

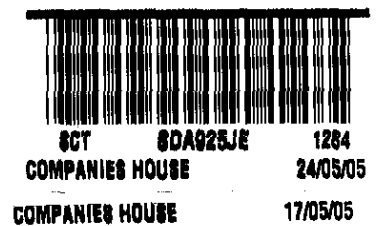
SC1827

# Securities Trust of Scotland plc

Non statutory unaudited financial statements  
Year to 31 March 2005

- 31/10/05

INTERIM



**martin  
currie**

# Statement of total return

	Note	Year to 31 March 2005			Year to 31 March 2004		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Net gains on investments							
- realised	16	-	21,333	21,333	-	12,214	12,214
- unrealised	16	-	27,678	27,678	-	54,492	54,492
Currency losses	16	-	-	-	-	(113)	(113)
Income - franked	2	17,416	-	17,416	17,886	-	17,886
- unfranked	2	682	-	682	1,427	-	1,427
Investment management fee	4	(554)	(1,292)	(1,846)	(593)	(1,383)	(1,976)
Termination fee	4	(278)	(649)	(927)	-	-	-
Administrative expenses	5	(736)	(82)	(818)	(636)	(28)	(664)
Reconstruction costs	5	(2,389)	-	(2,389)	-	-	-
<b>Net return before finance costs and taxation</b>		<b>14,141</b>	<b>46,988</b>	<b>61,129</b>	<b>18,084</b>	<b>65,182</b>	<b>83,266</b>
Interest payable and similar charges	3	(2,326)	(5,428)	(7,754)	(2,940)	(6,861)	(9,801)
Charge on repurchase of debentures	3	-	(26,230)	(26,230)	-	-	-
<b>Return on ordinary activities before taxation</b>		<b>11,815</b>	<b>15,330</b>	<b>27,145</b>	<b>15,144</b>	<b>58,321</b>	<b>73,465</b>
Taxation on ordinary activities	6	-	-	-	(74)	-	(74)
<b>Return attributable to equity shares</b>		<b>11,815</b>	<b>15,330</b>	<b>27,145</b>	<b>15,070</b>	<b>58,321</b>	<b>73,391</b>
Dividends in respect of equity shares							
2005: 4.70p per share (2004: 4.55p)	7	(14,318)	-	(14,318)	(14,177)	-	(14,177)
<b>Transfer (from)/to reserves</b>		<b>(2,503)</b>	<b>15,330</b>	<b>12,827</b>	<b>893</b>	<b>58,321</b>	<b>59,214</b>
<b>Return per ordinary share</b>	<b>8</b>	<b>3.86p</b>	<b>5.01p</b>	<b>8.87p</b>	<b>4.83p</b>	<b>18.70p</b>	<b>23.53p</b>

The revenue columns of the above statement are the profit and loss accounts of the company.  
All revenue and capital items in the above statement derive from continuing operations.  
No operations were acquired or discontinued in the year.

These financial statements do not constitute the company's statutory financial statements as defined in section 240 of the Companies Act 1985 for the years ended 31 March 2004 or 2005. Statutory financial statements for 2005 have not yet been delivered to the Registrar of Companies, nor have the auditors yet reported on them. Those for 2004 have been delivered to the Registrar of Companies and included the auditors' report which was unqualified and did not contain a statement under either Section 237 (2) or (3) of the Companies Act 1985.

The notes on pages 4 to 10 form part of these non statutory unaudited financial statements.

# Balance sheet

	Note	As at 31 March 2005		As at 31 March 2004	
		£000	£000	£000	£000
<b>Investments at market value</b>	9				
Listed on Stock Exchange in the UK			417,342		439,247
Unlisted at Directors' valuation	9		-		-
			417,342		439,247
<b>Current assets</b>					
Debtors	10	4,685		9,450	
Cash at bank	11	7,876		1,909	
		12,561		11,359	
<b>Creditors</b>					
Amounts falling due within one year	12	(100,713)		(55,422)	
<b>Net current liabilities</b>			(88,152)		(44,063)
<b>Total assets less current liabilities</b>			329,190		395,184
<b>Creditors</b>					
Amounts falling due after one year					
Debentures and loans	13		-		(73,922)
<b>Total assets attributable to share capital</b>			329,190		321,262
<b>Capital and reserves</b>					
Called-up ordinary capital	14		76,161		77,581
Capital redemption reserve	15		3,919		2,499
Realised capital reserve	16		184,426		201,673
Unrealised capital reserve	16		58,329		30,651
Revenue reserve	16		6,355		8,858
<b>Equity shareholders' funds</b>	17		329,190		321,262
<b>Net asset value per ordinary share</b>	18		108.06p		103.53p

The notes on pages 4 to 10 form part of these non statutory unaudited financial statements.

The non statutory unaudited financial statements were approved by the board and signed on its behalf by

  
 David Whitaker, Chairman  
 12 May 2005

# Statement of cash flow

		Year to 31 March 2005	Year to 31 March 2004
	Note	£000	£000
<b>Operating activities</b>			
Net dividends and interest received from investments		19,230	18,628
Investment management fee		(1,846)	(1,976)
Cash paid to and on behalf of Directors		(65)	(78)
Bank charges		(22)	(19)
Other cash payments		(1,354)	(543)
<b>Net cash inflow from operating activities</b>	19	15,943	16,012
<b>Servicing of finance</b>			
Interest paid		(8,036)	(9,801)
Charge on repurchase of debenture stock		(11,842)	-
<b>Net cash outflow from servicing of finance</b>		(19,878)	(9,801)
<b>Taxation</b>			
Foreign taxation recovered		-	24
<b>Net cash inflow from taxation</b>		-	24
<b>Capital expenditure and financial investment</b>			
Payments to acquire investments		(79,247)	(104,479)
Receipts from disposal of investments		150,141	97,640
<b>Net cash inflow/(outflow) from investing activities</b>		70,894	(6,839)
<b>Equity dividends paid</b>		(6,093)	(24,317)
<b>Net cash inflow/(outflow) before use of liquid resources and financing</b>		60,866	(24,921)
<b>Financing</b>			
Repurchase of ordinary share capital		(4,899)	(1,528)
Repayment of bank borrowings and debentures		(50,000)	-
<b>Net cash outflow from financing</b>		(54,899)	(1,528)
<b>Increase/(decrease) in cash for the year</b>	20	5,967	(26,449)

The notes on pages 4 to 10 form part of these non statutory unaudited financial statements.

# Notes to the non statutory unaudited financial statements

## 1 Accounting policies

- a) The non statutory unaudited financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of investments, Section 272 of the Companies Act 1985 and, except where stated, the Investment Trust Statement of Recommended Practice (SORP) that was implemented in 2003. As the Directors do not consider the going concern basis to be appropriate, the non statutory unaudited financial statements have been prepared on a break up basis. Provision has been made for the estimated costs of terminating operations. Adjustments have been made to reduce the value of assets to their realisable value.
- b) Income from equity investments is determined on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the company's right to receive payment is established. Income from fixed interest securities is recognised on an effective yield basis. UK dividends received are accounted for at the amount receivable and are not grossed up for any tax credit. Other income includes taxes deducted at source. Scrip dividends are treated as unfranked investment income; any excess in value of the shares received over the amount of the cash dividend is recognised in capital reserves.
- c) Interest receivable and payable and management expenses are treated on an accruals basis.
- d) Management fee and finance costs are allocated 70% to capital and 30% to revenue, in accordance with the board's expected long-term split of returns in the form of capital gains and income, respectively.
- e) Realised and unrealised gains and losses on investments and exchange adjustments to overseas currencies are taken to capital reserves.
- f) Investments are valued at bid prices (2004: mid-market prices). Unlisted investments are valued by the directors on the basis of latest information and in line with the relevant principles of the BVCA guidelines. These valuations also represent the fair value of the investments. Investments are recognised initially as at the trade date of a transaction. Subsequent to this, the disposal of an investment is accounted for once again as at the trade date of the transaction.
- g) Revenue received in foreign currencies is translated at the rate of exchange ruling on the transaction date.
- h) All financial assets and liabilities are recognised in the non statutory unaudited financial statements. No disclosure under Financial Reporting Standard 13 is required in terms of short-term debtors and creditors.
- i) The 6.25% debenture stock 2031 is shown in the balance sheet at break-up cost. As at 31 March 2004 the 6.25% debenture was shown in the balance sheet after the deduction of the discount and issue expenses. The discount and expenses are amortised over the life of the stock.
- j) Deferred tax is recorded in accordance with Financial Reporting Standard 19 (Deferred Tax). Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. A deferred tax asset is only recognised to the extent that it is regarded as recoverable. Due to the company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

	2005 £000	2004 £000
<b>2 Income from investments</b>		
From listed investments		
Equities	14,802	15,474
Fixed interest and convertibles	2,928	3,223
	17,730	18,697
Interest on deposits	339	599
Underwriting commission	23	17
Miscellaneous income	6	-
	18,098	19,313

Income from equities has been shown net of taxation credits of £1,935,136 (2004: £1,987,416).

	Revenue £000	2005 Capital £000	Total £000	Revenue £000	2004 Capital £000	Total £000
<b>3 Interest payable and similar charges</b>						
Interest payable on bank loans and overdrafts	879	2,051	2,930	1,118	2,608	3,726
Interest payable on debentures	1,447	3,377	4,824	1,822	4,253	6,075
Charge on repurchase of debentures	-	11,842	11,842	-	-	-
Accrued charge on repurchase of 6.25% debenture	-	14,388	14,388	-	-	-
	2,326	31,658	33,984	2,940	6,861	9,801

Following the Directors' decision not to adopt the going concern basis for the preparation of these non statutory unaudited financial statements, the cost of repurchasing the 6.25% 2031 debenture has been accrued.

# Notes to the non statutory unaudited financial statements

	Revenue £000	2005 Capital £000	Total £000	Revenue £000	2004 Capital £000	Total £000
<b>4 Investment management fee</b>						
Investment management fee	554	1,292	1,846	593	1,383	1,976
Estimated termination compensation to manager	278	649	927	-	-	-
	832	1,941	2,773	593	1,383	1,976

The total management fee payable has been allocated 30 per cent to income and 70 per cent to capital. Following the Directors' decision not to adopt the going concern basis for the preparation of these non statutory unaudited financial statements, an estimate of the termination fee payable to Martin Currie Investment Management Limited has been accrued.

	2005 £000	2004 £000
<b>5 Administrative expenses</b>		
Auditor's remuneration:		
- audit services	13	12
- other services	4	1
Legal fees	35	2
Directors' fees*	65	73
Other	619	548
	736	636
Provision for reconstruction and liquidation costs	2,389	-
	3,125	636

\*Directors' fees include £16,500 (2004: £16,500) paid to the Chairman during the year. All other Directors were paid at an annual rate of £11,500 (2004: £11,500) during the year. Employers' National Insurance of £5,000 (2004: £4,000) was paid during the year on Directors' fees.

Included within the provision for reconstruction and liquidation costs is £41,000 payable to Chiene & Tait CA. This is an estimate of their advisory fees for the reconstruction and liquidation process.

Note: in accordance with Financial Reporting Standard 4 (FRS4) Capital Instruments, costs associated with the debenture issue in May 2001 have been amortised over the life of the debenture. As such, £12,000 was expensed through the revenue account in 2005 (2004: £12,000), while £28,000 (2004: £28,000) was capitalised. See note 13 for further information.

	Revenue £000	2005 Capital £000	Total £000	Revenue £000	2004 Capital £000	Total £000
<b>6 Taxation on ordinary activities</b>						
Overseas taxation	-	-	-	74	-	74

In accordance with the SORP issued in January 2003, the company has adopted the marginal method for allocating tax relief between income and capital. The revenue account tax charge for the period is lower than the standard rate of corporation tax in the UK for an investment trust company (30%). The differences are explained below.

	2005 £000	2004 £000
Return on ordinary activities before tax	11,815	15,144
Corporation tax at standard rate of 30%	3,545	4,543
Adjustments:		
UK dividends not taxable	(5,226)	(5,366)
Expenses not deductible	865	29
Non-recoverable overseas tax	-	52
Relief for capital expenses	(2,024)	(2,481)
Tax losses carried forward	2,840	3,297
Current tax charge	-	74

The company has an unrecognised deferred tax asset of £19,414,481 (2004: £16,572,936). This has arisen from deductible expenses exceeding taxable income. As this situation exists every year, there are no foreseeable circumstances in which this asset will be utilised.

# Notes to the non statutory unaudited financial statements

	2005 £000	2004 £000
<b>7 Dividends on ordinary shares</b>		
Interim of 2.00p (2004: 1.27p)	6,093	3,963
2nd interim of 2.70p (2004: 3.28p)	8,225	10,214
<b>Total 4.70p (2004: 4.55p)</b>	<b>14,318</b>	<b>14,177</b>

	2005		2004	
	Income	Capital	Income	Capital
<b>8 Returns per ordinary share</b>				
Returns on a going concern basis (£000)	14,482	31,112	15,070	58,321
Weighted average number of shares in issue	305,987,767	305,987,767	311,896,169	311,896,169
Return per ordinary share	4.73p	10.17p	4.83p	18.70p
Break up basis				
Returns on a going concern basis (£000)	14,482	31,112	15,070	58,321
Estimate of liquidation expenses (£000)	(2,389)	-	-	-
Estimate of termination compensation to manager (£000)	(278)	(649)	-	-
Recalculation of investments to realisable value (£000)	-	(745)	-	-
Revaluation of debenture for early repurchase (£000)	-	(14,388)	-	-
	<b>11,815</b>	<b>15,330</b>	<b>15,070</b>	<b>58,321</b>
Weighted average number of shares in issue	305,987,767	305,987,767	311,896,169	311,896,169
Return per ordinary share	3.86p	5.01p	4.83p	18.70p

	2005 £000	2004 £000
<b>9 Investments</b>		
Valuation at 1 April	439,247	364,551
Add: unrealised (appreciation)/depreciation	(30,619)	23,873
Cost at 1 April	408,628	388,424
Add: additions at cost	75,608	108,064
	484,236	496,488
Less: disposals at cost	(125,191)	(87,860)
Cost at 31 March	359,045	408,628
Add: unrealised appreciation	58,297	30,619
Valuation at 31 March	<b>417,342</b>	<b>439,247</b>

Further to the Directors' decision not to adopt the going concern basis for the preparation of these non statutory unaudited financial statements, the assets of the Company have been reduced to their estimated realisable value. This has resulted in a reduction in valuation of £745,000 from the middle market valuation of 31 March 2005.

As at 31 March 2005 the book cost of the unlisted investment in the portfolio was £nil (2004: £3,458). This has a nil valuation as at 31 March 2005 (2004: nil).

All other investments are listed.

The carrying value of the fixed interest securities as at 31 March 2005 was £46,234,349 (2004: £41,996,317).

The weighted average interest rate of the fixed interest securities is 10.14% (2004: 8.85%), and the weighted average period of dated fixed interest securities is 4.8 years (2004: 5.4 years).

There were no capital commitments relating to investments as at 31 March 2005 (2004: nil).

## Notes to the non statutory unaudited financial statements

	2005 £000	2004 £000
<b>10 Debtors</b>		
Dividends receivable	4,191	5,299
Interest accrued	158	159
Due from brokers	336	3,984
Taxation recoverable	-	8
	<b>4,685</b>	<b>9,450</b>
<b>11 Cash at bank</b>		
On deposit - short term	7,750	1,800
On other accounts	126	109
	<b>7,876</b>	<b>1,909</b>
<b>12 Creditors - amounts falling due within one year</b>		
Proposed second interim dividend	8,225	-
Interest accrued	1,401	1,683
Due to brokers	-	3,639
Sterling bank loan (rate of 7.43% per annum - repaid December 2004)	-	50,000
Reconstruction costs	2,604	-
Sterling bank loan (rate of 5.1656% per annum)	25,000	-
6.25% debenture stock 2031	63,350	-
Other creditors	133	100
	<b>100,713</b>	<b>55,422</b>

Further to the Directors' decision not to adopt the going concern basis for the preparation of these non statutory unaudited financial statements, the 6.25% Debenture has been classified as amounts falling due within one year.

Since the year end the amount drawdown from the £25 million loan facility has been reduced to £20 million.



# Notes to the non statutory unaudited financial statements

	2005 £000	2004 £000
<b>13 Debentures and loans - repayable after one year</b>		
12% debenture stock 2013	-	15,000
11.5% Trustco debenture stock 2016	-	10,000
6.25% debenture stock 2031	-	48,922
	-	73,922

The 12% debenture stock 2013 was repurchased for a total cost of £22,584,900 on 18 November 2004 after approval was obtained from stockholders at a meeting on 18 October 2004. The 11.5% Trustco debenture stock 2016 was repurchased on 14 September 2004 for a total cost of £14,256,860.

On 4 May 2001, the 6.25% debenture stock 2031, with a nominal value of £50,000,000, was issued at a price of £98.40 per £100 nominal. Expenses of the issue, which included auditor's remuneration of £12,500, amounted to £395,610. The carrying value of the 6.25% debenture stock has been calculated as follows:

	2005 £000	2004 £000
Carrying value of 6.25% debenture stock at 1 April	48,922	48,882
Revaluation to break-up basis	14,388	-
Net amortisation during the year	40	40
Carrying value of 6.25% debenture stock at 31 March	63,350	48,922

The 6.25% debenture stock is repayable at par, but has been revalued to the break-up cost as at 31 March 2005.

The weighted average interest rate for the debentures and loans, both short and long term, is 5.88%. The weighted average period that this rate covers is 18.1 years.

	2005 Authorised £000	2005 Allotted issued and fully paid £000	2004 Authorised £000	2004 Allotted issued and fully paid £000
<b>14 Called-up share capital</b>				
Ordinary shares				
304,642,996 ordinary shares (2004: 310,323,000) issued of 25p each	80,157	76,161	80,157	77,581

During the year 5,680,004 (2004: 1,700,000) ordinary shares were repurchased by the company at prices between 81.50p and 88.50p per share. The nominal value of the shares has been transferred to a capital redemption reserve, with the associated cost and stamp duty being charged against realised capital reserves.

	2005 £000	2004 £000
<b>15 Capital redemption reserve</b>		
Total capital redemption reserve as at 1 April	2,499	2,074
Ordinary shares repurchased	1,420	425
Total capital redemption reserve as at 31 March	3,919	2,499

# Notes to the non statutory unaudited financial statements

	2005 £000	2004 £000
<b>16 Movement in reserves</b>		
Capital reserve		
Realised gain at 1 April	201,673	199,372
Net realised gain on investments during the year	21,333	12,214
Net realised loss on currencies during the year	-	(113)
Cost of ordinary share repurchase	(4,899)	(1,528)
Capitalised expenses	(33,681)	(8,272)
	184,426	201,673
Unrealised appreciation on investments at 31 March	58,329	30,651
Total capital reserve at 31 March	242,755	232,324
Revenue reserve		
As at 1 April	8,858	7,965
Transfer (from)/to revenue reserve for year	(2,503)	893
Total revenue reserve at 31 March	6,355	8,858
<b>17 Reconciliation of movements in shareholders' funds</b>		
Revenue available for distribution	11,815	15,070
Dividends	(14,318)	(14,177)
	(2,503)	893
Other recognised gains for the year	15,330	58,321
Net addition to shareholders' funds	12,827	59,214
Repurchase of ordinary shares during the year	(4,899)	(1,528)
Opening shareholders' funds	321,262	263,576
Closing shareholders' funds	329,190	321,262
	<b>Net asset value per share attributable</b>	<b>Net asset values attributable</b>
	2005 2004	2005 2004
<b>18 Net asset value</b>		
Ordinary shares- going concern basis	114.06p 103.53p	347,486 321,262
Ordinary shares- break up basis	108.06p 103.53p	330,595 321,262

The basic net asset value (NAV) has been calculated using the number of ordinary shares in issue as at 31 March 2005 of 304,642,996 (2004: 310,323,000).

The change in the basis of preparation of the non statutory unaudited financial statements referred to in the accounting policies on page 4 has resulted in a reduction to net asset value as at 31 March 2005 as described below:

	Net asset value per share p	Net asset values £000
Net asset value on a going concern basis	114.06	347,486
Recalculation of investments to realisable value	(0.19)	(592)
Provision for estimated liquidation expenses	(0.78)	(2,389)
Provision for management termination fee	(0.31)	(927)
Revaluation of debenture for early repurchase	(4.72)	(14,388)
Net asset value per financial statements	108.06	329,190

## Notes to the non statutory unaudited financial statements

	2005 £000	2004 £000
<b>19 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities</b>		
Net revenue before interest payable and taxation	14,141	18,084
Decrease/(increase) in accrued income and other debtors	1,109	(637)
Increase/(decrease) in creditors	2,637	(20)
Capitalised management expenses	(1,941)	(1,383)
Capitalised expenses	(54)	-
Amortised debenture issue expenses and discount	12	12
Net taxation withheld	8	(74)
Effective yield adjustment	31	30
<b>Net cash inflow from operating activities</b>	<b>15,943</b>	<b>16,012</b>

	At 31 March 2005 £000	Revaluation to break-up basis £000	Expenses amortised during the year £000	Cash flows £000	At 1 April 2004 £000
<b>20 Analysis of net debt</b>					
Cash at bank and in hand	7,876	-	-	5,967	1,909
Bank borrowings - (sterling loan)	(25,000)	-	-	25,000	(50,000)
Debentures	(63,350)	(14,388)	(40)	25,000	(73,922)
	<b>(80,474)</b>	<b>(14,388)</b>	<b>(40)</b>	<b>55,967</b>	<b>(122,013)</b>

	2005 £000	2004 £000
<b>21 Reconciliation of net cash flow to movement in net debt</b>		
Increase/(decrease) in period	5,967	(26,449)
Repayment of bank borrowings and debenture	50,000	-
Change in net debt resulting from cashflows	55,967	(26,449)
Expenses amortised in period	(40)	(40)
Revaluation of 6.25% debenture	(14,388)	-
Movement in net debt in the period	41,539	(26,489)
Net debt at 1 April	(122,013)	(95,524)
<b>Net debt at 31 March</b>	<b>(80,474)</b>	<b>(122,013)</b>

## 22 VAT on management fees

During the year, the Association of Investment Trust Companies (AITC) initiated legal proceedings against HM Customs and Excise to challenge UK VAT legislation, which exempts the management expenses of authorised unit trusts, but not those of investment trusts. On the advice of the AITC, the board requested Martin Currie Investment Management Limited to submit repayment claims to HM Customs and Excise.

Martin Currie Investment Management Limited has confirmed to the board that the necessary repayment claims for the full three-year back period have been made and that future claims will be submitted as required. It is not expected that any repayments of VAT will be made until any successful resolution of the case.