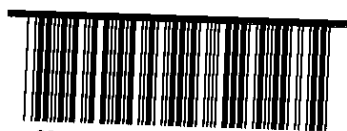


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# Ivory & Sime Optimum Income Trust plc

## Annual Report 2002



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# Company Summary

Ivory & Sime Optimum Income Trust plc

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The Company	The Company is an investment trust and its shares are listed on the Official List and traded on the London Stock Exchange. It is a member of the Association of Investment Trust Companies.
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Total assets less current liabilities at 31 May 2002 were £101.2m.

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Objective	<p>The Company invests in UK equities and equity-related securities, predominantly selected from a universe of the UK's largest companies, with the objectives, over the life of the Company, of:</p> <ul style="list-style-type: none"><li>– achieving a high and growing level of income for its ordinary shareholders; and</li><li>– increasing dividends ahead of inflation and at least in line with the dividend growth on the FTSE All-Share Index.</li></ul>
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Management	<p>The Board has appointed Friends Ivory &amp; Sime plc as Investment Manager. The notice period is one year and further details of the management contract are provided in note 3 to the accounts on page 29.</p>
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Capital Structure	<p>The Company has a split capital structure comprised of Ordinary Shares and Zero Dividend Preference Shares. The interaction of the rights attributable to these two different share classes has important implications for the risks and returns to shareholders in the Company.</p>
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How to Invest	<p>Friends Ivory &amp; Sime operates a number of investment plans, including ZeroCharge™ plans which facilitate investment in the Ordinary Shares of the Company. Details are contained on page 10. You may also invest through your usual stockbroker.</p>
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PEP/Isa Status	<p>The Company's shares are eligible for Isas and PEP transfers and can continue to be held in existing PEPs.</p>
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Website	<p>The Company's internet Website is: <a href="http://www.optimum-income.co.uk">www.optimum-income.co.uk</a></p>
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Telephone	<p>Friends Ivory &amp; Sime Investment Services on 0845 600 6166</p>
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# Financial Highlights

- Dividends increased by 6.1 per cent; ahead of both inflation and the dividend growth on the FTSE All-Share Index.
- Ordinary share price fell by 31.9 per cent.
- Total assets less current liabilities fell by 3.5 per cent, 8.4 percentage points ahead of the FTSE All-Share Index.

Quarterly Dividend Growth Compared to Inflation

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# Performance Summary

Ivory & Sime Optimum Income Trust plc

	31 May 2002	31 May 2001	% change
<b>Revenue and Dividends</b>			
Net revenue (£'000)	<b>2,818</b>	2,928	(3.8)
Earnings per Ordinary Share	<b>8.00p</b>	8.31p	(3.8)
Dividends per Ordinary Share	<b>8.65p</b>	8.15p	6.1
<b>Total Assets less Current Liabilities</b>	<b>£101.2m</b>	£104.8m	(3.5)
Package (discount)/premium†	<b>(2.8%)</b>	4.1%	N/A
<b>Ordinary Share – Capital Values</b>			
Net asset value per share	<b>91.46p</b>	117.69p	(22.3)
Share price (mid market)	<b>80.00p</b>	117.50p	(31.9)
Discount	<b>12.5%</b>	0.2%	N/A
<b>Zero Dividend Preference Shares</b>			
Accumulated value per share	<b>195.75p</b>	179.95p	8.8
Share price (mid market)	<b>199.25p</b>	192.25p	3.6
Final cover*	<b>1.26x</b>	1.30x	–
Premium	<b>1.8%</b>	6.8%	N/A
<b>Benchmark Index**</b>			
FTSE All-Share Index	<b>2,475.6</b>	2,811.2	(11.9)
<b>Gearing (100 = nil gearing)***</b>			
Actual	<b>314.0</b>	252.9	
Total expense ratio as percentage of average shareholders' funds††	<b>1.1%</b>	1.3%	
	High	Low	
<b>2002 – Year's Highs/Lows</b>			
Net asset value per Ordinary Share	124.94	60.18	
Ordinary Share price	117.50	73.00	

† The difference between total assets less current liabilities, and the total of Ordinary and Zero Dividend Preference Shares in issue, multiplied by their respective share prices.

\* The ratio of total assets to the final redemption value of Zero Dividend Preference Shares.

\*\* TOPSI 100 Index was discontinued on 31 March 2002.

\*\*\* Zero Dividend Preference Shares are regarded as debt. Gearing of 314 means that the Company's Total Assets (less current liabilities) of £101.2m are 3.14x the value of the equity shareholders fund (£32.2m). A movement of 1 per cent in Total Assets therefore produces a movement of 3.14 per cent in the net asset value of the Ordinary Shares.

†† Represents the total revenue and capital expenses for investment management, secretarial and other expenses as shown in the statement of total return as a percentage of average shareholders' funds.

# Chairman's Statement

## The Year's Results: Dividends +6.1 per cent

As shareholders are aware the primary objective of the Company is to achieve a high and growing level of income and to distribute dividends to shareholders which grow at a rate faster than inflation and at least in line with that reported for the FTSE All-Share Index. Although there was a small decline – circa 4 per cent – in the revenue (£2.82m) and in the earnings per share (8.00p), we were able to raise our dividends for the year by 6.1 per cent to 8.65p and thereby achieve our most important goal for Ordinary Shareholders – increasing the dividends. Both of our comparators, referred to above, were beaten. In fact, in our budgets at the beginning of the year we had been anticipating a decline in revenue and the end result was a little better than originally anticipated. Despite the very poor environment for companies generally, our portfolio of investments suffered few dividend cuts; a good number of our investments provided increased income, although we enjoyed fewer one off dividends and suffered from one or two deferred payments. I said last year that I thought it would be “rather more difficult than we have been used to” and so it proved to be.

This year we have drawn on our revenue reserves, which we have built up carefully over the past five years. But with under two years to go before shareholders consider the future of the Company, distributing those reserves is part of the “progressive dividend policy” to which I have referred to in the past. Unforeseen circumstances apart, I expect us to do so again next year.

## Net Asset Value Performance: –22.3 per cent

There is not much that I can say about the year's capital results which can console shareholders for the decline of 22.3 per cent in the net asset value to 91.5p per share. It is the consequence of a bear market and the gearing inherent in our capital structure. The stock market, as measured by the

Alex  
Hammond-  
Chambers  
Chairman

FTSE All-Share Index, fell 11.9 per cent and while we were not able to avoid the general decline in equity prices, I can at least report that our own total assets declined by only 3.4 per cent to £101.2m, largely as a consequence of some good and careful portfolio management by Rodger McNair and Richard Bell in avoiding the worst of the markets' losers. However, beating the index is no consolation for losing shareholders money – now or ever. The decline of 3.5 per cent in our total assets turned into a decline of 22.3 per cent after the interests of the Zero Dividend Preference Shares, 8.78 per cent higher at £69.0m, were deducted, leaving Ordinary Shareholders with £32.2m or 91.5p per share.

The events surrounding some of the so-called “Split Capital” investment trust companies (to which I refer later) resulted in a general widening of the discounts to their net asset values at which their share prices sell. The price of our Ordinary Shares fell by 31.9 per cent to 80p, representing a discount of 12.6 per cent.

## Post Year End Stock Market Decline –22.1 per cent

I am afraid to report that since our year-end on 31 May, markets around the world have taken a considerable turn for the worse. The FTSE All-Share Index, on the day prior to the signing of

this statement, stood at 20.6 per cent lower than at the year end. It is a very severe fall by any standards in such a short period of time and has had a most marked effect on our net asset value.

	1 August 2002	31 May 2002	% Change
The Market (FTSE – All-Share Index)	1,964.5	2,475.6	–20.6
Total Assets	£81.8m	£101.2m	–19.2
Net Asset Value	33.54p	91.46p	–63.3
Gearing	693	314	n/a

As a consequence of such declines, your Company's balance sheet is highly geared – though not with any bank debt I should emphasise; when allied to the volatile nature of today's stock markets, it results in a very volatile net asset value performance with rises and falls in the market being reflected in exaggerated rises and falls in our net asset value.

#### Split Capital Investment Trust Companies

As I am sure shareholders will be aware, there has been a huge amount of publicity surrounding the difficulties that many of the split capital investment trust companies ("splits") have been experiencing during the last two years. The purpose of having a capital structure with more than one class of capital is to *split* the returns earned from the portfolio of investments between capital and income, so that each class gets a higher capital or income return than it otherwise would. It results in having highly geared balance sheets so that, when there are bear markets or when dividends in general decline, the returns suffer in an exaggerated manner. We are experiencing the worst bear market in over 25 years and all splits are suffering as a consequence.

The background to these problems emerged during the 1990s when interest rates and bond and equity yields fell a long way. As a consequence the much higher yields offered by certain capital classes of

the splits were much in demand and a lot of new splits were launched. The competition to launch them resulted in ever-higher yields being offered and ever-higher geared balanced sheets to produce the required income.

While our own capital structure is highly geared, we do not have any bank borrowings; both Board and Management have been very strict about not borrowing money or investing in the shares of other splits in order to try to achieve yet higher levels of income. Furthermore, we have always maintained a conservative portfolio of blue chip investments, containing the shares of companies whose finances are robust and whose dividends are reasonably safe. This is our policy, but it cannot prevent rather volatile capital returns. The report on pages 8 and 9 does I hope explain the nature and structure of our balance sheet and the volatile nature of the net asset value of the Ordinary Shares.

#### The Annual General Meeting

I do urge shareholders to attend the AGM, which will be held at 12 noon on 11 September 2002 at 100 Wood Street, London. At it there will be a presentation by the Investment Managers of the year's results together with an assessment of the future prospects; it will be followed by drinks and a light buffet during which shareholders will have a chance to discuss with either Directors or Investment Managers any matters concerning them. The AGM is the Shareholders meeting at which you have the opportunity to meet all of the Directors and the Investment Managers, to ask questions or make comments in front of all other shareholders and indeed to meet them. *I do urge as many shareholders as possible to join us for the occasion.*

One of the matters to be considered at the AGM relates to the buy-back of shares. Given the

# Chairman's Statement

Continued

background of market uncertainties your Board has decided that it would be prudent for the Company to take powers to buy-back its own shares for cancellation.

If shareholders approve the necessary resolutions, the Company would have to buy-back equal quantities of both Ordinary and Zero Dividend Preference Shares, thereby maintaining the integrity of its capital structure. Such purchases would take place only at a significant discount to net asset value and when the Board deemed it to be in the interest of both classes of shareholders.

The matter is treated in detail in the Appendix on pages 44 to 47.

## Outlook

There is an air of considerable pessimism hanging over stock markets around the world. We are well and truly embedded in a severe bear market which is unquestionably the outcome of the excesses that occurred in the latter stages of what was one of the longest and most rewarding bull markets ever. The nature of bull markets is that they induce both excessive greed and complacency which in turn is the springboard of a bear market. The corporate corruption and greed, particularly in America, is only now coming to light with a series of shocking announcements which have shaken confidence in companies generally and the accounting profession specifically. The excessive speculation in unsoundly financed companies, nowhere more so than in the internet, technology and telecoms sectors, has resulted in both banks and investors losing many billions of capital. Investors' confidence is shot!

Rather perversely the outlook for the world's economic activity is not too bad – at this stage at least. There is no doubt that the unusually high rates of growth that obtained in the latter half of

the 1990s were in part at least driven by the bull market and that the bear market will detract from today's economic performance. Government expenditures, however, in most of the world's major economies are really quite robust; interest rates shouldn't rise too much from the low levels that obtain at present; and certain parts of the world, notably China and East Asia (except Japan), are growing quite strongly. Unless governments generally mismanage economies in the way they did in the 1930s, the bear markets should run their course. There is no doubt that we are now in the process of cleaning up those 1990s excesses and that at some point markets will stabilise. Bear markets beget bull markets just as bull markets beget bear markets. Assuming that economies generally and the British one specifically do keep growing, and with them corporate profits, then I believe our portfolio of investments should continue to provide us with a growing stream of dividend income which we can pass on to Ordinary Shareholders as rising dividends.

**Alex Hammond-Chambers**

Chairman

2 August 2002



# Capital Structure

Ivory & Sime Optimum Income Trust has a split capital structure comprised of two different classes of shares, Ordinary Shares and Zero Dividend Preference Shares. The interaction of the rights attributable to these two different share classes has important implications for the risks and returns to shareholders in the Company.

## Gearing

### What is gearing?

Gearing results when a company raises or borrows money (usually fixed interest) in seeking to add to shareholders' returns. In a similar way that a mechanical gear wheel within an engine increases output, so gearing within an investment trust provides the potential for enhanced financial performance. An investment trust, in common with other limited liability companies, is able to borrow monies and thereby create gearing. This ability gives an investment trust a distinct advantage over other forms of investment vehicles, although in time of market weakness the gearing can work to the Ordinary Shareholders' disadvantage. In the case of Ivory & Sime Optimum Income Trust, the Zero Dividend Preference Shares provide gearing to the holders of Ordinary Shares.

### Income Gearing for holders of Ordinary Shares

Holders of Ordinary Shares benefit from income gearing since, after the deduction of expenses, the entire income earned on the total assets of the Company is available to pay dividends exclusively to them.

As a result, holders of Ordinary Shares receive a significantly higher income return than would have been the case if the Zero Dividend Preference Shares had not been issued. The holders of Zero Dividend Preference Shares are not entitled to receive any income. The effect of the income gearing, as at 31 May 2002 was that, although the net yield on the Company's portfolio was 3.3 per cent, the implied net yield on the portfolio for holders of Ordinary Shares was 10.4 per cent.

### Capital gearing for holders of Ordinary Shares

Holders of Ordinary Shares also benefit from capital gearing if the Company's total assets increase by more than the amount required to meet the capital entitlement of the Zero Dividend Preference Shares.

Conversely the capital gearing will have an adverse effect on holders of Ordinary Shares if the increase in total assets does not exceed such increments. During the year to 31 May 2002, the Company's total assets decreased by 3.5 per cent.

Having deducted the capital entitlement of the Zero Dividend Preference Shares, the Company's net asset value per Ordinary Share decreased by 22.3 per cent. The chart below illustrates the assets which will be available for distribution to holders of Ordinary Shares, after satisfying the entitlement of the Zero Dividend Preference Shares, assuming various compound rates of growth in the Company's assets to the anticipated winding-up date of 26 March 2004.

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# Capital Structure

Ivory & Sime Optimum Income Trust plc

Continued

## Ordinary Shares

At 31 May 2002 there were 35,223,639 Ordinary Shares in issue.

### Investment characteristics:

The Ordinary Shares provide investors with a high and growing income return, benefiting from the gearing of the Zero Dividend Preference Shares.

### Income entitlement:

Holders of Ordinary Shares are entitled to all of the Company's income. Dividends are paid quarterly in August, November, February and May each year. Total dividends for the year to 31 May 2002 amounted to 8.65p per Ordinary Share.

### Capital entitlement:

Holders of Ordinary Shares are also entitled to the remainder of the Company's assets after having satisfied the capital entitlement of the Zero Dividend Preference Shares. At 31 May 2002 the capital attributable to the Ordinary Shares was 91.46p, equivalent to the net asset value per Ordinary Share.

### Voting entitlement:

Holders of Ordinary Shares participate in all general meetings of the Company on the basis of one vote for each share held.

## Zero Dividend Preference Shares

At 31 May 2002 there were 35,223,639 Zero Dividend Preference Shares in issue.

### Investment characteristics:

The Zero Dividend Preference Shares provide investors with a predetermined entitlement to capital growth, but no entitlement to income. Since the Zero Dividend Preference Shares have a predetermined capital entitlement and preference on winding up, they are considered to have a lower degree of risk than the Ordinary Shares. They are not, however, free from risk.

### Income entitlement:

The Zero Dividend Preference Shares have no entitlement to income.

### Capital entitlement:

On a return of capital on winding-up or otherwise, the surplus assets of the Company remaining, after payment of its liabilities, shall be applied first in the payment to the holders of Zero Dividend Preference Shares of an amount equal to £1.2675 per share, increased on the same day of each month at the rate of 8.78 per cent, per annum (compounding annually on 26 March). The first such increase occurred on 26 April 1997 and the last will occur on 26 March 2004. The anticipated final redemption value of the Zero Dividend Preference Shares is £2.2838 per share.

### Voting entitlement:

The holders of Zero Dividend Preference Shares have the right to receive notice of, but do not have the right to attend, or vote at, any general meeting – unless the business of the meeting includes consideration of any matter affecting the special rights attached to the Zero Dividend Preference Shares.

# Investment Services to Shareholders

## ZeroCharge™ Investment Plans and ISAs

Friends Ivory & Sime has a number of cost-effective plans which will allow you to invest in the Ordinary Shares of Ivory & Sime Optimum Income Trust plc without incurring any initial, annual or exit plan charges. All the running costs of the plans are borne by Ivory & Sime Optimum Income Trust plc itself. Cost-effective, tax-efficient and flexible, the ZeroCharge™ investment plans include:

- An Individual Savings Account, for both lump sums and regular savings;
- PEP Transfer Plans where you can transfer your existing PEP investments without affecting their tax status; and
- An Investment Plan, for both lump sums and regular savings.

For more information on any of these plans, please call the Customer Services team on 0845 600 6166 (7 days a week, 24 hours a day) or visit the website, [www.itszerocharge.co.uk](http://www.itszerocharge.co.uk)

A facility to open and pay for a ZeroCharge™ Isa online with Switch, Solo or Delta debit card has recently been introduced. Furthermore, existing ZeroCharge™ PEP and Isa plan holders are now able to manage their investments online.

## Ivory & Sime Trustlink Products

A range of products is available through Ivory & Sime Trustlink designed to enable investors to build shareholdings in Ivory & Sime Optimum Income Trust plc. **All these products offer a free lifetime guarantee.**

Please contact your independent financial adviser for further information on any of these products.

The above has been approved for the purposes of section 21 of the Financial Services and Markets Act by Friends Ivory & Sime plc which is a member of the Friends Provident Group and is regulated by the Financial Services Authority. Stockmarkets and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount originally invested.

# Investment Managers and Investment Process

Ivory & Sime Optimum Income Trust plc

## Rodger McNair

Investment Manager

Rodger McNair joined Friends Ivory & Sime in 1990 and has overall responsibility for UK equity portfolios. He has over twelve years' investment experience and is also the manager of Investors Capital Trust.

## Richard Bell

Investment Manager

Richard Bell, a chartered accountant and member of the securities institute, joined Friends Ivory & Sime in 1999. He has eight years' investment experience in UK equities.

## Martin Cassels

Company Secretary

Martin Cassels, a chartered accountant, started working for Friends Ivory & Sime in 1990, and is responsible for the provision of company secretarial services for several investment trusts.

## Friends Ivory & Sime Investment Manager

Friends Ivory & Sime is a global investment management business and its shares are listed on the Official List and traded on the London Stock Exchange.

With some £31 billion at 30 June 2002 of assets under management, Friends Ivory & Sime is committed to providing its clients with superior investment returns and outstanding service.

Its commitment to the investment trust sector is underlined by the fact that today it provides services to nineteen investment companies.

## Investment Process

The primary aim of Ivory & Sime Optimum Income Trust is to provide Ordinary Shareholders with a high and growing level of income.

This is achieved by investing in a portfolio of UK equities and equity-related securities, predominantly selected from a universe of the UK's largest companies.

The stock selection process places considerable emphasis on companies which have a yield above that of the market and which have both the financial strength and management intent to maintain a policy of real dividend growth.

The management of the portfolio and the disciplines we apply in making investment decisions typically mean that Ivory & Sime Optimum Income Trust will have a concentrated portfolio with low portfolio turnover.

# Manager's Review

In our report last year we suggested that "the greatest risk to UK equities remains a prolonged slowdown in the US economy". During the Company's year those concerns persisted, as investors questioned the ability of the world's pre-eminent economy to cope with the aftermath of the tragic events on September 11th and thereafter achieve a moderate level of economic growth. This appeared a challenging prospect, particularly as a number of high profile corporate bankruptcies provided clear evidence of over-investment during the economic boom of the 1990's, predominantly in the technology and telecommunications industries.

It became increasingly apparent that a slowdown in domestic UK economic growth was underway during the Company's financial year, as revised figures for the first calendar quarter of 2002 showed the economy barely managing to grow in real terms, after a similarly poor final quarter of 2001. The deteriorating macroeconomic outlook prompted the Bank of England's Monetary Policy Committee (MPC) to continue to cut interest rates. Indeed, interest rates were cut on four separate occasions to 4.0 per cent, the lowest level since 1963. The final cut took place in November 2001 and rates were kept on hold for the remainder of the Company's year.

Headline inflation remained subdued throughout the period, reaching a 40 year low of just 0.7 per cent in December 2001. However, the consumer sector in the UK remained robust,

as evidenced by an extremely buoyant housing market and record new car sales. This was sufficient to dissuade the MPC from announcing further interest rate cuts, for fear of stoking inflationary pressure in the future.

In contrast to its consumer counterpart, the business sector had to endure further travails. Falling industrial production and manufacturing output, together with a persistent lack of pricing power at the factory gate meant that many firms' profits were under increasing pressure. Declining levels of business investment spending provided further evidence of the general malaise affecting that sector. Towards the end of the Company's year there were some indications of a pick up in industrial activity,

although whether or not this amounts to a sustainable trend remains far from clear.

Declining profitability heightened the pressure on dividend distributions by UK companies. This was compounded, particularly among insurance companies, by weak equity markets. The announcement by BT of its intention to return to the dividend-paying list was one of the more positive income developments during the year. The trend towards companies buying back their own shares continued apace. A number of the most prominent companies in the UK equity market, including GlaxoSmithkline and AstraZeneca, allocated significant amounts of capital towards buying back their own shares – while at the same time scaling back the growth of their own ordinary dividend distributions.

#### Portfolio

Falling corporate profitability, continuing economic uncertainty and a reduced appetite for risk resulted in a 'safety first' approach by investors for much of the year. This contributed towards sector performance within the UK equity market being extremely polarised. The tobacco sector, with its perceived defensive qualities, out-performed the wider market by a remarkable 80.6 per cent, whereas the IT hardware sector under-performed by 74.2 per cent.

Over the course of the first six months of the Company's year there was relatively little performance differential between the technology, media and telecommunications

(TMT) sectors and the other more traditional sectors of the equity market. However, the gap widened significantly in the second half of the Company's year, when TMT companies endured a period of very poor share price performance, as investors began to focus on companies paying high, sustainable dividends and offering greater visibility of future earnings. This trend is captured on the chart on the previous page. Such has been the fall from grace of the TMT stocks that they now comprise only 12.8 per cent of UK equity market capitalisation, compared with 37.9 per cent at their peak in March 2000. The Company has benefited throughout this period by having relatively modest investments in the TMT area.

Within the UK equity market, medium-sized companies in the FTSE250 (Mid Cap) Index easily outperformed their larger counterparts in the FTSE100 Index, although their share prices still declined in absolute terms. In part this was due to the higher cyclical bias of those companies, a quality highly sought after by investors trying to pre-empt economic recovery. Furthermore, the relative lack of exposure of the Mid Cap Index to the poorly performing telecommunications and pharmaceuticals sectors meant the negative impact was much less than on the index of leading shares. During the year a number of new investments were added in the mid cap area as we sought to increase the portfolio's exposure to economically sensitive stocks at what appeared to be attractive valuation levels.

# Manager's Review

Continued

One such example is the engineering group IMI. Under the leadership of a new management team, IMI is committed to maintaining a generous dividend payment, while at the same time the underlying businesses are being reorganised in order to improve profitability. Another example is TBI, the UK based airport operator, which runs Luton, Cardiff and Belfast airports. TBI is well placed to benefit from the growth of the low-cost airline sector through its provision of services to several airlines.

The chart below illustrates the performance of the Company's total assets since

inception compared with the FTSE All-Share Index.

## Outlook

Since the end of the Company's financial year the UK equity market has fallen significantly, as continuing doubts over the quality of reported earnings in the US seriously dented investors' confidence on both sides of the Atlantic. This debilitating effect on confidence has been compounded by lingering concerns over the potential for a 'double dip' recession in the US. Nevertheless, despite some uncertainty regarding the eventual timing of a recovery in corporate profits, we remain cautiously optimistic that the most likely outcome will be a moderate recovery in the global economy which, in time, will feed through to improved underlying profitability for the corporate sector. However, while the global economy now appears to be in the nascent stages of recovery, the positive trend is not yet firmly established and risks to the downside still remain.

History shows us that any improvement in the dividend environment will inevitably lag a recovery in corporate profits. Consequently, we do not foresee significant progress in UK equity market dividends before 2003. Despite this challenging backdrop we remain confident that we can meet our objective of "achieving a high and growing level of income".

It is essential that investors' confidence in corporate reporting, particularly in the US, recovers in due course, and that the issues

surrounding the likes of Enron, Tyco and WorldCom prove not to be endemic within the US financial system. With that premise the UK equity market looks reasonably well placed to make progress from current levels, although it may well take several months for investors' confidence to be restored sufficiently for this to occur.

Friends Ivory & Sime plc

2 August 2002



# Investment Portfolio

Company	Valuation £'000	% of Total assets less current liabilities	% of Portfolio income
<b>BP</b> The company is one of the world's largest integrated oil and gas companies.	5,850	5.8	5.0
<b>Shell Transport &amp; Trading</b> An integrated oil and gas company with global interests.	5,327	5.3	4.7
<b>GlaxoSmithKline</b> The company is a global developer, manufacturer and marketer of pharmaceutical products.	4,886	4.8	4.5
<b>Barclays</b> A UK based financial services group with interests primarily in retail banking.	3,873	3.8	3.5
<b>Royal Bank of Scotland</b> The company provides a wide range of banking and other financial services both in the UK and overseas.	3,821	3.8	2.2
<b>HSBC</b> The group provides a range of financial services through an international office network.	3,315	3.3	4.1
<b>Lloyds TSB</b> The group provides retail and commercial banking services through its branch network and offices in the UK and overseas.	3,145	3.1	4.5
<b>BT</b> BT is the incumbent supplier of fixed telephony services in the UK and provides business telephony services in Europe.	2,615	2.6	—
<b>AstraZeneca</b> The company is involved in the global development, manufacture and marketing of prescription pharmaceuticals.	2,255	2.2	1.4
<b>HBOS</b> A UK based financial services group providing retail, commercial and mortgage banking services.	2,249	2.2	3.0
<b>Ten largest investments</b>	<b>37,336</b>	<b>36.9</b>	<b>32.9</b>

# Investment Portfolio

Ivory & Sime Optimum Income Trust plc

Continued

Company	Nature of business	Valuation £'000	% of Total assets less current liabilities	% of Portfolio income
BAT	Tobacco Products Manufacture	2,007	2.0	2.2
Diageo	Food & Beverages Production	1,978	2.0	1.8
Bunzl	Outsourcing and Distribution	1,831	1.8	1.1
Abbey National	Retail Banking	1,685	1.7	2.8
Kelda	Water Utility	1,651	1.6	3.1
Scottish & Newcastle	Brewing & Pub Retail	1,623	1.6	2.3
Prudential	Life Assurance	1,493	1.5	1.8
Land Securities	Property Investments & Development	1,469	1.5	0.5
Scottish & Southern	Electricity Generation & Supply	1,462	1.4	2.0
Anglo American	Mining	1,438	1.4	1.3
<b>Twenty largest investments</b>		<b>53,973</b>	<b>53.4</b>	<b>51.8</b>
CGNU	Life Assurance	1,438	1.4	3.1
United Utilities	Multi-Utility	1,432	1.4	2.9
Rexam	Consumer Packaging Manufacture	1,425	1.4	2.3
Davis Service	Textile Rentals and Plant Hire	1,313	1.3	1.2
Vodafone	Mobile Telecommunications Services	1,291	1.3	0.6
Tesco	Food Retail	1,251	1.2	0.9
Boots	Healthcare Product Retail	1,123	1.1	1.2
Imperial Tobacco	Tobacco Products Manufacture	1,102	1.1	2.1
BAE Systems	Aerospace Equipment Manufacture	1,075	1.1	0.6
Lattice	Gas Distribution	1,069	1.0	1.7
<b>Thirty largest investments</b>		<b>66,492</b>	<b>65.7</b>	<b>68.4</b>
Rio Tinto	Mining	950	0.9	0.7
Cadbury Schweppes	Confectionary & Soft Drinks Manufacture	950	0.9	0.7
Reckitt Benckiser	Household Goods Manufacture	945	0.9	0.6
BG Group	International Gas Exploration	944	0.9	0.3
De Vere Group 7% Conv Bond	Hotels and Healthclub Operation	920	0.9	2.0
Next	Clothing Retail	849	0.9	0.8
BOC Group	Industrial Gas Production	847	0.9	0.9
Smith Industries	Aerospace & Medical Equipment Manufacture	843	0.9	1.3
Trinity Mirror	Regional Newspaper Publication	833	0.8	1.0
National Grid	Electricity Transmission & Supply	750	0.8	0.3
<b>Forty largest investments</b>		<b>75,323</b>	<b>74.5</b>	<b>77.0</b>
GUS	Retail	745	0.7	0.8
Hilton	Hotels, Betting & Gambling	737	0.7	0.8
Britannic	Life Assurance	728	0.7	1.8
Scottish Power	Electricity Generation & Supply	683	0.7	1.5
IMI	Fluid Controls & Retail Dispense Manufacture	678	0.7	0.6
TBI	Regional Airport Operation	663	0.7	–
Weir	Industrial Pumps Manufacture	650	0.6	–
National Express	Coach Train & Airport Operation	632	0.6	0.7
GKN	Automotive Parts and Helicopter Manufacture	632	0.6	0.6
BAA	Airport & Rail Operation	615	0.6	1.0
<b>Fifty largest investments</b>		<b>82,086</b>	<b>81.1</b>	<b>84.8</b>
<b>Other Investments (28)</b>		<b>12,017</b>	<b>11.9</b>	<b>15.2</b>
<b>Total Investments</b>		<b>94,103</b>	<b>93.0</b>	<b>100.0</b>
<b>Net current assets</b>		<b>7,061</b>	<b>7.0</b>	
<b>Total assets less current liabilities</b>		<b>101,164</b>	<b>100.0</b>	

# Classification of Investments

Sector	2002 % FTSE All-Share Index Weighting	2002 % Total assets less current liabilities	2001 % Total assets less current liabilities
<b>Resources</b>	<b>16.7</b>	<b>14.4</b>	<b>14.3</b>
Mining	3.0	2.4	1.7
Oil & Gas	13.7	12.0	12.6
<b>Basic Industries</b>	<b>3.3</b>	<b>3.2</b>	<b>3.0</b>
Chemicals	0.9	0.8	0.7
Construction & Building Materials	2.2	2.0	2.0
Steel & Other Metals	0.2	0.4	0.3
<b>General Industrials</b>	<b>2.8</b>	<b>4.5</b>	<b>2.8</b>
Aerospace & Defence	1.6	1.9	1.7
Electronic & Electrical Equipment	0.5	0.6	—
Engineering & Machinery	0.7	2.0	1.1
<b>Cyclical Consumer Goods</b>	<b>0.3</b>	<b>0.6</b>	<b>—</b>
Automobiles & Parts	0.3	0.6	—
<b>Non-Cyclical Consumer Goods</b>	<b>19.0</b>	<b>15.6</b>	<b>17.7</b>
Beverages	3.0	3.6	3.1
Food Producers & Processors	2.5	0.9	0.8
Health	0.8	—	—
Packaging	—	—	0.9
Personal Care & Household Products	0.6	0.9	0.6
Pharmaceuticals	10.3	7.1	10.2
Tobacco	1.8	3.1	2.1
<b>Cyclical Services</b>	<b>14.6</b>	<b>14.4</b>	<b>14.0</b>
Distributors	—	—	—
General Retailers	3.3	3.4	4.0
Leisure, Entertainment & Hotels	1.9	1.2	1.6
Media & Photography	4.4	1.8	3.0
Support Services	3.2	5.1	2.5
Transport	1.8	2.9	2.9
<b>Non-Cyclical Services</b>	<b>9.5</b>	<b>6.1</b>	<b>7.5</b>
Food & Drug Retailers	2.2	1.7	1.7
Telecommunication Services	7.3	4.4	5.8
<b>Utilities</b>	<b>4.0</b>	<b>7.0</b>	<b>6.7</b>
Electricity	2.2	2.9	3.5
Gas Distribution	1.1	1.1	0.6
Water	0.7	3.0	2.6
<b>Financials</b>	<b>28.7</b>	<b>26.3</b>	<b>26.8</b>
Banks	19.6	18.5	17.6
Insurance	0.5	0.6	0.9
Investment Companies	2.4	—	—
Life Assurance	3.1	4.6	5.6
Real Estate	1.7	2.0	1.6
Speciality & Other Finance	1.4	0.6	1.1
<b>Information Technology</b>	<b>1.1</b>	<b>—</b>	<b>0.4</b>
Information Technology Hardware	0.3	—	0.4
Software & Computer Services	0.8	—	—
<b>Total Equity</b>	<b>100.0</b>	<b>92.1</b>	<b>93.2</b>
<b>Convertible Fixed Interest</b>		<b>0.9</b>	<b>0.9</b>
<b>Total Investments</b>		<b>93.0</b>	<b>94.1</b>
<b>Net Current Assets</b>		<b>7.0</b>	<b>5.9</b>
<b>Total Assets less Current Liabilities</b>		<b>100.0</b>	<b>100.0</b>

# Board of Directors

at 31 May 2002

Ivory & Sime Optimum Income Trust plc

## Alex Hammond-Chambers, Chairman

(age 59) worked for Ivory & Sime plc for 27 years serving as Chairman between 1985 and 1991. He is Chairman of Fidelity Special Values plc, Fidelity Japanese Values plc, American Opportunity Trust plc and a Director of International Biotechnology Trust plc and a number of other companies.

## Simon Coke

(age 69) is Professor Emeritus of International Business at the University of Edinburgh. Prior to taking up this appointment he was general manager of Johnson & Johnson Far East Inc. He has both theoretical and practical marketing expertise.

## Andrew Irvine

(age 50) is Managing Director of Jones Lang LaSalle, Scotland. He is a Director of Securities Trust of Scotland plc, Ivory & Sime UK Smaller Companies Trust plc and a number of other companies.

## Peter Kennedy

(age 59) retired at the end of 1996 as Managing Director of Gartmore Scotland Limited which managed the Scottish National Trust plc, a split capital investment trust. He is Chairman of BFS Income and Growth Trust plc and of Britannic Global Income Trust plc.

## Alan Downie

(age 52) is Group Managing Director of CALA plc. Prior to his appointment to CALA, he was Regional Director for Wimpey Homes in Scotland. He is a chartered civil engineer.

Mr R A Hammond-Chambers, Mr S Coke, Mr A W Downie, Mr A R Irvine and Mr P N B Kennedy were appointed as Directors of the Company on 7 February 1997. Mr R A Hammond-Chambers, Mr S Coke and Mr A R Irvine were Directors of First Optimum plc, the predecessor company of Ivory & Sime Optimum Income Trust plc, which went into Members' Voluntary Liquidation on 26 March 1997.

# Report of the Directors

## Results and Dividends

The Directors submit their fifth Annual Report together with the Accounts of the Company for the year to 31 May 2002.

	£'000
Revenue available for dividends	<b>2,818</b>
First interim dividend of 2.125p per share paid on 2 November 2001	<b>(749)</b>
Second interim dividend of 2.15p per share paid on 1 February 2002	<b>(757)</b>
Third interim dividend of 2.175p per share paid on 3 May 2002	<b>(766)</b>
Fourth interim dividend of 2.20p per share payable on 30 August 2002 to shareholders on the register at close of business on 16 August 2002	<b>(775)</b>
Transferred from revenue reserve	<b>(229)</b>

## Principal Activity and Status

The Company is registered as a Public Limited Company in terms of the Companies Act 1985.

It is an Investment Company as defined in Section 266 of the Companies Act 1985 and qualifies as an *Investment Trust within the meaning of Section 842 of the Income and Corporation Taxes Act 1988*. Inland Revenue approval for such treatment has been given up to 31 May 2001. Since that date, in the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to obtain such approval.

The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

A review of the Company's business during the period is contained in the Chairman's Statement and the Managers' Review.

## Directors

Mr S Coke who retires having attained the age of 70 prior to the Annual General Meeting, offers himself for re-election at the Annual General Meeting, special notice of a resolution to propose his re-appointment having been received.

Mr A W Downie retires by rotation at the Annual General Meeting of the Company and, being eligible, offers himself for re-election.

The Directors who held office at the end of the financial year, and their interests in the share capital of the Company were:

		Ordinary Shares at 31 May 2002	Ordinary Shares at 31 May 2001
R A Hammond-Chambers	Beneficial and family	<b>15,010</b>	15,010
S Coke	Beneficial and family	<b>11,339</b>	11,339
A W Downie	Beneficial and family	<b>5,000</b>	5,000
A R Irvine	Beneficial and family	<b>67,892</b>	67,892
P N B Kennedy	Beneficial and family	<b>2,000</b>	2,000

Mr P N B Kennedy had an interest in 2,000 Zero Dividend Preference Shares at 31 May 2002 and 31 May 2001.

There have been no changes in the holdings of the Directors between 31 May 2002 and 2 August 2002.

#### Corporate Governance

The Board consists solely of independent non-executive Directors.

The Company complies with the Combined Code on Corporate Governance ('the Code') apart from the items covered in the following paragraph.

In view of its non-executive nature and the requirement of the Articles of Association that all Directors retire by rotation at the Annual General Meeting, the Board considers that it is not appropriate for the Directors to be appointed for a specific term or for a senior independent director to be appointed as recommended by the Code. However, the Board has resolved that each Director will retire and seek re-election at the completion of each three years' service.

Throughout the year a number of committees have been in operation. The committees are the Audit Committee, Remuneration Committee and the Nomination Committee.

The Audit Committee operates within clearly defined terms of reference and comprises the full Board. The Audit Committee reviews the scope and results of the audit, and the cost-effectiveness, independence and objectivity of the auditors. It also provides a forum through which the Company's external auditors may report to the Board of Directors and meets twice yearly.

The Remuneration Committee comprises the full Board, all of whom are independent of the Manager. It is responsible for reviewing the terms of the Manager's contract and sets the Directors' remuneration using external comparisons and advice.

The Nomination Committee comprises the full Board and will be convened for the purpose of considering the appointment of additional Directors as and when considered appropriate.

A management agreement between the Company and its Manager, Friends Ivory & Sime plc, sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors. The Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

# Report of the Directors

Continued

## Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. The process is based principally on the Managers' existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with reports highlighting all material changes to the risk ratings and confirming the action, which has been, or is, being taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of FRAG 21 and similar reports issued by the Manager and other service providers.

Such review procedures have been in place throughout the financial year and up to the date of approval of the Annual Report, and the Board is satisfied with the effectiveness of the internal controls. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to its benchmark index and to comparable investment trusts at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Manager, including the internal audit function and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

## Relations with Shareholders

The Company welcomes the views of shareholders and where practicable, enters into dialogue with institutional shareholders based on the need for mutual understanding of objectives. The Annual General Meeting is a meeting of the Shareholders and of the Company and provides a forum, both formal and informal, for Shareholders to meet and discuss issues with Directors and Manager of the Company. Details of the resolutions to be proposed at the Annual General Meeting and Separate General Meetings on 11 September 2002 can be found in the Notice of Meetings on pages 36 to 43.

## Management

Friends Ivory & Sime plc provide management and secretarial services to the Company. Details of the contract between the Company and Friends Ivory & Sime plc in respect of management services provided are given in Note 3 to the accounts on page 29.

**Auditors**

Ernst & Young LLP has expressed its willingness to continue in office as auditors and a resolution proposing its re-appointment will be submitted to the Annual General Meeting.

**Substantial Interests in Share Capital**

Under the terms of Section 199 of the Companies Act 1985 the following interests of 3 per cent or more of the Ordinary Share capital of the Company had been notified to the Company at 2 August 2002.

	Ordinary Shares	Percentage Held
Investec Guinness Flight	2,226,446	6.3
Morley Fund Management	1,919,443	5.4

**Creditor Payment Policy**

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms.

The Company did not have any trade creditors at the year end.

**AGM and Separate General Meetings**

Further details concerning the resolutions to be proposed to members at the forthcoming Annual General Meeting and Separate General Meetings together with important information regarding the action to be taken by you are set out in the Appendix to the Report, which you should read on pages 44 to 47 inclusive.

By Order of the Board,

**Friends Ivory & Sime plc**

Secretary

Edinburgh

2 August 2002





# Statement of Total Return

(Incorporating the Revenue Account of the Company\*) For the year ended 31 May 2002

	Notes	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Gains/(losses) on investments	8	–	2,028	2,028	–	(158)	(158)
Unrealised (losses)/gains on investments		–	(4,948)	(4,948)	–	362	362
Total capital (losses)/gains on investments		–	(2,920)	(2,920)	–	204	204
Income	2	3,452	–	3,452	3,648	–	3,648
Investment management fee	3	(322)	(597)	(919)	(355)	(660)	(1,015)
Realised exchange differences		–	–	–	–	(1)	(1)
Other expenses	4	(243)	–	(243)	(314)	–	(314)
<b>Return on ordinary activities before taxation</b>		<b>2,887</b>	<b>(3,517)</b>	<b>(630)</b>	<b>2,979</b>	<b>(457)</b>	<b>2,522</b>
Taxation on ordinary activities	5	(69)	69	–	(51)	50	(1)
<b>Return on ordinary activities after taxation</b>		<b>2,818</b>	<b>(3,448)</b>	<b>(630)</b>	<b>2,928</b>	<b>(407)</b>	<b>2,521</b>
Appropriations in respect of Zero Dividend Preference Shares	12, 13	–	(5,562)	(5,562)	–	(5,114)	(5,114)
<b>Return attributable to equity shareholders</b>		<b>2,818</b>	<b>(9,010)</b>	<b>(6,192)</b>	<b>2,928</b>	<b>(5,521)</b>	<b>(2,593)</b>
Dividends in respect of equity shares	6	(3,047)	–	(3,047)	(2,871)	–	(2,871)
Transfer (from)/to reserves		(229)	(9,010)	(9,239)	57	(5,521)	(5,464)
<b>Return per Ordinary 10p Share:</b>							
Basic	7	8.00p	(25.58)p	(17.58)p	8.31p	(15.67)p	(7.36)p

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

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

No operations were acquired or discontinued in the year.

The accompanying notes are an integral part of this statement.

# Balance Sheet

As at 31 May 2002

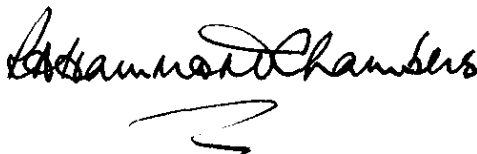
Ivory & Sime Optimum Income Trust plc

	Notes	2002 £'000	2001 £'000
<b>Fixed assets</b>			
Investments	8	<b>94,103</b>	98,628
<b>Current assets</b>			
Debtors	9	<b>405</b>	449
Cash at bank and on deposit		<b>8,232</b>	6,871
		<b>8,637</b>	7,320
<b>Creditors: amounts falling due within one year</b>	10	<b>(1,576)</b>	(1,107)
<b>Net current assets</b>		<b>7,061</b>	6,213
<b>Total assets less current liabilities</b>		<b>101,164</b>	104,841
<b>Capital and reserves</b>			
Called-up share capital			
Ordinary Shares	11	<b>3,522</b>	3,522
Zero Dividend Preference Shares	11	<b>35,224</b>	35,224
		<b>38,746</b>	38,746
Share premium account	12	<b>40,607</b>	40,607
Other reserves –			
Redemption reserve	12	<b>33,725</b>	28,163
Capital reserve – realised	12	<b>(29,251)</b>	(25,189)
Capital reserve – unrealised	12	<b>16,677</b>	21,625
Revenue reserve	12	<b>660</b>	889
		<b>101,164</b>	104,841
<b>Equity shareholders' funds</b>		<b>32,215</b>	41,454
Zero dividend preference shareholders' funds		<b>68,949</b>	63,387
	13, 14	<b>101,164</b>	104,841
<b>Net asset value per Ordinary Share</b>	13	<b>91.46p</b>	117.69p
<b>Net asset value per Zero Dividend Preference Share</b>	13	<b>195.75p</b>	179.95p

The financial statements on pages 24 to 34 were approved by the Board of Directors on 2 August 2002 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.

# Cash Flow Statement

For the year ended 31 May 2002

	Notes	2002 £'000	2001 £'000
<b>Operating activities</b>			
Investment income received		3,150	3,372
Deposit interest received		343	254
Underwriting commission received		3	–
Investment management fees paid		(940)	(1,005)
Other cash payments		(285)	(262)
Net cash inflow from operating activities	16	2,271	2,359
<b>Taxation</b>			
Tax recovered		–	24
<b>Capital expenditure and financial investment</b>			
Purchase of investments		(9,160)	(9,150)
Disposals of investments		11,271	13,144
Net cash inflow from investing activities		2,111	3,994
<b>Equity dividends paid</b>		(3,021)	(2,818)
Increase in cash in the year		1,361	3,559
<b>Reconciliation of net cash flow to movement in net cash</b>			
Increase in cash in the year		1,361	3,559
Currency losses		–	(1)
Net funds at 31 May 2001	15	1,361	3,558
		6,871	3,313
Net funds at 31 May 2002		8,232	6,871

The accompanying notes form an integral part of these statements.

# Notes to the Accounts

Ivory & Sime Optimum Income Trust plc

## 1. Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year is set out below.

### a) Basis of accounting

The accounts are prepared under the historic cost convention, modified to include the revaluation of fixed asset 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'.

### b) Valuation of investments

Listed investments are valued at middle market prices.

### c) Income

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

Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established.

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

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue as set out in note 5 to the accounts. The standard rate of corporation tax is applied to taxable net revenue.

### f) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

### g) 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;
- transfers to the redemption reserve;
- 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;
- unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

# Notes to the Accounts

Continued

## h) 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.

## i) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

## j) Rates of exchange

	31 May 2002	31 May 2001
Euro	1.57	1.68

## 2. Income

	2002 £'000	2001 £'000
<b>Income from investments</b>		
Listed on the London Stock Exchange	3,106	3,394
<b>Other income</b>		
Deposit interest	343	254
Underwriting commission	3	—
<b>Total income</b>	<b>346</b>	<b>254</b>
<b>Total income comprises:</b>		
Dividends	3,043	3,331
Interest from investments	63	63
Other income	346	254
	<b>3,452</b>	<b>3,648</b>
<b>Income from investments:</b>		
Franked investment income	3,043	3,331
UK unfranked investment income	63	63
	<b>3,106</b>	<b>3,394</b>

## 3. Investment management fee

	Revenue £'000	2002 Capital £'000	Total £'000	Revenue £'000	2001 Capital £'000	Total £'000
Investment management fee	322	597	919	355	660	1,015

The Company's investment manager is Friends Ivory & Sime plc. The contract between the Company and Friends Ivory & Sime plc may be terminated by either party giving one year's notice of termination. Friends Ivory & Sime plc receives a quarterly fee, payable in arrears, equal to 0.2 per cent of total assets less current liabilities. 35 per cent of this fee is charged to revenue. In addition, Friends Ivory & Sime plc receives an annual fee of £40,000, payable quarterly in arrears, in respect of the provision of secretarial services to the Company.

## 4. Other Expenses

	2002 £'000	2001 £'000
Directors' fees	58	55
Remuneration for the auditors and their associates:		
– audit	9	9
– other services to the Company	2	5
AIRC – its campaign	–	6
Other	174	239
	243	314

The remuneration of the Chairman, the highest paid Director was £15,750 (2000: £15,000) and that of each of the other four Directors was £10,500 (2000: £10,000).

## 5. Taxation on ordinary activities

	Revenue £'000	2002 Capital £'000	Total £'000	Revenue £'000	2001 Capital £'000	Total £'000
UK corporation tax	69	(69)	–	50	(50)	–
Overseas tax	–	–	–	1	–	1
	69	(69)	–	51	(50)	1

At 31 May 2002 the Company had unutilised expenses allowable for tax of £2,580,000 (2001: £1,983,000). No deferred tax asset has been recognised on the unutilised expenses as it is unlikely there will be a suitable tax profits from which the future reversal of the tax asset could be deducted. Reconciliation of tax charge for period:

	2002 £'000	2001 £'000
Return on ordinary revenue activities before tax	2,887	2,979
Corporation tax at standard rate of 30%	866	894
Non taxable dividend income	(931)	(1,018)
Expenses charged to capital	(179)	(198)
Unprovided deferred tax asset	313	373
	69	51

# Notes to the Accounts

Continued

## 6. Dividends

	2002 £'000	2001 £'000
Dividends on equity shares:		
– first interim 2.125p per share (2001: 1.975p)	749	696
– second interim 2.15p per share (2001: 2.00p)	757	704
– third interim 2.175p per share (2001: 2.05p)	766	722
– fourth interim 2.20p per share (2001: 2.125p)	775	749
	<b>3,047</b>	<b>2,871</b>

## 7. Return per Ordinary Share

	Revenue £'000	2002 Capital £'000	Total £'000	Revenue £'000	2001 Capital £'000	Total £'000
Basic	<b>8.00p</b>	<b>(25.58)p</b>	<b>(17.58)p</b>	8.31p	(15.67)p	(7.36)p

Basic revenue return per Ordinary Share is based on the net revenue on ordinary activities after taxation of £2,818,000 (2001: £2,928,000), and on 35,223,639 (2001: 35,223,639) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

Basic capital return per Ordinary Share is based on net capital losses for the financial year of £9,010,000 (2001: loss £5,521,000) and on 35,223,639 (2001: 35,223,639) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

## 8. Investments

	2002 £'000	2001 £'000
Total listed investments	<b>94,103</b>	98,628
		2002 £'000
Opening book cost		77,003
Opening unrealised appreciation		21,625
		98,628
Movements in the year:		
Purchases at cost		9,666
Sales – proceeds		(11,271)
– realised gains on sales		2,028
Decrease in unrealised appreciation		(4,948)
		94,103
Closing book cost		77,426
Closing unrealised appreciation		16,677
		94,103
	2002 £'000	2001 £'000
Realised gains/(losses) on sales of investments	<b>2,028</b>	(158)
(Decrease)/increase in unrealised appreciation	<b>(4,948)</b>	362
	<b>(2,920)</b>	204

**8. Investments (Continued)****Market price risk**

The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out on pages 16 and 17. No derivatives are used.

**Interest rate risk****Floating rate**

When the Company retains cash balances the majority of the cash is held in an overnight deposit account.

The benchmark rate which determines the interest received on cash balances held is the bank base rate which was 4.0 per cent as at 31 May 2002. Interest rate sensitive assets and liabilities were all denominated in sterling at 31 May 2002 and 31 May 2001.

The Company had no floating rate liabilities at 31 May 2002 and 31 May 2001.

**Fixed rate**

The Company may from time to time hold fixed interest investments.

At 31 May 2002, the Company held:

	£'000	2002 Average interest rate	Period until maturity	£'000	2001 Average interest rate	Period until maturity
De Vere Group 7% Convertible Bonds	920	7%	1.3 years	884	7%	2.3 years

It is the responsibility of Friends Ivory & Sime's dealing department to monitor and maximise the level of interest rates being applied to cash balances.

The Company had no fixed rate liabilities at 31 May 2002 and 31 May 2001.

**Liquidity risk**

In respect of liquidity risk, the Company's assets comprise mainly realisable securities and cash at bank.

**9. Debtors**

	2002 £'000	2001 £'000
Income tax recoverable	13	13
Prepayments and accrued income	392	436
	405	449

**10. Creditors: amounts falling due within one year**

	2002 £'000	2001 £'000
Amount due to brokers	506	—
Dividends	775	749
Other creditors	295	358
	1,576	1,107



# Notes to the Accounts

Continued

## 11. Called-up share capital

	2002 £'000	2001 £'000
<b>Authorised:</b>		
60,000,000 Ordinary Shares of 10p each	6,000	6,000
60,000,000 Zero Dividend Preference Shares of 100p each	60,000	60,000
<b>Allotted, called-up and fully-paid as at 31 May 2002</b>		
35,223,639 Ordinary Shares of 10p each	3,522	3,522
35,223,639 Zero Dividend Preference Shares of 100p each	35,224	35,224
	<b>38,746</b>	<b>38,746</b>

## 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 8.78 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.

## 12. Reserves

	Share premium account £'000	Redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 31 May 2001	40,607	28,163	(25,189)	21,625	889
Net gain on sales of investments			2,028		
Decrease in unrealised appreciation				(4,948)	
Management fees charged to capital			(597)		
Transfer to redemption reserve		5,562	(5,562)		
Taxation			69		
Retained net revenue for the year					(229)
At 31 May 2002	40,607	33,725	(29,251)	16,677	660

## 13. Net asset value per share

The net asset value per share and the net asset values attributable to the Ordinary Shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Net asset value per share attributable	Net asset value per share attributable
	2002 p	2001 p
Ordinary Shares	91.46	117.69
Zero Dividend Preference Shares	195.75	179.95

The movements during the year of the assets attributable to the Ordinary Shares and the Zero Dividend Preference Shares were as follows:

	Ordinary Shares (basic) £'000	Zero Dividend Preference Shares £'000	Total £'000
Total net assets attributable at beginning of year	41,454	63,387	104,841
Total recognised (losses)/gains for the period	(6,192)	5,562	(630)
Dividend appropriated in the period	(3,047)	–	(3,047)
	32,215	68,949	101,164

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 year end (2001: 35,223,639).

Basic net asset value per Zero Dividend Preference Share is based on net assets, and on 35,223,639 Zero Dividend Preference Shares, being the number of Zero Dividend Preference Shares in issue at the year end (2001: 35,223,639).

# Notes to the Accounts

Continued

## 14. Reconciliation of movements in total shareholders' funds

	2002 £'000	2001 £'000
Opening shareholders' funds	104,841	105,191
Total recognised (losses)/gains before dividends	(630)	2,521
Dividends in respect of equity shares	(3,047)	(2,871)
Closing shareholders' funds	101,164	104,841

## 15. Analysis of changes in cash

	At 1 June 2001 £'000	Cash inflow £'000	At 31 May 2002 £'000
Cash at bank and in hand	6,871	1,361	8,232

## 16. Reconciliation of net revenue before taxation to net cash inflow from operating activities

	2002 £'000	2001 £'000
Net revenue before finance taxation	2,887	2,979
Investment management fee charged to capital	(597)	(660)
Increase in prepayments and accrued income	44	6
Increase in other creditors	(63)	47
Taxation on investment income	—	(13)
Net cash inflow from operating activities	2,271	2,359

## 17. Financial instruments

The Company's financial instruments comprise equity investments, fixed interest investments and cash at bank and in hand. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective.

Fixed asset investments held (see note 8) are valued at middle market prices which equate to their fair values. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS 13, other than for currency disclosures.

The market value of each Zero Dividend Preference Share at 31 May 2002 was 199.25p (2001: 192.25p).

# Directors' Responsibility Statement and Independent Auditors' Report

Ivory & Sime Optimum Income Trust plc

## Directors' Responsibility Statement

The Directors are required by law to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company at the end of the financial period and of the revenue for that period.

They are also responsible for ensuring that adequate accounting records are maintained and that the assets of the Company are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

*The accounts have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made in the preparation of the accounts. Applicable UK accounting standards have been followed.*

## Independent Auditors' Report to the members of Ivory & Sime Optimum Income Trust plc

*We have audited the Company's accounts for the year ended 31 May 2002 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement, and the related notes 1 to 17. These accounts have been prepared on the basis of the accounting policies set out therein.*

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Directors' Responsibility Statement. Our responsibility is to audit the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the accounts, if the Company has not kept proper records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the 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 accounts. This other information comprises the Company Summary, Financial Highlights, Performance Summary, Chairman's Statement, Investment Services to Shareholders, Capital Structure, Manager's Review, Classification of Investments, Investment Portfolio, Board of Directors, Report of the Directors, Notice of Annual General Meeting, Shareholder Information and Corporate Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of 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 accounts give a true and fair view of the state of affairs of the Company as at 31 May 2002 and of the net revenue of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
Edinburgh  
2 August 2002

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Fifth Annual General Meeting of Ivory & Sime Optimum Income Trust plc will be held at the offices of Friends Ivory & Sime plc, 100 Wood Street, London EC2V 7AN on 11 September 2002 at 12.00 noon for the following purposes:

To consider and, if thought fit, pass Resolutions 1 to 4 as Ordinary Resolutions:

- 1 That the Reports and Accounts for the year ended 31 May 2002 be received.
2. To re-elect Mr S Coke, a Director who retires having attained the age of 70, special notice having been given pursuant to sections 293 and 379 of the Companies Act 1985.
3. To re-elect Mr A Downie, a Director retiring by rotation under the Articles of Association.
4. To re-appoint Ernst & Young LLP as the Company's auditors to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

To consider and, if thought fit, pass Resolutions 5 to 9 as Special Resolutions:

5. That, 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 existing power prior to the date hereof, the Directors be and they are hereby empowered, pursuant to section 95(1) of the Act but subject to article 4.4 of the Articles of Association of the Company, to allot equity securities (as defined in section 94(2) of the Act) for cash, pursuant to the authority under section 80 of the Act conferred on the Directors by an ordinary resolution of the Company passed on 26 August 1998 (the "Section 80 Authority"), as if section 89(1) of the Act did not apply to any such allotment, up to a maximum of 3,522,363 Ordinary Shares of 10p each and 3,522,363 Zero Dividend Preference Shares of 100p each, such power to expire on 25 August 2003 (or, if earlier, on the revocation of the Section 80 Authority), unless previously revoked, varied or extended by the Company in general meeting, save that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.
6. That, conditional on the passing of extraordinary resolution 1 set out in both the Notice of a Separate General Meeting of the holders of Ordinary Shares of 10p each in the share capital of the Company ("Ordinary Shares") and the Notice of a Separate General Meeting of the holders of Zero Dividend Preference Shares of 100p each in the share capital of the Company ("ZDP Shares"), both dated 2 August 2002, and conditional on the passing of Resolution 8 set out in this Notice of Annual General Meeting of the Company dated 2 August 2002:
  - (a) the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of section 163(3) of the Act) of fully paid Ordinary Shares, provided that:
    - (i) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 14.99 per cent of the issued Ordinary Share capital of the Company as at the date of the passing of this resolution;
    - (ii) the minimum price which may be paid for an Ordinary Share is 10p (exclusive of expenses);

- (iii) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Ordinary Shares for the five business days immediately preceding the date of purchase; and
- (iv) for every one Ordinary Share purchased by the Company pursuant to the authority set-out in this Resolution 6(a) the Company shall purchase one ZDP Share pursuant to the authority set-out in Resolution 6(b) below;

such authority to expire on the earlier of 10 March 2004 or at the conclusion of the annual general meeting of the Company to be held in 2003, unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase Ordinary Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts; and

- (b) the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of section 163(3) of the Act) of fully paid ZDP Shares, provided that:
  - (i) the maximum aggregate number of ZDP Shares hereby authorised to be purchased is 14.99 per cent of the issued Zero Dividend Preference Share capital of the Company as at the date of the passing of this resolution;
  - (ii) the minimum price which may be paid for a ZDP Share is 100p (exclusive of expenses);
  - (iii) the maximum price (exclusive of expenses) which may be paid for a ZDP Share is an amount equal to 105 per cent of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the ZDP Shares for the five business days immediately preceding the date of purchase; and
  - (iv) for every one ZDP Share purchased by the Company pursuant to the authority set-out in this Resolution 6(b) the Company shall purchase one Ordinary Share pursuant to the authority set-out in Resolution 6(a) above;

such authority to expire on the earlier of 10 March 2004 or at the conclusion of the annual general meeting of the Company to be held in 2003, unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase ZDP Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ZDP Shares in pursuance of any such contract or contracts.

- 7. That, conditional on the passing of extraordinary resolution 2 set out in both the Notice of a Separate General Meeting of the holders of Ordinary Shares of 10p each in the share capital of the Company and the Notice of a Separate General Meeting of the holders of Zero Dividend Preference Shares of 100p each in the share capital of the Company, both dated 2 August 2002:
  - (a) the amount standing to the credit of the share premium account of the Company be reduced by £40,607,000, subject to the confirmation of the Court of Session; and
  - (b) the Directors be and they are hereby authorised to do or procure to be done all such acts and things on behalf of the Company as they consider necessary or expedient to implement the share premium account reduction.

# Notice of Annual General Meeting

Continued

8. That, conditional on the passing of extraordinary resolution 1 set out in both the Notice of a Separate General Meeting of the holders of Ordinary Shares of 10p each in the share capital of the Company and the Notice of a Separate General Meeting of the holders of Zero Dividend Preference Shares of 100p each in the share capital of the Company, both dated 2 August 2002, the Articles of Association of the Company be amended by deleting article 4.2 and substituting therefor the following article (new/amended text is underlined for ease of reference):

## "4.2 Capital

Save in respect of any purchase of own shares by the Company which is effected in accordance with the terms of a shareholder resolution authorising such purchase, on the 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) shall 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 respectively):

- (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 the 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 the Ordinary Shares all further surplus assets of the Company available for distribution."
9. That, conditional on the passing of extraordinary resolution 3 set out in both the Notice of a Separate General Meeting of the holders of Ordinary Shares of 10p each in the share capital of the Company and the Notice of a Separate General Meeting of the holders of Zero Dividend Preference Shares of 100p each in the share capital of the Company, both dated 2 August 2002, the Articles of Association of the Company be amended by deleting article 4.4(iv) and substituting therefor the following article 4.4(iv) (new/amended text is underlined for ease of reference):

## "4.4 Class Consents

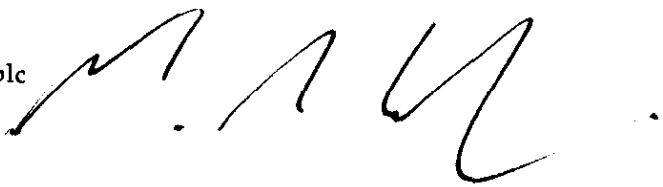
Notwithstanding Article 7, the Company shall not, without the previous sanction of extraordinary resolutions passed at separate general meetings of the holders of the Ordinary Shares and of the Zero Dividend Preference Shares, in each case duly convened and held in accordance with the provisions of these Articles:

- (iv) pass a resolution to reduce the capital of the Company in any manner including any resolution authorising the Directors to purchase shares in the Company save for a resolution authorising the Directors to purchase shares in the Company in the ratio of one Ordinary Share to one Zero Dividend Preference Share;

By Order of the Board

Friends Ivory & Sime plc  
Secretary

2 August 2002



## Notes

1. *Explanatory note to Resolution 5.*

Resolution 5 (which will be proposed as a special resolution) contains a disapplication of pre-emption rights on the issue of Ordinary Shares and Zero Dividend Preference Shares for cash that would otherwise exist for shareholders under section 89(1) of the Companies Act 1985. The disapplication is, however, limited to 3,522,363 Ordinary Shares and 3,522,363 Zero Dividend Preference Shares, representing 10 per cent of their respective class of issued share capital of the Company as at 2 August 2002. The disapplication will last until 25 August 2003, the date of the expiry of the related authority to allot shares under section 80 of the Companies Act 1985.

Resolution 5 is subject to the Company's Articles of Association. Accordingly, no new shares will be allotted pursuant to Resolution 5 unless they are issued simultaneously in the ratio of 1 Ordinary Share to 1 Zero Dividend Preference Share and at prices such that the aggregate cash consideration received on their issue (net of issue expenses) is not less than the aggregate net asset value attributable to such new shares at the time the allotment of the new shares is approved by the Directors. In addition to satisfying those requirements, the Directors will only allot shares pursuant to the authority and power conferred by Resolution 5 if they believe, at the time of such allotment, it is in the interests of shareholders generally to do so.

2. A holder of Ordinary Shares entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him in respect of all Resolutions to be proposed. A holder of Zero Dividend Preference Shares is entitled to attend and vote at the above meeting in respect of Resolutions 6 to 9 (inclusive) and is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him in respect of those Resolutions. A proxy need not also be a member of the Company.
3. Ordinary Shareholders will find enclosed with this document a white form of proxy for use at the above meeting. Zero Dividend Preference Shareholders will find enclosed with this document a blue form of proxy for use in connection with Resolutions 6 to 9 (inclusive) to be proposed at the above meeting. To be valid, the forms of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which they are signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, so as to reach the Company's registrars, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1XY, not later than 12.00 noon on 9 September 2002.
4. Completing and returning a white form of proxy will not prevent an Ordinary Shareholder from attending in person at the above meeting and voting should he so wish. Completing and returning a blue form of proxy will not prevent a Zero Dividend Preference Shareholder from attending in person at the above meeting and voting should he so wish in respect of Resolutions 6 to 9 (inclusive).
5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Ordinary Shareholders and Zero Dividend Preference Shareholders entered on the Register of Members of the Company as at 6.00 p.m. on 9 September 2002 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares and/or Zero Dividend Preference Shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00 p.m. on 9 September 2002 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
6. Holders of Zero Dividend Preference Shares are only entitled to attend the above meeting and/or vote in respect of Resolutions 6 to 9 (inclusive) relating to the purchase of own shares by the Company, the reduction of the Company's share premium account and various amendments to the Company's Articles of Association.
7. No Director has a contract of service with the Company.



# Notice of Separate General Meeting of Ordinary Shareholders

NOTICE IS HEREBY GIVEN that a Separate General Meeting of holders of Ordinary Shares of 10p each in the share capital of Ivory & Sime Optimum Income Trust plc ("Ordinary Shares") will be held at the offices of Friends Ivory & Sime plc, 100 Wood Street, London EC2V 7AN on 11 September 2002 at 12.15 p.m. (or as soon thereafter as the Annual General Meeting of the Company convened for that day and place shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as extraordinary resolutions:

## EXTRAORDINARY RESOLUTION 1

THAT the holders of Ordinary Shares hereby sanction and consent to:

1. the passing and carrying into effect, as special resolutions of the Company, of Resolutions 6 and 8 contained in the Notice of Annual General Meeting of the Company dated 2 August 2002;
2. the implementation of the share buy-back authorities set out in Resolution 6 contained in the Notice of Annual General Meeting of the Company dated 2 August 2002 (the "Buy-back Authorities"); and
3. any variation or abrogation and/or deemed variation or abrogation of the rights attached to the Ordinary Shares which will, or may, result from the passing and carrying into effect of any resolution referred to in sub-paragraph 1 of this resolution and/or the implementation of the Buy-back Authorities.

## EXTRAORDINARY RESOLUTION 2

THAT the holders of Ordinary Shares hereby sanction and consent to:

1. the passing and carrying into effect, as a special resolution of the Company, of Resolution 7 contained in the Notice of Annual General Meeting of the Company dated 2 August 2002; and
2. any variation or abrogation and/or deemed variation or abrogation of the rights attached to the Ordinary Shares which will, or may, result from the passing and carrying into effect of the resolution referred to in sub-paragraph 1 of this resolution.

## EXTRAORDINARY RESOLUTION 3

THAT the holders of Ordinary Shares hereby sanction and consent to:

1. the passing and carrying into effect, as a special resolution of the Company, of Resolution 9 contained in the Notice of Annual General Meeting of the Company dated 2 August 2002; and
2. any variation or abrogation and/or deemed variation or abrogation of the rights attached to the Ordinary Shares which will, or may, result from the passing and carrying into effect of the resolution referred to in sub-paragraph 1 of this resolution.

By Order of the Board

**Friends Ivory & Sime plc**

Secretary

2 August 2002

## Notes

1. A holder of Ordinary Shares entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member of the Company.
2. Ordinary Shareholders will find enclosed with this document a yellow form of proxy for use at the above meeting. To be valid, the yellow form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, so as to reach the Company's registrars, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1XY, not later than 12.15 p.m. on 9 September 2002.
3. Completing and returning a yellow form of proxy will not prevent an Ordinary Shareholder from attending in person at the above meeting and voting should he so wish.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Ordinary Shareholders entered on the Register of Members of the Company as at 6.00 p.m. on 9 September 2002 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00 p.m. on 9 September 2002 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
5. Only Ordinary Shareholders have the right to attend and vote at the above meeting.

# Notice of Separate General Meeting of Zero Dividend Preference Shareholders

NOTICE IS HEREBY GIVEN that a Separate General Meeting of holders of Zero Dividend Preference Shares of 100p each in the share capital of Ivory & Sime Optimum Income Trust plc ("ZDP Shares") will be held at the offices of Friends Ivory & Sime plc, 100 Wood Street, London EC2V 7AN on 11 September 2002 at 12.30 p.m. (or as soon thereafter as the Separate General Meeting of the Ordinary Shareholders of the Company convened for that day and place shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as extraordinary resolutions:

## EXTRAORDINARY RESOLUTION 1

THAT the holders of ZDP Shares hereby sanction and consent to:

1. the passing and carrying into effect, as special resolutions of the Company, of Resolutions 6 and 8 contained in the Notice of Annual General Meeting of the Company dated 2 August 2002;
2. the implementation of the share buy-back authorities set out in Resolution 6 contained in the Notice of Annual General Meeting of the Company dated 2 August 2002 (the "Buy-back Authorities"); and
3. any variation or abrogation and/or deemed variation or abrogation of the rights attached to the ZDP Shares which will, or may, result from the passing and carrying into effect of any resolution referred to in sub-paragraph 1 of this resolution and/or the implementation of the Buy-back Authorities.

## EXTRAORDINARY RESOLUTION 2

THAT the holders of ZDP Shares hereby sanction and consent to:

1. the passing and carrying into effect, as a special resolution of the Company, of Resolution 7 contained in the Notice of Annual General Meeting of the Company dated 2 August 2002; and
2. any variation or abrogation and/or deemed variation or abrogation of the rights attached to the ZDP Shares which will, or may, result from the passing and carrying into effect of the resolution referred to in sub-paragraph 1 of this resolution.

## EXTRAORDINARY RESOLUTION 3

THAT the holders of ZDP Shares hereby sanction and consent to:

1. the passing and carrying into effect, as a special resolution of the Company, of Resolution 9 contained in the Notice of Annual General Meeting of the Company dated 2 August 2002; and
2. any variation or abrogation and/or deemed variation or abrogation of the rights attached to the ZDP Shares which will, or may, result from the passing and carrying into effect of the resolution referred to in sub-paragraph 1 of this resolution.

By Order of the Board

**Friends Ivory & Sime plc**

Secretary

2 August 2002

*Notes*

1. A holder of Zero Dividend Preference Shares entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member of the Company.
2. Zero Dividend Preference Shareholders will find enclosed with this document a green form of proxy for use at the above meeting. To be valid, the green form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, so as to reach the Company's registrars, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1XY, not later than 12.30 p.m. on 9 September 2002.
3. Completing and returning a green form of proxy will not prevent a Zero Dividend Preference Shareholder from attending in person at the above meeting and voting should he so wish.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Zero Dividend Preference Shareholders entered on the Register of Members of the Company as at 6.00 p.m. on 9 September 2002 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Zero Dividend Preference Shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00 p.m. on 9 September 2002 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
5. Only Zero Dividend Preference Shareholders have the right to attend and vote at the above meeting.

# Appendix

## **Explanatory note on resolutions to be proposed at the Annual General Meeting of the Company and Separate General Meetings**

At this year's Annual General Meeting, five special resolutions will be proposed (Resolutions 5 to 9 (inclusive)). Resolution 5 will be familiar to you from previous Annual General Meetings. It relates to the disapplication of pre-emption rights and it is explained below.

Resolution 6 relates to purchase of own shares by the Company, Resolution 7 to reduction of the Company's share premium account and Resolutions 8 and 9 to amendments to the Company's articles of association. Again, they are all explained below. Resolutions 6, 7 and 8 are inter-related and are all proposed in connection with the desire on the part of the Directors that the Company be able to purchase its own shares.

Resolution 9 is proposed to facilitate purchases of own shares in the future by removing the need for separate class consents for own share purchase resolutions which preserve the ratio of Ordinary Shares to Zero Dividend Preference Shares.

Resolutions 6 to 9 (inclusive) require class consents to be granted by each of the Company's classes of share before they become effective hence the Separate General Meetings convened for after the conclusion of the Annual General Meeting (see below).

### **Resolution 5: Disapplication of Pre-emption Rights (Special Resolution)**

Resolution 5 seeks to give the directors power to allot a maximum of 3,522,363 Ordinary Shares and 3,522,363 Zero Dividend Preference Shares for cash without first being required to offer such shares to existing shareholders. This disapplication of statutory pre-emption rights is therefore limited to 10 per cent of each of the Company's respective classes of issued share capital as at 2 August 2002. This resolution is also subject to the Company's Articles of Association. Accordingly, no new shares will be allotted pursuant to resolution 5 unless they are issued simultaneously in the ratio of 1 Ordinary Share to 1 Zero Dividend Preference Share and at prices which do not dilute net asset value.

The power conferred by this resolution will expire on 25 August 2003.

The Directors consider that the power proposed to be granted by resolution 5 is necessary to retain flexibility, although they do not have any intention of exercising such power at the present time. The Directors will only allot shares pursuant to the power conferred by resolution 5 if they believe at the time of such allotment it is in the interests of shareholders generally to do so.

### **Resolution 6: Purchase of Own Shares (Special Resolution)**

The Company is for the first time proposing a special resolution to the Annual General Meeting to authorise the Company to make market purchases of both its own Ordinary Shares and its own Zero Dividend Preference Shares. The passing of this resolution is conditional on the passing of extraordinary resolution 1 to be proposed at both the Separate General Meetings and Resolution 8 to be proposed at the AGM (see below). The ratio of Ordinary Shares in issue to Zero Dividend Preference Shares in issue is currently 1:1. These authorities, if conferred, will only be exercised if to do so would result in that ratio being maintained.

The maximum aggregate number of Ordinary Shares which may be purchased pursuant to the authority shall be 14.99 per cent of the issued Ordinary Share capital of the Company as at the date of the passing of the resolution (approximately 5.28 million Ordinary Shares). The minimum price which may be paid for an Ordinary Share shall be 10p (exclusive of expenses). The maximum price for an Ordinary Share (again exclusive of expenses) shall be an amount equal to 105 per cent of the average of the middle market quotations for the Company's Ordinary Shares for the five business days immediately preceding the date of purchase.

The maximum aggregate number of Zero Dividend Preference Shares which may be purchased pursuant to the authority shall be 14.99 per cent of the issued Zero Dividend Preference Share capital of the Company as at the date of the passing of the resolution (approximately 5.28 million Zero Dividend Preference Shares). The minimum price which may be paid for a Zero Dividend Preference Share shall be 100p (exclusive of expenses). The maximum price for a Zero Dividend Preference Share (again exclusive of expenses) shall be an amount equal to 105 per cent of the average of the middle market quotations for the Company's Zero Dividend Preference Shares for the five business days immediately preceding the date of purchase.

Purchases of own shares in exercise of the buy-back authorities will principally be financed out of the special reserve created on completion of the reduction of the Company's share premium account. (See Resolution 7 below). The actual cash required to fund buy-backs of shares will be met from available cash reserves or by selling investments in the Company's portfolio (or a combination of the foregoing). Shares which are bought back by the Company will be cancelled, thereby reducing the Company's issued share capital.

The Company may utilise the buy-back authorities by either a single purchase or a series of purchases. However, the securing of authorities to make own share purchases should not, of itself, be taken as an indication that these authorities will be exercised and own share purchases made.

As the Companies Act 1985 restricts the maximum duration of a company's authority to make market purchases of its own shares to 18 months, the buy-back authorities will expire on the earlier of 10 March 2004 or at the conclusion of the annual general meeting of the Company to be held in 2003, unless previously varied, revoked or renewed by the Company in general meeting.

These authorities, if conferred, will only be exercised if to do so would result in an increase in net asset value per share and if it is in the best interests of shareholders generally.

#### **Resolution 7: Reduction of Share Premium Account (Special Resolution)**

Special resolution 7 in the Notice of AGM is a special resolution to reduce the share premium account of the Company. The passing of this resolution is conditional on the passing of extraordinary resolution 2 to be proposed at both the Separate General Meetings (see below).

Your directors are recommending that £40,607,000 of the amount standing to the credit of the share premium account be converted into a new special reserve of the Company which, subject to the usual court approval, may be used by the Company for the purposes of purchases of its own shares.

Subject to special resolution 7 being passed, application will be made to the Court of Session in Edinburgh to confirm the reduction. This confirmation must be granted before the reduction of the share premium account can become effective. The Court of Session will need to be satisfied that the interests of the Company's creditors will not be prejudiced as a result of the reduction. It is expected that the reduction will take effect prior to the end of October 2002. The reduction will only take effect once the order of the Court of Session confirming the reduction has been lodged with the Registrar of Companies.

#### **Resolution 8: Amendment to Articles of Association (Special Resolution)**

Special resolution 8 in the Notice of AGM is a special resolution to make certain amendments to the articles of association of the Company. The passing of this resolution is conditional on the passing of extraordinary resolution 1 to be proposed at both the Separate General Meetings (see below).

Special resolution 8 updates article 4.2 to address the concern that any purchase of own shares by the Company could be construed as defeating the priority which the holders of Zero Dividend Preference Shares have on a return of capital. Your attention is drawn to the new underlined wording at the beginning of the article.

# Appendix

## Continued

The effect of this wording is to carve-out any purchases of own shares from the original priority that applied on a return of capital. Such purchases must be made in accordance with the relevant shareholder resolution.

### **Resolution 9: Amendment to Articles of Association (Special Resolution)**

Special resolution 9 in the Notice of AGM is a special resolution to make certain amendments to the articles of association of the Company. The passing of this resolution is conditional on the passing of extraordinary resolution 3 to be proposed at both the Separate General Meetings (see below).

Special resolution 9 specifically amends the terms of article 4.4(iv) which contain certain class right protections for both classes of the Company's shares. If Resolution 9 is passed, class consents will not be required in the future for any resolution authorising the Directors to make own share purchases in the Company provided such resolution authorises purchases in the ratio of 1 Ordinary Share for every Zero Dividend Preference Share purchased and vice-versa. If Resolution 9 is not passed then, as is the case for the current own share purchase proposal, it will be necessary to convene further separate general meetings of the individual share classes to approve any future own share purchase resolution to be put to shareholders at either an annual or extraordinary general meeting.

### **Summary**

Resolutions 6 to 9 (inclusive) seek shareholder approval for:

- (i) the proposed purchase of own shares authorities;
- (ii) the proposed reduction of share premium account; and
- (iii) certain proposed amendments to the Company's articles of association

and are set out in the notice of the Annual General Meeting on pages 36 to 38 of this document.

Implementation of the above proposals is conditional upon and requires the passing of certain extraordinary resolutions to be proposed at the Separate General Meetings of the Ordinary Shareholders and the Zero Dividend Preference Shareholders, respectively.

### **Separate General Meetings**

Extraordinary resolutions to sanction and consent to:

- (i) the proposed reduction of share premium account;
- (ii) the proposed purchase of own shares authorities;
- (iii) the proposed amendments to the Company's articles of association;
- (iv) the implementation of the own share purchase authorities; and
- (v) any variation or abrogation or deemed variation or abrogation of the rights attached to the Ordinary Shares/Zero Dividend Preference Shares, as appropriate, which will or may result from (i) to (iv) above

are set out in the notice of the Separate General Meetings of Ordinary Shareholders and of Zero Dividend Preference Shareholders on page 40 of this document.

Implementation of certain of the AGM proposals is conditional upon and requires the passing of certain of these extraordinary resolutions.

### **Quorum Requirements and Use of Proxies**

The quorum requirement for each Separate General Meeting is two persons together holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question. If either of the Separate

General Meetings is not quorate on 11 September 2002 the meeting will be adjourned to 2.30 p.m. (in the case of the Separate General Meeting of Ordinary Shareholders) or 2.45 p.m. (in the case of the Separate General Meeting of Zero Dividend Preference Shareholders) on 11 September 2002 at the same venue (or such time on the same date and at the same venue as the Directors may determine).

At such an adjourned Separate General Meeting, the quorum shall be only one person holding shares of the class in question or his proxy.

**It would obviously be convenient if the Separate General Meetings do not have to be reconvened and therefore all Ordinary Shareholders are urged to complete and return the yellow proxy form and all Zero Dividend Preference Shareholders are urged to complete and return the green proxy form enclosed for these meetings.**

#### **Action To Be Taken**

##### *(a) To vote at the Annual General Meeting*

Ordinary Shareholders will find enclosed a white form of proxy for use at the Annual General Meeting. Zero Dividend Preference Shareholders will find enclosed a blue form of proxy for use at the Annual General Meeting in respect of Resolutions 6 to 9 (inclusive).

Whether or not shareholders propose to attend the meeting, they are requested to complete and return the relevant form of proxy as soon as possible in accordance with the instructions printed thereon. The completion and return of a form of proxy will not prevent shareholders from attending and voting in person should they so wish. To be valid, the form of proxy must be lodged with the Company's registrars, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1XY, so as to arrive no later than 12.00 noon on 9 September 2002.

##### *(b) To vote at the Separate General Meeting of Ordinary Shareholders*

Ordinary Shareholders will find enclosed a yellow form of proxy for use at the Separate General Meeting. Whether or not Ordinary Shareholders propose to attend the meeting, they are asked to complete and return the yellow form of proxy as soon as possible in accordance with the instructions printed thereon, *particularly in view of the quorum requirements referred to above*. The completion and return of the yellow form of proxy will not prevent Ordinary Shareholders from attending and voting in person should they so wish. To be valid, the yellow form of proxy must be lodged with the Company's registrars, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1XY, so as to arrive no later than 12.15 p.m. on 9 September 2002.

##### *(c) To vote at the Separate General Meeting of Zero Dividend Preference Shareholders*

Zero Dividend Preference Shareholders will find enclosed a green form of proxy for use at the Separate General Meeting. Whether or not Zero Dividend Preference Shareholders propose to attend the meeting, they are asked to complete and return the green form of proxy as soon as possible in accordance with the instructions printed thereon, *particularly in view of the quorum requirements referred to above*. The completion and return of the green form of proxy will not prevent Zero Dividend Preference Shareholders from attending and voting in person should they so wish. To be valid, the green form of proxy must be lodged with the Company's registrars, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1XY, so as to arrive no later than 12.30 p.m. on 9 September 2002.



# Shareholder Information

% of Ordinary Shares held at 31 May 2002

## Annual General Meeting and Separate General Meetings

The Annual General Meeting and Separate General Meetings of Ivory & Sime Optimum Income Trust plc will be held at the offices of Friends Ivory & Sime plc, 100 Wood Street, London EC2V 7AN on 11 September 2002.

## Dividends

Ordinary dividends are paid quarterly in August, November, February and May each year. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ on request.

## Share Prices

The Company's Ordinary Shares and Zero Dividend Preference Shares are listed on the London Stock Exchange under 'Investment Companies'. Prices are given daily in the *Financial Times*, *The Scotsman* and other newspapers.

## Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Lloyds TSB Registrars, under the signature of the registered holder.

## Daily Net Asset Value

The net asset value of the Company's shares can be obtained by contacting Friends Ivory & Sime Customer Services on 0845 600 6166.

# Corporate Information

## Directors

R A Hammond-Chambers (Chairman)  
S Coke  
A W Downie  
A R Irvine  
P N B Kennedy

## Registered Office

One Charlotte Square  
Edinburgh EH2 4DZ  
Tel No. 0131 465 1000  
Telex No. 727242  
Facsimile No. 0131 225 2375

## Secretaries

Friends Ivory & Sime plc  
One Charlotte Square  
Edinburgh EH2 4DZ

## Investment Manager

Friends Ivory & Sime plc  
One Charlotte Square  
Edinburgh EH2 4DZ

## Friends Ivory & Sime Customer Services

One Charlotte Square  
Edinburgh EH2 4DZ  
Tel No. 0845 600 6166

## Registrars and Transfer Office

Lloyds TSB Registrars Scotland  
PO Box 28448  
Finance House  
Orchard Brae  
Edinburgh EH4 1WQ

## Registrar's Shareholder Helpline

Tel No. 0870 601 5366

## Registrar's Broker Helpline

Tel No. 0870 600 0158

## Auditors

Ernst & Young LLP  
Ten George Street  
Edinburgh EH2 2DZ

## Brokers

UBS Warburg  
1 Finsbury Avenue  
London EC2M 2PA

## Solicitors

Shepherd & Wedderburn WS  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2ET

## Bankers

Chase Manhattan Bank  
Woolgate House  
Coleman Street  
London EC2P 2HD

For further information contact Friends Ivory & Sime  
Investment Services on 0845 600 6166