

Notes to the Financial Statements

for the year to 31 October 2005

1. INCOME	2005 £'000	2004 £'000
Income from investments:		
UK franked investment income	12,981	12,895
Overseas dividends	10,817	8,289
Scrip dividends	146	436
Other	641	487
	24,585	22,107
Other income:		
Deposit interest	4,986	4,787
FX Forward	(197)	–
	4,789	4,787
Total income	29,374	26,894
Total income comprises:		
Dividends including special dividends of £1,248,000 (2004 – £138,000)	24,583	22,104
Interest	4,988	4,790
Other income	(197)	–
	29,374	26,894
Income from investments:		
Listed UK	13,617	13,786
Listed overseas	10,963	8,288
Unlisted	5	33
	24,585	22,107
2. EXPENSES	2005 £'000	2004 £'000
Staff costs (Note 3)	2,213	2,204
Auditors' remuneration for audit	23	22
Other expenses	1,737	1,882
	3,973	4,108
<p>Since 1 November 1999 investment-related expenses have been charged one-third to revenue and two-thirds to capital.</p> <p>Auditors' remuneration for audit related services totalled £5,000 (2004 – £3,000) and for non-audit services totalled £Nil (2004 – £Nil).</p>		
3. STAFF COSTS	2005 £'000	2004 £'000
Salaries	1,505	1,481
Social security costs	173	162
Pensions and post-retirement benefits	535	561
	2,213	2,204
<p>The average monthly number of persons employed during the year was:</p>		
	2005 Number	2004 Number
Investment	9	10
Administration	12	13
	21	23
Directors' remuneration:		
Fees for services as directors	£123,333	£134,130

Notes to the Financial Statements

for the year to 31 October 2005

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 firm of consulting actuaries. A defined contribution scheme has been introduced for new employees.

The pension cost charge for the period was £509,000 (2004 – £526,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 2005 is based on a triennial valuation as at 31 July 2004. The attained age method was used. The most significant assumptions were that for past and future service the rate of return on investments would be 6.75% in the period up to retirement and 6.75% once the pension was in payment. The rate of increase of salaries would be 5.5%. The actuarial value of the assets at 31 July 2004 represented 92% 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 31 July 2004 was £6,318,000. The pension charge for 2005 was 38% of pensionable earnings, including an allowance of 12% in respect of the amortisation of the deficit, which is being recognised over nine 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 2005 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:

	2005	2004	2003	2002
	%	%	%	%
Rate of increase in salaries	4.9	4.9	2.5 and 4.5	4.2
Rate of increase in pensions in payment	3.5	3.8	2.5	2.2
Discount rate	5.0	5.5	5.4	5.4
Inflation assumption	2.9	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			
	2005	2004	2003	2002	2005	2004	2003	2002
	%	%	%	%	£'000	£'000	£'000	£'000
Equities	7.3	7.7	8.2	8.5	2,494	3,252	3,470	3,142
Bonds	4.3	4.7	4.8	4.8	71	93	907	681
With profit policies	4.7	4.7	4.8	4.4	1,262	2,121	2,529	1,260
Cash	4.5	4.8	–	–	999	897	–	–
Total fair value of assets					4,826	6,363	6,906	5,083
Present value of scheme liabilities					6,757	7,793	8,080	7,202
Net pension liability					1,931	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.

Notes to the Financial Statements

for the year to 31 October 2005

4. PENSION SCHEME (continued)

The following figures for the year to 31 October 2005 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 2006. Had FRS 17 been adopted early, the net asset value would have been reduced by 1.23p per ordinary stock unit (2004 – 1.05p).

Analysis of amount chargeable to operating profit during the year:

	2005	2004	2003	2002				
	£'000	£'000	£'000	£'000				
Current service cost	363	424	435	400				
Past service cost	–	–	–	–				
Settlement/curtailments	–	(1,530)	–	–				
Total operating charge	363	(1,106)	435	400				
Employee contribution to be set off	(35)	(49)	(58)	(48)				
Analysis of amount credited to other finance income:								
Expected return on assets	360	430	426	420				
Interest on liabilities	(370)	(423)	(389)	(529)				
Net return	(10)	7	37	(109)				
Movement in deficit during year:								
Deficit at beginning of year	(1,430)	(1,174)	(2,119)	(1,973)				
Movement in year:								
Current service cost	(363)	(424)	(435)	(400)				
Contributions for year	314	303	496	439				
Contributions prepaid	–	–	620	458				
Settlements/curtailments	–	–	–	–				
Past service costs	–	1,530	–	–				
Net return from other finance income	(10)	7	37	(109)				
Actuarial (loss)/gain in statement of total return	(442)	(1,672)	227	(534)				
Deficit at end of year	(1,931)	(1,430)	(1,174)	(2,119)				
Analysis of amount recognised in statement of total return:								
Actual return less expected return on assets	256	(376)	285	(924)				
Experience (losses)/gains on liabilities	(153)	(988)	(142)	476				
Change in assumptions	(545)	(308)	84	(86)				
Actuarial (loss)/gain recognised in statement of total return	(442)	(1,672)	227	(534)				
History of experience gains and losses								
	%	£'000	%	£'000	%	£'000	%	£'000
Difference between actual and expected return on assets	5	256	6	(376)	4	285	21	(924)
Experience (losses)/gains on liabilities	2	(153)	13	(988)	2	(142)	7	476
Total amount recognised in statement of total return	7	(442)	21	(1,672)	3	227	7	(534)

Notes to the Financial Statements

for the year to 31 October 2005

5. INTEREST PAYABLE	2005 £'000	2004 £'000
On debentures, bank loans, overdrafts and other loans	8,719	13,640
Amortisation of secured bond issue expenses	167	167
	8,886	13,807

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

6. TAX ON ORDINARY ACTIVITIES	2005 £'000	2004 £'000
Tax on ordinary activities		
Overseas tax	2,108	1,009
Deferred tax	(22)	(24)
	2,086	985

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2004 – 30%)

The differences are explained below:

Income	29,374	26,894
Expenses	(3,973)	(4,108)
Interest payable	(8,886)	(13,807)
Profit on ordinary activities before tax	16,515	8,979
Tax at 30% thereon	(4,955)	(2,694)
Effects of:		
UK dividend income	3,894	3,869
Stock dividends	44	131
Foreign tax charge	(1,262)	(985)
Overseas refundable withholding tax deemed irrecoverable	(824)	–
Surplus management expenses	995	(1,330)
	(2,108)	(1,009)

There are surplus interest and management expenses at 31 October 2005 of £31,348,000 (2004 – £30,035,000) 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	2005 £'000	2004 £'000
Dividends on ordinary stock:		
– interim paid of 4.05p per unit (2004 – 3.90p)	8,461	8,148
– final declared of 4.35p per unit (2004 – 4.20p)	9,087	8,774
	17,548	16,922

8. INVESTMENTS	2005 £'000	2004 £'000
Investments listed on a recognised investment exchange	902,825	747,742
Unlisted investments	29,849	33,772
Subsidiary undertakings (Note 9)	103	103
	932,777	781,617

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 2005

8. INVESTMENTS (continued)	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2005 £'000
Opening book cost	300,345	340,834	30,550	671,729
Opening unrealised appreciation/(depreciation)	69,097	37,466	3,325	109,888
Opening valuation	369,442	378,300	33,875	781,617
Movements in the year:				
Purchases at cost	112,061	283,814	3,361	399,236
Sales – proceeds	(133,650)	(248,777)	(24,361)	(406,788)
– realised gains on sales	24,053	19,552	10,689	54,294
Increase in unrealised appreciation	24,524	73,506	6,388	104,418
Closing valuation	396,430	506,395	29,952	932,777
Closing book cost	302,809	395,423	20,239	718,471
Closing unrealised appreciation	93,621	110,972	9,713	214,306
	396,430	506,395	29,952	932,777
		2005 £'000		2004 £'000
Realised gains/(losses) on sales		54,294		(13,778)
Increase in unrealised appreciation		104,418		62,981
Gains on investments		158,712		49,203

Unlisted investments include heritable property valued at £1,100,000 (2004 – £1,100,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 16 October 2003.

Financial assets – cash, deposits and current asset investments

	2005			2004		
	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	99,000	14,500	113,500	86,000	15,455	101,455
Euro	–	290	290	–	995	995
US dollar	–	1,262	1,262	–	733	733
Other	–	905	905	–	1,529	1,529
	99,000	16,957	115,957	86,000	18,712	104,712

The maximum fixed period for deposits outstanding at the year end was 28 days (2004 – 22 days). The weighted average fixed interest rate at the year end was 4.471%. 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 £10,000,000 (2004 – £15,000,000) representing a money market fund listed in Dublin held at the end of the year.

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

for the year to 31 October 2005

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	248	10
		part red pref shares of US\$0.01	49.7		

11. DEBTORS

	2005 £'000	2004 £'000
Amounts due from brokers	–	2,169
Overseas tax recoverable	134	979
Prepayments and accrued income	2,032	2,365
	2,166	5,513

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £'000	2004 £'000
Amounts due to brokers	4,165	–
Dividends	9,087	8,774
Other creditors	674	1,795
	13,926	10,569

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

	2005		2004	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% perpetual debenture stock	350	280	350	264
4 ¹ / ₄ % perpetual debenture stock	700	592	700	561
5% perpetual debenture stock	1,009	1,020	1,009	966
5 ³ / ₄ % secured bonds due 17/4/2030	145,913	160,821	145,746	148,042
	147,972	162,713	147,805	149,833

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 market value of £162.7m (2004 – £149.8m) has the effect of reducing the year end NAV per ordinary stock unit from 425.5p to 418.5p (2004 – 351.1p to 350.1p). Based on the market price of 377.0p (2004 – 298.75p) the discount to NAV at the year end would be reduced from 11.4% to 9.9% (2004 – 14.9% to 14.7%). Estimated market value is the fair value of the company's secured bonds.

Notes to the Financial Statements

for the year to 31 October 2005

14. CALLED-UP SHARE CAPITAL

	Authorised		Issued	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Ordinary stock units of 25p	85,500	85,500	52,228	52,228
Number of ordinary stock units in issue	208,910,518		208,910,518	

No ordinary stock units were repurchased in the stockmarket during the year to 31 October 2005. No ordinary stock units were repurchased between 31 October 2005 and 12 December 2005.

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	18,633	480,634	109,888	32,163
Exchange difference	–	–	(59)	–	–
Net gain on realisation of investments	–	–	54,294	–	–
Increase in unrealised appreciation	–	–	–	104,418	–
Interest, expenses and tax charged to capital in current year	–	–	(6,159)	–	–
Transfer to reserves	–	–	–	–	3,040
End of year	39,922	18,633	528,710	214,306	35,203

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS

	2005 £'000	2004 £'000
Opening equity stockholders' funds	733,468	719,515
Total recognised gains	173,082	34,743
Dividend payments	(17,548)	(16,922)
Ordinary stock repurchases	–	(3,868)
Closing equity stockholders' funds	889,002	733,468

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	351.09
Total return per ordinary unit	82.85
Dividend per ordinary unit	(8.40)
Closing NAV	425.54

Notes to the Financial Statements

for the year to 31 October 2005

18. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November 2004 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2005 £'000
Current asset investments	15,000	(5,000)	–	10,000
Cash at bank	3,712	3,245	–	6,957
Short term deposits	86,000	13,000	–	99,000
Debt due after one year	(147,805)	–	(167)	(147,972)
	(43,093)	11,245	(167)	(32,015)

19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

	2005 £'000	2004 £'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	4,121	8,053

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. 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 usually 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.