

# Notes to the Financial Statements

## for the year to 31 October 2008

### 1. Income

	2008 £'000	2007 £'000
UK franked income including special dividends of £9,000 (2007: £353,000)	8,617	9,413
UK unfranked income	646	765
Overseas dividends including special dividends of £905,000 (2007: £218,000)	10,171	8,409
Scrip dividends	–	83
Deposit interest	3,372	4,951
Forward sales of US dollars	(153)	83
	<b>22,653</b>	<b>23,704</b>
<b>Income includes:</b>		
Listed UK	9,262	10,175
Listed overseas	10,171	8,492
Unlisted	1	3
	<b>19,434</b>	<b>18,670</b>

### 2. Expenses

	2008 £'000	2007 £'000
Staff costs (Note 3)	2,712	2,781
Auditors' remuneration for audit services	28	27
Pension scheme audit	4	3
Auditors' remuneration for tax advisory services	8	4
Other financial advisory services	1	1
Other expenses	1,687	1,893
	<b>4,440</b>	<b>4,709</b>

Eligible investment expenses have been charged one-half to revenue reserve and one-half to capital reserve-realised (2007: same).

### 3. Staff Costs

	2008 £'000	2007 £'000
Remuneration	2,047	2,078
Social security costs	229	237
Pensions and post-retirement benefits	436	466
	<b>2,712</b>	<b>2,781</b>

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

	2008 Number	2007 Number
Investment	11	11
Administration	11	11
	<b>22</b>	<b>22</b>
<b>Directors' remuneration:</b>		
Fees for services as directors	<b>£136,000</b>	<b>£142,000</b>

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 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.

Actuarial valuations are obtained triennially and are updated at each balance sheet date. A full actuarial valuation was carried out in 2007 which disclosed a scheme deficit of £2,006,000 on 31 July 2007. The company has agreed to meet this deficit over nine years by equal instalments. It should be noted that this deficit differs from that disclosed by Financial Reporting Standard 17 (FRS17) which is set out below and which is the liability required to be shown in the financial statements. The main reason for the difference is that FRS17 requires future liabilities to be calculated actuarially using a rate of return based on the yield from investment grade corporate bonds which is lower than the expected rate of return on the equities in which the scheme is invested. The FRS17 liability is separately disclosed in the balance sheet.

For the defined benefits scheme the amounts charged against revenue, as part of staff costs, are the actuarial estimation of 'current service costs' (that is, the increase in scheme liabilities arising from employee service) for the current accounting period and gains and losses from settlements (whereby the company is relieved of a pension obligation) and from curtailments (whereby the estimated years of future service are reduced) in the period. The cost of past service benefits which have vested are charged against revenue as they arise. Where such benefits have not vested costs are accrued until vesting occurs.

For employees who are not members of the defined benefits scheme, the company operates a defined contribution scheme under which the company has agreed to pay contributions as a percentage of salary, but has no obligation to pay further contributions. For this scheme, the amount charged to revenue is the contributions payable for the year.

The following statement has been prepared for the defined benefits scheme in accordance with the requirements of FRS17, the purpose of which is to ensure that:

1. the company's financial statements show the assets of the scheme at fair value, and the liabilities arising from its obligations to employees on their retirement, actuarially estimated as prescribed by FRS17;
2. the operating costs of providing retirement benefits to employees, actuarially estimated, are charged against the profits of the years in which employees earn those benefits; and
3. the financial statements adequately disclose the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

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

	2008 %	2007 %	2006 %	2005 %	2004 %
Rate of increase in salaries	5.0	5.2	4.9	4.9	4.9
Rate of increase in pensions in payment	3.4	3.5	3.5	3.5	3.8
Discount rate	6.9	5.8	5.0	5.0	5.5
Inflation	3.0	3.2	2.9	2.9	2.9
Life expectancies on retirement at age 60 are:					
Retiring today – males	26.2	26.1			
– females	28.7	28.6			
Retiring in 20 years time – males	27.5	27.4			
– females	29.7	29.7			

The expected rates of return from the scheme assets on the balance sheet date were:

	2008 %	2007 %	2006 %	2005 %	2004 %
Equities	7.7	7.7	7.2	7.3	7.7
Bonds	4.7	4.7	4.2	4.3	4.7
With-profit policies	4.5	5.8	4.7	4.7	4.7
Cash	4.5	5.8	4.8	4.5	4.8

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 4. Pension Scheme (continued)

The fair value of the scheme assets and the present value of the scheme liabilities were:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Equities	2,286	3,311	2,994	2,494	3,252
Bonds	83	104	100	71	93
With-profit policies	1,293	1,223	1,054	1,262	2,121
Cash	2,182	1,984	1,627	999	897
Total fair value of assets	5,844	6,622	5,775	4,826	6,363
Present value of scheme liabilities	(6,194)	(7,471)	(7,570)	(6,757)	(7,793)
<b>Net pension liability</b>	<b>(350)</b>	<b>(849)</b>	<b>(1,795)</b>	<b>(1,931)</b>	<b>(1,430)</b>

	2008 £'000	2007 £'000
<b>Reconciliation of the opening and closing balances of the present value of the scheme assets</b>		
Fair value of scheme assets at beginning of year	6,622	5,775
Expected return on scheme assets	437	355
Actuarial gain/(loss)	(1,371)	137
Contributions by employers	543	380
Contributions by plan participants	37	41
Benefits paid	(424)	(66)
Fair value of scheme assets at year end	5,844	6,622

	2008 £'000	2007 £'000
<b>Reconciliation of the opening and closing balances of the present value of the scheme liabilities</b>		
Liabilities at beginning of year	7,471	7,570
Current Service Cost	333	444
Interest Cost	418	388
Contributions by scheme participants	37	41
Actuarial (gain)	(1,642)	(906)
Benefits paid	(423)	(66)
Liabilities at end of year	6,194	7,471

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 4. Pension Scheme (continued)

Analysis of amount chargeable to operating profit during the year

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Current service cost	370	484	446	363	424
Settlement/curtailments	–	–	–	–	(1,530)
Total operating charge	370	484	446	363	(1,106)
Employee contribution to be set off	(37)	(41)	(37)	(35)	(49)
Analysis of amount credited to other finance income:					
Expected return on assets	437	355	298	360	430
Interest on liabilities	(418)	(388)	(347)	(370)	(423)
Net return	19	(33)	(49)	(10)	7
Movement in deficit during year:					
Deficit at beginning of year	(849)	(1,795)	(1,931)	(1,430)	(1,174)
Movement in year:					
Current service cost	(370)	(484)	(446)	(363)	(424)
Contributions for year	580	420	362	314	303
Contributions prepaid	–	–	–	–	–
Settlements/curtailments	–	–	–	–	1,530
Net return from other finance income	19	(33)	(49)	(10)	7
Actuarial gain/(loss) in statement of total recognised gains and losses	270	1,043	269	(442)	(1,672)
<b>Deficit at end of year</b>	<b>(350)</b>	<b>(849)</b>	<b>(1,795)</b>	<b>(1,931)</b>	<b>(1,430)</b>

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Analysis of the actuarial deficit in the statement of recognised gains and losses:					
Actual return less expected return on assets	(1,371)	137	365	256	(376)
Experience (losses)/gains on liabilities	(143)	363	(96)	(153)	(988)
Change in assumptions	1,784	543	–	(545)	(308)
<b>Actuarial gain/(loss) in statement of total recognised gains and losses</b>	<b>270</b>	<b>1,043</b>	<b>269</b>	<b>(442)</b>	<b>(1,672)</b>

#### History of experience gains and losses

	2008		2007		2006		2005		2004	
	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000
Difference between actual and expected return on assets	(24)	(1,371)	2	137	6	365	5	256	6	(376)
Experience (losses)/gains on liabilities	(2)	(143)	5	363	1	(96)	2	(153)	13	(988)
Total amount recognised on statement of total recognised gains and losses	3	270	14	1,043	4	269	7	(442)	21	(1,672)

The pension cost of operating the defined contribution scheme amounted to £65,000 (2007: £52,000).

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 5. Interest Payable

	2008 £'000	2007 £'000
On secured bonds, debentures, bank loans, overdrafts and other loans	6,309	6,306
Amortisation of secured bond issue expenses	121	120
	<b>6,430</b>	<b>6,426</b>

Interest payable has been charged one-half to revenue reserve and one-half to capital reserve-realised (2007: same).

### 6. Tax on Ordinary Activities

	2008 £'000	2007 £'000
<b>Taxation</b>		
UK Corporation tax at 28.83% (2007: 30%)	–	–
Overseas tax	890	845
Current tax	890	845

The tax charge for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% for financial year 2007 and 28% for financial year 2008 (2007: 30%).

	2008 £'000	2007 £'000
<b>Return on ordinary activities before tax</b>	<b>(238,307)</b>	<b>131,160</b>
Corporation tax at 28.83% (2007: 30%)	(68,704)	39,348
Effects of:		
Non taxable capital losses/(returns)	73,552	(34,034)
Finance costs charged to capital	(1,451)	(1,543)
Non taxable UK dividends	(2,485)	(2,824)
Non taxable scrip dividends	–	(25)
Unutilised expenses	(912)	(922)
Overseas tax	890	845
	<b>890</b>	<b>845</b>

There are unrelieved management expenses at 31 October 2008 of £55,083,000 (2007: £54,825,000) but the related deferred tax asset has not been recognised. This is because the company is not expected to generate taxable profits 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

	2008 £'000	2007 £'000
Dividends paid on ordinary stock recognised in the year:		
Previous year final of 4.80p per unit (2006: 4.57p)	6,368	6,531
Previous year special of 2.00p per unit (2006: 2.00p)	2,655	2,860
Interim paid of 4.45p per unit (2007: 4.30p)	5,805	5,974
	<b>14,828</b>	<b>15,365</b>

Dividends paid take into account stock buybacks between the ex-dividend and payment dates.

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 8. Investments

	2008 £'000	2007 £'000
Investments listed on a recognised investment exchange	527,165	820,251
Unlisted investments	12,366	15,003
Subsidiary undertakings (Note 9)	103	103
	<b>539,634</b>	<b>835,357</b>

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2008 £'000
Opening book cost	195,453	398,448	10,463	604,364
Opening unrealised appreciation	90,453	135,897	4,643	230,993
<b>Opening valuation</b>	<b>285,906</b>	<b>534,345</b>	<b>15,106</b>	<b>835,357</b>
Movements in the year:				
Purchases at cost	237,462	590,164	133	827,759
Sales—proceeds	(292,096)	(571,252)	(4,262)	(867,610)
Sales—realised gains on sales	(2,121)	4,974	1,802	4,655
Decrease in unrealised appreciation	(97,253)	(162,964)	(310)	(260,527)
Closing valuation	131,898	395,267	12,469	539,634
Closing book cost	138,698	422,334	8,136	569,168
Closing unrealised (depreciation)/appreciation	(6,800)	(27,067)	4,333	(29,534)
<b>Closing valuation</b>	<b>131,898</b>	<b>395,267</b>	<b>12,469</b>	<b>539,634</b>

The purchases at cost and sales proceeds figures include transaction costs of £3,602,000 (2007: £1,840,000), comprising commissions, government stamp duty and other exchange fees.

	2008 £'000	2007 £'000
Realised gains on sales	4,655	90,709
(Decrease)/increase in unrealised appreciation	(260,527)	27,573
<b>(Losses)/gains on investments</b>	<b>(255,872)</b>	<b>118,282</b>

Unlisted investments include heritable property valued at £1,230,000 (2007: £1,230,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 30 October 2006.

#### Financial assets – cash, deposits and current asset investments

	Fixed £'000	2008 Floating £'000	Total £'000	Fixed £'000	2007 Floating £'000	Total £'000
Sterling	40,000	7,875	47,875	69,000	1,502	70,502
Euro	–	1,824	1,824	–	12	12
US dollar	21,662	10,863	32,525	–	1,985	1,985
Other	–	–	–	–	24	24
	<b>61,662</b>	<b>20,562</b>	<b>82,224</b>	<b>69,000</b>	<b>3,523</b>	<b>72,523</b>

The maximum period for fixed rate deposits outstanding at the year end was 1 day (2007: 34 days). The weighted average fixed interest rate at the year end was 2.59% (2007: 5.90%). Floating interest rates vary in relation to short term rates in the currencies in which deposits are held.

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 9. Subsidiary Undertakings

The company has investments in the following subsidiary undertakings:

Name of undertaking	Principal activity	Country of incorporation and voting 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	Profit/(loss) after tax for year £'000
Sprout Growth Limited	Cayman Islands operating in USA	Ordinary and participating	49.7	235	(4)

### 11. Debtors

	2008 £'000	2007 £'000
Amounts due from brokers	11,900	2,614
Overseas tax recoverable	197	102
Prepayments and accrued income	751	1,116
	<b>12,848</b>	<b>3,832</b>

### 12. Creditors: Liabilities Falling Due Within One Year

	2008 £'000	2007 £'000
Amounts due to brokers	537	524
Other creditors	648	614
	<b>1,185</b>	<b>1,138</b>

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 13. Creditors: Liabilities Falling Due After More Than One Year

	2008		2007	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% perpetual debenture stock	350	273	350	270
4¼% perpetual debenture stock	700	583	700	576
5% perpetual debenture stock	1,009	985	1,009	972
5¾% secured bonds due 17/4/2030	105,433	101,277	105,313	110,431
	<b>107,492</b>	<b>103,118</b>	<b>107,372</b>	<b>112,249</b>

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 £103.1m (2007: £112.2m) has the effect of increasing the year end NAV per ordinary stock unit from 405.5p to 408.9p (2007: 597.6p to 593.9p). Estimated market value is the fair value of the company's secured bonds and debenture stocks.

### 14. Called-Up Share Capital

	Authorised		Issued	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Ordinary stock units of 25p	85,500	85,500	32,407	33,567
Number of ordinary stock units in issue			129,626,218	134,267,515

4,641,297 ordinary stock units were repurchased in the stockmarket during the year to 31 October 2008 (2007: 8,880,100).

8,000 ordinary stock units were repurchased between 31 October 2008 and 5 December 2008.

### 15. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 November 2007	39,922	37,294	417,412	230,263	43,895
Exchange difference	–	–	5,782	–	–
Net gain on realisation of investments	–	–	4,655	–	–
Decrease in unrealised appreciation	–	–	–	(260,527)	–
Ordinary stock repurchased	–	1,160	(22,919)	–	–
Actuarial gain relating to pension scheme	–	–	–	111	159
Interest, expenses and tax charged to capital in current year	–	–	(3,582)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	14,475
Dividends paid during the year	–	–	–	–	(14,828)
At 31 October 2008	39,922	38,454	401,348	(30,153)	43,701

## Notes to the Financial Statements (continued)

### for the year to 31 October 2008

#### 15. Reserves (continued)

The Company may only distribute accumulated 'realised' profits. The Institute of Chartered Accountants in England and Wales, has issued guidance (TECH 01/08), stating that profits arising out of the change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided the relevant assets can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence revaluation gains less losses on listed investments currently included within the Capital reserve – unrealised may be regarded as distributable under company law. However it should be noted that the company's articles of association prohibit the distribution of capital profits by way of dividend.

#### 16. Analysis of Changes in Net Debt During the Year

	1 November 2007 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2008 £'000
Cash at bank	3,523	17,039	–	20,562
Short term deposits	69,000	(7,338)	–	61,662
Borrowings due after one year	(107,372)	–	(120)	(107,492)
	<b>(34,849)</b>	<b>9,701</b>	<b>(120)</b>	<b>(25,268)</b>

#### 17. Contingencies, Guarantees and Financial Commitments

	2008 £'000	2007 £'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	1,949	1,872

#### 18. Financial Instruments

##### [Summary of financial assets and financial liabilities by category](#)

The carrying amounts of the company's financial assets and financial liabilities at the balance sheet date are as follows. The accounting policies on page 30 explain how the various categories of financial instrument are measured.

	2008 £'000	2007 £'000
<b>Financial assets</b>		
<b>Financial assets at fair value through profit or loss</b>		
Fixed asset investments – designated as such on initial recognition	539,634	835,357
<b>Current assets:</b>		
Debtors	12,848	3,832
Cash and short term deposits	82,224	72,523
	95,072	76,355
<b>Financial liabilities</b>		
<b>Creditors: liabilities falling due within one year</b>		
Purchases awaiting settlement	(537)	(524)
Other creditors	(648)	(614)
<b>Creditors: liabilities falling due after more than one year</b>		
Long-term borrowings at par	(107,492)	(107,372)
Pension liability	(350)	(849)
	<b>(109,027)</b>	<b>(109,359)</b>

## Notes to the Financial Statements (continued) for the year to 31 October 2008

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### 18. Financial Instruments (continued)

#### *Financial instruments, risk management policies and procedures*

As an investment trust the company invests in equities and other investments for the long-term so as to secure its investment objectives stated on page 1. In pursuing its investment objective, the company is exposed to a variety of risks that could result in either a reduction in the company's net assets or a reduction in the profits available for dividends.

The main risks include investment and market price risk (comprising foreign currency risk and interest rate risk), liquidity risk and credit risk and the directors' approach to the management of them, is set out below. The board of directors, the manager and the company secretary coordinate the company's risk management.

The objectives, policies and processes for managing the risks, and the methods used to measure the risks, set out below, have not changed from those applying in the comparative year.

#### *a. Investment and market price risk*

The holding of securities and investing activities involve certain inherent risks. Events may occur which affect the value of investments. 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 strategy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the board.

#### *b. Foreign currency risk*

Approximately 64% 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 is subject to currency movements. During the year, US dollar dividend income was hedged by 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.

#### *Management of the risk*

The manager monitors the company's exposure to foreign currencies on a daily basis, and reports to the board at regular intervals. The manager measures the risk to the company of the foreign currency exposure by considering the effect on the company's net asset value and income of a movement in the rates of exchange to which the company's assets, liabilities, income and expenses are exposed.

Foreign currency borrowings and forward currency contracts may be used to limit the company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments or the income received from them. These borrowings and contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies.

Income denominated in foreign currencies is converted to sterling on receipt. The company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 18. Financial Instruments (continued)

#### Foreign currency exposure

The fair values of the company's monetary items which have foreign currency exposure at 31 October 2008 are shown below. The company's equity investments (which are not monetary items) which are priced in a foreign currency, have been included separately in the analysis so as to show the overall level of exposure.

2008	US \$ £'000	Euro £'000	Other £'000
Debtors (amounts due from brokers, dividends receivable and accrued income)	133	–	366
Cash at bank	32,524	1,824	–
Foreign currency exposure on net monetary items	32,657	1,824	366
Equity investments at fair value through profit or loss	201,462	77,938	126,733
<b>Total net foreign currency exposure</b>	<b>234,119</b>	<b>79,762</b>	<b>127,099</b>
<b>2007</b>			
Debtors (amounts due from brokers, dividends receivable and accrued income)	2,884	–	85
Cash at bank	1,985	12	24
Foreign currency exposure on net monetary items	4,869	12	109
Equity investments at fair value through profit or loss	201,980	146,640	199,028
<b>Total net foreign currency exposure</b>	<b>206,849</b>	<b>146,652</b>	<b>199,137</b>

The above year end amounts are not representative of the exposure to risk during the year, because the levels of monetary foreign currency exposure may change significantly throughout the year. The maximum and minimum net monetary assets/(liabilities) amounts for each currency were as follows.

Year ended 31 October 2008	US \$ £'000	Euro £'000	Other £'000
Maximum	55,809	19,334	11,850
Minimum	(16,537)	10	(14,655)
<b>Year ended 31 October 2007</b>			
Maximum	4,511	10,480	8,009
Minimum	(1,106)	(7,686)	4

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 18. Financial Instruments (continued)

#### Foreign currency sensitivity

The following table illustrates the sensitivity of the total return for the year and the stockholders equity in regard to the company's monetary financial assets and financial liabilities. It assumes a 10% depreciation of sterling against both the US dollar and the euro. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the company's monetary foreign currency financial instruments held at each balance sheet date.

	2008		2007	
	US \$ £'000	Euro £'000	US \$ £'000	Euro £'000
<b>If sterling had weakened by 10% against the currencies shown, this would have had the following effect:</b>				
Income statement – return on ordinary activities after taxation:				
Revenue return	162	423	202	270
Capital return	23,282	8,427	21,108	16,505
<b>Return attributable to equity stockholders</b>	<b>23,444</b>	<b>8,850</b>	<b>21,310</b>	<b>16,775</b>

A 10% strengthening of sterling against the above currencies would result in an equal and opposite effect on the above amounts.

In the opinion of the directors, the above sensitivity analyses are broadly representative of the whole of the current and comparative years.

#### c. 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.

#### Management of the risk

The company finances part of its activities through borrowings at levels which have been approved and are monitored by the board. The company, generally, does not, except in exceptional market conditions, hold significant cash balances.

#### Interest rate exposure

The exposure, at the year end, of financial assets and financial liabilities to interest rate risk is shown by reference to floating interest rates.

	Within one year £'000	2008 More than one year £'000	Total £'000	Within one year £'000	2007 More than one year £'000	Total £'000
<b>Exposure to floating interest rates</b>						
Cash at bank	20,562	–	20,562	3,523	–	3,523
<b>Exposure to fixed interest rates</b>						
Short term deposits	61,662	–	61,662	69,000	–	69,000
Long term borrowings	–	(107,492)	(107,492)	–	(107,372)	(107,372)
<b>Total exposure</b>	<b>82,224</b>	<b>(107,492)</b>	<b>(25,268)</b>	<b>72,523</b>	<b>(107,372)</b>	<b>(34,849)</b>

## Notes to the Financial Statements (continued) for the year to 31 October 2008

### 18. Financial Instruments (continued)

#### *Interest rate sensitivity*

If interest rates had decreased by 5% on the reporting date, with all other variables held constant, the return attributable to equity stockholders as shown on the Income Statement would have decreased by the amounts shown in the table below:

	2008 £'000	2007 £'000
<b>Income statement – return on ordinary activities after taxation</b>		
Revenue return	(8)	(87)
Capital return	161	161
<b>Return attributable to equity stockholders</b>	<b>153</b>	<b>74</b>

A 5% increase in interest rates would result in an equal and opposite effect on the above amounts.

#### d. 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 maturity profile of the company's borrowings is included in note 13.

#### *Management of the risk*

Liquidity risk is not as significant as the other risks as the majority of the company's assets are investments in quoted equities and are readily realisable. The manager reviews the liquidity of the portfolio when making investment decisions.

#### e. Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the company suffering a loss.

#### *Management of the risk*

This risk is not significant, and is managed as follows:

- by only dealing with brokers which have been approved by the board of directors and banks, also approved by the board of directors, with high credit ratings assigned by international credit rating agencies; and
- by setting limits as to the maximum exposure to any one counterparty at any time. These are reviewed semi-annually at meetings of the audit committee.

#### f. Capital management policies and procedures

The company carries on its business as a global growth investment trust. Its objective is to provide investors, over the longer term, with above average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation.

The levels of effective and potential gearing are monitored closely by the board and manager. The company applies a ceiling on effective gearing of 120%. While effective gearing will be employed in a typical range of 100% to 120%, the company retains the ability to lower equity exposure below 100% if deemed appropriate.

The board, with the assistance of the manager, monitors and reviews the broad structure of the company's capital on an ongoing basis. This review includes the planned level of gearing which will take into account the manager's view on the market, the need to buy back stock units for cancellation which takes account of the difference between the net asset value per stock unit and the stock price (the company seeks to maintain a discount of 9% or less) and the extent to which revenue in excess of that which is required to be distributed should be retained.

The company's objectives, policies and processes for managing capital are unchanged from the previous year.