

# Notes to the Financial Statements

for the year to 31 October 2004

<b>1. INCOME</b>	2004 £'000	2003 £'000
<b>Income from investments:</b>		
UK franked investment income	12,895	14,118
Overseas dividends	8,289	8,336
Scrip dividends	436	439
Other	487	430
	22,107	23,323
<b>Other income:</b>		
Deposit interest	4,787	4,259
Underwriting commission	–	5
	4,787	4,264
<b>Total income</b>	<b>26,894</b>	<b>27,587</b>
<b>Total income comprises:</b>		
Dividends including special dividends of £138,000 (2003 – £262,000)	22,104	23,316
Interest	4,790	4,266
Other income	–	5
	26,894	27,587
<b>Income from investments:</b>		
Listed UK	13,786	14,871
Listed overseas	8,288	8,336
Unlisted	33	116
	22,107	23,323
<b>2. EXPENSES</b>		
	2004 £'000	2003 £'000
Staff costs (Note 3)	2,204	2,129
Auditors' remuneration for audit	22	23
Other expenses	1,882	1,977
	4,108	4,129
<p>Since 1 November 1999 eligible expenses have been charged one-third to revenue and two-thirds to capital. Auditors' remuneration for audit related services totalled £3,000 (2003 – £3,000) and for non-audit services totalled £nil (2003 – £Nil).</p>		
<b>3. STAFF COSTS</b>		
	2004 £'000	2003 £'000
Salaries	1,481	1,435
Social security costs	162	156
Pensions and post-retirement benefits	561	538
	2,204	2,129
The average monthly number of persons employed during the year was:		
	2004 Number	2003 Number
Investment	10	10
Administration	13	13
	23	23
Directors' remuneration:		
Fees for services as directors	£134,130	£113,609

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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 has been introduced for new employees.

The pension cost charge for the period was £526,000 (2003 – £522,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 2004 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 2004 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 2004 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:

	2004	2003	2002
	%	%	%
Rate of increase in salaries	4.9	2.5 and 4.5	4.2
Rate of increase in pensions in payment	3.8	2.5	2.2
Discount rate	5.5	5.4	5.4
Inflation assumption	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		
	2004	2003	2002	2004	2003	2002
	%	%	%	£'000	£'000	£'000
Equities	7.7	8.2	8.5	3,252	3,470	3,142
Bonds	4.7	4.8	4.8	93	907	681
With profit policies	4.7	4.8	4.4	2,121	2,529	1,260
Cash	4.8	–	–	897	–	–
Total fair value of assets				6,363	6,906	5,083
Present value of scheme liabilities				7,793	8,080	7,202
Net pension liability				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.

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## 4. PENSION SCHEME (continued)

The following figures for the year to 31 October 2004 are given by way of note. They will be incorporated into the statement of total return 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 £31,686,000 (2003 – £29,265,000).

Analysis of amount chargeable to operating profit during the year:

	2004 £'000	2003 £'000	2002 £'000			
Current service cost	424	435	400			
Past service cost	–	–	–			
Settlement/curtailments	(1,530)	–	–			
Total operating charge	(1,106)	435	400			
Employee contribution to be set off	(49)	(58)	(48)			
Analysis of amount credited to other finance income:						
Expected return on assets	430	426	420			
Interest on liabilities	(423)	(389)	(529)			
Net return	7	37	(109)			
Movement in deficit during year:						
Deficit at beginning of year	(1,174)	(2,119)	(1,973)			
Movement in year:						
Current service cost	(424)	(435)	(400)			
Contributions for year	303	496	439			
Contributions prepaid	–	620	458			
Settlements/curtailments	–	–	–			
Past service costs	1,530	–	–			
Net return from other finance income	7	37	(109)			
Actuarial (loss)/gain in statement of total return	(1,672)	227	(534)			
Deficit at end of year	(1,430)	(1,174)	(2,119)			
Analysis of amount recognised in statement of total return:						
Actual return less expected return on assets	(376)	285	(924)			
Experience (losses)/gains on liabilities	(988)	(142)	476			
Change in assumptions	(308)	84	(86)			
Actuarial (loss)/gain recognised in statement of total return	(1,672)	227	(534)			
History of experience gains and losses						
	%	£'000	%	£'000	%	£'000
Difference between actual and expected return on assets	6	(376)	4	285	21	(424)
Experience (losses)/gains on liabilities	13	(988)	2	(142)	7	476
Total amount recognised in statement of total return	21	(1,672)	3	227	7	(534)

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## 5. INTEREST PAYABLE

	2004 £'000	2003 £'000
On debentures, bank loans, overdrafts and other loans	13,640	15,314
Amortisation of secured bond issue expenses	167	167
	13,807	15,481

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

## 6. TAX ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
Tax on ordinary activities		
Overseas tax	1,009	922
Deferred tax	(24)	11
	985	933

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003 – 30%)

The differences are explained below:

Profit on ordinary activities before tax	8,979	7,977
Tax at 30% thereon	(2,694)	(2,393)
Effects of:		
UK dividend income	3,869	4,235
Stock dividends	131	132
Foreign tax charge	(985)	(933)
Surplus management expenses	(1,330)	(1,963)
	(1,009)	(922)

There are surplus interest and management expenses at 31 October 2004 of £30,035,000 (2003 – £25,678,000) 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

	2004 £'000	2003 £'000
Dividends on ordinary stock:		
– interim paid of 3.90p per unit (2003 – 2.60p)	8,148	5,468
– final declared of 4.20p per unit (2003 – 5.20p)	8,774	10,936
– dividends on stock repurchased	–	(145)
	16,922	16,259

## 8. INVESTMENTS

	2004 £'000	2003 £'000
Investments listed on a recognised investment exchange	747,742	795,941
Unlisted investments	33,772	38,363
Subsidiary undertakings (Note 9)	103	103
	781,617	834,407

A geographical analysis of the investment portfolio (page 9), an analysis of the investment portfolio by broad industrial or commercial sector (page 17), and a full list of investments by market value (pages 18 and 19), are contained within the annual report.

# Notes to the Financial Statements

for the year to 31 October 2004

8. INVESTMENTS (continued)	Listed	Listed	Unlisted	Total
	in UK £'000	overseas £'000	£'000	2004 £'000
Opening book cost	361,289	388,819	37,392	787,500
Opening unrealised appreciation/(depreciation)	48,999	(3,166)	1,074	46,907
Opening valuation	410,288	385,653	38,466	834,407
Movements in the year:				
Purchases at cost	71,708	212,900	3,481	288,089
Sales – proceeds	(141,019)	(237,139)	(11,924)	(390,082)
– realised gains/(losses) on sales	8,367	(23,746)	1,601	(13,778)
Increase in unrealised appreciation	20,098	40,632	2,251	62,981
Closing valuation	369,442	378,300	33,875	781,617
Closing book cost	300,345	340,834	30,550	671,729
Closing unrealised appreciation	69,097	37,466	3,325	109,888
	369,442	378,300	33,875	781,617
		2004 £'000		2003 £'000
Realised losses on sales		(13,778)		(23,110)
Increase in unrealised appreciation		62,981		88,452
Gains on investments		49,203		65,342

Unlisted investments include the following:

- Heritable property valued at £1,100,000 (2003 – £1,100,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 16 October 2003.
- An investment in Aberforth Limited Partnership 1B, an investment fund. Relevant disclosures are shown on page 10.

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

	2004			2003		
	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	86,000	15,455	101,455	99,000	10,564	109,564
Euro	–	995	995	–	912	912
US dollar	–	733	733	–	4,161	4,161
Other	–	1,529	1,529	–	1,603	1,603
	86,000	18,712	104,712	99,000	17,240	116,240

The maximum fixed period for deposits outstanding at the year end was 22 days. The weighted average fixed interest rate at the year end was 4.73%. 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 £15,000,000 (2003 – £10,500,000) representing overseas listed investments held at the end of the year. In the 2003 annual report the current asset investment of £10,500,000 was included within cash; however, this has been reclassified for comparative purposes.

## 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.

# Notes to the Financial Statements

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## 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	267	(11)
		part red pref shares of US\$0.01	49.7		

## 11. DEBTORS

	2004 £'000	2003 £'000
Amounts due from brokers	2,169	257
Overseas tax recoverable	979	1,146
Prepayments and accrued income	2,365	2,994
	5,513	4,397

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

	2004 £'000	2003 £'000
Amounts due to brokers	–	604
Dividends	8,774	10,936
Other creditors	1,795	1,294
Bank overdraft	–	56
	10,569	12,890

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

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% perpetual debenture stock	350	264	350	252
4 $\frac{1}{4}$ % perpetual debenture stock	700	561	700	535
5% perpetual debenture stock	1,009	966	1,009	921
10 $\frac{7}{8}$ % debenture stock 30/4/2019	–	–	25,000	35,678
7 $\frac{3}{4}$ % debenture stock 25/9/2013	–	–	50,000	55,084
5 $\frac{3}{4}$ % secured bonds due 17/4/2030	145,746	148,042	145,580	144,277
	147,805	149,833	222,639	236,747

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

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at estimated fair value of £149.8m (2003 – £236.7m) has the effect of reducing the year end NAV per ordinary stock unit from 351.1p to 350.1p (2003 – 342.1p to 335.4p). Based on the market price of 298.75p (2003 – 281.0p) the discount to NAV at the year end would be reduced from 14.9% to 14.7% (2003 – 17.9% to 16.2%).

During the year the company repaid two of its debenture stocks with a total nominal value of £75m – £50m nominal of 7 $\frac{3}{4}$ % debenture stock 2013 and £25m nominal of 10 $\frac{7}{8}$ % debenture stock 2019. The total repayment of £97.4m included a premium of £22.4m, of which £1.1m is not due to be paid until February 2005 and accordingly is included within other creditors.

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## 14. CALLED-UP SHARE CAPITAL

	Authorised		Issued	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Ordinary stock units of 25p	85,500	85,500	52,228	52,576
Number of ordinary stock units in issue			208,910,518	210,304,399

1,393,881 ordinary stock units were repurchased for cash in the stockmarket during the year to 31 October 2004 at a total cost of £3,868,000. No further stock units were repurchased between 31 October 2004 and 13 December 2004.

## 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	18,285	532,169	46,907	29,656
Exchange difference	–	–	(95)	–	–
Net loss on realisation of investments	–	–	(13,778)	–	–
Increase in unrealised appreciation	–	–	–	62,981	–
Ordinary stock repurchased	–	348	(3,868)	–	–
Premium on repayment of debenture stocks	–	–	(22,360)	–	–
Interest and expenses charged to capital in current year	–	–	(11,434)	–	–
Transfer to reserves	–	–	–	–	2,507
End of year	39,922	18,633	480,634	109,888	32,163

## 16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS

	2004 £'000	2003 £'000
Opening equity stockholders' funds	719,515	671,443
Total recognised gains	34,743	72,280
Dividend payments	(16,922)	(16,259)
Ordinary stock repurchases	(3,868)	(7,949)
Closing equity stockholders' funds	733,468	719,515

## 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 with borrowings at par:	p
Opening NAV	342.13
Total return per ordinary unit	16.61
Dividend per ordinary unit	(8.10)
Adjustment for change in issued ordinary stock during year	0.45
Closing NAV	351.09

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

	1 November 2003 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2004 £'000
Cash at bank	6,740	(3,028)	–	3,712
Bank overdraft	(56)	56	–	–
Short term deposits	109,500	(8,500)	–	101,000
Debt due after one year	(222,639)	75,000	(166)	(147,805)
	(106,455)	63,528	(166)	(43,093)

## 19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

	2004 £'000	2003 £'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	8,053	12,039

## 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.