

Notes to the Financial Statements

for the year to 31 October 2003

1. INCOME	2003 £'000	2002 £'000
Income from investments:		
UK franked investment income	14,118	15,171
Overseas dividends	8,336	8,825
Scrip dividends	439	428
Other	430	206
	23,323	24,630
Other income:		
Deposit interest	4,259	3,459
Underwriting commission	5	10
	4,264	3,469
Total income	27,587	28,099
Total income comprises:		
Dividends including special dividends of £262,000 (2002 – £445,000)	23,316	24,620
Interest	4,266	3,469
Other income	5	10
	27,587	28,099
Income from investments:		
Listed UK	14,871	15,755
Listed overseas	8,336	8,825
Unlisted	116	50
	23,323	24,630
2. EXPENSES		
	2003 £'000	2002 £'000
Staff costs (Note 3)	2,129	2,338
Auditors' remuneration for audit	23	20
Other expenses	1,977	2,200
	4,129	4,558
<p>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 £Nil (2002 – £10,000).</p>		
3. STAFF COSTS		
	2003 £'000	2002 £'000
Salaries	1,435	1,635
Social security costs	156	181
Pensions and post-retirement benefits	538	522
	2,129	2,338
<p>The average monthly number of persons employed during the year was:</p>		
	2003 Number	2002 Number
Investment	10	10
Administration	13	14
	23	24
Directors' remuneration:		
Fees for services as directors	£113,609	£114,750

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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 a life assurance company. A defined contribution scheme is being introduced for new employees.

The pension cost charge for the period was £522,000 (2002 – £506,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 2003 is based on a triennial valuation as at 1 August 2002. The attained age method was used. The most significant assumptions were that for past service the rate of return on investments would be 8.2% in the period up to retirement and 5.2% once the pension was in payment. The rate of increase of salaries would be 4.3%. The equivalent assumptions for future service were 7.4%, 5.2% and 4.4% respectively. The actuarial value of the assets at 1 August 2002 represented 80% 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 2002 was £4,720,000. The pension charge for 2003 was 38% of pensionable earnings, including an allowance of 12% in respect of the amortisation of the deficit, which is being recognised over eleven years, the remaining service lifetime of the current employees.

While the pension charge has been established in line with SSAP 24, additional disclosures regarding the company's pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below.

An actuarial valuation has been calculated at 31 October 2003 by a qualified actuary using 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:	2003 %	2002 %
Rate of increase in salaries	2.5 and 4.5	4.2
Rate of increase in pensions in payment	2.5	2.2
Discount rate	5.4	5.4
Inflation assumption	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	
	2003 %	2002 %	2003 £'000	2002 £'000
Equities	8.2	8.5	3,470	3,142
Bonds	4.8	4.8	907	681
Other	4.8	4.4	2,529	1,260
Total fair value of assets			6,906	5,083
Present value of scheme liabilities			8,080	7,202
Net pension liability			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.

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4. PENSION SCHEME (continued)

The following figures for the year to 31 October 2003 are given by way of note. They will be incorporated into the revenue account on full implementation of FRS 17 if it is implemented at the end of transition in 2005. Had FRS 17 been adopted early, the revenue reserve would be £29,265,000 (2002 – £25,672,000).

Analysis of amount chargeable to operating profit during the year:	2003		2002	
	£'000		£'000	
Current service cost	435		400	
Past service cost	–		–	
Settlement/curtailments	–		–	
Total operating charge	435		400	
Employee contribution to be set off	(58)		(48)	
Analysis of amount credited to other finance income:				
Expected return on assets	426		420	
Interest on liabilities	(389)		(529)	
Net return	37		(109)	
Movement in deficit during year:				
Deficit at beginning of year	(2,119)		(1,973)	
Movement in year:				
Current service cost	(435)		(400)	
Contributions for year	496		439	
Contributions prepaid	620		458	
Settlements/curtailments	–		–	
Past service costs	–		–	
Net return from other finance income	37		(109)	
Actuarial gain/(loss) in statement of total return	227		(534)	
Deficit at end of year	(1,174)		(2,119)	
Analysis of amount recognised in statement of total return:				
Actual return less expected return on assets	285		(924)	
Experience (losses)/gains on liabilities	(142)		476	
Change in assumptions	84		(86)	
Actuarial gain/(loss) recognised in statement of total return	227		(534)	
History of experience gains and losses	%	£'000	%	£'000
Difference between actual and expected return on assets	4	285	21	(924)
Experience (losses)/gains on liabilities	2	(142)	7	476
Total amount recognised in statement of total return	3	227	7	(534)

5. INTEREST PAYABLE

	2003	2002
	£'000	£'000
On debentures, bank loans, overdrafts and other loans	15,314	15,313
Amortisation of secured bond issue expenses	167	167
	15,481	15,480

Interest has been charged one-third to revenue and two-thirds to capital.

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6. TAX ON ORDINARY ACTIVITIES	2003 £'000	2002 £'000
Tax on ordinary activities		
Overseas tax	922	1,092
Deferred tax	11	(3)
	933	1,089
Tax relief credited to capital	–	1,691
	933	2,780

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2002 – 30%)

The differences are explained below:

Profit on ordinary activities before tax	7,977	8,061
Tax at 30% thereon	(2,393)	(2,418)
Effects of:		
UK dividend income	4,235	4,551
Stock dividends	132	129
Foreign tax charge	(933)	(1,089)
Surplus management expenses	(1,963)	(2,265)
	(922)	(1,092)

There are surplus interest and management expenses at 31 October 2003 of £25,678,000 (2002 – £19,068,000) 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 surplus expenses.

7. DIVIDENDS AND OTHER APPROPRIATIONS	2003 £'000	2002 £'000
Dividends on ordinary stock:		
– interim paid of 2.60p per unit (2002 – 2.50p)	5,468	5,411
– final declared of 5.20p per unit (2002 – second interim 5.00p)	10,936	10,665
– dividends on stock repurchased	(145)	–
	16,259	16,076

8. INVESTMENTS	2003 £'000	2002 £'000
Investments listed on a recognised investment exchange	795,941	754,271
Unlisted investments	38,363	36,655
Subsidiary undertakings (Note 9)	103	103
	834,407	791,029

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8. INVESTMENTS continued

A geographical analysis of the investment portfolio (page 9), a full list of investments by market value (pages 20 and 21), and an analysis of the investment portfolio by broad industrial or commercial sector (page 22), are contained within the annual report.

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2003 £'000
Opening book cost	390,446	404,694	37,434	832,574
Opening unrealised appreciation/(depreciation)	228	(41,097)	(676)	(41,545)
Opening valuation	390,674	363,597	36,758	791,029
Movements in the year:				
Purchases at cost	76,213	72,630	5,846	154,689
Sales – proceeds	(88,467)	(81,171)	(7,015)	(176,653)
– realised (losses)/gains on sales	(16,903)	(7,334)	1,127	(23,110)
Increase in unrealised appreciation	48,771	37,931	1,750	88,452
Closing valuation	410,288	385,653	38,466	834,407
Closing book cost	361,289	388,819	37,392	787,500
Closing unrealised appreciation/(depreciation)	48,999	(3,166)	1,074	46,907
	410,288	385,653	38,466	834,407
		2003 £'000		2002 £'000
Realised losses on sales		(23,110)		(29,010)
Increase/(decrease) in unrealised appreciation		88,452		(154,602)
Gains/(losses) on investments		65,342		(183,612)

Unlisted investments include the following:

- Heritable property valued at £1,100,000 (2002 – £700,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 16 October 2003.
- A property loan of £50,000 in respect of Iain Harding who forms part of the key management of the company. A standard security is held by the company.
- An investment in Aberforth Limited Partnership 1B, an investment fund. Relevant disclosures are shown on page 10.

Financial assets	2003			2002		
	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	99,000	10,564	109,564	110,000	4,663	114,663
Euro	–	912	912	–	–	–
US dollar	–	4,161	4,161	–	498	498
Other	–	1,603	1,603	–	205	205
	99,000	17,240	116,240	110,000	5,366	115,366

The maximum fixed period for deposits outstanding at the year end was 112 days. The weighted average fixed interest rate at the year end was 3.53%. Floating interest rates vary in relation to short term rates in the currencies in which deposits are held.

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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	ord shares of US\$1	49.7	397	(15)
	operating in USA	part red pref shares of US\$0.01	49.7		

11. DEBTORS

	2003 £'000	2002 £'000
Amounts due from brokers	257	2,309
Overseas tax recoverable	1,146	1,303
Prepayments and accrued income	2,994	2,402
	4,397	6,014

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000	2002 £'000
Amounts due to brokers	604	5,888
Dividends	10,936	10,665
Other creditors	1,294	1,920
Bank overdraft	56	21
	12,890	18,494

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

	2003		2002	
	Book value £'000	Market value £'000	Book value £'000	Market value £'000
4% perpetual debenture stock	350	252	350	271
4 $\frac{1}{4}$ % perpetual debenture stock	700	535	700	577
5% perpetual debenture stock	1,009	921	1,009	983
10 $\frac{7}{8}$ % debenture stock 30/4/2019	25,000	35,678	25,000	35,868
7 $\frac{3}{4}$ % debenture stock 25/9/2013	50,000	55,084	50,000	56,985
5 $\frac{3}{4}$ % secured bonds due 17/4/2030	145,580	144,277	145,413	144,533
	222,639	236,747	222,472	239,217

The debenture stocks and secured bonds are secured by a floating charge over the assets of the company. The secured bonds have a redemption value in 2030 of £150m.

The company's long term borrowings 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 21.5 years (2002 – 22.5 years) and a weighted average interest rate of 6.9%. They are stated in the balance sheet at book value. Restating them at estimated market value of £236.7m (2002 – £239.2m) would have the effect of reducing the year end NAV per ordinary stock unit from 342.1p to 335.4p (2002 – 314.8p to 306.9p). Based on the market price of 281.0p (2002 – 259.0p) the discount to NAV at the year end would be reduced from 17.9% to 16.2% (2002 – 17.7% to 15.6%).

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14. CALLED-UP SHARE CAPITAL

	Authorised		Issued	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Ordinary stock units of 25p	85,500	85,500	52,576	53,326
Number of ordinary stock units in issue			210,304,399	213,304,399

3,000,000 ordinary stock units were repurchased for cash in the stockmarket during the year to 31 October 2003 at a total cost of £7,949,000. No further stock units were repurchased between 31 October 2003 and 10 December 2003.

15. RESERVES

	Share premium account	Capital redemption reserve	Capital reserve – realised	Capital reserve – unrealised	Revenue reserve
	£'000	£'000	£'000	£'000	£'000
Beginning of year	39,922	17,535	575,827	(41,545)	26,378
Exchange difference	–	–	(106)	–	–
Net loss on realisation of investments	–	–	(23,110)	–	–
Increase in unrealised appreciation	–	–	–	88,452	–
Ordinary stock repurchased	–	750	(7,949)	–	–
Interest and expenses charged to capital in current year	–	–	(12,493)	–	–
Transfer to reserves	–	–	–	–	3,278
End of year	39,922	18,285	532,169	46,907	29,656

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS

	2003	2002
	£'000	£'000
Opening equity stockholders' funds	671,443	908,066
Total recognised gains/(losses)	72,280	(176,682)
Dividend payments	(16,259)	(16,076)
Ordinary stock repurchases	(7,949)	(43,865)
Closing equity stockholders' funds	719,515	671,443

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	314.78
Total return per ordinary unit	34.34
Dividend per ordinary unit	(7.80)
Adjustment for change in issued ordinary stock during year	0.81
Closing NAV	342.13

18. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November	Cash	Non-cash	31 October
	2002	flows	movements	2003
	£'000	£'000	£'000	£'000
Cash at bank	4,366	2,374	–	6,740
Bank overdraft	(21)	(35)	–	(56)
Short term deposits	111,000	(1,500)	–	109,500
Debt due after one year	(222,472)	–	(167)	(222,639)
	(107,127)	839	(167)	(106,455)

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19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS	2003 £'000	2002 £'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	12,039	17,663

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, 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 and 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 notes 12 and 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 although none was in place at the year end. The company's overseas income stream is subject to currency movements which are not hedged. The currency profile of the company's assets is set out on page 9 and 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 their fair value. The estimated market values of the company's borrowings are set out in note 13.