# EL ORO AND EXPLORATION COMPANY p.l.c.

*Company No: 80408*

Founded 1 November 1886

## *Directors' Report and Accounts*

*for the year ended 31 December 2003*

# EL ORO AND EXPLORATION COMPANY p.l.c.

(formerly THE EXPLORATION COMPANY p.l.c.)

**DIRECTORS:**
C. R. W. Parish, M. A. (Oxon)
*(Chairman and Managing Director)*
The Hon. Mrs. E. C. Parish
E. W. Houston
D. R. L. Hunting
R. E. Wade
J. A. Wild

**REGISTERED OFFICE:**
41 Cheval Place
London
SW7 1EW

**SECRETARY:**
C. E. J. Burman, FCA

**REGISTRARS AND TRANSFER OFFICE:**
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

**REGISTERED AUDITORS:**
PricewaterhouseCoopers LLP
*Chartered Accountants*
Southwark Towers
32 London Bridge Street
London
SE1 9SY

## REPORT OF THE DIRECTORS

**Financial Statements**
The Directors submit their Report and financial statements of the Company for the year ended 31 December 2003 and Group Accounts for the year ended on that date.

**Directors' Responsibilities**
Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements.

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

The Directors are responsible for ensuring that the Directors' Report and other information included in the Report and Accounts are prepared in accordance with Company law in the United Kingdom. They are also responsible for ensuring that the Report and Financial Statements include the information required by the Listing Rules of the Financial Services Authority.

**Business**
The principal activity of the Company is dealing in investments. The main aim of the Company since 1938 has been to increase the asset value of the stockholders' units whilst continually increasing their dividends and at the same time not asking them to put up any new money. The progress of this endeavour is clearly shown in the table on page 12.

There were no significant changes in the Group's activities during the year.

It is the Directors intention to continue to manage the Group's affairs in accordance with its stated business objectives. Details of Listed and Unlisted Investments with market values in excess of £500,000 and held at 31 December 2003, are given on page 32.

## REPORT OF THE DIRECTORS *continued*

| Results | 2003 £ | 2002 £ |
|---|---|---|
| Group profit before taxation | **3,938,278** | 2,321,415 |
| Deduct: Taxation | **1,452,064** | 591,469 |
| | **2,486,214** | 1,729,946 |
| Proposed dividend payable 220% (2001: 210%) (Note 4) | **1,313,722** | 1,224,179 |
| Unclaimed dividends (claimed)/forfeited | **(267)** | 177 |
| Retained profit for the year | **£1,172,759** | £505,591 |
| Parent Company | **865,177** | 78,134 |
| Subsidiary Companies | **307,582** | 427,457 |
| | **£1,172,759** | £505,591 |

**Dividend**
A first and final dividend is proposed for the year ended 31 December 2003 of 11.0p (2002: 10.5p) per stock unit, which, subject to approval at the Annual General Meeting, will be paid on the 25 October 2004 to members registered in the books of the Company at the close of business on the 30 July 2004.

**Review of the Business**
A review of the Company's activities is given in the Chairman's Statement on pages 13 to 15.

**Group reconstruction**
On 5 September 2003 the Company changed its name from The Exploration Company p.l.c., and completed its capital reorganisation by acquiring the issued capital of El Oro Mining and Exploration Company p.l.c., Danby Registrars Limited and Investigations and Management Limited that it did not already own and cancelled the shares in the Company held by El Oro Mining and Exploration Company p.l.c., while the assets of that company were acquired by the Company at fair value consideration. The accounts, together with comparatives, for the Group have been prepared on the Merger Accounting basis throughout. The effect of this change of basis includes the restatement of comparatives for the prior year. The results of the subsidiary companies that were formerly associated companies are now fully included rather than including the portion of these companies results attributable to the Company.

**Price of Company's stock units on 6 April 1965**
The price of the Company's stock units for Capital Gains Tax purposes was 13p on 6 April 1965 (31 March 1982: 29.5p).

**Directorate**
A list of the current members of the Board of Directors is shown on page 2 and constitutes part of this Directors' Report.
D. R. L. Hunting and J. A. Wild retire by rotation and, being eligible, offer themselves for re-election.

## REPORT OF THE DIRECTORS *continued*

The interests of the Directors who held office during the year in the Company's stock units are shown in the Remuneration Report.

**Non-Executive Directors**

E. W. Houston, D. R. L. Hunting, R. E. Wade and J. A. Wild are Directors of El Oro Mining and Exploration Company p.l.c., the associated undertaking of the Company that became one of its subsidiary companies on 5 September 2003.
E. W. Houston has no other Directorships. D. R. L. Hunting is an executive Director of Hunting Investments Limited. R. E. Wade (a citizen of the USA) is a non-executive Director of Franklin Mutual Series Funds (USA) Inc. and was a Director of FTI Funds (USA) until 23 July 2003. J. A. Wild is a non-executive Director of James Halstead plc and an executive Director of Dean Property Group Limited, J. Wild Investments Limited and Wilds Limited.

**Approval of the Financial Statements**

The financial statements on pages 16 to 30 were approved by the Board of Directors on 14 May 2004, and were signed on its behalf by C. R. W. Parish and J. A. Wild.

**Substantial Interests**

So far as your Directors are aware at no time during the year, or up to the issue of this Report, has any other company or person, who is not a Director of the Company, held an interest comprising 3% or more of the issued capital of the Company with the exception of the stockholders disclosed below.

| Stockholders | % | Total Stock Units | Beneficial | Non-beneficial |
|---|---|---|---|---|
| Mr. S. B. & Mrs. S. W. Kumaramangalam | 12.90 | 1,554,644 | 1,042,097 | 512,547 |
| Mr. W. B. & Mrs. P. Fraser | 15.20 | 1,831,994 | 7,515 | 1,824,479 |
| JM Finn Nominees Limited | 15.11 | 1,821,290 | – | 1,821,290 |
| Mr G. & Mrs C.W. Zegos | 9.72 | 1,171,770 | 709,223 | 462,547 |

As a result of Mr. & Mrs. Kumaramangalam, Mr. & Mrs. Fraser, JM Finn Nominees Limited and Mr. & Mrs. Zegos being trustees of several family trusts, their non-beneficial interests in the stock units of El Oro and Exploration Company p.l.c. contain a degree of duplication.

**Supplier Payment Policy**

The Group complies with the settlement conditions of the stock exchanges on which it trades. It is Group policy in respect of its other suppliers to agree the terms of payment at the start of business with that supplier, to ensure that suppliers are aware of the terms of payment and to pay in accordance with contractual and other legal commitments. All accounts are usually settled within thirty days of receipt.

## REPORT OF THE DIRECTORS *continued*

**Statement of Compliance with the 1998 Code of Best Practice of the Combined Code**

Your Board complies, where practical, with the provisions of the Code of Best Practice set out in Section 1 of 1998 The Combined Code. All matters requiring a Board decision are dealt with quickly and effectively following consultations among the Directors and, when further guidance is required, the Company's professional advisors.

Your Board takes the view that, due to the nature of the Company's business and its size, this flexible and direct approach is more effective than the more formal procedures that may suit larger trading and financial organisations. It believes that this policy has made a positive contribution to your Company's success. It is for these reasons that your Board does not comply with certain parts of the Provisions of the Code of Best Practice set out in Section 1 of The 1998 Combined Code. The areas of non-compliance are listed below.

***Code Provisions***

**Schedule of matters specifically reserved to the Board**

Your Board does not consider it is necessary to prepare a formal schedule of matters reserved as your Board takes decisions on all material matters.

**Directors taking independent professional advice**

There is no agreed formal procedure for Directors in the furtherance of their duties to take independent professional advice, if necessary, at the Company's expense. It has, however, been your Board's practice to take independent advice, where necessary, from the Company's professional advisers on legal and financial matters and the Board intends to continue with this policy.

**Division of responsibilities at the head of the Company**

The Chairman of your Company is also the Managing Director and is responsible for running both your Board and the Company's business. Having regard to the size of the Company, your Board sees no advantage in splitting these two roles. Directors express their views at regular meetings and make a valuable contribution to the running of the Company.
From December 2001 there have been four non-executive Directors.

**Transparent procedure for the appointment of new Directors to the Board**

There is no formal and transparent procedure for the appointment of new Directors to your Board. Having regard to the size of your Board, any appointments of new Directors would be considered at regular Board meetings.

**Audit Committee**

An audit committee was elected during the prior year and comprises D. R. L. Hunting, R. E. Wade and J. A. Wild (Chairman).

**Statement about applying the Principles of Good Governance**

Your Board is committed to the principles of openness and accountability in dealing with the Company's affairs. It believes it has always acted in the best interests of the Company and its stockholders and that this is reflected in the past success of the Company.

## REPORT OF THE DIRECTORS *continued*

The Company has applied the Principles of Good Governance Set out in Section 1 of The 1998 Combined Code by complying with The Code of Best Practice as reported above. Given the detailed explanations above for the areas of non-compliance, your Board feels there is no fundamental reason for changing its policies in relation to the 1998 Combined Code and firmly believes its stockholders will support this view.

The external auditors report to the Directors and the Audit Committee on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence from the Company.

**Internal Control and Risk Management**

Your Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate those risks associated with the achievement of business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The 1998 Combined Code includes a requirement that the Directors review, at least annually, the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls and risk management. The Group last reviewed the effectiveness of the Group's system of internal controls for the year ended 31 December 2003.

In accordance with the Turnbull Guidance, your Board has established a defined process for identifying, evaluating and managing the significant risks faced by the Group. This has been in place since October 2000 and up to the date of approval of the Annual Report and Accounts. It consists of:

- the preparation of a formal risk and control matrix for each activity of the Group which identifies key risks, together with the controls in place to minimise these risks and the management responsible for operating the controls, and for reviewing the proper operation of the controls;

- the establishment of a procedure under which management are required to report on maintenance of these controls and provide feedback on the status of the controls on a regular basis; and

- the establishment of a regular bi-annual process of reporting any exceptions.

This risk and control matrix is prepared and the bi-annual review undertaken by independent consultants experienced in investment and accounting matters.

During 2004, steps will be taken to deal with the areas of improvement brought to the notice of the Board.

**Walcot Hall Estate – Related Party**

As explained in note 19 to the financial statements, Walcot Hall Estate in Shropshire, a property included as part of the investment portfolio of Danby Registrars Limited, a subsidiary company, is occupied by an executive Director of the Company, The Hon. Mrs E. C. Parish under a protected tenancy agreement entered in 1957 for an annual rental of £7,580. The Hon. Mrs E. C. Parish allows C. R. W. Parish, the Chairman and Managing Director, and his family, and her daughter Mrs S. W. Kumaramangalam and her family to reside in the property. The Group's investment in this property at market value amounts to £3,100,000. The latest valuation of the property was carried out in January 2004, by FPDSavills Limited, Chartered Surveyors.

## REPORT OF THE DIRECTORS *continued*

**Going Concern**

Your Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Company and the Group consist mainly of listed securities which are readily realisable and whose market values far exceed current or foreseeable liabilities.

**Registered Auditors**

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting. The auditors have indicated their willingness to continue in office.

*Registered Office*
**41 Cheval Place,**
**London, SW7 1EW**
14 May 2004

By Order of the Board
**C. E. J. Burman, FCA**
*Secretary*

## REMUNERATION REPORT
*for the year ended 31 December 2003*

**Remuneration policy**
*not audited*
The role of the Remuneration Committee is to decide the remuneration of the executive Directors.

The Company's policy on remuneration is to attract, retain and motivate the best staff, recognising that they are key to the ongoing success of the business.

Consistent with this policy, the Company's benefit package awarded to C.R.W. Parish, one of the executive Directors, is intended to be competitive and comprises a mix of performance-related and non-performance-related remuneration designed to motivate him, but not to detract from the goals of Corporate Governance.

The benefit packages of The Hon. Mrs. E. C. Parish, the other executive Director and the non-executive Directors are at levels which are not related to the performance of the Company.

The targeted composition of each executive Director's remuneration is as follows:

| | Non-performance related | Performance-related |
|---|---|---|
| C.R.W. Parish | 50% | 50% |
| The Hon. Mrs. E. C. Parish | 100% | 0% |

**Directors' service contracts**
*not audited*
The executive Directors do not have service contracts with the Company.

It is the Company's policy that the service contracts of the non-executive Directors should be no more than five years in duration, that they should have notice periods of not more than one year and that contractual termination payments should not exceed the Director's salary for the previous calendar year.

The details of the service contracts of the non-executive Directors who served during the year are:

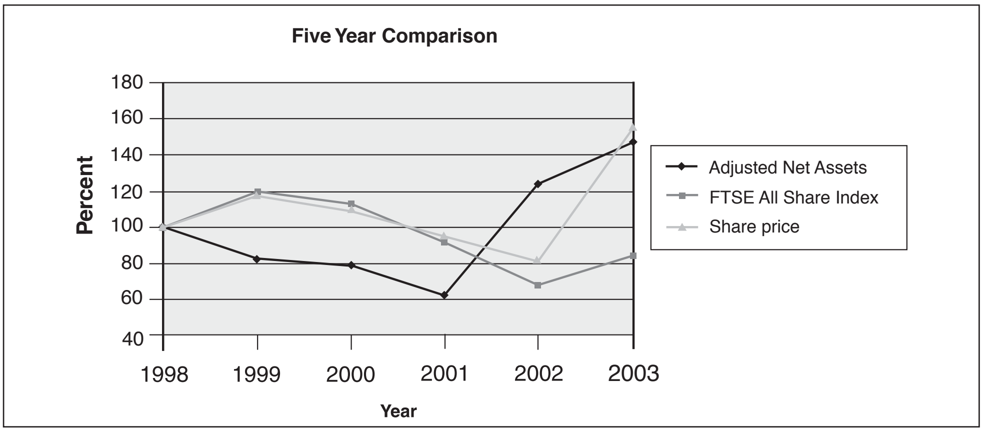
| | Contract date | Unexpired term | Notice period | Contract and termination payments |
|---|---|---|---|---|
| E. W. Houston | 6.12.2001 | 11 months | 1 year | nil |
| D. R. L. Hunting | 6.12.2001 | 11 months | 1 year | nil |
| R. E. Wade | 6.12.2001 | 11 months | 1 year | nil |
| J. A. Wild | 6.12.2001 | 11 months | 1 year | nil |

**Members of the Remuneration Committee**
*not audited*
The members of the remuneration committee during the year were:
D. R. L. Hunting
R. E. Wade
J. A. Wild (Chairman)

## REMUNERATION REPORT *continued*

*for the year ended 31 December 2003*

**Performance graph**
*not audited*




The Company's adjusted net asset value, which includes investments at market value and Directors' valuation (net of tax calculated at 30% on the valuation uplift), has increased over the last five year period by 48% compared with a decline in the FTSE-All Share Index over this period by 17%, while its share price has increased by 56% over this period.

The adjusted net asset figures that have been used for the years 1998 to 2001 are based on the merging of the El Oro and Exploration Company p.l.c. and El Oro Mining and Exploration Company p.l.c. groups and eliminating the associated company elements contained within them.

In the opinion of the directors, the FTSE-All Share Index is the most appropriate index against which the total shareholder return of the Company should be measured because it is an index of similar-sized companies to the Company.

**Directors' detailed emoluments**
*audited*

Directors' emoluments comprise:

| | Fees £ | Salary and other remuneration £ | Performance Bonus £ | Pension Contributions £ | 2003 £ | 2002 £ |
|---|---|---|---|---|---|---|
| *Executive Directors* | | | | | | |
| C. R. W. Parish (Chairman) | 1,725 | 154,275 | 130,000 | 27,700 | 313,700 | 228,070 |
| The Hon. Mrs. E. C. Parish | 1,350 | – | – | – | 1,350 | 1,350 |
| *Non-Executive Directors* | | | | | | |
| E. W. Houston | 10,000 | – | – | – | 10,000 | 10,000 |
| D. R. L. Hunting | 10,000 | – | – | – | 10,000 | 10,000 |
| R. E. Wade | 10,000 | – | – | – | 10,000 | 10,000 |
| J. A. Wild | 10,000 | – | – | – | 10,000 | 10,000 |
| **Total 2003** | **£43,075** | **£154,275** | **£130,000** | **£27,700** | **£355,050** | |
| Total 2002 | £43,075 | £142,275 | £70,000 | £20,070 | | £275,420 |

The Chairman's emoluments for 2003 are detailed in the above table.

The performance bonus is conditional on a dividend of at least 1p per stock unit being paid to stockholders and is then payable at a maximum rate of 5% of the remaining profit after taxation. The Directors have determined that a bonus of £130,000 is payable for the year ended 31 December 2003 (2002: £70,000).

No Director waived emoluments in respect of the year ended 31 December 2003 (2002: £nil).

## REMUNERATION REPORT *continued*

*for the year ended 31 December 2003*

**Interests in shares**
*not audited*

The interests of your Directors who held office during the year in the Company's stock units of 5p each were as follows.

| | 31 Dec 2003 | | 1 Jan 2003 | |
|---|---|---|---|---|
| | Beneficial | Non-beneficial | Beneficial | Non-beneficial |
| C. R. W. Parish | **1,610,796** | **1,481,628** | 768,122 | 956,502 |
| The Hon. Mrs. E. C. Parish | **342,851** | **–** | 321,956 | – |
| E. W. Houston | **1,085,693** | **506,533** | 609,323 | 334,834 |
| D. R. L. Hunting | **248** | **–** | – | – |
| R. E. Wade | **43,212** | **–** | 18,000 | – |
| J. A. Wild | **20,000** | **–** | 4,000 | – |

As a result of C. R. W. Parish being both a beneficiary and a trustee of several family trusts his interests in the non-beneficial stock units of the Company contain a degree of duplication with the substantial stockholders interests detailed in the Directors Report.

No other changes to the interests of Directors have been made to the date of this report.

During the year, none of your Directors had any beneficial interest in any contract to which the Company or the Subsidiary Companies were a party, except in relation to the Walcot Hall Estate. This beneficial interest is referred to in this report and in note 19.

**Directors' pension entitlement**
*audited*
The Company contributes to a Self Investing Personal Pension Plan for C. R. W. Parish with contributions payable up to normal retirement age of 65 years on 5th January, 2015 or earlier retirement. The premium paid in the year ended 31 December 2003 amounted to £27,700 (2002: £20,070). There are no contributions outstanding or prepaid at 31 December 2003 (2002: £nil).

On behalf of the Board

**J. A. Wild**
*Chairman of the Remuneration Committee*
14 May 2004

EL ORO AND EXPLORATION COMPANY p.l.c.
(formerly THE EXPLORATION COMPANY p.l.c.)

## THE FOLLOWING TABLE SHOWS THE PROGRESS OF EL ORO AND EXPLORATION COMPANY p.l.c.

| Year | THE EXPLORATION COMPANY p.l.c. Dividends declared (net) % | Profit/(loss) before Tax £ | Issued Capital £ | Net Asset at Market Valuation or Directors' Valuation £ | EL ORO MINING AND EXPLORATION COMPANY p.l.c. Dividends declared (net) % | Profit/(loss) before Tax £ | Issued Capital £ | Net Asset at Market Valuation or Directors' Valuation £ |
|---|---|---|---|---|---|---|---|---|
| 1950 | - | 2,991 | 157,777 | 107,261 | - | 1,644 | 292,202 | 160,047 |
| 1951 | - | 22,951 | 157,777 | 129,574 | - | 24,655 | 292,202 | 184,725 |
| 1952 | - | 6,104 | 157,777 | 136,398 | - | 1,363 | 292,202 | 186,686 |
| 1953 | - | 29,756 | 157,777 | 166,518 | - | 36,925 | 166,972 | 22,933 |
| 1954 | - | 47,134 | 157,777 | 237,627 | - | 60,470 | 166,972 | 319,256 |
| 1955 | - | 13,230 | 320,634 | 552,845 | - | 7,318 | 185,922 | 353,165 |
| 1956 | - | 20,600 | 320,634 | 580,245 | - | 17,533 | 186,972 | 375,284 |
| 1957 | - | 13,851 | 375,000 | 624,903 | - | 3,754 | 236,972 | 404,899 |
| 1958 | 3.06 | 98,297 | 375,000 | 836,633 | 3.06 | 56,519 | 236,972 | 544,862 |
| 1959 | 3.68 | 90,125 | 375,000 | 1,294,943 | 3.68 | 65,846 | 300,000 | 1,021,310 |
| 1960 | 4.29 | 72,850 | 400,000 | 1,185,437 | 4.29 | 53,327 | 300,000 | 855,431 |
| 1961 | 1.53 | 97,029 | 600,000 * | 1,261,848 | 1.53 | 44,870 | 450,000 | 892,466 |
| 1962 | 1.84 | 120,509 | 600,000 | 1,336,996 | 1.84 | 56,125 | 450,000 | 962,447 |
| 1963 | 2.45 | 136,085 | 600,000 | 1,651,454 | 2.45 | 92,859 | 450,000 | 1,188,391 |
| 1964 | 2.94 | 126,781 | 600,000 | 2,008,771 | 2.94 | 86,576 | 450,000 | 1,474,511 |
| 1965 | 5.88 | 157,264 | 600,000 | 2,258,181 | 5.88 | 104,685 | 450,000 | 1,651,027 |
| 1966 | 5.88 | 126,317 | 600,000 | 2,084,257 | 5.88 | 89,228 | 450,000 | 1,516,048 |
| 1967 | 11.75 | 184,054 | 600,000 | 3,256,899 | 11.75 | 139,202 | 450,000 | 2,492,348 |
| 1968 | 11.75 | 280,914 | 600,000 | 4,773,113 | 11.75 | 164,591 | 450,000 | 3,722,257 |
| 1969 | 11.75 | 176,789 | 600,000 | 5,194,065 | 11.75 | 132,968 | 450,000 | 3,963,291 |
| 1970 | 6.13 | 210,573 | 600,000 | 4,190,789 | 6.13 | 167,726 | 450,000 | 3,213,921 |
| 1971 | 6.13 | 378,863 | 600,000 | 4,413,814 | 6.13 | 322,473 | 450,000 | 3,315,685 |
| 1972 | 7.00 | 274,672 | 600,000 | 5,655,161 | 7.00 | 234,987 | 450,000 | 4,254,626 |
| 1973 | 7.04 | 256,814 | 600,000 | 4,029,713 | 7.04 | 176,011 | 450,000 | 3,210,061 |
| 1974 | 7.17 | 231,264 | 602,646 + | 3,875,955 | 7.17 | 182,673 | 451,113 | 3,052,782 |
| 1975 | 8.06 | 443,110 | 602,646 | 5,091,975 | 8.06 | 355,833 | 451,113 | 3,821,366 |
| 1976 | 9.00 | 559,879 | 602,646 | 4,393,499 | 9.00 | 456,732 | 451,113 | 3,377,804 |
| 1977 | 10.05 | 702,992 | 602,646 | 5,922,335 | 10.05 | 544,471 | 451,113 | 4,257,605 |
| 1978 | 11.54 | 780,287 | 602,646 | 6,417,405 | 11.54 | 566,937 | 451,113 | 4,589,108 |
| 1979 | 14.00 | 711,962 | 602,646 | 7,673,981 | 14.00 | 551,087 | 451,113 | 5,654,320 |
| 1980 | 17.50 | 947,985 | 602,646 | 9,709,921 | 17.50 | 739,037 | 451,113 | 7,147,841 |
| 1981 | 21.00 | 1,032,601 | 602,646 | 9,554,229 | 21.00 | 745,668 | 451,113 | 6,699,295 |
| 1982 | 24.50 | 926,667 | 602,646 | 11,463,211 | 24.50 | 739,873 | 451,113 | 7,881,703 |
| 1983 | 63.00 | 1,295,151 | 602,646 | 14,682,943 | 63.00 | 1,040,894 | 451,113 | 11,040,026 |
| 1984 | 42.00 | 1,111,935 | 602,646 | 15,440,172 | 42.00 | 882,791 | 451,113 | 11,504,985 |
| 1985 | 46.15 | 1,225,978 | 602,646 | 15,233,310 | 46.15 | 1,011,557 | 451,113 | 11,586,431 |
| 1986 | 50.00 | 1,451,334 | 602,646 | 20,238,397 | 50.00 | 1,185,397 | 451,113 | 15,823,277 |
| 1987 | 75.00 | 1,859,803 | 602,646 | 24,851,990 | 75.00 | 1,447,315 | 451,113 | 19,710,991 |
| 1988 | 100.00 | 2,189,351 | 602,646 | 26,606,199 | 100.00 | 1,712,278 | 451,113 | 19,741,508 |
| 1989 | 120.00 | 2,879,131 | 602,646 | 32,328,183 | 120.00 | 2,567,259 | 451,113 | 25,448,777 |
| 1990 | 240.00 | 2,961,319 | 602,646 | 26,581,117 | 240.00 | 2,382,239 | 451,113 | 20,418,932 |
| 1991 | 240.00 | 2,075,120 | 602,646 | 29,887,400 | 240.00 | 1,666,051 | 451,113 | 25,423,822 |
| 1992 | 240.00 | 2,481,252 | 602,646 | 30,588,772 | 240.00 | 1,935,122 | 451,113 | 26,944,101 |
| 1993 | 200.00 | 1,722,587 | 602,646 | 40,510,012 | 200.00 | 1,546,932 | 451,113 | 36,927,938 |
| 1994 | 200.00 | 2,296,357 | 602,646 | 38,468,620 | 200.00 | 1,884,186 | 451,113 | 31,414,422 |
| 1995 | 210.00 | 2,331,234 | 602,646 | 42,692,619 | 210.00 | 1,962,909 | 451,113 | 40,609,985 |
| 1996 | 220.00 | 3,074,173 | 602,646 | 49,066,701 | 228.00 | 2,746,454 | 451,113 | 41,950,851 |
| 1997 | 230.00 | 2,204,613 | 602,646 | 50,279,497 | 235.00 | 1,840,458 | 451,113 | 45,087,651 |
| 1998 | 240.00 | 5,406,542 | 602,646 | 44,128,780 | 245.00 | 4,271,443 | 451,113 | 35,861,218 |
| 1999 | 270.00 | 5,621,549 | 602,646 | 51,650,997 | 260.00 | 4,036,102 | 451,113 | 44,300,703 |
| 2000 | 270.00 | 1,690,006 | 602,646 | 47,333,362 | 260.00 | 2,076,730 | 451,113 | 43,656,695 |
| 2001 | 210.00 | (75,552) | 602,646 | 40,924,033 | 260.00 | 1,921,428 | 451,113 | 37,942,826 |
| 2002 | 210.00 | 2,049,124 | 602,646 | 37,353,176 | 260.00 | 1,434,175 | 451,113 | 36,830,273 |

EL ORO AND EXPLORATION COMPANY p.l.c. (formerly The Exploration Company p.l.c.)

| Year | Dividends declared (net) % | Profit/(loss) before Tax £ | Issued Capital £ | Net Asset at Market Valuation or Directors' Valuation £ |
|---|---|---|---|---|
| 2002 | 210.00 | 2,321,415 | 597,146 | 54,049,692 |
| 2003 | 220.00 | 5,046,577 | 597,146 | 66,669,970 |

The above table for The Exploration Company p.l.c. and El Oro Mining and Exploration Company p.l.c. indicates the progress of the two companies from 1950 to 2002 applying the accounting principles adopted throughout that period. The table for El Oro and Exploration Company p.l.c. indicates the progress for the last two years of the Group applying the currently adopted accounting principles as outlined in note to the accounts 1(b).

The dividend declared (net) figure is expressed as a percentage of the amount paid/payable per stock unit against the 5p issue value of each stock unit.

The only new money raised during the above period was in aggregate £358,180.

| Since 1958 the amount paid or to be paid: | |
|---|---|
| In dividends was | 23,481,572 |
| In taxation was | 18,149,676 |
| | **£41,631,248** |

* Bonus issue of one unit for every two units held.
\+ 52,925 stock units issued to members exercising their options to take additional stock units in lieu of cash dividend.

From 1970 onwards the accounts incorporate the Company's share of the result of the Associated Undertakings.

The middle market price per stock unit at 31 December 2003 was 405p (which with 1 for 2 bonus in 1961 equals 426p) compared with a middle market price of 2p per stock unit at 31 December 1950.

## CHAIRMAN'S STATEMENT

*results for the year ended 31 December 2003*

The Group profit before tax was £3,938,278 (2002: £2,321,415) after £795,810 (2002: £nil) merger expenses and interest payable. Group net assets, taking investments at market value, were £66,669,970 (equal to 558p per stock unit) against £54,049,692 (equal to 453p per stock unit) an increase of 23.35% compared with a rise of 16.56% for the FTSE All Share index over the same period.

Total net assets at market value or Directors' valuation show an increase of £12,620,278 compared to last year.

A first and final dividend is proposed for the year ended 31 December 2003 of 11.00p (2002: 10.5p) per stock unit, which, subject to approval at the Annual General Meeting, will be paid on the 25 October 2004 to members registered in the books of the Company at the close of business on 30 July 2004.

The figures set a standard for the commencement of our second Century that we will undoubtedly find it hard to emulate. We have been the beneficiaries of an uplift in precious and base metals unprecedented for 30 years and also of the spigot of liquidity released by Western governments which has flooded the Western world with cheap money, floating assets, particularly houses, to a level that implies untold riches for an age to come. Share prices likewise, have responded in the manner intended, so that an aura of well-being has reinvaded the world, following the disastrous declines experienced up until March 2003.

Happily, your Company's portfolio was not immune to this tendency, despite your Chairman's sceptical approach, and the old favourites such as Hardys and Hanson, James Halstead, Wolverhampton and Dudley, Daejan and Mountview, amongst others, have continued to show the benefits of good management and clear vision. These successes have been amplified by the spectacular rise of some lesser-known lights, such as Uruguay Mineral Exploration, whose discoveries have set fire to the share price, and repaid patience and perseverance. Against these winners, there have been miscreants such as Minorplanet, a vehicle management system supplier, and the demise of Gympie Gold after a fire at its Queensland mine; reasserting the awareness of risk in mining ventures, which with a rising price for its Gold and Coal had promised prosperity.

Fortunately, our success elsewhere in the mining field, assisted by the huge rise in price for most metals, especially Nickel and Copper, has counteracted these and other trading mishaps.

The merger of the Exploration Company with the El Oro Mining and Exploration Company was successfully implemented on the 4 September 2003, and I reiterate my gratitude to our advisers and staff who helped ensure a successful transition. The merged Company now has a substantial interest in property, mining, oil and pub companies, as well as numerous interests in developing markets such as China, India and Latin America. We pass the Centenary of the founding of the original El Oro company with confidence but watchfulness, searching for value at home and abroad, reinforcing strength and attempting to avoid the seduction of fashionable areas.

Our concern for the future is to discern the pin that pricks the bubble of complacency cradling the economies of the Western world. On both sides of the Atlantic, the rumble of rising interest rates reverberates, threatening Scylla to the Charybdis of debt in the Anglo-Saxon economies. The recovery in the States displays diminished job creation, and the impending election holds an inherent threat to sound money. In China, we are told of over-stocking due to supply shortages and the ever-increasing price of raw materials, compounded by huge increases in freight rates. More recently, these have begun to turn down. Meanwhile the farmyards of England are being denuded of scrap iron, symbolic, perhaps of the end days of this particular frenzy.

## CHAIRMAN’S STATEMENT *continued*

The landscape itself is sadly not immune to fads, with the calamity of Kyoto reflecting John Betjeman's words ‘Encase your legs in nylons, bestride your hills in pylons, O age without a soul’. The windmills that will bedeck our hills will consume huge quantities of energy in their edifices of steel and concrete and return but a trickle, whilst the impairment imparted will endure for generations.

In Britain, the Budget's main motivation is to extract cash from all levels of business, and remove or reduce whatever incentives were most recently introduced to encourage saving. The level of household debt, both here and in the States, approaches alarming levels, but the Cassandras are mocked for their predictions of impending or eventual doom. We cannot see to whose ultimate advantage an ever escalating house price can be, other than to the credit card and loan companies who use that asset as security. The number of chairs may not be decreasing, as in the game, but when the music stops, the players may discover they belong to someone else.

In the meantime, the heavy hand of government, not content with attempting to resurrect the glories of British Rail, is now attempting to regulate and control the housing and mortgage market, just as its counterpart in Brussels is trying to prevent private arrangements between local airports and Ryanair. We believe the result will be the same in both areas: reduced supply at higher prices, and restricted benefit to the consumer. The grasping hand of socialism is demonstrated by the ever-widening grip of the ubiquitous housing associations, assuming precedence over all other areas of house-building. Their restrictions and controls fly in the face of the market and individual's ability, proven over generations, to provide unfettered housing at reasonable prices.

We hear of Leopold Joseph being sold as it could no longer cope with the new raft of regulations, and even Formula 1 being under threat due to the stringency of Europe's safety regulations and the ban on tobacco advertising.

Britain's farmers face an uncertain future, whilst their funds are diverted to antiquated areas of Eastern Europe. Vast sums are at risk over the upsurge in Bovine TB, and the verse from Proverbs 14 'where no oxen are, the crib is clean, but much increase is by the strength of the ox' is sadly neglected.

Meanwhile the London Mayor's bendy buses abet congestion, catch fire with increased frequency and will soon cost the taxpayers of London over £1billion. Despite the massive expenditure on Docklands' infrastructure and transport, it remains unattractive to the private sector except at bargain basement prices and sweetened with tax incentives, whilst sucking money from more deserving and widely-used areas of London's rail system; the crazy Cross Rail scheme which is hastily removing the nineteenth century arches of St. Pancras, replacing brick and iron with tubular steel, is another development where the taxpayer is paying for something of dubious benefit, whilst the borrowing requirement accelerates, even without many off-balance sheet items.

This borrowing, guaranteed by government but invisible to open audit now makes Enron seem decidedly amateur. Parmalat's collapse has sounded a warning about creating a financial pack of cards with debts concealed in nooks and crannies. We heartily hope the edifice created by the present Chancellor is not treading down the same path.

We see little encouragement to savers and investors, rather a rapacious desire to remove an individual's money and redistribute it in the manner most appealing to bureaucrats and politicians, by grants, subsidies and a proliferation of form-filling. We even see the elderly house-owner and art-collector threatened by taxation of their residence or assets, revoking any arrangements in force post-1986: the harbinger of a surreptitious wealth tax.

## CHAIRMAN'S STATEMENT *continued*

For your Company in particular, The International Accounting Standard IAS39, which the European accounting system proposed for 2005, threatens to tax your unrealised gains, turning on its head the guiding principle of this company to let profits accumulate. If adopted, we may find the need to finance the tax on gains for which no funds have been received further restricting our room for manoeuvre. Such measures strike us as acts of desperation by a government looking every which way for cash for its coffers. It is neither a pretty nor an encouraging sight and bodes ill for the outlook.

Credit must be given to England's cricketers demonstrating that even the most lost of causes can be salvaged. The glorious victory of the English Rugby team demands our plaudits, although the rebuilding now required demonstrates how quickly pre-eminence can be lost. Likewise the fast-starting Oxford crew's attempt to take their opponents' water lead to conflict and calamity, transferring the honours to the Light Blues.

We do not see the economic well-being in Britain as sustainable, despite the good start and lead established over her competitors. We are hobbled by regulation, Brussels and an array of ministers devoid of any sense of responsibility and who see their role as a heavy hand rather than a light touch, exemplified by the overseer of the disastrous Dome transferring his skills to the assault on the House of Lords and the British Constitution.

The United States presents an even more frightening spectacle of government and individual profligacy. Perhaps the music slows instead of stopping, but we believe caution is required in case there is an additional and severe jolt to the economic system, at a time least anticipated.

Returning to an earlier theme of Bruce Chatwin, we quote him afresh: 'the nomad child's earliest experience is of a swaying nipple and shower of gold'. We continue to believe, despite the derision of the Financial Times, that our exposure to gold shares and the metal, and indeed that of its counterparts in silver, will act as a sheet-anchor in time of trouble; meanwhile we see no reason why our spread of holdings will not continue to build on its past successes. We are heartened by Lance Armstrong's Tour de France victories, partly powered by platinum used in his chemotherapy, and continue to hold high hopes for our investments in this wonder metal, which looks good, tastes good, keeps engines clean and provides emission-free power.

We are particularly excited to learn recently of another significant gold-strike in Australia by Troy Resources, and congratulate its team on its tenacity and triumph, wishing them every success in their exploration programme.

We would like to conclude with our thanks to the energetic and encouraging Abbie, calm and collected Rosanna and number-crunching Chris at Cheval Place working well together, and our advisers, who have both surmounted the demands of the merger in style and continue to enhance the growth of your venerable company.

We consider the foundations sufficiently sound to stand fast in storm and sunshine.

**C. Robin Woodbine Parish**
*Chairman*
14 May 2004

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
*for the year ended 31 December 2003*

| | Notes | 2003<br>£ | 2002<br>£ |
|---|---|---|---|
| **Income from investment trading** | 2 | **6,692,463** | 3,930,895 |
| **Management expenses** | 3 | **1,477,847** | 1,220,351 |
| **Operating profit** | | **5,214,616** | 2,710,544 |
| **Exceptional costs - merger expenses** | | **795,810** | – |
| **Profit on ordinary activities before interest payable** | | **4,418,806** | 2,710,544 |
| **Interest payable – Banks** | | **474,928** | 379,891 |
| **– Other** | | **5,600** | 9,238 |
| | | **480,528** | 389,129 |
| **Profit on ordinary activities before taxation** | | **3,938,278** | 2,321,415 |
| **Taxation** | 5 | **1,452,064** | 591,469 |
| **Profit on ordinary activities after taxation** | | **2,486,214** | 1,729,946 |
| **Dividends** | 4 | **1,313,455** | 1,224,355 |
| **Retained profit for the year** | 13 | **£1,172,759** | £505,591 |
| **Dividend per stock unit** | | **11.00p** | 10.50p |
| **Earnings per stock unit** (Basic and diluted) | | | |
| **Before exceptional costs** | 6 | **27.48p** | 14.49p |
| **After exceptional costs** | 6 | **20.82p** | 14.49p |

The exceptional costs, for which no corporation tax allowance may be claimed, relate to the merger costs incurred in the year.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
*for the year ended 31 December 2003*

| | 2003<br>£ | 2002<br>£ |
|---|---|---|
| Profit on ordinary activities after taxation | **2,486,214** | 1,729,946 |
| Increase in value of investment properties | **84,414** | 119,842 |
| **Total recognised gains for the year** | **£2,570,628** | £1,849,788 |

The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 from presenting its own profit and loss account.

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Other than the Group reconstruction all of the above results derive from continuing activities and there were no acquisitions in the year.

The accompanying notes are an integral part of this consolidated profit and loss account.

**The analysis of the principal components of the continuing profit and loss accounts and statements and of total recognised gains and losses is as follows:**

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

*for the year ended 31 December 2003*

| | Combined post-merger £ | El Oro & Expl'n pre-merger £ | El Oro Mining & Exp'l pre-merger £ | Total for the year £ |
|---|---|---|---|---|
| **Income from investment trading** | 2,423,938 | 2,770,765 | 1,497,760 | 6,692,463 |
| **Operating profit** | 1,848,792 | 2,321,783 | 1,044,041 | 5,214,616 |
| **Exceptional costs – merger expenses** | 163,810 | 316,000 | 316,000 | 795,810 |
| **Profit on ordinary activities before interest payable** | 1,684,982 | 2,005,783 | 728,041 | 4,418,806 |
| **Interest payable – Banks** | 215,595 | 125,213 | 134,120 | 474,928 |
| **– Other** | 1,867 | 1,824 | 1,909 | 5,600 |
| | 217,462 | 127,037 | 136,029 | 480,528 |
| **Profit on ordinary activities before taxation** | 1,467,520 | 1,878,746 | 592,012 | 3,938,278 |
| **Taxation** | 524,064 | 657,000 | 271,000 | 1,452,064 |
| **Profit on ordinary activities after taxation** | £943,456 | £1,221,746 | £321,012 | £2,486,214 |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

*for the year ended 31 December 2003*

| | Combined post-merger £ | El Oro & Expl'n pre-merger £ | El Oro Mining & Exp'l pre-merger £ | Total for the year £ |
|---|---|---|---|---|
| **Profit on ordinary activities after taxation** | 943,456 | 1,221,746 | 321,012 | 2,486,214 |
| **Increase in value of investment properties** | 48,502 | 28,440 | 7,472 | 84,414 |
| **Total recognised gains for the year** | £991,958 | £1,250,186 | £328,484 | £2,570,628 |

The exceptional costs, for which no corporation tax allowance may be claimed, relate to the merger costs incurred in the year.

**The equivalent analysis for the previous year is as follows:**

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

*for the year ended 31 December 2002*

| | El Oro & Expl'n pre-merger £ | El Oro Mining & Exp'l pre-merger £ | Total for the year £ |
|---|---|---|---|
| **Income from investment trading** | 2,568,123 | 1,362,722 | 3,930,895 |
| **Operating profit** | 1,923,249 | 787,295 | 2,710,544 |
| **Exceptional costs – merger expenses** | – | – | – |
| **Profit on ordinary activities before interest payable** | 1,923,249 | 787,295 | 2,710,544 |
| **Interest payable – Banks** | 186,313 | 193,578 | 379,891 |
| **– Other** | 4,530 | 4,708 | 9,238 |
| | 190,843 | 198,286 | 389,129 |
| **Profit on ordinary activities before taxation** | 1,732,406 | 589,009 | 2,321,415 |
| **Taxation** | 413,167 | 178,302 | 591,469 |
| **Profit on ordinary activities after taxation** | £1,319,239 | £410,707 | £1,729,946 |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

*for the year ended 31 December 2002*

| | El Oro & Expl'n pre-merger £ | El Oro Mining & Exp'l pre-merger £ | Total for the year £ |
|---|---|---|---|
| **Profit on ordinary activities after taxation** | 1,319,239 | 410,707 | 1,729,946 |
| **Increase in value of investment properties** | 91,390 | 28,452 | 119,842 |
| **Total recognised gains for the year** | £1,410,629 | £439,159 | £1,849,788 |

## BALANCE SHEETS
*at 31 December 2003*

| | Notes | Group 2003 £ | Group 2002 £ | Company 2003 £ | Company 2002 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 7 | **1,104,155** | 794,966 | **144,009** | 5,192 |
| **Investments** | | | | | |
| Subsidiary Companies | 8 | **–** | – | **492,749** | 2,747 |
| Associated Companies | 8 | **–** | – | **–** | 181,752 |
| | | **1,104,155** | 794,966 | **636,758** | 189,691 |
| **Current assets** | | | | | |
| Debtors | 10 | **1,035,158** | 6,573,175 | **1,165,949** | 6,613,328 |
| Investments | 9 | **37,668,595** | 32,566,126 | **37,650,257** | 17,180,186 |
| Cash and bank balances | | **431,691** | 103,052 | **383,763** | 35,295 |
| | | **39,135,444** | 39,242,353 | **39,199,969** | 23,828,809 |
| **Creditors:** due within one year | 11 | **14,283,217** | 15,338,110 | **27,668,023** | 11,757,390 |
| **Net current assets** | | **24,852,227** | 23,904,243 | **11,531,946** | 12,071,419 |
| **Total assets less current liabilities** | | **25,956,382** | 24,699,209 | **12,168,704** | 12,261,110 |
| **Net assets** | | **£25,956,382** | £24,699,209 | **£12,168,704** | £12,261,110 |
| **Capital and reserves** | | | | | |
| Called up share capital | 12 | **597,146** | 597,146 | **597,146** | 602,646 |
| Share premium | | **6,017** | 6,017 | **6,017** | 6,017 |
| Revaluation reserve | 17 | **204,256** | 119,842 | **34,414** | – |
| Capital redemption reserve | | **289,081** | 289,081 | **289,081** | – |
| Merger reserve | | **(149,798)** | (149,798) | **–** | – |
| Profit and loss account | 13 | **25,009,680** | 23,836,921 | **11,242,046** | 11,652,447 |
| **Stockholders' funds (Equity)** | 18 | **£25,956,382** | £24,699,209 | **£12,168,704** | £12,261,110 |

The accounts on pages 16 to 30 were approved by the Board of Directors on 14 May 2004 and were signed on its behalf by:

**C. R. W. Parish**
**J. A. Wild**

} *Directors.*

The accompanying notes are an integral part of these balance sheets.

## CONSOLIDATED CASH FLOW STATEMENT

*for the year ended 31 December 2003*

| | Notes | **2003** **£** | 2002 £ |
|---|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | 14 | **5,397,358** | (5,074,315) |
| **Returns on investments and servicing of finance** | 15 | **(465,692)** | (370,129) |
| **Taxation** | 15 | **(821,239)** | (59,984) |
| **Capital expenditure and management of non-liquid resources** | 15 | **(523,221)** | 1,584,014 |
| **Equity dividends paid to stockholders** | 15 | **(1,223,911)** | (1,224,355) |
| **Net cash inflow before management of liquid resources** | | **2,363,295** | (5,144,769) |
| **Management of liquid resources** | 15 | **(5,358,720)** | 2,679,454 |
| **(Decrease) in cash in the year** | 16 | **(2,995,425)** | (2,465,315) |

Merger costs amounting to £795,810 (2002: £nil) are included in the Net cash inflow/(outflow) from operating activities in the above statement.

The accompanying notes are an integral part of this cash flow statement.

# NOTES TO THE ACCOUNTS

## 1. ACCOUNTING POLICIES

As permitted by Section 230 of the Companies Act 1985, the Directors have adapted the headings in the consolidated profit and loss account from those prescribed in Schedule 4 in order to better reflect the special nature of the Group's business.

The following accounting policies have been applied consistently except as noted in 1(b), in dealing with items which are considered material in relation to the Group's financial statements:

**(a) Basis of Accounting**

The accounts have been prepared on the historical cost basis of accounting and in accordance with applicable accounting standards in the United Kingdom as modified by the revaluation of certain fixed assets.

**(b) Changes in presentation of accounts**

On 5 September 2003 the Company changed its name from The Exploration Company p.l.c., and completed its capital reorganisation by acquiring the issued capital of El Oro Mining and Exploration Company p.l.c., Danby Registrars Limited and Investigations and Management Limited that it did not already own and cancelled the shares in the Company held by El Oro Mining and Exploration Company p.l.c., while the assets of that company were acquired by the Company at fair value consideration. The accounts, together with comparatives, for the Group have been prepared on the Merger Accounting basis throughout. The effect of this change of basis includes the restatement of comparatives for the prior year. The results of the subsidiary companies that were formerly associated companies are now fully included rather than including the portion of these companies results attributable to the Company.

Resulting from the basis of consolidation following the capital reorganisation a Capital redemption reserve arises of £289,081 (2002: £289,081) and a Merger reserve arises of £(149,798) (2002: £(149,798)). Neither of these reserves constitute distributable reserves for the purpose of paying a dividend out of profits.

**(c) Group Financial Statements**

The Group financial statements include those of the wholly-owned Subsidiary companies, which are incorporated in England, as set out in note 8.

**(d) Investment Income**

Income from investments includes all dividends, rents and interest on non-government securities receivable within the year.

**(e) Investments**

Listed investments and investments for which the primary market is a recognised exchange are stated in the balance sheet at the lower of cost and market value at the balance sheet date. Unlisted investments are stated at the lower of cost and Directors' valuation at the balance sheet date. Overseas investments are translated at the exchange rate ruling at the balance sheet date.

The Company sells securities and options that is does not own and it will, therefore, be obliged to deliver such securities at a future date. The Company records a liability for such transactions. To the extent that an additional liability arises from a market movement, any shortfall in value is recognised as an increase in provision for diminution in value of these investments.

The Company buys options. To the extent that an additional liability arises from market movements, any shortfall in value is recognised as an increase in provision for diminution in value of this option.

The Company also holds forward contracts in gold and silver. To the extent that an additional liability arises from the market movement, any shortfall in value is recognised as an increase in provision for diminution in value of these contracts.

**(f) Fixed Tangible Assets**

The cost of freehold property, fixtures and fittings and computer equipment includes purchases at cost, and any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of fixed assets, less their estimated residual values, on the basis shown below over the expected useful economic lives of the assets concerned. The rates used for this purpose are:

| | |
|---|---|
| Freehold property | 0% |
| Fixtures and fittings | 10% or 20% (on reducing net book value) |
| Computer equipment | 33 1/3 % (on straight line basis) |

Investment property is included in the Balance Sheet at market value, with the difference between this value and cost being recorded in the Revaluation reserve.

**1. ACCOUNTING POLICIES** *continued*

**(g) Deferred Taxation**

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed at the balance sheet date. Such assets and liabilities are not discounted. No provision is made for taxation on permanent timing differences. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

**(h) Pension Costs**

The Company contributes to a Self Investing Personal Pension Plan for the benefit of C. R. W. Parish. The assets of the scheme are held separately from those of the Company in an independently administered fund. Payments to the pension scheme are accounted for in the year in which they arise. The Company also contributes to a Pension Plan for one of its employees. Payments to this Pension Scheme are also accounted for in the year in which they arise.

**(i) Foreign Currency Translation**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

**2. INCOME FROM INVESTMENT TRADING**

| | **2003** **£** | 2002 £ |
|---|---|---|
| Dividends from listed investments | **1,833,055** | 1,768,619 |
| Dividends from unlisted investments | **180,517** | 41,662 |
| Net profit/(loss) on investments realised | **(2,010,090)** | 2,223,776 |
| Currency translation losses | **(211,396)** | (328,460) |
| Decrease/(increase) in provisions for diminution in value of investments | **6,629,135** | (128,401) |
| Rent received | **209,946** | 281,706 |
| Interest received | **33,561** | 47,860 |
| Other | **27,735** | 24,133 |
| | **£6,692,463** | £3,930,895 |

Stocks with an original book value of £3,455,584 (2002: £nil) which had been valueless for a number of years have been written out of the books during the year. The effect of this was to reduce the net profit on investments realised by £3,455,584 (2002: £nil) and decrease the provisions for diminution in value of investments by £3,455,584 (2002: £nil).

**3. MANAGEMENT EXPENSES**

| | | **2003** **£** | 2002 £ |
|---|---|---|---|
| General | | **959,740** | 863,546 |
| Depreciation | | **39,375** | 20,641 |
| Directors' emoluments | | **355,050** | 275,420 |
| Auditors' remuneration - audit services | (Company £70,609, 2002: £28,453) | **123,682** | 60,744 |
| | | **£1,477,847** | £1,220,351 |

Within Merger expenses, the Group expended, Auditors' non audit services £59,509 (2002: £nil) and Company expended £29,754 (2002: £nil).

Employees

| The average weekly number of persons (including Directors) employed during the year was: | **2003** | 2002 |
|---|---|---|
| Investing | **1** | 1 |
| Administration | **12** | 12 |
| | **13** | 13 |

# NOTES TO THE ACCOUNTS *continued*

**3. MANAGEMENT EXPENSES** *continued*

| | **2003 £** | 2002 £ |
|---|---|---|
| Employment costs | **568,916** | 482,144 |
| Social security costs | **47,823** | 34,152 |
| Pension costs | **49,860** | 33,295 |
| | **£666,599** | £549,591 |

**4. DIVIDENDS**

| | **2003 £** | 2002 £ |
|---|---|---|
| Proposed dividend payable | **1,313,722** | 1,246,688 |
| Unclaimed dividends (forfeited)/claimed | **(267)** | 177 |
| | **£1,313,455** | £1,246,865 |

**5. TAX ON PROFIT ON ORDINARY ACTIVITIES**

| | **2003 £** | 2002 £ |
|---|---|---|
| (a) Analysis of tax charge in year | | |
| Current tax: | | |
| UK corporation tax on profits for the year | **1,444,136** | 584,976 |
| Adjustments in respect of previous year | **(21,091)** | 4,680 |
| Tax losses brought forward | **27,325** | 1,175 |
| **Total current tax** | **£1,450,370** | £590,831 |
| Deferred tax: | | |
| Original and reversal of timing differences | **1,694** | 638 |
| **Total deferred tax** | **£1,694** | £638 |
| **Tax on profit on ordinary activities** | **£1,452,064** | £591,469 |

(b) Factors affecting tax charge for the year

The tax assessed is higher (2002: lower) than the standard rate of corporation tax in the UK (30%).
The differences are explained below:

| | | |
|---|---|---|
| Profit on ordinary activities before tax | **3,938,278** | 2,321,415 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002:30%) | **1,181,484** | 696,425 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **259,540** | 375,156 |
| Capital allowances in excess of depreciation | **(14,422)** | (637) |
| Depreciation in excess of capital allowances | **696** | – |
| Increase in excess tax losses | **44,163** | – |
| Utilisation of tax losses | – | (484,793) |
| Adjustments to tax charge in respect of prior year | **(21,091)** | 4,680 |
| Current tax charge for the year | **£1,450,370** | £590,831 |

The Group expects to be able to claim capital allowances in excess of depreciation in future periods reversing the position previously where depreciation has been higher than capital allowances.

In the prior year the Group utilised its brought forward tax losses, which significantly reduced the tax provision in that current year.

# NOTES TO THE ACCOUNTS *continued*

**6. EARNINGS PER STOCK UNIT**

The earnings per stock unit is based on the profit on ordinary activities after taxation of and on 11,942,927 stock units of 5p each in issue.

| | **2003** | 2002 |
|---|---|---|
| Before exceptional costs | **27.48p** | 14.49p |
| After exceptional costs | **20.82p** | 14.49p |

The exceptional costs, for which no corporation tax allowance may be claimed, relate to the merger costs incurred in the year.

**7. FIXED ASSETS**

| **Group** | **Freehold property (at cost) £** | **Investment property (at value) £** | **Fixture, fittings and computer equipment (at cost) £** | **Total £** |
|---|---|---|---|---|
| Cost or value | | | | |
| **At 1 January 2003** | **362,714** | **300,000** | **348,572** | **1,011,286** |
| Additions in the year | **13,424** | **92,895** | **157,831** | **264,150** |
| Movement in value of investment property | **–** | **84,414** | **–** | **84,414** |
| **At 31 December 2003** | **376,138** | **477,309** | **506,403** | **1,359,850** |
| Depreciation | | | | |
| **At 1 January 2003** | **–** | **–** | **216,320** | **216,320** |
| Charge for the year | **–** | **–** | **39,375** | **39,375** |
| **At 31 December 2003** | **–** | **–** | **255,695** | **255,695** |
| Value | | | | |
| **At 31 December 2003** | **£376,138** | **£477,309** | **£250,708** | **£1,104,355** |
| At 31 December 2002 | £362,714 | £300,000 | £132,252 | £794,966 |

| **Company** | | | | |
|---|---|---|---|---|
| Cost | | | | |
| **At 1 January 2003** | **–** | **–** | **37,926** | **37,926** |
| Acquired from Group Company | **–** | **–** | **38,910** | **38,910** |
| Additions in the year | **–** | **92,895** | **18,273** | **111,168** |
| Movement in value of investment property | **–** | **34,414** | **–** | **34,414** |
| **At 31 December 2003** | **–** | **127,309** | **95,109** | **222,418** |
| Depreciation | | | | |
| **At 1 January 2003** | **–** | **–** | **32,734** | **32,734** |
| Acquired from Group Company | **–** | **–** | **34,336** | **34,336** |
| Charge for the year | **–** | **–** | **11,339** | **11,339** |
| **At 31 December 2003** | **–** | **–** | **78,409** | **78,409** |
| Value | | | | |
| **At 31 December 2003** | **£–** | **£127,309** | **£16,700** | **£144,009** |
| At 31 December 2002 | £– | £– | £5,192 | £5,192 |

The fixtures, fittings and computer equipment of the Company consist entirely of computer equipment.

# NOTES TO THE ACCOUNTS *continued*

**7. FIXED ASSETS** *continued*

| | Investment property £ | Freehold property £ | Total £ |
|---|---|---|---|
| Value of property is as follows: | | | |
| At 31 December 2003 | | | |
| Apartment - Auckland, New Zealand | **127,309** | **–** | **127,309** |
| 41 Cheval Place - London | **–** | **750,000** | **750,000** |
| Walcot Hall and Estate - Shropshire | **350,000** | **2,750,000** | **3,100,000** |
| | **£477,309** | **£3,500,000** | **£3,977,309** |
| At 31 December 2002 | | | |
| Apartment - Auckland, New Zealand | – | – | – |
| 41 Cheval Place - London | – | 650,000 | 650,000 |
| Walcot Hall and Estate - Shropshire | 300,000 | 1,919,842 | 2,219,842 |
| | £300,000 | £2,569,842 | £2,869,842 |

41 Cheval Place was last valued in January 2004 by Allsop and Co, Chartered Surveyors, Walcot Hall and Estate were last valued in January 2004 by FPDSavills Limited, Chartered Surveyors and the Apartment in Auckland, New Zealand was last valued in January 2004 by I.F.L. Associates, Property Agent and Mortgage Broker. The increase in value of investment properties over book cost is credited to the Revaluation reserve.

**8. SUBSIDIARY COMPANIES AND ASSOCIATED UNDERTAKINGS**

| | Company | |
|---|---|---|
| | **2003 £** | 2002 £ |
| Shares in subsidiaries at cost | **£492,749** | £2,747 |
| Shares in associated undertakings at cost | | |
| Listed | **–** | 172,529 |
| Unlisted | **–** | 9,223 |
| | **£–** | £181,752 |

At 31 December 2003 the Company held the entire issued share capital of the following companies all of whom are registered in England and Wales and operate in England. With the exception of Group Traders Limited, the following companies were associated undertakings of the Company to 5 September 2003 and from that date became subsidiary companies of the Company and are fully included in the Group financial statements.

| | Nature of business |
|---|---|
| El Oro Mining and Exploration Company p.l.c. | Investment Company |
| Danby Registrars Limited | Property Company |
| Investigation and Management Limited | Investment Company |
| General Explorations Limited | Dormant |
| Group Traders Limited | Dormant |

# NOTES TO THE ACCOUNTS *continued*

## 9. INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2003 £** | 2002 £ | **2003 £** | 2002 £ |
| (a) Investments at the lower of cost and market valuation or Directors' valuation as per the balance sheet: | | | | |
| Listed - London Stock Exchange . | **16,720,158** | 12,904,513 | **16,711,469** | 10,187,056 |
| - London AIM | **3,869,608** | 3,819,547 | **3,861,897** | 1,201,637 |
| - International | **14,483,282** | 13,604,583 | **14,483,282** | 4,390,938 |
| | **35,073,048** | 30,328,643 | **35,056,648** | 15,779,631 |
| Unlisted | **2,595,547** | 2,237,483 | **2,593,609** | 1,400,555 |
| | **£37,668,595** | £32,566,126 | **£37,650,257** | £17,180,186 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2003 £** | 2002 £ | **2003 £** | 2002 £ |
| (b) Investments at market valuation or Directors' valuation: | | | | |
| Listed investments at market valuation | **68,411,481** | 53,750,791 | **68,378,704** | 25,660,733 |
| Unlisted investments at Directors' valuation | **4,304,478** | 4,033,549 | **4,302,539** | 2,857,900 |
| | **£72,715,959** | £57,784,340 | **£72,681,243** | £28,518,633 |

If the Group's current asset investments were realised at their market valuations or at Directors' valuations there would be a potential corporation tax liability of £12,214,076 (2002: £8,805,145), calculated at the rate of 30% (2002: 30%).

Creditors for the prior year included short positions held on investments. The book value of these investments was £5,330,891 and market value £5,192,404. Short positions on options are held, the book value of which is £438,080 (2002: £30,160) and market value is £420,712 (2002: £24,821).

The Company has entered into forward contracts to purchase gold and silver, agreeing to pay the sterling equivalent of £1,448,795 (2002: £2,100,810). The market value of these contracts at 31 December 2003 is £1,556,834 (2002: £2,158,519).

There is a general lien on all assets in favour of the HSBC Bank plc. Group's bankers as security for all liabilities and obligations owed by the Group to the bank. There is also a lien on all assets in favour of Bear, Stearns Securities Corp., as brokers, as security for all liabilities and obligations owed by the Group to Bear, Stearns Securities Corp.

## 10. DEBTORS

| | Group | | Company | |
|---|---|---|---|---|
| | **2003 £** | 2002 £ | **2003 £** | 2002 £ |
| Due within one year: | | | | |
| Amounts due from brokers for future settlements | **848,183** | 6,272,157 | **848,183** | 6,230,438 |
| Corporation tax recoverable | **–** | 225,690 | **–** | 222,127 |
| Amounts due from Subsidiary companies | **–** | – | **169,233** | – |
| Amounts due from Associated companies | **–** | – | **–** | 150,966 |
| Other debtors | **158,870** | 45,529 | **145,427** | 7,392 |
| | **£1,007,053** | £6,543,376 | **£1,162,843** | £6,610,923 |
| Due after one year: | | | | |
| Deferred taxation | **3,106** | 4,800 | **3,106** | 2,405 |
| Spital Square Limited (interest rate 12.93%) | **24,999** | 24,999 | **–** | – |
| | **28,105** | 29,799 | **3,106** | 2,405 |
| | **£1,035,158** | £6,573,175 | **£1,165,949** | £6,613,328 |

# NOTES TO THE ACCOUNTS *continued*

## 11. CREDITORS

| | Group | | Company | |
|---|---|---|---|---|
| | **2003 £** | 2002 £ | **2003 £** | 2002 £ |
| Bank overdrafts – secured | **10,819,020** | 7,494,956 | **5,200,736** | 3,254,313 |
| Short positions held (see note 9) | **438,080** | 5,361,051 | **438,080** | 5,361,051 |
| Amounts due to brokers for future settlements | **273,695** | 378,910 | **273,695** | 170,534 |
| Amount due to Group undertakings | **–** | – | **19,180,525** | 1,144,682 |
| Corporation tax | **952,092** | 548,651 | **939,477** | 404,356 |
| Other creditors | **152,214** | 90,864 | **72,144** | 1,272 |
| Unclaimed dividends | **63,612** | 63,345 | **39,302** | 35,295 |
| Accruals | **270,782** | 176,155 | **210,342** | 120,330 |
| Proposed dividend | **1,313,722** | 1,224,178 | **1,313,722** | 1,265,557 |
| | **£14,283,217** | £15,338,110 | **£27,668,023** | £11,757,390 |

Creditors for the prior year include short positions held on investments. The book value of these investments was £5,330,891 and market value was £5,192,404. Short positions on options are held, the book value of which is £438,080 (2002: £30,160) and market value is £420,712 (2002: £24,821).

There is a general lien on all assets in favour of HSBC Bank plc. the Group's bankers as security for all liabilities and obligations owed by the Group to the bank. There is also a lien on all assets in favour of Bear, Stearns Securities Corp., as brokers, as security for all liabilities and obligations owed by the Group to Bear, Stearns Securities Corp.

## 12. CALLED UP SHARE CAPITAL

| | **2003 £** | 2002 £ |
|---|---|---|
| Authorised - 7,947,075 shares of 5p each | **397,354** | 397,354 |
| 12,052,925 Stock units of 5p each | **602,646** | 602,646 |
| | **£1,000,000** | £1,000,000 |
| Issued - 11,942,927 Stock units of 5p each, fully paid | **£597,146** | £597,146 |

Resulting from the capital restructure, on 5 September 2003 the stock units issued reduced from 12,052,925 to 11,942,972 on the cancellation of 109,953 stock units.

## 13. PROFIT AND LOSS ACCOUNT

| | **Group £** | **Company £** |
|---|---|---|
| Balance 1 January 2003 | 23,836,921 | 11,652,447 |
| Cost of cancelling cross-holding on the merger | – | (1,860,270) |
| Retained profit for the year | 1,172,759 | 1,449,869 |
| **Balance 31 December 2003** | **£25,009,680** | **£11,242,046** |

## 14. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

| | **2003 £** | 2002 £ |
|---|---|---|
| Operating profit | **4,418,806** | 2,710,544 |
| Depreciation | **39,375** | 20,641 |
| (Decrease)/increase in provision for diminution in investments | **(6,629,135)** | 128,401 |
| Net loss/(profit) on investments realised | **2,010,090** | (2,223,776) |
| Currency translation losses | **211,396** | 328,460 |
| Decrease/(increase) in debtors | **5,310,633** | (6,008,898) |
| Increase/(decrease) in creditors | **36,193** | (29,687) |
| Net cash inflow/(outflow) from operating activities | **£5,397,358** | £(5,074,315) |

# NOTES TO THE ACCOUNTS *continued*

## 15. ANALYSIS OF CASH FLOW

| | **2003** **£** | 2002 £ |
|---|---|---|
| **Equity dividends paid to stockholders** | **£(1,223,911)** | £(1,244,355) |

| **Returns on investments and servicing of finance** | **£** | £ |
|---|---|---|
| Interest paid | **£(465,692)** | £(370,129) |

| **Taxation** | **£** | £ |
|---|---|---|
| UK Corporation tax paid | **£(821,239)** | £(59,984) |

| **Capital expenditure and management of non-liquid resources** | **£** | £ |
|---|---|---|
| (Purchase)/sale of fixed assets | **(264,150)** | 1,670,302 |
| Purchases of unlisted investments | **(2,009,673)** | (1,775,841) |
| Sales of unlisted investments | **1,750,602** | 1,689,553 |
| Net cash (outflow)/inflow | **£(523,221)** | £1,584,014 |

| **Management of liquid resources** | **£** | £ |
|---|---|---|
| Purchases of listed investments | **(45,497,283)** | (38,954,845) |
| Sales of listed investments | **40,138,563** | 41,634,299 |
| Net cash (outflow)/inflow | **£(5,358,720)** | £2,679,454 |

## 16. ANALYSIS AND RECONCILIATION OF NET FUNDS

| | **1 Jan 2003 £** | **Cash Flow £** | **31 Dec 2003 £** |
|---|---|---|---|
| Cash and bank balances | 103,052 | 328,639 | **431,691** |
| Bank overdrafts – secured | (7,494,956) | (3,324,064) | **(10,819,020)** |
| | £(7,391,904) | £(2,995,425) | **£(10,387,329)** |
| Current asset investments (Note 9) | 32,566,126 | 5,102,469 | **37,668,595** |
| Less: Unlisted securities | (2,237,483) | (358,064) | **(2,595,547)** |
| | £30,328,643 | £4,744,405 | **£35,073,048** |
| Net funds | £22,936,739 | £1,748,980 | **£24,685,719** |

| | **2003 £** | 2002 £ |
|---|---|---|
| (Decrease) in cash in year | **(2,995,425)** | (2,465,315) |
| Cash outflow from increase in liquid resources | **5,102,469** | 2,464,916 |
| Cash (inflow)/outflow from decrease/(increase) in non-liquid resources | **(358,064)** | 409,345 |
| Change in net funds resulting from cash flows | **1,748,980** | 408,946 |
| Net funds at 1 January | **22,936,739** | 22,527,793 |
| Net funds at 31 December | **£24,685,719** | £22,936,793 |

# NOTES TO THE ACCOUNTS *continued*

## 17. REVALUATION RESERVE

| | 2003 £ | 2002 £ |
|---|---|---|
| This arises on the increase in value of investment properties over their book cost. | | |
| **Group** | | |
| Balance 1 January 2003 | **119,842** | – |
| Surplus arising on revaluation of investment property | **84,414** | 119,842 |
| Balance 31 December 2003 | **£204,256** | £119,824 |
| **Company** | | |
| Balance 1 January 2003 | **–** | – |
| Surplus arising on revaluation of investment property | **34,414** | – |
| Balance 31 December 2003 | **£34,414** | £– |

## 18. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS

| | 2003 £ | 2002 £ |
|---|---|---|
| Profit for the year | **2,486,214** | 1,729,946 |
| Dividends | **(1,313,455)** | (1,224,355) |
| Revaluation reserve | **84,414** | 119,842 |
| | **1,257,173** | 625,433 |
| Opening Stockholders' funds | **24,699,209** | 24,073,776 |
| Closing Stockholders' funds | **£25,956,382** | £24,699,209 |

## 19. RELATED PARTY TRANSACTIONS

A subsidiary Company, Danby Registrars Limited provided secretarial services to the Company and other members of the Group at a cost of £50,000 (2002: £43,000) and accommodation at a cost of £52,000 (2002: £52,000) during the year ended 31 December 2003.

Danby Registrars Limited also owns a property, Walcot Hall Estate in Shropshire, part of which is occupied by an executive Director of the Company, The Hon. Mrs. E. C. Parish, under a protected tenancy agreement entered into in 1957. The annual rental is £7,580, the amount of rent due at 31 December 2003 was £nil (2002: £nil) and no amount has been written off in respect of amounts due from The Hon. Mrs. E. C. Parish during the year. The Hon. Mrs. E. C. Parish allowed the Chairman and Managing Director of the Company, C. R. W. Parish, and his family, and her daughter Mrs S. W. Kumaramangalam and her family to reside in the property throughout the year.

Danby Registrars Limited owe C.R.W. Parish £2,456 (2002:£nil) in respect of deposits paid by him to that company for personal expenditure to be paid for by that company on his behalf.

The Walcot Hall and Estate is the major asset in Danby Registrars Limited and has a market value of £3,100,000 (2002: £2,100,000). The pre-tax loss attributable to the Walcot Hall Estate in the financial year ended 31 December 2003 was £158,289 (2002: £57,794).

C. R. W. Parish also pays rent of £2,040 per annum to Danby Registrars Limited, as he resides on the Walcot Estate. The amount of rent due at 31 December 2003 was £nil (2002: £nil) and no amount has been written off in respect of amounts due from C. R. W. Parish. Mrs S. W. Kumaramangalam also pays rent of £4,850 per annum to Danby Registrars Limited, in repect of her residing on the Walcot Hall Estate. The amount of rent due at 31 December 2003 was £nil (2002: £nil) and no amount has been written off in respect of amounts due from Mrs S. W. Kumaramangalam.

In addition Danby Registrars Limited owns 41 Cheval Place, the Group's registered office. C. R. W. Parish, The Hon Mrs E. C. Parish and E. W. Houston paid accommodation costs to Danby Registrars Limited for use of Cheval Place. During the year this amounted to £1,924 (2002: £2,502). No amounts remain outstanding at the year end (2002: £nil).

### 19. RELATED PARTY TRANSACTIONS *continued*

Danby Registrars Limited has outstanding loans from shareholders of El Oro and Exploration Company p.l.c. as follows:

| | **2003** **£** | 2002 £ |
|---|---|---|
| Mrs S. W. Kumaramangalam | | |
| Unsecured loan | **70,000** | 70,000 |
| Interest paid in year | **5,600** | 5,600 |
| C.R.W. Parish | | |
| Unsecured loan | **–** | – |
| Interest paid in year | **–** | 980 |

### 20. FINANCIAL INSTRUMENTS AND RISK PROFILE

The Group's financial instruments comprise its investment portfolio (see note 9), cash balances, debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement, and bank borrowings used partly to finance the Group's operations.

The Group invests in securities to increase the asset value of the stockholders' units while attempting to increase their dividends and at the same time not asking them to put up any new money. The Group's policy is to deal in quoted and unquoted investments or other financial instruments, including derivatives.

As indicated in notes 9 and 11 the company trades in forward contracts on a commodities, short positions and options.

The Group is financed mainly through retained profits and bank overdrafts and secured borrowings on transactions with brokers.

The Group has little exposure to credit and cash flow risk. Unlisted investments in the portfolio are subject to liquidity risk. The Directors take this risk into account before making such investments and when arriving at the valuation of these assets.

The principal risks the Group faces in its portfolio management activities are:

- market price risk i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movements;
- foreign currency risk; and
- interest rate risk.

The Group takes account of these risks when setting investment policy and making investment decisions. The Directors monitor economic and market data in order to minimise the Group's exposure to these risks.

The numerical disclosure below excludes short-term debtors and creditors. The position at 31 December 2003 is in accordance with the Group's policy for the role of financial instruments and risk and is consistent with the position during the year.

| | **Book Value** | | **Fair Value** | |
|---|---|---|---|---|
| | **2003** **£** | 2002 £ | **2003** **£** | 2002 £ |
| Financial assets: | | | | |
| Cash and bank balances | **431,691** | 103,052 | **431,691** | 103,052 |
| Listed investments | **35,073,048** | 30,328,643 | **68,411,481** | 53,750,791 |
| Unlisted investments | **2,595,547** | 2,237,483 | **4,304,478** | 4,033,549 |
| | **£38,100,286** | £32,669,178 | **£73,147,650** | £57,887,392 |
| Financial liabilities: | | | | |
| Bank overdraft | **10,819,020** | 7,494,956 | **10,819,020** | 7,494,956 |
| Investments sold short | **–** | 5,330,891 | **–** | 5,192,404 |
| Short positions on options | **438,080** | 30,160 | **420,712** | 24,821 |
| | **£11,257,100** | £12,856,007 | **£11,239,732** | £12,712,181 |

The Company has entered into forward contracts to purchase gold agreeing to pay the sterling equivalent of £1,448,795 (2002: £2,100,810). The market value of these contracts at 31 December 2003 is £1,556,834 (2002: £2,158,519).
The investment portfolio is reported at the lower of cost and market value. Fair value of the portfolio, based on market value and Directors' valuation for unlisted securities, is recorded in notes 8 and 9 to the accounts.

**Market Price Risk**

The Group's exposure to market price risk mainly comprises movements in the value of its investments. A list of the principal Listed and Unlisted Investments valued in excess of £500,000 and held at 31 December 2003, is given on page 32. Uncertainty arises as a result of future changes in the market prices of the Group's investments.

**20. FINANCIAL INSTRUMENTS AND RISK PROFILE** *continued*

**Foreign Currency Risk**

The Group is exposed to foreign currency risk through its investment in securities listed on overseas stock markets and on short-term indebtedness with overseas brokers. The Group does not hedge against foreign currency movements, but takes account of the relative strengths and weaknesses of currencies in making investment decisions. Receipts in currencies other than Sterling are converted into Sterling, to the extent that they are not needed to meet settlement obligations in the relevant currency.

The Group's exposure to foreign currencies through its investments in overseas securities, at fair value converted to Sterling, is shown below:

| | **2003** **£** | 2002 £ |
|---|---|---|
| Australian dollar | **5,599,690** | 3,951,609 |
| Canadian dollar | **10,602,243** | 5,976,931 |
| Danish kroner | **25,694** | 27,336 |
| Euro | **1,304,800** | 1,687,521 |
| Hong Kong dollar | **289,137** | 113,827 |
| Indonesia rupiah | **31,338** | 34,250 |
| Japanese yen | **17,462** | – |
| New Zealand dollar | **187,834** | 212,520 |
| South African rand | **3,701,800** | 3,786,680 |
| Swedish kroner | **626** | 345 |
| Swiss franc | **64,043** | 56,014 |
| Thai baht | **61,469** | – |
| US dollar | **7,667,560** | 5,195,243 |
| | **£29,553,696** | £21,042,276 |

**Interest Rate Risk**

The Group is exposed indirectly to interest rate risk through the effect of interest rate changes on the valuation of its investment portfolio. The majority of its financial assets are equity shares, which pay dividends, not interest. Interest is charged on bank overdrafts at 1% above the bank's Sterling base rate and at rates negotiated with the lenders.

The interest rate profile of the Group's financial assets and liabilities are:

| | | **2003** | | | 2002 | |
|---|---|---|---|---|---|---|
| | **Total** **£** | **Floating Rate** **£** | **Fixed Rate** **£** | Total £ | Floating Rate £ | Fixed Rate £ |
| Financial assets: | | | | | | |
| Australian dollar | **84,337** | **–** | **84,337** | – | – | – |
| Canadian dollar | **59,673** | **–** | **59,673** | – | – | – |
| Euro | **–** | **–** | **–** | 197,621 | – | 197,621 |
| New Zealand dollar | **–** | **–** | **–** | 184,121 | – | 184,121 |
| South African rand | **64,115** | **–** | **64,115** | – | – | – |
| Sterling | **131,276** | **7,922** | **123,354** | 659,900 | 355,396 | 304,504 |
| Swiss franc | **–** | **–** | **–** | 201,249 | – | 201,249 |
| US dollar | **95,296** | **–** | **95,296** | 31,742 | – | 31,742 |
| | **£434,697** | **£7,922** | **£426,775** | £1,274,633 | £355,396 | £919,237 |
| Financial liabilities: | | | | | | |
| Sterling | **£10,819,020** | **£10,819,020** | **£–** | 7,494,956 | 7,494,956 | £– |
| | **£10,819,020** | **£10,819,020** | **£–** | £7,494,956 | £7,494,956 | £– |

In addition to the financial assets listed above, the Group holds forward contracts in gold and silver. Details of these contracts are shown in note 9.

Financial assets comprise non-equity shares and loan stocks. The weighted average interest rate on these financial assets is 5.99% (2002: 3.26%) and financial liabilities is 5.0% (2002: 5.0%). Financial liabilities all fall due within one year. The excess balance on overdraft facilities at 31 December 2003 amounted to £819,020 (2002: surplus balance £2,505,044).

## INDEPENDENT AUDITORS REPORT

*to the members of THE EL ORO AND EXPLORATION COMPANY p.l.c.*

We have audited the financial statements which comprise the consolidated profit and loss account, the Group and Company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, and the chairman's statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the 1998 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or the Group's corporate governance procedures or its risk and control procedures.

**Basis of audit opinion**
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

**Opinion**
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers LLP**
*Chartered Accountants and Registered Auditors*
London
14 May 2004

## CLASSIFICATION OF LISTED AND UNLISTED INVESTMENTS

*based upon market values and Directors' values at 31 December 2003*

Listed and Unlisted Investments of the Group with market valuation and Directors' valuation at 31 December 2003 in excess of £500,000.

| | Total |
|---|---|
| Alumina | 720,175 |
| Anglo American | 740,033 |
| Anglo American Platinum | 1,609,958 |
| Anglogold | 679,480 |
| Bertam Holdings | 1,368,328 |
| BP | 1,132,500 |
| Bromley Property Investments | 646,200 |
| Daejan Holdings | 944,369 |
| Davis Service | 1,055,713 |
| Dee Valley Group | 630,204 |
| East Surrey Holdings | 627,910 |
| FreeportMcmoranCopper & Gold | 725,577 |
| Fuller, Smith & Turner 'A' | 678,296 |
| Gold Fields | 855,760 |
| Gulf International Minerals | 1,118,966 |
| Hardys & Hansons | 2,514,166 |
| Impala Platinum | 862,962 |
| James Halstead | 780,000 |
| Lionore Mining | 985,122 |
| Meridian Gold | 1,693,151 |
| Mountview Estates | 1,389,070 |
| Peel Holdings | 1,669,450 |
| Royal Dutch Petroleum | 1,001,127 |
| Shell Transport & Trading | 1,412,700 |
| Troy Resources | 1,849,353 |
| Uruguay Minerals Exploration | 3,219,015 |
| WMC Resources | 569,740 |
| Wolverhampton & Dudley Brewery | 616,400 |
| Young & Co Brewery 'A' | 1,733,438 |
| Young & Co Brewery | 655,875 |
| | £34,485,038 |

# The EL ORO AND EXPLORATION COMPANY p.l.c.

(formerly THE EXPLORATION COMPANY p.l.c.)

## NOTICE OF ANNUAL GENERAL MEETING

*(Registered in England no. 80408)*

NOTICE IS HEREBY GIVEN that the ONE HUNDREDTH ANNUAL GENERAL MEETING OF THE COMPANY will be held at 41 Cheval Place, London, SW7 1EW, on Tuesday 22 June 2004, at 12 noon for the following purposes:

1. To receive the Directors' Report and financial statements for the year ended 31 December 2003.

2. To re-elect D. R. L. Hunting who retires by rotation as a Director of the Company.

3. To re-elect J. A. Wild who retires by rotation as a Director of the Company.

4. To approve the Directors' Remuneration Reports.

5. To declare a first and final dividend in respect of the financial year of the Company ended 31 December 2003 of 11 pence per ordinary stock unit, such dividend to be payable on 25 October 2004 to those stockholders registered in the register of members of the Company on the 30 July 2004.

6. To authorise the Company to make market purchases (within the meaning of Section 163(3) of the Act) of its shares upon or subject to the following conditions:
   a) the maximum number of stock units which may be purchased is 1,194,293;
   b) the maximum price at which stock units may be purchased shall be 5% above the average of the middle market quotations for the stock units as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase and the minimum price shall be 5p, being the nominal value of the stock units, in both cases exclusive of expenses; and
   c) the authority to purchase conferred by this Resolution shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may before such expiry enter into a contract of purchase under which such may be completed or executed wholly or partly after the expiration of this authority.

7. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.

The Board recommends stockholders to vote in favour of all the resolutions above.

*Registered Office:*
**41 Cheval Place,**
**London, SW7 1EW**
14 May 2004

By Order of the Board,
**C. E. J. Burman, FCA**
*Secretary.*

**NOTES:**

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed.

2. Completion of a form of proxy does not preclude a member from subsequently attending and voting in person The instrument appointing a proxy should be deposited with the Company's Registrars not less than 48 hours before the start of the meeting.