# Murray Emerging Growth and Income Trust PLC

**Aiming to achieve income and capital growth through investment in global emerging markets and high yielding securities**

# Contents



# Financial Calendar

| | |
|---|---|
| 24 March 2004 | Annual General Meeting |
| June 2004 | Half yearly results announced |
| 31 October 2004 | Repayment of Zero Dividend Preference shares |

# Dividend Schedule

| | Rate | XD date | Record date | Payment date |
|---|---|---|---|---|
| First interim 2003 | 0.40p | 19 March 2003 | 21 March 2003 | 31 March 2003 |
| Second interim 2003 | 0.40p | 28 May 2003 | 30 May 2003 | 20 June 2003 |
| Third interim 2003 | 0.40p | 27 August 2003 | 29 August 2003 | 22 September 2003 |
| Fourth interim 2003 | 1.86p | 10 December 2003 | 12 December 2003 | 31 December 2003 |
| **Total** | **3.06p** | | | |

# Corporate Summary

### The Company
The Company is an investment trust and its shares are listed on the London Stock Exchange.

### Company Profile
Murray Emerging Growth and Income Trust PLC is an international income and growth investment trust and a constituent member of the FTSE All-Share Index. It has two principal classes of shares – Ordinary shares and Zero Dividend Preference shares (ZDPs). The Company was incorporated as Murray Emerging Economies Trust PLC in 1994 and in March 2001 Shareholders approved a reorganisation. At the same time the name was changed to Murray Emerging Growth and Income Trust PLC to reflect the new objective.

### Objective
The Company aims to achieve capital appreciation and a high income with the prospect of growth over the life of the Company through investment in quoted equities in global emerging markets and in a diversified portfolio of quoted higher yielding securities.

### Benchmark
Due to the number of different asset classes, there is no meaningful index against which to compare the performance of the Company. Accordingly, the Manager utilises indices appropriate to the different asset classes, as well as peer group comparisons for Board reporting.

### Capital Structure
The Company's issued share capital as at 31 October 2003 consisted of 39,291,966 Ordinary shares of 5p each and 26,194,644 Zero Dividend Preference shares of 5p each.

### Winding-Up Date
The Articles of Association require a resolution to be put before Shareholders for the winding-up of the Company on 31 October 2004 ("the Winding-Up Date"), unless the Directors are released from this obligation. This may occur if a cash offer is made to the holders of the Zero Dividend Preference shares which entitles them to receive at, or about the Winding-Up Date, a cash sum equivalent to that which they would receive on winding up, or a reconstruction is implemented which provides for a similar payment. No proposals have yet been formulated which might be presented to Shareholders prior to 31 October 2004.

### Risk
The ZDP repayment date is 31 October 2004. Shareholders should note that repayment at the rate indicated for the ZDP shares is not guaranteed should the Company's assets be insufficient at the repayment date. The entitlement of the ZDP shares will need to be fully satisfied in order for the Ordinary shares to have a positive net asset value.

Payment of dividends on the Ordinary shares depends on a number of factors, including the Company's portfolio having adequate asset values and revenues. Investors should recognise that the market price of, and, in the case of the Ordinary shares, the income from, the shares can fluctuate and that their market price may not reflect their underlying net asset value.

Many of the stocks in which the Company invests are exposed to the risk of political change, exchange controls, tax or other regulations which may affect their value and marketability. Currency fluctuations may also affect the value of the Company's investments and the income derived therefrom. Companies in emerging markets are not always subject to the equivalent accounting, auditing and financial standards of those in the United Kingdom. There may therefore be less supervision and regulation in this respect.

The market prices of fixed interest stocks and, to a lesser extent, convertibles and investment trust income shares may be affected by changes in interest rates.

In the event that the Company wishes or is required to realise income shares or other investments in its portfolio, its ability to do so at prices close to the quoted market prices may be limited as a result of weak demand and low liquidity.

### Management Agreement
The Company has an agreement with Aberdeen Asset Managers Limited for the provision of management services. Please refer to page 21 for details of the management and secretarial fees payable.

# Your Board

**The Board of five Directors, all of whom are non-executive, and the majority of whom are independent of the Investment Manager, supervises the management of Murray Emerging Growth and Income Trust PLC and looks after the interests of Shareholders.**

## C G H Weaver *Chairman*

**Relevant Experience and other directorships:** He is chairman of Charter Pan-European Trust plc and a director of Helical Bar PLC, James Finlay Limited and Isotron PLC
**Length of service:** He was appointed a Director and Chairman on 23 March 2001
**Age:** 57
**Committee member:** Management Engagement Committee
**Employment by the Manager:** None
**Other connections with Trust or Manager:** He is a non-executive Director of Aberdeen Asset Management PLC and was previously Chairman of Murray Johnstone Holdings Limited
**Shared directorships with any other Trust Directors:** None
**Shareholding in Company:** Units – 11,275 (Ordinary shares – 33,825, ZDPs – 22,550)

## J S Denholm *Senior Independent Non-Executive Director*

**Relevant Experience and other directorships:** He is chairman and chief executive of J & J Denholm Limited. He joined J & J Denholm Group of companies, which is involved in the seafood, international shipping and transport sector, in 1981 and held a number of posts including that of group finance director, before being appointed chief executive in March 1993. He is also a director of Braemar Seascope Group plc
**Length of service:** He was appointed a Director on 10 October 1994
**Age:** 47
**Committee member:** Audit Committee Chairman and Management Engagement Committee
**Employment by the Manager:** None
**Other connections with Trust or Manager:** None
**Shared directorships with any other Trust Directors:** None
**Shareholding in Company:** Units – 594 (Ordinary shares – 1,782, ZDPs – 1,188)

## J D Fishburn *Independent Non-Executive Director*

**Relevant Experience and other directorships:** He is chairman of HFC Bank plc and The Henderson Smaller Companies Investment Trust plc and a director of Beazley Group plc and HSBC Bank plc. He is also an underwriter on the Lloyds Insurance Market. He was previously Executive Editor of the Economist, Treasurer of the National Trust and MP for Kensington
**Length of service:** He was appointed a Director on 25 February 1998
**Age:** 57
**Committee member:** Audit Committee and Management Engagement Committee
**Employment by the Manager:** None
**Other connections with Trust or Manager:** None
**Shared directorships with any other Trust Directors:** None
**Shareholding in Company:** Units – 5,940 (Ordinary shares – 17,820, ZDPs – 11,880)

### H A Rudebeck *Independent Non-Executive Director*

**Relevant Experience and other directorships:** He was formerly financial director of Rothsay Holdings, a manufacturer of electronic components in the USA and Barbados serving aerospace, medical and professional markets. He is a director of Quester VCT 2 plc and was formerly a director of Fleming American Investment Trust plc
**Length of service:** He was appointed a Director on 25 January 2002
**Age:** 56
**Committee member:** Audit Committee and Management Engagement Committee
**Employment by the Manager:** None
**Other connections with Trust or Manager:** None
**Shared directorships with any other Trust Directors:** None
**Shareholding in Company:** ZDPs – 10,000

### R F Scullion *Independent Non-Executive Director*

**Relevant Experience and other directorships:** He is a director of LeggMason Investors Income & Growth Trust plc and Britannic Global Income Trust PLC, which has a substantial holding of Ordinary shares in the Company
**Length of service:** He was appointed a Director on 10 October 1994
**Age:** 56
**Committee member:** Audit Committee and Management Engagement Committee
**Employment by the Manager:** None
**Other connections with Trust or Manager:** From January 1988 to July 1999 he was a director of Murray Johnstone Limited, which he joined in 1983 after 11 years at Scottish United Investors Management Limited where he was a director
**Shared directorships with any other Trust Directors:** None
**Shareholding in Company:** Units – 2,376 (Ordinary shares – 7,128, ZDPs – 4,752)

# Key Facts

Murray Emerging Growth and Income Trust PLC had a stock market capitalisation as at 31 October 2003 of £36.0 million (2002 – £16.4 million).

| | 2003 | 2002 |
|---|---|---|
| **Net Asset Performance** [1] | | |
| Total Return for the year per Ordinary share | – | (100.0)% |
| Total Return for the year per Zero Dividend Preference share | 15.6% | 2.2% |
| Total Return for the year per Unit | 44.0% | (32.7)% |
| **Share Price Performance** | | |
| Total Return for the year per Ordinary share | 212.4% | (86.2)% |
| Total Return for the year per Zero Dividend Preference share | 124.0% | (25.7)% |
| Total Return for the year per Unit | 72.4% | (48.5)% |
| **Dividends and Earnings** | | |
| Ordinary share | 3.06p | 6.6p |
| Unit | 9.18p | 19.8p |
| Net earnings per Ordinary share | 3.1p | 5.2p |

| Net Asset Value per share [1] | 2003 | 2002 | % change |
|---|---|---|---|
| Ordinary shares | 19.2p | – | n/a |
| Zero Dividend Preference shares | 124.4p | 107.6p | 15.6 |
| Units | 306.4p | 215.2p | 42.1 |
| **Share Price (mid-market)** | | | |
| Ordinary shares | 14.0p | 6.5p | 115.4 |
| Zero Dividend Preference shares | 116.5p | 52.0p | 124.0 |
| Units | 255.0p | 150.0p | 70.0 |
| **Discount to Net Asset Value** | | | |
| Ordinary shares | 27.1% | n/a | |
| Zero Dividend Preference shares | 6.4% | 51.7% | |
| Units | 16.8% | 30.3% | |
| **Hurdle Rate** | | | |
| Zero Dividend Preference shares | (4.64)% | 14.9% | |
| Ordinary shares | 5.1% | 18.6% | |
| Source: Splits Online | | | |
| **Operating costs** | | | |
| Total Operating Costs as a percentage of Gross Assets | 2.0% | 2.7% | |

See Glossary of terms and definitions on page 45.

Notes:

1. Calculated in accordance with the Company's Articles of Association
2. Total assets less current liabilities, after excluding short term loans of £12,004,000 as at 31 October 2003.

# Historic Financial Record

| As at 31 October | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Underlying assets** | | | |
| Total assets less current liabilities [2] | £57,125,000 | £45,639,000 | £71,181,000 |
| Equity Shareholders' interest [1] | £7,525,000 | Nil | £15,733,000 |
| Zero Dividend Preference Shareholders' interest [1] | £32,596,000 | £28,189,000 | £27,576,000 |
| Net assets | £40,121,000 | £28,189,000 | £43,309,000 |
| **Net asset value (pence)** [1] | | | |
| Ordinary share | 19.2 | – | 40.0 |
| Zero Dividend Preference share | 124.4 | 107.6 | 105.3 |
| Unit | 306.4 | 215.2 | 330.6 |

See Glossary of terms and definitions on page 45.

Notes:

1. Calculated in accordance with the Company's Articles of Association
2. Total assets less current liabilities, after excluding short term loans of £12,004,000 as at 31 October 2003 (2002 – £nil).

**Earnings per Ordinary share** (p)

**Net dividends per Ordinary share** (p)

**Net asset value per unit** (p)

# Chairman's Statement

### Performance

As a result of significantly improved market conditions and a number of the asset classes in which the Company is invested performing exceptionally well, the total assets of the Company rose from £45.6 million to £57.1 million. The NAV total return of the Unit with dividends reinvested for the year ended 31 October 2003 was 44.0%, while the NAV total return on the ZDPs was 15.6%. The relative outperformance was primarily attributable to Asian equities. The improvement in the net assets meant that the hurdle rate for the ZDPs at 31 October 2003 was -4.6%. Due to improved market conditions for ZDPs generally, the discount reduced from 51.7% to 6.4% resulting in an increase in the share price of 124%.

### Background

The year opened on an uncertain footing with risk aversion high amid talk of renewed recession in the US and increased geopolitical concerns. After this however, sentiment improved, with global markets rallying strongly following the conclusion of the Iraq war. All the asset classes in which the Company is invested performed well. On a total return basis, emerging market equities, high yield bonds and split capital investments all produced returns close to 40%, while the emerging debt portfolio still continued to produce healthy returns of around 15%.

Emerging equity markets outperformed supported by cheap valuations, lower interest rates, signs of a cyclical recovery and more evidence of corporate restructuring. Political stability also improved, particularly in Latin America, as it became evident that Brazil's new president Lula da Silva would continue the prudent policies of the previous government and would endeavour to meet IMF criteria. The EMEA region continued its strong performance. After being invested in Russia for some years, the Company took profits; the equity market is up well over 1000% from its lows of 1998 and valuations are no longer compelling. Following the containment of SARS, Asian markets recovered supported by strong economic data in a number of countries, particularly in China which looks sets to deliver 8% growth in 2003 and provides support to economies throughout the region.

The yield compression in emerging debt markets has been very strong and going forward that compression will inevitably progress at a more reasonable rate and even consolidate. The long-term investment rationale has been reinforced as improved credits have proved that they can refinance themselves at lower rates if reform is seen to be successful. There has been a large increase in the amount of domestic debt issued by emerging countries and we expect this structural shift to continue.

Liquidity has been one of the key drivers of the corporate bond market and in particular non-investment grade rated bonds which has seen record high net inflows of cash.

### Borrowings

The banking covenant position has improved during the year. Borrowings at the year end amounted to £17,004,000, which represented 29.8% of total assets at 31 October 2003 (38.2% at 31 October 2002).

### Dividends

During the year earnings per Ordinary share totalled 3.06p (2002 – 6.6p). Three interim dividends of 0.4p each were paid during the year ended 31 October 2003, on 31 March, 20 June and 22 September 2003. At the interim stage we reported that the fourth interim dividend would be reviewed in the light of the circumstances prevailing at the time the Annual Report was approved. Your Board is pleased to recommend a fourth interim dividend of 1.86p payable on 31 December 2003 to holders of Ordinary shares on the register on 12 December 2003 representing a full distribution of the current year's revenue attributable to the Ordinary Shareholders.

Based on current revenue estimates, the Board hopes that the Company will continue to be able to pay interim dividends at a level of 0.4p per share in its current financial year ending 31 October 2004.

### Corporate Governance

As a result of amendments to the Listing Rules published by the Financial Services Authority, I would be required to step down from the Chairmanship before 1 April 2005 because I am also a non-executive director of the management company. Your Board has considered this position and believes it is in the Shareholders' interests that I remain in office until the repayment of the ZDPs, due on 31 October 2004. The make up of the Board will be addressed during the forthcoming year in the light of any recommendations made to Shareholders regarding the repayment of the ZDPs during October 2004.

**Market Outlook**

Notwithstanding the recent rally in emerging equity markets, we continue to be optimistic about their long-term prospects because valuations remain attractive and the outlook for both economic and corporate growth has, if anything, improved. Asia is still our favoured region, given the corporate restructuring seen following the Asian crisis in 1997 and given the opportunities afforded by strong economic growth, particularly in China and India, but importantly we are identifying high quality companies across the world's emerging markets.

The global economic environment, and the expectations of a recovery, will have some impact on the appetite for risk in all credit markets. Given the increased relevance of domestic currency debt however, the impact of higher global interest rates will not be as pronounced as in 1994. Furthermore there is a higher degree of country differentiation among emerging investors than ever before. Going forward those different investor pools will mean less volatility and less correlation among emerging credits and an increase in sector and regional segmentation. Country selection remains core to the performance of the sector.

**Future of the Trust**

The Zero Dividend Preference shares are due to be repaid on 31 October 2004. During the coming months your Board will continue to consider options for the future of the Company and continue to reflect the rights of both classes of Shareholder. Meanwhile your Board intends that the Trust's assets will be managed with a similar strategy as at present. Further information is contained in the Directors' Report and Note 1 to the financial statements

**C G H Weaver**
Chairman
20 January 2004

# Summary of Investment Changes during the year

| | Valuation 31 October 2002 £'000 | % | Transactions £'000 | Appreciation (depreciation) £'000 | Valuation 31 October 2003 £'000 | % |
|---|---|---|---|---|---|---|
| **Income Portfolio** | | | | | | |
| Split Capital investments | 1,182 | 2.6 | (419) | 205 | 968 | 1.7 |
| Emerging Market Debt | 7,872 | 17.2 | 2,300 | 638 | 10,810 | 18.9 |
| High Yield Bonds | 4,780 | 10.5 | (1,170) | 1,283 | 4,893 | 8.6 |
| | 13,834 | 30.3 | 711 | 2,126 | 16,671 | 29.2 |
| **Growth Portfolio** | | | | | | |
| *Equities* | | | | | | |
| Asia | 17,389 | 38.1 | 287 | 5,975 | 23,651 | 41.4 |
| Europe, Middle East & Africa | 7,635 | 16.7 | (1,352) | 2,631 | 8,914 | 15.6 |
| Latin America | 4,688 | 10.3 | 1,146 | 1,192 | 7,026 | 12.3 |
| Emerging Markets – Exotic Debt | 881 | 1.9 | (1,152) | 271 | – | – |
| | 30,593 | 67.0 | (1,071) | 10,069 | 39,591 | 69.3 |
| Total investments | 44,427 | 97.3 | (360) | 12,195 | 56,262 | 98.5 |
| Other net current assets | 1,212 | 2.7 | (404) | 55 | 863 | 1.5 |
| **Total assets*** | **45,639** | **100.0** | **(764)** | **12,250** | **57,125** | **100.0** |

* Represents total assets less current liabilities, excluding bank loans due within one year of £12,004,000 as at 31 October 2003 (2002 – £nil).

# Summary of Net Assets

| | Valuation 31 October 2003 £'000 | % |
|---|---|---|
| Income Portfolio | 16,671 | 41.55 |
| Growth Portfolio | 39,591 | 98.68 |
| Other net current assets | 863 | 2.15 |
| Borrowings | (17,004) | (42.38) |
| **Net assets** | **40,121** | **100.00** |

# Growth Portfolio

As at 31 October 2003

| Security | Valuation £'000 | % of Total Assets |
|---|---|---|
| **1. (1) Samsung Electronics (SEC)**<br>Samsung Electronics is part of the Samsung group. The company has successfully diversified its revenue base away from the commoditised semiconductors. SEC manufactures semiconductors, telecom equipment, consumer electronics and LCD screens. | 1,759 | 3.1 |
| **2. (17) Telefonos de Mexico (Telmex)**<br>Telmex provides local and long-distance telephone services throughout Mexico. It also provides other telecommunications-related services such as directory services, data transmission, internet access, paging service and interconnection services to other carriers. | 1,602 | 2.8 |
| **3. (30) Petrobras**<br>Petrobras, Brazil's leading energy group, produces oil and gas from extensive reserves throughout the country. It also produces a wide range of derivative products, petrochemicals and fuel alcohol. | 1,590 | 2.8 |
| **4. (31) Gedeon Richter GDS**<br>Gedeon Richter is the largest integrated pharmaceutical company in Hungary with a niche in therapeutic treatments and gynaecology. Proprietary drugs include famotidine, a treatment for ulcers licensed globally. The company is expanding in four main markets including the US and Europe through licensing agreements with global pharmaceutical companies. | 1,540 | 2.7 |
| **5. (38) Pliva**<br>Pliva is the largest pharmaceutical company in central Europe. The company discovered a blockbuster antibiotic azithromycin, which was licensed to Pfizer. Pliva has recently acquired pharmaceutical companies in Europe and USA to build a distribution platform for its generic drug portfolio. | 1,444 | 2.5 |
| **6. (–) Check Point Software**<br>Check Point Software provides internet security with its VPN and firewall products on a global scale. The company has 39% of the firewall market and 65% of the VPN market. The VPN secures business-to-business communication between networks, systems, applications and users across the internet, intranet and extranet. The company is incorporated in Israel and listed both in Israel and on Nasdaq. | 1,434 | 2.5 |
| **7. (19) China Mobile**<br>China Mobile (formerly China Telecom) is an investment holding company, providing cellular telecommunications and related services. Some operations of the group are based in Hong Kong but the principal operating environment is the People's Republic of China. It is the largest mobile telephony operator in China. | 1,295 | 2.3 |
| **8. (55) Philip Morris**<br>Philip Morris is part of Philip Morris International and is the leading tobacco producer with 80% market share in the Czech Republic. The company benefits from the purchasing power of the parent company. | 1,285 | 2.3 |
| **9. (22) Petrochina**<br>Petrochina is one of largest Chinese onshore oil companies involved in exploration & production, refining, chemicals and natural gas. The company is very well managed with a strong retail presence in the downstream operations. Recently Petrochina concluded an agreement with Russia for an oil pipeline to connect the two countries. | 1,281 | 2.2 |
| **10. (–) Souza Cruz**<br>Souza Cruz is the leading tobacco company in Brazil, which is the third largest tobacco market in the world. BAT has a stake of 75% in the company and the Brazilian market represents the highest sales volume for the group. | 1,223 | 2.1 |
| **Ten Largest Growth Investments** | **14,453** | **25.3** |

Notes: The value of the ten largest investments represents 25.3% of the total assets of the Company (previous year 20.2%).

The figures in parentheses denote the position at the previous year-end, and (–) indicates a new holding in the portfolio.

| Security | Country | Valuation £'000 | % of Total Assets |
|---|---|---|---|
| Impala Platinum Mines | South Africa | 1,143 | 2.0 |
| Kookmin Bank | South Korea | 1,141 | 2.0 |
| *Swire Pacific B* | *Hong Kong* | *1,119* | *2.0* |
| Aberdeen International Fund India Opportunities | India | 1,111 | 1.9 |
| Korea Telecom | South Korea | 1,056 | 1.8 |
| ICICI Bank | India | 1,046 | 1.8 |
| Ambev Cia de Bibidas | Brazil | 1,002 | 1.7 |
| Sinopac | Taiwan | 955 | 1.7 |
| Giordano International | Hong Kong | 926 | 1.6 |
| *Bharat Petroleum* | *India* | *919* | *1.6* |
| PTT Exploration & Production | Thailand | 912 | 1.6 |
| Sasol | South Africa | 909 | 1.6 |
| Public Bank | Malaysia | 907 | 1.6 |
| Satyam Computers | India | 898 | 1.6 |
| Grupo Financeiro Bancomer | Mexico | 834 | 1.5 |
| Dah Sing Financial | Hong Kong | 805 | 1.4 |
| *Shinsegae* | *South Korea* | *788* | *1.4* |
| Brasil Telecom | Brazil | 775 | 1.4 |
| Hyundai Motor Preferred | South Korea | 772 | 1.3 |
| Zhejiang Expressway | China | 740 | 1.3 |
| Hana Microelectronics | Thailand | 737 | 1.3 |
| Gas Authority of India | India | 725 | 1.3 |
| British American Tobacco | Malaysia | 710 | 1.2 |
| *Unilever Indonesia* | *Indonesia* | *668* | *1.2* |
| Ayala Land | Philippines | 653 | 1.1 |
| New Clicks Holdings | South Africa | 653 | 1.1 |
| Gas Authority of India GDR | India | 626 | 1.1 |
| Malaysian Oxygen | Malaysia | 611 | 1.1 |
| Taiwan Cellular | Taiwan | 491 | 0.9 |
| Danubius Hotel and Spa | Hungary | 474 | 0.8 |
| **Growth investments over 0.5% of total assets (41)** | | **39,559** | **69.2** |
| Other growth investments | | 32 | 0.1 |
| **Total growth portfolio** | | **39,591** | **69.3** |

**Analysis of Growth Portfolio**

As at 31 October 2003

As at 31 October 2002

# Income Portfolio

As at 31 October 2003

| Security | Valuation £'000 | % of Total Assets |
|---|---|---|
| Federal Republic of Brazil 10% 16/1/07 | 1,144 | 2.0 |
| Republic of Colombia 9.75% 9/4/11 | 974 | 1.7 |
| Kingdom of Morocco 5% 8/7/08 | 848 | 1.5 |
| Standard Chartered 8.16% 23/3/10 | 802 | 1.4 |
| Bina Istra 8% 15/12/22 | 712 | 1.2 |
| Kazkommertsbank 8.5% 16/4/13 | 704 | 1.2 |
| Republic of South Africa 8.5% 23/6/17 | 697 | 1.2 |
| Petronas Capital 7.875% 22/5/22 | 674 | 1.2 |
| Philippines Long Distance Telephone 11.375% 15/5/12 | 658 | 1.2 |
| Banque Cent de Tunisie 7.375% 25/4/12 | 655 | 1.2 |
| Globe Telecom 9.75% 15/4/12 | 654 | 1.1 |
| State of Qatar 9.75% 15/6/30 | 651 | 1.1 |
| Russia Ministry Finance 3% 14/5/08 | 646 | 1.1 |
| San Paolo IMI 8.126% 30/12/49 | 610 | 1.1 |
| NBP Capital Trust Step-up Perpetual 30/6/10 | 607 | 1.1 |
| MPS Capital Trust 7.99% FRN 7/2/01 | 590 | 1.0 |
| Tyumen Oil 11% 6/11/07 | 570 | 1.0 |
| Republic of Uruguay 7.5% 15/3/15 | 546 | 1.0 |
| City of Kiev 8.75% 8/8/08 | 362 | 0.6 |
| Invesco Geared Opportunities Trust Convertible Unsecured Loan Stock | 340 | 0.6 |
| Republic of Uruguay 7.875% 15/1/33 | 315 | 0.6 |
| Independent Newspapers 5.75% 17/5/09 | 315 | 0.6 |
| Lear 8.125% 1/4/08 | 308 | 0.5 |
| City of Oxford Geared Income & Growth Trust | 307 | 0.5 |
| **Income investments over 0.5% of total assets (24)** | **14,689** | **25.7** |
| Other split capital investments | 321 | 0.6 |
| Other income investments | 1,661 | 2.9 |
| **Total income portfolio** | **16,671** | **29.2** |

# Distribution of Investments

As at 31 October 2003

| Sector/Area | Asia % | Americas % | Europe % | Middle East and Africa % | United Kingdom % | 2003 Total % | 2002 Total % |
|---|---|---|---|---|---|---|---|
| **Resources** | **7.8** | **2.8** | **–** | **3.6** | **–** | **14.2** | **12.1** |
| Mining | – | – | – | 2.0 | – | 2.0 | 2.9 |
| Oil & Gas | 7.8 | 2.8 | – | 1.6 | – | 12.2 | 9.2 |
| **General Industrials** | **10.1** | **–** | **–** | **–** | **–** | **10.1** | **11.0** |
| Diversified Industrials | 4.3 | – | – | – | – | 4.3 | 4.9 |
| Electronic & Electrical Equipment | 4.4 | – | – | – | – | 4.4 | 4.6 |
| Engineering & Machinery | 1.4 | – | – | – | – | 1.4 | 1.5 |
| **Non-Cyclical Consumer Goods** | **2.4** | **3.9** | **7.6** | **–** | **–** | **13.9** | **7.1** |
| Beverages | – | 1.8 | – | – | – | 1.8 | 2.1 |
| Food Producers & Processors | 1.2 | – | – | – | – | 1.2 | 0.9 |
| Personal Care & Household Products | – | – | – | – | – | – | 1.7 |
| Pharmaceuticals & Biotechnology | – | – | 5.2 | – | – | 5.2 | 1.9 |
| Tobacco | 1.2 | 2.1 | 2.4 | – | – | 5.7 | 0.5 |
| **Cyclical Services** | **3.0** | **–** | **0.8** | **1.0** | **–** | **4.8** | **5.7** |
| General Retailers | 3.0 | – | – | 1.0 | – | 4.0 | 3.9 |
| Leisure & Hotels | – | – | 0.8 | – | – | 0.8 | 0.7 |
| Transport | – | – | – | – | – | 0.0 | 1.1 |
| **Non-Cyclical Services** | **5.0** | **4.1** | **0.1** | **–** | **–** | **9.2** | **6.6** |
| Telecommunication Services | 5.0 | 4.1 | 0.1 | – | – | 9.2 | 6.6 |
| **Utilities** | **–** | **–** | **–** | **–** | **–** | **–** | **0.6** |
| Utilities – Other | – | – | – | – | – | – | 0.6 |
| **Financials** | **11.5** | **1.5** | **–** | **–** | **1.7** | **14.7** | **25.8** |
| Banks | 6.7 | – | – | – | – | 6.7 | 13.4 |
| Insurance | – | – | – | – | – | – | 1.0 |
| Life Assurance | – | – | – | – | – | – | 1.2 |
| Investment Companies | 2.0 | – | – | – | 1.7 | 3.7 | 5.9 |
| Real Estate | 1.1 | – | – | – | – | 1.1 | 1.7 |
| Speciality & Other Finance | 1.7 | 1.5 | – | – | – | 3.2 | 2.6 |
| **Information Technology** | **1.6** | **–** | **–** | **2.5** | **–** | **4.1** | **0.7** |
| Information Technology Hardware | – | – | – | – | – | – | 0.7 |
| Software & Computer Services | 1.6 | – | – | 2.5 | – | 4.1 | – |
| **Total Equities** | **41.4** | **12.3** | **8.5** | **7.1** | **1.7** | **71.0** | **69.6** |
| Fixed Income* | – | 16.2 | 11.3 | – | – | 27.5 | 27.7 |
| **Total Investments** | **41.4** | **28.5** | **19.8** | **7.1** | **1.7** | **98.5** | **97.3** |
| Other net current assets | | | | | | 1.5 | 2.7 |
| ***Total Assets*** | | | | | | ***100.0*** | ***100.0*** |

* Fixed interest stocks have been classified according to currency.

** Represents total assets less current liabilities, after excluding short term loans of £12,004,000 as at 31 October 2003 (2002 – £nil).

# The Investment Manager's Report

Asset allocation remained stable throughout the period with an approximate 70:30 split between growth and income investments respectively.

The total return on the portfolio for the year was +33.4%. Growth investments produced a positive return of 39.1% over the year and Asia, with a total return of 41.2%, continued to be the largest regional component leading performance. Income investments rose by 22.6% over the year. Within this sector, the high yield portfolio was the star performer, rising 45.4% over the year.

**Growth portfolio**

Economic news in Asia remained positive over the period, with cyclical improvements in domestic demand helping to balance the region's traditional export dependency. Healthy corporate earnings provided further support. The region saw a gradual upward adjustment in economic growth across countries, led by China and India. China's third quarter GDP expanded by 9.1% year-on-year, suggesting that the economy is on track to grow by at least 8% in 2003. Meanwhile, favourable monsoon rains have underpinned India's projected 6% plus growth this fiscal year. Another country that impressed was Thailand, where strong export growth, low interest rates and rising confidence aided its performance. GDP expanded by 6.2% year-on-year in the first half of 2003, prompting the government to raise its full year growth projection to 6.2%.

Within the emerging Europe, Middle East and Africa region Turkey, Israel and Egypt all directly benefited from the end of the Iraq war although the ongoing conflict between Israel and Palestine dampens the outlook for the region. In local currency terms, South African equities did not rise much but performance in hard currency was strong as the rand appreciated approximately 45% against the dollar during the year.

The EU enlargement process remains on track with successful referendums held in all of the candidate countries, which are set to become EU members in May 2004. Russian equities were volatile in the period. Performance was supported by higher oil prices and corporate activity, but from July this year the equity market has been very volatile. The investigation into the affairs of oil giant Yukos and its shareholders has reminded investors of the risks of investing in Russia. It seems that the motivation behind the investigation is possibly to curtail political interference by Yukos' major shareholder, Khordokovsky, ahead of the upcoming duma and presidential elections. After being invested in Russian equities for a number of years, we have taken profit in recent months. Undoubtedly Russia is an attractive long-term investment and we would view significant weakness as a buying opportunity.

In 2002 Latin America encountered congressional and parliamentary elections in almost every country and, as is usually the case, investor confidence tends to be unsteady as political uncertainty increases. With relative political stability resumed, asset prices have recovered strongly from depressed levels and fiscal discipline has begun to return in most cases. The main event was the election of the Lula government in Brazil who has positively surprised the investment community by adhering to the prudent fiscal policies of the previous government and is pushing through a number of much needed reforms.

As for the rest of the Latin American region, Chile was supported by benign inflation that allowed for lower interest rates, as well as high commodity prices, especially copper. Argentina finally managed to clinch a long-awaited IMF deal worth U$21 billion, refinanced with multilateral lenders over three years. However, the deal was seen as being too lenient in comparison with Brazil, especially with regards to the country's primary surplus target. Bondholders were also shocked when the government decided on a 75% reduction on the value of the country's defaulted debt, originally worth about US$100 billion. Mexico was less fortunate, as competition concerns for its manufacturing sector, weak economic data and political noise did little to help its stock market.

**Income portfolio**

It has been a rewarding year for emerging market debt which has benefited from easier monetary conditions coupled with significant improvement in country credit quality. The strongest performing region over the year was Latin America, as economic and fiscal reform, enacted early in 2002, resulted in a large fiscal improvement and an ability to complete financing programmes early in 2003. Asia and Eastern Europe continued to benefit from very strong liquidity, while geo-political concerns in the Middle East & Africa failed to have significant impact on local debt values. Those geo-political concerns contributed to high oil prices in the year, meaning that when added to relatively conservative expenditure programs, there was a fiscal windfall for many oil producing emerging countries. In the second half of the period, the rally in commodities added to generally improved fiscal performance.

The dominant theme for the year was this combination of better credit quality, added to a global search for yield. Despite an increased issuance in debt, there have been significant inflows to the asset class meaning a strong technical bid for the asset class.

Like global equity markets, following the end of the Iraq war there has been a tremendous turnaround in credit markets and economies around the world are showing evidence of having stabilised. While both economic data and companies' earnings continue to be mixed, markets are confident that the economies will not slip into the vicious cycle of recession and deflation. Liquidity has been very strong with record high net inflows allocated to non-investment grade rated bonds. The strategy is to invest in good quality companies. Current liquidity is starting to allow some weaker companies to issue at tighter spreads than is considered warranted and we are being very selective on new issues.

During 2003, the Company had taken advantage of rising markets to sell lower credit quality bonds reinvesting proceeds into stronger credit quality bonds. Our aim is to have a relatively defensive portfolio of mainly non-investment grade bonds. This defensive stance reflects our caution about the macro-economic environment. It is believed that markets may have priced in too much good news, perhaps being overly optimistic about the extent and timing of a recovery in economic growth.

At the beginning of the period, the split capital trust holdings represented only 2.6% of the Company's assets. During the year we successfully raised over £320,000 from the sector for re-investment elsewhere. Following this the Company now has only approximately 1.7% of its assets invested in the sector.

**Aberdeen Asset Managers Limited**
20 January 2004

# Your Company's History

**Capital history**

| | |
|---|---|
| 7 December 1994 | **Murray Emerging Economies Trust PLC** |
| | 54,374,000 Ordinary shares of 25p each and 10,874,800 warrants issued as a result of Offer for Subscription. |
| 28 March 1998 | 3,900 Ordinary shares issued following the exercise of warrants. |
| 2 March 1998 | 200 Ordinary shares issued following the exercise of warrants. |
| 30 July 1999 | 250,000 Ordinary shares purchased for cancellation at 47.75p per share. |
| 11 August 1999 | 150,000 Ordinary shares purchased for cancellation at 44.5p per share. |
| 17 August 1999 | 125,000 Ordinary shares purchased for cancellation at 44.75p per share. |
| 28 September 1999 | 1,000,000 Ordinary shares purchased for cancellation at 44.75p per share. |
| 29 September 1999 | 250,000 Ordinary shares purchased for cancellation at 44.5p per share. |
| 30 September 1999 | 275,000 Ordinary shares purchased for cancellation at 44p per share. |
| 30 September 1999 | 250,000 Ordinary shares purchased for cancellation at 44.25p per share. |
| 4 October 1999 | 250,000 Ordinary shares purchased for cancellation at 43.75p per share. |
| 5 October 1999 | 250,000 Ordinary shares purchased for cancellation at 43.75p per share. |
| 19 October 1999 | 250,000 Ordinary shares purchased for cancellation at 42p per share. |
| 28 February 2001 | 200 Ordinary shares issued following the exercise of warrants. |
| 23 March 2001 | **Name change to Murray Emerging Growth and Income Trust PLC** |
| | Following the capital reorganisation of the Company on 23 March 2001, the 10,870,500 warrants to subscribe for Ordinary shares were purchased by the Company for cash of 7p per warrant and 39,291,966 Ordinary shares and 26,194,644 Zero Dividend Preference shares were issued. |

# Directors' Remuneration Report

This report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on page 26.

***Remuneration Committee***

The Company has five non-executive Directors, whose details are set out on pages 2 and 3 of the Annual Report. The whole Board fulfils the function of a Remuneration Committee. During the year under review, the Board has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration (although the Directors normally expect, from time to time, to review the fees paid to the boards of directors of other investment trust companies).

**Policy on Directors' Remuneration**

The Board's policy is that the remuneration of the Directors, all of whom are non-executive Directors, should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts in the global emerging markets sector, which also have a similar capital structure and investment objectives. It is intended that this policy will continue for the financial year ending 31 October 2004 and subsequent years.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Director personally or to a third party specified by him. The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association, which limit the aggregate of the fees payable to the Directors to £100,000 per annum. The Company's policy is that fees payable to the Directors should reflect the time spent by them on the Company's affairs and should be sufficient to enable candidates of a high quality to be recruited. Non-executive Directors do not receive bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The present level of fees is £15,000 for the Chairman and £10,000 for each Director. The policy is to review these rates from time to time.

Directors' and officers' liability insurance cover is held by the Company in respect of the Directors. This insurance is neither a benefit in kind nor does it form part of the Directors' remuneration.

**Directors' service contracts**

None of the Directors has a contract of service or contract for services and a Director may resign by notice in writing to the Board at any time; there are no set notice periods. All Directors are appointed for an initial period of three years; this period may be varied by either party. The Articles of Association provide that, at the Annual General Meeting each year, one third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to one third) shall be subject to retirement by rotation. Directors, therefore, shall retire and be subject to re-election at the first Annual General Meeting following their appointment and, thereafter, shall be obliged to retire by rotation and offer themselves for re-election, at least every three years. Any Director who attains the age of 70 is subject to annual re-election. No compensation is payable for loss of office, save any arrears of fees which may be due.

**Company performance**

The graph on page 19 compares the total return on an investment of £100 in the Ordinary shares, for each accounting period since 31 October 1998, assuming all dividends are reinvested, with the total Shareholder return over the same period on a notional investment of £100 made up of shares of the same kinds and number as those by reference to which the MSCI Emerging Markets Free Index is calculated. This index was chosen for comparison purposes, as it is a global emerging markets index.

Source: Aberdeen Asset Management PLC
Please note that past performance is not necessarily a guide to future performance.

The above Chart takes into account the impact of the restructuring of the Company in March 2001.

**Directors' emoluments for the year (audited)**

The Directors who served in the year received the following emoluments in the form of fees:

| | Year ended 31 October 2003 £ | Year ended 31 October 2002 £ |
|---|---|---|
| **Chairman of the Board:** | | |
| C G H Weaver | 15,000 | 15,000 |
| **Directors:** | | |
| J S Denholm* | 10,000 | 10,000 |
| J D Fishburn* | 10,000 | 10,000 |
| H A Rudebeck | 10,000 | 8,000 |
| R F Scullion | 10,000 | 10,000 |
| **Total** | **55,000** | **53,000** |

* Mr Denholm's remuneration was paid to J&J Denholm Limited and Mr Fishburn's to The J Dudley Fishburn Partnership.

No Director has received any taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 October 2003.

**Approval**

The Directors' Remuneration Report on pages 18 and 19 was approved by the Board of Directors on 5 December 2003 and signed on its behalf by:

2 February 2004

**C G H Weaver**
Director

# Directors' Report

The Directors submit their annual report together with the financial statements of the Company for the year ended 31 October 2003.

**Review of the business**

A review of the Company's activities is given in the Chairman's Statement on pages 6 and 7 and in the Investment Manager's Report on pages 13 to 14.

**Results and dividends**

The revenue attributable to equity Shareholders for the year amounted to £1,202,000. In respect of the year ended 31 October 2003, first, second and third interim dividends of 0.4p each per share were paid to Shareholders on 31 March, 20 June and 22 September 2003 respectively. A fourth interim dividend of 1.86p per share was paid on 31 December 2003 to Shareholders on the register on 12 December 2003 making a total distribution for the year ended 31 October 2003 of 3.06p. No transfer was required from/to the Company's revenue reserve. The net asset values per Ordinary and Zero Dividend Preference share in accordance with the Articles of Association (on an Articles basis), at 31 October 2003, were 19.2p and 124.4p respectively.

**Share interests**

| At 21 January 2004 the following share interests in the Company had been notified | Ordinary shares of 5p | Percentage of Ordinary capital |
|---|---|---|
| Credit Lyonnais Securities | 7,822,482 | 19.90 |
| Metage Capital | 5,930,000 | 15.09 |
| Britannic Investment Managers | 5,918,553 | 15.06 |
| Nicolas Greenwood | 4,210,000 | 10.71 |
| B C Asset Management | 2,374,603 | 6.04 |
| of which the undernoted has a holding of 3% or over: | | |
| Yeoman Investment Trust | 2,374,603 | 6.04 |
| Gartmore Absolute Growth & Income Trust | 1,214,310 | 3.09 |

**Directors**

The Directors who held office during the year under review, are shown on pages 2 and 3 of the Annual Report and their interests are shown below.

In accordance with the Articles of Association, Directors must offer themselves for re-election at least once every three years, and accordingly, Mr C G H Weaver and Mr H A Rudebeck, whose biographies appear on pages 2 and 3 respectively, retire by rotation at this time and, being eligible, offer themselves for re-election. Resolutions 3 and 4 to this effect will be proposed at the Annual General Meeting.

No contract or arrangement significant to the Company's business and in which any of the Directors is interested has subsisted during the year.

The interests of the Directors in the share capital of the Company are as follows:

| | 31 October 2003 | | 31 October 2002 | |
|---|---|---|---|---|
| | Ordinary shares of 5p | Zero Dividend Preference shares | Ordinary shares of 5p | Zero Dividend Preference shares |
| C G H Weaver | 33,825 | 22,550 | 33,825 | 22,550 |
| J S Denholm | 1,782 | 1,188 | 1,782 | 1,188 |
| J D Fishburn | 17,820 | 11,880 | 17,820 | 11,880 |
| H A Rudebeck | – | 10,000 | – | 10,000 |
| R F Scullion | 7,128 | 4,752 | 7,128 | 4,752 |
| ***Total*** | ***60,555*** | ***50,370*** | ***60,555*** | ***50,370*** |

Unless otherwise stated, all holdings are beneficial. As at 21 January 2004, there have been no other changes in the above holdings.

**Manager and Company Secretary**

Investment management services are provided to the Company by Aberdeen Asset Managers Limited. Company secretarial, accounting and administrative services are provided by Aberdeen Asset Management PLC.

For the year ended 31 October 2003, the management and secretarial fees payable to the Manager were calculated and charged on the following basis:

(a) an investment management fee of 0.1042% per month of the value of the gross assets of the Company, payable monthly in arrears. Gross assets include inter alia, assets represented by monies borrowed to purchase investments but exclude current liabilities of the Company. The investment management fee is chargeable 35% to revenue and 65% against realised capital reserves; and
(b) a secretarial fee of £58,000 per annum (shown in note 4) which is chargeable 100% to revenue, after an annual adjustment to reflect movement in the retail prices index.

No fees have been charged in the case of investments managed or advised by any company within the Aberdeen Asset Management Group.

The management agreement may be terminated by either party on the expiry of one year's written notice.

The Board considers the continued appointment of the Manager to be in the interests of the Shareholders for the following reasons:

1. The outperformance of the emerging market portfolio for the year ended 31 October 2003.
2. The quality of the marketing, secretarial and administrative skills provided by the Manager.
3. In view of the short time to the ZDP repayment date of 31 October 2004, the costs of changing the Manager would be prohibitive.

**Corporate Governance**
The Statement of Corporate Governance is shown on pages 22 to 24.

**Principal Activity and Status**
The Company is an investment company within the meaning of Part VIII of the Companies Act 1985 and carries on business as an investment trust. In the opinion of the Directors of the Company, its affairs have been conducted in a manner to enable it to continue to obtain approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988. The Inland Revenue will grant Section 842 status, if requested, provided that the Company's affairs have been conducted in such a manner as to satisfy the conditions of that section. Inland Revenue approval for such status has been given for the year ended 31 October 2002.

**Going Concern**
Under the Articles of Association, the Directors are obliged to put a resolution before Shareholders for the winding up of the Company on 31 October 2004, unless the Directors are released from this obligation. At this stage it is not possible for the Directors to ascertain whether or not the Company will continue beyond the wind up date. Any proposal would require the approval of Shareholders.

In these circumstances, the financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate. However, the Directors emphasise that there is a fundamental uncertainty regarding the ability of the Company to continue trading in the event that no restructuring proposals were practicable.

These matters are dealt with in more detail in Note 1 to the financial statements on page 30.

**Creditor Payment Policy**
The Company's payment policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of these terms and to settle bills in accordance with them. The Company did not have any trade creditors at the year end.

**Annual General Meeting**
The Notice of Annual General Meeting, which will be held on 24 March 2004, is contained on page 46.

**Auditors**
The Auditors, Ernst & Young LLP, have expressed their willingness to continue in office. Resolution 5 to re-appoint Ernst & Young LLP as the Company's Auditors will be put to the forthcoming Annual General Meeting, along with Resolution 6 to authorise the Directors to fix their remuneration.

PM Barnes

By order of the Board
**Aberdeen Asset Management PLC**
Secretaries

123 St Vincent Street
Glasgow G2 5EA
2 February 2004

# Statement of Corporate Governance

The Company is committed to a high standard of corporate governance. The Board has put in place a framework for corporate governance, which it believes is appropriate for an investment trust and which enables it to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code") prepared by the Committee on Corporate Governance and published in June 1998.

The Board is accountable to the Company's Shareholders for good governance and this statement describes how the principles identified in the Combined Code have been applied by the Company throughout the year ended 31 October 2003 except where disclosed below.

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the forty-five Combined Code provisions throughout the year. Save the limited exceptions outlined below, the Company has complied throughout the year ended 31 October 2003 with the provisions set out in Section 1 of the Combined Code.

The exception to compliance with the Combined Code, which is explained more fully under the headings of 'The Board' and 'Directors' remuneration', was as follows:

- a senior independent non-executive Director was appointed on 5 December 2002.
- as the Company is an investment trust and all the Directors are non-executive it is not required to comply with the twenty-one provisions relating to Executive Directors' remuneration.

**The Board**

The Board consists of five non-executive Directors, all of whom, except for Mr C G H Weaver, who is a non-executive director of the holding company of the investment manager ("Aberdeen Asset Managers Limited" or the "Manager"), are considered to be independent of and free of any relationship which could materially interfere with the exercise of their independent judgement.

Biographies of the Directors appear on pages 2 and 3 of this report and indicate their high level and range of investment, industrial, commercial and professional experience, within an international perspective.

The Board meets at least four times a year and between these meetings maintains regular contact with the Manager. It has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. These matters include:

- the maintenance of clear investment objectives and risk management policies.
- the monitoring of the business activities of the Company ranging from comparable investment performance through to annual budgeting and quarterly forecasting and variance analysis.

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representatives who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

When a Director is appointed, an induction meeting is arranged by the Manager. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal financial controls. Changes affecting Directors' responsibilities are advised to the Board as they arise.

Mr J S Denholm was appointed as the senior independent non-executive Director of the Company on 5 December 2002. All the Directors are non-executive.

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including the Manager's review and discussion documents regarding specific matters.

**External Agencies**

The Board has contractually delegated to external agencies, including the Manager, and other service providers, certain services; the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered in so far as they relate to the affairs of the Company. The Board receives and considers reports from the Manager on a regular basis. In addition, ad hoc reports and information are supplied to the Board as requested.

## Committees

*Nomination Committee*

The Nomination Committee makes recommendations and considers the appointment of new Directors and comprises the full Board.

*Audit Committee*

The Audit Committee has been established with written terms of reference and comprises the full Board with the exception of the Chairman of the Company, the majority of whom are independent and free from any relationship that would interfere with impartial judgement in carrying out their responsibilities. The Chairman of the Audit Committee is Mr J S Denholm. The Committee reviews the effectiveness of the internal control environment of the Company and receives reports from the internal and external auditors on a regular basis.

The Committee is responsible for the review of the Annual Report and Financial Statements and the Interim Report, the adequacy of internal controls, terms of appointment of the Auditors together with their remuneration as well as the non-audit services provided by the Auditors, reviewing the scope and results of the Audit and the objectivity of the Auditors (it should be noted that the Auditors, Ernst & Young LLP, rotate the partner responsible for the Audit every five years). The Audit Committee also meets with representatives of the Manager.

*Management Engagement Committee*

The full Board comprises the Management Engagement Committee and annually reviews matters concerning the management contract which exists with Aberdeen Asset Managers Limited.

## Directors' Terms of Appointment

All non-executive Directors are appointed subject to re-election and Companies Act provisions and, in accordance with the existing Articles of Association, stand for election at the first Annual General Meeting following their appointment. The Articles of Association also require that Directors offer themselves for re-election at least once every three years. Any Director who reaches the age of 70 is subject to annual re-election.

## Directors' Remuneration

Under the UK Listing Authority Listing Rule 21.20(i), where an investment trust has only non-executive Directors the code principles relating to Directors' remuneration do not apply.

The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The Company's policy on Directors' remuneration, together with details of the remuneration of each Director, is detailed in the Directors' Remuneration Report on pages 18 and 19.

## Relations with Shareholders

The Company places a great deal of importance on communication with its Shareholders. The Manager has an annual programme of meetings with institutional Shareholders and reports back to the Board on these meetings.

The Company has adopted a nominee code, which ensures that, where notification has been received in advance, nominee operators will be provided with copies of Shareholder communications for distribution to their customers. Nominee investors may attend general meetings and speak at meetings when invited by the Chairman.

Participants in the Savings Plans, whose shares are held in the nominee names of the plan administrator, are given the opportunity to vote by means of a Letter of Directions enclosed with the Annual Report. The Letter of Directions is forwarded to the administrator of the appropriate plan, who will complete a Proxy on behalf of the participants and forward it to the Company's Registrar for inclusion in the voting figures. Those participants who attend the Annual General Meeting are given the opportunity to speak when invited by the Chairman.

The Annual Report is posted to Shareholders at least twenty business days before the Annual General Meeting as required under Code Provision C2.4.

The Notice of Meeting sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 20 and 21. Separate resolutions are proposed for each substantive issue.

All Shareholders have direct access to the Company via the free Shareholder information telephone service run by the Manager, and the Company and the Manager responds to letters from Shareholders. All Shareholders will have the opportunity to put questions at the Company's Annual General Meeting. The amount of proxy votes is relayed to Shareholders at the Annual General Meeting, after each resolution has been dealt with on a show of hands.

A website from which the Company's reports and other publications can be downloaded is maintained on www.murray-emerging.co.uk

**Accountability and Audit**

The Directors' Statement of Responsibilities in respect of the financial statements is on page 25 and the Statement of Going Concern is included in the Directors' Report on page 21.

The Independent Auditors' Report is on page 26.

**Internal Control**

The Board of Directors of Murray Emerging Growth and Income Trust PLC has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the particular risks to which the Company is exposed and, by their nature, can provide reasonable but not absolute assurance against material misstatement or loss.

The Directors confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, that has been in place for the full year under review and up to the date of approval of the Financial Statements, and that this process is regularly reviewed by the Board and accords with the Turnbull guidance.

The Directors have delegated the investment management of the Company to Aberdeen Asset Managers Limited and this embraces implementation of the system of internal control, including financial, operational and compliance controls and risk management. Internal control systems are monitored and supported by an internal audit function, which undertakes periodic examination of business processes, including compliance with the terms of the management agreement, and ensures that recommendations to improve controls are implemented.

Risks are identified through a risk management framework by each function within the Manager's activities. Risk is considered in the context of the Turnbull guidance and includes financial, regulatory, market operational and reputational risk. This helps the internal audit risk assessment model identify those functions for review. Any weaknesses identified are reported to the Company and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Company.

In addition, the Manager ensures that clearly documented contractual arrangements exist in respect of any activities that have been delegated to external professional organisations.

The Internal Audit Committee of Aberdeen Asset Management PLC reports six monthly to the Audit Committee of the Company and has direct access to the Directors at any time.

The Board has reviewed the effectiveness of the system of internal control, and, in particular, it has reviewed the process for identifying and evaluating the significant risks affecting the Company and the policies and procedures by which these risks are managed. The Company's Audit Committee agenda includes an item for the consideration of risks and controls and receives reports thereon from the Audit Committee of the Manager.

**Exercise of Voting Powers**

The Company has operated a corporate governance voting policy which, in summary, is based on the governance recommendations of the Combined Code with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns.

In the case of the Company's investments, the Company has given discretionary voting powers to the investment manager, Aberdeen Asset Managers Limited. The Manager votes against resolutions that are considered might damage Shareholders' rights or economic interests. Aberdeen Asset Managers Limited gives due weight to what it considers to be socially responsible investment when making investment decisions, but the overriding objective is to produce good investment returns for Shareholders.

# Statement of Directors' Responsibilities in Relation to the Financial Statements

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 of the net revenue of the Company 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are also responsible for ensuring that proper accounting records are maintained, which enable them to ensure that the financial statements comply with the Companies Act 1985, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

# Independent Auditors' Report to the Members of Murray Emerging Growth and Income Trust PLC

We have audited the Company's financial statements for the year ended 31 October 2003 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

**Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Corporate Summary, Your Board, Information about the Manager, Key Facts, Historical Financial Record, Chairman's Statement, Summary of Investment Changes during the Year, Summary of Net Assets, Top Growth Investments,Top Income Investments, Distribution of Investments, Investment Manager's Report, Your Company's History, unaudited part of the Directors' Remuneration Report, Directors' Report, Statement of Corporate Governance, Shareholder Information, Marketing Strategy, Notice of Meeting and Corporate Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

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

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

*Fundamental Uncertainty*

In forming our opinion, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the uncertainty over the Company's ability to continue as a going concern. In particular, if the Company were no longer considered a going concern, provisions would be required in relation to the likely loss on disposal of the Company's investments and other winding up costs. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 31 October 2003 and of its net revenue for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

**Ernst & Young LLP**
Registered Auditor
Edinburgh

2 February 2004

# Statement of Total Return
# (incorporating the Revenue Account of the Company*)

For the year ended 31 October 2003

| | | Year ended 31 October 2003 | | | Year ended 31 October 2002 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains/(losses) on investments | 9 | – | 12,195 | 12,195 | – | (13,052) | (13,052) |
| Income from investments | 2 | 2,650 | – | 2,650 | 3,872 | – | 3,872 |
| Other income | 2 | 10 | – | 10 | 103 | – | 103 |
| Investment management fees | 3 | (218) | (409) | (627) | (309) | (573) | (882) |
| Currency gains/(losses) | | – | 501 | 501 | – | (145) | (145) |
| Other expenses | 4 | (296) | – | (296) | (341) | – | (341) |
| **Net return before finance costs and taxation** | | 2,146 | 12,287 | 14,433 | 3,325 | (13,770) | (10,445) |
| Finance costs of borrowing | 5 | (413) | (768) | (1,181) | (695) | (1,290) | (1,985) |
| **Return on ordinary activities before taxation** | | 1,733 | 11,519 | 13,252 | 2,630 | (15,060) | (12,430) |
| Tax on ordinary activities | 6 | (531) | 413 | (118) | (596) | 499 | (97) |
| **Return on ordinary activities after tax** | | 1,202 | 11,932 | 13,134 | 2,034 | (14,561) | (12,527) |
| **Appropriations in respect of non-equity shares:** | | | | | | | |
| Zero Dividend Preference shares | 14 | – | (2,621) | (2,621) | – | (2,399) | (2,399) |
| **Return attributable to equity Shareholders** | | 1,202 | 9,311 | 10,513 | 2,034 | (16,960) | (14,926) |
| Ordinary dividends on equity shares | 7 | (1,202) | – | (1,202) | (2,593) | – | (2,593) |
| **Transfer to/(from) reserves** | | **–** | **9,311** | **9,311** | **(559)** | **(16,960)** | **(17,519)** |
| **Return/(loss) per share on an Articles of Association basis (pence):** | 8 | | | | | | |
| **Zero Dividend Preference** | | **–** | **16.8** | **16.8** | **–** | **2.3** | **2.3** |
| **Ordinary** | | **3.1** | **19.2** | **22.3** | **5.2** | **(38.6)** | **(33.4)** |
| **Return/(loss) per share on a FRS 4 basis (pence):** | 8 | | | | | | |
| **Zero Dividend Preference** | | **–** | **10.0** | **10.0** | **–** | **9.2** | **9.2** |
| **Ordinary** | | **3.1** | **23.7** | **26.8** | **5.2** | **(43.2)** | **(38.0)** |

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

The accompanying notes are an integral part of the financial statements.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.

# Balance Sheet

As at 31 October 2003

| | Notes | As at 31 October 2003 £'000 | As at 31 October 2002 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 9 | 56,262 | 44,427 |
| **Current assets** | | | |
| Debtors | 10 | 545 | 542 |
| Cash and overnight deposits | | 1,561 | 1,277 |
| | | 2,106 | 1,819 |
| **Creditors: amounts falling due within one year** | 11 | (13,247) | (607) |
| **Net current (liabilities)/assets** | | (11,141) | 1,212 |
| **Total assets less current liabilities** | | 45,121 | 45,639 |
| **Creditors: amounts falling due after more than one year** | 12 | (5,000) | (17,450) |
| **Net assets** | | **40,121** | **28,189** |
| **Capital and reserves** | | | |
| *Called up share capital* | | | |
| Ordinary shares | 13 | 1,964 | 1,964 |
| Zero Dividend Preference shares | 13 | 1,310 | 1,310 |
| | | 3,274 | 3,274 |
| Share premium account | 14 | 31,964 | 31,964 |
| Preference share redemption reserve | 14 | 17,986 | 15,365 |
| Capital redemption reserve | 14 | 762 | 762 |
| Capital reserve – realised | 14 | (53,412) | (47,593) |
| Capital reserve – unrealised | 14 | (5,764) | (20,894) |
| Distributable reserve | 14 | 33,249 | 33,249 |
| Other reserve | 14 | 11,308 | 11,308 |
| Revenue reserve | 14 | 754 | 754 |
| | | 36,847 | 24,915 |
| **Total Shareholders' funds** | | **40,121** | **28,189** |
| **Attributable on an Articles of Association basis:** | 15 | | |
| Zero Dividend Preference Shareholders' funds | | 32,596 | 28,189 |
| Equity Shareholders' funds | | 7,525 | – |
| | | **40,121** | **28,189** |
| **Attributable on a FRS 4 basis:** | 15 | | |
| Zero Dividend Preference Shareholders' funds | | 32,596 | 29,975 |
| Equity Shareholders' funds | | 7,525 | (1,786) |
| | | **40,121** | **28,189** |
| **Net asset value per share on an Articles of Association basis (pence):** | 16 | | |
| **Zero Dividend Preference** | | **124.4** | **107.6** |
| **Ordinary** | | **19.2** | **–** |
| **Net asset value per share on a FRS 4 basis (pence):** | 16 | | |
| **Zero Dividend Preference** | | **124.4** | **114.4** |
| **Ordinary** | | **19.2** | **(4.5)** |

The Financial Statements were approved by the Board of Directors on 5 December 2003 and were signed on its behalf by:

**Giles Weaver**
Director

2 February 2004

The accompanying notes are an integral part of the financial statements.

# Cash Flow Statement

For the year ended 31 October 2003

| | Notes | Year ended 31 October 2003 | | Year ended 31 October 2002 | |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| **Operating activities** | | | | | |
| Investment income received | | 2,427 | | 4,173 | |
| Deposit interest received | | 10 | | 63 | |
| Other income received | | – | | 1 | |
| Investment management fees paid | | (574) | | (1,271) | |
| Secretarial fees paid | | (57) | | (72) | |
| Cash paid to and on behalf of Directors | | (60) | | (31) | |
| Other cash payments | | (268) | | (300) | |
| **Net cash inflow from operating activities** | 17 | | 1,478 | | 2,563 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest paid | | (1,183) | | (1,763) | |
| Break costs on loan | | – | | (285) | |
| | | | (1,183) | | (2,048) |
| **Financial investment** | | | | | |
| Purchases of investments | | (26,730) | | (31,382) | |
| Sales of investments | | 27,135 | | 43,921 | |
| **Net cash inflow from financial investment** | | | 405 | | 12,539 |
| **Equity dividends paid** | | | (471) | | (3,771) |
| **Net cash inflow before financing** | | | 229 | | 9,283 |
| **Financing** | | | | | |
| Loans repaid | | – | | (10,000) | |
| **Net cash outflow from financing** | | | – | | (10,000) |
| **Increase/(decrease) in cash** | 18 | | **229** | | **(717)** |

The accompanying notes are an integral part of the financial statements.

# Notes to the Financial Statements

For the year ended 31 October 2003

**1. Accounting policies**

**(a) Basis of preparation**

The financial statements have been prepared in accordance with applicable Accounting Standards and with the Statement of Recommended Practice ('SORP') "Financial Statements of Investment Trust Companies" issued in 1995 on the assumption that approval as an investment trust will be granted. The financial statements are prepared under the historical cost convention as modified to include the revaluation of fixed asset investments. The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future and be able to meet its liabilities as they fall due. There are uncertainties that the Directors have had to consider in deciding to prepare the financial statements on this basis, which are set out below.

Under the Articles of Association the Directors are obliged to convene an Extraordinary General Meeting of the Company on 31 October 2004 (the repayment date for the Zero Dividend Preference shares) at which a Special Resolution ("the Liquidation Resolution") would be proposed to wind up the Company voluntarily. The Directors shall not, however, be required to propose the Liquidation Resolution if either:

- before that date an offer to all the holders of the Zero Dividend Preference shares which entitles them to receive no later than seven days after the Winding-up Date, a cash sum equivalent to that to which they would be entitled on the passing of the Liquidation Resolution becomes or is declared unconditional; or
- on that date a reconstruction resolution is proposed to wind up the Company voluntarily and to sanction any arrangement under section 110 of the Insolvency Act 1986, or any other arrangement which the Directors consider to be of substantially similar effect, so long as it provides for the holders of the Zero Dividend Preference shares to receive no later than seven days after the Winding-up Date, a cash sum equivalent to that to which they would be entitled on the passing of the Liquidation Resolution.

No proposals have yet been formulated which might be presented to Shareholders prior to 31 October 2004 for their approval and, accordingly, the Directors cannot be confident of the Company's continuation beyond that date. Consequently, in considering the applicability of the going concern basis the Directors have limited their review to the period to 31 October 2004.

Notwithstanding the above the Directors consider that it is reasonable to prepare the financial statements on a going concern basis, to include investments in the Company's balance sheet at mid market values and not to provide for costs of liquidation until such time as the future of the Company is more certain. For illustrative purposes the value of the Company's investment portfolio on a bid basis at 31 October 2003 would have been approximately £55.1 million or 2.0 per cent less than its carrying value. Liquidation costs, were they to be incurred in due course are estimated to reduce the Company's net assets by approximately £250,000.

**(b) Income**

Dividends receivable on equity shares are treated as revenue for the year on an ex-dividend basis. Where no ex-dividend date is available dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received.

The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares.

Interest receivable from cash and short term deposits and interest payable is accrued to the end of the year.

**(c) Expenses**

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment;
- expenses are charged to realised capital reserves where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fee has been allocated 35% to revenue and 65% to realised capital reserves to reflect the Company's investment policy of income and capital growth.

**(d) Taxation**

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

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The tax effect of different items of income/gain and expenditure/loss is allocated between capital reserves and revenue account on the same basis as the particular item to which it relates using the Company's effective rate of tax for the year.

**(e) Investments**

Listed investments are valued in the financial statements at middle market prices.

**(f) Borrowings**

Monies borrowed to finance the investment objectives of the Company are stated at the amount of the net proceeds immediately after issue plus cumulative finance costs less cumulative payments made in respect of the debt. The finance costs of such borrowings are allocated to years over the term of the debt at a constant rate on the carrying amount and are charged 35% to revenue and 65% to realised capital reserves to reflect the Company's investment policy of capital growth. Finance costs incurred in connection with the repayment of the loans have been charged 35% to revenue and 65% to realised capital reserves.

**(g) Exchange rates**

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction. For unmatched forward exchange contracts entered into to hedge against fluctuating exchange rates on foreign currency assets or liabilities, the difference between the value at the contracted rate and at the forward rate ruling at the year end is taken credit for as a debtor or provided for as a creditor.

Translation of all other foreign currency balances including matched forward contracts, foreign assets and foreign liabilities is at the middle rates of exchange at the year end. Differences arising from translation are treated as capital gains or losses.

**(h) Finance costs**

The finance costs relating to the Zero Dividend Preference ('ZDP') shares have been allocated 100% against realised capital reserves. A Preference Share Redemption Reserve has been set up to provide for the repayment entitlements attached to the ZDP shares which accrue on a daily basis to the date of redemption of the shares on 31 October 2004.

| **2. Income** | **Year ended 31 October 2003 £'000** | **Year ended 31 October 2002 £'000** |
|---|---|---|
| *Income from investments:* | | |
| UK dividends | 95 | 652 |
| UK unfranked investment income | 65 | 276 |
| Overseas dividends | 1,267 | 1,186 |
| Overseas interest | 1,223 | 1,758 |
| | 2,650 | 3,872 |
| *Other income:* | | |
| Deposit interest | 10 | 102 |
| Other income | – | 1 |
| | 10 | 103 |
| ***Total income*** | **2,660** | **3,975** |
| *Total income comprises:* | | |
| Dividends | 1,362 | 1,838 |
| Interest | 1,298 | 2,136 |
| Other income | – | 1 |
| | **2,660** | **3,975** |

| 3. Investment management fees | Revenue £'000 (Year ended 31 October 2003) | Capital £'000 (Year ended 31 October 2003) | Total £'000 (Year ended 31 October 2003) | Revenue £'000 (Year ended 31 October 2002) | Capital £'000 (Year ended 31 October 2002) | Total £'000 (Year ended 31 October 2002) |
|---|---|---|---|---|---|---|
| Investment management fees | 215 | 400 | 615 | 288 | 535 | 823 |
| Irrecoverable VAT | 3 | 9 | 12 | 21 | 38 | 59 |
| | **218** | **409** | **627** | **309** | **573** | **882** |

Details of the fee basis are contained in the Directors' Report on page 21.

| 4. Other expenses | Revenue £'000 (Year ended 31 October 2003) | Capital £'000 (Year ended 31 October 2003) | Total £'000 (Year ended 31 October 2003) | Revenue £'000 (Year ended 31 October 2002) | Capital £'000 (Year ended 31 October 2002) | Total £'000 (Year ended 31 October 2002) |
|---|---|---|---|---|---|---|
| Shareholders' services* | 54 | – | 54 | 99 | – | 99 |
| Directors' remuneration | 55 | – | 55 | 53 | – | 53 |
| Secretarial fees | 58 | – | 58 | 57 | – | 57 |
| Audit fees | 11 | – | 11 | 11 | – | 11 |
| Other expenses | 118 | – | 118 | 121 | – | 121 |
| | **296** | **–** | **296** | **341** | **–** | **341** |

* Includes registration, savings scheme and other wrapper administration and promotion expenses, of which £40,000 was paid to Aberdeen Asset Managers Limited in respect of marketing fees (2002 – £51,000).

| 5. Finance costs of borrowing | Revenue £'000 (Year ended 31 October 2003) | Capital £'000 (Year ended 31 October 2003) | Total £'000 (Year ended 31 October 2003) | Revenue £'000 (Year ended 31 October 2002) | Capital £'000 (Year ended 31 October 2002) | Total £'000 (Year ended 31 October 2002) |
|---|---|---|---|---|---|---|
| Bank loans and overdrafts | 413 | 768 | 1,181 | 595 | 1,105 | 1,700 |
| Break costs on loan | – | – | – | 100 | 185 | 285 |
| | **413** | **768** | **1,181** | **695** | **1,290** | **1,985** |

| 6. Taxation | Revenue £'000 (Year ended 31 October 2003) | Capital £'000 (Year ended 31 October 2003) | Total £'000 (Year ended 31 October 2003) | Revenue £'000 (Year ended 31 October 2002) | Capital £'000 (Year ended 31 October 2002) | Total £'000 (Year ended 31 October 2002) |
|---|---|---|---|---|---|---|
| Corporation tax | 413 | (413) | – | 552 | (509) | 43 |
| Overseas taxation | 118 | – | 118 | 87 | 10 | 97 |
| | 531 | (413) | 118 | 639 | (499) | 140 |
| Relief for overseas taxation | – | – | – | (43) | – | (43) |
| Current corporation tax charge | **531** | **(413)** | **118** | **596** | **(499)** | **97** |

The tax assessed for the year is higher than the standard rate of corporation tax of 30% (2002 – 30%). The differences are explained below:

| | Year ended 31 October 2003 Revenue £'000 | Year ended 31 October 2002 Revenue £'000 |
|---|---|---|
| Revenue on ordinary activities before tax | 1,733 | 2,630 |
| Revenue on ordinary activities multiplied by standard rate of corporation tax | 520 | 789 |
| *Effects of:* | | |
| Non taxable UK dividends | (28) | (196) |
| Overseas tax written off net of tax relief | 112 | 83 |
| Prior year management expenses utilised in current year | (143) | (4) |
| Income recognised still to be taxed | 1 | 18 |
| Disallowed expenses | 9 | (1) |
| Expenses charged to capital available to be utilised | (353) | (559) |
| Double taxation relief | – | (43) |
| Tax relief on expenses charged to capital | 413 | 509 |
| Current corporation tax charge | **531** | **596** |

No provision for deferred tax has been made in the current or prior accounting period.

The Company has not recognised a deferred tax asset of £292,000 (2002 – £435,000) arising as a result of having unutilised management expenses. These expenses will only be utilised if the tax treatment of capital gains made by approved investments trusts, or the Company's investment profile, changes.

| | Year ended 31 October 2003 £'000 | Year ended 31 October 2002 £'000 |
|---|---|---|
| **7. Ordinary dividends on equity shares** | | |
| First interim of 0.40p (2002 – 2.2p) | 157 | 865 |
| Second interim of 0.40p (2002 – 2.2p) | 157 | 864 |
| Third interim of 0.40p (2002 – 2.2p) | 157 | 864 |
| Proposed fourth interim of 1.86p (2002 – nil) | 731 | – |
| | **1,202** | **2,593** |

## 8. Return/(loss) per share

**Articles of Association basis**

The return/(loss) per share calculated in accordance with the Articles of Association and FRS 4 is shown on the Statement of Total Return on page 27. A reconciliation between both sets of figures is shown below.

When calculated under the Articles of Association there was a shortfall at 31 October 2002 in assets attributable to the Zero Dividend Preference shares of £1,786,000. Details of the shortfall can be found in note 16. There was no shortfall in assets at 31 October 2003.

The revenue return per Ordinary share is based on the net revenue return for the year of £1,202,000 (2002 – £2,034,000).

The capital return per Ordinary share is based on net capital gains for the year of £9,311,000 (2002 – losses of £16,960,000) after the deduction in respect of the Zero Dividend Preference ('ZDP') shares of £2,621,000 (2002 – £2,399,000), less the reduction in the shortfall of assets of £1,786,000 (2002 – provision for shortfall in assets of £1,786,000), and on 39,291,966 (2002 – 39,291,966) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

The capital return per ZDP share is based on appropriations in respect of the ZDP shares of £2,621,000 (2002 – £2,399,000) plus the reduction in the shortfall of assets of £1,786,000 (2002 – provision for shortfall in assets of £1,786,000) and on 26,194,644 (2002 – 26,194,644) ZDP shares, being the weighted average number of ZDP shares in issue during the year.

**FRS 4 basis**

The revenue return per Ordinary share is based on the net revenue return for the year of £1,202,000 (2002 – £2,034,000) and on 39,291,966 (2002 – 39,291,966) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

The capital return per ZDP share is based on appropriations in respect of the ZDP shares of £2,621,000 (2002 – £2,399,000) and on 26,194,644 (2002 – 26,194,644) ZDP shares, being the weighted average number of ZDP shares in issue during the year.

The capital return per Ordinary share is based on net capital gains for the year of £9,311,000 (2002 – losses of £16,960,000) after the deduction in respect of the ZDP shares of £2,621,000 (2002 – £2,399,000) and on 39,291,966 (2002 – 39,291,966) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

| **Reconciliation of FRS 4 basis to an Articles basis**<br>**Capital returns/(losses)** | **2003**<br>**£'000** | **2002**<br>**£'000** |
|---|---|---|
| **ZDP shares** | | |
| FRS 4 basis ZDP capital return | 2,621 | 2,399 |
| Movement in ZDP entitlement shortfall* | 1,786 | (1,786) |
| Articles basis ZDP capital return | **4,407** | **613** |
| **Ordinary shares** | | |
| FRS 4 basis Ordinary capital return/(loss) | 9,311 | (16,960) |
| Movement in ZDP entitlement shortfall* | (1,786) | 1,786 |
| Articles basis Ordinary capital return/(loss) | **7,525** | **(15,174)** |

* see note 16 for further information.

| **9. Investments** | **31 October 2003**<br>**£'000** | **31 October 2002**<br>**£'000** |
|---|---|---|
| Valuation brought forward | 44,427 | 69,789 |
| Unrealised losses | 21,688 | 20,441 |
| Cost brought forward | 66,115 | 90,230 |
| *Movements during the year:* | | |
| Purchases | 26,723 | 31,374 |
| Sales proceeds | (27,135) | (43,880) |
| Realised losses | (2,489) | (11,805) |
| Amortisation of fixed income book cost | 52 | 196 |
| Cost carried forward | 63,266 | 66,115 |
| Unrealised losses | (7,004) | (21,688) |
| Valuation carried forward | **56,262** | **44,427** |

| | 31 October 2003<br>£'000 | 31 October 2002<br>£'000 |
|---|---|---|
| *The portfolio valuation listed on stock exchanges at market valuation:* | | |
| United Kingdom: | | |
| Equities | 628 | 1,681 |
| Fixed income | 340 | 422 |
| Overseas: | | |
| Equities | 39,591 | 29,711 |
| Fixed income | 15,703 | 12,613 |
| | **56,262** | **44,427** |

| | | |
|---|---|---|
| *Gains/(losses) on investments* | | |
| Realised losses on sales | (2,489) | (11,805) |
| Increase/(decrease) in unrealised appreciation | 14,684 | (1,247) |
| | **12,195** | **(13,052)** |

*Significant interests*

At 31 October 2003 the Company held shares amounting to 3% or more of the nominal value of any class of share capital of the companies, not being participating interests, of which the particulars are stated below:

| **Investment** | | **% of class held** |
|---|---|---|
| *Investment Trusts all registered in England and Wales* | | |
| The Enhanced Zero Trust | 1,892,767 ordinary shares | 3.94 |
| Investment Trust of Investment Trusts | 4,660,000 preference shares | 6.47 |
| | 723,338 zero dividend preference shares | 4.77 |
| The Media & Income Trust | 1,000,000 zero dividend preference shares | 3.61 |
| New Star Enhanced Income Trust | 1,500,000 income shares | 3.03 |

| **10. Debtors** | 31 October 2003<br>£'000 | 31 October 2002<br>£'000 |
|---|---|---|
| Prepayments and accrued income | 513 | 463 |
| Other debtors | 32 | 76 |
| Current taxation | – | 3 |
| | **545** | **542** |

| **11. Creditors** | 31 October 2003<br>£'000 | 31 October 2002<br>£'000 |
|---|---|---|
| *Amounts falling due within one year:* | | |
| Accruals | 512 | 600 |
| Amounts due to brokers | – | 7 |
| Proposed fourth interim dividend | 731 | – |
| Bank loans (note 12) | 12,004 | – |
| | **13,247** | **607** |
| *Amounts falling due after more than one year:* | | |
| Bank loans (note 12) | **5,000** | **17,450** |

Accruals include £254,000 (2002 – £248,000) of management and secretarial fees and £2,000 (2002 – £42,000) of marketing fees, due to Aberdeen Asset Managers Limited, the investment manager.

| 12. Long term loans | 31 October 2003 £'000 | 31 October 2002 £'000 |
|---|---|---|
| *Unsecured bank loans repayable within 1 year:* | | |
| US Dollar loan at 6.01% repayable 31/10/2004 | 8,450 | – |
| Euro loan at 5.355% repayable 31/10/2004 | 3,554 | – |
| | 12,004 | – |
| *Unsecured bank loans repayable within 5 years:* | | |
| Sterling loan at 8.56% repayable 31/12/2004 | 5,000 | 5,000 |
| US Dollar loan at 6.01% repayable 31/10/2004 | – | 9,166 |
| Euro loan at 5.355% repayable 31/10/2004 | – | 3,284 |
| | 5,000 | 17,450 |
| | **17,004** | **17,450** |

| 13. Share capital | 31 October 2003 Number | 31 October 2003 £'000 | 31 October 2002 Number | 31 October 2002 £'000 |
|---|---|---|---|---|
| *Authorised share capital comprised:* | | | | |
| Ordinary shares of 5p each | 128,307,066 | 6,415 | 128,307,066 | 6,415 |
| Zero Dividend Preference shares of 5p each | 85,538,044 | 4,277 | 85,538,044 | 4,277 |
| | **213,845,110** | **10,692** | **213,845,110** | **10,692** |
| *Allotted, issued and fully paid:* | | | | |
| Ordinary shares of 5p each | 39,291,966 | 1,964 | 39,291,966 | 1,964 |
| Zero Dividend Preference shares of 5p each | 26,194,644 | 1,310 | 26,194,644 | 1,310 |
| | **65,486,610** | **3,274** | **65,486,610** | **3,274** |

At the proposed Winding-Up Date on 31 October 2004, the Zero Dividend Preference ('ZDP') Shareholders will receive up to 135.35p per share. A redemption reserve has been set up to provide for this. All repayment values are subject to sufficient surplus assets being available on the winding up of the Company.

The holders of ZDP shares have the right to receive notice of any General Meeting of the Company, but not to attend and vote except in certain circumstances affecting the rights of the ZDP shares as specified in the Articles of Association of the Company.

| 14. Reserves | Share premium account £'000 | Preference share redemption reserve £'000 | Capital redemption reserve £'000 | Capital reserve - realised £'000 |
|---|---|---|---|---|
| At 1 November 2002 | 31,964 | 15,365 | 762 | (47,593) |
| *Movement during the year:* | | | | |
| Net loss on realisation of investments | – | – | – | (2,489) |
| Appropriation of preference share redemption reserve | – | 2,621 | – | (2,621) |
| Expenses charged to capital | – | – | – | (409) |
| Taxation | – | – | – | 413 |
| Finance costs of borrowing | – | – | – | (768) |
| Currency gain | – | – | – | 55 |
| At 31 October 2003 | **31,964** | **17,986** | **762** | **(53,412)** |

| | Capital reserve - unrealised £'000 | Distributable reserve £'000 | Other reserve £'000 | Revenue reserve £'000 |
|---|---|---|---|---|
| At 1 November 2002 | (20,894) | 33,249 | 11,308 | 754 |
| *Movement during the year:* | | | | |
| Movement in unrealised depreciation | 14,684 | – | – | – |
| Unrealised currency gains on loans | 446 | – | – | – |
| Retained revenue for the year | – | – | – | – |
| At 31 October 2003 | **(5,764)** | **33,249** | **11,308** | **754** |

| **15. Shareholders' funds** | **2003 £'000** | **2002 £'000** |
|---|---|---|
| *Attributable on an Articles of Association basis:* | | |
| Non-equity shares – Zero Dividend Preference shares | 32,596 | 28,189 |
| Equity shares – Ordinary shares | 7,525 | – |
| | **40,121** | **28,189** |
| *Attributable on a FRS 4 basis:* | | |
| Non-equity shares – Zero Dividend Preference shares | 32,596 | 29,975 |
| Equity shares – Ordinary shares | 7,525 | (1,786) |
| | **40,121** | **28,189** |

The net asset value per share figures in Note 16 have been calculated on the basis of Shareholders' rights to reserves as specified in the Articles of Association of the Company. A reconciliation of the two figures for each category can be found in note 16.

| **Reconciliation of movements in Shareholders' funds** | **2003 £'000** | **2002 £'000** |
|---|---|---|
| Opening Shareholders' funds | 28,189 | 43,309 |
| Net revenue return for the year | 1,202 | 2,034 |
| Dividends appropriated in the year | (1,202) | (2,593) |
| Capital return/(loss) for the year | 11,932 | (14,561) |
| Closing Shareholders' funds | **40,121** | **28,189** |

**16. Net Asset Value per share**

The net asset value per share and the net asset values attributable to each class of share at the year end calculated in accordance with the Articles of Association and FRS 4 are shown on the Balance Sheet on page 28.

**Articles of Association basis**

On a winding up and under an Articles of Association basis, any shortfall in assets would reduce the amount available to distribute against the Zero Dividend Preference ('ZDP') share entitlement. At 31 October 2003 there was no shortfall (31 October 2002 – shortfall of £1,786,000).

The net asset value per Ordinary share is based on total equity Shareholders' funds of £7,525,000 (2002 – £nil) and on 39,291,966 (2002 – 39,291,966) Ordinary shares, being the number of Ordinary shares in issue at the year end.

The net asset value per ZDP share is based on total non-equity Shareholders' funds of £32,596,000 (2002 – £28,189,000) after the deduction of the shortfall in assets of £nil (2002 – £1,786,000) and on 26,194,644 (2002 – 26,194,644) ZDP shares, being the number of ZDP shares in issue at the year end.

The net asset value per Ordinary share has been attributed in accordance with the Articles of Association of the Company on a return of assets, or liquidation, or otherwise. If the ZDP shares are fully covered, the Ordinary shares are entitled to receive any remaining surplus after liabilities on winding up.

**FRS 4 basis**

The net asset value per Ordinary share is based on total equity Shareholders' funds of £7,525,000 (2002 – deficit of £1,786,000) and on 39,291,966 (2002 – 39,291,966) Ordinary shares, being the number of Ordinary shares in issue at the year end.

The net asset value per ZDP share is based on total non-equity Shareholders' funds of £32,596,000 (2002 – £29,975,000) and on 26,194,644 (2002 – 26,194,644) ZDP shares, being the number of ZDP shares in issue at the year end.

A reconciliation of FRS 4 to an Articles of Association basis for each class of share can be seen below:

| | Net asset value per share | | Shareholders' funds | |
|---|---|---|---|---|
| | 31 October 2003 | 31 October 2002 | 31 October 2003 | 31 October 2002 |
| | p | p | £'000 | £'000 |
| FRS 4 ZDP shares net assets attributable | 124.4 | 114.4 | 32,596 | 29,975 |
| ZDP entitlement shortfall | – | (6.8) | – | (1,786) |
| Non-equity shares – ZDP entitlement | **124.4** | **107.6** | **32,596** | **28,189** |
| FRS 4 Ordinary shares net assets attributable | 19.2 | 4.5 | 7,525 | 1,786 |
| ZDP entitlement shortfall | – | (4.5) | – | (1,786) |
| Equity shares – Ordinary entitlement | **19.2** | **-** | **7,525** | **-** |

| **17. Reconciliation of net revenue return before finance costs and taxation to net cash inflow from operating activities** | **Year ended 31 October 2003 £'000** | **Year ended 31 October 2002 £'000** |
|---|---|---|
| Net revenue return before finance costs | 2,146 | 3,325 |
| Expenses charged to capital | (409) | (573) |
| Amortisation of fixed income book cost | (52) | (196) |
| (Increase)/decrease in accrued income | (56) | 557 |
| Decrease/(increase) in prepayments | 6 | (4) |
| Decrease/(increase) in other debtors | 44 | (33) |
| Decrease in accruals | (86) | (413) |
| Tax on overseas income | (115) | (100) |
| Net cash inflow from operating activities | **1,478** | **2,563** |

| **18. Analysis of changes in net funds** | **At 31 October 2002 £'000** | **Currency differences £'000** | **Cash flows £'000** | **Non-cash movements £'000** | **At 31 October 2003 £'000** |
|---|---|---|---|---|---|
| Cash and overnight deposits | 1,277 | 55 | 229 | – | 1,561 |
| Debt due within one year | – | – | – | (12,004) | (12,004) |
| Debt due after one year | (17,450) | 446 | – | 12,004 | (5,000) |
| | **(16,173)** | **501** | **229** | **-** | **(15,443)** |

| | At 31 October 2001 £'000 | Currency differences £'000 | At Cash flows £'000 | 31 October 2002 £'000 |
|---|---|---|---|---|
| Cash and overnight deposits | 2,561 | (567) | (717) | 1,277 |
| Debt due after one year | (27,872) | 422 | 10,000 | (17,450) |
| | **(25,311)** | **(145)** | **9,283** | **(16,173)** |

A statement reconciling the movement in net funds to net cash flow has not been presented as there are no differences from the above analysis.

**19. Derivatives and other financial instruments**

The Company's financial instruments, other than derivatives, comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company also has the ability to enter into derivative transactions in the form of forward foreign currency contracts, futures and options. The Company makes use of borrowings to achieve improved performance in rising markets. The risk of borrowings may be reduced by raising the level of cash balances or fixed interest investments held.

The purpose of these financial investments is efficient portfolio management.

The main risks the Company faces from its financial instruments are (i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movement, (ii) foreign currency risk, (iii) interest rate risk and (iv) liquidity risk.

The Board regularly reviews and agrees policies for managing each of these risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures exclude short-term debtors and creditors.

*Market price risk*

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions as a consequence of price movements and movements in exchange rates. It is the Board's policy to hold a broad spread of fixed interest and equity investments in the portfolio in order to reduce risk arising from factors specific to a particular country or sector.

More information on the portfolio is provided in the Growth Portfolio and the Income Portfolio on pages 9 to 11, the Distribution of Investments on page 12 and the Investment Manager's Report on pages 13 and 14. The allocation of assets to international bond and equity markets and the stock selection process both act to reduce market price risk.

The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The Manager seeks, where deemed appropriate, to manage exposure to market movements. No future contracts were undertaken during the year ended 31 October 2003 or the year ended 31 October 2002.

*Foreign currency risk*

A significant proportion of the Company's investment portfolio is invested in overseas securities and the Balance Sheet can be significantly affected by movements in foreign exchange rates. The Manager seeks, when deemed appropriate, to manage exposure to currency movements on borrowings by using forward foreign currency contracts as a hedge against potential foreign currency movements. No forward currency contracts were undertaken during the current or previous year. The revenue account is subject to fluctuation arising on overseas income. The Company does not hedge this currency risk.

*Interest rate risk*

*Financial assets*

The interest rate risk profile of financial assets at the balance sheet date was as follows:

| At 31 October 2003 | Fixed interest £'000 | Floating rate £'000 | Non-interest bearing £'000 |
|---|---|---|---|
| Sterling | 340 | 289 | 628 |
| Euro | 6,453 | 1,175 | – |
| US Dollar | 9,250 | 79 | 11,124 |
| Hong Kong Dollar | – | – | 6,166 |
| South African Rand | – | – | 2,705 |
| South Korean Won | – | – | 5,516 |
| Taiwan Dollar | – | 13 | 1,446 |
| Malaysian Ringgit | – | – | 2,228 |
| Indian Rupee | – | – | 3,587 |
| Thai Baht | – | – | 1,649 |
| Other | – | 5 | 5,170 |
| | **16,043** | **1,561** | **40,219** |

| At 31 October 2002 | Fixed interest £'000 | Floating rate £'000 | Non-interest bearing £'000 |
|---|---|---|---|
| Sterling | 1,791 | 217 | 1,681 |
| Euro | 4,029 | 438 | – |
| US Dollar | 7,215 | 91 | 6,919 |
| Hong Kong Dollar | – | – | 3,427 |
| South African Rand | – | – | 3,262 |
| South Korean Won | – | – | 4,631 |
| Taiwan Dollar | – | 531 | 1,846 |
| Malaysian Ringgit | – | – | 1,301 |
| Indian Rupee | – | – | 1,156 |
| Thai Baht | – | – | 1,250 |
| Other | – | – | 5,919 |
| | **13,035** | **1,277** | **31,392** |

The fixed interest assets have a weighted average maturity of 9.5 years (2002 – 10.7 years) and a weighted average yield of 8.5% (2002 – 8.7%) per annum.

The floating rate assets consist of cash deposits on call earning interest at the prevailing rate.

The non-interest bearing assets represent the listed equity element of the portfolio.

The interest rates applicable to the unsecured bank loans are shown in Note 12 on page 36.

***Liquidity risk***

The Company's assets mainly comprise readily realisable securities, which can be sold in order to meet funding commitments if necessary. Short term flexibility is achieved through the use of an overdraft facility with the Company's custodian.

As at 31 October 2003, the portfolio included £628,000 (2002 – £1,200,000) reinvested in split capital investment companies, representing 1.4% (2002 – 2.6%) of total assets. In the event that the Company wishes to realise its shares in split capital investment companies, its ability to do so at prices close to the quoted market price may be limited as a result of weak demand and low liquidity.

***Fair values of financial assets and financial liabilities***

The Company has Zero Dividend Preference shares, details of which are given in note 13 on page 36. The fair value of these at 31 October 2003 was £30,516,760 (2002 – £13,621,215) based on the market value of the shares.

The Company has borrowings by way of short and long term loans, details of which are in note 12 on page 36. As at 31 October 2003 the fair value of these borrowings, taking account of potential penalties on early repayment, has been calculated at £17.8 million (2002 – £18.7 million).

The Company finances its operations partly through bank borrowings in US Dollars, Sterling and Euros.

The majority of these borrowings are denominated in US Dollars, which represent the largest portion of the portfolio. The rest of the borrowings represent the other two major currencies, Sterling and Euros represented in the portfolio.

Covenants are monitored regularly and in circumstances where the Company might be close to breaching its covenant repayment would be considered appropriate.

All other financial assets and liabilities of the Company are included in the Balance Sheet at fair value.

# Information about the Manager

The Company's Manager is Aberdeen Asset Managers Limited ("AAM"), a wholly-owned subsidiary of Aberdeen Asset Management PLC ("Aberdeen"), whose Group companies as at 31 December 2003 managed a combined £23.0 billion of funds of UK institutions, investment trusts, closed-end funds, unit trusts, private clients and offshore funds.

Aberdeen has been listed on the London Stock Exchange since 1991, although its origins go back to an investment company founded in 1876 to assist Scottish farmers to set up in the Canadian prairies. It has its headquarters in Aberdeen with offices in Fort Lauderdale, Glasgow, Hong Kong, Inverness, Jersey, London, Luxembourg, Singapore and Sydney.

The Group now has 36 investment trusts and other closed-end funds under management. They adhere closely to the Group's investment style which is that of fundamental investors, with an emphasis on company visits and original research.

# Shareholder Information

**Capital Structure**

The Company's issued share capital as at 31 October 2003 consisted of 39,291,966 Ordinary shares of 5p each and 26,194,644 Zero Dividend Preference shares of 5p each.

**Net Asset Value and Share Price**

The net asset value of the Company's Ordinary and Zero Dividend Preference shares can be obtained daily by contacting Aberdeen Asset Managers Limited on 0500 00 00 40 or by e-mail at inv.trusts@aberdeen-asset.com. The Company's Ordinary and Zero Dividend Preference share prices are also available in the Financial Times and by accessing the internet at http://www.murray-emerging.co.uk

Following the capital reorganisation on 23 March 2001 the market values of the shares in issue were as follows:

| | |
|---|---|
| Ordinary shares of 5p each | 91.5p |
| Zero Dividend Preference shares of 5p each | 100.5p |

**Stock Exchange Codes**

| Class of security | SEDOL Number | ISIN Code |
|---|---|---|
| Ordinary shares of 5p each | 3019423 | GB0030194236 |
| Zero Dividend Preference shares of 5p each | 3019605 | GB0030196058 |
| Units* | 3019616 | GB0030196165 |

* Units comprise three Ordinary shares of 5p each and two Zero Dividend Preference shares of 5p each

**Summary of Shareholder Rights**

Ordinary Shareholders are entitled to receive such profits of the Company available for distribution by way of interim/final dividends and at such times as the Directors may determine. Holders of Ordinary shares of 5p each are entitled to receive notice of, to attend and to vote at any General Meeting of the Company. Each holder of an Ordinary share who is present in person at a General Meeting shall, on a show of hands, have one vote and, on a poll, every such member present in person or by proxy shall have one vote in respect of each share held.

Holders of Zero Dividend Preference shares, upon redemption on 31 October 2004, will receive up to 135.35p per share. A redemption reserve has been set up to provide for this. These shares carry no right to receive dividends out of the revenue or any other profits of the Company. The holders of Zero Dividend Preference shares have the right to receive notice of any General Meeting of the Company, but not to attend and vote, except in certain circumstances affecting the rights of the Zero Dividend Preference shares as specified in the Articles of Association of the Company. All redemption values are subject to sufficient surplus assets being available on the winding-up of the Company.

**Annual General Meeting**

The Annual General Meeting will be held on 24 March 2004 at 10.30 a.m. in 123 St Vincent Street, Glasgow G2 5EA.

# Marketing Strategy

Murray Emerging Growth and Income Trust PLC contributes to the Marketing Programme run by Aberdeen Asset Managers Limited, on behalf of a number of investment trusts under its management. This agreement sees the Company's contribution matched by Aberdeen and is now £25,000 (plus VAT) a year, reviewed on an annual basis (calendar year).

The purpose of the Programme is to communicate effectively with existing Shareholders and gain more new Shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares. Aberdeen's experience has also shown that well-targeted marketing of the Company's investment merits through packaged products, whether singly, or in conjunction with other trusts run by Aberdeen, can be a cost-effective way of gaining new investors.

These aims can be met in several ways:

**Investor relations programme**
Aberdeen runs an investor relations programme to existing and prospective institutional investors in investment trusts. Each month, institutional investors and prospects receive a Manager's report on your Company that includes detailed performance analysis.

**Direct response advertising**
The Manager advertises the packaged product availability of the Trust in The Financial Times as well as the specialist financial press.

**Direct mail**
Periodic mail shots of information packs inviting named addressees to respond is a low-cost method of building awareness and investor databases. Target groups include existing holders of other Aberdeen investment trusts as well as known buyers of investment trusts.

**Newsletter**
The "Bulletin" newsletter, an informed commentary on markets and investment trusts managed by Aberdeen is distributed free of charge.

**Public relations**
The Manager undertakes to brief journalists, write regularly through placed articles and ensure Company results and any corporate activity are brought to public attention.

**Shareholder services**
Aberdeen runs an investment help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately. The Marketing Programme is under the direction of Aberdeen's Investment Trust Marketing Director, who has eighteen years experience in the marketing and communications of investment products. He is supported by a team of three marketing professionals.

**Internet**
Murray Emerging Growth and Income Trust PLC has its own dedicated website: http://www.murray-emerging.co.uk. This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports. The site is continuously being evaluated for improvement.

It is intended that ongoing Programme activities in these various fields, both proactive and supportive, will assist the Company to increase and maintain its Shareholder base, improve liquidity and sustain ratings.

The Company is committed to a close monitoring of the Marketing Programme. The Marketing Director provides a written summary quarterly to the Board.

If you have any questions about your Company, the Manager or performance, please telephone our Customer Services Department (direct private investors) on 0500 00 00 40 or our Broker Desk on 0800 592 487 (Institutions and IFAs). Alternatively, internet users may e-mail us on inv.trusts@aberdeen-asset.com or write to us at 10 Queen's Terrace, Aberdeen AB10 1YG.

The information above is issued and has been approved for the purposes of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited, One Bow Churchyard, Cheapside, London EC4M 9HH which is authorised and regulated by the Financial Services Authority.

# Glossary of Terms and Definitions

| | |
|---|---|
| **Asset Cover** | The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security. |
| **Discount** | The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share. |
| **Dividend Yield** | The annual dividend expressed as a percentage of the share price. |
| **Dividend Cover** | Earnings per share divided by Dividends per share expressed as a ratio. |
| **Hurdle Rate** | Indicates the compound rate of growth of the total assets required each year up to 31 October 2004, if they are to be sufficient to repay the predetermined redemption price on the Zero Dividend Preference shares and to return to the Ordinary Shareholders the current share price (14.0p at 31 October 2003). The Zero Dividend Preference shares are repayable at a maximum of 135.35p each on 31 October 2004. The Ordinary shares are entitled to all the net revenue from the Company and all the net assets of the Company, following repayment of the bank loan and the Zero Dividend Preference shares. |
| **Net Asset Value** | The value of total assets less liabilities. Liabilities for this purpose includes current and long-term liabilities. To calculate the net asset value per Ordinary or Zero Dividend Preference share, the current repayment values of all the other classes of share are treated as liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share. |
| **Operating Costs** | Total operating costs, including investment management fees and other expenses. |
| **Premium** | The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share. |
| **Price/Earnings Ratio** | The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential. |
| **Prior Charges** | The name given to all borrowings including loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment. |
| **Redemption Yield** | The measure of the annualised total return on the current price of a security up to the date of its repayment. The calculation is based on aggregated income and capital returns, no account being taken of taxation. |
| **Total Assets** | Total assets less current liabilities after excluding short-term loans of £12,004,000 (before deducting prior charges as defined above). |
| **Total Return** | Total Return involves reinvesting the net dividend in the month that the share price goes xd. The NAV Total Return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, eg quarter end, half year or year end date. |
| **Unit** | A Unit comprises 3 Ordinary and 2 Zero Dividend Preference shares. |
| **Winding-up Date** | The date specified in the Articles of Association for winding-up the Company. |

# Notice of Meeting

The Annual General Meeting of Murray Emerging Growth and Income Trust PLC will be held on 24 March 2004 at 10.30am at 123 St Vincent Street, Glasgow G2 5EA, to transact the following business:

*Ordinary Business*

1. To receive the Directors' report and audited statement of accounts for the year ended 31 October 2003.
2. To approve the Directors' Remuneration Report for the year ended 31 October 2003.
3. To re-elect Mr C G H Weaver* as a Director.
4. To re elect Mr H A Rudebeck* as a Director.
5. To re-appoint Ernst & Young LLP as Auditors.
6. To authorise the Directors to fix the remuneration of the Auditors.

* The biographies of Mr C G H Weaver and Mr H Rudebeck are detailed on pages 2 and 3 of the Annual Report.

PM Barnes

By order of the Board
**Aberdeen Asset Management PLC**
Secretaries

123 St Vincent Street
*Glasgow G2 5EA*
2 February 2004

*Notes:*

1. No Director has any contract of service with the Company.
2. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, has specified that only those Shareholders registered on the Register of Members of the Company as at 10.30am on 22 March 2004 shall be entitled to attend or vote at the aforesaid annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant Register of Members after 10.30am on 22 March 2004 shall be disregarded when determining the rights of any person to attend or vote at the meeting.
3. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and on a poll to vote instead of him/her.
4. A proxy need not be a member. Appointment of a proxy need not preclude a member from attending and voting at the meeting should he/she subsequently decide to do so.
5. Instruments of proxy and the power of attorney or other authority should be sent to the Registrar of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to arrive not less than forty-eight hours before the time fixed for the meeting.
6. The Register of Directors' Interests is kept by the Company in accordance with Section 325 of the Companies Act 1985 and will be open for inspection at the meeting.

**A reply-paid form of proxy for your use is enclosed.**

Resolution 2 seeks the approval of the Directors' Remuneration Report, which is on pages 18 and 19
*Details of Resolutions 3 to 6 are shown in the Directors' Report as follows:*

| | |
|---|---|
| Resolutions 3 & 4 | Page 20, Directors |
| Resolutions 5 & 6 | Page 21, Auditors |

Registered in Scotland - Company Number 153320

# Corporate Information

**Directors**
C G H Weaver, Chairman
J S Denholm
J D Fishburn
H A Rudebeck
R F Scullion

**Manager**
Aberdeen Asset Managers Limited
123 St Vincent Street
Glasgow G2 5EA
Customer Services Department 0500 00 00 40

**Secretary**
Aberdeen Asset Management PLC
123 St Vincent Street
Glasgow G2 5EA

**Points of Contact**
*The Chairman and/or the Company Secretary*
At the registered office of the Company
email: company.secretary@invtrusts.co.uk

**Registered Office**
123 St Vincent Street
Glasgow G2 5EA
Tel: 0141 306 7400
Registered in Scotland – Company Number 153320

**Registrars**
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Shareholder Helpline 0870 162 3100

**Bankers**
J P Morgan Chase Bank
The Royal Bank of Scotland plc

**Solicitors**
McGrigor Donald

**Stockbrokers**
HSBC Securities

**Auditors**
Ernst & Young LLP

**Website**
www.murray-emerging.co.uk

**Aberdeen Asset Managers Limited**
10 Queen's Terrace
Aberdeen AB10 1YG
**Tel** 01224 631999 **Fax** 01224 647010

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