

Accounting Policies

The company is required to comply with a number of new accounting standards which have been introduced this year. These standards are part of the UK convergence with International Financial Reporting Standards.

- In accordance with FRS 26 'Financial Instruments: Measurement' investments have been designated at fair value through profit or loss. The profit and loss account is the 'Total' column of the Income Statement. This results in a change in the basis of valuation (see note (b) below) and a reduction in the valuation of investments and unrealised capital resources at 31 October 2005 of £1,083,000.
- In accordance with FRS 21 'Events after the Balance Sheet Date' dividends paid after the year end are no longer treated as a liability at the balance sheet date but are now recognised in the period in which they are paid. This results in a reduction in creditors and an increase in revenue reserve at 31 October 2005 of £9,087,000. Dividends are no longer disclosed in the income statement.
- In accordance with FRS 17 'Retirement Benefits' the company is required to disclose in its financial statements the cost of providing retirement benefits and the related gains, losses, assets and liabilities. This results in an increase in creditors of £2,594,000, a reduction in capital reserve of £1,268,000 and a reduction in revenue reserve of £1,326,000 at 31 October 2005.

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 AIC Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies'.

(b) Valuation of Investments

Listed investments are valued at fair value through profit or loss. Fair value is the closing bid or last traded price 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.

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 re-valuation 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-half to revenue and one-half to realised capital reserves in line with the directors' expectations of the nature of long term future returns from the company's investments (2005 – one-third to revenue and two-thirds to realised capital reserves).

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

Interest payable has been charged one-half to revenue, one-half to realised capital reserves in line with the directors' expectations of long term future returns from the company's investments (2005 – one-third to revenue and two-thirds to realised capital reserves). Tax relief applicable to those charges is allocated between revenue and capital using the marginal basis.

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The premium paid in 2006 on the partial repayment of the secured bonds due 2030 has been charged to capital in the income statement.

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 written off over the life of the bonds.

(f) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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. 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 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 on transactions undertaken to hedge an exposure of a capital nature.

(i) Pensions

FRS 17 'Retirement Benefits' was adopted during the year. The effect on the comparatives for the year ended 31 October 2005 due to the adoption of this accounting policy is detailed in Note 19.

For the defined benefit scheme, the amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The assets of the scheme are held in trust and are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a suitable high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For the defined contribution scheme, the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.