

Accounting Policies

A summary of the principal accounting policies is set out below. All have been applied consistently throughout the current and the preceding year except as set out in the 'true and fair override' paragraph below.

(a) Basis of accounting

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards. The company's accounting policies comply with the Statement of Recommended Practice (SORP) 'Financial statements of investment trust companies'.

True and fair override

During part of the year under review the company was not an investment company within the meaning of s266, Companies Act 1985. However, it continued to conduct its affairs as an investment trust for taxation purposes under s842, Income and Corporation Taxes Act 1988 and the company's Articles of Association prevent the distribution of capital profits as dividends. In these circumstances the directors consider that it is appropriate to present the accounts in accordance with the SORP. Under the SORP, the financial performance of the company is presented in the statement of total return in which the revenue column is the profit and loss account of the company. The revenue column excludes certain capital items which the Companies Act and FRS3 would require to be shown by a company which is not an investment company: gains on realisation of investments of £105.4m (1998 – £54.6m) and realised currency losses of £5.4m (1998 – gains of £2.1m). In the opinion of the directors the inclusion of these items in the profit and loss account would be misleading, would obscure and distort both the revenue and capital performance of the company and would not show clearly revenue profits distributable as dividends. The directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act, and the departures from accounting standards, are necessary to give a true and fair view. They have no effect on the balance sheet or total return.

(b) Valuation of investments

Listed investments are valued at closing or last traded prices according to the recognised convention of the markets on which they are quoted. Where trading in the securities of an investee company is suspended, the investment is valued at the board's estimate of its net realisable value. The directors have adopted the guidelines issued by the

British Venture Capital Association for the valuation of unlisted investments. Heritable property is included at a professional valuation. Depreciation is not charged on heritable property as it is not material.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised as explained in note (h) below.

Year end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the company's right to receive payment is established. Income includes imputed tax credits and taxes deducted at source.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security.

Where the company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash is recognised in capital reserves.

(d) 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.

(e) Finance costs

Finance costs, including dividends and other finance costs of non-equity shares, are accounted for on an accruals basis, and in accordance

with the provisions of FRS 4 'Capital Instruments'.

(f) Taxation

Advance corporation tax ('ACT') payable on dividends paid or provided for in the year is written off, except when recoverability is considered to be reasonably certain and foreseeable. Irrecoverable ACT is charged to the revenue account.

(g) Foreign currency

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

(h) Capital reserves

Capital Reserve – Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- realised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature
- the funding of ordinary stock repurchases.

Capital Reserve – Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end
- unrealised exchange differences of a capital nature
- unrealised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature.

(i) Pensions

The amount charged to the statement of total return in respect of pension costs is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll.