

# Notes to the Financial Statements

FOR THE YEAR TO 31 OCTOBER 1999

1. INCOME	1999 £'000	1998 £'000
Income from investments:		
UK franked investment income	20,354	14,600
Overseas dividends	8,761	7,288
Overseas interest	6	364
Foreign income dividends	426	4,921
Scrip dividends	107	672
Group income	–	742
Other	448	1,103
	<b>30,102</b>	<b>29,690</b>
<b>Other income</b>		
Deposit interest	3,003	2,680
Underwriting commission	16	11
Stock lending fees	2	12
	<b>3,021</b>	<b>2,703</b>
<b>Total income</b>	<b>33,123</b>	<b>32,393</b>
<b>Total income comprises:</b>		
Dividends including special dividends of 2,388 (1998 – 164)	29,957	27,481
Interest	3,148	4,147
Group income	–	742
Other income	18	23
	<b>33,123</b>	<b>32,393</b>
<b>Income from investments:</b>		
Listed UK	21,013	21,116
Listed overseas	8,655	7,207
Unlisted	434	625
Group income	–	742
	<b>30,102</b>	<b>29,690</b>
<b>2. EXPENSES</b>	<b>1999 £'000</b>	<b>1998 £'000</b>
Staff costs (Note 3)	2,054	1,890
Auditors' remuneration for audit	18	18
Other expenses	1,813	1,843
AITC its campaign	582	–
	<b>4,467</b>	<b>3,751</b>
<b>3. STAFF COSTS</b>	<b>1999 £'000</b>	<b>1998 £'000</b>
Salaries	1,190	1,099
Social security costs	123	106
Pensions and post-retirement benefits	741	685
	<b>2,054</b>	<b>1,890</b>
The average weekly number of persons employed during the year was:		
	<b>1999 Number</b>	<b>1998 Number</b>
Investment	10	9
Administration	15	14
	<b>25</b>	<b>23</b>
Directors' remuneration:		
Fees for services as directors	£114,750	£73,292
Chairman and highest paid director	£24,750	£19,800
Other directors – number in range	–	3
£5,001 – £10,000	6	4
£10,001 – £15,000		

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## 4. PENSION SCHEME

The company provides for its employees a defined benefit pension scheme based on final salary. The assets of the scheme are held separately from those of the company. The fund is under the control of trustees and is administered by a life assurance company.

The pension cost charge for the period was £725,000 (1998 – £669,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 1999 is based on an interim valuation as at 1 August 1998. The attained age method was used. The most significant assumptions were that the rate of return on investments would be 8½% and that the rate of increase of salaries would be 6½%.

The most recent triennial valuation which was carried out on 1 August 1999 showed that the actuarial value of the assets at 1 August 1999 represented 102% of the actuarial value of the accrued benefits. The accrued benefits include all benefits for pensioners and former members as well as benefits based on service completed to date for active members allowing for future salary rises.

The market value of the scheme assets at 1 August 1999 was £5,672,000.

5. INTEREST PAYABLE	1999 £'000	1998 £'000
On debentures, bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	1	4
Repayable wholly or partly in more than 5 years	6,688	6,688
	6,689	6,692

6. TAX ON ORDINARY ACTIVITIES	1999 £'000	1998 £'000
UK corporation tax at 30.4% (1998 – 31%)	140	325
Overseas taxation	1,783	1,220
Tax attributable to franked investment income	2,419	2,918
Deferred taxation	(190)	(42)
	4,152	4,421
Relief for overseas taxation	(789)	(787)
	3,363	3,634

7. DIVIDENDS AND OTHER APPROPRIATIONS	1999 £'000	1998 £'000
Dividends on non-equity stock:		
– 3.5% cumulative preferred stock	40	58
– 3.85% cumulative preferred stock	20	29
– 4.55% 'A' cumulative preference stock	35	50
	95	137
Dividends on equity stock:		
– ordinary - interim paid of 2.20p per unit (1998 – 2.15p paid as FID)	6,235	6,094
– ordinary - second interim (1998 – 2.25p)	–	6,378
– ordinary - final proposed of 4.45p per unit (1998 – 2.10p)	12,280	5,952
– ordinary - final non-recurring (1998 – 0.75p)	–	2,126
	18,515	20,550

8. INVESTMENTS	1999 £'000	1998 £'000
Investments listed on a recognised investment exchange	1,299,974	1,077,030
Unlisted investments	38,709	27,900
Subsidiary undertakings (Note 9)	12	10
	1,338,695	1,104,940

8. INVESTMENTS continued	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 1999 £'000
Opening book cost	383,290	344,991	22,601	750,882
Opening unrealised appreciation	224,995	123,754	5,309	354,058
Opening valuation	608,285	468,745	27,910	1,104,940
Movements in the year:				
Purchases at cost	78,977	227,548	11,999	318,524
Sales – proceeds	(128,447)	(167,786)	(8,385)	(304,618)
– realised gains on sales	57,605	46,786	989	105,380
Increase in unrealised appreciation	47,161	61,100	6,208	114,469
Closing valuation	663,581	636,393	38,721	1,338,695
Closing book cost	391,425	451,539	27,204	870,168
Closing unrealised appreciation	272,156	184,854	11,517	468,527
	663,581	636,393	38,721	1,338,695

	1999 £'000	1998 £'000
Realised gains on sales	105,380	54,598
Increase in unrealised appreciation	114,469	26,827
Gains on investments	219,849	81,425

Stock lending details:	1999 £'000	1998 £'000
Aggregate value of securities on loan at year end	–	2,760
Maximum aggregate value of securities on loan during the year	2,820	25,669
Fee income (gross) from stock lending during the year	2	12

A geographical analysis of the investment portfolio, an analysis of the investment portfolio by broad industrial or commercial sector, and a full list of investments by market value, are contained within the annual report.

Unlisted investments include the following:

- (a) Heritable property valued at £700,000 (1998 – £700,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 3 November 1998.
- (b) Property loans totalling £100,000 (1998 – £100,000) in respect of the following related parties: Ian McLeish, Donald Ness and Iain Harding who form part of the key management of the company. Standard securities are held for all loans outstanding.

## 9. SUBSIDIARY UNDERTAKINGS

The company has investments in the following subsidiary undertakings:

Name of undertaking	Principal Activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
Hurtree Limited	Investment	UK	Ordinary	100%
SIT Savings Limited	Investment products	UK	Ordinary	100%

The accounts of these subsidiaries have not been consolidated with those of the parent company as, in the opinion of the directors, the amounts involved are not material. The directors are satisfied that the valuation of the subsidiaries reflects and does not exceed the value of the underlying assets.

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## 10. SIGNIFICANT INTERESTS

Details of investments in which the company has an interest of 10% or more of the nominal value of the allotted shares of any class, or of the net assets, are as follows:

Name of undertaking	Country of incorporation and operation	Description of shares held	Percentage held	Aggregate capital and reserves £'000	Loss after tax for year £'000
Sprout Growth Limited	Inc Cayman Islands operating in USA	ord shares of US\$1	49.7	1,301	16
		part red pref shares of US\$0.01	49.7		

## 11. DEBTORS

	1999 £'000	1998 £'000
Amounts due from brokers	2,359	–
Overseas tax recoverable	1,281	763
Prepayments and accrued income	2,656	3,279
ACT receivable	821	–
	<b>7,117</b>	<b>4,042</b>

## 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £'000	1998 £'000
Amounts due to brokers	1,541	–
UK corporation tax payable	1,063	1,055
Proposed dividends	12,280	14,456
Other creditors	911	622
Amounts due on foreign exchange contracts	–	6,137
	<b>15,795</b>	<b>22,270</b>

## 13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999 £'000	1998 £'000
4% perpetual debenture stock	350	350
4¼% perpetual debenture stock	700	700
5% perpetual debenture stock	1,009	1,009
10⅞% debenture stock 30/4/2019	25,000	25,000
7¾% debenture stock 25/9/2013	50,000	50,000
	<b>77,059</b>	<b>77,059</b>

## 14. CALLED-UP SHARE CAPITAL

	Authorised		Issued	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
3.5% cumulative preferred stock	–	1,650	–	1,650
3.85% cumulative preferred stock	–	750	–	750
4.55% 'A' cumulative preference stock	–	1,100	–	1,100
Ordinary stock units of 25p	85,500	85,500	68,988	70,860
	<b>85,500</b>	<b>89,000</b>	<b>68,988</b>	<b>74,360</b>
Number of ordinary stock units in issue		275,953,000		283,442,000

The 3.5% and 3.85% cumulative preferred stocks were repaid at par and the 4.55% 'A' cumulative preference stock was repaid at £1.10 per £1 of stock on 12 July 1999 under the terms of a reduction of share capital approved by stockholders on 30 April 1999 and confirmed by the Court of Session on 6 July 1999.

7,489,000 ordinary stock units were repurchased in the stockmarket between 21 July 1999 and 31 October 1999 at a total cost of £29.1m.

15. RESERVES	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Beginning of year	39,922	–	624,481	347,922	12,500
Exchange difference	–	–	(5,368)	–	–
Net gain on realisation of investments	–	–	105,380	–	–
Increase in unrealised appreciation	–	–	–	120,606	–
Ordinary stock repurchased	–	1,872	(29,101)	–	–
Premium on repayment of preference stock	–	–	(110)	–	–
Transfer from reserves	–	–	–	–	(6)
End of year	39,922	1,872	695,282	468,528	12,494

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS	1999 £'000	1998 £'000
Opening equity stockholders' funds	1,095,685	1,020,680
Total recognised gains (after dividend payments)	220,612	75,005
Ordinary stock repurchases and premiums on repayment of preference stock	(29,211)	–
Closing equity stockholders' funds	1,287,086	1,095,685
Opening non-equity stockholders' funds	3,500	3,500
Capital repaid during the year	(3,500)	–
Closing non-equity stockholders' funds	–	3,500

#### 17. NET ASSET VALUE PER ORDINARY STOCK UNIT

The movements during the year in the assets attributable to each class of stock were as follows:

	Ordinary stock £'000	Cumulative preferred and preference stocks £'000	Total £'000
Total net assets attributable at beginning of year	1,095,685	3,500	1,099,185
Total recognised net gains for the year	239,127	95	239,222
Dividends appropriated in the year	(18,515)	(95)	(18,610)
Preferred and preference capital repaid during the year	(110)	(3,500)	(3,610)
Ordinary stock repurchases	(29,101)	–	(29,101)
Total net assets attributable at end of year	1,287,086	–	1,287,086

Basic net asset value per ordinary stock unit is based on net assets after deducting debenture stocks at par value and on the number of ordinary stock units in issue at the year end.

Reconciliation of movement in NAV per ordinary stock unit:	p
Opening NAV	386.56
Total return per ordinary unit	84.62
Dividend per ordinary unit	(6.65)
Premium on repayment of preference stock	(0.04)
Benefit of ordinary stock repurchases	1.92
Closing NAV	466.41

#### 18. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	At 1 November 1998 £'000	Cash flows £'000	At 31 October 1999 £'000
Cash at bank	15,947	(3,878)	12,069
Short term deposits	73,585	(51,526)	22,059
Debt due after one year	(77,059)	–	(77,059)
	12,473	(55,404)	(42,931)

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19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS	1999 £'000	1998 £'000
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Contingencies, guarantees and financial commitments of the company at the year end, which have not been accrued, are as follows:

Commitments to provide additional funds to investees	14,061	25,555
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## 20. FINANCIAL INSTRUMENTS

In pursuing its investment policy the company holds certain financial instruments, comprising equity and non-equity shares, fixed income securities, interests in limited liability partnerships, cash and liquid resources. These are financed through stockholders' funds and long and short term borrowings.

The risks faced by the company and the strategies for managing them are identified below.

- Investment risk and market price risk. The holding of securities and investing activities involve certain inherent risks. Events may occur within the underlying investments which affect their value and they are also sensitive to movements in market levels. The company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. It may also use derivatives. Trading in derivatives is not within the normal activities of an investment trust nor is it the company's policy to trade in such instruments. However, from time to time the company may wish to use such instruments in order to protect against a specific risk or to facilitate a change in investment policy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the board and no such transaction took place during the year.
- Interest rate risk. The company finances its operations through a combination of investment realisations, retained revenue reserves, bank credit facilities and debenture stocks. All of the existing debenture stocks are at fixed rates. The company has undrawn short term multicurrency line of credit facilities which could be drawn at variable rates of interest.
- Liquidity risk. The majority of the company's assets comprise listed securities which represent a ready source of funds. In addition the company has access to short term borrowing facilities.
- Foreign currency risk. Approximately half of the company's assets are invested overseas which gives rise to a currency risk. This risk is monitored by the managers on a daily basis and by the board monthly. From time to time specific hedging transactions are undertaken although none was in place at the year end. At 31 October 1998 part of the Japanese portfolio was hedged by forward purchases of yen which matured in December 1998. The company's overseas income stream is subject to currency movements which are not hedged.

## 21. FINANCIAL ASSETS

The company's portfolio investments are listed on pages 37 and 38. A geographical distribution is given on page 3 and a sector distribution appears on page 23. Cash and deposits are held at fixed and floating rates in the following currencies:

	Fixed £'000	Floating £'000	Total £'000
Sterling	13,000	11,736	24,736
US dollar	6,704	2,580	9,284
Japanese yen	–	104	104
Other	–	4	4
	19,704	14,424	34,128

The maximum fixed period for deposits outstanding at the year end was one week.

## 22. FINANCIAL LIABILITIES

The company's debenture stocks as detailed in note 13 are denominated in Sterling and carry interest at fixed rates. The two debentures with fixed maturities have a weighted average life of 15.8 years. The debentures are stated in the balance sheet at nominal value. Restating them at estimated market value would have the effect of reducing the year end NAV per ordinary stock unit from 466.4p to 456.8p. Based on the market price of 393.5p the discount to NAV at the year end would be reduced from 15.6% to 13.9%.

## 23. DIRECTORS' INTERESTS

The interests of the directors and their families in the company's capital are as follows:

Beneficial interests	Ordinary stock units of 25p	
	31 October 1999	1 November 1998
Sir Angus Grossart	7,862	7,788
Sir George Mathewson	360	360
F Finlay	10,000	10,000
I H Leslie Melville	3,000	3,000
I M Russell	8,402	6,701
D C P McDougall	10,000	10,000
Sir Paul Nicholson	3,000	3,000

There have been no changes in the directors' interests between 31 October and 29 November 1999.