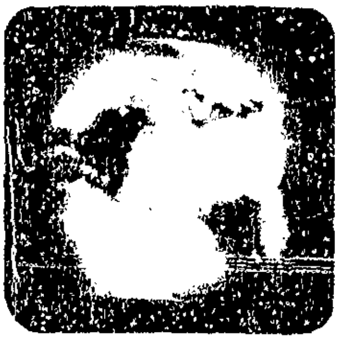
WITAN

Investment Company plc

Report & Accounts 31st December 1990.



The company's aim is to build up the capital value of its assets by identifying those businesses around the world with the best prospects of income growth.

H

HENDERSON

ADMINISTRATION LIMITED

FINANCIAL HIGHLIGHTS

	Year ended 31st December 1990	Eight month period ended 31st December 1989
Net assets	£552m	£695m
Net asset value per ordinary share	153·3p	191·3p
Net asset value per warrant	76·8p	114·8p
Earnings per ordinary share		
to 31st December 1990	5·40p	—
Eight months to 31st December 1989	—	3·68p
Dividends per ordinary share		
to 31st December 1990	4·75p	—
Eight months to 31st December 1989	—	3·625p

The recommended final ordinary dividend of 2·50p per share, if approved, will be paid on 8th April 1991 to shareholders on the register of members at the close of business on 7th March 1991

KEY DATES

Financial year end: 31st December

Annual general meeting and presentation to shareholders 12th March 1991

Final dividend for 1990 payable 8th April 1991

Interim dividend for 1991 payable 6th September 1991

1990 abruptly ended a decade of easy money and may prove to be the year a new investment watershed was reached.

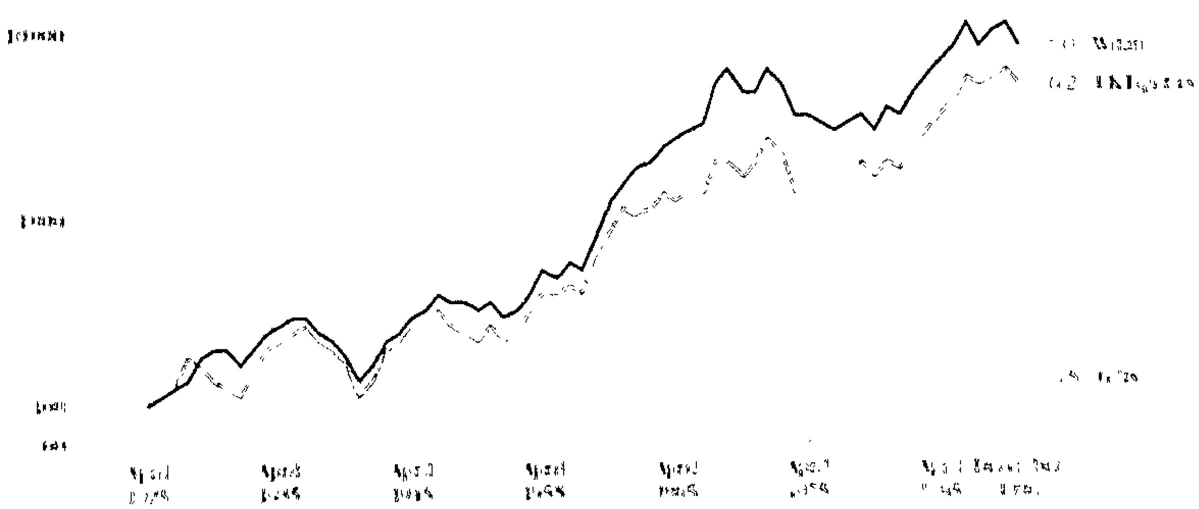
RESULTS

In spite of a 47% rise in our net income over the year compared with *the preceding eight-month period*, the capital value of the underlying assets, from which this income was derived, fell 20%. Our own results demonstrate the dilemma of markets in the present economic and political turmoil; it is becoming increasingly difficult to place a rational investment valuation on business assets as future income flow becomes increasingly uncertain. The variations in value of non-income producing assets is now wholly unpredictable. We are pleased, however, to recommend a final dividend of 2·5p per share, which gives shareholders a total dividend of 4·75p per share for 1990 compared with 3·625p in the previous eight-month period.

PERFORMANCE

I would commend to you page eight of this report as it sets out clearly the impressive record of growth in assets and dividends since April 1981. In these times it seems worthwhile not only to look at the relatively short-term performance results, but also to look back over the years to see how a general investment trust, such as Witan, has performed for its shareholders with economic depressions, war, rationing, devaluation and political change. We have therefore compiled a graph which gives Witan's performance since it became a public company in 1925 since when it has been managed by what became, in 1934, Henderson Administration. You will see that Witan has a compounded *real* rate of return of 7% *per annum*, ie: it has grown at a rate 7% ahead of prices each and every year, on average, over the last sixty five years.

Long-term performance of Witan Investment Company plc compared with UK equities and UK Gilts assuming reinvestment of income and adjusted for inflation.



INVESTMENT POLICY

We continue to believe that the best protection for savings is an international spread of investment with *freedom to move* between stocks and shares, domestic or foreign, as investment opportunities appear. Over the past decade, and indeed on any evidence of serious inflation, to be geared and to be 'over' invested in equities has been the soundest course of action. With the United Kingdom's entry into the ERM at the 2·95 Sterling Deutschmark parity, the Government has set itself (given the United Kingdom's relatively high unit cost of production) a formidable task to become competitive with the other members of the European community. Provided that we can accept the commercial and political consequences, Britain's inherently higher inflation rate will undoubtedly be reduced. To achieve this desired objective, against a slowdown in world trade and a fall off in domestic capital investment, we are likely as owners of equity to bear the main brunt of the cost. We have therefore decided to neutralise Witan's gearing for the time being, to review and consolidate our venture capital stakes and to take steps to protect our future stream of income.

PROSPECTS

With or without a prolonged war in the Middle East the financial world is *in considerable disarray*. Liquidity will be the key to the future of many businesses as their cashflows tighten and their collateral (usually property) becomes less valuable. It is then that the terms for support become harsher and often leave the existing equity holder in an unenviable position and with a diluted interest.

We are delighted Alun Cathcart has accepted to become a Director of this Company, as he brings to our discussions an international insight into both manufacturing and service industries.

DIRECTORS

The Lord Faringdon *Chairman*
is a partner of Cazenove & Co, and a non-executive director of Henderson Administration Group plc

H M Priestley *Managing Director*
is a director of Henderson Administration Group plc, Greenfriar Investment Company plc and Henderson Highland Trust plc

R P St G Cazalet
is a non-executive director of Henderson Administration Group plc and former chairman of the Association of Investment Trust Companies. He is also a director of a number of publicly quoted companies.

The Lord Inchyra
is secretary-general of the British Bankers' Association and of the Committee of London and Scottish Bankers.

D M Backhouse
is chairman of Henderson Administration Group plc and a director of TSB Group plc and Bradstock Group plc.

Sir John Milne
is a director of Royal Insurance Holdings plc, Avon Rubber plc and Solvay et Cie

H M Henderson
is a partner of Cazenove & Co, and a director of Updown Investment Company plc and Hotspur Investments plc.

W A Cathcart
is chairman and chief executive of Avis Europe Limited.

ADVISERS

Auditors
Coopers & Lybrand Deloitte
PO Box 207
128 Queen Victoria Street
London EC4P 4JX

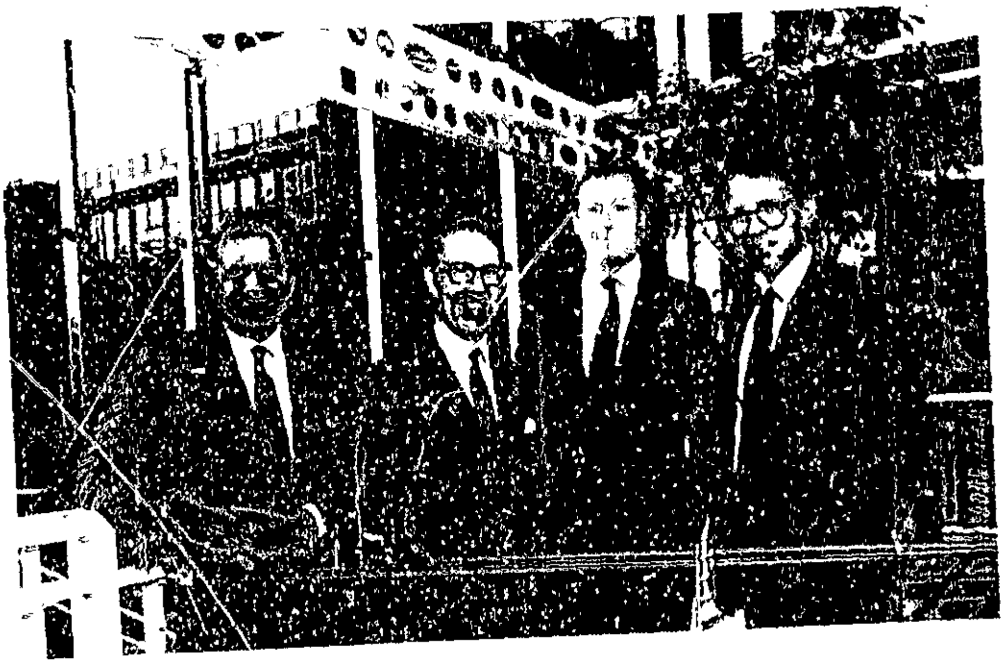
Bankers
The Royal Bank of Scotland plc
67 Lombard Street
London EC3P 3DL

Morgan Stanley Trust Company
One Evertrust Plaza
Jersey City
New Jersey 07302
USA

Brokers
Cazenove & Co
12 Tokenhouse Yard
London EC2R 7AN

Registrars
The Royal Bank of Scotland plc
Registrar's Department
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

Solicitors
Bischoff & Co
PO Box 618
Epworth House
25 City Road
London EC1Y 1BY



Henderson Administration Limited

Iain Clark

Andrew Evans

Hugh Priestley

Johnstone Brown

Ben Wrey

ANALYSIS OF ORDINARY SHAREHOLDERS

as at 31st December 1990

By size of holding	%
1 – 5,000	3·1
5,001 – 20,000	6·9
20,001 – 50,000	4·9
50,001 – 100,000	3·8
100,001 upwards	81·3

By class of holder	%
Investment and unit trusts	0·2
Private individuals	14·0
Banks & nominee companies on behalf of individuals, trusts and institutions	50·5
Insurance companies	16·9
Pension funds	6·6
Other institutions	11·8

CAPITAL GAINS TAX

The base costs of ordinary shares and warrants for capital gains tax purposes at 31st March 1982 are:

Ordinary shares 25p	32·98p
Warrants	7·70p

These values are given before indexation allowance and have been adjusted for the capitalisation issue in July 1986.

AITC

The Company is a member of the Association of Investment Trust Companies

ANNUAL GENERAL MEETING

The annual general meeting on 1[illegible]th March 1991 will be held at the New Horticultural Hall, Greycoat Street, London SW1 at 7.00pm. There will then be a short presentation followed by a reception and the opportunity to view the exhibits at the Early Spring Show of the Royal Horticultural Society. The annual general meeting and presentation will be open to shareholders only but shareholders may bring a guest to the reception. If you wish to attend, please return the enclosed pre-paid card.

SHARE SAVING SCHEME AND PEPs

Details of the Henderson Investment Trust Share Saving and Personal Equity Plan schemes for investing in Witan Investment Company plc can be obtained by posting the enclosed pre-paid card.

SHARE PRICE

The share price is quoted in the Financial Times, The Times, The Daily Telegraph, The Independent and the Evening Standard.

Notice is hereby given that the eighty-third annual general meeting of Witan Investment Company plc will be held at New Horticultural Hall, Greycoat Street, London SW1 on Tuesday 12th March 1991 at 7·00pm for the purpose of:

1 Receiving and approving the directors' report and accounts.

2 Declaring a dividend.

3 Re-electing Mr H M Henderson as a director.

4 Re-electing Sir John Milne as a director.

5 Re-electing Mr W A Cathcart as a director.

6 Re-appointing the auditors at a fee to be determined by the directors.

By order of the Board
Henderson Administration Limited
Secretary
1st February 1991 London

The annual general meeting will be followed by a short presentation and reception.

Proxy Vote

A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote for him. A proxy need not be a member of the Company. A form of proxy for use at the above meeting is enclosed. The return of a proxy card duly completed will not preclude a member from attending and voting at the meeting.

Warrant Holders' Subscription Rights

A registered holder of a warrant has the right to subscribe for Ordinary shares of 25p each in the Company on 31st March in any of the years 1991 to 1993 inclusive at a price of $76\frac{1}{2}$p per Ordinary Share.

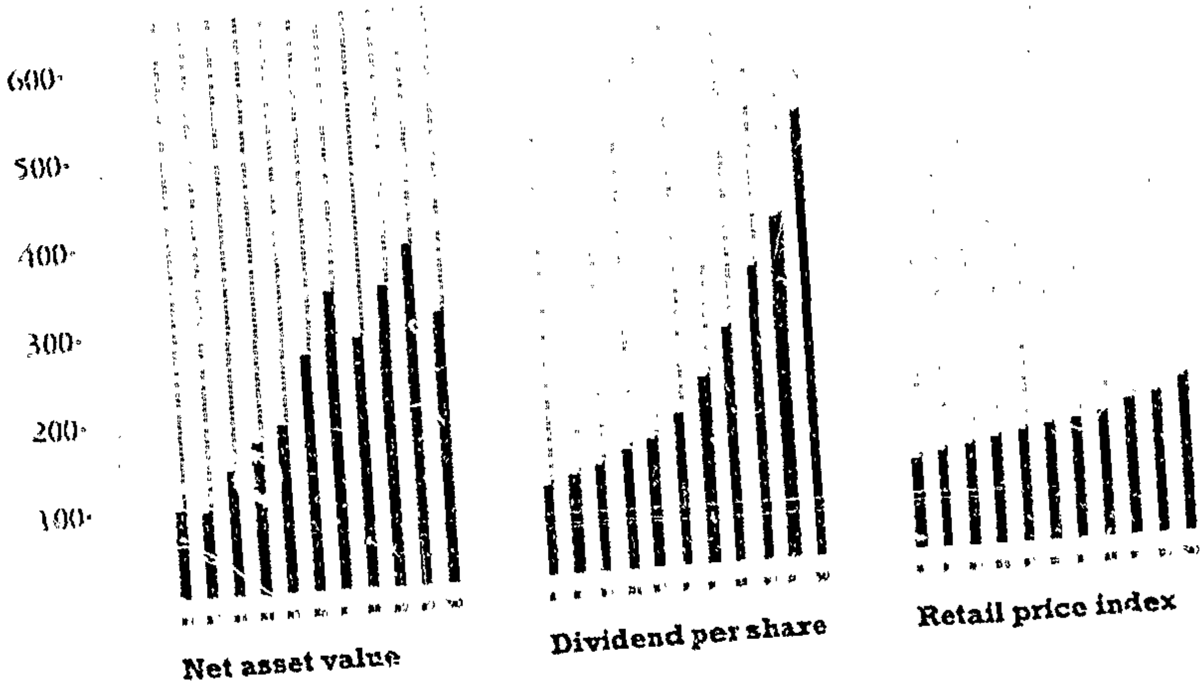
In order to exercise the subscription rights, the warrant holder must lodge the completed warrant certificate with the registrars of the Company on or within 28 days prior to the relevant subscription date, accompanied by a remittance for the subscription price.

Registered Office

3 Finsbury Avenue, London EC2M 2PA
Registered in England No 101625
Telephone: BT 071-638 5757
Mercury 071-410 4100
Telex 884616 A B G FRIAR G
Facsimile 071-377 5712

Witan Investment Company plc is an investment company under S 266 of the Companies Act 1985

COMPARATIVE PERFORMANCE 1981 - 100



10 YEAR RECORD

Year End	Net asset value per ordinary share in pence	Net asset value per warrant in pence	Gross revenue in £000s	Earnings per ordinary share in pence	Dividend per ordinary share in pence
30th April 1981	49·4	—	6,108	0·94	0·9375
30th April 1982	57·4	—	6,989	1·07	1·0500
30th April 1983	70·8	—	7,495	1·16	1·1250
30th April 1984	86·0	9·5	8,868	1·32	1·2750
30th April 1985	99·1	22·6	11,453	1·30	1·3750
30th April 1986	132·7	56·2	13,191	1·76	1·6250
30th April 1987	167·0	90·5	15,620	2·15	2·0000
30th April 1988	140·0	63·5	19,067	2·83	2·5000
30th April 1989	168·9	92·4	20,919	3·29	3·1250
31st December 1989	191·3	111·8	21,728	3·68	3·6250
31st December 1990	153·3	76·8	31,492	5·40	4·7500

Net asset values, earnings and dividends have been adjusted where appropriate for the [illegible] capitalisation issues in July 1981 and July 1986 and have been calculated after taking account of [illegible] one year at par and assuming full subscription from outstanding warrants.

Figures to 31st December 1989 are for an eight month period and are not therefore comparable with previous year figures.

In what proved to be a difficult year for investors we operated within the strategic guidelines which were set out in our 1989 report and at the Shareholders' meeting last April. We reduced the number of holdings, particularly among smaller companies, the total of quoted investments falling from 190 to 166. The largest 50 holdings world-wide accounted for 62·5% of the portfolio compared with 51·1% a year earlier. We improved the income return from both the United Kingdom and overseas sections of the portfolio, and maintained Witan's status as a fully qualified PEP investment trust – that is, one where United Kingdom equities (as defined) account for over 50% of the overall portfolio.

In terms of asset allocation, we increased the proportion of the portfolio in the United Kingdom from 61·5% of total investments to 66·9%, partly by means of a £5m investment in the high-yielding Henderson Highland Trust, while reducing investments in North America and the Far East. The European weighting remained broadly similar, but with first time investments in Greece and Hungary.

At the end of 1990 the assets of the Company were effectively ungeared. Rather than add to our permanent gearing we did, in fact, buy in £1 million nominal of the 8[illegible]% Debenture Stock 2016 at an advantageous level.

The unquoted percentage of the Trust increased only marginally, partly as a result of write-downs in the value of certain unquoted holdings and partly because we were reluctant to increase our exposure to unquoted companies, especially in the UK, at a time of deepening recession.

In terms of currency exposure, we did not hedge against overseas currencies during the year; net assets were in sterling to the extent of 61·8% at the year end, against 57·9% at the end of 1989, reducing our exposure to overseas currencies.

Thus we entered the current year with an ungeared, relatively defensive, largely blue chip portfolio. With our cash and borrowing facilities we have more than adequate resources to take advantage of more propitious market conditions when they arrive.

We have stated elsewhere that it was not an easy year for the investor. Even in the United Kingdom there were major changes on the political and economic front with a new Prime Minister and Chancellor in place, growing evidence of recession, entry into the European Exchange Rate Mechanism and the privatisation of the electricity supply industry. Interest rates stayed high, bringing significant casualties at both corporate and individual level as highly geared situations collapsed for lack of liquidity. Finally, the as yet unresolved *Middle East* crisis compounded an already high degree of uncertainty.

Witan's UK portfolio was not immune from these developments. Two investments, valued at a total of £1·5 million at 31st December 1989, were written down to nil value during the year after being placed in administration. Worse, a £4 million investment in Polly Peck shares was only partly sold before the shares were suspended, and the balance of the holding was written down to zero. Another casualty was Scottish Heritable Trust, whose shares lost 80% of their value over the year.

Fortunately, in the context of the total UK portfolio, the impact of these upsets was limited and was more than compensated by the generally defensive nature of the list with its emphasis on higher yielding situations. Particular relative strength was seen in water, environmental, and health and household shares.

Equally, a low exposure to property was beneficial. Indeed the sectoral emphasis shifted considerably over the year, both as a result of management action and in consequence of altered market perception. Thus the weighting in capital goods dropped sharply, whereas chemicals (particularly waste management concerns) and utilities became far more prominent. In the case of the water companies, the increase in weighting reflects the payment of the second call on our holdings, paid during the year.

Well managed companies specialising in environmental [illegible] management have remained [illegible]

£000s	TWENTY LARGEST INVESTMENTS *by value*
27,250	Henderson Administration Group, *investment management*
26,400	Water Package, *water supply and sanitation*
12,085	Greenfriar, *investment trust*
11,690	British Petroleum, *oil exploration and marketing*
11,450	Shell Transport and Trading, *oil exploration and marketing*
10,920	Thames Water, *water supply and sanitation*
9,350	Lowland, *investment trust*
9,050	Electric and General, *investment trust*
8,980	British Gas, *gas supply*
8,920	Cable & Wireless, *communications*
8,475	Glaxo Holding, *pharmaceuticals*
7,610	Guinness, *breweries*
7,530	LASMO, *oil exploration and marketing*
6,700	MB Group, *building supplies and cheque printing*
6,543	W H Smith Group, *retailing and newspaper distribution*
6,520	Courtaulds, *chemicals and fibres*
6,240	Ocean Group, *transport and waste management*
6,020	Leigh Interests, *waste management*
5,996	Hanson, *conglomerate*
5,918	Harrisons & Crosfield, *chemicals and plantations*

A recent survey has demonstrated how, over the past decade, the Financial Times All-Share Index has itself changed out of all proportion and has become more defensive, more international and less cyclical. Thanks to the policy of privatisation, utilities now account for almost 10% of the All-Share Index (nearly 13% if electricity stocks are included)[1], compared with nil ten years ago. The overseas profit content of ten key sectors has risen from 30% at the start of the decade to an estimated 55% today. Capital goods sectors have declined in importance, while so-called 'defensive' areas, such as utilities, have made headway. More of the Index is represented by higher-yielding sectors, particularly since the introduction of utility issues. Even in the past twelve months, changes in the make-up of the Index have rendered it more defensive, higher-yielding (even if the market drop in 1990 is left out of account) and less cyclical.

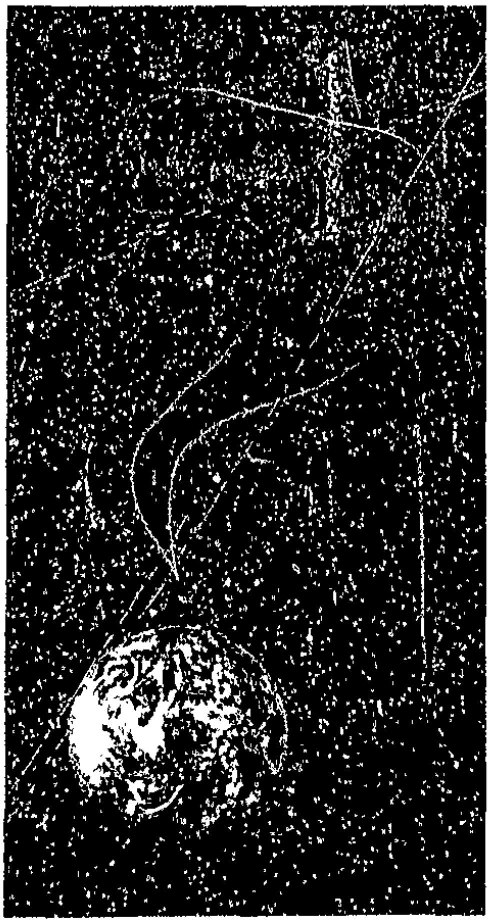
[1] Electricity distribution companies are perhaps less defensive than water companies (it is easier to cut back on electricity than on water consumption) but offer the prospect of an above average yield.

Of course the Index, like the market, is dynamic. Cyclical, recovery stocks will have their day once again – maybe this year – and investors may be weaned away from solid, safe, high-yielding investments which maintain their capital value in nominal, but perhaps not in real, terms. For the time being however, we feel that caution is the best policy.

Equally, there will come a time when it will be right to consider small companies again. Not in Witan itself, since the relative illiquidity of smaller companies makes it inadvisable for Witan to invest in them directly; but such a development would enhance the value of our holdings in Greenfriar, Lowland and Strata.

Looking ahead into the current year, there is justifiable apprehension regarding the profitability of UK companies and of their ability to maintain, let alone increase, dividend distributions. Our own internal forecasts assume virtually no growth in UK dividends overall. At such times it may be asked whether, in spite of the greater defensiveness of leading UK equities, it is right to have all one's eggs in the equity basket and whether it would not be prudent to increase Witan's current, minimal exposure to fixed interest investments. We believe that, regrettably, inflation and democracy (particularly since the introduction of universal suffrage) go hand in hand and that equities still offer the best long-term protection in inflationary times. But now that we are in the European Exchange Rate Mechanism and periodic devaluations of sterling are no longer an acceptable option, industry is likely to undergo a painful period of contraction until inflationary expectations are sharply reduced. How long and how deep the resultant recession will be, we cannot currently predict; currency markets expect the Prime Minister to go for the soft option ahead of the next election, but he may surprise them.

How long and how deep the recession will be, we cannot currently predict



For all these reasons we may, therefore, increase the fixed interest content of the UK portfolio, but only on a short-term basis in order to protect your investment until equities are seen to offer undeniable value.

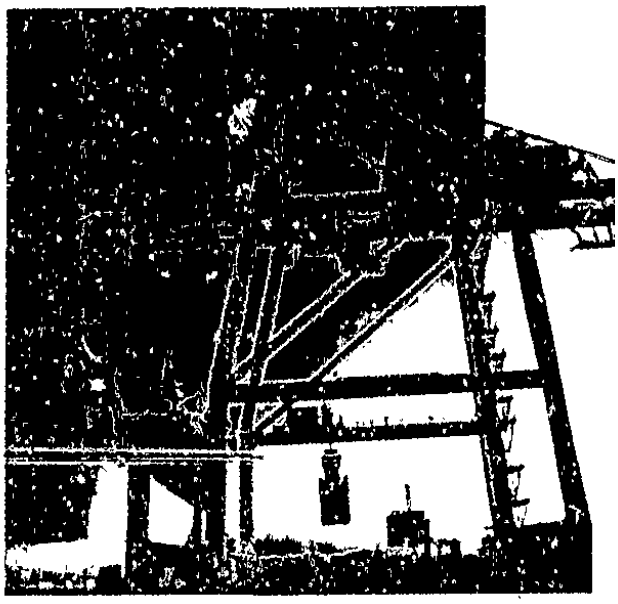
Witan has for many years eschewed UK fixed interest investment in favour of an almost total exposure to equities. But in view of the deepening recession and pressure on company dividend distributions, the fixed-interest market offers some degree of protection until the economy recovers.

1990 proved to be a year when recession finally emerged in the United States after a long period of economic expansion which, judged by the squeeze on corporate profits, had been showing clear signs of strain since mid-1989.

The market, as measured by the main indices, held up quite well in 1990, but the 6.6% fall in the S&P Composite Index masked an unusually diverse performance across the broader market. The NASDAQ Index fell by almost 18%.

We reduced exposure to the US market in the early spring, converting the proceeds to Sterling at a more favourable rate than was available later in the year and in this exercise we reduced our holdings in a number of the largest investments, including Waste Management. This investment, made in the late 1970s, has been a major beneficiary of the worldwide concern over environmental issues and we believe it still has an exciting future.

The pressures of an economic slowdown allied to near-total disarray in the US Savings and Loan and Banking sectors give US investors an added incentive to seek an element of predictability in earnings and dividends. The truly global stocks such as Philip Morris and companies in the pharmaceutical group meet these criteria. The weakness of the Dollar gives US industry a real competitive edge and we have investments in a number of companies which stand to benefit from this in the export field.



The weakness of the Dollar gives US industry a real competitive edge

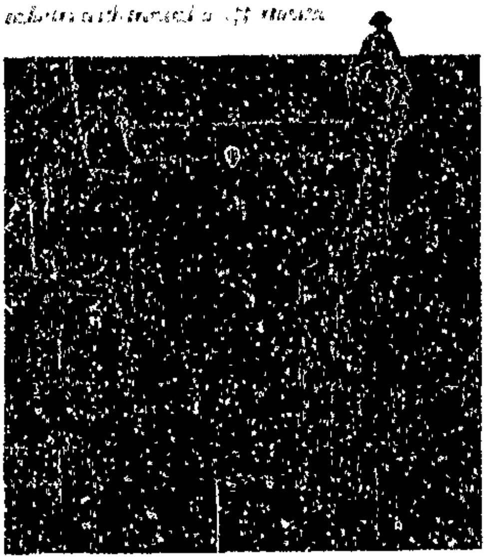
At this point, the Federal Reserve is clearly moving to lower interest rates and the equity market's reaction to this will in time be favourable. Our policy remains one of a selective approach, seeking companies with the best prospects for earnings progress in an uncertain world.

£000s	TEN LARGEST INVESTMENTS *by value*
4,538	Waste Management, *solid and chemical waste disposal*
4,465	Johnson & Johnson, *toiletries and pharmaceuticals*
4,195	Merck, *pharmaceuticals*
4,026	Philip Morris, *tobacco, brewing and soft drinks*
3,913	Schering-Plough, *pharmaceuticals*
3,765	Wal-Mart Stores, *retailing*
3,749	General Electric, *electrical equipment, aerospace and technology*
3,568	Apple, *computer systems*
3,530	Boeing, *aerospace and defence*
3,512	Schlumberger, *oil field services and electronics*

We began 1990 with 30.7% of Witan's assets invested in Continental Europe, the major emphasis being on Germany ([illegible]%) and France ([illegible]%). At the year end the European percentage was [illegible]%, including France at 5.1% and Germany at [illegible]%. In money terms the total was only £55 million against £80 million at the beginning of 1990. Once again European markets proved to be disappointingly illiquid in adverse market conditions. At the onset of the Gulf crisis, both domestic and international investors ran for cover, concerned that sharply higher oil prices would impact heavily on the majority of European economies. More recently the oil price has retreated, but European markets have had to come to terms with the cost of German reunification.

There is still growth in Europe, albeit at a slower rate, and inflation is broadly under control.

The development of Eastern Europe provides Western industry with tremendous opportunities.



We have taken a small stake in a Hungarian privatisation, but in general we believe that Eastern Europe carries a high degree of risk. Of greatest immediate interest is the development of east Germany, where in certain areas such as industrial rationalisation and personal consumption the demands for the investment may not be slow in coming. Most investment opportunities will be in smaller companies, in which Witan participates via its holding in Henderson European Smaller Companies Trust (50% plus in Germany). Meanwhile we took a stake in an investment trust specialising in Greece — an emerging market with considerable promise.

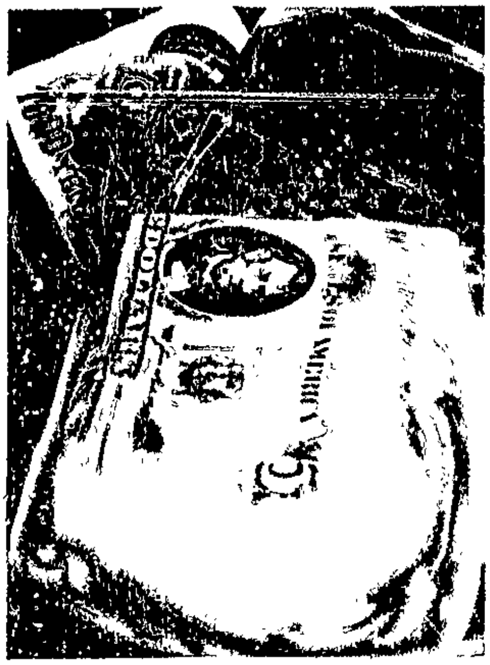
The development of Eastern Europe provides Western (especially west German) industry with tremendous opportunities, offset by unusually high risks as regards payment and currency. Any increase in Russian emigration will increase both the risks and the opportunities in Eastern Europe.

Further progress in Europe is generally linked, in the short term, to Middle Eastern developments. It is moreover disturbing to witness Russia apparently adopting similar policies to those which were used to crush the Hungarian uprising of 1956 — at a time when, like now, the West was preoccupied by Middle Eastern developments. For these reasons we remain cautious until the Gulf situation is resolved.

£000s	TEN LARGEST INVESTMENTS *by value*
5,015	Allianz, *insurance – Germany*
3,521	CGE, *telecommunications – France*
3,442	Elsevier, *publishing – Holland*
3,396	L M Ericsson, *telecommunications – Sweden*
3,231	Total, *oil exploration – France*
2,963	Metallgesellschaft, *metallurgy – Germany*
2,812	Greek Progress Fund, *investment trust – Greece*
2,752	Air Liquide, *industrial gas production – France*
2,548	BPI, *banking – Portugal*
2,471	MAN, *general engineering – Germany*

Far Eastern markets, like those around the world, were hard hit in 1990. However the fall was particularly severe in Japan. The new Governor of the Bank of Japan decided to attack asset price inflation by sharply raising short-term interest rates, hence the Japanese market had already suffered a major decline before the Gulf crisis sent markets even lower. Most of the other Asian markets performed poorly with the notable exception of Hong Kong which was one of the few to rise, in local currency terms, during the year. 1990 opened the new decade with some interesting business trends developing. It was a year when Japanese corporate investment hit record levels and this, in part, benefited many smaller Asian economies, most notably Thailand, Malaysia and Hong Kong. This trend will continue and, over time, will help to replace these economies' dependency on the US.

In Japan it has also been a time of significant change at the corporate level. A number of companies in your portfolio have made major overseas acquisitions. Matsushita Electric bought MCA, the US entertainment company, while Fujitsu took over ICL in the UK. However, particularly interesting is the take-over of Southland Corporation in the US by the Ito-Yokado Group. It is notable because Southland helped Ito-Yokado many years ago in setting up a convenience store chain in Japan. Ito-Yokado is the best-managed retail group and has gone from strength to strength while Southland's position has steadily deteriorated. This culminated in a management buy-out leaving them with too much debt and ultimately filing for protection against bankruptcy. There will no doubt be more examples of better-financed Japanese companies taking over debt-ridden US corporations.



[illegible]

£000s	TEN LARGEST INVESTMENTS *by value*
2,689	Kyocera, *electronic parts manufacturer – Japan*
2,372	Ito-Yokado, *chain store – Japan*
2,268	China Light & Power, *electric utility – Hong Kong*
2,245	Fujitsu, *computer manufacturer – Japan*
2,192	JAFCO, *unquoted – Japan*
2,157	Ohbayashi-Gumi, *contracting and construction – Japan*
2,075	Sime Darby, *conglomerate – Malaysia*
2,062	Yamanouchi, *pharmaceutical – Japan*
1,868	Swire Pacific, *property and airline – Hong Kong*
1,849	Tokio Marine & Fire, *insurance company – Japan*

1990 was a year of change in the unquoted investment arena. Some of the big leveraged buy-outs of earlier years captured the headlines as they fell from grace. Commercial reality re-established prominence over financial engineering. Yet it is interesting to note that the deal statistics for 1990 show that the number of management buy-outs increased again. The focus had shifted to smaller, more conservatively financed transactions.

Operating against a backdrop of high interest rates our policy remained one of caution. This has enabled us to avoid the well-publicised upsets in leveraged buy-out companies, and allowed us to concentrate on the companies in the portfolio. We were keen, too, to examine development capital opportunities.

The first investment of the year was made in Tadpole Technology plc, a company we had been following for some time, which designs and has built a portfolio of advanced technology communication products. The holding was increased during the year. An investment was made in East Anglian Radio plc to enable that company to expand through acquisition. We also subscribed to a share issue by the British Real Estate Group plc, and we provided further funds to the Motion Analysis Corporation to support its expansion in the USA.

Other portfolio features include a share issue by Newspaper Publishing (publishers of the *Independent*) to two well-known European newspapers. There were board changes at Travel Security and [illegible] demonstrated the value of good management in a difficult trading climate. However, the climate proved too difficult for Celebrity Centre Productions and Ocean Resources, both of which closed during the year.

Finally, the expansion of the unquoted investment team of Henderson Administration towards the end of the year is a very positive development, and benefits and increased opportunities should follow.

ANALYSIS OF INVESTMENTS *as at 31st December 1990*

		United Kingdom £000s	North America £000s	Europe £000s	Japan & Far East £000s	Total 31st Dec 1990 £000s	Total 31st Dec 1989 £000s
ITAL ODS (·3%)	Building materials	6,662	–	477		7,139	17,975
	Contracting and construction			2,066	2,157	4,223	8,517
	Electricals		4,750	3,883	2,045	10,679	26,558
	Electronics	13	8,076	3,396	4,933	16,420	24,508
	Engineering – aerospace		3,530			3,530	
	Engineering – general	4,050	2,287	2,472		8,809	28,059
	Metals and metal forming	4,818	-	2,963		7,781	21,044
	Motors	2,468				2,468	1,853
	Other industrial materials	4,867				4,867	14,778
		22,878	17,643	16,458	9,136	65,916	158,006
JMER ROUP 1·3%)	Brewers and distillers	12,899			1,816	14,715	10,062
	Food manufacturing	2,636	841			3,477	5,702
	Food retailing	4,605			2,372	6,977	7,659
	Health and household	14,010	22,237		3,894	40,141	57,628
	Hotels and leisure	3,934	2,231	2,047		8,212	12,200
	Packaging and paper	2,791	3		2,394	5,188	8,593
	Media	10,020		4,063		14,083	15,142
	Stores	21,110	8,657	–		29,767	42,597
	Textiles	1,440			326	1,766	6,186
		73,445	33,969	6,110	10,802	124,326	132,792
THER OUPS 8·3%)	Business services	5,624	-	-		5,624	10,276
	Chemicals	29,418	5,917	2,773		38,108	41,074
	Conglomerates	23,064	-	477	3,944	27,485	44,795
	Electricity	5,860	-		2,268	8,128	
	Telephone networks	8,920	-	–		8,920	16,922
	Transport	6,240	-	–	4,019	10,259	15,234
	Water	37,320	-			37,320	21,628
	Miscellaneous	10,767	11,559	6,749	-	29,075	46,363
		127,213	17,476	9,999	10,231	164,919	180,302
TRIAL ROUP 2·5%)	Oil and gas	56,133	13,175	3,232		72,540	70,460
CIAL ROUP 6·6%)	Banks	10,018	3,093	6,206	1,817	21,134	29,101
	Insurance (life)	3,920		2,077		5,997	10,812
	Insurance (composite)	5,025	3,377	5,015	1,850	15,267	18,009
	Insurance (brokers)	751	44	-		795	801
	Merchant banks	3,040		1,233		4,273	8,003
	Property	3,830		21	1,604	5,455	20,766
	Other financial	41,229	3,018	2,008	10,307	59,562	82,253
	Investment trusts	39,622		2,812	-	42,434	45,708
		110,155	9,532	19,372	15,578	154,917	216,254
	Total	390,165	91,795	54,971	45,747	582,618	748,691
	Total % 1990	66·9	15·8	9·4	7·9	100·0	—
	Total % 1989	61·5	18·6	10·7	9·2		100·0

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND DIVIDENDS

The Company carries on the business of an investment trust and has been approved in respect of the eight month period ended 31st December 1989 by H.M. Inspector of Taxes under Section 842 of the Income and Corporation Taxes Act 1988. The directors are of the opinion that the Company has subsequently conducted its affairs in a manner which will enable it to continue to gain such approval. The Company is not a close company and has no employees.

It is recommended that revenue from ordinary activities after taxation be dealt with as follows:

	£000s
Dividends	
Preference	83
Interim ordinary paid	7,688
Final ordinary recommended	8,542
Retained revenue	2,228
	18,541

During the year donations to charities totalling £26,180 were made and a contribution of £5,000 was made to the Conservative Party.

PERSONAL EQUITY PLANS

The Company intends to maintain its level of investment in UK equities in excess of 50% of its investments in order to continue as a qualifying investment trust under the Personal Equity Plan Regulations.

DIRECTORS

The directors in office throughout the year are listed on page 4.

Mr W A Cathcart was appointed a director of the Company on 1st April 1990. At the forthcoming annual general meeting Mr H M Henderson, Sir John Milne and Mr W A Cathcart will retire and offer themselves for re-election.

The Lord Faringdon, Mr H M Priestley, Mr R P St G Cazalet and Mr D M Backhouse are directors of Henderson Administration Group plc.

The Lord Faringdon and Mr H M Henderson are partners of Cazenove & Co, which is one of the brokers through which the Company buys, sells and lends investments.

Mr R P St G Cazalet is a director of The Law Debenture Corporation plc, trustees of the 6% debenture stock.

SUBSTANTIAL SHAREHOLDINGS

The following shareholders have notified the Company of interests comprising 3% or more of the Company's ordinary share capital as at 31st December 1990.

Prudential Corporation Group of Companies 23,597,762 shares (6.9%)

Postel Investment Management Limited 17,457,286 shares (5.1%)

British Coal Pension Funds 17,377,780 shares (5.1%)

Schroder Investment Management Limited 15,795,556 shares (4.6%)

On 1st February 1991, Schroder Investment Management Limited reduced their interest to 13,616,056 shares (3.9%). No other changes have been notified to the date of this report.

DIRECTORS' INTERESTS

The interests of the directors of the Company were:

	At 31st December 1990		At 31st December 1989	
Ordinary shares	Beneficial	Trustee	Beneficial	Trustee
Lord Faringdon	354,126	4,157,732	354,126	1,331,420
H M Priestley	—	—		
R P St G Cazalet	22,252	351,500	22,252	351,500
Lord Inchyra	5,000	—	5,000	
D M Backhouse	12,500	7,500	25,000	
Sir John Milne	—	—		
H M Henderson	576,542	209,311	576,542	209,311
W A Cathcart	2,000	—	—	
	972,420	4,726,043	982,920	1,892,231
Adjusted total*	972,420	4,383,422	982,920	[illegible]
Warrants				
Lord Faringdon	309,087	500,847	309,087	568,183
H M Priestley	21,000	—	62,000	
R P St G Cazalet	2,224	38,400	2,224	38,400
Lord Inchyra	80	—	80	
D M Backhouse	—	—	60,000	
Sir John Milne	—	—		
H M Henderson	101,290	11,131	101,290	11,131
W A Cathcart	—	—		
	433,681	550,378	534,681	617,714
Adjusted total*	433,681	514,917	534,681	582,255

*The adjusted totals reflect reductions made to offset duplications caused by joint trusteeships

Cumulative preference shares and debenture stocks.
At 31st December 1990, Lord Faringdon held 18,400 of the 3.5% preference shares as trustee (1989 18,400). No director holds any interest in the debenture stocks of the Company.
From 1st January 1991 to the date of this report no changes in the interests of directors have been notified. Changes in the interests of Mr H M Priestley and D M Backhouse are a consequence of their daughters attaining the age of 18 years.

MANAGEMENT

Henderson Administration Limited, a wholly owned subsidiary of Henderson Administration Group plc, provides investment management and secretarial services to the Company. The current fee is based on assets employed less the value of holdings in Henderson Administration Group and Henderson unit and investment trusts and is calculated on a rolling average of three years at the rate of 0·25% per annum.

AUDITORS

The auditors, Coopers & Lybrand Deloitte, have indicated their willingness to continue in office and a resolution re-appointing them and authorising the directors to determine their remuneration will be submitted at the annual general meeting.

By order of the board
Henderson Administration Limited
Secretary

London
1st February 1991

REVENUE ACCOUNT *for the year ended 31st December 1990*

Notes		Year to 31st December 1990 £000s	[illegible] £000s
	Income		
1	From investments		
	Franked	21,514	13,435
	Unfranked	6,423	5,486
		27,937	18,921
	From interest receivable and similar income		
	Interest on short term deposits	2,827	2,284
	Other income	728	523
		31,492	21,728
2	Interest payable	(4,248)	(3,001)
		27,244	18,727
3	Administrative expenses	(1,932)	(1,142)
	Revenue from ordinary activities before taxation	25,312	17,585
4	Taxation on ordinary activities	(6,771)	(4,950)
	Revenue from ordinary activities after taxation	18,541	12,635
	Dividends		
	Preference	(83)	(56)
	Interim ordinary of 2·25p per share (1·625p)	(7,688)	(5,552)
	Proposed final ordinary of 2·50p per share (2·00p)	(8,542)	(6,833)
		(16,313)	(12,441)
	Retained revenue	2,228	194
5	Earnings per ordinary share	5·40p	3·68p

The notes on pages 27 to 32 form part of these accounts.

Notes		31st December 1990 £000s	31st December 1989 £000s
6	Fixed asset investments		
	Listed in United Kingdom	368,218	433,594
	Listed abroad	183,698	276,615
	Unlisted at market value	7,469	7,696
	Unlisted at directors' valuation		
	Subsidiaries	—	2,686
	Other	23,233	28,100
		582,618	748,691
7	Current assets	34,115	34,274
8	Deferred taxation	263	256
9	Creditors: amounts falling due within one year	(15,499)	(35,477)
	Net current assets/(liabilities)	18,879	(947)
	Total assets less current liabilities	601,497	747,744
10	Creditors: amounts falling due after more than one year	(49,151)	(53,151)
	Net assets	552,346	694,593
	Capital and reserves		
11	Called up share capital		
	Preference shares	2,555	2,555
	Ordinary shares	85,417	85,413
12	Reserves – non distributable	456,595	601,074
12	Revenue reserve	7,779	5,551
	Ordinary shareholders' funds	549,791	692,038
	Total shareholders' funds	552,346	694,593

The accounts on pages 24-32 were approved by the directors on 1st February 1991 and were signed on their behalf by:

The Lord Faringdon and H M Priestley

The notes on pages 27 to 32 form part of these accounts.

SOURCE AND APPLICATION OF FUNDS

for the year ended 31st December 1984

	Year to 31st December 1984 £'000	[illegible]
Source of funds		
From operations		
Revenue on ordinary activities before taxation	25,312	17,585
Sales of fixed interest stocks	—	9,217
Sales of equities	196,113	113,526
	221,425	140,328
From other sources		
Shares issued	14	25
	221,439	140,353
Application of funds		
Dividends paid	(20,156)	(6,270)
Taxation paid	(8,004)	(4,168)
Redemption of debentures	(2,758)	
Purchase of fixed interest stocks	(5,202)	(6,789)
Purchase of equities	(169,503)	(138,366)
Exchange movement on currencies	(1,066)	(63)
	14,750	(15,320)
Movements in net liquid funds		
Sales and purchases for future settlement	8,480	(13,971)
Debtors	54	128
Creditors and accrued interest	(91)	(1,305)
Short term deposits	6,307	(172)
Increase/(decrease) in liquidity	14,750	(15,320)

The notes on pages 27 to 32 form part of these accounts.

ACCOUNTING POLICIES

i) The accounts have been prepared using the equity method of accounting [illegible] in respect of the income [illegible] balances due to the [illegible]

ii) Listed and certain unlisted investments in the United Kingdom are valued at the [illegible] and elsewhere either at their closing or middle prices as published by [illegible] investments are valued by the directors according to information available. [illegible] authorised U.K. unit trusts and are classified [illegible] purposes according to the [illegible] area of the underlying holdings.

iii) All foreign currency assets and liabilities are converted into sterling at the [illegible] on balance sheet date. Profits and losses arising therefrom are taken direct to reserves.

iv) Income and expenses are included on an accruals basis, income from investments being [illegible] the dates of payment fall within the year.

v) Deferred taxation is calculated at current rates of taxation and represents adjustments [illegible] interest and for corporation tax payable on [illegible] as dividends.

vi) The purchase and cancellation of the Company's own debentures is treated as an investment activity and profits arising therefrom are taken direct to reserves.

1 **INCOME FROM INVESTMENTS**

		Year to 31st December 1990 £000s	[illegible] £000s
Listed	Dividends	25,462	16,885
	Interest	362	[illegible]
Unlisted	Dividends	791	205
	Interest	1,322	1,095
		27,937	18,921

Supplementary statement showing the share of results of associated companies

Revenue from ordinary activities of associated companies before taxation	3,458	3,685
Less taxation on revenue on ordinary activities	(1,066)	(1,261)
Revenue on ordinary activities after taxation	2,392	2,424

Only dividend income receivable from associated companies is reflected in the Revenue Account and this amounted to

Year to 31st December 1990 £4,180,280 (Eight months ended 31st December 1989 £2,981,281)

2 **INTEREST PAYABLE**

Debenture stocks, overdrafts and loans		
Repayable within 5 years	93	63
Repayable in more than 5 years	4,155	[illegible]
	4,218	[illegible]

3 **ADMINISTRATIVE EXPENSES**

Management fee	1,358	[illegible]
Miscellaneous other expenses	282	[illegible]
Bank charges and safe custody fees	115	[illegible]
Directors' fees [illegible]	57	[illegible]
Auditors' remuneration	20	[illegible]
	1,832	[illegible]

DIRECTORS' FEES	Year to 31st December 1990 £000s	[illegible] £000s
For services as directors	87	[illegible]
Chairman and highest-paid director – included above	10	[illegible]
Other directors	Number	Number
£0 – £5,000	[illegible]	[illegible]
£5,001 – £10,000	7	

4 **TAXATION ON ORDINARY ACTIVITIES**

Tax credits applicable to franked income	5,379	[illegible]
UK corporation tax at 35%	1,260	[illegible]
Foreign withholding taxes	972	[illegible]
Prior year adjustment	71	[illegible]
	7,682	[illegible]
Overseas taxation reclaimable	(318)	[illegible]
Double taxation relief	(623)	[illegible]
	6,741	[illegible]
Transfer from (to) deferred taxation account	30	[illegible]
	6,771	[illegible]

No provision has been made for advanced corporation tax amounting to £1,82[illegible],000 (1989 £1,7[illegible],000) on the shortfall of franked investment income after making provision in these accounts for the proposed final dividends. This will be covered by the receipt of further franked investment income before advanced corporation tax on the final dividends becomes payable.

5 **EARNINGS PER ORDINARY SHARE**

Calculated by dividing revenue from ordinary activities after taxation, as reduced by the provision for preference dividends, by the [illegible]41,668,991 shares in issue (1989 [illegible]41,650,610).

6 **INVESTMENTS**

(i) At 31st December 1990 there are commitments in respect of securities not fully paid up of £1[illegible],21[illegible],[illegible]0[illegible] (1989 £23,166,039) and underwriting liabilities of £470,000 (1989 £100,2[illegible]).

(ii) Where the Company holds more than 20% of a class of equity share capital and exercises or is in the position to exercise significant influence over the Company, it will be treated as an associated company under the equity method of accounting as defined in SSAP 1.

Where the financial statements of associated companies are made up to a date which is more than six months before the Company's year end, and the amounts are significant, published interim results have been included.

The Company holds more than 20% of a class of equity of the following companies.

Name of Company *and country of incorporation*	Class of shares	% held of the class
Academy Sound & Vision Limited *GB* (May 1990)	Ordinary	2[illegible].5
Issued share capital £983,451, Deficit on reserves £486,000		
Cost of investment £2[illegible]3,427, Share of post acquisition deficit £12[illegible],000		
Developments Commercial & Industrial (Holdings) Ltd *GB* (February 1989)	Ordinary	2[illegible].2
Issued share capital £1,320,250, reserves £119,000		
Cost of investment £201,115, Share of post acquisition reserves £29,000		
Gavel Securities Limited *GB* (December 19[illegible])	Ordinary	2[illegible].[illegible]
Issued share capital £292,252, reserves £551,000	Cum. Pref.	[illegible]
Cost of investment £575,080, Share of post acquisition reserves £1[illegible],000		

Name of Company *and country of incorporation*	Class of shares	% held of the class
Greenfriar Investment Company plc *GB* (Int June 1990)	Ordinary	42.5
Issued share capital £2,880,000, reserves £42,026,000	Warrants	42.5
Cost of investment £1,801,268, Share of post acquisition reserves £17,777,000		
Henderson Administration Group plc *GB* (Int Sept 1990)	Ordinary	28.7
Issued share capital £5,279,000, reserves £55,152,000		
Cost of investment £1,490,516, Share of post acquisition reserves £12,668,000		
Lessar Brothers Limited *GB* (December 1989)	Ordinary	25.7
Issued share capital £40,000, reserves £658,000		
Cost of investment £20,215, Share of post acquisition reserves £169,000		
Lowland Investment Company plc *GB* (Sept 1990)	Ordinary	21.9
Issued share capital £10,000, reserves £32,915,000		
Cost of investment £616,312, Share of post acquisition reserves £8,205,000		
NAS Insurance Services Inc *USA*	Ordinary	20.0
Issued share capital US$612,000, deficit on reserves US$150,377		
Cost of investment £376,481, Share of post acquisition deficit US$16,000		
ODH Financial Markets B.V. *NLG* (10 months to October 1990)	Ordinary	40.0
Issued share capital DFL2,000,000, reserves DFL8,818,000		
Cost of investment DFL2,482,500, Share of post acquisition reserves DFL3,527,000		
Pacific Fruit Limited *Jersey* (November 1989 adjusted)	Ordinary	17.2
Issued share capital £65,932, reserves £2,935,000		
Cost of investment £530,633, Share of post acquisition reserves £1,485,000		
Strata Investments plc *GB* (October 1990)	Ordinary	21.7
Issued share capital £3,802,605, reserves £17,286,000	Warrants	21.9
Cost of investment £3,300,000, Share of post acquisition reserves £3,751,000		
Vimbena Limited *GB* (September 1989)	Ordinary	20.0
Issued share capital £312,500, reserves £767,000	10% CC Pref	20.0
Cost of investment £101,763, Share of post acquisition reserves £153,000		

Summary of investments in associated companies	1990 £000s	1989 £000s
Cost		
At 1st January 1990/1st May 1989	11,182	11,017
Additions	—	165
Disposals	(471)	
At 31st December	10,711	11,182
Share of post acquisition reserves		
At 1st January 1990/1st May 1989	45,342	37,345
Unrealised reserves	(1,669)	6,938
Retained revenue for the year	1,545	1,059
At 31st December	45,218	45,342
Market value		
At 1st January 1990/1st May 1989	74,821	77,226
At 31st December	54,972	74,821

The Company holds more than 10% of a class of [illegible] share of the following companies

Name of Company *and country of incorporation*	Class of shares	[illegible]
Authority Investments plc *GB*	Ordinary	[illegible]
	[illegible]	[illegible]
Electric & General Investment Co plc GB	Ordinary	[illegible]
Ermuturcland plc *GB*	Ordinary	[illegible]
Greig Lester Group GB	[illegible]	[illegible]
Henderson Highland Trust plc *GB*	Ordinary	[illegible]
	Warrants [illegible]	[illegible]
ODH Communications Group Holdings *Netherlands*	Ordinary	[illegible]
	Pesetas	[illegible]
Venture Founders Capital Ltd *Jersey*	A Ordinary	[illegible]
	Redeemable Pref	[illegible]

Subsidiary *companies are as follows*

Name of subsidiary companies and country of incorporation	Principal activity	[illegible]
WPS Properties Inc., Common US$1, *USA*	Self access storage	[illegible]
Witan (Personal Storage) Limited Ordinary £1, *England*	Self access storage	[illegible]
The Carlton Trust Limited, Ordinary £1, England	(Members voluntary liquidation)	[illegible]

Unaudited results for the subsidiaries	Witan (Personal Storage) Ltd Year to 31st Dec 1990 £000s	Witan (Personal Storage) Ltd [illegible] period to 31st Dec 1989 £000s	WPS Properties Inc. Year to 31st Dec 1990 £000s	WPS Properties Inc. [illegible] £000s
Loss before taxation	(298)	(140)	(43)	[illegible]
Taxation			(6)	[illegible]
Loss after taxation	(298)	(140)	(49)	[illegible]
Net (liabilities)/assets	(696)	(268)	576	[illegible]

Changes *in investments*

	Valuation 31st Dec 1989 £000s	Purchases £000s	Sales £000s	Appreciation (Depreciation) £000s	Valuation 31st Dec 1990 £000s	Cost 31st Dec 1990 £000s
United Kingdom	460,433	109,622	109,892	(70,058)	390,105	255,627
North America	139,629	10,811	33,281	(24,367)	91,795	74,497
Japan & Far East	68,722	23,060	16,983	(29,052)	45,747	53,667
Europe and elsewhere	70,006	31,209	33,957	(21,187)	54,971	47,780
	718,691	174,705	196,113	(114,665)	582,618	431,571
Comprising						
Subsidiaries	2,686			(2,686)	—	6,243
Associated undertakings	80,401			(25,429)	54,972	10,711
Other investments	665,604	174,705	196,113	(116,550)	527,646	414,617
	718,691	174,705	196,113	(114,665)	582,618	431,571

7 **CURRENT ASSETS**

	1990 £000s	[illegible] £000s
Debtors: amounts falling due within one year		
Sales for future settlement	926	[illegible]
Other debtors	251	[illegible]
Short term deposits and bank balances	33,306	[illegible]
Prepayments and accrued income	332	[illegible]
	34,815	[illegible]

8 **DEFERRED TAXATION ASSET**

Deferred taxation is calculated as below

Prepayments and accrued interest [illegible]	263	[illegible]

9 **CREDITORS**

Amounts falling due within one year		
Purchases for future settlement	5,147	[illegible]
Interim ordinary dividend declared	—	[illegible]
Recommended final ordinary dividend	8,812	[illegible]
Preference dividends	38	[illegible]
Other creditors	507	[illegible]
Debenture interest accrued	1,063	1,138
Taxation	312	1,368
	15,499	[illegible]

10 **CREDITORS**

Amounts falling due after more than one year		
Redeemable other than in instalments		
between one and five years		
[illegible] Debenture Stock 1990-95	1,151	1,151
after five years		
8% Debenture Stock 1996-99	2,000	2,000
[illegible] Debenture Stock 2016	46,000	50,000
	49,151	53,151

11 **SHARE CAPITAL**

	Number of shares	£000s	£000s
Allotted, called-up and fully paid			
[illegible] Cumulative Preference shares of £1	2,055,000	2,055	2,055
[illegible] Cumulative Preference shares of £1	500,000	500	500
Ordinary shares of 25p each	341,668,993	85,417	85,413
Called-up share capital		87,972	87,968
Unissued shares of 25p each	48,111,006	12,028	12,032
Authorised		100,000	100,000

Warrants

There are [illegible] warrants in issue to subscribe for Ordinary shares of 25p each. The warrants may be exercised on 31st March in any of the years 1991 to 1994 inclusive at the price of [illegible] per Ordinary share.

On 31st March 1990 warrant holders exercised their rights to subscribe for 18,483 Ordinary shares for a consideration of £[illegible].

12 **RESERVES**

	Non-distributable			Distributable
	Share premium £000	Realised £000	Unrealised £000	Revenue £000
Balance at 31st December 1989	40	292,664	408,678	5,551
Profits/(loss) on investments	–	14,201	(257,661)	
Losses on currencies	–	(1,366)		
Warrants exercised	9			
Retained revenue for the year				2,228
Balance at 31st December 1990	49	305,499	151,017	7,779

13 **LOAN FACILITY**

There is an overdraft facility of £15m and a multi-currency term loan facility of £55m from the Company's bankers to 31st May 1991. Any drawings on these facilities are secured by a memorandum of deposit.

14 **CONTINGENT LIABILITIES**

There is a potential claim against the Company of approximately £500,000 through a United States court in relation to an undisclosed taxation liability in an investment sold by the Company in 1985. The directors do not believe that a provision is required.

Guarantees have been given in respect of covenants under a lease held by a subsidiary company and US$498,750 (1989: Nil) in respect of a bank loan by an associated company.

AUDITORS' REPORT

We have audited the accounts on pages 24 to 32 in accordance with auditing standards.

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st December 1990 and of its revenue and source and application of funds for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Coopers + Lybrand Deloitte

Coopers & Lybrand Deloitte
Chartered Accountants

1st February 1991
London