# PERSONAL ASSETS TRUST PLC

**Annual Report**
**and Accounts**
**for the year ended**
**30 April 2004**

# Key Features

## For the Year to 30 April 2004

| | Change | **30 April 2004** | 30 April 2003 |
|---|---|---|---|
| Market Capitalisation | 27.8% | **£138 million** | £108 million |
| Shareholders' Funds | 29.8% | **£135 million** | £104 million |
| Effective Liquidity | – | **31.4%** | 26.2% |
| Share Price | 10.7% | **£214.50** | £193.75 |
| NAV per share | 12.8% | **£210.17** | £186.32 |
| FTSE All-Share Index | 18.3% | **2,237.34** | 1,891.50 |
| Premium to NAV | – | **2.1%** | 4.0% |
| Dividend per share | 6.9% | **£3.10** | £2.90 |
| Current dividend rate * | | **£3.20** | |

* *Double the last interim dividend of £1.60. It is our policy never to cut the dividend rate. Shareholders can therefore be confident that each half-yearly dividend will at least equal the previous one.*

## Performance for 3 Years to 30 April 2004 *

| | Change | **30 April 2004** | 30 April 2001 |
|---|---|---|---|
| Market Capitalisation | 74.7% | **£138 million** | £79 million |
| Shareholders' Funds | 73.1% | **£135 million** | £78 million |
| Share Price | 2.9% | **£214.50** | £208.50 |
| NAV per share | 1.5% | **£210.17** | £207.03 |
| FTSE All-Share Index | (22.0%) | **2,237.34** | 2,869.04 |
| Premium to NAV | – | **2.1%** | 0.7% |
| Dividend per share | 14.8% | **£3.10** | £2.70 |

* *As long-term investors we measure our net asset value performance against our benchmark, the FTSE All-Share Index, over rolling three-year periods.*

# Personal Assets Trust PLC
# Annual Report and Accounts 30 April 2004

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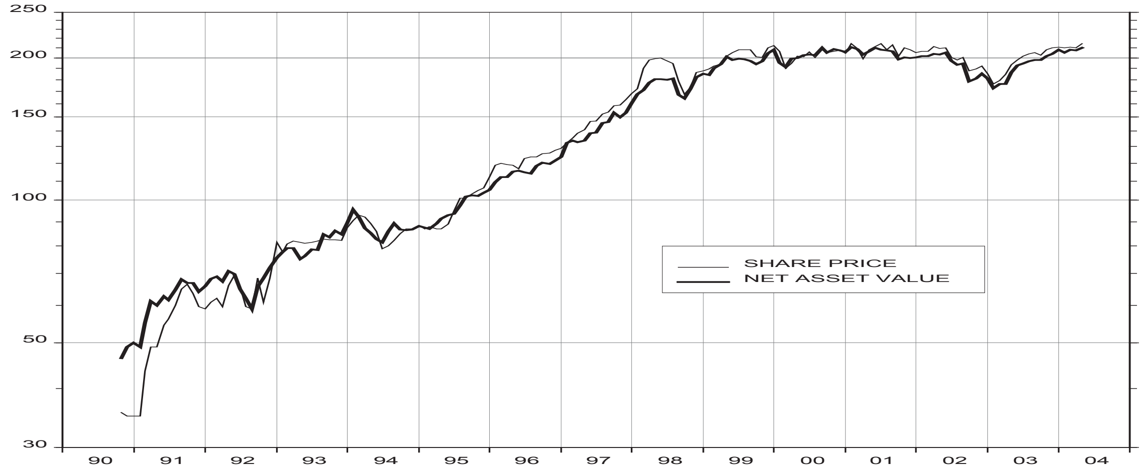
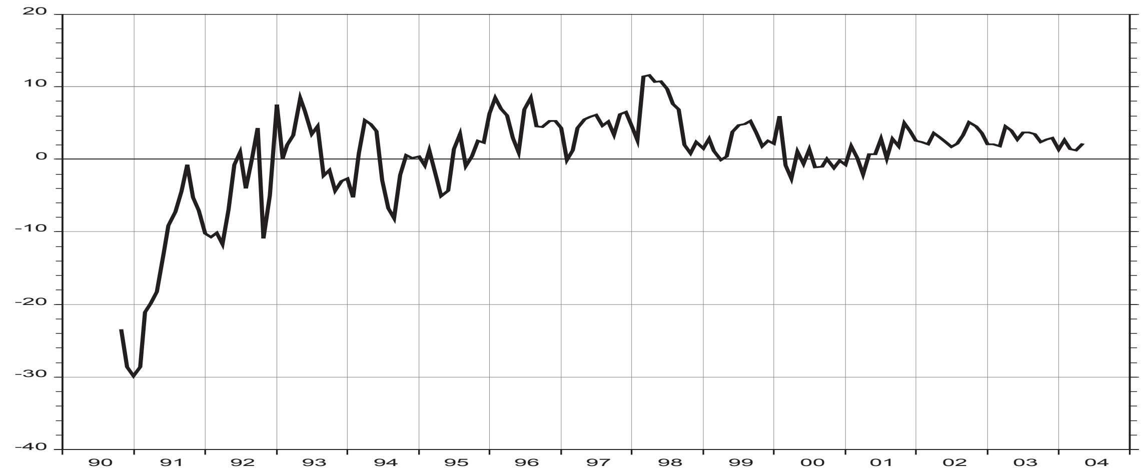
# PERFORMANCE 1990-2004*

**Personal Assets became self managed in 1990*

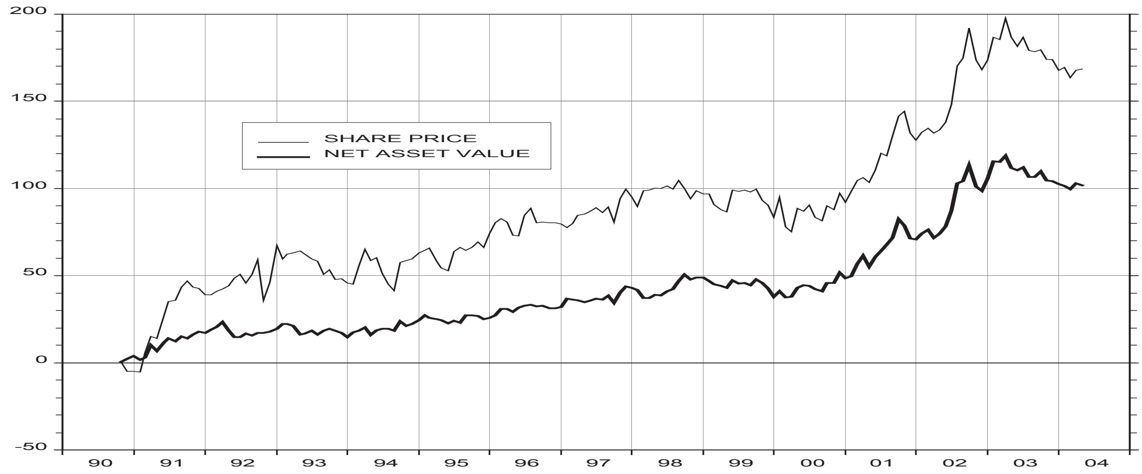
### SHARE PRICE AND NET ASSET VALUE PER SHARE IN POUNDS




### SHARE PRICE (DISCOUNT)/PREMIUM TO NET ASSET VALUE




### PERFORMANCE RELATIVE TO FTSE ALL-SHARE




Source: DATASTREAM

# About Personal Assets

## Objective and Investment Policy

Personal Assets is an investment trust run expressly for private investors. Its capital structure is the simplest possible for an investment trust, consisting only of ordinary shares. Its investment policy is to protect and increase the value of shareholders' funds over the long term and to earn as high a total return as possible at a risk not significantly greater than that of investing in our benchmark index, the FTSE All-Share. Since Personal Assets invests for the long term, the Board assesses performance not annually at the end of each accounting year but over rolling three-year periods. For further information about the Company, see pages 9 and 10.

## Dividend Policy

We aim to pay as high, secure and sustainable a dividend as is compatible with maintaining our investment flexibility. We intend the present dividend rate to grow at least in line with inflation and it is our policy never to cut the dividend rate, so shareholders know that each half-yearly payment will at least equal the previous one. Personal Assets also has a substantial Revenue Reserve. This currently stands at £4.57 per share, nearly one and a half times the present dividend rate, and would enable us to adhere to our dividend policy even if we thought it right to hold a portfolio with a much lower average yield than at present.

## Management

Personal Assets is run by its Board. The Directors and their families together hold shares in the Company worth £10.8 million. Those who manage Personal Assets therefore have a community of interest with those who invest in it.

## Service to Shareholders

The Board regards Personal Assets as being in business primarily to provide the best service it can to its shareholders, whom we envisage as being private investors who either have a substantial amount of capital or expect to build it out of income. This objective is reflected in our zero-charge Investment Plans and in the Quarterly Reports we send to shareholders

## Investment Plans

The Board aims to provide tax-efficient and cost-effective ways for shareholders to invest in the Company. Since we assume that a typical shareholder will pay Income Tax at 40% and will also be exposed to Capital Gains Tax, we offer a zero-charge ISA in which £7,000 (the maximum permitted, which we presume a typical shareholder will want to invest) can be invested in tax year 2004-05. We also offer zero-charge lump sum investment, ISA/PEP transfer and share selling facilities. Further details of our range of Investment Plans can be found on page 12.

## Cost-Efficient Investment

The Company's Investment Plans have been devised so as to offer investors a way of buying or selling shares in Personal Assets usually within the bid/offer spread.

## Discount Policy

Investment trusts have long suffered from high and volatile discounts to net asset value ("NAV"). Because of this, the Board's policy is to ensure that the shares of Personal Assets always trade at close to NAV. Each year we seek authority from shareholders to allot new shares, to buy back for cancellation up to 14.99% of our share capital, and (from this year) to hold shares in Treasury for re-sale. If need be, we will ask shareholders to renew this authority at other times during the year.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Robert White (Chairman)
Robin Angus
Hamish Buchan
Martin Hamilton-Sharp
Gordon Neilly
Ian Rushbrook

## SECRETARIAT

Gordon Hay Smith *(Secretary)*
Steven Davidson
ISIS Asset Management plc
80 George Street
Edinburgh EH2 3BU
Telephone: 0131 465 1000

## INVESTMENT MANAGEMENT

Ian Rushbrook *(Managing Director)*
Robin Angus *(Executive Director)*
Steven Budge *(Management and Dealing)*
10 St Colme Street
Edinburgh EH3 6AA
Telephone: 0131 225 9995

## REGISTRARS

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Telephone: 0870 601 5366

## PEP/ISA ADMINISTRATORS

Halifax Share Dealing Limited
Trinity Road
Halifax HX1 2RG
Telephone: 0845 850 0181

## INVESTMENT PLAN ADMINISTRATORS

Lloyds TSB Registrars Scotland
PO Box 28506
Finance House
Orchard Brae
Edinburgh EH4 1XZ
Telephone: 0870 606 0268

## CUSTODIAN BANKERS

JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

## STOCKBROKERS

Cazenove & Co
20 Moorgate
London EC2R 6DA

## SOLICITORS

Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

## AUDITORS

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

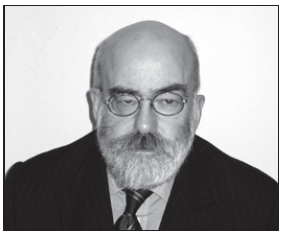
## REGISTERED OFFICE

80 George Street
Edinburgh EH2 3BU
Telephone: 0131 465 1000

# BOARD OF DIRECTORS

**Bobby White** (68) has been a director of Personal Assets since 1994 and was elected Chairman later that year. After qualifying as a chartered accountant he spent his working life in stockbroking. He was for many years a partner in Wood Mackenzie and later, following ownership changes, was a director of Robert White & Company and Bell Lawrie White.

**Robin Angus** (51) has worked in the investment trust sector since 1977 and has been a director of Personal Assets since 1984 (Executive Director since 2003). He trained as an investment trust manager at Baillie, Gifford & Co and was for 17 years an investment trust analyst at NatWest Securities and its predecessor firms. Also a director of Collective Assets, he works with Ian Rushbrook at Personal Assets' office in Edinburgh.



**Hamish Buchan** (59) joined the Board in 2001. Formerly Chairman (Scotland) of NatWest Securities, he has worked in the investment trust sector since 1969 and headed the award-winning Wood Mackenzie (later, NatWest Securities) investment trust research team for many years. A director of several other investment trusts, including Collective Assets, he is a Deputy Chairman of the Association of Investment Trust Companies.

**Martin Hamilton-Sharp** (61) has been a director since 1990 and is also a director of Collective Assets. For over 20 years he was responsible for managing Equitable Life Assurance Society's substantial investment trust portfolio. He later served as a director of Jupiter Asset Management and is also a director of a number of other investment trusts.

**Gordon Neilly** (43), Chief Executive of Intelli Corporate Finance, was previously Finance and Business Development Director of Ivory & Sime (a predecessor company of ISIS Asset Management). Company Secretary of Personal Assets for 10 years, he then joined the Board in 1997 and has considerable experience and knowledge of investment trusts.

**Ian Rushbrook** (64) has been responsible for the successful management of investment trusts for over 30 years and joined the Board of Personal Assets as Investment Director in 1990 (Managing Director since 2004). A former Deputy Chairman of Ivory & Sime (a predecessor company of ISIS Asset Management, which supplies secretarial and administrative services to Personal Assets), he is also Managing Director of Collective Assets.

# CHAIRMAN'S STATEMENT

This has not been an easy year for those who, like us, continue to hold a bearish view of the world's major markets. Following last year's remarkable 22% outperformance, this year our net asset value per share underperformed our benchmark, the FTSE All-Share Index, for the first time since 1994. The Board, however, measures performance over rolling three year periods and I am glad to report that over the period since 30 April 2001 we outperformed our benchmark by 30.2%. This is equivalent to a rate of outperformance of 9.2% each year.

In each of the previous three years I announced a significant outperformance of our benchmark while noting that shareholders had got no richer. This year, the opposite is true. Although we underperformed our benchmark, our shares rose in price from £193¾ to £214½, within £5 of their all-time record high. On the facing page, Ian Rushbrook sets out his reasons for believing that major stock markets are still substantially overvalued. It is a compelling case; but there are many who continue to cherish the illusion that we are in a bull market, so we recognise that reality may not be quickly reflected in share prices. I am therefore pleased to record that our dividend has been increased by 6.9%, a figure even more amply than usual in excess of the rate of inflation.

(You will notice that Ian Rushbrook's title has changed from Investment Director to Managing Director, which the Board believes to be a more accurate description of his rôle.)

Particularly against the background of a weak dollar, we are often asked about our exposure to that currency by those who see the large investments we have in US Treasury stocks. Let me take this opportunity to assure you that these investments are fully hedged against sterling at the time of purchase to eliminate the currency risk. Our US equity holdings are also hedged as to capital. As the income from them is immaterial, it is not worth our while hedging it.

Our zero charge Investment Plans have again attracted substantial new money (nearly £17 million this year). Since the government tirelessly warns us that those wishing a long and comfortable retirement must now make significant additional provision for themselves, it is less than obvious why, in addition to the loss of the 10% tax credit on dividends, the maximum amount which it will be permissible to invest in an ISA in 2006 is to be reduced to £5,000. (Even if such a change did have to be made, many would have appreciated the selection of a figure divisible by 12.) We are pleased to be able to tell holders and prospective purchasers of our Investment Plans that we are now able to offer a twice weekly dealing service whereas previously it was only weekly.

"Slick Willie" Sutton, the US bank robber of yesteryear, was allegedly asked why he always robbed banks. *"Because that is where the money is,"* was his rational reply. So it is with the City, which has also always harboured a few unsavoury characters. Sad to say, the consequence of this for the 99% plus who lead upright lives is the burgeoning of regulation and compliance. This has become an industry in itself, the costs of which are colossal. Yet again we have had to expand our Annual Report to comply with it; and next year it will have to be expanded even more. We should all, I think, feel warmer towards such regulation if we felt it were likely to stop the crooks in their tracks. Alas! Most of the evidence points in the other direction.

Two changes of relevance to the investment trust sector were announced in the past year. Since December 2003 trusts have been allowed to buy their own shares and hold them in Treasury, to be reissued as appropriate. This may be modestly useful to us as an alternative to buying-in shares for cancellation. From October 2006, international accounting rules will require us to value our portfolio on a bid price as opposed to a mid-market price basis. This will barely affect us, our portfolio being invested mainly in market leaders. The effect will be more noticeable on trusts specialising in smaller companies, where the spread between bid and offer is often quite large.

Chairman

# MANAGING DIRECTOR'S REPORT

The year to 30 April 2004 turned out to be (at least for me) a period of surprising strength for equities in both the UK and the USA. The FTSE All-Share Index, our benchmark, rose by 18.3% and the S&P Composite Index gained 21.4% (albeit only 8.6% in sterling terms). As mentioned by the Chairman, over the last *three* years (which the Board believes to be an appropriate period for assessing performance) our net asset value per share ("NAV") outperformed by 30.2%. Although our NAV grew by 12.8% last year, it lagged our benchmark by 4.6%.

Such a spell of underperformance had to occur eventually. As I wrote in 2003, *'Caution is needed following a remarkable year of outperformance. If shareholders think we will get it right all the time, they are wrong.'* Our underperformance was caused partly by the recent strong run in small companies (in which we are under-represented, because we see them as being usually more time-consuming and less attractive than larger companies) but mainly by our liquidity. Indeed, given our liquidity of 26% at 30 April 2003 and 31% at 30 April 2004 it is surprising that we did not underperform by even more. In our view, we have not seen the start of a bull market. Equities are far too expensive for that. At 30 April 2004 the UK equity market as measured by the FTSE All-Share yielded 3.1% and sold at a price to earnings ratio ("P/E") of nearly 18 times. At 30 September 1987 valuations were similar — a yield of 3.0% and a P/E of 18.8 times. *Only three weeks later came the Crash of 1987.* Here I could make my argument sound more scientific by discoursing at length about the equity risk premium. For the sake of simplicity, however, Robin has told me to stick to dividend yield as a rough surrogate. Five times in the last 40 years the dividend yield on UK equities has fallen below 3.2%: December 1968, January 1972, May 1987, September 1997 and, most recently, in October 2003. The subsequent falls from the first four of these dates were 24%, 67%, 28% and 29% respectively. Robin and I wait with bated breath to see if history will repeat itself.

US equities are even more overvalued. True, at 30 April 2004 the Dow Jones Industrials Index stood at 10,225.60 — 12.8% below its January 2000 all-time high of 11,722.98. Yet since 1881 US stock market valuations have been as high as they are today only twice: at their 2000 peak and before the Great Crash of 1929. The current P/E of US stocks is roughly twice its long-term average. Even the more sophisticated cyclically adjusted P/E is more than 70% above its mean. Since stock market valuations tend over the long term to revert to the mean, it takes courage to see the current level (caused by an inflated money supply and low interest rates) as a buy signal. Expectations are far too high. The *'inflation illusion'*, whereby investors extrapolate past nominal growth rates without adjusting them for changes in inflation, remains far too powerful. A recent survey showed that UK investors, on average, expected a long-term growth rate of company earnings of nearly 12% — far higher than any likely rate of GDP growth, on which the profits growth of the corporate sector inevitably depends.

Low inflation coupled with real rates of return available on cash deposits means there is now no penalty in holding cash, other than the opportunity cost of missing a temporary and ill-founded equity market rise. In this context it is surprising to hear people wondering about Warren Buffett's next big idea. Everyone seems to have missed it — liquidity, held in any currency other than the dollar!

While my job title has changed from Investment Director to Managing Director, my job itself remains the same — to protect and increase the value of shareholders' funds over the long term and to earn as high a total return as possible at a risk not significantly greater than that of investing in the FTSE All-Share Index. Shareholders sometimes disagree about how I should set about this. For instance, many of your letters or inquiries stress the supreme importance of stocks and stock selection. I do not agree. Stock selection is trying to outperform the market from within, and takes no account of whether the market as a whole is overvalued or undervalued. It is our use of gearing or liquidity that will have a greater influence on whether we succeed in outperforming the FTSE All-Share. As I wrote last year, *'We view our level of liquidity or gearing as probably the most fundamental decision we have to make on behalf of the shareholders of Personal Assets.'*

# MANAGING DIRECTOR'S REPORT *(CONT'D)*

After the February 2004 Quarterly a shareholder wrote: *"I am not convinced by arguments that P/Es should be higher and yields lower because inflation is lower."* Agreed. If inflation is to be lower and more stable, equity valuations should actually be ***lower*** than historic averages. While many investment management groups still take the view that, as equity investors, their appropriate equity exposure is between 100% and 130% achieved through the use of gearing, we believe that to be fully invested in equities is no longer the one-way bet it used to be.

This is why the Board places such stress on our use of liquidity. As shareholders know, we manage our liquidity level by using FTSE 100 Futures. They are an excellent way to gain market exposure over a certain period (exposure which can then be rolled over repeatedly at no extra cost) without incurring the extra risk and expense of dealing in individual stocks. £10 million of FTSE 100 Futures gives us just as effective an exposure to equities as £10 million worth of actual shares, but in a much quicker, more convenient, more cost-effective way. FTSE 100 Futures are not (as some shareholders seem to think) a substitute for equity exposure. They *are* equity exposure. They also enable us to manage our liquidity *actively*. We monitor our liquidity continually, altering the number of FTSE 100 Futures contracts if we so decide. Sometimes (as in recent months) we may want to increase our exposure to the market without buying individual stocks. Using FTSE 100 Futures lets us do so while at the same time enabling us to keep market and stock decisions separate.

We started the year with liquidity of around 26%. This was dramatically lower than our peak of 60%, which we had held when the FTSE 100 was around 5,500. As the FTSE 100 fell from 5,500 to below 3,500, we reduced our liquidity in pre-planned stages to last April's 25%. This did not, however, mean that we had become less pessimistic about equities. It just meant that we expected the bear market rally that we have experienced, and did not want to be wholly caught out by it. As I write, the FTSE 100, at slightly below 4,500, is between those levels I mentioned earlier — in our view, considerably overvalued. Our current level of liquidity, at 31% some five points higher than it was at the start of the year, shows the direction in which our thoughts are moving.

Despite our emphasis on a view of the market as a whole, we also take decisions at the stock and sector level. As will be seen from the portfolio comparisons on page 13, we did buy stocks during the year. This was to alter our sector balance *vs* our benchmark; and despite our overall liquidity, our exposure to the banks and oils exceeds that of the FTSE All-Share. Historically, Personal Assets has paid great attention to sector selection (you may remember how our holdings in fund management companies contributed a great deal to our performance in the 1990s) and today our preferred sectors are banks (well suited to a low inflation environment) and oils (the oil price has been rising strongly).

Last year I wrote: *'Likely future selling from life and pension funds and the lack of any apparent demand from other equity investors suggests that the UK equity market still has further to fall.'* This was borne out by Standard Life's January 2004 sale of £7.5 billion of equities. Bull markets famously climb a wall of worry. So do bear market rallies of the kind recently experienced. All seemed set fair during the first two months of 2004, until the Madrid bombings reminded investors just how uncertain are the times we live in. Such unforeseen events are bad enough if shares are intrinsically undervalued. If shares are intrinsically expensive, they can be disastrous — and by a kind of chain reaction they can bring to the surface underlying worries about market valuations. Other Madrid-type outrages, were these to occur, could further expose markets' vulnerability.

To conclude on a more optimistic note, gearing and liquidity — so prominent in this report — are not separate decisions but a continuum. Just because shareholders have got so used to seeing us substantially liquid, it is important to keep in mind that if it seemed right we would use FTSE 100 Futures not just to reduce liquidity but to become substantially geared. Roll on the day!

Managing Director

# The Board's Policies for Personal Assets

## The Management of Personal Assets

The day-to-day management of the portfolio is the responsibility of Ian Rushbrook, the Managing Director. Robin Angus works alongside Ian as an Executive Director and they meet weekly with the Chairman and with other Directors. The Board takes all major decisions collectively.

## The Board's Investment Philosophy

The way we invest is determined not by abstract theory but by our practical objectives as these are described in *About Personal Assets*, on page 3. Personal Assets has no policy restrictions to interfere with the investment management process. Furthermore, since it is owned almost entirely by individuals it need not take account of the differing and at times conflicting objectives of the investing institutions. We distrust all investment theories, processes and 'styles', trying instead to be prudent and flexible and to use our common sense.

## The Board's Investment Principles

Although we have no policy restrictions or investment specialisation we do have certain principles for making investment decisions. The most important of these are as follows.

- **Investment Decisions that make a Difference.** In managing Personal Assets we concentrate on decisions that will have an appreciable effect on our net asset value per share. First in order of importance come decisions about the attractiveness or otherwise (relative to cash) of the markets in which we invest and about the sectors we favour within equity markets. Stock selection complements these decisions. Because of our belief in decisions that "make a difference", our preferred practice (although there will always be exceptions to this) is not to buy a quantity of securities worth less than 2% of shareholders' funds at the time the investment is made, or to use derivatives *(see below)* to reduce or increase our equity exposure by less than a similar amount.
- **Stable, Long-Term Investing.** High turnover costs money. It also wastes opportunity, since good investment decisions (in particular, those taken for long-term strategic reasons) often take time to come to fruition. One of an investment manager's greatest temptations is to take a profit on a good investment decision too early. Another is to feel one must be constantly justifying one's existence by *'doing something'*. We resist these temptations.
- **International Diversification to reduce Risk.** Most of our shareholders are UK residents or expatriates whose personal liabilities are denominated mainly in Sterling and who may also (we assume) have invested a significant proportion of their net worth in the Company. Their need to match their long-term Sterling liabilities with Sterling assets suggests it is prudent for our portfolio to have a high Sterling content. Some international diversification will at times be desirable in order to reduce risk. We start by recognising that the UK equity market is in itself much more diversified than most other equity markets, the companies in the FTSE 100 deriving (in total) some 40% of their profits from overseas. Even if we held only FTSE 100 stocks in our portfolio, therefore, we would still be substantially diversified internationally. Depending on circumstances, however, Personal Assets may want to increase this diversification by holding in addition overseas investments directly. A suitable overseas, or non-Sterling, risk exposure for Personal Assets might be as high as 40% of total assets or as low as zero.
- **Recognising our Limitations.** We cannot satisfy the needs of all investors. Our aim is to serve the needs of Sterling-based equity investors (including decisions about gearing and liquidity). Accordingly, shareholders who want a stake in specialised investment areas either in the UK or overseas should look for it elsewhere, over and above their holdings in Personal Assets.

- **Gearing and Liquidity.** Our starting point is that Personal Assets is an equity investor and so in normal circumstances the Board would expect Personal Assets to maintain a fully invested portfolio. In practice, however, circumstances much of the time are not *'normal'*. For instance, Personal Assets has for several years not been fully invested, because the Board has considered that equity markets have been seriously overvalued. The Board believes in the active, although always carefully considered, use of both gearing and liquidity in investment management. When markets look particularly attractive and we want to increase our equity exposure to more than 100% of shareholders' funds, we may do so using either borrowed funds or *(more likely)* derivatives such as FTSE 100 Futures. When we believe markets to be overvalued, we may either hold part of our resources in cash or short-term fixed-interest securities, or use such derivatives as a way of reducing our equity exposure.
- **Fixed-Interest Securities.** Personal Assets may from time to time hold fixed interest securities rather than holding cash on deposit or using derivatives. It is not tax-efficient for Personal Assets to hold fixed-interest gilts for capital gain and so it does not do so. This does not, however, apply to the preference shares of UK companies or to foreign fixed-interest securities.
- **Currencies.** If a foreign currency in which we hold equity, fixed interest or other investments (at present this is only the US Dollar) looks overvalued we sell forward all our exposure to it, to lock in gains and protect the Sterling value of our foreign investments.
- **Unlisted Investments.** The Board believes that for a trust like Personal Assets, investing in unlisteds takes more time and energy than it is worth. Therefore we don't.
- **Use of other Investment Trusts.** Personal Assets may invest from time to time in other investment trusts when doing so would help us achieve our desired investment exposures. Investment trusts are public limited companies like any other and investing in them can be both efficient and rewarding. Sometimes they sell at discounts which make them look attractive compared to other equities. In addition, if we felt confident about the attractions of an area in which we lacked expertise we would buy shares in other investment trusts which provided the exposure we wanted. In the light of the changes to the London Stock Exchange Listing Rules for investment trusts which became effective in November 2003, however, it should be placed on record here that Personal Assets has a policy of not investing more than 15% of its gross assets in other listed investment companies (including investment trusts).
- **The Importance of a Sustainable and Predictable Dividend.** Personal Assets has never been, and is unlikely ever to be, a high-income investment trust. Nevertheless, our dividend has more than trebled since Personal Assets became independently managed in 1990 and we regard it as important to pay a secure and growing dividend upon which shareholders can rely. We pay two dividends a year, and it is our policy never to pay a dividend which is lower than the last one. Shareholders can therefore be sure that each half-yearly payment will at least equal the previous one and so can work out the minimum current annual dividend rate by doubling the last dividend payment.
- **The Importance of our Revenue Reserve.** Personal Assets has an advantage over many investment trusts in that it has a substantial Revenue Reserve. As mentioned on page 3, our Revenue Reserve currently stands at nearly one and a half times the present dividend rate. This gives us the ability to adhere to our dividend policy if we thought it right to hold a portfolio with a much lower average yield than at present, and so in normal circumstances it is our policy to maintain and, when possible, to augment our revenue reserve against this eventuality.

# INVESTMENT TRUSTS FOR INDIVIDUAL INVESTORS

## ADVANTAGES OF INVESTING THROUGH INVESTMENT TRUSTS

Many years of experience have convinced the Board that higher-rate taxpayers or people who have substantial capital can derive considerable advantages from investing through investment trusts rather than managing their own portfolios directly or through a financial adviser — a subject discussed in detail in Quarterlies Nos. 27-29, copies of which are still available from the Company Secretary at the address on page 4.

- **Professional Management/Board Accountability.** Private investors usually lack the time and specialist expertise to devote their full attention to their investment portfolios. ***Investment trusts offer them the benefit of full-time, professional portfolio management***, while the direct relationship between the shareholders and the Board of Directors whom they elect (and who are responsible for performance) ensures accountability for investment decisions.
- **Tax Efficiency: Income.** Investors managing their portfolios directly or through an adviser cannot offset against their taxable income the investment management and administration costs they incur. Nor can they offset the interest paid on borrowings for equity investment purposes. ***Investment trusts can offset all such costs against their taxable income.***
- **Tax Efficiency: Capital** *and* **Purity of Investment Decisions.** Higher-rate taxpayers are taxed at their top rate of Income Tax (currently 40%) on all realised capital gains in excess of £8,200 per annum. Higher-rate taxpayers managing their portfolio themselves or through professional advisers will therefore find themselves either paying Capital Gains Tax or being forced into unsuitable, tax-driven investment decisions. Investment trusts, however, are wholly free of Capital Gains Tax on gains realised within their portfolios. ***Investment trusts can therefore buy and sell investments as they choose on investment grounds alone.***

## ADVANTAGES OF INVESTING THROUGH ISAS

On 6 April 1999 the Government replaced Personal Equity Plans (“PEPs”) with Individual Savings Accounts (“ISAs”). Personal Assets accordingly established a zero-charge ISA in succession to its zero-charge PEP. By 30 April 2004 1,137 account holders held Personal Assets ISAs worth a total of £16 million, representing 11.7% of the Company’s shares in issue. At the same date, Personal Assets’ ISAs, PEPs and Investment Plans were valued in total at £62 million and represented 45.0% of the Company’s shares in issue.

Full details of the Personal Assets ISA may be obtained from the Company Secretary at the address on page 4. The following points, which may be of special interest to shareholders of Personal Assets, are set out here for information only.

- In each of tax years 2004/05 and 2005/06 shareholders will be able to invest £7,000 in a Personal Assets ISA. This may be done by way of a lump sum or by monthly direct debit. For tax year 2006/07 and after, the limit will fall to £5,000 — unless ‘Culpability’ Brown changes his mind yet again . . .
- A Personal Assets ISA consists solely of shares of Personal Assets. All the running costs are borne by the Company and ***there are no charges to investors***.
- Investments held in an ISA are free of Capital Gains Tax.
- In 1999, when ISAs were launched, the Government announced that it intended the scheme to last for an initial ten years. There will be a review of the scheme after the first seven years, to decide on any changes to be made when the first ten years expire in 2009.
- Existing PEPs were unaffected by the launch of ISAs and retain their tax-free status.

# WAYS OF INVESTING IN PERSONAL ASSETS

**Steven Budge** *(left)* assists Ian Rushbrook and Robin Angus in the day to day management of Personal Assets. **Gordon Hay Smith** *(middle)* is Company Secretary and is assisted by **Steven Davidson** *(right)*. All of them will be pleased to provide information to shareholders as requested. Their telephone numbers and addresses can be found on page 4 of this Report.

The shares of Personal Assets are listed on the Official List and traded on the London Stock Exchange and private investors can buy or sell shares by placing an order either directly with a stockbroker or through an Independent Financial Adviser. Alternatively, investments can be made through the Company's **Individual Savings Account ("ISA")**, **Single Investment Plan** or **Monthly Investment Plan**. Details of these can be obtained from any of the above.

The Board believes investment costs for shareholders should be kept as low as possible. **No charges are therefore made by Personal Assets to shareholders using these investment plans**.

## THE PERSONAL ASSETS ISA

The Personal Assets zero-charge Individual Savings Account ("ISA") consists solely of Personal Assets shares and all cash (whether from subscriptions or dividends) is invested in the Company's shares on the earliest dealing day. Dealing days are Wednesday and Friday of each week. Subscribers must invest the maximum amount permissible in each year. Subscriptions may be made either by lump sum or by monthly direct debit. The current rate of monthly direct debit is £580 together with an initial payment sufficient to make up the ISA to the full £7,000.

## TRANSFER OF OTHER PEPS/ISAS INTO THE PERSONAL ASSETS PEP/ISA

Transfers may be made into the Personal Assets PEP/ISA of PEPs/ISAs currently managed by other managers. Details are available from any of those named above.

## THE PERSONAL ASSETS SINGLE INVESTMENT PLAN

The Personal Assets Single Investment Plan accepts lump sums for investment in the Company's shares, the minimum being £5,000. There is no maximum. As in all Personal Assets investment plans, dividends are automatically reinvested. However, investors who want to invest £5,000 or more but to receive dividends directly can elect in their application form to have their shares transferred to the main Share Register immediately after buying them through the Plan.

## THE PERSONAL ASSETS MONTHLY INVESTMENT PLAN

The Personal Assets Monthly Investment Plan is available by direct debit only. It has a minimum subscription level of £500 per month.

## DISPOSAL OF SHAREHOLDINGS

Holders of Personal Assets may sell their shares without incurring any stockbroking costs. Details are available from any of the above.

# PORTFOLIO COMPARISONS FOR THE YEAR TO 30 APRIL 2004

| COMPANY | 30 April 2004 £'000 | Purchases/ (Sales) £'000 | 30 April 2003 £'000 | Business Activities of Companies |
|---|---|---|---|---|
| Royal Bank of Scotland | £8,550 | £4,371 | £3,714 | Banking and related financial services |
| BP | £7,118 | £2,524 | £3,449 | International oil and energy |
| HBOS | £6,392 | £2,980 | £3,335 | Banking and related financial services |
| Shell Transport & Trading | £5,096 | £2,874 | £2,099 | International oil and energy |
| Barclays | £4,983 | £2,842 | £1,815 | Banking and related financial services |
| GlaxoSmithKline | £4,318 | – | £4,640 | Pharmaceuticals |
| Scottish & Newcastle | £3,368 | – | £2,931 | Brewing, retail and leisure |
| BT Group | £2,142 | £942 | £1,246 | Telecommunications |
| Rentokil Initial | £1,880 | – | £1,870 | Environmental and property services |
| British Assets Trust | £1,530 | – | £1,399 | International general investment trust |
| Foreign & Colonial Inv Trust | £1,372 | – | £1,239 | International general investment trust |
| Scottish Investment Trust | £1,124 | – | £1,008 | International general investment trust |
| Platinum Investment Trust | £785 | (£508) | £752 | UK smaller companies investment trust |
| BAE Systems | £577 | – | £349 | Aerospace and defence |
| Advance UK Trust | £504 | – | £348 | UK investment trust of investment trusts |
| ISIS UK Select Trust | £423 | – | £306 | UK growth investment trust |
| SMG | £354 | – | £242 | Central Scotland TV broadcaster, newspapers |
| Other UK Equities | £93 | (£243) | £321 | |
| Exposure to FTSE 100 Future | £38,251 | (£11,008) | £43,225 | |
| **UK EQUITY EXPOSURE** | **£88,860** | **£4,774** | **£74,288** | |
| Altria Group | £1,249 | – | £769 | Tobacco, brewing, soft drinks, packaged foods |
| Dover Corp | £1,128 | – | £899 | Elevators and general engineering products |
| Bristol-Myers Squibb | £610 | – | £689 | Pharmaceuticals |
| Actuant Corp | £554 | – | £334 | Tools, supplies and engineered solutions |
| Other USA Equities | £10 | – | £25 | |
| **USA EQUITY EXPOSURE** | **£3,551** | **–** | **£2,716** | |
| **TOTAL EQUITY EXPOSURE** | **£92,411** | **£4,774** | **£77,004** | |

| | | | |
|---|---|---|---|
| **LIQUIDITY** | | | |
| US Treasury Strip 0% 15/05/04 | £54,673 | | |
| US Treasury Strip 0% 15/08/04 | £18,405 | | |
| Standard Life Sterling Fund | £5,073 | | |
| Net Current Assets | £1,894 | | |
| Liability to FTSE 100 Future | (£37,686) | | |
| **NET LIQUIDITY** | **£42,359** | | **£27,320** |
| **SHAREHOLDERS' FUNDS** | **£134,770** | | **£104,324** |

| COMPARATIVE VALUES | 30 April 2004 | % change over year | 30 April 2003 |
|---|---|---|---|
| **SHARE PRICE** | **£214.50** | **10.7** | **£193.75** |
| **NET ASSET VALUE/SHARE** | **£210.17** | **12.8** | **£186.32** |
| **FTSE ALL-SHARE INDEX** | **2,237.34** | **18.3** | **1,891.50** |

# RECORD 1983-2004

| Date 30 April | Shareholders' funds £'000 | Net asset value per share | Share price | Earnings per share | Dividend per share |
|---|---|---|---|---|---|
| Launch | | | | | |
| September **1983** | 5,397 | £36.15 | £22 | | |
| **1984** | 4,797 | £32.13 | £30 | £0.43 | £0.40 |
| **1985** | 6,011 | £40.26 | £39 | £0.21 | £0.20 |
| **1986** | 6,988 | £46.80 | £40 | £0.38 | £0.35 |
| **1987** | 9,168 | £61.40 | £54 | £0.61 | £0.50 |
| **1988** | 8,283 | £55.47 | £44 | £1.12 | £1.00 |
| **1989** | 9,174 | £61.44 | £51 | £1.46 | £1.25(1) |
| (2)**1990** | 8,462 | £56.67 | £39 ½ | £1.09 | £1.00 |
| **1991** | 9,006 | £60.32 | £48 ½ | £1.45 | £1.50 |
| **1992** | 10,589 | £70.92 | £66 | £1.67 | £1.60 |
| **1993** | 11,441 | £75.18 | £81 ½ | £2.52 | £1.80 |
| **1994** | 12,987 | £85.34 | £89 ½ | £2.12 | £1.95 |
| **1995** | 13,939 | £91.59 | £87 | £2.00 | £2.00 |
| **1996** | 19,473 | £115.11 | £118 ½ | £2.90 | £2.20 |
| **1997** | 27,865 | £133.89 | £141 ¼ | £3.01 | £2.30 |
| **1998** | 48,702 | £180.21 | £199 ½ | £3.57 | £2.45 |
| **1999** | 65,200 | £201.26 | £202 ½ | £3.67 | £2.55 |
| **2000** | 73,751 | £199.80 | £202 | £2.98 | £2.62 ½ |
| **2001** | 78,000 | £207.03 | £208 ½ | £3.27 | £2.70 |
| **2002** | 92,430 | £203.38 | £209 ½ | £3.88 | £2.80 |
| **2003** | 104,324 | £186.32 | £193 ¾ | £3.40 | £2.90 |
| **2004** | 134,770 | £210.17 | £214 ½ | £3.98 | £3.10 |

Per share values have been adjusted for the 1 for 100 consolidation of ordinary shares in January 1993.

(1) Includes special dividend of £0.25 per share.

(2) Personal Assets became self managed in 1990.

## INDUSTRIAL AND GEOGRAPHIC ANALYSIS OF EQUITY INVESTMENTS

| Category | UK £'000 | USA £'000 | Total £'000 | % |
|---|---|---|---|---|
| Resources | 12,213 | – | 12,213 | 22.5% |
| General Industrials | 577 | 1,682 | 2,259 | 4.2% |
| Non Cyclical Consumer | 7,756 | 1,869 | 9,625 | 17.8% |
| Cyclical Services | 2,234 | – | 2,234 | 4.1% |
| Non Cyclical Services | 2,142 | – | 2,142 | 4.0% |
| Financials | 25,687 | – | 25,687 | 47.4% |
| Total | 50,609 | 3,551 | 54,160 | 100.0% |
| | 93.4% | 6.6% | 100.0% | |

## RATE OF EXCHANGE TO STERLING

| As at 30 April | 2004 | 2003 |
|---|---|---|
| US Dollar | 1.77335 | 1.59825 |

# Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Accounts of the Company and the Group for the year to 30 April 2004.

### Principal Activity And Status

The Company is an investment company as defined by Section 266 of the Companies Act 1985. It carries on the business of an investment trust and has been approved as such by the Inland Revenue up to 30 April 2003. Subsequently the Company's affairs have been conducted so as to enable it to continue to seek such approval. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

The Company has two wholly owned subsidiaries, both incorporated in Scotland: Personal Assets Investments Limited, an investment company, and The Edinburgh Agency Limited, a consultancy company.

A review of the Company's activities is contained in the Chairman's Statement and the Managing Director's Report.

### Dividend

| | Group £'000 |
|---|---|
| Revenue available for dividends | 2,372 |
| First interim dividend (£1.50 per share) paid on 21 November 2003 | (909) |
| Second interim dividend (£1.60 per share) payable on 28 May 2004 | (1,026) |
| Transfer to Revenue Reserve (£0.68 per share) | 437 |

### Directors' Interests

The Directors who served during the year and their interests in the shares of the Company at 30 April 2004 and 30 April 2003 were as follows:

| Director | Interest | 2004 | 2003 |
|---|---|---|---|
| Robert White (Chairman) | Beneficial | 800 | 800 |
| Robin Angus | Beneficial | 2,300 | 2,250 |
| Hamish Buchan | Beneficial | 204 | 204 |
| Martin Hamilton-Sharp | Beneficial | 1,174 | 1,174 |
| Gordon Neilly | Beneficial | 179 | 179 |
| Ian Rushbrook | Beneficial | 26,500 | 26,500 |

Ian Rushbrook's holding includes 18,100 shares which are owned by Collective Assets Trust plc, a company of which he owns 46% of the issued share capital.

There have been no changes in the above holdings between 30 April 2004 and 20 May 2004.

### Substantial Interests

As at 20 May 2004 the following holdings represented 3% or more of the issued share capital of the Company:

| Substantial Holders | Shares Held | % |
|---|---|---|
| Personal Assets Trust PEP/ISA | 172,530 | 26.8 |
| Personal Assets Trust Investment Plans | 115,898 | 18.0 |
| Collective Assets Trust plc | 18,100 | 2.8 |

## RESOLUTIONS TO BE PROPOSED AT THE ANNUAL GENERAL MEETING

- **ANNUAL REPORT AND ACCOUNTS**

Resolutions 1 and 2 are, respectively, to receive the Annual Report and Accounts for the year to 30 April 2004 and to approve the Directors' Remuneration Report contained therein.

- **DIRECTORS**

Resolution 3 is to re-elect Martin Hamilton-Sharp, who retires by rotation, and Resolutions 4 and 5 are, respectively, to re-elect Ian Rushbrook and Robin Angus, who, as executive Directors, retire annually.

- **AUDITORS**

Resolution 6 is to re-appoint Ernst & Young LLP as auditors.

- **AUTHORITY TO ISSUE SHARES**

In order to meet the continuing demand for shares by the Company's Investment Plans, two Resolutions will be proposed.

Resolution 7 is to authorise the Directors to issue new shares up to an aggregate nominal amount of £3,125,000, being 38.8% of the total issued shares as at 20 May 2004.

Resolution 8 is to enable the Directors to issue such new shares and to re-sell shares from treasury (see Treasury Shares below) up to an aggregate nominal amount of £3,125,000 for cash without first offering such shares to existing shareholders *pro rata* to their existing shareholdings.

If approved by shareholders, the authorities sought by Resolutions 7 and 8 will continue in effect until the Company's Annual General Meeting in 2005.

The Directors issue new shares only when they believe it is advantageous to the Company's shareholders to do so and in no circumstances would such issue of new shares or re-sale of shares from treasury result in a dilution of net asset value per share.

Since the year end the Company has allotted 2,283 Ordinary Shares and there are now 643,536 Ordinary Shares in issue.

- **AUTHORITY TO BUY BACK SHARES**

The Company's current authority to make market purchases of up to 14.99% of the issued Ordinary Shares expires at the end of the Annual General Meeting.

Resolution 9 is to renew the authority for a further period until the Company's Annual General Meeting in 2005. The price paid for shares on exercise of the authority will not be less than the nominal value of £12.50 per share or more than 5% above the average of the middle market quotations of those shares for the five business days before the shares are purchased. The authority, which may be used to buy back shares either for cancellation or to be held in treasury, will be used to purchase shares only if, in the opinion of the Directors, a purchase would be in the best interests of the shareholders as a whole and would result in an increase in the net asset value per share for the remaining shareholders.

- **TREASURY SHARES**

Amendments to the Companies Act 1985 which came into force on 1 December 2003 allow investment trusts acquiring their own shares to hold these shares in treasury for re-sale. The Directors consider that the new rules will give the Company more flexibility in managing its share capital at a lower cost than is involved in cancelling existing shares and then issuing new ones.

Resolutions 8 and 9 would provide the Directors with the authority they need to manage treasury shares.

Any buy-back of shares into treasury and re-sale of shares from treasury will operate within the following limits:

- No more than 10% of the Company's listed shares shall be held in treasury at any time;

- Treasury shares will only be sold at a premium to the net asset value of the shares at the time of sale;
- Treasury shares will not be sold at a discount of more than 10% to the middle market price of the shares at the time of sale; and
- Shares that have been in treasury for twelve months will be cancelled.

- **AMENDMENT TO THE ARTICLES OF ASSOCIATION**

Resolution 10 proposes an amendment to the Articles of Association which is intended to ensure that all Directors (excluding executive Directors, who retire annually) will retire by rotation at least every three years (although, as stated on page 18, this is already the Company's practice).

By Order of the Board

Gordon Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU

20 May 2004

# Corporate Governance

Personal Assets Trust is a self-managed investment trust run by its Board, which takes all major decisions collectively. While two of the Directors, Ian Rushbrook and Robin Angus, have executive duties, all of the Directors regard themselves and one another as equal in the duties and responsibilities they owe to shareholders and accordingly work together as a unitary board within which the Chairman (who is elected by the Directors from among their own number) acts as *primus inter pares*.

The Directors are elected by the shareholders and regard corporate governance and accountability to shareholders as being of the highest importance. They therefore place considerable emphasis on running the Company in the way they believe to be best suited to the successful management of an investment trust on behalf of its shareholders.

The Company complies with the Combined Code on Corporate Governance (the "Code") issued by the Hampel Committee on Corporate Governance in 1998 except where the Directors believe that to do so would not be in the best interests of shareholders. These instances of non-compliance with the Code are explained in the following two paragraphs.

- The Board considers that the setting up of a series of separate Committees to cover certain matters would prevent individual Directors from having a full understanding of the Company. Accordingly, the Board does not consider it appropriate for the Company to have separate Audit, Remuneration or Nomination Committees as recommended by the Code. All matters recommended for delegation to such Committees are considered by the full Board. Any Director with any possible conflict of interest must declare this and, unless specifically requested to remain, leave the meeting prior to discussion and determination of such matters by the other Directors.
- The Board does not consider it appropriate to follow the Code's recommendation that Directors should be appointed for a specified term and believes that subjecting the right of Directors to stand for re-election to the whims of a Nomination Committee would reduce their accountability to shareholders. Nor, as a unitary board, does the Board believe that a senior independent director should be appointed. The Board believes that the Company's Articles of Association, which require that all directors be subject to re-election by rotation at the Annual General Meeting, are a more appropriate basis for ensuring the independence and accountability of the Board.

Directors' fees are determined within the limits set out in the Company's Articles of Association. The present limit is £100,000 in aggregate per annum and the approval of shareholders in a General Meeting would be required to change this limit.

Any new Directors appointed during the year must stand for re-election at the first Annual General Meeting following their appointment. Ian Rushbrook and Robin Angus, the two executive directors, retire annually. All other Directors retire by rotation at least every three years. Other than for the two executive Directors there is no notice period and no provision for compensation on early termination of appointment.

| Director | Date of Appointment | Due date for Re-election |
|---|---|---|
| Robert White (Chairman) | 1 February 1994 | AGM 2006 |
| Robin Angus | 18 May 1984 | AGM 2004 |
| Hamish Buchan | 5 July 2001 | AGM 2005 |
| Martin Hamilton-Sharp | 16 November 1990 | AGM 2004 |
| Gordon Neilly | 30 April 1997 | AGM 2006 |
| Ian Rushbrook | 1 July 1990 | AGM 2004 |

Only the two Directors with executive duties, Ian Rushbrook and Robin Angus, have contracts of service with the Company. All other Directors are considered to be independent in terms of the Code. Details of the service contracts with the two executive Directors, their remuneration, and fees paid to other Directors during the year, are shown in the Directors' Remuneration Report.

Individual Directors may, after having obtained the consent of one other Director, seek independent professional advice at the Company's expense on any matter that concerns the furtherance of their duties.

Voting on corporate resolutions of companies in which the Company invests is a matter for the whole Board. All resolutions on which the Company is entitled to vote are monitored and although normally the Company would vote in favour of all Board resolutions, any contentious matters are referred to the Directors by e-mail for comment. Any Director disagreeing that the Company should cast an affirmative vote informs the Company Secretary and requests that his view be considered by a sub-committee of the Board consisting of any two Directors (not to include the Managing Director unless a quorum would otherwise be unavailable in time). The sub-committee then considers the matter and informs the Director of its conclusion. Should the Director disagree with the sub-committee's conclusion, a full Board meeting is called to consider the matter.

ISIS Asset Management plc ("ISIS") provides secretarial and other corporate services to the Company.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. It has, therefore, established an ongoing process designed to meet the particular needs of the Company, as well as the risks to which it is exposed, and which is consistent with the guidance provided by the Turnbull Committee. Based principally on ISIS's existing risk based system of internal control, this approach seeks to identify two broad categories of risk: inherent, driven by business type; and strategic, driven by business development. These are then used to create a test matrix which identifies the key functions carried out by the Company, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. The test matrix is regularly updated. A formal annual review of these procedures is carried out by the Board, based on the reports from ISIS and other service providers and discussions with the Managing Director and external auditors. Such procedures have been in place throughout the year and up to the date of approval of the accounts. By their nature these procedures are designed to manage rather than eliminate risk and can only provide reasonable, but not absolute, assurance against material mis-statement or loss.

The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by ISIS in the provision of secretarial and other corporate services, including their internal audit function and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets and shareholders' investment, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

The Directors believe that the Group and the Company have adequate resources to continue operating for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the accounts.

The Board has considered the provisions of the new Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003, which is effective for reporting years beginning on or after 1 November 2003. It has also considered the provisions of the recently issued AITC Code of Corporate Governance. It is the Board's intention to amend its corporate governance procedures as considered appropriate during the current financial year.

# DIRECTORS' REMUNERATION REPORT

## POLICY ON DIRECTORS' REMUNERATION

As stated under Corporate Governance on page 18, the Board does not consider it appropriate for the Company to have a separate Remuneration Committee as recommended by the Code. Other than Ian Rushbrook and Robin Angus, all the directors are considered to be independent and all matters recommended for delegation to the Remuneration Committee are considered by the full Board.

The Board's policy is that fees should be sufficient to attract and retain Directors capable of managing the Company on behalf of its shareholders. Directors' fees are reviewed annually.

Other than the two executive Directors, Directors do not have service contracts, but new Directors are provided with a letter of appointment.

No Directors are eligible for pension benefits, share options, long-term incentive schemes or other benefits.

## DIRECTORS' FEES

Following review of the level of Directors' fees for the forthcoming year the Board concluded that the amounts should remain unchanged.

## EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Ian Rushbrook has a rolling twelve month contract of employment, signed in July 1990.

His salary, payable quarterly in advance, is calculated as the residual of 0.2125% per quarter of shareholders' funds after deduction of the secretarial fee to ISIS Asset Management plc, the salary of Robin Angus as an executive Director and the salaries of other employees, the cost of office premises, consultancy fees and any other costs pertaining to the investment management of Personal Assets. In the event of early termination of Ian Rushbrook's contract of employment the Company would be liable to pay due entitlement of money in lieu of notice.

Robin Angus has a rolling twelve month contract of employment. His salary is payable monthly in arrears and is financed as stated above. Therefore no costs would be incurred by the Company in the event of early termination of his contract, for so long as Ian Rushbrook remains Managing Director.

## DIRECTORS' REMUNERATION FOR THE YEAR (AUDITED)

The Directors received remuneration from fees and salaries as follows:

| Director | 2004 | 2003 |
|---|---|---|
| Robert White (Chairman) | £20,000 | £20,000 |
| Robin Angus | £80,000 | £94,000 |
| Hamish Buchan | £10,000 | £10,000 |
| Martin Hamilton-Sharp | £10,000 | £10,000 |
| Gordon Neilly | £10,000 | £10,000 |
| Ian Rushbrook | £796,000* | £630,000* |
| Total | £926,000 | £774,000 |

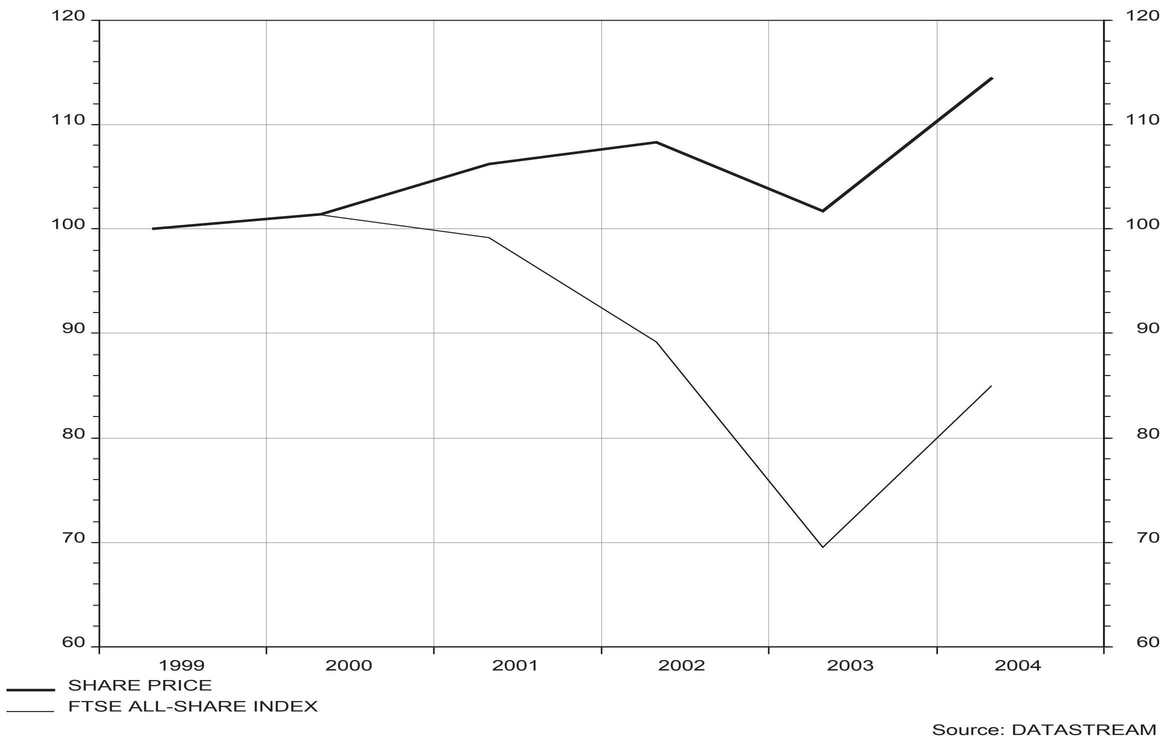
* During the year, an additional amount of £20,000 *(2003: £5,000)* was paid to a partnership of which Ian Rushbrook is senior partner, for the provision of office premises.

# DIRECTORS' REMUNERATION REPORT *(CONT'D)*

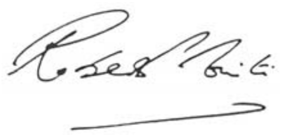
## COMPANY PERFORMANCE

The graph below compares, for the five financial years ended 30 April 2004, the total return (assuming all dividends were reinvested) to ordinary shareholders in each period compared to the total shareholder return on a notional investment in the FTSE All-Share Index. This index represents a comparable broad equity market index and is the Company's benchmark. An explanation of the performance of the Company for the year ended 30 April 2004 is given in the Chairman's Statement and Managing Director's Report.

## SHARE PRICE AND FTSE ALL-SHARE INDEX TOTAL RETURN PERFORMANCE GRAPH




On behalf of the Board



R P White
Director
20 May 2004

# GROUP STATEMENT OF TOTAL RETURN (INCORPORATING THE REVENUE ACCOUNT) FOR THE YEAR TO 30 APRIL 2004

| | | **2004** | | | 2003 | | |
|---|---|---|---|---|---|---|---|
| | | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| | Notes | | | | | | |
| Gains/(losses) on investments | 9 | – | 3,355 | 3,355 | – | (16,776) | (16,776) |
| Gains on derivative arrangements | 11,18 | – | 6,013 | 6,013 | – | 4,214 | 4,214 |
| Exchange differences | 11 | – | 4,393 | 4,393 | – | 4,663 | 4,663 |
| Income | 2 | 3,358 | 12 | 3,370 | 2,588 | 6 | 2,594 |
| Expenses | 3 | (729) | (696) | (1,425) | (672) | (541) | (1,213) |
| **Return on ordinary activities before tax** | | 2,629 | 13,077 | 15,706 | 1,916 | (8,434) | (6,518) |
| Tax on ordinary activities | 5,6 | (257) | 209 | (48) | (210) | 163 | (47) |
| **Return attributable to ordinary shareholders** | 11,13 | 2,372 | 13,286 | 15,658 | 1,706 | (8,271) | (6,565) |
| Dividends in respect of ordinary shares | 7 | (1,935) | – | (1,935) | (1,541) | – | (1,541) |
| Transfer to/(from) reserves | | 437 | 13,286 | 13,723 | 165 | (8,271) | (8,106) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Return per share** | 8 | £3.98 | £22.31 | £26.29 | £3.40 | (£16.48) | (£13.08) |

The revenue column of this statement is the revenue account of the Group.

All revenue and capital items in the above statement derive from continuing operations.

The Accounting Policies on page 25 and the Notes on pages 26 to 33 form part of these accounts

# BALANCE SHEETS
# AT 30 APRIL 2004

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2004** | 2003 | **2004** | 2003 |
| | | **£'000** | £'000 | **£'000** | £'000 |
| | Notes | | | | |
| **Fixed assets** | | | | | |
| Investments | 9 | 132,311 | 86,672 | 132,321 | 87,280 |
| **Current assets** | | | | | |
| Debtors: | | | | | |
| Dividends and deposit interest receivable | | 633 | 483 | 633 | 483 |
| Due from subsidiary | | – | – | 168 | 156 |
| Fees receivable | | – | 4 | – | – |
| FTSE 100 Futures | | 565 | 6,272 | 565 | 6,272 |
| Cash at bank and on deposit | 15,17 | 6,201 | 12,240 | 5,988 | 11,458 |
| | | 7,399 | 18,999 | 7,354 | 18,369 |
| **Creditors: amounts falling due within one year** | | | | | |
| Dividend payable | | (1,026) | (840) | (1,026) | (840) |
| Liability on forward currency contract | | (3,754) | (375) | (3,754) | (375) |
| Tax payable | | (27) | (29) | – | (10) |
| Other creditors | | (133) | (103) | (125) | (100) |
| | | (4,940) | (1,347) | (4,905) | (1,325) |
| **Net current assets** | | 2,459 | 17,652 | 2,449 | 17,044 |
| **Net assets** | | 134,770 | 104,324 | 134,770 | 104,324 |
| **Capital and reserves** | | | | | |
| Called-up share capital | 10 | 8,016 | 6,999 | 8,016 | 6,999 |
| Share premium account | 11 | 62,355 | 46,649 | 62,355 | 46,649 |
| Capital redemption reserve | 11 | 157 | 157 | 157 | 157 |
| Special reserve (distributable) | 11 | 23,588 | 23,588 | 23,588 | 23,588 |
| Capital reserve – realised | 11 | 33,591 | 17,040 | 33,602 | 17,040 |
| Capital reserve – unrealised | 11 | 4,134 | 7,399 | 4,965 | 8,124 |
| Revenue reserve | 11 | 2,929 | 2,492 | 2,087 | 1,767 |
| **Equity shareholders' funds** | 12,13 | 134,770 | 104,324 | 134,770 | 104,324 |
| **Net asset value per share** | 12 | £210.17 | £186.32 | £210.17 | £186.32 |

The accounts on pages 22 to 33 were approved by the Board on 20 May 2004 and were signed on its behalf by:

R P White, Director

R J Angus, Director

The Accounting Policies on page 25 and the Notes on pages 26 to 33 form part of these accounts

# GROUP CASH FLOW STATEMENT
# FOR THE YEAR TO 30 APRIL 2004

| | | Notes | 2004 £'000 | 2003 £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Investment income received | | | 2,509 | 2,176 |
| Deposit interest received | | | 628 | 232 |
| Other income | | | 66 | 96 |
| Expenses | | | (1,389) | (1,183) |
| Net cash inflow from operating activities | | 14 | 1,814 | 1,321 |
| **Taxation** | | | (30) | (113) |
| **Capital expenditure and financial investment** | | | | |
| Purchase of FTSE 100 Futures | | | (12) | (8) |
| Disposal of FTSE 100 Futures | | | 11,730 | (2,050) |
| Purchase of investments | - equity shares | | (16,533) | (775) |
| | - fixed interest securities and other investments | | (121,902) | (78,122) |
| Disposal of investments | - equity shares | | 2,351 | 775 |
| | - fixed interest securities and other investments | | 93,800 | 64,785 |
| Net cash outflow from capital expenditure and financial investment | | | (30,566) | (15,395) |
| **Dividends paid on ordinary shares** | | | (1,749) | (1,338) |
| **Financing** | | | | |
| Allotment of new shares | | | 16,723 | 20,000 |
| **(Decrease)/increase in cash** | | 15 | (13,808) | 4,475 |

The Accounting Policies on page 25 and the Notes on pages 26 to33 form part of these accounts

# NOTES TO THE ACCOUNTS

## 1. ACCOUNTING POLICIES

**Basis of Preparation**

The accounts are prepared under the historic cost convention modified to include revaluation of fixed asset investments and in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.

**Basis of Consolidation**

The Group statement of total return and balance sheet include the accounts of the Company and its subsidiary undertakings made up to 30 April 2004. As permitted by Section 230 of the Companies Act 1985, no statement of total return is presented for the Company.

**Investments**

Quoted investments are valued at middle market prices. Unquoted investments are valued by the Directors on the basis of all the information available to them at the time of valuation. FTSE 100 Future contracts are valued at their quoted market value at the end of the year with resulting unrealised gains or losses shown in the Balance Sheet under net current assets.

**Capital Reserves**

*Capital Reserve – Realised*

Gains and losses on the realisation of investments, gains and losses on the realisation of FTSE 100 Future contracts, realised exchange differences of a capital nature, and returns of capital are accounted for in this reserve, together with the proportion of management fees allocated to capital.

*Capital Reserve – Unrealised*

Increases and decreases in the valuation of investments held at the year end, unrealised gains and losses on FTSE 100 Future contracts and unrealised exchange differences are accounted for in this reserve.

**Income**

Dividends are recognised as income on the date that the related investments are marked ex-dividend. Deposit income and interest from fixed interest securities are recognised on an accruals basis.

**Expenses**

All expenses are accounted for on an accruals basis. Expenses are charged to revenue except those incurred in the maintenance and enhancement of the Company's assets and taking account of the expected long term returns, as follows:

Management expenses have been allocated 35% to revenue and 65% to capital.

**Taxation**

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue as set out in notes 5 and 6 to the accounts. In accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies', the marginal rate of tax is applied to taxable net revenue.

**Foreign Currency**

Transactions denominated in foreign currencies are recorded at the actual exchange rate as at the date of the transaction. Monetary assets denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Forward currency contracts are valued at the year end rates of exchange and resulting gains or losses are offset against the unrealised gains or losses on the related investments.

## 2. INCOME

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| **Income from investments** | | |
| Franked investment income | 1,724 | 1,179 |
| Investment income from fixed interest securities | 377 | 659 |
| Overseas dividends | 573 | 432 |
| | 2,674 | 2,270 |
| **Other income** | | |
| Deposit interest | 628 | 232 |
| Income earned from group undertakings | 56 | 86 |
| **Total income** | 3,358 | 2,588 |
| **Total income comprises** | | |
| Dividends | 2,297 | 1,611 |
| Fixed interest securities | 377 | 659 |
| Other income | 684 | 318 |
| | 3,358 | 2,588 |
| **Income from investments** | | |
| Listed UK | 1,724 | 1,179 |
| Listed overseas | 950 | 1,091 |
| | 2,674 | 2,270 |

Income earned from group undertakings relates to the revenues of the Company's subsidiaries. Further details are set out in Note 20. The Company also received £12,000 *(2003: £6,000)* in respect of returns of capital during the year, which have been credited to capital reserves.

## 3. EXPENSES

| | **2004** | | | 2003 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Management expenses | 375 | 696 | 1,071 | 291 | 541 | 832 |
| Directors' fees | 70 | – | 70 | 70 | – | 70 |
| Auditors' remuneration for: – audit | 11 | – | 11 | 11 | – | 11 |
| – other services | 13 | – | 13 | 15 | – | 15 |
| Other expenses | 260 | – | 260 | 285 | – | 285 |
| | 729 | 696 | 1,425 | 672 | 541 | 1,213 |

## 4. DIRECTORS' FEES AND STAFF COSTS

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Directors' fees and salaries | 926 | 774 |
| Other salaries | 50 | 46 |
| Employers' national insurance | 116 | 97 |
| | 1,092 | 917 |

Excluding the Directors, there was one employee during each of the years ended 30 April 2004 and 30 April 2003.

## 5. TAX ON ORDINARY ACTIVITIES

| | **2004** | | | 2003 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Corporation tax at 30% *(2003: 30%)* | 257 | (209) | 48 | 210 | (163) | 47 |

The Company had no unutilised management expenses at 30 April 2004 *(2003: nil)*.

## 6. FACTORS AFFECTING TAX CHARGE FOR YEAR

The revenue account tax charge for the year is lower than the standard rate of corporation tax in the UK for an investment company (30%). The differences are explained below:

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Return on ordinary activities before taxation | 2,629 | 1,916 |
| Corporation tax at standard rate of 30% | 789 | 575 |
| **Effects of:** | | |
| Franked investment income not subject to taxation | (517) | (354) |
| Corporation tax at rate of 19% | (15) | (11) |
| Current year tax charge (note 5) | 257 | 210 |

## 7. DIVIDENDS

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| First interim: £1.50 *(2003: £1.40)* | 909 | 701 |
| Second interim: £1.60 *(2003: £1.50)* | 1,026 | 840 |
| | 1,935 | 1,541 |

## 8. RETURN PER ORDINARY SHARE

| | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
|---|---|---|---|---|---|---|
| | £3.98 | £22.31 | £26.29 | £3.40 | (£16.48) | (£13.08) |

The revenue return per ordinary share is based on the net revenue from ordinary activities, after taxation, of £2,372,000 *(2003: £1,706,000)*, and on 595,622 *(2003: 501,825)* ordinary shares, being the weighted average number in issue during the year.

The capital return per ordinary share is based on a net capital gain for the financial year of £13,286,000 *(2003: loss of £8,271,000)*, and on 595,622 *(2003: 501,825)* ordinary shares, being the weighted average number in issue during the year.

## 9. INVESTMENTS

| | Group 2004 £'000 | Group 2003 £'000 |
|---|---|---|
| Investments listed on a recognised investment exchange | 132,311 | 86,672 |
| Total investments | 132,311 | 86,672 |

| | Group Listed UK £'000 | Group Listed Overseas £'000 | Group Total £'000 |
|---|---|---|---|
| Opening book cost | 32,756 | 52,409 | 85,165 |
| Opening unrealised (depreciation)/appreciation | (568) | 2,075 | 1,507 |
| Opening valuation | 32,188 | 54,484 | 86,672 |
| **Movements in the year** | | | |
| Purchases at cost | 16,533 | 121,902 | 138,435 |
| Sales – proceeds | (2,351) | (93,800) | (96,151) |
| – realised losses on sales | (1,494) | (967) | (2,461) |
| Increase in unrealised appreciation | 5,733 | 83 | 5,816 |
| Closing valuation | 50,609 | 81,702 | 132,311 |
| Closing book cost | 45,444 | 79,544 | 124,988 |
| Closing unrealised appreciation | 5,165 | 2,158 | 7,323 |
| | 50,609 | 81,702 | 132,311 |

| | Group 2004 £'000 | Group 2003 £'000 |
|---|---|---|
| Equity shares | 54,160 | 33,779 |
| Fixed interest securities | 73,078 | 38,926 |
| Other investments | 5,073 | 12,842 |
| Preference shares | – | 1,125 |
| | 132,311 | 86,672 |

| | | |
|---|---|---|
| Realised losses on sales | (2,461) | (1,991) |
| Increase/(decrease) in unrealised appreciation | 5,816 | (14,785) |
| Gains/(losses) on investments | 3,355 | (16,776) |

Of the realised losses on sales during the year, a net loss of £1,361,000 *(2003: gain £719,000)* was included in unrealised (depreciation)/appreciation at the previous year end.

## 9. INVESTMENTS *(CONT'D)*

| | Company 2004 £'000 | Company 2003 £'000 |
|---|---|---|
| Investments listed on a recognised investment exchange | 131,433 | 86,578 |
| Subsidiary undertakings | 888 | 702 |
| Total investments | 132,321 | 87,280 |

**Company**

| | Listed UK £'000 | Listed overseas £'000 | Unlisted £'000 | Total £'000 |
|---|---|---|---|---|
| Opening book cost | 32,648 | 52,387 | 13 | 85,048 |
| Opening unrealised (depreciation)/appreciation | (529) | 2,072 | 689 | 2,232 |
| Opening valuation | 32,119 | 54,459 | 702 | 87,280 |
| **Movements in the year** | | | | |
| Purchases at cost | 16,533 | 121,118 | – | 137,651 |
| Sales – proceeds | (2,282) | (93,800) | – | (96,082) |
| – realised losses on sales | (1,483) | (967) | – | (2,450) |
| Increase in unrealised appreciation | 5,653 | 83 | 186 | 5,922 |
| Closing valuation | 50,540 | 80,893 | 888 | 132,321 |
| Closing book cost | 45,416 | 78,738 | 13 | 124,167 |
| Closing unrealised appreciation | 5,124 | 2,155 | 875 | 8,154 |
| | 50,540 | 80,893 | 888 | 132,321 |

| | Company 2004 £'000 | Company 2003 £'000 |
|---|---|---|
| Equity shares | 54,970 | 34,387 |
| Fixed interest securities | 73,078 | 38,926 |
| Other investments | 4,273 | 12,842 |
| Preference shares | – | 1,125 |
| | 132,321 | 87,280 |

| | 2004 | 2003 |
|---|---|---|
| Realised losses on sales | (2,450) | (1,991) |
| Increase/(decrease) in unrealised appreciation | 5,922 | (14,702) |
| Gains/(losses) on investments | 3,472 | (16,693) |

Of the realised losses on sales during the year, a net loss of £1,351,000 *(2003: gain £719,000)* was included in unrealised (depreciation)/appreciation at the previous year end.

# NOTES TO THE ACCOUNTS *(CONT'D)*

## 10. CALLED-UP SHARE CAPITAL

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| **Authorised:** | | |
| 1,000,000 *(2003: 1,000,000)* ordinary shares of £12.50 each | 12,500 | 12,500 |

**Allotted, called-up and fully-paid:**

| | |
|---|---|
| 559,925 ordinary shares of £12.50 each at 30 April 2003 | 6,999 |
| Shares issued in respect of allotments | 1,017 |
| 641,253 ordinary shares of £12.50 each at 30 April 2004 | 8,016 |

During the year 81,328 shares were allotted, raising £16,741,000 before issue costs of £18,000.

## 11. RESERVES

| | Share Premium Account £'000 | Capital redemption reserve £'000 | Special reserve £'000 | Capital reserve - realised £'000 | Capital reserve - Unrealised £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| At beginning of year | 46,649 | 157 | 23,588 | 17,040 | 7,399 | 2,492 |
| Exchange differences | – | – | – | 7,769 | (3,376) | – |
| Return of capital | – | – | – | 12 | – | – |
| Net premium from allotment of shares | 15,706 | – | – | – | – | – |
| Net loss on realisation of investments | – | – | – | (2,461) | – | – |
| Gains on FTSE Futures | – | – | – | 11,718 | (5,705) | – |
| Increase in unrealised appreciation | – | – | – | – | 5,816 | – |
| Expenses charged to capital | – | – | – | (696) | – | – |
| Corporation Tax | – | – | – | 209 | – | – |
| Net revenue before dividends | – | – | – | – | – | 2,372 |
| Dividends paid/payable | – | – | – | – | – | (1,935) |
| At end of year | 62,355 | 157 | 23,588 | 33,591 | 4,134 | 2,929 |
| **Company** | | | | | | |
| At beginning of year | 46,649 | 157 | 23,588 | 17,040 | 8,124 | 1,767 |
| Exchange differences | – | – | – | 7,769 | (3,376) | – |
| Return of capital | – | – | – | 12 | – | – |
| Net premium from allotment of shares | 15,706 | – | – | – | – | – |
| Net loss on realisation of investments | – | – | – | (2,450) | – | – |
| Gains on FTSE Futures | – | – | – | 11,718 | (5,705) | – |
| Increase in unrealised appreciation | – | – | – | – | 5,922 | – |
| Expenses charged to capital | – | – | – | (696) | – | – |
| Corporation Tax | – | – | – | 209 | – | – |
| Net revenue before dividends | – | – | – | – | – | 2,255 |
| Dividends paid/payable | – | – | – | – | – | (1,935) |
| At end of year | 62,355 | 157 | 23,588 | 33,602 | 4,965 | 2,087 |

The Capital Redemption Reserve represents the nominal value of ordinary shares bought back by the Company since authority to do this was first obtained at an Extraordinary General Meeting in April 1999. The cost of any shares bought back is deducted from the Special Reserve, which is a distributable reserve and was created from the cancellation of the Share Premium Account, also following the Extraordinary General Meeting in April 1999.

## 12. NET ASSET VALUE PER SHARE

The net asset value per share and the net asset value attributable to the ordinary shares at the year end were as follows:

| | Net asset value per share attributable | | Net asset value Attributable | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£** | £ | **£'000** | £'000 |
| Ordinary shares | 210.17 | 186.32 | 134,770 | 104,324 |

Net asset value per ordinary share is based on net assets shown above and 641,253 *(2003:559,925)* ordinary shares, being the number of ordinary shares in issue at the year end.

## 13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | **2004** | 2003 |
|---|---|---|
| | **£'000** | £'000 |
| Opening shareholders' funds | 104,324 | 92,430 |
| Increase in share capital | 1,017 | 1,318 |
| Premium resulting from allotment of shares | 15,706 | 18,682 |
| Total recognised gains and losses for the year (including net income received) | 15,658 | (6,565) |
| Dividends declared on ordinary shares | (1,935) | (1,541) |
| Closing shareholders' funds | 134,770 | 104,324 |

## 14. RECONCILIATION OF NET REVENUE BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | | |
|---|---|---|
| Net revenue before taxation | 2,629 | 1,916 |
| Tax on investment income | (15) | (19) |
| Management expenses charged to capital | (696) | (541) |
| Return of capital | 12 | 6 |
| Increase in debtors | (146) | (70) |
| Increase in creditors | 30 | 29 |
| Net cash inflow from operating activities | 1,814 | 1,321 |

## 15. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| (Decrease)/increase in cash during the period | (13,808) | 4,475 |
| Effect of foreign exchange rates | 7,769 | 6,442 |
| Change in net funds | (6,039) | 10,917 |
| Net funds at the beginning of the year | 12,240 | 1,323 |
| **Net funds at the end of the year** | 6,201 | 12,240 |

### ANALYSIS OF NET FUNDS

| | | |
|---|---|---|
| Cash at bank and on deposit | 6,201 | 12,240 |

## 16. FINANCIAL INSTRUMENTS

The Group holds investments in listed companies and holds cash balances. The Group may from time to time enter into forward currency contracts. Cash balances are held for future investment and forward currency contracts are used to manage the exchange risk of holding foreign investments. Further information is given in 'The Board's Policies For Personal Assets' on pages 9-10.

The fair value of all financial assets and liabilities is not materially different from the carrying value. Forward currency contracts are valued at current exchange rates.

Short term debtors and creditors are excluded from disclosure, as allowed by FRS13.

## 17. INTEREST RATE RISK

**Floating rate**

When the Group holds cash balances, such balances are held on overnight deposit accounts and call deposit accounts. The benchmark rate which determines the interest payments received on cash balances is the bank base rate, which at 30 April 2004 was 4.00% in the UK *(2003: 3.75%)* and 1.00% in the US *(2003: 1.25%)*.

| Floating interest rate exposure at 30 April: | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Sterling | 6,201 | 12,226 |
| US Dollars | – | 14 |
| | 6,201 | 12,240 |

**Fixed rate and zero rate**

The Group may from time to time hold fixed interest or zero interest investments.

| At 30 April 2004 the Group held: | £'000 | Period to maturity |
|---|---|---|
| 0% US Treasury Strip 15/05/2004 | 54,673 | 15 days |
| 0% US Treasury Strip 15/08/2004 | 18,405 | 107 days |

At 30 April 2003 the Group held:

| | | |
|---|---|---|
| 0% US Treasury Strip 15/08/2003 | 19,342 | 107 days |
| US Treasury Inflation Indexed Bond 3.875% 15/01/2009 | 19,584 | 5.72 years |
| BC Property Securities ZDP 2009 | 1,125 | 6.09 years |

## 18. MARKET PRICE RISK

The management of market price risk is part of the fund management process and is fundamental to equity investment. The portfolio is managed with an awareness of the effects of adverse price movements in the UK equity market with an objective of maximising overall returns to shareholders. The use of derivatives by the Company during the year is detailed in the Managing Directors Report on pages 7-8. These contracts were specifically entered into to reduce the Company's effective liquidity and increase equity exposure to FTSE 100 companies.

## 19. FOREIGN CURRENCY RISK

The Group invests in overseas securities and holds foreign currency cash balances.

Currency exposure at 30 April 2004:

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| **US Dollars** | | |
| Fixed asset investments | 76,629 | 41,627 |
| Cash | – | 14 |
| **Euros** | | |
| Fixed asset investments | – | 3,510 |
| | 76,629 | 45,151 |

At 30 April 2004 the Sterling cost of the US Treasury Strips and US Equity exposure was protected by a forward currency contract. The liability of £3,754,000 *(2003: liability of £375,000)* on the forward currency contract is included in creditors.

## 20. SUBSIDIARY UNDERTAKINGS

As at 30 April 2004, Personal Assets Trust's subsidiary undertakings, which have been consolidated, were as follows:

| **Company** | **Country of Incorporation & Operation** | **Description of shares held** | **% of Class Held** | **% of Equity Held** | **Value 30 April 2004** |
|---|---|---|---|---|---|
| The Edinburgh Agency Ltd | Scotland | Ordinary £1 shares | 100.0 | 100.0 | £641,000 |
| Personal Assets Investments Ltd | Scotland | Ordinary £1 shares | 100.0 | 100.0 | £247,000 |

The Edinburgh Agency Ltd generates revenues from the development of investment ideas. Its revenues for the year to 30 April 2004 amounted to £84,000 (2003: £101,000) and its profits after tax to £60,000 (2003: £82,000).

Personal Assets Investments Ltd undertakes investment activities. Its revenues for the year to 30 April 2004 amounted to £69,000 (2003: £2,000) and its profits after tax to £57,000 (2003: £1,000).

# DIRECTORS' RESPONSIBILITY STATEMENT AND INDEPENDENT AUDITORS' REPORT

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by law to prepare, for each financial period, financial statements which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial period and of the revenue of the Group for that period. They are also responsible for ensuring that adequate accounting records are maintained and for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The financial statements have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied and the Board believes that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements. Applicable United Kingdom accounting standards have been followed.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PERSONAL ASSETS TRUST PLC

We have audited the Group's financial statements for the year ended 30 April 2004, which comprise the Group Statement of Total Return,  Group and Company Balance Sheets, Group Cash Flow Statement and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's Members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Directors' Responsibility Statement in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

# DIRECTORS' RESPONSIBILITY STATEMENT AND INDEPENDENT AUDITORS' REPORT *(CONT'D)*

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Key Features, Performance for 3 years to 30 April 2004, Performance 1990-2004, About Personal Assets, Corporate Information, Board of Directors, Chairman's Statement, Managing Director's Report, The Board's Policies for Personal Assets, Investment Trusts for Individuals, Ways of Investing in Personal Assets, Portfolio Comparisons for the Year to 30 April 2004, Record 1983-2004, Directors' Report, Corporate Governance, Directors' Remuneration Report and Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of Audit Opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 April 2004 and of the net revenue of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

*ERNST & YOUNG LLP*

Registered Auditor, Edinburgh

20 May 2004

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twenty-third Annual General Meeting of Personal Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh, on Thursday 1 July 2004 at 12 noon for the following purposes:

**To consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:**

1. That the Report and Accounts for the year to 30 April 2004 be received.
2. That the Directors' Remuneration Report for the year to 30 April 2004 be approved.
3. That Martin Hamilton-Sharp, who retires by rotation, be re-elected as a Director.
4. That Ian Rushbrook, who retires annually, be re-elected as a Director.
5. That Robin Angus, who retires annually, be re-elected as a Director.
6. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.
7. That the Directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £3,125,000 in substitution for any existing authority under section 80 of the Act but without prejudice to any exercise of any such authority prior to the date hereof, such authority to expire on the earlier of the date of the Company's Annual General Meeting in respect of its financial year ending 30 April 2005 and 31 December 2005, save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry, and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

**To consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions:**

8. That subject to the passing of resolution numbered 7 in the notice of the meeting and in place of all existing powers the Directors be generally empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) for cash, pursuant to the authority conferred by resolution numbered 7 in the notice of the meeting as if section 89(1) of the Act did not apply to the allotment. This power:

   a) expires at the end of the Company's Annual General Meeting in respect of its financial year ending 30 April 2005, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if this power had not expired; and

   b) shall be limited to:

      i) the allotment of equity securities in connection with an issue in favour of holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of ordinary shares, but subject to such exclusions or other arrangements as the Directors deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of a regulatory body or stock exchange; and

      ii) the allotment of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount equal to £3,125,000.

   c) This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by resolution numbered 7 in the notice of the meeting" were omitted.

# NOTICE OF ANNUAL GENERAL MEETING *(CONT'D)*

9. That, in substitution for any existing authority, the Company be authorised, generally and unconditionally, in accordance with section 166 of the Companies Act 1985 ("the Act"), to make market purchases (within the meaning of section 163(3) of the Act) of Ordinary Shares of £12.50 each ("Shares") in the share capital of the Company, provided that:

   (i) the maximum aggregate number of Shares hereby authorised to be purchased shall be 14.99% of the issued Ordinary Shares on the date on which this resolution is passed;

   (ii) the minimum price (exclusive of costs) which may be paid for a Share shall be £12.50;

   (iii) the maximum price (exclusive of costs) which may be paid for a Share shall be 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares for the five business days immediately preceding the date of purchase;

   (iv) any shares so purchased shall be cancelled or, if the Directors so determine, held as treasury shares; and

   (v) unless previously varied, revoked or renewed by the Company in General Meeting, such authority shall expire on the earlier of the date of the Company's Annual General Meeting in respect of its financial year ending 30 April 2005 and 31 December 2005, save that the Company may, before such expiry, enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after such expiry and may make a purchase of Shares pursuant to any such contract as if the power conferred hereby had not expired.

10. That article 87 of the Company's existing articles of association be deleted and replaced with the following:

   "87 At each annual general meeting one third of the Directors (or, if their number is not a multiple of three, then the number nearest to and less than one third) shall retire by rotation from office, but if there are fewer than three Directors then one shall retire. Any Director who is required to retire and offer himself for election pursuant to Article 78 and any Director who offers himself for annual re-election shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting. Any Director who has not retired in the previous two years shall retire by rotation at the third annual general meeting after his last appointment or reappointment. A retiring Director shall retain office until the close of the meeting at which his retiral falls due."

By Order of the Board

Gordon Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU

20 May 2004

# NOTICE OF ANNUAL GENERAL MEETING *(CONT'D)*

## Notes

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on her/his behalf. Such a proxy need not be a member of the Company. A form of Proxy for use by members is enclosed with this Annual Report. Completion and return of the form of Proxy will not prevent a member from attending the meeting and voting in person. To be effective, the form of Proxy, duly completed and executed, must be lodged at the address shown on the form of Proxy at least 48 hours before the time of the meeting together with any power of attorney under which it is signed.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered on the Company's Register of Members by 6.00pm on 29 June 2004 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting (or adjourned meeting) in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00pm on 29 June 2004 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provision in any enactment, the Articles of Association of the Company or other instrument to the contrary.

The Articles of Association and copies of the executive Directors' service contracts will be available for inspection at the registered office of the Company from 11.45am on 1 July 2004 until the conclusion of the Annual General Meeting.

Members are requested to inform Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA of any change of address.