of such advice does not in any way prejudice the objectivity and independence of the auditor.

All members of the Committee are active in the investment markets and/or the investment trust sector and the Committee considers that all have recent and relevant financial experience.

During the year ended 28 February 2005 the Audit Committee met twice. All three independent directors attended both meetings.

Remuneration and Management Engagement Committee

The Board has formed a Remuneration and Management Engagement Committee, which considers the level of fees paid to directors and also considers issues related to the engagement of the Manager and other service providers, making recommendations as appropriate to the Board. Since all the executive functions of the Company are delegated to service providers, issues concerning the remuneration of those functions relate to the payment of service providers rather than of directors or employees. The Committee therefore considers whether amounts paid to service providers are appropriate, with particular reference to those contracted to the Company on a continuing basis, including the Manager and the Administrator, and whether those contracts should be maintained.

The criteria which are taken into consideration when reviewing the performance of the Manager are as follows:

- Quality of team – the skills and particularly the experience of the team involved
- Commitment to the investment trust business generally and to the Company in particular
- Investment management skills – experience, track record, use of gearing, knowledge of currency issues and other investment related considerations
- General management skills – understanding of administrative and financial issues and working relationship with the Administrator/Company Secretary
- Shareholder relations – consciousness of and commitment to shareholders' needs and objectives, share price awareness and discount management
- Reasonableness of Management Agreement – fees, notice period and duties

When considering issues related to directors' fees and the remuneration of service providers other than the Manager, the Committee comprises all directors: Mr Hammond-Chambers, Mr Barstow, Mr Heathcoat Amory and Mr Hunter. Mr Barstow stands down from the Committee when the management contract is under discussion.

The work of the Committee during the year ended 28 February 2005 is further described, including the number of meetings and attendance at those meetings, in the Directors' Remuneration Report on page 27.

RELATIONS WITH SHAREHOLDERS AND WITH INVESTEE COMPANIES

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.

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. The Board is opposed to "mindless" voting carried out merely as a box-ticking exercise and prefers that all voting should be carefully considered. The Board delegates voting of a routine nature to the Manager, but retains ultimate control and the Manager consults the Board with regard to any voting on controversial issues.

INTERNAL CONTROLS

Review of internal controls

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.

Assessment by the Board of service providers

The investment manager and the administrator are normally invited to attend each full meeting of the Board and have in practice done so. Between these meetings there is further, 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. 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 investment 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 and this process of assessment has continued up to the date of this report.

Internal Financial Controls

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, including at least one independent director, after they have studied the financial data upon which those fees are based.

The directors' statement of responsibilities in respect of the accounts is on page 26 and a statement of going concern is on page 20. The report of the auditors is on page 29.

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

The Board considers that the Company has complied with the provisions of the Combined Code throughout the year to 28 February 2005, except as follows:

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.

The structure of the Board is such that it is considered unnecessary to identify a senior non-executive director other than the Chairman.

The size and structure of the Board, with four non-executive members of whom three are entirely independent, makes it essential that a decision concerning the recruitment of a director should be decided by the whole Board; it also makes discussion of such a matter by the complete Board entirely practicable. Therefore a Nominations Committee to make recommendations on the appointment of new directors has not been established. However, the process of identifying and interviewing candidates for nomination would be led by the independent directors, who would at all times be the driving force behind the recruitment process. In the circumstances of the appointment of a new Chairman, the existing Chairman would not participate in the decision.

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. The Company's Articles were amended at the AGM in 2001 to ensure that directors are be subject to re-election at a maximum interval of three years, thus complying with Code provision A7. Also, the Listing Rules of the UK Listing Authority now require a director representing the Manager, in the Company's case Mr Barstow, to stand for re-election at the AGM each year. Further, the Board has decided on a voluntary basis that all directors should in practice stand for re-election each year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE ANNUAL REPORT

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- follow applicable United Kingdom accounting standards; and
- prepare the financial statements on the going concern basis.

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 financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom.

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.

Information not subject to audit

REMUNERATION COMMITTEE

The Company has three independent non-executive directors and a fourth director, Mr Barstow, who is employed by the Manager. The Remuneration Committee comprises the whole Board when considering directors' fees and the remuneration of contracted service suppliers other than the Manager. Mr Barstow stands down when issues related to the Manager's fees are discussed.

During the year ended 28 February 2005, the Committee met once. All four directors were 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, work involved, responsibilities and potential liabilities 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.

The Committee reviewed the level of directors' fees during the year ended 28 February 2005. It recommended that the fees of the Chairman should be increased to £19,500 per year, those of Mr Heathcoat Amory and Mr Hunter each to £13,000 per year and those of Mr Barstow to £11,000 per year. These fees include remuneration for the directors' services as members of Committees. The recommendations were implemented with effect from 1 September 2004.

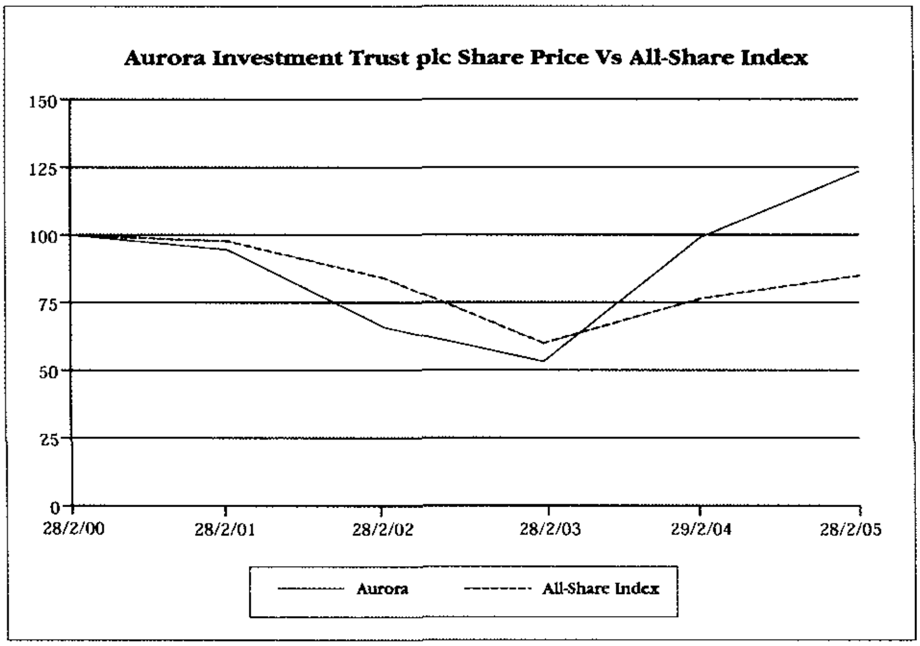
No services have been provided by, or fees paid to, advisers in respect of remuneration policy during the year ended 29 February 2005.

DIRECTORS' SERVICE CONTRACTS

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

PERFORMANCE

The performance of the Company's shares, with dividends reinvested, is compared to that of the FTSE All-Share Index, which is the Company's Benchmark.



Information subject to audit

DIRECTORS' EMOLUMENTS FOR THE YEAR

The following emoluments in the form of fees were payable to the directors who served during the year:

	2005 £	*2004* *£*
Alex Hammond-Chambers	15,750	*12,000*
James Barstow	10,000	*9,000*
Michael Heathcoat Amory	11,000	*9,000*
David Hunter	11.000	*9,000*

The fees of Mr Hammond-Chambers were paid to Alex Hammond-Chambers & Company.

18 May 2005

By order of the Board

Cavendish Administration Limited
Company Secretary

REPORT OF THE AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AURORA INVESTMENT TRUST PLC

We have audited the financial statements on pages 31 to 43. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and that 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 regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of The Combined Code on Corporate Governance issued by the Financial Reporting Council in 2003 specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of

REPORT OF THE AUDITORS

CONTINUED

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 and the Group as at 28 February 2005 and of the Group's net revenue, total return and cash flow for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes LLP

18 May 2005

RSM Robson Rhodes LLP

Chartered Accountants and
Registered Auditors
London, England

CONSOLIDATED STATEMENT OF TOTAL RETURN

FOR THE YEAR ENDED 28 FEBRUARY 2005

Notes		Year ended 28 February 2005			*Year ended 29 February 2004*		
		Revenue £'000	Capital £'000	Total £'000	*Revenue £'000*	*Capital £'000*	*Total £'000*
	Gains on investments	–	7,114	7,114	–	*10,283*	*10,283*
	Exchange differences on overdraft	–	69	69	–	*3*	*3*
	Realised gains of trading subsidiary	195	–	195	*172*	–	*172*
2	Income	857	–	857	*953*	–	*953*
3	Investment management fees	(156)	(605)	(761)	*(130)*	*(620)*	*(750)*
3	Other expenses	(195)	–	(195)	*(174)*	–	*(174)*
	Return before finance costs and taxation	**701**	**6,578**	**7,279**	***821***	***9,666***	***10,487***
5	Interest payable and similar charges	(139)	(139)	(278)	*(89)*	*(89)*	*(178)*
	Return before taxation	**562**	**6,439**	**7,001**	***732***	***9,577***	***10,309***
6	Taxation	–	–	–	*9*	–	*9*
	Return on ordinary activities after taxation	**562**	**6,439**	**7,001**	***741***	***9,577***	***10,318***
7	Ordinary dividend payable	(438)	–	(438)	*(431)*	–	*(431)*
	Transfer to reserves	124	6,439	6,563	*310*	*9,577*	*9,887*
8	Return per ordinary share	3.72p	42.62p	46.34p	*4.91p*	*63.39p*	*68.30p*

The revenue column of this statement is the consolidated profit and loss account of the Group, comprising Aurora Investment Trust plc and AIT Trading Limited.

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

No operations were acquired or discontinued during the period.

The notes on pages 35 to 43 form part of these accounts

CONSOLIDATED BALANCE SHEET

AT 28 FEBRUARY 2005

Notes		2005 £'000	*2004 £'000*
	FIXED ASSETS		
9	Investments at market value	41,836	*34,851*
	CURRENT ASSETS		
	Sales for future settlement	414	*–*
	Other debtors	75	*66*
	Taxation recoverable	18	*1*
	Total debtors	507	*67*
	Cash at bank and in hand	745	*839*
		1,252	*906*
	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
	Purchases for future settlement	734	*275*
	Bank overdraft	6,751	*6,406*
	Other creditors	555	*598*
	Dividends payable	438	*431*
		8,478	*7,710*
	NET CURRENT LIABILITIES	(7,226)	*(6,804)*
	TOTAL ASSETS LESS CURRENT LIABILITIES	34,610	*28,047*
	CAPITAL AND RESERVES		
11	Called up share capital	3,777	*3,777*
12	Share premium account	10,997	*10,997*
13	Realised capital reserve	8,099	*6,977*
13	Unrealised capital reserve	10,949	*5,632*
14	Revenue reserve	788	*664*
15	EQUITY SHAREHOLDERS' FUNDS	34,610	*28,047*
16	Net assets per ordinary share	229.09p	*185.65p*

Approved by the Board of Directors on 18 May 2005 and signed on their behalf by:

A Hammond Chambers

MJ Barstow

The notes on pages 35 to 43 form part of these accounts

COMPANY BALANCE SHEET

AT 28 FEBRUARY 2005

Notes		2005 £'000	*2004 £'000*
	FIXED ASSETS		
9	Investments at market value	41,836	*34,851*
10	Investments in subsidiary	–	*3*
			34,854
	CURRENT ASSETS		
	Sales for future settlement	414	*–*
	Other debtors	75	*66*
	Taxation recoverable	18	*–*
	Total debtors	507	*66*
	Cash at bank and in hand	592	*837*
		1,099	*903*
	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
	Purchases for future settlement	734	*275*
	Bank overdraft	6,751	*6,406*
	Other creditors	556	*598*
	Dividends payable	438	*431*
		8,479	*7,710*
	NET CURRENT LIABILITIES	(7,380)	*(6,807)*
	TOTAL NET ASSETS	34,456	*28,047*
	CAPITAL AND RESERVES		
11	Called up share capital	3,777	*3,777*
12	Share premium account	10,997	*10,997*
13	Realised capital reserves	8,099	*6,977*
13	Unrealised capital reserve	10,949	*5,591*
14	Revenue reserve	634	*705*
	EQUITY SHAREHOLDERS' FUNDS	34,456	*28,047*

Approved by the Board of Directors on 18 May 2005 and signed on their behalf by:

A Hammond Chambers

MJ Barstow

The notes on pages 35 to 43 form part of these accounts

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2005

Notes		2005 £'000	*2004 £'000*
17	NET CASH FLOW FROM OPERATING ACTIVITIES	47	*766*
	SERVICING OF FINANCE		
	Interest paid	(298)	*(268)*
	TAXATION		
	Tax (paid)/recovered	–	*43*
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
	Payments to acquire fixed asset investments	(7,747)	*(11,392)*
	Receipts on disposal of fixed asset investments	7,921	*9,071*
	NET CASH INFLOW FROM INVESTING ACTIVITIES	174	*(2,321)*
	EQUITY DIVIDENDS PAID	(431)	*(468)*
	NET CASH INFLOW BEFORE FINANCING	(508)	*(2,248)*
18	(DECREASE)/INCREASE IN CASH	(508)	*(2,248)*

The notes on pages 35 to 43 form part of these accounts

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting standards applicable to United Kingdom GAAP and with the Statement of Recommended Practice for the Financial Statements of Investment Trust Companies ("SORP") issued in January 2003. 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 whose prices are 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 less any provision needed for temporary diminution in value.

(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. 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 and Finance Costs*

Finance costs and monthly management fees 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 these costs are charged to the realised capital reserve. Performance-related fees are charged wholly to the realised capital reserve. Tax relief in respect of costs allocated to capital is credited to capital on the marginal basis using the Company's effective rate of tax.

(g) *Taxation*

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed, by the balance sheet date, unless such provision is not permitted by Financial Reporting Standard 19.

(h) *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

	2005 £'000	*2004 £'000*
Income from investments:		
Franked dividends from listed investments	666	*659*
Franked preference share income	56	*54*
Unfranked income from overseas dividends	86	*84*
Income from listed fixed interest securities	40	*143*
	848	*940*
Other income:		
Interest receivable	9	*13*
	9	*13*
	857	*953*

3. INVESTMENT MANAGEMENT FEES AND OTHER EXPENSES

	2005			*2004*		
	Revenue £'000	Capital £'000	Total £'000	*Revenue £'000*	*Capital £'000*	*Total £'000*
Investment management fees						
- monthly	156	155	311	*130*	*130*	*260*
- performance	–	450	450	–	*490*	*490*
	156	605	761	*130*	*620*	*750*
Administration fees	52	–	52	*43*	–	*43*
Custodian's fees	12	–	12	*12*	–	*12*
Registrar's fees	6	–	6	*6*	–	*6*
Directors' fees	50	–	50	*45*	–	*45*
Auditors' fees						
- audit	17	–	17	*10*	–	*10*
- interim audit (non-statutory)	–	–	–	*9*	–	*9*
- tax advice	8	–	8	*7*	–	*7*
Miscellaneous expenses	50	–	50	*42*	–	*42*
Total other expenses	195	–	195	*174*	–	*174*

4. DIRECTORS' FEES

The fees paid or accrued were £47,750 *(2004: £39,000)*. There were no other emoluments. The figures shown for directors' fees in note 3 above include employers' National Insurance charges or VAT, as appropriate. Full details of the fees of each director are given in the Directors' Remuneration Report on page 28.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2005			*2004*		
	Revenue £'000	Capital £'000	Total £'000	*Revenue £'000*	*Capital £'000*	*Total £'000*
Interest payable	138	138	276	*88*	*88*	*176*
Facility and arrangement fees other charges	1	1	2	*1*	*1*	*2*
	139	139	278	*89*	*89*	*178*

6. TAXATION

	2005			*2004*		
	Revenue £'000	Capital £'000	Total £'000	*Revenue £'000*	*Capital £'000*	*Total £'000*
Corporation tax	–	–	–	*–*	*–*	*–*
Overseas tax recovered	–	–	–	*9*	*–*	*9*
Tax credit in respect of the current year	–	–	–	*9*	*–*	*9*

Current taxation

The current taxation charge for the year is different from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £'000	*2004 £'000*
Revenue on ordinary activities before taxation	569	*731*
Theortical tax at UK corporation tax rate of 30%	171	*219*
Effects of:		
UK dividends which are not taxable	(217)	*(212)*
Increase in excess tax losses	269	*59*
Overseas tax recovered	–	*9*
Expenses charged to capital account for which a deduction is claimed	(223)	*(66)*
Actual current tax	–	*9*

The Company is an investment trust and therefore is not charged to tax on capital gains.

Factors that may affect future tax charges

The Company has tax losses of £3,336,144 *(2004: £1,897,126)* in respect of management expenses and of £678,860 *(2004: £534,698)* in respect of loan interest. Its subsidiary has trading losses carried forward of £17,060 *(2004: £212,566)*. These amounts are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of those expenses and will be recoverable only to the extent that the Company has sufficient future taxable revenue.

	2005 £'000	*2004 £'000*
Tax recoverable comprised:		
Tax on unfranked income	18	*–*
	18	*–*

NOTES TO THE ACCOUNTS

CONTINUED

7. ORDINARY DIVIDENDS

The directors recommend an ordinary dividend of 2.9p per ordinary share *(2004: 2.85p per share).*

8. RETURNS PER ORDINARY SHARE

Basic revenue return per share is based on the net profit on ordinary activities after taxation of £562,662 *(2004: £741,125)*, attributable to 15,107,250 *(2004: 15,107,250)* ordinary shares of 25p.

Basic capital return per share is based on the net capital gains for the financial year of £6,439,334 *(2004: £9,577,918)*, attributable to 15,107,250 *(2004: 15,107,250)* ordinary shares of 25p.

9. INVESTMENTS AT MARKET VALUE

	2005 £'000	*2004 £'000*
UK listed or quoted securities	41,836	*34,851*
Total fixed asset investments	41,836	*34,851*
Movements during the year:		
Opening balance of investments, at cost	29,078	*23,901*
Additions, at cost	8,205	*11,576*
Disposals		
– proceeds received or receivable	(8,335)	*(8,771)*
– less realised profits	1,867	*2,372*
– at cost	(6,468)	*(6,399)*
Cost of investments at 28 February	30,815	*29,078*
Revaluation of investments to market value:		
Opening balance of portfolio revaluation account	5,773	*(2,138)*
Transfer to realised capital reserve – realised gains recognised as unrealised in the previous year	(1,280)	*(554)*
Increase/(decrease) in unrealised appreciation credited/debited to capital reserve	6,528	*8,465*
Balance at 28 February	11,021	*5,773*
Market value of investments at 28 February	41,836	*34,851*

10. SUBSIDIARY

The Company has an investment in AIT Trading Limited, a wholly owned subsidiary registered 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 £195,630 *(2004: £180,190)*. The net assets of AIT at the Balance Sheet date were £154,401 *(2004: net deficit £41,229)*. No dividend was paid from AIT to the Company *(2004: £nil)*.

During the year the Company advanced interest-free short-term loans to AIT to finance its trading operations. At 28 February 2005 the amount outstanding was £Nil *(2004: £44,037)*.

	2004 £'000	Movement £'000	2005 £'000
Loan to AIT	*44*	(44)	–
Provision for net deficit	*(41)*	41	–
Net investment	*3*	(3)	–

11. SHARE CAPITAL

At 28 February:

		2005	*2004*
Authorised			
Ordinary shares of 25p	Number	40,000,000	*40,000,000*
	£'000	10,000	*10,000*
Allotted, issued and fully paid			
Ordinary shares of 25p	Number	15,107,250	*15,107,250*
	£'000	3,777	*3,777*

12. SHARE PREMIUM ACCOUNT

	2005 £'000	*2004 £'000*
Opening balance	10,997	*10,997*
Balance at 28 February	10,997	*10,997*

13. CAPITAL RESERVES

	2005 £'000	*2004 £'000*
Realised		
Opening balance as previously reported	6,977	*5,314*
Realised gains recognised in current year	587	*1,818*
Realised gains previously recognised as unrealised	1,280	*554*
Net gains and losses on realisation of investments	1,867	*2,372*
Expenses of capital management:		
– management fees	(156)	*(130)*
– performance fees	(450)	*(490)*
– finance costs	(139)	*(89)*
Net expenses	(745)	*(709)*
Total transfer to realised capital reserve	1,122	*1,663*
Balance of realised capital reserve at 28 February	8,099	*6,977*
Unrealised		
Opening balance	5,632	*(2,282)*
Transfer to realised capital reserve	(1,280)	*(554)*
Revaluation of investments – listed	6,528	*8,465*
Revaluation of foreign currency overdraft balances	69	*3*
Balance of unrealised capital reserve at 28 February	10,949	*5,632*
Total capital reserve at 28 February	19,048	*12,609*

The capital reserves of the Company at 28 February 2005 were identical to those of the Group. At 29 February 2004 a provision had been made of £41,229 against the Company's unrealised capital reserve for the amount loaned to AIT Trading Limited that was not covered by the subsidiary's net assets at that time. This provision was no longer required at 28 February 2005 and was reversed.

14. REVENUE RESERVE

	2005 Company £'000	2005 Group £'000	*2004 Company £'000*	*2004 Group £'000*
Opening balance	705	664	*575*	*354*
Profit for year	367	562	*561*	*741*
Dividend payable	(438)	(438)	*(431)*	*(431)*
Balance at 28 February	634	788	*705*	*664*

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 Company £'000	2005 Group £'000	*2004 Company £'000*	*2004 Group £'000*
Distributable Profits				
Revenue available for distribution	367	562	*561*	*741*
Dividends	(438)	(438)	*(431)*	*(431)*
Transfer to distributable reserves	(71)	124	*130*	*310*
Non-distributable Profits				
Recognised capital gains and losses transferred to non-distributable reserves	6,439	6,439	*9,757*	*9,577*
Reversal of provision against deficit in AIT Trading Limited	41	–	–	–
Net increase in shareholders funds	6,409	6,563	*9,887*	*9,887*
Opening balance of shareholders funds	28,047	28,047	*18,160*	*18,160*
Net increase in shareholders' funds	6,409	6,563	*9,887*	*9,887*
Shareholders' funds at 28 February	34,456	34,610	*28,047*	*28,047*

16. NET ASSETS PER ORDINARY SHARE

The figure for net assets per ordinary share is based on £34,610,556 *(2004: £28,045,613)* divided by 15,107,250 *(2004: 15,107,250)* Ordinary Shares in issue.

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

	2005 £'000	*2004 £'000*
Operating Profit	701	*821*
Less: tax deducted at source on income from investments	(18)	–
Less: management fees charged to capital	(605)	*(130)*
	78	*691*
Decrease/(increase) in debtors	(9)	*18*
(Decrease)/increase in creditors	(22)	*57*
Net cash inflow from operating activities	47	*766*

18. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2005 £'000	*2004 £'000*
Increase/(decrease) in cash in the period	(508)	*(2,248)*
Translation difference	70	*3*
Movement in net debt in the period	(438)	*(2,245)*
Net debt at 1 March 2004	(5,567)	*(3,322)*
Net debt at 28 February 2005	(6,005)	*(5,567)*

19. ANALYSIS OF NET DEBT

	At 29 February 2004 £'000	Cash Flow £'000	Exchange movement £'000	At 28 February 2005 £'000
Cash at bank and in hand	*839*	(94)	–	745
Overdrafts	*(6,406)*	(414)	70	(6,750)
Total	*(5,567)*	(508)	70	(6,005)

20. RELATED PARTY TRANSACTIONS

Details of transactions with AIT Trading Limited are set out in note 10.

Details of the management, administration and secretarial contracts can be found in the Directors' Report on page 18. Fees payable to the investment manager are detailed in note 3 on page 36. Other creditors include accruals of a monthly management fee of £30,349 *(2004: £25,170)* an administration fee of £5,058 *(2004: £4,195)* and a performance fee of £449,670 *(2004: £490,251)*, all figures including VAT.

21. RISK PROFILE AND FINANCIAL ASSETS/LIABILITIES

The investment objective of the Company is 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 and traded on the London Stock Exchange, and by spreading its investments across a range of such securities. No use was made of derivatives during the year ended 28 February 2005.

Liquidity

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

Financial assets and liabilities

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

The Company undertakes borrowing for investment purposes and has an overdraft facility of up to £7 million (or the equivalent in euros and/or US dollars) 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. At the end of the year the bank overdraft was split between £ sterling – £4,609,580 *(2004: £4,158,400)* Euros – equivalent value £114,198 *(2004: £191,402)* and US dollars – equivalent value £2,027,223 *(2004: £2,055,933)*.

NOTES TO THE ACCOUNTS

CONTINUED

The Company's financial assets comprised:

	2005			*2004*		
	Interest bearing £'000	Non-interest bearing £'000	Total £'000	*Interest bearing £'000*	*Non-interest bearing £'000*	*Total £'000*
Equity investments:						
– £ sterling	–	36,363	36,363	–	*28,158*	*28,158*
– Euros	–	5,005	5,005	–	*4,909*	*4,909*
	–	41,368	41,368	–	*33,067*	*33,067*
Fixed interest	468	–	468	*1,784*	–	*1,784*
Total investments	468	41,368	41,836	*1,784*	*33,067*	*34,851*
Cash at bank						
Floating rate – £ sterling	745	–	745	*839*	–	*839*
	1,213	41,368	42,581	*2,623*	*33,067*	*35,690*

The weighted average interest rate of the fixed rate financial assets is 9.28% *(2004: 9.93%)* and the weighted average period for which rates are fixed is indefinite *(2003: indefinite)*. The list of the Company's holdings on pages 14-15 includes details of the split between equities and fixed interest securities. All assets and liabilities are included at fair value.

Cash at bank includes £676,434 *(2004: £826,805)* held by the Company's custodian, The Northern Trust Company. All cash at bank is sterling earning interest at the bank's or custodian's variable interest rates.

Currency risks

All the securities listed on pages 14-15 are quoted on the London market, but where the underlying currency or currency of quotation is not sterling this is noted. The Company held no cash or financial instruments in any foreign currency. At 28 February 2005, the Company owed €165,701 *(2004: €285,878)* and US$3,898,756 *(2004: US$3,815,400)* which are stated in the accounts in sterling at the exchange rate as at the Balance Sheet date. An unrealised capital exchange gain of £69,655 *(2004: gain £2,977)* was made on the foreign currency bank overdrafts

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 29 June 2005, at 12.00 noon, for the following purposes:

Ordinary Business:

1. To receive and adopt the financial statements for the year ended 28 February 2005, with the reports of the directors and auditors thereon.
2. To re-elect Mr Heathcoat Amory as a director of the Company, who retires by rotation.
3. To re-elect Mr Barstow as a director of the Company.
4. To re-elect Mr Hammond-Chambers as a director of the Company.
5. To re-elect Mr Hunter as a director of the Company.
6. To re-appoint RSM Robson Rhodes LLP as registered auditor to the Company and to authorise the directors to fix their remuneration.
7. To approve an ordinary dividend of 2.9p per ordinary share in respect of the year ended 28 February 2005.
8. To approve the Directors' Remuneration Report

Special Business:

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

9. THAT 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 (14.99%);
   (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% of the average of the middle market quotations for an Ordinary Share taken from the Daily Official List of the UK Listing Authority 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 2006 or, if earlier, on the expiry of 12 months from the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time;
   (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, and
   (f) any Ordinary Shares so purchased shall be cancelled, or, if the directors so determine and subject to the provisions of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 and any applicable regulations of the United Kingdom Listing Authority, held as Treasury Shares, subject to a maximum number of 1,509,214 Treasury Shares (9.99%).

NOTICE OF MEETING

10. 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 (being 5% of the aggregate nominal value of the issued share capital as at the date of this document) PROVIDED THAT this authority shall expire (unless previously varied, revoked or renewed 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 an offer or agreement as if the authority conferred hereby had not expired.

11. THAT, subject to the passing of resolution 10 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 10, 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.

12. THAT the articles of association of the Company be amended as follows:

    In article 97(b) by replacing "25 per cent" by "30 per cent".

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

By order of the Board
CAVENDISH ADMINISTRATION LIMITED
Company Secretary
18 May 2005

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 12 July 2005 to shareholders on the register at 27 May 2005.

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 29 June 2005 at 12.00 noon 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 ending 28 February 2005		
2. To re-elect Mr Heathcoat Amory as a director		
3. To re-elect Mr Barstow as a director		
4. To re-elect Mr Hammond-Chambers as a director		
5. To re-elect Mr Hunter as a director		
6. To reappoint RSM Robson Rhodes as auditors to the Company and to authorise the directors to fix their remuneration		
7. To declare an ordinary dividend of 2.9p per ordinary share in respect of the year ended 28 February 2002		
8. To approve the Directors' Remuneration Report		
9. To authorise the Company to purchase its own shares		
10. To authorise the directors to allot securities		
11. To authorise the directors to allot such securities referred to in resolution 10 free from pre-emption rights		
12. To amend the articles of association to increase the borrowing powers of the Company		

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 ____________________ 2005 ________

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, Capita Registrars, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid.
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 notarially 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.

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CAPITA REGISTRARS
PROXY DEPARTMENT
P.O. BOX 25
BECKENHAM
KENT
BR3 4BR

SECOND FOLD