

# Accounting Policies

A summary of the principal accounting policies is set out in paragraphs (a) to (i) below. All have been applied consistently throughout the current and the preceding year:

## (a) Basis of Accounting

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable United Kingdom accounting standards. The company's accounting policies comply with the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies".

## (b) Valuation of Investments

Listed investments are valued at closing or last traded prices according to the recognised convention of the markets on which they are quoted. Where trading in the securities of an investee company is suspended, the investment is valued at the board's estimate of its net realisable value. Where appropriate the directors have adopted the guidelines issued by the British Venture Capital Association for the valuation of unlisted investments. Heritable property is included at a professional valuation. Depreciation is not charged on heritable property as it is not material.

Current asset investments are valued at the lower of cost and net realisable value.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised as explained in note (h) below.

Year end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

## (c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the company's right to receive payment is established.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security.

Where the company receives dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash is recognised in capital reserves.

## (d) Expenses

All expenses are accounted for on an accruals basis.

Eligible investment expenses have been charged one-third to revenue, two-thirds to realised capital reserves in line with the directors' expectations of the nature of long term future returns from the company's investments. Tax relief applicable to those charges is allocated between revenue and capital using the marginal basis.

Expenses which are incidental to the acquisition of an investment are included within the cost of the investment.

Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

## (e) Finance Costs

Finance costs, including dividends and other finance costs of non-equity shares, are accounted for on an accruals basis, and in accordance with the provisions of FRS 4 "Capital Instruments".

Interest payable has been charged one-third to revenue, two-thirds to realised capital reserves in line with the

directors' expectations of long term future returns from the company's investments. Tax relief applicable to those charges is allocated between revenue and capital using the marginal basis.

The premium paid in 2004 on the repayment of the debenture stocks has been charged to capital in the statement of total return.

The discount and expenses of issue on the secured bonds due 17/4/2030 have been included in the financing costs of the issue which are being amortised over the life of the bonds.

## (f) Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on the current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## (g) Foreign Currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

## (h) Capital Reserves

### Capital Reserve – Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- realised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature
- the funding of ordinary stock repurchases
- expenses and interest charged to capital.

### Capital Reserve – Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end
- unrealised exchange differences of a capital nature
- unrealised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature.

## (i) Pensions

The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the statement of total return so as to spread the cost over the service lives of employees in the scheme, in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Additional contributions, representing variations from regular cost, are recorded within prepayments and amortised over the estimated average remaining service life of scheme members.

The company has adopted the transitional rules under FRS 17 – Retirement Benefits and has included the appropriate disclosures in Note 4.