

Notes to the Financial Statements

for the year to 31 October 2006

1. INCOME	2006 £'000	2005 £'000
UK franked income including special dividends of £197,000 (2005– £nil)	9,902	12,981
Income from other UK listed	701	636
UK unlisted income	308	5
Overseas dividends including special dividends of £124,000 (2005 – £1,248,000)	8,016	10,800
Overseas unlisted income	202	17
Scrip dividends	106	146
Deposit interest	4,378	4,986
Forward sales of US dollars	142	(197)
	23,755	29,374

Income includes:

Listed UK	10,603	13,617
Listed overseas	8,122	10,946
Unlisted	510	22
	19,235	24,585

2. EXPENSES	2006 £'000	2005 £'000
Staff costs (Note 3)	2,741	2,213
Auditors' remuneration for audit	26	23
Other expenses	1,714	1,737
	4,481	3,973

Investment-related expenses have been charged one-half to revenue and one-half to capital (2005 – one-third to revenue and two-thirds to capital).

Auditors' remuneration for audit-related services totalled £7,000 (2005 £5,000). Auditors' remuneration for non-audit services in respect of work carried out on the tender offer totalled £58,750 (2005 – £Nil) and was charged in full to capital.

3. STAFF COSTS	2006 £'000	2005 £'000
Remuneration	1,965	1,505
Social security costs	229	173
Pensions and post-retirement benefits	547	535
	2,741	2,213

The average monthly number of persons employed during the year was:

	2006 Number	2005 Number
Investment	10	9
Administration	11	12
	21	21
Directors' remuneration:		
Fees for services as directors	£135,000	£123,333

4. PENSION SCHEME

The company's defined benefit pension scheme based on final salary is now closed to new entrants. 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 Punter Southall & Co, consulting actuaries.

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4. PENSION SCHEME (continued)

The major assumptions used for the actuarial valuation of the final salary scheme were:

	2006 %	2005 %	2004 %	2003 %	2002 %
Rate of increase in salaries	4.9	4.9	4.9	2.5/4.5	4.2
Rate of increase in pensions in payment	3.5	3.5	3.8	2.5	2.2
Discount rate	5.0	5.0	5.5	5.4	5.4
Inflation assumption	2.9	2.9	2.9	2.5	2.2

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	Expected rate of return					Fair value				
	2006 %	2005 %	2004 %	2003 %	2002 %	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Equities	7.2	7.3	7.7	8.2	8.5	2,994	2,494	3,252	3,470	3,142
Bonds	4.2	4.3	4.7	4.8	4.8	100	71	93	907	681
With-profit policies	4.7	4.7	4.7	4.8	4.4	1,054	1,262	2,121	2,529	1,260
Cash	4.8	4.5	4.8	–	–	1,627	999	897	–	–
Total fair value of assets						5,775	4,826	6,363	6,906	5,083
Present value of scheme liabilities						7,570	6,757	7,793	8,080	7,202
Net pension liability						1,795	1,931	1,430	1,174	2,119

The net pension liability arises mainly because future liabilities are discounted at a rate based on the yield on AA corporate bonds which is lower than the expected rate of return from equities in which the fund is largely invested.

Analysis of amount chargeable to operating profit during the year:

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Current service cost	446	363	424	435	400
Settlement/curtailments	–	–	(1,530)	–	–
Total operating charge	446	363	(1,106)	435	400
Employee contribution to be set off	(37)	(35)	(49)	(58)	(48)

Analysis of amount credited to other finance income:

	2006	2005	2004	2003	2002
Expected return on assets	298	360	430	426	420
Interest on liabilities	(347)	(370)	(423)	(389)	(529)
Net return	(49)	(10)	7	37	(109)

Movement in deficit during year:

	2006	2005	2004	2003	2002
Deficit at beginning of year	(1,931)	(1,430)	(1,174)	(2,119)	(1,973)

Movement in year:

	2006	2005	2004	2003	2002
Current service cost	(446)	(363)	(424)	(435)	(400)
Contributions for year	362	314	303	496	439
Contributions prepaid	–	–	–	620	458
Settlements/curtailments	–	–	1,530	–	–
Net return from other finance income	(49)	(10)	7	37	(109)
Actuarial gain/(loss) in statement of total recognised gains and losses	269	(442)	(1,672)	227	(534)
Deficit at end of year	(1,795)	(1,931)	(1,430)	(1,174)	(2,119)

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4. PENSION SCHEME (continued)

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Analysis of the actuarial deficit in the statement of recognised gains and losses:					
Actual return less expected return on assets	365	256	(376)	285	(924)
Experience (losses)/gains on liabilities	(96)	(153)	(988)	(142)	476
Change in assumptions	–	(545)	(308)	84	(86)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	269	(442)	(1,672)	227	(534)
History of experience gains and losses	% £'000	% £'000	% £'000	% £'000	% £'000
Difference between actual and expected return on assets	6 365	5 256	6 (376)	4 285	21 (924)
Experience (losses)/gains on liabilities	1 (96)	2 (153)	13 (988)	2 (142)	7 476
Total amount recognised in statement of total recognised gains and losses	4 269	7 (442)	21 (1,672)	3 227	7 (534)

The company also operates a defined contributions scheme for which the pension cost charge for the year amounted to £38,000 (2005 – £28,000).

5. INTEREST PAYABLE

	2006 £'000	2005 £'000
On secured bonds, debentures, bank loans, overdrafts and other loans	7,061	8,719
Amortisation of secured bond issue expenses	135	167
	7,196	8,886

Interest has been charged one-half to revenue and one-half to capital (2005 – one-third to revenue and two-thirds to capital).

6. TAX ON ORDINARY ACTIVITIES

	2006 £'000	2005 £'000
Tax on ordinary activities		
Overseas tax	919	2,108
Deferred tax	(7)	(22)
	912	2,086
The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2005 – 30%)		
The differences are explained below:		
Income	23,755	29,374
Expenses	(4,481)	(3,973)
Interest payable	(7,196)	(8,886)
Profit on ordinary activities before tax	12,078	16,515
Tax at 30% thereon	(3,623)	(4,955)
Effects of:		
UK dividend income	2,971	3,894
Scrip dividends	32	44
Foreign tax charge	(912)	(1,262)
Overseas refundable withholding tax deemed irrecoverable	–	(824)
Management expenses	613	995
	(919)	(2,108)

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6. TAX ON ORDINARY ACTIVITIES (continued)

There are unrelieved management expenses at 31 October 2006 of £29,283,000 (2005 – £31,348,000) but the related deferred tax asset at 30% has not been recognised. This is because the company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the company will be able to reduce future tax liabilities through the use of existing unrelieved expenses.

7. DIVIDENDS AND OTHER APPROPRIATIONS

	2006 £'000	2005 (restated) £'000
Dividends on ordinary stock recognised in the year:		
Previous year final paid of 4.35p per unit (2005 – 4.20p)	9,087	8,774
Interim paid of 4.15p per unit (2005 – 4.05p)	6,018	8,461
	15,105	17,235
Dividends on ordinary stock payable in respect of the financial year:		
Interim paid of 4.15p per unit (2005 – 4.05p)	6,018	8,461
Proposed final of 4.57p per unit (2005 – 4.35p)	6,542	9,087
Special dividend of 2.00p per unit (2005 – nil)	2,863	–
	15,423	17,548

8. INVESTMENTS

	2006 £'000	2005 (restated) £'000
Investments listed on a recognised investment exchange	728,668	901,797
Unlisted investments	22,099	29,794
Subsidiary undertakings (Note 9)	103	103
	750,870	931,694

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2006 £'000
Opening book cost	302,809	395,423	20,239	718,471
Opening unrealised appreciation (restated)	93,122	110,443	9,658	213,223
Opening valuation (restated)	395,931	505,866	29,897	931,694
Movements in the year:				
Purchases at cost	53,111	180,055	842	234,008
Sales – proceeds	(216,098)	(325,420)	(13,413)	(554,931)
– realised gains on sales	63,050	79,683	7,169	149,902
Increase/(decrease) in unrealised appreciation	12,223	(19,733)	(2,293)	(9,803)
Closing valuation	308,217	420,451	22,202	750,870
Closing book cost	202,872	329,741	14,837	547,450
Closing unrealised appreciation	105,345	90,710	7,365	203,420
	308,217	420,451	22,202	750,870

The purchases at cost and sales proceeds figures include transaction costs of £1,380,530 (2005 – £1,919,240), comprising commissions, government stamp duty and other exchange fees.

	2006 £'000	2005 (restated) £'000
Realised gains on sales	149,902	54,294
(Decrease)/increase in unrealised appreciation	(9,803)	104,004
Gains on investments	140,099	158,298

Unlisted investments include heritable property valued at £1,230,000 (2005 – £1,100,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 30 October 2006.

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8. INVESTMENTS (continued)

Financial assets – cash, deposits and current asset investments

	2006			2005		
	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	82,000	5,130	87,130	99,000	14,500	113,500
Euro	–	86	86	–	290	290
US dollar	–	1,572	1,572	–	1,262	1,262
Other	–	41	41	–	905	905
	82,000	6,829	88,829	99,000	16,957	115,957

The maximum period for fixed rate deposits outstanding at the year end was 21 days (2005 – 28 days).

The weighted average fixed interest rate at the year end was 4.85% (2005 – 4.47%). Floating interest rates vary in relation to short term rates in the currencies in which deposits are held.

Included within current asset investments and financial assets above is an amount of £5,000,000 (2005 – £10,000,000) representing a money market fund listed in Dublin held at the end of the year.

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.

10. SIGNIFICANT INTERESTS

Details of investments, other than subsidiaries, in which the company has an interest of 20% 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	278	19
		part red pref shares of US\$0.01	49.7		

11. DEBTORS

	2006 £'000	2005 (restated) £'000
Overseas tax recoverable	182	134
Prepayments and accrued income	909	1,369
	1,091	1,503

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 (restated) £'000
Amounts due to brokers	656	4,165
Other creditors	493	674
	1,149	4,839

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

	2006		2005	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% perpetual debenture stock	350	304	350	280
4¼% perpetual debenture stock	700	649	700	592
5% perpetual debenture stock	1,009	1,064	1,009	1,020
5¾% secured bonds due 17/4/2030	105,193	120,505	145,913	160,821
	107,252	122,522	147,972	162,713

The secured bonds are secured by a floating charge over the assets of the company and have a redemption value in 2030 of £108,015,000.

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at estimated market value of £122.5m (2005 – £162.7m) has the effect of reducing the year end NAV per ordinary stock unit from 510.4p to 499.7p (2005 – 428.1p to 421.1p). Estimated market value is the fair value of the company's secured bonds.

During the year a total of £41,985,000 nominal secured bonds due 2030 were repurchased at a cost of £51,776,000. The difference of £9.8m was charged to capital against which a gain of £1.0m was offset following the termination of an interest rate swap to hedge against movements in interest rates.

14. CALLED-UP SHARE CAPITAL

	Authorised		Issued	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Ordinary stock units of 25p	85,500	85,500	35,787	52,228
Number of ordinary stock units in issue	143,147,615		208,910,518	

65,762,903 ordinary stock units were repurchased in the stockmarket during the year to 31 October 2006.

100,000 ordinary stock units were repurchased between 31 October 2006 and 8 December 2006.

15. RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 November 2005	39,922	18,633	528,710	214,306	35,203
Prior year adjustments:					
Revaluation of investments	–	–	–	(1,083)	–
Final dividend	–	–	–	–	9,087
Retirement benefits	–	–	–	(1,268)	(1,326)
At 1 November 2005 (restated)	39,922	18,633	528,710	211,955	42,964
Exchange difference	–	–	(489)	–	–
Net gain on realisation of investments	–	–	149,902	–	–
Decrease in unrealised appreciation	–	–	–	(9,803)	–
Ordinary stock repurchased	–	16,441	(288,891)	–	–
Repayment of secured bonds due 17/4/2030	–	–	(9,908)	–	–
Expenses in relation to tender offer	–	–	(959)	–	–
Actuarial gain relating to pension scheme	–	–	–	110	159
Interest, expenses and tax charged to capital in current year	–	–	(4,095)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	15,261
Dividends paid during the year	–	–	–	–	(15,105)
At 31 October 2006	39,922	35,074	374,270	202,262	43,279

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16. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November 2005 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2006 £'000
Current asset investments	10,000	(5,000)	–	5,000
Cash at bank	6,957	(5,128)	–	1,829
Short term deposits	99,000	(17,000)	–	82,000
Borrowings due after one year	(147,972)	41,985	1,265	(104,722)
	(32,015)	14,857	1,265	(15,893)

17. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

	2006 £'000	2005 £'000
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	3,104	4,121

18. 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 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.
- Interest rate risk. The company finances its operations through a combination of investment realisations, retained revenue reserves, bank credit facilities, debenture stocks and secured bonds. All of the existing debenture stocks and secured bonds are at fixed rates. The company has undrawn short term multicurrency line of credit facilities which can be drawn at variable rates of interest. Details of interest rates on financial assets are included in note 8. Details of interest rates on financial liabilities are included in note 13.
- 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. The liquidity profile of the company's borrowings is included in note 13.
- 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. The company's overseas income stream is subject to currency movements. During the year movements in sterling–US dollar exchange rate were hedged by the forward sales of US dollars. The currency profile of the company's monetary assets and liabilities is set out in notes 8 and 13. In accordance with FRS 13, short term debtors and creditors have been excluded from the disclosures.
- All financial assets are carried at their market value, which in the opinion of the directors, approximates to their fair value. The estimated market values of the company's borrowings are set out in note 13.

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19. RESTATEMENT

Adoption of FRS 17 'Retirement Benefits', FRS 21 'Events after the Balance Sheet Date', FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement'.

As a result of the adoption of FRS 17, FRS 21, FRS 25 and FRS 26, the income statement and balance sheet have been restated. The effects of these changes in accounting policies are disclosed in the table below.

	Per 2005 Accounts £'000	Adoption of FRS 17 £'000	Adoption of FRS 21 £'000	Adoption of FRS 25/26 £'000	Restated 2005 Accounts £'000
Income statement					
Net gains on investments and currencies	158,653	79	–	(414)	158,318
Return attributable to Equity Stockholders	173,082	79	–	(414)	172,747
Balance sheet					
Investments	932,777	–	–	(1,083)	931,694
Debtors	2,166	(663)	–	–	1,503
Creditors: amounts falling due within one year	(13,926)	–	9,087	–	(4,839)
Pension liability	–	(1,931)	–	–	(1,931)
Net assets	889,002	(2,594)	9,087	(1,083)	894,412
Capital reserve – unrealised	214,306	(1,268)	–	(1,083)	211,955
Revenue reserve	35,203	(1,326)	9,087	–	42,964

	Per 2004 Accounts £'000	Adoption of FRS 17 £'000	Adoption of FRS 21 £'000	Adoption of FRS 25/26 £'000	Restated 2004 Accounts £'000
Balance sheet					
Investments	781,617	–	–	(669)	780,948
Debtors	5,513	(801)	–	–	4,712
Creditors: amounts falling due within one year	(10,569)	–	8,774	–	(1,795)
Pension liability	–	(1,430)	–	–	(1,430)
Net assets	733,468	(2,231)	8,774	(669)	739,342
Capital reserve – unrealised	109,888	(1,104)	–	(669)	108,115
Revenue reserve	32,163	(1,127)	8,774	–	39,810