

Notes to the Financial Statements

for the year to 31 October 2007

1. INCOME	2007 £'000	2006 £'000
UK franked income including special dividends of £353,000 (2006– £197,000)	9,413	9,902
Income from other UK listed investments	762	701
Income from UK unlisted investments	3	308
Overseas dividends including special dividends of £218,000 (2006 – £124,000)	8,409	8,016
Income from overseas unlisted investments	–	202
Scrip dividends	83	106
Deposit interest	4,951	4,378
Forward sales of US dollars	83	142
	23,704	23,755

Income includes:

Listed UK	10,175	10,603
Listed overseas	8,492	8,122
Unlisted	3	510
	18,670	19,235

2. EXPENSES	2007 £'000	2006 £'000
Staff costs (Note 3)	2,781	2,741
Auditors' remuneration for audit services	27	26
Pension scheme audit	3	3
Auditors' remuneration for non-audit services	4	4
Other financial advisory services	1	1
Other expenses	1,893	1,706
	4,709	4,481

Eligible investment expenses have been charged one-half to revenue reserve and one-half to capital reserve-realised (2006 – same).

3. STAFF COSTS	2007 £'000	2006 £'000
Remuneration	2,078	1,965
Social security costs	237	229
Pensions and post-retirement benefits	466	547
	2,781	2,741

The average monthly number of persons employed during the year was:

	2007 Number	2006 Number
Investment	11	10
Administration	11	11
	22	21

Directors' remuneration:		
Fees for services as directors	£142,000	£135,000

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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 Punter Southall & Co, consulting actuaries.

Actuarial valuations are obtained triennially and are updated at each balance sheet date. A full actuarial valuation was carried out during the year which disclosed a scheme deficit of £2,006,000 on 31 July 2007. The company has agreed to meet this deficit over nine years by equal instalments. It should be noted that this deficit differs from that disclosed by Financial Reporting Standard 17 (FRS17) which is set out below and which is the liability required to be shown in the financial statements. The main reason for the difference is that FRS17 requires future liabilities to be calculated actuarially using a rate of return based on the yield from investment grade corporate bonds which is lower than the expected rate of return on the equities in which the scheme is invested. The FRS17 liability is separately disclosed in the balance sheet.

For the defined benefits scheme the amounts charged against revenue, as part of staff costs, are the actuarial estimation of 'current service costs' (that is, the increase in scheme liabilities arising from employee service) for the current accounting period and gains and losses from settlements (whereby the company is relieved of a pension obligation) and from curtailments (whereby the estimated years of future service are reduced) in the period. The cost of past service benefits which have vested are charged against revenue as they arise. Where such benefits have not vested costs are accrued until vesting occurs.

For employees who are not members of the defined benefits scheme, the company operates a defined contribution scheme under which the company has agreed to pay contributions as a percentage of salary, but has no obligation to pay further contributions. For this scheme, the amount charged to revenue is the contributions payable for the year.

The following statement has been prepared for the defined benefits scheme in accordance with the requirements of FRS17, the purpose of which is to ensure that:

1. the company's financial statements show the assets of the scheme at fair value, and the liabilities arising from its obligations to employees on their retirement, actuarially estimated as prescribed by FRS17;
2. the operating costs of providing retirement benefits to employees, actuarially estimated, are charged against the profits of the years in which employees earn those benefits; and
3. the financial statements adequately disclose the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

The major assumptions used for the actuarial valuation of the final salary scheme were:

	2007	2006	2005	2004	2003
	%	%	%	%	%
Rate of increase in salaries	5.2	4.9	4.9	4.9	2.5/4.5
Rate of increase in pensions in payment	3.5	3.5	3.5	3.8	2.5
Discount rate	5.8	5.0	5.0	5.5	5.4
Inflation	3.2	2.9	2.9	2.9	2.5

The expected rates of return from the scheme assets on the balance sheet date were:

	Expected rate of return				
	2007	2006	2005	2004	2003
	%	%	%	%	%
Equities	7.7	7.2	7.3	7.7	8.2
Bonds	4.7	4.2	4.3	4.7	4.8
With-profit policies	5.8	4.7	4.7	4.7	4.8
Cash	5.8	4.8	4.5	4.8	—

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4. PENSION SCHEME (continued)

The fair value of the scheme assets and the present value of the scheme liabilities were:

	Fair value				
	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Equities	3,311	2,994	2,494	3,252	3,470
Bonds	104	100	71	93	907
With-profit policies	1,223	1,054	1,262	2,121	2,529
Cash	1,984	1,627	999	897	–
Total fair value of assets	6,622	5,775	4,826	6,363	6,906
Present value of scheme liabilities	(7,471)	(7,570)	(6,757)	(7,793)	(8,080)
Net pension liability	(849)	(1,795)	(1,931)	(1,430)	(1,174)

Analysis of amount chargeable to operating profit during the year:

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Current service cost	484	446	363	424	435
Settlement/curtailments	–	–	–	(1,530)	–
Total operating charge	484	446	363	(1,106)	435
Employee contribution to be set off	(41)	(37)	(35)	(49)	(58)

Analysis of amount credited to other finance income:

Expected return on assets	355	298	360	430	426
Interest on liabilities	(388)	(347)	(370)	(423)	(389)
Net return	(33)	(49)	(10)	7	37

Movement in deficit during year:

Deficit at beginning of year	(1,795)	(1,931)	(1,430)	(1,174)	(2,119)
Movement in year:					
Current service cost	(484)	(446)	(363)	(424)	(435)
Contributions for year	420	362	314	303	496
Contributions prepaid	–	–	–	–	620
Settlements/curtailments	–	–	–	1,530	–
Net return from other finance income	(33)	(49)	(10)	7	37
Actuarial gain/(loss) in statement of total recognised gains and losses	1,043	269	(442)	(1,672)	227
Deficit at end of year	(849)	(1,795)	(1,931)	(1,430)	(1,174)

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4. PENSION SCHEME (continued)

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Analysis of the actuarial deficit in the statement of recognised gains and losses:					
Actual return less expected return on assets	137	365	256	(376)	285
Experience gains/(losses) on liabilities	363	(96)	(153)	(988)	(142)
Change in assumptions	543	–	(545)	(308)	84
Actuarial gain/(loss) in statement of total recognised gains and losses	1,043	269	(442)	(1,672)	227
History of experience gains and losses	% £'000	% £'000	% £'000	% £'000	% £'000
Difference between actual and expected return on assets	2 137	6 365	5 256	6 (376)	4 285
Experience gains/(losses) on liabilities	5 363	1 (96)	2 (153)	13 (988)	2 (142)
Total amount recognised on statement of total recognised gains and losses	14 1,043	4 269	7 (442)	21(1,672)	3 227

The pension cost of operating the defined contribution scheme amounted to £52,000 (2006 – £38,000).

5. INTEREST PAYABLE

	2007 £'000	2006 £'000
On secured bonds, debentures, bank loans, overdrafts and other loans	6,306	7,061
Amortisation of secured bond issue expenses	120	135
	6,426	7,196

Interest payable has been charged one-half to revenue reserve and one-half to capital reserve-realised (2006 – same).

6. TAX ON ORDINARY ACTIVITIES

	2007 £'000	2006 £'000
Tax on ordinary activities		
Overseas tax	845	919
Deferred tax	–	(7)
	845	912
The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2007 – 30%)		
The differences are explained below:		
Income	23,704	23,755
Expenses	(4,709)	(4,481)
Interest payable	(6,426)	(7,196)
Profit on ordinary activities before tax	12,569	12,078
Tax at 30% thereon	(3,771)	(3,623)
Effects of:		
UK dividend income	2,824	2,971
Scrip dividends	25	32
Foreign tax charge	(845)	(912)
Management expenses	922	613
	(845)	(919)

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6. TAX ON ORDINARY ACTIVITIES (continued)

There are unrelieved management expenses at 31 October 2007 of £54,069,027 (2006 – £29,283,000) but the related deferred tax asset at 30% has not been recognised. This is because the company is not expected to generate taxable profits 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 unrelieved expenses.

7. DIVIDENDS

	2007 £'000	2006 £'000
Dividends on ordinary stock recognised in the year:		
Previous year final of 4.57p per unit (2006 – 4.35p)	6,531	9,087
Previous year special of 2.00p per unit (2006 – nil)	2,860	–
Interim paid of 4.30p per unit (2006 – 4.15p)	5,974	6,018
	15,365	15,105

8. INVESTMENTS

	2007 £'000	2006 £'000
Investments listed on a recognised investment exchange	820,251	728,668
Unlisted investments	15,003	22,099
Subsidiary undertakings (Note 9)	103	103
	835,357	750,870

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2007 £'000
Opening book cost	202,872	329,741	14,837	547,450
Opening unrealised appreciation	105,345	90,710	7,365	203,420
Opening valuation	308,217	420,451	22,202	750,870
Movements in the year:				
Purchases at cost	72,294	315,043	857	388,194
Sales – proceeds	(123,605)	(284,698)	(13,686)	(421,989)
– realised gains on sales	43,892	38,362	8,455	90,709
Increase/(decrease) in unrealised appreciation	(14,892)	45,187	(2,722)	27,573
Closing valuation	285,906	534,345	15,106	835,357
Closing book cost	195,453	398,448	10,463	604,364
Closing unrealised appreciation	90,453	135,897	4,643	230,993
	285,906	534,345	15,106	835,357

The purchases at cost and sales proceeds figures include transaction costs of £1,840,000 (2006 – £1,381,000), comprising commissions, government stamp duty and other exchange fees.

	2007 £'000	2006 £'000
Realised gains on sales	90,709	149,902
Increase/(decrease) in unrealised appreciation	27,573	(9,803)
Gains on investments	118,282	140,099

Unlisted investments include heritable property valued at £1,230,000 (2006 – £1,230,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 30 October 2006.

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8. INVESTMENTS (continued)

Financial assets – cash, deposits and current asset investments

	2007			2006		
	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	69,000	1,502	70,502	82,000	5,130	87,130
Euro	–	12	12	–	86	86
US dollar	–	1,985	1,985	–	1,572	1,572
Other	–	24	24	–	41	41
	69,000	3,523	72,523	82,000	6,829	88,829

The maximum period for fixed rate deposits outstanding at the year end was 34 days (2006 – 21 days).

The weighted average fixed interest rate at the year end was 5.90% (2006 – 4.85%). 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 £nil (2006 – £5,000,000) 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.

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	Profit after tax for year £'000
Sprout Growth Limited	Cayman Islands operating in USA	Ordinary and participating	49.7	243	0

11. DEBTORS

	2007 £'000	2006 £'000
Amounts due from brokers	2,614	–
Overseas tax recoverable	102	182
Prepayments and accrued income	1,116	909
	3,832	1,091

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £'000	2006 £'000
Amounts due to brokers	524	656
Other creditors	614	493
	1,138	1,149

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

	2007		2006	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% perpetual debenture stock	350	270	350	304
4¼% perpetual debenture stock	700	576	700	649
5% perpetual debenture stock	1,009	972	1,009	1,064
5¾% secured bonds due 17/4/2030	105,313	110,431	105,193	120,505
	107,372	112,249	107,252	122,522

The secured bonds are secured by a floating charge over the assets of the company and have a redemption value in 2030 of £108,015,000.

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at estimated market value of £112.2m (2006 – £122.5m) has the effect of reducing the year end NAV per ordinary stock unit from 597.6p to 593.9p (2006 – 510.4p to 499.7p). Estimated market value is the fair value of the company's secured bonds and debenture stocks.

During the year ended 31 October 2006 a total of £41,985,000 nominal secured bonds due 2030 were repurchased at a cost of £51,776,000. The difference of £9.8m was charged to capital against which a gain of £1m was offset following the termination of an interest rate swap to hedge against movements in interest rates.

14. CALLED-UP SHARE CAPITAL

	Authorised		Issued	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Ordinary stock units of 25p	85,500	85,500	33,567	35,787
Number of ordinary stock units in issue			134,267,515	143,147,615

8,880,100 ordinary stock units were repurchased in the stockmarket during the year to 31 October 2007.

306,500 ordinary stock units were repurchased between 31 October 2007 and 7 December 2007.

15. RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 November 2006	39,922	35,074	374,270	202,262	43,279
Exchange difference	–	–	309	–	–
Net gain on realisation of investments	–	–	90,709	–	–
Increase in unrealised appreciation	–	–	–	27,573	–
Ordinary stock repurchased	–	2,220	(44,234)	–	–
Actuarial gain relating to pension scheme	–	–	–	428	615
Interest, expenses and tax charged to capital in current year	–	–	(3,642)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	15,366
Dividends paid during the year	–	–	–	–	(15,365)
At 31 October 2007	39,922	37,294	417,412	230,263	43,895

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16. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November 2006 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2007 £'000
Current asset investments	5,000	(5,000)	–	–
Cash at bank	1,829	1,694	–	3,523
Short term deposits	82,000	(13,000)	–	69,000
Borrowings due after one year	(107,252)	–	(120)	(107,372)
	(18,423)	(16,306)	(120)	(34,849)

17. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

	2007 £'000	2006 £'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	1,872	3,104

18. 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 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 strategy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the board.
- 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 note 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. The company's overseas income stream is subject to currency movements. During the year US dollar dividend income was hedged by forward sales of US dollars. 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 to their fair value. The estimated market values of the company's borrowings are set out in note 13.