

1. INCOME	2001 £'000	2000 £'000
Income from investments:		
UK franked investment income	18,757	16,495
Overseas dividends	9,693	9,397
Overseas interest	–	5
Scrip dividends	840	548
Other	93	171
	29,383	26,616
Other income:		
Deposit interest	2,698	3,146
Underwriting commission	5	13
	2,703	3,159
Total income	32,086	29,775
Total income comprises:		
Dividends including special dividends of £1,235,000 (2000 – £926,000)	29,334	26,547
Interest	2,747	3,215
Other income	5	13
	32,086	29,775
Income from investments:		
Listed UK	19,216	16,818
Listed overseas	9,834	9,691
Unlisted	333	107
	29,383	26,616

2. EXPENSES	2001 £'000	2000 £'000
Staff costs (Note 3)	1,987	1,790
Auditors' remuneration for audit	19	19
Other expenses	2,815	2,759
	4,821	4,568

Since 1 November 1999 eligible expenses have been charged one-third to revenue and two-thirds to capital.

Auditors' remuneration for non-audit services totalled £16,000 (2000 – £51,000).

3. STAFF COSTS	2001 £'000	2000 £'000
Salaries	1,502	1,353
Social security costs	165	152
Pensions and post-retirement benefits	320	285
	1,987	1,790

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

	2001 Number	2000 Number
Investment	10	10
Administration	15	15
	25	25
Directors' remuneration:		
Fees for services as directors	£124,813	£114,750
Chairman and highest paid director	£28,500	£24,750
Other directors – number in range £10,001 – £15,000	1	6
£15,001 – £20,000	5	–

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 £304,000 (2000 – £270,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 2001 is based on a triennial valuation as at 1 August 1999. 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 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.

The contribution rate for 2001 was 24.0% of pensionable earnings and the agreed contribution rate until 1 August 2005 is 24.0% of pensionable earnings.

Additional disclosures regarding the company's defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the first year of the transitional provisions. They provide information which will be necessary for full implementation of the FRS 17 in the year ending 31 October 2003.

The actuarial valuation described above has been updated at 31 October 2001 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation were:	2001 £'000
Rate of increase in salaries	4.5%
Rate of increase in pensions in payment	2.5%
Discount rate	6.0%
Inflation assumption	2.5%

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 2001 %	Fair value 2001 £'000
Equities	8.2	4,848
Bonds	5.2	1,034
Other	5.2	964
Total fair value of assets		6,846
Present value of scheme liabilities		8,819
Net pension liability		1,973

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.

5. INTEREST PAYABLE	2001 £'000	2000 £'000
On debentures, bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	1	309
Repayable wholly or partly in more than 5 years	15,313	11,355
Amortisation of secured bond issue expenses	167	91
	15,481	11,755

Since 1 November 1999 interest has been charged one-third to revenue and two-thirds to capital.

6. TAX ON ORDINARY ACTIVITIES	2001 £'000	2000 £'000
UK corporation tax at 30% (2000 – 30%)	–	–
Overseas taxation	1,867	1,798
Relief for overseas taxation	(726)	(679)
Deferred taxation	13	(6)
	1,154	1,113
Tax relief credited to capital reserve	1,622	1,655
	2,776	2,768

7. DIVIDENDS AND OTHER APPROPRIATIONS	2001 £'000	2000 £'000
Dividends on ordinary stock:		
– interim paid of 2.35p per unit (2000 – 2.27p)	5,354	5,797
– second interim paid of 4.63p per unit	–	11,659
– final declared of 4.70p per unit	10,613	–
– special declared of 1.00p per unit	2,258	–
– 2000 final dividend on stock repurchased	(7)	(138)
– 2001 interim dividend on stock repurchased	(47)	–
	18,171	17,318

8. INVESTMENTS	2001 £'000	2000 £'000
Investments listed on a recognised investment exchange	977,176	1,493,084
Unlisted investments	47,137	56,934
Subsidiary undertakings (Note 9)	103	103
	1,024,416	1,550,121

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2001 £'000
Opening book cost	457,820	545,908	30,807	1,034,535
Opening unrealised appreciation	290,508	198,848	26,230	515,586
Opening valuation	748,328	744,756	57,037	1,550,121
Movements in the year:				
Purchases at cost	90,559	132,387	9,977	232,923
Sales – proceeds	(199,146)	(235,266)	(3,117)	(437,529)
– realised gains on sales	59,011	21,420	999	81,430
Decrease in unrealised appreciation	(203,253)	(181,708)	(17,568)	(402,529)
Transfers	–	88	(88)	–
Closing valuation	495,499	481,677	47,240	1,024,416
Closing book cost	408,244	464,537	38,578	911,359
Closing unrealised appreciation	87,255	17,140	8,662	113,057
	495,499	481,677	47,240	1,024,416

	2001 £'000	2000 £'000
Realised gains on sales	81,430	133,352
(Decrease)/increase in unrealised appreciation	(402,529)	47,059
(Losses)/gains on investments	(321,099)	180,411

A geographical analysis of the investment portfolio (page 3), an analysis of the investment portfolio by broad industrial or commercial sector (page 23), and a full list of investments by market value (pages 38 and 39), are contained within the annual report.

Unlisted investments include the following:

- (a) Heritable property valued at £700,000 (2000 – £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 (2000 – £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.

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	Profit after tax for year £'000
Sprout Growth Limited	Inc Cayman Islands operating in USA	ord shares of US\$1 part red pref shares of US\$0.01	49.7 49.7	528	2

11. DEBTORS

	2001 £'000	2000 £'000
Amounts due from brokers	9,958	7,206
Overseas tax recoverable	780	594
Prepayments and accrued income	2,228	2,673
ACT receivable	–	603
	12,966	11,076

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000	2000 £'000
Amounts due to brokers	1,006	3,378
UK corporation tax payable	–	97
Dividends	12,871	11,659
Other creditors	1,817	2,287
Bank overdraft	8	1,369
	15,702	18,790

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

	2001 £'000	2000 £'000
4% perpetual debenture stock	350	350
4 $\frac{1}{4}$ % perpetual debenture stock	700	700
5% perpetual debenture stock	1,009	1,009
10 $\frac{7}{8}$ % debenture stock 30/4/2019	25,000	25,000
7 $\frac{3}{4}$ % debenture stock 25/9/2013	50,000	50,000
5 $\frac{3}{4}$ % secured bonds due 17/4/2030	145,245	145,078
	222,304	222,137

The debenture stocks and secured bonds are secured by a floating charge over the assets of the company.

14. CALLED-UP SHARE CAPITAL	Authorised		Issued	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Ordinary stock units of 25p	85,500	85,500	56,453	62,951
Number of ordinary stock units in issue			225,810,092	251,806,371

25,996,279 ordinary stock units were repurchased in the stockmarket during the year to 31 October 2001 at a total cost of £118,708,000. No repurchases were made between 31 October and 26 November 2001.

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	7,909	709,597	515,587	20,895
Exchange difference	–	–	(1,447)	–	–
Net gain on realisation of investments	–	–	81,430	–	–
Decrease in unrealised appreciation	–	–	–	(402,530)	–
Ordinary stock repurchased	–	6,499	(118,708)	–	–
Interest and expenses charged to capital in current year	–	–	(11,084)	–	–
Transfer to reserves	–	–	–	–	3,543
End of year	39,922	14,408	659,788	113,057	24,438

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS	2001 £'000	2000 £'000
Opening equity stockholders' funds	1,356,861	1,287,086
Total recognised (losses)/gains	(311,916)	191,957
Dividend payments	(18,171)	(17,318)
Ordinary stock repurchases	(118,708)	(104,864)
Closing equity stockholders' funds	908,066	1,356,861

17. NET ASSET VALUE PER ORDINARY STOCK UNIT

Basic net asset value per ordinary stock unit is based on net assets after deducting long term borrowings at book 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	538.85
Total return per ordinary unit	(134.06)
Dividend per ordinary unit	(8.05)
Adjustments for dividends on stock repurchased	0.02
Adjustment for change in issued ordinary stock during year	5.38
Closing NAV	402.14

18. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	At 1 November 2000 £'000	Cash flows £'000	Non-cash movements £'000	At 31 October 2001 £'000
Cash at bank	9,091	2,014	–	11,105
Bank overdraft	(1,369)	1,361	–	(8)
Short term deposits	27,500	70,085	–	97,585
Debt due after one year	(222,137)	–	(167)	(222,304)
	(186,915)	73,460	(167)	(113,622)

19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS	2001	2000
	£'000	£'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	28,875	15,961
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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 can 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. 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 38 and 39. 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:

	2001			2000		
	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	52,500	2,145	54,645	27,500	2,512	30,012
Swiss francs	-	1,936	1,936	-	2,493	2,493
Euro	11,767	4,705	16,472	-	2,233	2,233
US dollar	32,318	712	33,030	-	1,849	1,849
Other	-	2,607	2,607	-	4	4
	96,585	12,105	108,690	27,500	9,091	36,591

The maximum fixed period for deposits outstanding at the year end was 15 weeks.

22. FINANCIAL LIABILITIES

The company's long term borrowings as detailed in note 13 are denominated in Sterling and carry interest at fixed rates. The secured bond and two debentures with fixed maturities have a weighted average life of 23.5 years (2000-24.5 years) and are stated in the balance sheet at book value. Restating them at estimated market value would have the effect of reducing the year end NAV per ordinary stock unit from 402.1p to 393.1p (2000-538.9p to 535.1p). Based on the market price of 359.0p (2000-457.0p) the discount to NAV at the year end would be reduced from 10.7% to 8.7% (2000-15.2% to 14.6%).

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 2001	1 November 2000
Sir Angus Grossart	7,982	7,920
Sir George Mathewson	364	364
F Finlay	10,000	10,000
I H Leslie Melville	10,000	10,000
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 26 November 2001.