

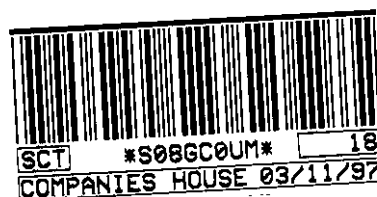
IVORY & SIME OPTIMUM INCOME TRUST PLC
(formerly IVORY & SIME OPTIMUM INCOME TRUST II PLC)

(Registered Number 172158)

INITIAL ACCOUNTS

FOR THE PERIOD

TO 30 SEPTEMBER 1997



Ivory & Sime Optimum Income Trust plc

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Ivory & Sime Optimum Income Trust plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare initial accounts in order that the Company is legally entitled to pay a distribution to shareholders. In preparing those accounts, which must be properly prepared within the meaning of Section 273 of the Companies Act 1985, the Directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INCORPORATION AND ISSUE OF SHARES

The Company was incorporated on 3 February 1997 as Ivory & Sime Optimum Income Trust II plc, and changed its name to Ivory & Sime Optimum Income Trust plc on 26 March 1997. It commenced trading on 26 March 1997 and its Ordinary Shares and Zero Dividend Preference Shares were admitted to the Official List of the London Stock Exchange on 1 April 1997.

Pursuant to the reconstruction of First Optimum plc (then named Ivory & Sime Optimum Income Trust plc) on 26 March 1997 and a Placing and Intermediaries Offer and Offer of Subscription on the same day, the Company issued 35,223,639 Ordinary Shares and 35,223,639 Zero Dividend Preference Shares.

Ivory & Sime Optimum Income Trust Plc
Statement of total return (incorporating the revenue account*)
for the period ended 30 September 1997

1997

	Notes	Revenue £'000	Capital £'000	Total £'000
Realised gains and losses on sales	9	-	(774)	(774)
Unrealised (losses)/gains	9	-	14,040	14,040
Total capital gains on investments		0	13,266	13,266
Income	2	2,403	-	2,403
Investment management fee	3	(146)	(270)	(416)
Other expenses	4	(109)	-	(109)
Net return before finance costs and taxation		2,148	12,996	15,144
Interest payable		0	0	0
Return on ordinary activities before tax		2,148	12,996	15,144
Tax on ordinary activities	6	(417)	73	(344)
Return on ordinary activities after tax		1,731	13,069	14,800
Appropriations in respect of non- equity shares	12, 13	-	(1,918)	(1,918)
Return attributable to equity shareholders		1,731	11,151	12,882
Dividends in respect of equity shares	7	(634)	-	(634)
Transfer to reserves	13	1,097	11,151	12,248
Return per ordinary 10p share:				
Basic	8	4.92p	31.66p	36.58p

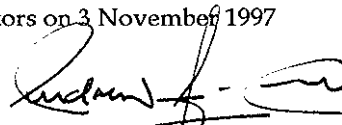
* The revenue column of this statement is the profit and loss account of the company
The accompanying notes are an integral part of this statement.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.

Ivory & Sime Optimum Income Trust Plc
Balance sheet as at 30 September 1997

	Notes	1997 £'000
Fixed assets		
Investments	9	89,272
Current assets		
Debtors	10	817
Cash at bank and on deposit		4,237
		<u>5,054</u>
Creditors: amounts falling due within one year	11	<u>(807)</u>
Net current assets		<u>4,247</u>
Total assets less current liabilities		<u>93,519</u>
Capital and reserves		
Called-up share capital		
Ordinary shares	12	3,522
Preference shares		35,224
		<u>38,746</u>
Share premium account	13	31,185
Other reserves -		
Redemption Reserve	13	11,340
Capital reserve - realised	13	(2,889)
Capital reserve - unrealised	13	14,040
Revenue reserve	13	<u>1,097</u>
	15	<u>93,519</u>
Equity shareholders' funds	14	46,955
Non-equity shareholders' funds		<u>46,564</u>
Net asset value per Ordinary Share:	14	133.31
Net asset value per Zero Dividend Preference Share:	14	132.19

The financial statements on pages 2 to 14 were approved by the board of directors on 3 November 1997 and were signed on its behalf by:


R A HAMMOND-CHAMBERS (Director)


A R IRVINE (Director)

The accompanying notes are an integral part of this balance sheet.

Ivory & Sime Optimum Income Trust Plc
Cash flow statement for the period ended 30 September 1997

	Notes	1997 £'000
Operating activities		
Investment income received		1,088
Deposit interest received		282
Other income		749
Investment management fees paid		(348)
Other cash payments		<u>(81)</u>
Net cash inflow from operating activities	17	<u>1,690</u>
Returns on investments and servicing of finance		
Expense of issue of Zero Dividend Preference Shares		(746)
Taxation		
Tax recovered		60
Capital expenditure and financial investment		
Purchase of investments		(36,985)
Disposals of investments		<u>302</u>
Net cash outflow from investing activities		<u>(36,683)</u>
Net cash outflow before financing		<u>(35,679)</u>
Financing		
Issue of ordinary shares		10,063
Issue of zero dividend preference shares		<u>29,853</u>
Net cash inflow from financing		<u>39,916</u>
Increase in cash in the period	16	<u>4,237</u>
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period		4,237
Net debt at 3 February		<u>-</u>
Net funds at 30 September 1997		<u>4,237</u>

NOTES TO THE ACCOUNTS

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period.

a) Basis of accounting

The accounts are prepared under the historic cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial statements of investment trust companies'. The Cash Flow Statement has been prepared in accordance with FRS 1 (revised 1996).

b) Valuation of investments

Listed investments are valued at middle market prices. Unlisted investments are valued by the Directors on the basis of all the information available to them at the time of valuation.

c) Income

Dividends are recognised as income on the date that the related investments are marked ex dividend.

Income from fixed interest securities, other investment income and deposit interest are included on an accruals basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend is recognised as income.

d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except where incurred in connection with the maintenance or enhancement of the value of the Company's assets and taking account of the expected long term returns as follows:

---Management fees payable have been allocated 35 per cent to revenue and 65 per cent to capital.

e) Taxation

Advance corporation tax payable on dividends paid or provided for is written off, except when recoverability is considered to be reasonably certain and foreseeable. Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability will crystallise.

f) Capital reserves

Capital Reserve - Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

Capital Reserve - Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year-end

g) Redemption reserve

The Redemption Reserve has been set up to provide for the repayment entitlements attached to the Zero Dividend Preference Shares which accrue on a monthly basis to the date of the Company's winding up on 26 March 2004. These shares are entitled to repayment of 126.75p initially on winding-up, increasing on a monthly basis by 8.78 per cent per annum compounded annually. Transfers are made to the Redemption Reserve from the Capital Reserve Realised.

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

	1997 £'000
2. Income	
Income from investments	
Listed on the London Stock Exchange	2,120
Listed on other exchanges	0
Unlisted	0
	<u>2,120</u>
Other income	
Deposit interest	282
Other income	1
	<u>283</u>
Total income	<u><u>2,403</u></u>
Total income comprises:	
Dividends	2,034
Interest from investments	86
Other income	283
	<u><u>2,403</u></u>
Income from investments:	
Equity securities	2,034
Securities with an equity element	-
Fixed interest securities	86
	<u><u>2,120</u></u>

3. Investment management fee

	1997		
	Revenue £'000	Capital £'000	Total £'000
Investment management fee	146	270	416
	<u>146</u>	<u>270</u>	<u>416</u>

The Company's investment manager is Ivory & Sime plc. The contract between the Company and Ivory & Sime plc is for an initial period of three years and may be terminated by either party giving one year's notice of termination expiring on or after 1 April 2000. Ivory & Sime plc receives a quarterly fee, payable in arrears, equal to 0.2 per cent of Total Net Assets. 35% of this fee is charged to revenue. In addition, Ivory & Sime will be entitled to receive an annual fee of £40,000, payable quarterly in arrears, in respect of the provision of administrative and secretarial services to the Company.

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

1997
£'000

4. Other expenses

Directors' fees (Note 5)	32
Auditors' remuneration for:	
- audit	7
- other services to the company	2
Other	68
	<u>109</u>

5. Directors' fees

The remuneration of the Chairman, the highest paid Director, was £8,738, and that of each of the other four Directors was £5,825.

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

1997

	Revenue £'000	Capital £'000	Total £'000
6. Tax on ordinary activities			
UK corporation tax at 31% (1996:33%)	39	(39)	0
Tax on franked investment income	378	-	378
Overseas taxation	-	-	0
Section 242 claim	-	(34)	(34)
	<u>417</u>	<u>(73)</u>	<u>344</u>

1997

	Revenue £'000	Capital £'000	Total £'000
7. Dividends			
Dividends on equity shares:			
- ordinary - interim 1.80p	634	-	634
	<u>634</u>	<u>-</u>	<u>634</u>

The first quarter dividend is payable 4 November 1997 to Ordinary Shareholders on the register at the close of business 3 October 1997.

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

1997

Revenue	Capital	Total
£'000	£'000	£'000

8. Return per ordinary share

Basic	<u>4.92p</u>	<u>31.66p</u>	<u>36.58p</u>
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Basic revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £1731,000, and on 35,223,639 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Basic capital return per ordinary share is based on net capital gains for the financial year of £11,151,000 and on 35,223,639 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

	1997 £'000		
9. Investments			
Investments listed on a recognised investment exchange	89,209		
Total listed/quoted investments	89,209		
Unlisted investments	63		
	<u>89,272</u>		
	Listed/ Quoted £'000	Unquoted £'000	Total Investments £'000
Opening book cost	0	0	0
Opening unrealised appreciation	0	0	0
Opening valuation	0	0	0
Movements in the year:			
Transfer re rollover	39,857	66	39,923
Purchases at cost	36,355	29	36,384
Sales - proceeds	(1,025)	0	(1,025)
- realised gains on sales	(50)	0	(50)
Movement in unrealised appreciation/(depreciation)	14,072	(32)	14,040
Closing valuation	89,209	63	89,272
Closing book cost	75,137	95	75,232
Closing unrealised appreciation/(depreciation)	14,072	(32)	14,040
	<u>89,209</u>	<u>63</u>	<u>89,272</u>
	1997 £'000		
Realised losses on sales	(50)		
Loss suffered on options re rollover	(610)		
Loss on realisation of gilts	(114)		
Increase in unrealised appreciation	14,040		
Gains on investments	<u>13,266</u>		

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

1997
£'000

10. Debtors

Tax recoverable	52
Prepayments and accrued income	648
Other debtors	117
	<u>817</u>

1997
£'000

11. Creditors: amounts falling due within one year

Dividend	634
Other creditors	<u>173</u>
	<u>807</u>

No provision has been made for Advance Corporation Tax on the proposed dividend as sufficient UK dividend income will be available to relieve the liability.

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

1997
£'000

12. Called-up share capital

Authorised: as at 30 September 1997

60,000,000 Ordinary Shares of 10p each	6,000
60,000,000 Zero Dividend Preference Shares of 100p each	<u>60,000</u>

Called-up and fully-paid: as at 30 September 1997

35,223,639 Ordinary Shares of 10p each *	3,522
35,223,639 Zero Dividend Preference Shares of 100p each	<u>35,224</u>
	<u>38,746</u>

* 27,494,766 shares have been allotted with a further 7,728,873 shares remaining to be allotted to PEP holders.

Rights Attaching to the Ordinary Shares and Zero Dividend Preference Shares

Income

The Ordinary shares carry the right to receive the revenue profits of the Company (including accumulated revenue reserves) available for distribution and resolved to be distributed by way of interim or final dividend at such times as the Directors may determine.

The Zero Dividend Preference Shares carry no rights to receive dividends out of the revenue or any other profits of the Company.

Capital

On a winding-up or other return of assets of the Company, the assets of the Company available for distribution to Shareholders after payment of all debts and satisfaction of all liabilities of the Company (including the costs of winding-up, if appropriate) will be applied as follows (and, in each case, distributed among the holders of Shares of each class rateably according to the amounts paid or credited as paid up on such shares held by them):-

- (i) first, there shall be paid to the holders of the Zero Dividend Preference Shares an amount equal to 126.75p per Zero Dividend Preference Share as increased on the 26th day of each month at a rate of 8.775517 per cent per annum (compounding annually on 26 March in each year from 1998 to 2004), the first such increase occurring on 26 April 1997 (in respect of the period from 26 March 1997) and the last on 26 March 2004; and
- (ii) secondly, there shall be paid to the holders of Ordinary Shares all further surplus assets of the Company available for distribution.

13. Reserves

At 3 February 1997

	Redemption reserve £'000	Share premium account £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue reserve £'000
Net gain on realisation of investments			(660)		
Increase in unrealised appreciation				14,040	
Arising from issue of shares	9,422	32,549			
Cost of issue		(1,364)			
Management fees charged to capital			(270)		
Loss on gilt re reconstruction			(114)		
Taxation			73		
Transfer to redemption reserve	1,918		(1,918)		
Retained net revenue for the year					<u>1,097</u>
At 30 September 1997	<u>11,340</u>	<u>31,185</u>	<u>(2,889)</u>	<u>14,040</u>	<u>1,097</u>

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

14. Net asset value per share

The net asset value per share and the net asset values attributable to each class of share at the period end calculated in accordance with their entitlements in the Articles of Association were as follows:

	Net asset value per share attributable 1997 p	Net asset values attributable 1997 £'000
Ordinary shares	133.31	46,955
Zero Dividend Preference Shares	132.19	46,564

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

	Ordinary shares (basic) £'000	Zero Dividend Preference Shares £'000	Total £'000
Total net assets attributable at beginning of year	-	-	0
Capital subscribed	36,071	44,646	80,717
Costs of issue	(1,364)		(1,364)
Total recognised gains/(losses) for the year	12,882		12,882
Dividend appropriated in the period	(634)		(634)
Other movements	-	1,918	1,918
Total net assets attributable at end of period	<u>46,955</u>	<u>46,564</u>	<u>93,519</u>

Basic net asset value per ordinary share is based on net assets, and on 35,223,639 ordinary shares, being the number of ordinary shares in issue at the period-end.

Ivory & Sime Optimum Income Trust Plc
Notes to the financial statements (continued)

1997
£'000

15. Reconciliation of movements in shareholders' funds

Shareholders' funds at 3 February 1997	-
Premium resulting from issue of shares	32,549
Increase in share capital	3,522
Costs of Issue	(1,364)
Dividends payable in respect of equity shares	(634)
Total recognised gains before dividends	<u>12,882</u>
Shareholders' funds at 30 September 1997	<u><u>46,955</u></u>

16. Analysis of changes in net debt

	At 3 February 1997 £'000	Cash Flow £'000	At 30 September 1997 £'000
Cash at bank and in hand	-	4,237	4,237
	<u>0</u>	<u>4,237</u>	<u>4,237</u>

1997
£'000

**17. Reconciliation of net revenue before finance costs
and taxation to net cash inflow from operating activities**

Net revenue before finance costs and taxation	2,148
Investment management fee charged to capital	(270)
Decrease in debtors	99
Increase in other creditors	100
Tax on investment income	<u>(387)</u>
Net cash inflow from operating activities	<u><u>1,690</u></u>

Ivory & Sime Optimum Income Trust plc

AUDITORS' REPORT TO THE MEMBERS OF IVORY & SIME OPTIMUM INCOME TRUST PLC PURSUANT TO SECTION 273(4) OF THE COMPANIES ACT 1985

We have audited the accounts on pages 2 to 14 which have been prepared under the historical cost convention, as modified by the revaluation of fixed assets investments and on the basis of the accounting policies set out on pages 5.

Respective responsibilities of directors and auditors

As described on page 1 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

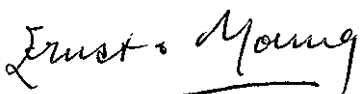
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the initial accounts for the period from 3 February 1997 to 30 September 1997 have been properly prepared within the meaning of section of 273 of the Companies Act 1985.



Ernst & Young
Chartered Accountants
Edinburgh

3 November 1997