

EL ORO AND EXPLORATION COMPANY p.l.c.

Company No: 80408

Founded 1 November 1886



Interim Report

for the six months ended 30 June 2003

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

CHAIRMAN'S STATEMENT

results for the half year ended 30 June 2003

Group profit before tax and exceptional costs, including £84,142 (£80,148 for the first half of 2002) share of profit, applicable to Associated Undertakings, was £897,271 for the first half of 2003 against £476,147 for the first half of 2002. Total net assets at market value or Directors' valuation show an increase of £3,204,224 compared to the end of 2002. Group net assets, taking investments at market value, were £40,557,400 (equal to 336p per stock unit) at 30 June 2003 against £37,353,176 (310p per stock unit) at 31 December 2002 an increase of 8.58%, compared to a rise of 4.08% for the FTSE All Share Index over the same period. The exceptional costs, amounting to £206,250 (£nil for the first half of 2002), for which no corporation tax allowance may be claimed, relate to the merger costs incurred to 30 June 2003.

The glorious sunshine in which Britain has basked from Berwick-on-Tweed to Bideford has bathed the countryside in a golden glow and filled its barns to bursting. The barmen and maids have smiled whilst pulling extra pints and in this thirsty climate brewery shares have ascended and house builders flourished. The recovery in stock markets since March has been reinforced by the reduction in interest rates on both sides of the Atlantic and a substantial, not to say enormous, increase in money supply. Our results have in consequence been enhanced despite our own misgivings, more by inaction and the existing strengths of the portfolio than any radical reallocation. As investors return from their beaches, trailing tar and sunburn, or clutching fish or fowl from more energetic forays, and the bare plough replaces the golden stubble, it may well be that a colder reality reasserts itself. The pleasant prospect of an Olympic year, combined with a Presidential election, usually bodes well for stock markets. Nevertheless, the portents however flimsy their evidence, are less appealing. In the last few days the seemingly invincible Olympians, Pinsent and Cracknell, have seen their power humbled by the technical skill and fluency of the Australians, in a display as close to perfection as we are ever likely to witness. At the same time Teflon Tony's éminence grise, Clinical Campbell, has departed and after seven years the leader suddenly seems vulnerable.

On the broader front, the gargantuan appetite of Mr Grasso at the New York Stock Exchange shows there has been little amelioration in the ability of executives to enrich themselves with scant regard to the profitability of their businesses, and the returns to their shareholders, particularly on that side of the Atlantic. We regard this as an assault on the capitalist system, having seen off the attempted destruction by workers, whereby shareholders are increasingly deprived of their just desserts by executives eager to enrich themselves, or their peers, in a happy circle of convivial accumulation, whilst maintaining minimal ongoing participation in the equity of the companies by which they are employed.

At the other end of the spectrum is the Pensions débâcle that threatens to turn major businesses into producers of pension payments for previous employees. Government insouciance in the face of this crisis remains breathtaking, particularly having precipitated the crisis in the first place. We find it increasingly difficult to analyse the effect of pension shortfalls, especially where forecast returns are substantially in excess of what we consider attainable, a situation now prevailing on both sides of the Atlantic.

At home, the pervasive and pernicious hand of the E.U. and Health and Safety Executive, to name but two bureaucracies, continues to spread destruction: the fishing industry belatedly is receiving some publicity as foreign fleets plunder our waters and tons of good fish are dumped overboard so as not to contravene measures designed to stop over-fishing; even our 192 directory Enquiries has succumbed to an European directive and the scions of American magnates and Bangalore helplines are enriched at

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CHAIRMAN'S STATEMENT *continued*

the expense and irritation of the British public. Our own affection for free markets is confirmed in a quote from Bruce Chatwin's 'Utz': 'Everyone in the (Tabor) Market was laughing and haggling, giving, taking, proving beyond all doubt, whatever the zealots had to say, that the business of trade was one of life's most natural and enjoyable pleasures, no more to be abolished than the act of falling in love...'

Everywhere we see if not abolition, at least curtailment and controls that ultimately impoverish us all, as well as impairing the sheer fun and pleasure he so well describes. Whilst Deflation has been recently seen as a threat to our economies, the implied assumption that Inflation is somehow beneficial again undermines the vitality and strength of Capitalism whose triumph has been to produce greater choice and better goods at lower prices by innovation and successful management. Inflation is an attack on all bond-holders and the ally of profligate governments. As Cicero declared in 63 BC: 'The budget should be balanced, the treasury should be refilled and the public debt should be tempered and controlled, and the assistance to foreign lands should be curtailed lest we become bankrupt'; the obverse of what governments in Britain, the United States and Europe are undertaking, with predictions for the U.K. deficit to reach £40billion and that of the U.S., in excess of \$400 billion, the latter compounded by the ever-increasing trade deficit. Whilst we may meander through the next 18 months in a recovery of sorts, we cannot believe that the ultimate outcome will be anything less than a salutary decline in values. The sale of twenty tons of gold by the Greek government, to help re-finance some of their baled-out state enterprises echoes that of our own astute Chancellor.

Your company has made increasing provision in the last few years to protect shareholders from the actions of people preoccupied with their own electoral prospects rather than the well-being of their economies; as George Bernard Shaw said: 'You have a choice between the natural stability of gold and the honesty and intelligence of members of the government. And with all due respect for those gentlemen, I advise you, as long as the capitalist system lasts, vote for gold.'

We have built our portfolio with a widespread of gold shares, precious metals, especially Platinum, and other essential ingredients for the world economy, particularly that of China, positioned in various countries and continents. We also have a bedrock of businesses that we believe will thrive in whatever turbulent times may occur.

The merger of the company in its former name The Exploration Company p.l.c. with El Oro Mining and Exploration p.l.c. was formally completed on 3 September 2003, and the combined entity, El Oro and Exploration Company p.l.c., commenced trading on 8 September 2003.

I would like to thank stockholders for their support for the scheme, and also my fellow directors and our staff at Cheval Place and our able advisers, for their assistance, patience and perseverance in putting the proposals into practice. Both companies, in their separate identities, have passed their centenaries, and El Oro and Exploration Company p.l.c. has had a continuous listing for over a hundred years.

I look forward with renewed enthusiasm in setting out on the next one hundred years with the combined group, and have no reason to believe that past progress cannot be improved upon.

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prior to merger - unaudited)

for the six months ended 30 June 2003

| | 30 June 2003 | 30 June 2002 |
|--|-------------------------|-----------------|
| | £ | £ |
| Income from investment trading | 1,194,135 | 707,243 |
| Management expenses | 287,339 | 227,921 |
| Operating profit | 906,796 | 479,322 |
| Share of operating profit of associated undertakings | 145,738 | 122,110 |
| Profit on ordinary activities before exceptional costs and interest payable | 1,052,534 | 601,432 |
| Exceptional costs | 206,250 | – |
| Profit on ordinary activities before interest payable | 846,284 | 601,432 |
| Interest payable | | |
| Group | 93,667 | 83,323 |
| Associated undertakings | 61,596 | 41,962 |
| | 155,263 | 125,285 |
| Profit on ordinary activities before taxation | 691,021 | 476,147 |
| Taxation | | |
| Group | 224,369 | (13,634) |
| Associated undertakings | 68,903 | 31,853 |
| | 293,272 | 18,219 |
| Profit on ordinary activities after taxation | 397,749 | 457,928 |
| Unclaimed dividends forfeited | 267 | – |
| Retained profit for the period | 398,016 | 457,928 |
| Earnings per stock unit (Basic and diluted) | | |
| Before exceptional costs | 5.01p | 3.80p |
| After exceptional costs | 3.30p | 3.80p |

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

The share of operating profit of associated undertakings is after charging £102,919 exceptional costs.

EL ORO AND EXPLORATION COMPANY p.l.c.
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BALANCE SHEETS

(Prior to merger - unaudited)
at 30 June 2003

| | Group 30 June 2003 £ | Group 31 Dec 2002 £ | Company 30 June 2003 £ | Company 31 Dec 2002 £ |
|--|---|------------------------------|---|--------------------------------|
| Fixed assets | | | | |
| Office equipment and software | 4,468 | 5,192 | 4,468 | 5,192 |
| Investments: | | | | |
| Subsidiary Company | – | – | 2,747 | 2,747 |
| Associated Undertakings | 6,723,857 | 6,708,618 | 181,752 | 181,752 |
| | 6,728,325 | 6,713,810 | 188,967 | 189,691 |
| Current assets | | | | |
| Investments | 19,564,647 | 17,180,186 | 19,564,647 | 17,180,186 |
| Debtors | 5,964,421 | 6,613,328 | 5,964,421 | 6,613,328 |
| Cash and bank balances | 256,936 | 35,295 | 256,936 | 35,295 |
| | 25,786,004 | 23,828,809 | 25,786,004 | 23,828,809 |
| Creditors: amounts falling due within one year: | 12,186,402 | 10,612,708 | 13,331,084 | 11,757,390 |
| Net current assets | 13,599,602 | 13,216,101 | 12,454,920 | 12,071,419 |
| Total assets less current liabilities | 20,327,927 | 19,929,911 | 12,643,887 | 12,261,110 |
| Net assets | 20,327,927 | 19,929,911 | 12,643,887 | 12,261,110 |
| Capital and reserves | | | | |
| Called up share capital | 602,646 | 602,646 | 602,646 | 602,646 |
| Share premium | 6,017 | 6,017 | 6,017 | 6,017 |
| Profit and loss account | 19,719,264 | 19,321,248 | 12,035,224 | 11,652,447 |
| Stockholders' funds (Equity) | 20,327,927 | 19,929,911 | 12,643,887 | 12,261,110 |
| Market value of investments | | | | |
| Listed | 28,909,916 | 25,660,733 | 28,909,916 | 25,660,733 |
| Unlisted | 2,811,904 | 2,857,900 | 2,811,904 | 2,857,900 |
| Property | 93,041 | – | 93,041 | – |
| | 31,814,861 | 28,518,633 | 31,814,861 | 28,518,633 |
| Sold short investments | (4,344,216) | (5,217,225) | (4,344,216) | (5,217,225) |
| | 27,470,645 | 23,301,408 | 27,470,645 | 23,301,408 |
| Group net assets at market value | 40,557,400 | 37,353,176 | | |
| Group net assets at market value per stock unit | 336p | 310p | | |

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

CONSOLIDATED CASH FLOW STATEMENT

(Prior to merger - unaudited)

for the six months ended 30 June 2003

| | 30 June 2003 £ | 30 June 2002 £ |
|---|-------------------------------|-------------------------|
| Net cash inflow/(outflow) from operating activities | 651,459 | (260,338) |
| Returns on investments and servicing finance | (105,667) | (89,323) |
| Taxation | 220,709 | 486,751 |
| Capital expenditure and management of non-liquid resources | (5,190) | (35,722) |
| Equity dividends forfeited | 267 | – |
| Net inflow before management of liquid resources | 761,578 | 101,368 |
| Management of liquid resources | (2,576,376) | (222,856) |
| Decrease in cash in the period | <u>(1,814,798)</u> | <u>(121,488)</u> |

For information only the results for the six months ended 30 June 2003 of El Oro Mining and Exploration Company p.l.c. are shown below:

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prior to merger - unaudited)

for the six months ended 30 June 2003

| | 30 June 2003 £ | 30 June 2002 £ |
|--|-------------------------------|----------------------|
| Income from investment trading | 832,603 | 486,372 |
| Management expenses | 272,329 | 241,940 |
| Operating profit | 560,274 | 244,432 |
| Share of operating profit of associated undertakings | 310,935 | 234,191 |
| Profit on ordinary activities before exceptional costs and interest payable | 871,209 | 478,623 |
| Exceptional costs | 206,250 | – |
| Profit on ordinary activities before interest payable | 664,959 | 478,623 |
| Interest payable | | |
| Group | 106,748 | 76,387 |
| Associated undertakings | 54,147 | 44,572 |
| | 160,895 | 120,959 |
| Profit on ordinary activities before taxation | 504,064 | 357,664 |
| Taxation | | |
| Group | 138,071 | 63,828 |
| Associated undertakings | 109,584 | (6,659) |
| | 247,655 | 57,169 |
| Profit on ordinary activities after taxation | 256,409 | 300,495 |
| Unclaimed dividends forfeited | 221 | – |
| Retained profit for the period | 256,630 | 300,495 |
| Earnings per share (Basic and diluted) | | |
| Before exceptional costs | 10.26p | 6.66p |
| After exceptional costs | 5.68p | 6.66p |

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

The share of operating profit of associated undertakings is after charging £100,733 exceptional costs.

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

BALANCE SHEETS

(Prior to merger - unaudited)

at 30 June 2003

| | Group 30 June 2003 £ | Group 31 Dec 2002 £ | Company 30 June 2003 £ | Company 31 Dec 2002 £ |
|--|---|------------------------------|---|--------------------------------|
| Fixed assets | | | | |
| Office equipment and software | 4,574 | 4,976 | 4,574 | 4,976 |
| Investments: | | | | |
| Subsidiary Company | – | – | 37,500 | 37,500 |
| Associated Undertakings | 8,571,995 | 8,424,791 | 1,872,184 | 1,872,184 |
| | <u>8,576,569</u> | <u>8,429,767</u> | <u>1,914,258</u> | <u>1,914,660</u> |
| Current assets | | | | |
| Investments | 15,731,493 | 15,369,000 | 15,731,493 | 15,369,000 |
| Debtors | 201,662 | 214,784 | 201,662 | 214,784 |
| Cash and bank balances | 28,260 | 29,058 | 28,260 | 29,058 |
| | <u>15,961,415</u> | <u>15,612,842</u> | <u>15,961,415</u> | <u>15,612,842</u> |
| Creditors: amounts falling due within one year: | <u>6,072,599</u> | 5,833,854 | <u>7,557,980</u> | 7,319,235 |
| Net current assets | <u>9,888,816</u> | <u>9,778,988</u> | <u>8,403,435</u> | <u>8,293,607</u> |
| Total assets less current liabilities | <u>18,465,385</u> | <u>18,208,755</u> | <u>10,317,693</u> | <u>10,208,267</u> |
| Net assets | <u>18,465,385</u> | <u>18,208,755</u> | <u>10,317,693</u> | <u>10,208,267</u> |
| Capital and reserves | | | | |
| Called up share capital | 451,113 | 451,113 | 451,113 | 451,113 |
| Share premium | 2,435 | 2,435 | 2,435 | 2,435 |
| Profit and loss account | 18,011,837 | 17,755,207 | 9,864,145 | 9,754,719 |
| Shareholders' funds (Equity) | <u>18,465,385</u> | <u>18,208,755</u> | <u>10,317,693</u> | <u>10,208,267</u> |
| Market value of investments | | | | |
| Listed | 27,408,692 | 28,062,769 | 27,408,692 | 28,062,769 |
| Unlisted | 967,389 | 1,173,710 | 967,389 | 1,173,710 |
| | <u>28,376,081</u> | <u>29,236,479</u> | <u>28,376,081</u> | <u>29,236,479</u> |
| Group net assets at market value | <u>37,600,446</u> | <u>36,830,273</u> | | |
| Group net assets at market value per share | <u>834p</u> | <u>816p</u> | | |

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

CONSOLIDATED CASH FLOW STATEMENT

(Prior to merger - unaudited)

for the six months ended 30 June 2003

| | 30 June 2003 | 30 June 2002 |
|---|-------------------------|-----------------|
| | £ | £ |
| Net cash outflow from operating activities | (257,876) | (1,778,030) |
| Returns on investments and servicing of finance | (101,748) | (78,987) |
| Taxation | (152,280) | (332,566) |
| Capital expenditure and management of non-liquid resources | 195,023 | (235,412) |
| Equity dividends forfeited | 221 | – |
| Net cash outflow before management of liquid resources | (316,660) | (2,424,995) |
| Management of liquid resources | (34,652) | (1,035,288) |
| Decrease in cash in the period | (351,312) | (3,460,283) |