

*Electric & General  
Investment Trust plc*

Annual Report & Financial Statements  
for the year ended 30 June 2008

## CONTENTS

1	Financial Highlights, Performance, Corporate Objective and Investment Policy
2	Historical Record, Dividend and Benchmark
3	Growth in Net Asset Value and Share Price, and Net Asset Value per Share Performance
4	Company Information and Reporting and Financial Calendar
5	Directors
6	Investment Manager
7-9	Chairman's Statement
10	Portfolio Analysis by Asset Category, Country and Currency Exposure
11	Analysis of Investments by Sector
12-13	Portfolio Valuation
14-15	Ten Largest Investments
16-20	Report of the Directors
21-23	Corporate Governance
24	Directors' Remuneration Report
25	Income Statement
26	Balance Sheet
27	Reconciliation of Movements in Shareholders' Funds
28	Cash Flow Statement
29-39	Notes to the Financial Statements
40	Report of the Independent Auditor
41-42	Notice of Meeting
43-44	Appendix
45	Capital Gains Tax Information

# ELECTRIC & GENERAL INVESTMENT TRUST PLC

## FINANCIAL HIGHLIGHTS

	Year ended 13 months to		%
	30 June 2008	30 June 2007	
Per ordinary share	Pence	Pence	change
Net asset value – as per Financial Statements	439.82	483.09	-9.0
Share price	384.00	428.00	-10.3
MSCI World Index (Sterling excluding income)	704.55	797.67	-11.7
Revenue return per share	10.07	9.47	+6.3
Total return per share	(36.08)	82.01	-144.0
Dividend	7.85	7.19	+9.2
Total Expense Ratio	0.88%	1.20%	-0.3

Comparative figures are for the 13 months ended 30 June 2007.

## PERFORMANCE

Capital returns to 30 June 2008	1 year base 100	3 years base 100	5 years base 100
Net asset value <sup>†</sup>	92.1	134.1	175.0
Share price <sup>#</sup>	89.7	125.3	173.8
Peer group NAV: Global Growth category: size weighted average <sup>†</sup>	93.1	134.5	186.6
Benchmark*	88.3	109.9	133.8

<sup>†</sup> Source: AIC – Total return.

<sup>#</sup> Source: Bloomberg.

\* Benchmark: MSCI World Index (Sterling excluding income).

## CORPORATE OBJECTIVE

The Company's objective is to maximize total return while pursuing a progressive dividend policy, where achievable, within the over-riding objective of capital growth.

## INVESTMENT POLICY

The Investment Manager seeks to achieve the Company's objectives by investing principally in a portfolio of quoted international equities. The portfolio would normally consist of between 60 and 100 holdings, which is relatively concentrated for a Global Fund. However, it is important that the portfolio be well spread and not over dependent on any one economy or sector. While the MSCI World Index (Sterling excluding income) is used as a comparative index for the purpose of measuring the portfolio, no attention is paid to the composition of this index when constructing the portfolio, therefore, the composition of the portfolio is likely to vary substantially from the index. A long term view is taken and there may be periods when the Net Asset Value ("NAV") of the share declines, both in absolute and relative terms to the comparative index. Payment of dividends is secondary to achieving capital growth. The shares are not considered to be a suitable investment for those seeking a regular or rising income, as priority is given to total return.

Assets other than quoted equities may be purchased from time to time, including fixed interest holdings, unquoted securities and derivatives. At present, the Company uses forward currency contracts from time to time to hedge back into the base currency Sterling. Unquoted investments are made relatively infrequently, and the Investment Manager always fully consults the Board before new unquoted investments are entered into.

The Investment Manager believes that tactical use of gearing can add value from time to time. At present, the Company only has £7,000,000 worth of borrowings in the form of a loan stock, which matures on 30 November 2011. Any further gearing would be in the form of an overdraft or short term loan facility, which can be repaid at any time. At present, the Investment Manager would not anticipate gearing beyond 10% of NAV and in fact have kept the Company above 10% liquid for most of the reporting period.

## HISTORICAL RECORD

Year	Total assets less current liabilities in £'000	Net asset value per ordinary share in pence	Mid-market price per ordinary share in pence	Discount %	Earnings per ordinary share in pence	Dividend per ordinary share in pence
1998 <sup>†</sup>	350,811	380.1	358.3	5.8	4.85	4.00
1999 <sup>†</sup>	373,616	394.0	348.5	11.6	5.39	4.00
2000 <sup>†</sup>	501,786	526.5	468.0	11.1	3.61	4.00
2001 <sup>†</sup>	413,998	419.7	399.0	5.0	4.72	4.00
2002 <sup>†</sup>	319,248	337.5	286.0	15.3	4.56	4.20
2003 <sup>†</sup>	248,701	266.6	214.0	19.7	5.11	4.40
2004 <sup>†</sup>	264,349	294.2	247.0	16.0	5.36	4.75
2005 <sup>†*</sup>	225,679	333.8	304.0	8.9	6.94	7.85
2006 <sup>†</sup>	275,307	406.8	377.5	7.2	6.54	5.70
2007 <sup>#</sup>	323,787	483.1	428.0	11.4	9.47	7.19
<b>2008</b>	<b>294,877</b>	<b>439.8</b>	<b>384.0</b>	<b>12.7</b>	<b>10.07</b>	<b>7.85</b>

<sup>†</sup> Year to 31 May

\* In 2005, the Company paid a special dividend of 2.85p per ordinary share to shareholders as a consequence of the 2004 tender offer.

# The year end date has moved to 30 June, as a result information is for 13 months.

### DIVIDEND

An interim dividend of 2.00p (2007: 2.00p) was paid to ordinary shareholders on 7 March 2008.

A final dividend of 5.85p (2007: 5.19p) per ordinary share is being recommended to shareholders for approval for payment on 1 October 2008 to shareholders on the register on 5 September 2008.

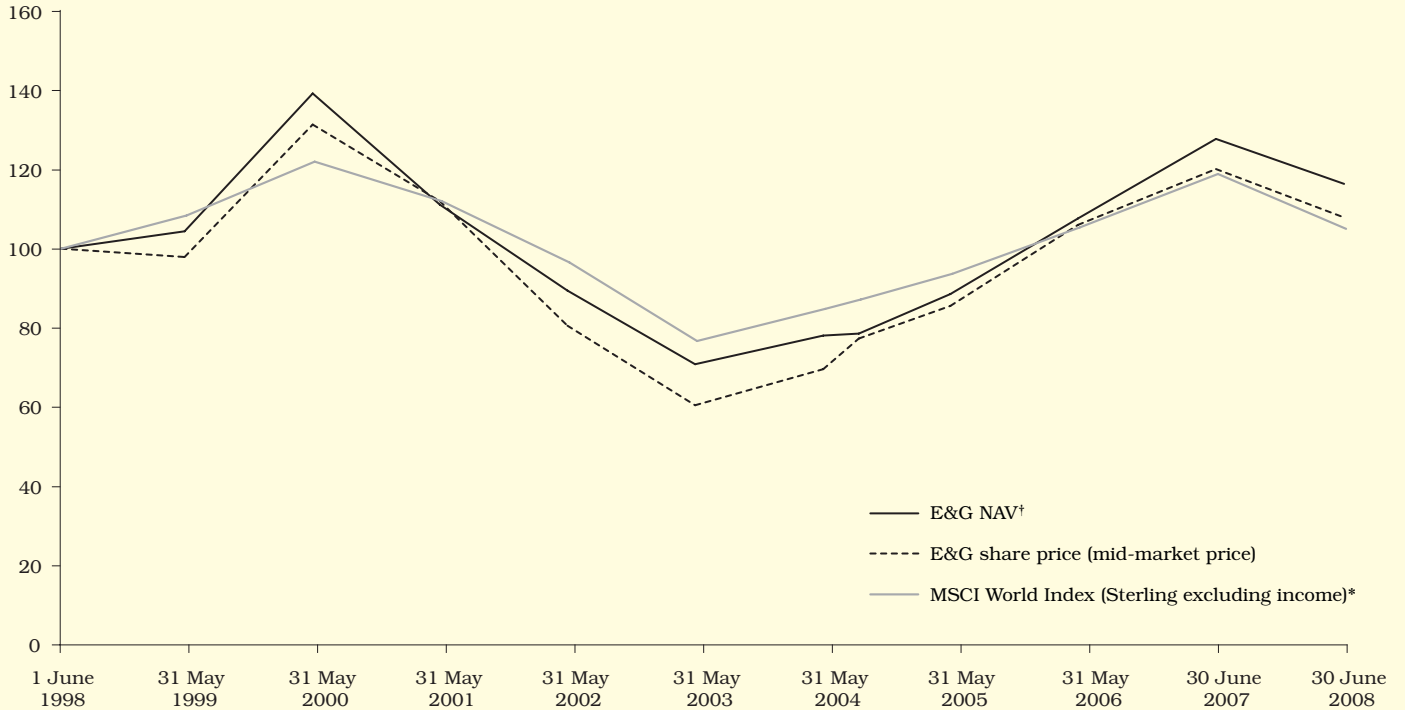
### BENCHMARK

Performance is measured against the MSCI World Index (Sterling excluding income).

## PERFORMANCE GRAPHS

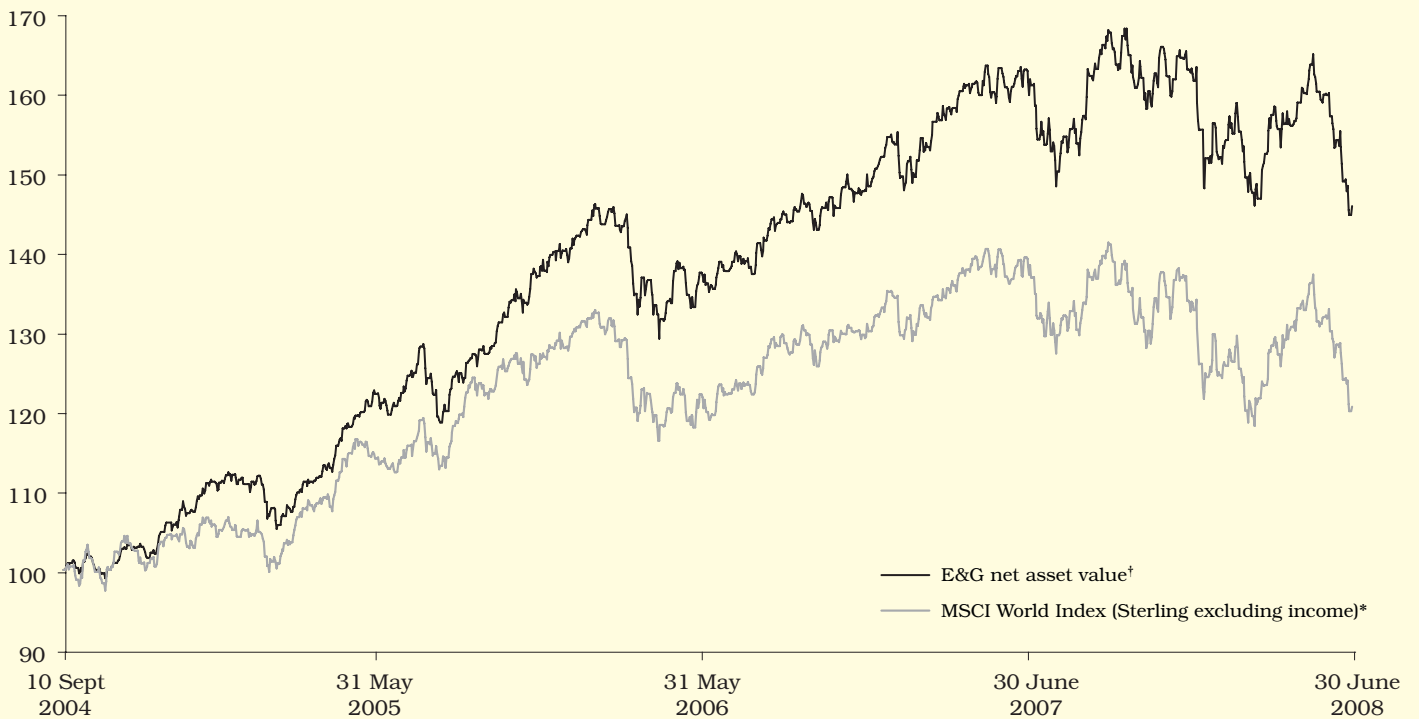
### GROWTH IN NET ASSET VALUE (“NAV”) AND SHARE PRICE

for the period from 1 June 1998 to 30 June 2008 (1 June 1998 = rebased to 100)



### NAV PER SHARE PERFORMANCE

from 10 September 2004 (rebased to £100) to 30 June 2008



† Source: AIC Capital Return.

\* Source: Bloomberg.

Past performance is not a guide to the future. The value of the shares and the income from them can go down as well as up. You may not get back the full amount invested.

## COMPANY INFORMATION

### Directors

Lindsay C N Bury (Chairman)  
Gerry P Aherne  
John D W Pocock  
Jonathan G Ruffer

### Company Secretary and Registered Office

BNP Paribas Secretarial Services Limited  
55 Moorgate  
London EC2R 6PA

Telephone: +44 (0)20 7410 3132  
Facsimile: +44 (0)20 7477 5849  
Email: [secretarialservice@uk.bnpparibas.com](mailto:secretarialservice@uk.bnpparibas.com)

### Investment Manager

Taube Hodson Stonex Partners LLP  
Cassini House  
57-59 St James's Street  
London SW1A 1LD

### Registrar

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

Telephone: +44 (0)870 707 1032

### Custodian

BNP Paribas Fund Services UK Limited  
55 Moorgate  
London EC2R 6PA

Telephone: +44 (0)20 7595 2000

### Auditor

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

### Stockbroker

JPMorgan Cazenove Limited  
20 Moorgate  
London EC2R 6DA

### Solicitor

Linklaters  
One Silk Street  
London EC2Y 8HQ

### Savings Scheme Administrator

BNP Paribas Fund Services UK Limited  
55 Moorgate  
London EC2R 6PA

Investor helpline: +44 (0)845 358 1113

### Information

Share price and performance information can be found on the Company's website [www.electricandgeneral.com](http://www.electricandgeneral.com).

The Company publishes the NAV per share daily. The market price of the shares is published in The Financial Times and other leading newspapers. The London Stock Exchange Daily Official List (SEDOL) Code is 0309019. Investors with Share Certificates (i.e. not those in the Share Plan or an ISA Scheme) can check their holding with the Registrar, Computershare Investor Services PLC. The link can be found via [www.computershare.com](http://www.computershare.com).

## REPORTING AND FINANCIAL CALENDAR

### Results

Interim results announced: February

Annual results announced: August

Annual General Meeting held: September

### Dividends

Interim: March

Final/second interim: October

Dividends can be paid to shareholders by means of BACS ("Bankers' Automated Clearing Services"). Mandate forms for this purpose are available on request from the Company's Registrar.

A member of the Association of Investment Companies.  
An investment company as defined under Section 833 of the Companies Act 2006.  
Registered in England and Wales, Number 31506.

## DIRECTORS

The Directors are listed below. All Directors served throughout the year and are non-executive.

### Chairman

#### **Lindsay C N Bury<sup>^</sup>**

Aged 69, was appointed to the Board in 1995. Mr Bury is chairman of Bango Plc and Service Power Technologies plc. In 2006 he retired from the board of Sage Group plc where he was senior non-executive director. Earlier directorships include South Staffordshire Group where he was chairman for twelve years, ACT Group where he was a founder and director prior to the acquisition by Misys plc, Portals Holdings for twenty years prior to the acquisition by De La Rue plc and Dunbar plc, where he was a founder and director for twelve years prior to its acquisition by Allied Hambro. Other plc directorships have included Roxboro, Christie Group and Unicorn plc where he was chairman. His city career includes five years at Schroders, seven years at Singer & Friedlander as well as 10 years managing the investment department at Dunbar plc.

### Directors

#### **Gerry P Aherne**

Aged 62, was appointed to the Board in 2003. Previously was a director of Schroder Investment Management Limited and a non-executive director of PRI Group plc. He is currently a non-executive director of Henderson Global Investors plc and Majedie Investments plc. He has spent a long career managing investments, pension funds and unit trusts, with a special interest in the insurance industry.

#### **John D W Pocock<sup>†#</sup>**

Aged 48, was appointed to the Board in 1999. Formerly CEO of Druid Group plc and subsequently a Director of Xansa plc, he is currently non-executive chairman of a number of institutionally backed UK software companies and a non-executive director of Aberdeen Income and Growth VCT PLC.

#### **Jonathan G Ruffer**

Aged 56, was appointed to the Board in 2001. Mr Ruffer trained as a barrister and stockbroker before moving into private client investment management in 1980, with Dunbar Fund Managers. Formerly chief investment officer of Rathbone Bros plc, he established Ruffer Investment Management Limited in 1994 and is chief executive of Ruffer LLP.

All Directors are independent and are members of the Audit, Nomination and Management Engagement Committees.

<sup>^</sup> Chairman of the Board, Nomination Committee and Management Engagement Committee.

<sup>†</sup> Senior Independent Director.

<sup>#</sup> Chairman of the Audit Committee.

## **INVESTMENT MANAGER**

Taube Hodson Stonex Partners LLP (“Taube Hodson Stonex” or “THS”) is an independent fund management partnership which is controlled by its four Managing Members, John Hodson, Cato Stonex, Mark Evans and Simon Edelsten, and is authorised and regulated by the Financial Services Authority. As at 30 June 2008, Taube Hodson Stonex had £10.53 billion of funds under management (excluding those of the Company).

Nils Taube retired from day to day investment management at Taube Hodson Stonex on 31 December 2006 to become a non-executive director, a post that he relinquished on 31 December 2007. Nils died on 11 March 2008 and will be missed by his friends and former colleagues.

All clients of Taube Hodson Stonex are managed on a collegiate basis by the individuals detailed below:

### **John Hodson**

John has been involved in investment management for more than 30 years, first with National Employers Mutual Insurance Company and then with Dawnay Day, a small merchant bank, taking responsibility for the unit and life funds of Target Life. When Lord Rothschild took control of Dawnay Day in 1980, John went to work for Rothschild Investment Trust (“RIT”) where he continued to manage the Target funds, and where he teamed up with Nils Taube. In 1983 Target was spun out of RIT as a management buy-out with John as investment director, and in 1987 Target was acquired by the TSB. In 1990 he returned to J. Rothschild Investment Management, renewing his association with Nils Taube.

### **Cato Stonex**

Cato graduated from the London School of Economics in 1986 and joined the European government bond trading department at Morgan Grenfell. In 1989 he joined J. Rothschild Investment Management and began his association with Nils and John.

### **Mark Evans**

Mark graduated from Bristol University in 1985 and joined Morgan Grenfell where he worked in various departments including two years spent trading German government bonds. In 1989, he moved to ING to work in the Dutch bank’s emerging market debt department. In 1995 he left ING to join Montpelier Asset Management as a director and shareholder. He was asked to join Taube Hodson Stonex in 1998.

### **Simon Edelsten**

Simon graduated from Trinity College Oxford in 1983. He came into the City in 1984 and worked for Phillips and Drew and was a director in Equity Sales from 1989 until 1993 and then joined BZW as a director in Equity Sales from 1993 until 1997. In 1997 he joined Dresdner Kleinwort Benson as Head of European Equity Sales and took special responsibility for their Telecommunications team. Simon joined Taube Hodson Stonex in 2001.

### **Robert Smithson**

Robert graduated from Trinity College, Cambridge in 1995. In 1996, he joined Goldman Sachs equity research, covering European technology companies. In 2000, Robert left Goldman Sachs to start an independent equity research boutique, Arete Research, where he was finance director and head of the software team. Robert joined Taube Hodson Stonex in 2004.

### **Ali Miremadi**

Ali graduated from Wadham College, Oxford in 1994 with a first class degree in English. On graduation, he joined Baring Securities for two years. Ali then joined Goldman Sachs where he worked in a variety of roles in proprietary trading, convertible and warrant sales and equity sales trading. Ali joined Taube Hodson Stonex in February 2007.

## CHAIRMAN'S STATEMENT

### Policy and Objective

The Company's objective is to maximise total return whilst pursuing a progressive dividend policy, where achievable, within the over-riding objective of capital growth. The Investment Manager seeks to achieve the Company's objectives by investing principally in a portfolio of quoted international equities. Further information on the Company's investment policy can be found on page 1.

### Benchmark

The benchmark against which the portfolio performance is measured is the MSCI World Index (Sterling excluding income), thus emphasising the global nature of the portfolio.

### Performance

For the year ended 30 June 2008 the net asset value ("NAV") of the Company (excluding income) decreased by 9.2%, which compares to a decrease of 11.7% in the MSCI World Index (Sterling excluding income). Over the same period the Company's share price decreased by 10.3%, the difference in performance being made up by the discount to NAV having increased from 11.4% to 12.7% per share.

### Dividend

The Board recommends that shareholders approve a final dividend of 5.85p per ordinary share, making a total of 7.85p per ordinary share for the year under review. This final dividend is recommended for payment to shareholders on the register as at 5 September 2008, payable on 1 October 2008.

### Share Buy Backs

The Company did not make any market purchases of its own shares during the year ended 30 June 2008.

### Market Background

The world's equity markets have fallen during the year under review, with a number of macroeconomic factors clouding investors' outlook. Rising inflation across the globe is reducing real incomes, and encouraging central banks in the emerging world in particular to tighten monetary conditions. Meanwhile, the very high levels of leverage that had built up within the financial sector over the past several years have led to a freezing of credit markets in many parts of the developed world, as banks begin to shrink assets and raise equity, thereby starving both consumers and corporates of credit. This manifested itself first in the United States ("US") housing market, which is now in its third consecutive down year, and has now spread to many parts of the world.

Central banks have reacted quite differently around the world in response to these developments. The well publicised collapses of Northern Rock in the UK, and the investment bank Bear Stearns in the US, has led the US Federal Reserve, European Central Bank ("ECB") and Bank of England to accept a wider range of collateral from financial institutions in order to provide liquidity to the system. The US Federal Reserve, which had raised rates to a high of 5.25% by the summer of 2007, has now cut these to 2.0% in an attempt to kick start the US economy. The Bank of

England had initially followed this lead, cutting rates from 5.75% to 5.0%, but has now turned more hawkish in the face of rising inflation concerns. In contrast, recent rises in ongoing inflation have encouraged the ECB to raise rates, and their international peers are now considering following suit.

Other asset classes have also moved dramatically over the past twelve months. The US dollar has continued to fall on a trade weighted basis, both as the US Federal Reserve has cut rates far below global peers and as currency speculators have become more pessimistic about the US economy. Sterling, however, is little changed against the US dollar, as the view on the UK economy has soured at an equal pace. The Japanese Yen – which had been borrowed widely by speculators during the past few years of easier financial conditions – has strengthened, and meanwhile the Euro has become a relative "safe haven" currency, appreciating against all its major peers. The long awaited upward revaluation of the Chinese Renminbi continues, but at a glacial pace, with a slow rise against the US dollar, but not enough to keep pace with the Euro or Japanese Yen.

Oil, and the energy complex generally, has been the standout change on the year. A barrel of West Texas Intermediate crude oil doubled over the year under review to a price of \$140. The prices of natural gas and coal have moved in sympathy – thermal coal has risen by 170% over the year – and consequently the price of wholesale electricity has risen sharply. In the short term these moves in prices act as a tax on consumers of power around the world – and often of governments, who in many emerging markets subsidise the price of power. Meanwhile the owners of resources are enjoying a boom. The consequences of higher energy prices though are today, as at previous times in the past, stimulating a response both in terms of securing alternative, renewable sources of energy, and in terms of demand destruction, as both corporates and consumers around the world seek to reduce their consumption of ever more expensive resources.

The Investment Manager has responded in two ways to this rise in power prices. The fastest growing investment theme in the portfolio is clean energy. Nuclear energy has been an area of interest for some time, with both EDF in France and Exelon in the US benefiting from being low carbon emitting generators of power in an environment of increased sensitivity to the pollution cost of traditional fossil fuels. Two investments in solar power technology have been added over the past year. Q-Cells is the world's biggest manufacturer of photo voltaic cells for solar panels. It also owns a stake in Renewable Energy Corporation, the biggest maker of solar grade silicon, and has a number of holdings in thin-film technology, a relatively new approach which may continue to reduce the cost of solar power generation still further. As this technology and the industry matures the cost of producing electricity directly from sunlight has begun to approach parity with existing power prices – particularly in

## CHAIRMAN'S STATEMENT

(continued)

warm climates where peak power usage coincides with the hours of peak sunlight. Orkla is an alternative play on the same theme. It is a Norwegian conglomerate which trades on a substantial discount to its sum of the parts. One of its core holdings is a 40% stake in Renewable Energy Corporation. Toray, the world's biggest manufacturer of carbon fibre, is another recent addition to the portfolio which should benefit from rising concerns about energy efficiency. Carbon fibre is now a sufficiently mature technology to be used as a significant component of new aircraft, such as Airbus' A380 and Boeing's Dreamliner. It is both lighter and stronger than steel or aluminium, and therefore makes the planes more energy efficient.

Stranded energy around the world has become an increased area of focus, as the rising price of oil makes remote projects increasingly economic. Australia is a country rich in gas, as it is in other resources, but the absence of sufficient infrastructure to export the gas to international markets has left domestic prices in some parts of the continent very low for many years. As such, Santos has been added to the portfolio. It has extensive natural gas resources in Eastern Australia, boosted in particular by investments in coalbed methane. The desire to secure long term supplies of natural gas has led both Singapore and Malaysia to strike deals on generous terms with Australian producers that has caused the value of these assets to revalue. As LNG liquefaction plants are built over the next several years the price of natural gas in the domestic Australian market should reach equivalence with the international price, and these assets will continue to appreciate. Inpex, the Japanese upstream energy company, has also been added to the portfolio, in part because of its undervalued Australian gas assets, this time to the north west of the country. Repsol is another late cycle energy play added to the portfolio over the last few months. Repsol bought YPF in Argentina in 1999, but has been unable to earn appropriate returns from it over the years, particularly since the Argentine government keeps a low limit on domestic energy prices. A local investor has now however bought 15% of YPF, and a further stake is to be listed on the Buenos Aires stock exchange. Increasing power cuts in the domestic electricity market are demonstrating to the Argentine Government that increased investment in infrastructure is required, which in turn necessitates higher prices. Earnings from Argentina should therefore soon improve. Also, Repsol has a 20% stake in one of the bigger recent discoveries in offshore oil from Brazil. While this project will take years to bring to production, it provides an extra aspect to the investment case.

Emerging markets have been the great incremental engine of growth for the global economy over the past several years, and China in particular has been an aggressive consumer of basic materials such as copper, iron ore and aluminium. Higher inflation in food and energy prices has started to have a real effect in these markets over the past year, as these components represent a large portion of typical family expenditure. The portfolio has had substantial exposure to

emerging market growth over the past few years, but direct exposure was reduced in the second half of 2007. Specific sales included PICC, the largest Chinese non-life insurer, as the multiple of book value expanded from two times at the time of purchase to around six times by last autumn. Also sold were both Standard Chartered, the UK listed bank with operations from Northern Africa to North Eastern Asia and DBS, the Singaporean bank. Two South African based telecom stocks were also removed from the portfolio – MTN and Telkom. The political situation in South Africa seems to be becoming less friendly to business, and that economy too is struggling with inflation. Commodities prices have thus far continued to rise despite slowing economies around the world. The mining sector has been a great beneficiary of this boom. Profits have been taken in Rio Tinto in recent months in anticipation that the good times for the sector cannot continue forever.

Property and financial companies have been in the eye of the de-leveraging storm over the past eighteen months. Over the last few months some positions in property companies in other parts of the world have been added to the portfolio, largely in places where property prices have not been so buoyant and where financing remains available. ANF was added to the portfolio earlier this year. ANF is a property company majority owned by the French private equity firm Eurazeo, itself a holding in the portfolio. ANF owns commercial property in the business centres of both Lyon and Marseille. In the past twelve months ANF has attracted many more attractive tenants to Marseille, in particular, and rents are rising (and vacancies falling) in consequence. The company is conservatively financed and is well set up to implement further improvements in both of its major locations. Two real estate related plays in Japan have also been added to the portfolio. Sekisui House is Japan's biggest builder of detached homes, with a significant condominium and urban development business attached. It trades on a significant discount to book value and has large projects in both central Tokyo and Osaka which will come to maturity over the years 2009 to 2012. Japan Retail Fund is a Japanese real estate investment trust which specialises in shopping centres. It pays a dividend over 5% fully funded by rental income, and has shown considerable expertise in improving properties and raising rents over the past few years. The prospects for these modestly valued companies should improve as Japanese long term bond yields start to rise and the country begins to experience inflation for the first time in many years.

Banks and insurance companies have also been sharply de-rated during the year under review, as the market has focussed first on their write downs in their securities portfolios, then their liquidity concerns as interbank funding became less freely available, then the need of many banks to raise capital, and now onto rising impairment charges as economies weaken. The Investment Manager has acted somewhat contra-cyclically, adding to positions in financial stocks whose prospects remain strong and where valuations

## CHAIRMAN'S STATEMENT

(continued)

have contracted sharply. This includes the long standing holding in BNP Paribas, the French bank with extensive interests in both Italy and central Europe; to ING, the Dutch based bank assurer with a global savings business; to Swiss Re, one of the world's biggest reinsurers; and to Royal Bank of Scotland, where the recent well publicised £12bn rights issue gave management the opportunity to "spring clean" their balance sheet by writing down some treasury assets to conservative levels and simultaneously strengthen their balance sheet by raising more equity capital.

Some sectors of the stock market have become more expensive during the year under review, as investors paid a premium for business models perceived to be "defensive". The Investment Manager took the opportunity to sell down holdings in Kao Corp, a Japanese consumer products business, and Cadbury Schweppes, the carbonated drink and confectionary business, as both share prices benefited from this phenomenon. Nestle was also reduced, having been a great winner from emerging market demand, but having moved above fair value in the opinion of the Investment Manager.

One unlisted investment has been made in Medicover, a central European medical insurance business. The Investment Manager has invested previously with this management team. They are now expanding their operations both in their core market of Poland and elsewhere in the region. As incomes rise consumers' expectations of medical treatment accelerate, and Medicover is well placed to accommodate this demand.

### Prospects

Global equity markets had enjoyed a period of strong and steady growth from the depths of the last bear market, after the bursting of the technology, media and telecom bubble in the early part of this decade. This time the challenges are different, and the solutions will take time to work their way through. The ramifications of the over expansion of leverage, both within financial institutions and on many consumers around the world, are leading to a deflation of asset prices which will continue to provide a strong headwind to equity markets. However the corporate sector in general is not over geared, as many companies have taken advantage of the past few years of good times to strengthen their balance sheets. Equity markets are not stretched in valuation terms, and there are now an increasing number of companies whose shares offer strong value. The portfolio continues to be diversified geographically and by business sector, and is concentrated on larger companies with relatively strong balance sheets. With a high liquidity position over the past several months providing the ability to take advantage of ongoing opportunities, there remain grounds to be cautiously optimistic in the medium term.

### New Articles of Association

We are asking shareholders to approve a number of amendments to the Company's articles of association primarily to reflect the provisions of the Companies Act

2006. An explanation of the main changes between the proposed and the existing articles of association is set out in the Appendix on page 43 of this document. The resolution will be proposed as an item of special business at the 2008 Annual General Meeting.

### Annual General Meeting ("AGM")

The Company's AGM this year will be held at the offices of JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA on Wednesday, 24 September 2008 at 12 noon. Full details of the business to be conducted at the AGM are set out in the Notice of Meeting on pages 41 and 42.

Naturally, your Board welcomes your attendance at the forthcoming AGM, not least because it provides an excellent opportunity for shareholders to put questions to the Directors and the Investment Manager. Should you have a query that requires a detailed or technical response, I would urge you to submit it to the Company Secretary in advance of the AGM to ensure the most thorough response. The Company Secretary's contact details can be found on page 4 of this Report. For those of you unable to attend the AGM, the Board would encourage you to submit your proxy votes.

### Lindsay Bury

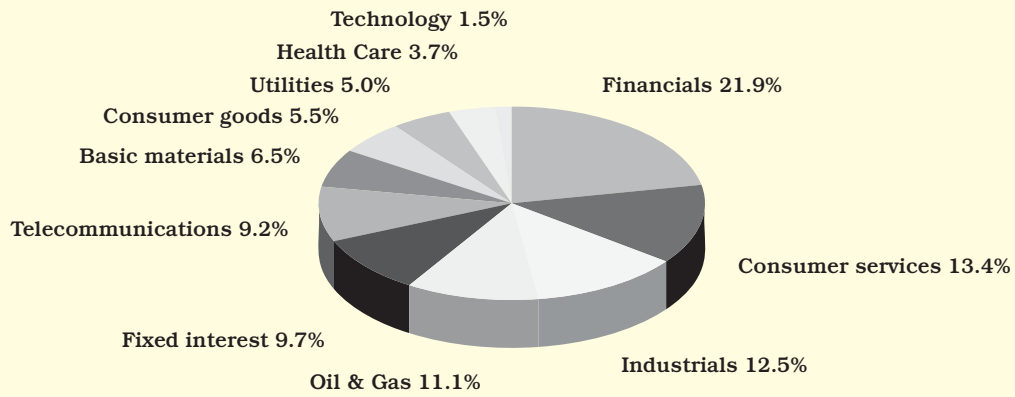
Chairman

14 August 2008

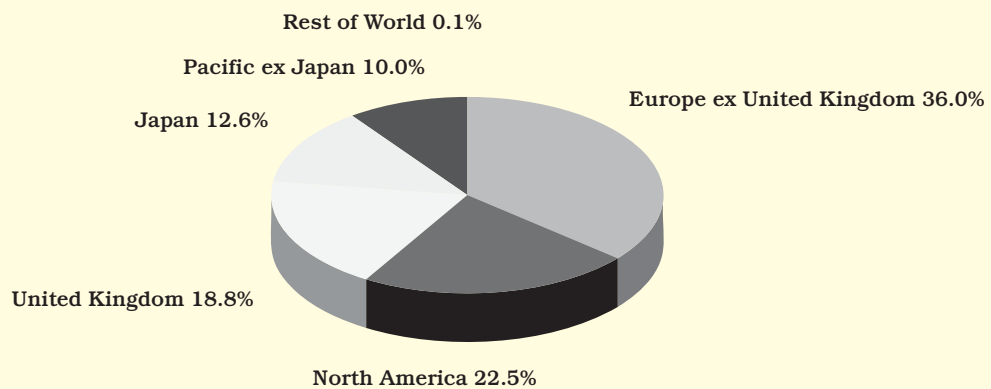
# PORTFOLIO ANALYSIS BY ASSET CATEGORY, COUNTRY AND CURRENCY EXPOSURE

as at 30 June 2008

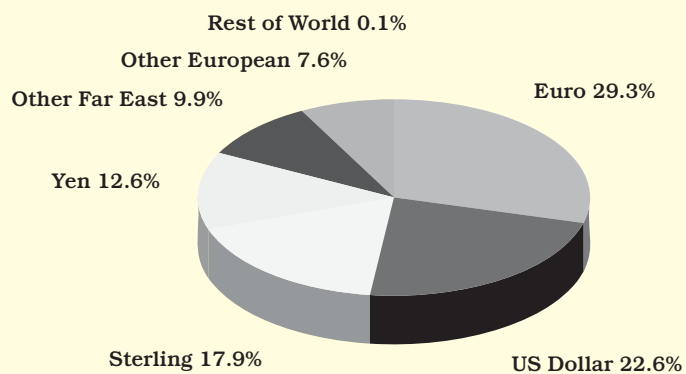
## Portfolio Analysis by Asset Category



## Portfolio Analysis by Country



## Currency Exposure



## ANALYSIS OF INVESTMENTS BY SECTOR

as at 30 June 2008

		<b>Total 2008</b>	Total 2007
		%	%
<b>Financials</b> <b>21.9%</b>	Banks	8.5	11.4
	Life Insurance	4.5	4.4
	General Financial	2.0	2.6
	Nonlife Insurance	3.9	4.3
	Real Estate	3.0	0.2
		<u>21.9</u>	<u>22.9</u>
<b>Consumer Services</b> <b>13.4%</b>	General Retailers	2.0	2.5
	Media	7.6	9.6
	Food & Drug Retailers	2.3	4.3
	Travel & Leisure	1.5	2.4
	<u>13.4</u>	<u>18.8</u>	
<b>Industrials</b> <b>12.5%</b>	Support Services	1.7	1.9
	Industrial Transportation	3.6	4.8
	Construction & Materials	2.4	1.5
	General Industrials	1.9	1.7
	Industrial Engineering	2.9	2.0
	Electronic & Electrical Equipment	-	-
	<u>12.5</u>	<u>11.9</u>	
<b>Oil &amp; Gas</b> <b>11.1%</b>	Oil & Gas Producers	10.4	8.0
	Alternative Energy	0.7	-
	<u>11.1</u>	<u>8.0</u>	
<b>Fixed Interest</b> <b>9.7%</b>	Fixed Interest	9.7	8.0
	<u>9.7</u>	<u>8.0</u>	
<b>Telecommunications</b> <b>9.2%</b>	Mobile Telecommunications	3.1	3.4
	Fixed Line Telecommunications	6.1	5.5
	<u>9.2</u>	<u>8.9</u>	
<b>Basic Materials</b> <b>6.5%</b>	Mining	4.1	3.8
	Industrial Metals	1.7	1.4
	Chemicals	0.7	-
	<u>6.5</u>	<u>5.2</u>	
<b>Consumer Goods</b> <b>5.5%</b>	Food Producers	3.9	4.4
	Household Goods	1.6	1.1
	Personal Goods	-	0.9
	Automobiles & Parts	-	-
	<u>5.5</u>	<u>6.4</u>	
<b>Utilities</b> <b>5.0%</b>	Gas, Water & Multiutilities	1.3	1.3
	Electricity	3.7	4.0
	<u>5.0</u>	<u>5.3</u>	
<b>Health Care</b> <b>3.7%</b>	Health Care Equipment & Services	1.0	0.5
	Pharmaceuticals & Biotechnology	2.7	2.6
	<u>3.7</u>	<u>3.1</u>	
<b>Technology</b> <b>1.5%</b>	Technology, Hardware & Equipment	1.5	1.5
	<u>1.5</u>	<u>1.5</u>	
<b>Total</b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	

## PORTFOLIO VALUATION

as at 30 June 2008

	Sector	£'000	% of Portfolio
<b>United Kingdom</b>			
UK Treasury 4% 07/03/09	Fixed Interest	9,928	3.4
Royal Dutch Shell <sup>#</sup>	Oil & Gas Producers	6,018	2.1
Vodafone <sup>#</sup>	Mobile Telecommunications	5,629	2.0
Rio Tinto	Mining	3,809	1.3
National Grid	Gas, Water & Multiutilities	3,805	1.3
British Sky Broadcasting	Media	3,403	1.2
HSBC Holdings	Banks	2,741	1.0
Experian Group	Support Services	2,723	0.9
Medicover Holding <sup>*</sup>	Health Care Equipment & Services	2,655	0.9
Royal Bank of Scotland	Banks	2,627	0.9
Home Retail Group	General Retailers	2,499	0.9
Davis Service Group	Support Services	2,239	0.8
Prudential	Life Insurance	1,770	0.6
WPP	Media	1,709	0.6
Anglo American	Mining	1,682	0.6
Herald Ventures <sup>*</sup>	General Financial	672	0.2
Yell Group	Media	337	0.1
Ubinetics <sup>*</sup>	Mobile Telecommunications	-	-
		54,246	18.8
<b>North America</b>			
US Treasury 4.875% 31/08/2008	Fixed Interest	15,069	5.2
SNC-Lavalin <sup>#</sup>	Construction & Materials	7,047	2.4
Petro-Canada <sup>#</sup>	Oil & Gas Producers	5,297	1.8
Exelon Corporation	Electricity	5,268	1.8
Alcoa	Industrial Metals	4,828	1.7
Intel	Technology, Hardware & Equipment	4,365	1.5
Conocophillips	Oil & Gas Producers	3,491	1.2
US Treasury Bill 0% 07/08/08	Fixed Interest	3,134	1.1
Manulife Financial	Life Insurance	2,904	1.0
DirecTV	Media	2,362	0.8
Education Media & Publishing <sup>*</sup>	Media	2,257	0.8
Carnival	Travel & Leisure	2,155	0.7
Williams-Sonoma	General Retailers	1,637	0.6
Home Depot	General Retailers	1,343	0.5
St Joe Company	Real Estate	1,154	0.4
Clearwire Corporation	Fixed Line Telecommunications	1,028	0.4
Human Genome Sciences	Pharmaceuticals & Biotechnology	998	0.3
UCBH Holdings	Banks	435	0.2
Ace Aviation	Travel & Leisure	222	0.1
		64,994	22.5
<b>Europe ex United Kingdom</b>			
ING <sup>#</sup>	Life Insurance	6,220	2.2
Nestle <sup>#</sup>	Food Producers	5,838	2.0
Repsol YPF <sup>#</sup>	Oil & Gas Producers	5,451	1.9
Electricite de France <sup>#</sup>	Electricity	5,331	1.9
France Telecom	Fixed Line Telecommunications	5,033	1.7
ANF	Real Estate Investment Trusts	4,908	1.7
BNP Paribas	Banks	4,555	1.6
Carrefour	Food & Drug Retailers	4,547	1.6
Fraport	Industrial Transportation	4,516	1.6
Allianz	Nonlife Insurance	4,433	1.5
Swiss Reinsurance	Nonlife Insurance	4,369	1.5
Unicredito Italiano	Banks	4,131	1.4
Orkla	Food Producers	4,088	1.4
Vivendi Universal	Media	4,013	1.4

## PORTFOLIO VALUATION

(continued)

	Sector	£'000	% of Portfolio
<b>Europe (continued)</b>			
Deutsche Post AG	Industrial Transportation	3,704	1.3
Eurazeo	General Financial	3,349	1.2
Schibsted	Media	3,010	1.0
Belgacom	Fixed Line Telecommunications	2,842	1.0
Total	Oil & Gas Producers	2,841	1.0
Premiere	Media	2,621	0.9
Portugal Telecom	Fixed Line Telecommunications	2,615	0.9
Svenska Handelsbanken	Banks	2,556	0.9
Lagardere	Media	2,374	0.8
Deutsche Postbank AG	Banks	2,293	0.8
Q-Cells	Alternative Energy	2,012	0.7
Scandinavian Property	Household Goods	1,998	0.7
Celesio AG	Food & Drug Retailers	1,967	0.7
Aegon	Life Insurance	1,918	0.7
		103,533	36.0
<b>Rest of World</b>			
Netcare	Health Care Equipment & Services	221	0.1
		221	0.1
<b>Japan</b>			
Mitsubishi Heavy Industries	Industrial Engineering	4,890	1.7
Mediceo	Pharmaceuticals & Biotechnology	3,922	1.4
Kurita Water Industries	Industrial Engineering	3,625	1.2
Nippon Telegraph & Telephone	Fixed Line Telecommunications	3,424	1.2
Inpex	Oil & Gas Producers	3,152	1.1
Sekisui House	Household Goods	2,614	0.9
Japan Retail Fund	Real Estate Investment Trusts	2,458	0.9
Tokyu	Travel & Leisure	2,160	0.7
Toray Industries	Chemicals	1,992	0.7
Kamigumi	Industrial Transportation	1,926	0.7
Chiba Bank	Banks	1,820	0.6
Alfresa	Pharmaceuticals & Biotechnology	1,534	0.5
Takeda Pharmaceutical	Pharmaceuticals & Biotechnology	1,502	0.5
Bank of Kyoto	Banks	1,308	0.5
		36,327	12.6
<b>Pacific Ex Japan</b>			
Newcrest Mining <sup>#</sup>	Mining	6,243	2.2
Hutchison Whampoa <sup>#</sup>	General Industrials	5,413	1.9
Santos	Oil & Gas Producers	3,928	1.3
Hutchison Telecommunications	Mobile Telecommunications	3,177	1.1
China Netcom	Fixed Line Telecommunications	2,567	0.9
QBE Insurance	Nonlife Insurance	2,498	0.9
Bank of China	Banks	1,715	0.6
AMP	General Financial	1,699	0.6
Futuris	Food Producers	1,417	0.5
		28,657	10.0
<b>Total Portfolio</b>		287,978	100.0

<sup>#</sup> Included in top ten investments by value.

\* Unquoted investments.

	2008 £'000	2007 £'000
Equity	254,263	286,277
Fixed interest	28,131	25,208
Other	5,584	5,091
	287,978	316,576

## TEN LARGEST INVESTMENTS

### **SNC-Lavalin (“SNC”)**

Valuation as at 30 June 2008: £7.0m (30 June 2007: £4.6m)

SNC-Lavalin is Canada’s leading civil engineering company, with specialities in mining, construction, nuclear power plants and electricity grids. The planning, design and construction of infrastructure projects is its core area of activity. It also has investments in some infrastructure concessions, such as the 407 toll road in Toronto. The Canadian government is pursuing a rigorous programme of investment in both power and transport infrastructure. In particular Canada is starting to invest in nuclear power generation capacity after a prolonged pause, which should provide ongoing opportunities for the company. SNC also has an expanding international practice, with around one third of earnings now generated outside of Canada. Contract wins over the past year include North African seawater desalination plants and gas compression plants in Europe.

### **Newcrest Mining (“Newcrest”)**

Valuation as at 30 June 2008: £6.2m (30 June 2007: £3.3m)

Newcrest is Australia’s largest gold miner. The company has a number of producing mines, and has been involved in developing its biggest project, Telfer, in Western Australia. A rights issue took place earlier this year to allow the company to buy back a large hedge against future gold production. With a total cost of production of around US\$450 per ounce of gold comparing favourably to current market prices above US\$900, Newcrest’s prospects appear bright. Existing areas of production in Australia, Papua New Guinea and Nevada, US are all showing good growth. The shares are trading at under two times NAV which seems good value for a gold miner with a strong production growth profile.

### **ING**

Valuation as at 30 June 2008: £6.2m (30 June 2007: £2.9m)

ING is a Dutch based bank assurer. It has growing savings businesses in Europe, North America and Asia. It also has a strong banking business in its home Benelux region, and a fast growing internet based bank, branded as ING Direct. ING is well capitalised and seems well placed to profit from the distress of some of its banking peers during current difficult trading conditions. The shares are trading at a historically low level of around seven times earnings, and currently offer a dividend yield of above 7%.

### **Royal Dutch Shell**

Valuation as at 30 June 2008: £6.0m (30 June 2007: £6.2m)

Royal Dutch Shell is one of the world’s biggest oil and gas companies, with over 11 billion barrels of reserves, and over 3.5 million barrels of oil equivalent production a day. With almost a third of earnings coming from downstream activities such as refining and retail, Royal Dutch Shell is less exposed to the oil price than its peers. The company also has significant investments in areas such as Canadian oil sands and the global LNG infrastructure, which give it opportunities for growth. The company is investing around half of its cash earnings in capital expenditure, and meanwhile both repurchases shares and pays a 4% dividend yield.

### **Nestle**

Valuation as at 30 June 2008: £5.8m (30 June 2007: £7.3m)

Nestle is the world’s largest food and beverage company, with 2007 sales of CHF107bn. Nestle has pursued a strategy of investing in higher margin products, such as baby foods and clinical nutrition, with the acquisitions of Gerber in April 2007, and of expanding operations in faster growing parts of the world. Over 35% of sales now come from the emerging world, which is helping Nestle grow both sales and margins. Nestle’s new chief executive Paul Bulcke has plenty to do to continue to grow margins from current levels of 14%, expand their existing businesses or refashion their existing subsidiary holdings. His first strategic step has been to begin the sale of Alcon, the \$43bn market cap US eye care company.

### **Vodafone**

Valuation as at 30 June 2008: £5.6m (30 June 2007: £6.0m)

Vodafone is one of the world’s largest telecoms operators, with 260 million proportional customers across 25 countries. The market has been critical of Vodafone’s historic strategy of building a global footprint, and hence has not been prepared to put much of a multiple on Vodafone’s growth prospects. Management has built a significant emerging market business, with 29 million customers in Turkey and Eastern Europe, with a further 21 million customers in South Africa, Egypt and Kenya. Its recent investment in India should take earnings from the emerging world from 20% last year to over 33% over the next few years. Vodafone has been at the forefront of investment in data technology over their existing mobile networks, and the long awaited returns on data are now coming through, as increasingly consumers use their mobile phones for surfing the internet, or use 3G data cards to connect to the internet via their laptops while travelling.

## TEN LARGEST INVESTMENTS

(continued)

### **Repsol YPF (“Repsol”)**

Valuation as at 30 June 2008: £5.5m (30 June 2007: not held)

Repsol is the dominant Spanish downstream (refining and petrol stations) oil company. In 1999, it acquired YPF, Argentina’s biggest company with a good portfolio of oil and gas, both actual and prospective. Local political difficulties have prevented Repsol from making an economic return on this investment over recent years. A combination of power shortages and local investors taking a minority stake in YPF should allow a change to this policy. Repsol itself has acquired over the years some interesting exploration assets and, in particular, they are involved in a very large new discovery off the shore of Brazil where they own 20% of one of the key blocks. Sacyr, the Spanish construction company, has bought 20% of Repsol and is calling for change to unlock some of the latent asset value. On a prospective yield of 5% and a price to earnings ratio of 8.5, the company looks very interesting value.

### **Hutchison Whampoa**

Valuation as at 30 June 2008: £5.4m (30 June 2007: £5.3m)

Hutchison Whampoa is one of Li Ka-Shang’s two biggest listed vehicles. It is a conglomerate operating across a number of exciting growth businesses: it is the largest port operator in Hong Kong, as well as having other port operations across the world; it has a large pan-Asian infrastructure business; the world’s largest health and beauty retailer, including an extensive network within mainland China’s biggest cities; a hotel and real estate business in Hong Kong, mainland China and the UK; and a minority holding in Husky Energy, a Canadian E&P company. Hutchison Whampoa’s biggest investments over the past decade have been in the “3” mobile telecommunications brand, which now operates in 11 countries and has over 14 million subscribers. This business has now turned cash flow positive, which should bring the market’s attention back to the underlying value in the group. Hutchison Whampoa currently trades at a 20% discount to a sum of the parts valuation.

### **Electricite de France (“EDF”)**

Valuation as at 30 June 2008: £5.3m (30 June 2007: £6.5m)

EDF is France’s biggest power generator and distributor, and is the world’s largest nuclear power station owner. The rising price of oil, and increased political and social concerns about emissions of greenhouse gases, have brought nuclear power forward as a “green” solution to some of our energy problems. EDF are at the forefront of this development, not only in their home market but also in Italy, the UK and Germany. EDF is currently engaged in investing in new builds of nuclear power stations in the US, along with partner Constellation Energy, and has been looking at opportunities to invest in the UK industry. EDF has been obliged by French regulators to sell electricity at an artificially low price in the domestic market, but European regulatory influence should eventually remedy this anomalous situation. The formerly state-owned EDF also has an inefficiently large workforce which should start to shrink soon as many of their workers retire. EDF is therefore in a position where it can help itself with internal restructuring as its underlying strategic position continues to improve.

### **Petro-Canada**

Valuation as at 30 June 2008: £5.3m (30 June 2007: £5.0m)

Petro-Canada is a formerly state-owned Canadian oil company, which has a North American natural gas production business, long standing oil sands business, offshore Canadian conventional oil production, some North Sea and other international assets as well as domestic downstream refining and marketing businesses originally acquired from Petrofina of Belgium and BP Canada. The company has current production of a little over 400,000 barrels of oil equivalent a day to support a long term programme of investment in oil sands production. The shares trade on a 25% discount to NAV and on around five times cash flow.

## REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Report and the audited Financial Statements of the Company for the year ended 30 June 2008.

### **BUSINESS REVIEW**

This business review has been prepared in accordance with the requirements of Section 417 of the Companies Act 2006 (the "Act") and current best practices. The objective of the Directors has been to provide a balanced and comprehensive review that is consistent with the size and complexity of the business. As an externally managed investment trust company, the Company has no employees and delegates most of its functions to third party service providers. Accordingly, your Board has focused this review on the Company's financial performance for the year ended 30 June 2008.

The business review is addressed only to shareholders as a body, and no liability can be admitted by the Directors to any other parties in connection therewith. The purpose of the business review is limited to its statutory purpose; namely to assist shareholders in assessing the Company's strategies and the potential for those strategies to succeed. Any forward-looking statements contained in the business review will be considered in the preparation of the next business review.

### **Principal Activity**

The principal activity of the Company is the making of investments in qualifying holdings of shares or securities in accordance with the investment policy set out on page 1. A description of the Company's activities and strategy during the year is given in the Chairman's Statement on pages 7 to 9.

### **Status of the Company**

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and satisfies the requirements for an investment trust in accordance with the Income & Corporation Taxes Act 1988 ("Section 842 ICTA"). HM Revenue & Customs ("HMRC") have confirmed that the Company has complied with these requirements for all accounting periods up to and including 30 June 2007. This approval is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company is not a close company within the terms of the Income & Corporation Taxes Act 1988.

### **Individual Savings Account ("ISA") Status**

The current portfolio of the Company is such that its shares are eligible for inclusion in an ISA, and the Directors expect this eligibility to be maintained.

### **Performance**

The performance of the Company is reviewed regularly by the Board (details of performance are on page 1) and it has a number of key performance indicators ("KPIs") that it uses to measure the progress of the Company. The KPIs are:

- Net asset value movement
- Share price movement
- Relative movement of the net asset value and share price against the MSCI World Index (Sterling excluding income)
- Dividends per share
- Total expense ratio

In addition to the above KPIs, the Board assesses the discount/premium at which the share price stands against the underlying attributable net assets.

### **Results and Dividends**

The results for the year are set out in the Income Statement on page 25. The Directors recommend the payment of a final dividend of 5.85p per ordinary share, payable on 1 October 2008, to all shareholders on the register as at 5 September 2008.

The NAV per ordinary share, including retained income at 30 June 2008, was 439.82p (2007: 483.09p).

### **Current and Future Developments**

Details of the Company's developments over the year ended 30 June 2008, along with its prospects for the future are set out in the Chairman's Statement on pages 7 to 9.

The Board's principal focus is the delivery of successful long term investment returns for shareholders and regular consideration is given to the investment process and factors that may have an influence on this process in the future. The Board regularly considers the ongoing development and direction of the Company, including the promotion and marketing of it and the effectiveness of communication with shareholders and other external parties.

### **Principal Risks and Uncertainties**

The Company has established a risk management framework within the context of the Company's overall objective to achieve over the longer term a total return in excess of the MSCI World Index (Sterling excluding income). The Board and the Audit Committee are responsible for the risk management framework, which enables the Company to assess the overall risk exposure of the Company and to successfully manage that risk. As an investment company the principal risks faced by the Company relate to the nature of the individual investments and the investment activities generally.

Further details of these risks and how they are managed are set out in note 18 to the Financial Statements on pages 35 to 39.

## REPORT OF THE DIRECTORS

(continued)

### *Financial risk*

The Board has identified the Company's principal financial risks, which are set out in note 18 to the Financial Statements on pages 35 to 39.

### *Operational risk*

As the Company's main functions are delegated to third party service providers, operational risk arises from insufficient processes of internal control which would include compliance with statute and regulation governing the functions of the Company.

Such risks are assessed by the Board and the Board receives timely reports from its main service providers as to the internal control processes in place within those organisations. This serves to minimise the Company's risk exposure. The Board and Audit Committee annually review the internal control reports of the Company's service providers, produced in accordance with AAF01/06 guidance.

### *Investment and strategy risks*

An inappropriate investment strategy may lead to underperformance against the Company's benchmark index and peer group companies. Therefore the Company's investment strategy is periodically reviewed by the Board who consider at each meeting the performance of the investment portfolio and have established investment restrictions and guidelines within which the Investment Manager operates.

### *Market risk*

Market risk arises from volatility in the prices of the Company's quoted investments and represents the potential loss to the Company through the holding of investments in the face of negative market movements. The Board has established investment restrictions and guidelines that are monitored and reported against by the Investment Manager.

### *Accounting, legal and regulatory risk*

In order to qualify as an investment trust, the Company must comply with Section 842 ICTA and details of such approval are provided under "Status of the Company" above. Should the Company breach Section 842 ICTA, it may lose its investment trust status and as a consequence gains within the Company's portfolio would be subject to Capital Gains Tax. The Investment Manager monitors the Section 842 ICTA qualification criteria and provides a report to the Board at each meeting.

As the Company is listed on the London Stock Exchange, it must also comply with the Listing Rules of the Financial Services Authority ("FSA") and a breach of these rules may result in the shares of the Company being suspended from listing, which in turn would be a breach of Section 842 ICTA. The Board relies on its Company Secretary and professional third party advisers to ensure compliance with law and regulation.

### **Life of the Company**

There are no limited life provisions in the Company's Articles of Association.

### **Share Capital**

At the Annual General Meeting ("AGM") on 11 October 2007, shareholders gave approval for the Company to purchase up to 9,791,194 ordinary shares of its own capital for cash, being 14.99% of the share capital in issue at the time of the AGM. The authorised and issued share capital of the Company is detailed in note 14 to the Financial Statements. The total number of ordinary shares currently in issue is 65,318,174.

### **Directors**

The Directors of the Company and their biographical details are set out on page 5. All the Directors held office throughout the year and up to the date of this Report.

In accordance with the Articles of Association and the Combined Code on Corporate Governance, Mr Pocock is retiring by rotation and, being eligible, will be seeking re-election by shareholders at the forthcoming AGM. The Nomination Committee has reviewed Mr Pocock's performance as a Director and his contribution to the operation of the Company and concluded that the Company benefited from his services and advice and, accordingly, recommended to the Board that a resolution be put to shareholders at the 2008 AGM that he should be re-elected. The Board concurred with the Nomination Committee's recommendation and recommends that shareholders vote in favour of Mr Pocock's re-election.

In accordance with the Combined Code 2006, following Mr Pocock's nine year tenure on the Board of the Company, Mr Pocock will stand for re-election at the 2008 AGM and at each subsequent AGM of the Company.

In accordance with the Combined Code 2006, Mr Bury is required to stand for re-election at this and all subsequent years' AGMs during his appointment. Further detail regarding Mr Bury's re-election can be found on page 21.

None of the Directors has a contract of service with the Company.

### **Directors' Beneficial and Family Interests**

The interests of the Directors in the share capital of the Company at the beginning and end of the year, all of which were beneficial, were as follows:

	At 30 June 2008 ordinary shares	At 1 July 2007 ordinary shares
L C N Bury	250,000	250,000
G P Aherne	1,000	1,000
J D W Pocock	38,354	38,354
J G Ruffer	3,000	3,000

## REPORT OF THE DIRECTORS

(continued)

There have been no other changes in the interests of the Directors up to the date of this Report.

No Director holds any interests in the debenture stock of the Company.

During the year, £7,000 was paid to John Pocock in addition to his Director's fees. This was for consultancy work in relation to the development of the Company's website and was approved by the Board.

None of the other Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year ended 30 June 2008.

### Companies Act 2006 Disclosure

In accordance with Section 992 of the Companies Act 2006 the Directors disclose the following information:

- the Company's capital structure and voting rights are summarised on page 42, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there exist no securities carrying special rights with regard to the control of the Company;
- details of the substantial shareholders in the Company are listed on page 19;
- the Company does not have an employees' share scheme;
- the rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Acts 1985 and 2006;
- there exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- there exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

### Management Agreements

Taube Hodson Stonex Partners LLP ("THS") is appointed as Investment Manager to manage the Company's assets under an Agreement dated 1 November 2004. Under the terms of this Investment Management Agreement, management fees are payable quarterly in arrears by the Company at a rate of 0.4% per annum of the total assets of the Company less liabilities. In addition, a performance fee of 10% of the out-performance against the benchmark index was calculated and payable by reference to the period from 1 January 2005 to 30 June 2007 and now by reference to rolling three-year periods. This performance fee will be capped at a maximum of 0.6% of the Company's net assets at the end of the period (or 0.2% if the Company's NAV per share has fallen over that period).

The Agreement may be terminated by either party at not less than six months' notice. During the year ended 30 June 2008, fees amounting to £2,116,000 (inclusive of irrecoverable VAT where applicable) (2007: £2,915,000) were payable to THS.

The Company has entered into an Agreement with BNP Paribas Fund Services UK Limited ("BNP Paribas") to provide administration and company secretarial services. BNP Paribas has delegated the provision of secretarial services to its wholly owned subsidiary, BNP Paribas Secretarial Services Limited. BNP Paribas receives a fee of 0.05% of the total assets of the Company per annum (excluding VAT) subject to a minimum fee of £119,793 per annum. The agreement may be terminated by either party giving not less than six months' written notice.

### Continuing Appointment of the Investment Manager

Since its appointment in September 2004 and up to 30 June 2008, the Investment Manager has successfully increased the Company's NAV per share by 48.49%. The Board is satisfied with the Investment Manager's performance and believes that the continued appointment of the Investment Manager, on its current terms, is in the interests of shareholders.

### Investment Manager's Managing Members' and Employees' Share Interests

The interests of the Managing Members and employees of the Investment Manager in the share capital of the Company at the beginning and end of the year, all of which were beneficial, were as follows:

	At the date of this report	At 30 June 2008 ordinary shares	At 1 July 2007 ordinary shares
John Hodson <sup>#</sup>	282,588	282,588	250,000
Cato Stonex	45,500	35,500	30,000
Mark Evans	32,500	24,500	20,000
Simon Edelsten <sup>†</sup>	98,477	98,477	74,736
Ali Miremadi <sup>*</sup>	13,350	11,350	3,500
Robert Smithson	11,000	9,000	–

<sup>#</sup> Mr Hodson also holds 17,412 shares which are non-beneficial.

<sup>†</sup> Mr Edelsten also holds 2,511 shares which are non-beneficial.

<sup>\*</sup> Mr Miremadi also holds 15,550 shares which are non-beneficial.

There have been no other changes in the interests of the Managing Members and employees of the Investment Manager up to the date of this Report. No Managing Member of the Investment Manager holds any interests in the debenture stock of the Company.

### Substantial Share Interests

As at 31 July 2008, the Company has received notification of the following interests exceeding 3% of the ordinary share capital of the Company:

## REPORT OF THE DIRECTORS

(continued)

	Number of shares held	% of issued share capital
BNP Paribas Fund Services UK Limited	5,785,375	8.86
Legal & General Investment Management Ltd. (UK)	3,085,866	4.72
Rensburg Sheppards Investment Management Ltd.	3,041,462	4.66
Kleinwort Benson Private Bank Ltd.	2,849,192	4.36
Alliance Trust PLC.	2,638,487	4.04
Rathbone Investment Management Ltd.	2,457,319	3.76
Cazenove Capital Management Limited	2,192,272	3.36
Brewin Dolphin Securities Ltd.	1,970,451	3.02

### Payment of Suppliers

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to terms used. The Company agrees with its suppliers the terms on which business will take place and it is the policy to abide by those terms. Payment is made on these terms normally within 30 working days provided the supplier meets its obligations. At 30 June 2008 there were no trade creditors outstanding (30 June 2007: nil).

### Going Concern

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the Financial Statements, as, after due consideration, the Directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future.

### Information to Auditor

The Directors at the date of approval of this Report and who are listed on page 5, confirm that:

- to the best of his knowledge and belief, there is no information relevant to the preparation of the Annual Report and Financial Statements of which the Company's Auditor is unaware; and
- he has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditor is aware of that information.

### Auditor

The Independent Auditor, Ernst & Young LLP, has expressed its willingness to continue in office as the Company's Auditor. The Audit Committee has responsibility for making

a recommendation to the Board on the re-appointment of the external Auditor. After careful consideration of the services provided to the Company during the year and a review of the effectiveness of the external Auditor, the Audit Committee recommended to the Board that Ernst & Young LLP should be re-appointed as the Company's Auditor. Accordingly, resolutions are to be proposed at the forthcoming AGM for its re-appointment, and to authorise the Directors to fix its remuneration for the ensuing year.

### Annual General Meeting

The one hundred and eighteenth AGM of the Company will be held on Wednesday, 24 September 2008 at the offices of JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA at 12.00 noon.

The Board is seeking shareholders' approval at the AGM in respect of four items of special business, in addition to the approval of the Directors' Report on Remuneration.

### Authority to Allot Shares and to Disapply Pre-emption Rights (Resolutions 8 and 9)

The Directors have not used the powers granted to them at the AGM in October 2007 to allot authorised but unissued shares in the Company. Resolution 8 will renew the Directors' authorisation to allot up to 5% of the Company's issued shares. Resolution 9 will authorise the Directors to issue these shares for cash, without offering the shares first to existing shareholders by way of rights, in accordance with pre-emption procedures. These powers will only be used if the allotment price is greater than the NAV per share and if the Directors consider that to do so will be in the best interests of the Company's existing shareholders. The Directors have no intention of utilising this authority at the present time.

### Authority to Buy Back Shares (Resolution 10)

At the 2007 AGM, the Company was authorised to make market purchases of up to 9,791,194 ordinary shares (2006: 9,821,421) of the Company's own issued shares for cancellation. Since the granting of this authority, the Directors have not made any purchases of the Company's ordinary shares. This authority expires at the conclusion of the AGM on 24 September 2008. Resolution 10 will renew the Directors' authority to purchase on the London Stock Exchange up to 14.99% of the Company's issued capital as at the date of the AGM, equivalent to 9,791,194 ordinary shares or £489,559 aggregate nominal value, as at the date of this Report.

The authority to purchase shares will last until the AGM of the Company in 2009, or until the whole of the 14.99% has been utilised, whichever is the earlier. The authority may be renewed by shareholders at any time. The Directors believe that buying back the Company's own shares in the market, at appropriate times and prices, is in the best interests of shareholders generally. The Company will make either a single purchase or a series of purchases, within guidelines set from time to time by the Board and if or when market

## REPORT OF THE DIRECTORS

(continued)

conditions are suitable, with the aim of maximising the benefits to shareholders.

Shares will not be bought at a price that is more than 5% above the average middle market price of the shares over the preceding five business days, or the higher of the price of the last independent trade and the highest current independent bid for an ordinary share on the London Stock Exchange.

### **New Articles of Association (Resolution 11)**

The Company proposes to adopt new Articles of Association which incorporate changes to the current Articles of Association to reflect the provisions of the Companies Act 2006 (the “2006 Act”) and otherwise generally update the Articles of Association for current regulations and market practice. The 2006 Act came, or will come, into effect in 2007, 2008 and 2009. As the 2006 Act will not be fully in force until October 2009, it is not yet possible to fully reflect the 2006 Act changes and it is anticipated that shareholders will be asked to approve further changes to the Articles of Association at the 2009 AGM.

The principal changes brought about by the new Articles of Association proposed to be adopted at the forthcoming AGM can be found in the Appendix to the Notice of Meeting on pages 43 to 44.

### **Statement of Directors’ Responsibilities in Respect of the Financial Statements**

Company law in the United Kingdom requires the Directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the net return for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the Financial Statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website, [www.electricandgeneral.com](http://www.electricandgeneral.com). Legislation in the United Kingdom may differ from legislation in other jurisdictions.

### **Directors’ Responsibility Statement**

The Directors at the date of approval of this Report and who are listed on page 5, confirm that:

- the Financial Statements have been prepared in accordance with UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit; and that
- the Directors’ Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties the Company faces.

By order of the Board

### **BNP Paribas Secretarial Services Limited**

Secretary

14 August 2008

## CORPORATE GOVERNANCE

### Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles, and complied with the provisions, of the Combined Code on Corporate Governance (the “Code”), as issued by the Financial Reporting Council in June 2006. In addition, the AIC Code of Corporate Governance was originally issued by the Association of Investment Companies in July 2003 and revised in February 2006, providing specific corporate governance guidelines to investment companies.

This statement aims to provide sufficient explanation to enable the Company’s shareholders to evaluate how these principles were applied during the year and up to the date of this Report.

### Corporate Governance Principles

Throughout the year ended 30 June 2008, the Company complied with the provisions of Section 1 of the Code subject to the exceptions explained below and its special circumstances as an investment trust company. The Board attaches great importance to the matters set out in the Code and observes its principles. It should be noted that as an investment trust, all the Directors are non-executive and most of the Company’s day to day responsibilities are delegated to third parties.

### The Board

The Board is responsible for determining the strategic direction of the Company. It meets at least six times a year to review the investment performance of the Company’s investments, the financial position of the Company, its performance in line with the agreed investment objective and all other important issues to ensure that the Company’s affairs are being operated within a framework of prudent and effective controls. The Board takes responsibility for the content of major corporate communications. A schedule of matters specifically reserved to the Board for its decision has been adopted. The Board sets the boundaries within which the Investment Manager operates. The Investment Manager makes decisions as to the investment of the portfolio assets of the Company.

Representatives of the Investment Manager attend each Board meeting enabling the Board to review the Investment Manager’s performance against the Company’s investment objective and to seek clarification on specific issues. In respect of the year ended 30 June 2008, of the six sets of meetings held, the Directors attended all meetings, with the exception of Mr Ruffer who was unable to attend the Audit Committee and Board meetings on 16 August 2007. However, Mr Ruffer reviewed all papers relating to these meetings and submitted his comments to the Chairman accordingly. All Directors attended the AGM held during the year.

The Directors have access to the advice and services of the Company Secretary through its appointed representative, who is responsible to the Board for advising on governance

matters and ensuring compliance with applicable rules, regulations and procedures. The Company Secretary is also responsible for ensuring good information flows. The appointment and removal of the Company Secretary is a matter for the whole Board. The Board has formalised arrangements under which the Directors, in the furtherance of their duties, may take independent professional advice at the Company’s expense.

### The Role of the Chairman

There is a clear division of responsibility between the Chairman, the Directors, the Investment Manager and the other third party service providers. No one individual has unfettered powers of decision.

The Chairman is responsible for leading the Board and ensuring its effectiveness on all aspects of its role and for ensuring that the Directors receive accurate, timely and clear information. He also ensures that there is effective communication with shareholders.

The Chairman at the time of his appointment was, and remains, independent of the Investment Manager. The details of the Chairman’s professional commitments are included in his biography, which is set out on page 5.

Whilst the Chairman has been appointed to other non-executive roles, the Board is satisfied that these do not interfere with the performance of his duties to the Company.

### Directors and their Independence

The Board comprises four Directors, all of whom are non-executive. As the Board is comprised solely of non-executive Directors, there is no chief executive position within the Company. The Senior Independent Director is Mr Pocock and his appointment is considered on an annual basis. The names of the Directors together with their biographical details are set out on page 5 of this Report. All the Directors served throughout the year under review.

The Board annually reviews the continued independence of its Directors and is of the view that an investment trust company Director’s length of service should not necessarily compromise their contribution to the Board as continuity and experience can add significantly to its strength.

Mr Bury was appointed to the Board of the Company in 1995 and Mr Pocock in 1999. These Directors have, therefore, been connected with the Company for thirteen and nine years respectively. The Board has considered Messrs Bury and Pocock’s independence with particular care and considers that their individual skills and knowledge of both the Company and the industry provide continuity and an overall balance to the Board. In particular, Mr Bury continues to demonstrate a strong independence in the manner in which he discharges his responsibilities as Chairman. Accordingly, the Board has decided that, in the absence of any other relevant factors, Messrs Bury and Pocock continue to be deemed independent non-executive Directors.

## **CORPORATE GOVERNANCE**

(continued)

The Board considers that all Directors are independent of the Investment Manager and comply with the criteria for independence as set out in the Code.

On appointment, new Directors will take part in an induction programme, which covers the Company's investment strategy, policies and practices. New Directors will also receive information on the role of the Board and the matters reserved for its decision, the terms of reference of its Committees, the Company's corporate governance practices and procedures and the latest financial information. Throughout their time in office, Directors are continually updated, through briefings and meetings with the Company's advisers, on the Company's business, the regulatory environment in which it operates and other changes affecting the Company.

### **Performance Evaluation and Succession Planning**

The Board has formalised a process to evaluate its own performance and that of its Chairman on an annual basis. This process is based on a questionnaire and open discussion and assessment of the Board's and Directors' strengths and weaknesses, with the Chairman making recommendations to improve performance where necessary. The Chairman's performance is considered by the other Directors led by the Senior Independent Director.

The evaluation conducted during the financial year concluded that the Board was well-balanced and performing effectively and it was agreed that no further appointments would be made to the Board at this time, although the matter would be kept under annual review.

Directors are appointed subject to the Companies Act provisions and the Company's Articles of Association. The appointment or re-appointment of a Director is reviewed by the Nomination Committee prior to a Director seeking election or re-election at a forthcoming AGM. Re-appointment is not automatic and is subject to a review of performance. All Directors are subject to election by shareholders at the first AGM after their appointment. Thereafter all Directors are subject to re-election in accordance with the Articles of Association and the provisions of the Code. No Director would serve more than three years in office without shareholder approval.

The Directors have approved a timetable for Board succession planning whereby Directors are subject to a standard tenure period of six years. Thereafter, an extension to this period is subject to a rigorous review of the Director's performance.

In accordance with the Listing Rules of the UK Listing Authority, Directors serving for more than nine years are subject to annual re-election. Accordingly Messrs Bury and Pocock are required to stand for re-election at this and all subsequent years during their appointment.

### **Board Committees**

In order to enable the Directors to discharge their duties, three Board Committees have operated during the year under written terms of reference. No individuals other than the Committee Chairman and its members are entitled to be present at Committee meetings unless invited to attend by its members. Copies of the terms of reference for the Board Committees are available from the Company Secretary and on the Company's website. The Chairman of the Board acts as Chairman for the Nomination and Management Engagement Committees, and Mr Pocock acts as Chairman of the Audit Committee. The Secretary of the Company acts as Secretary to each Committee.

### **Audit Committee**

The Audit Committee provides a forum through which the Company's external Auditor reports to the Board. The main responsibilities of the Audit Committee include monitoring the integrity of the Company's Financial Statements and appropriateness of its accounting policies; reviewing the internal control systems and the risks to which the Company is exposed; and making recommendations to the Board regarding the appointment of the external Auditor, its independence and the objectivity and effectiveness of the audit process. The Board agreed that the Auditor remains independent.

The Audit Committee monitors the non-audit services being provided to the Company by its external Auditor, and, in accordance with the recommendations of the Code, a policy with regard to the provision of these services has been formalised. The Committee also reviews the independence of the Auditor annually to ensure it does not impair its independence or objectivity. Detail of the amount paid to the external Auditor during the financial year under review, for their audit services, is set out in note 4 of the notes to the Financial Statements.

The Audit Committee met five times during the year ended 30 June 2008. The Board considers that all the Directors have relevant and recent financial experience as a result of their professional positions in the financial services and other industries.

The Company does not have a whistleblowing policy procedure in place. The Company delegates its main functions to third party providers who have such policies in place and the Audit Committee is happy to accept that these policies meet industry standards.

### **Nomination Committee**

The Nomination Committee meets at least annually and is responsible for identifying and nominating to the Board new Directors, and for proposing that existing Directors be re-elected. On those occasions when the Committee is reviewing the Chairman, or considering his successor, the Nomination Committee is chaired by another Committee member, and the Chairman abstains from talks in this regard.

## **CORPORATE GOVERNANCE**

(continued)

### **Management Engagement Committee**

The Management Engagement Committee meets annually to review the performance of the Company's third party service providers, including the Investment Manager, and to review their terms of engagement.

At the Board meeting held on 26 June 2008, the Board agreed to extend the remit of the Management Engagement Committee to include those functions provided by a Remuneration Committee. The new Committee will be called the Remuneration and Management Engagement Committee and will adopt new terms of reference, for ratification by the Board at its first meeting, expected to be in 2009.

### **Directors' Remuneration**

For the year ended 30 June 2008, the Board as a whole considered Directors' remuneration in accordance with the limits set by the Company's Articles of Association.

From 2009, Directors' remuneration will be considered by the Remuneration and Management Engagement Committee, as described above.

Under Listing Rule 15.4.15, where an investment trust company has only non-executive directors, the Code's principles relating to directors' remuneration do not apply. Details of the annual review of Directors' remuneration can be found in the Directors' Remuneration Report on page 24.

### **Relations with Shareholders**

The Directors are always available to enter into dialogue with shareholders and the Company places a great deal of importance upon such communications. The Investment Manager, together with the Chairman if requested, is available to meet with the Company's institutional shareholders to discuss the Company's investment strategy, performance and governance. Discussions with shareholders are reported at Board meetings.

All shareholders have the opportunity to attend and vote at the AGM, at which the Board and the Investment Manager are available to discuss issues affecting the Company. Proxy votes are declared at AGMs and are available on the Company's website, [www.electricandgeneral.com](http://www.electricandgeneral.com), following the meeting. Details of proxy votes are also available to shareholders attending the AGM in person following the meeting. As part of the AGM, the Investment Manager makes a presentation to shareholders at which the Company's performance and prospects can be explained in more detail.

The Company discloses the full portfolio annually and under Listing Rule 15.6.8, the Company discloses details of any investments in other listed closed ended investment funds at each financial quarter end.

### **Voting Policy**

It is the policy of the Investment Manager to exercise voting entitlements at all opportunities. In general, the policy in exercising shareholders' votes is to vote in favour of management's proposals unless the Investment Manager considers that it would be in the best interest of shareholders to vote against.

### **Internal Controls**

The Code requires the Directors, at least annually, to conduct a review of the effectiveness of the Company's systems of internal control and to report to shareholders that they have done so. This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management, which are documented in a "Risk Map". The Board is responsible for the Company's systems of internal control and for reviewing their effectiveness. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed. They are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their very nature provide reasonable but not absolute assurance against material misstatement or loss.

The Company does not have an internal audit function and the Audit Committee considers annually whether there is any need for an internal audit function. Most of the Company's functions are delegated to third parties. Taube Hodson Stonex Partners LLP ("THS") has a Compliance department which oversees internal controls, and BNP Paribas Fund Services UK Limited has an internal audit function. As such, it has been agreed that it is appropriate for the Company to rely on the internal audit controls which exist at these companies. Accordingly, it has been further agreed that it would be inappropriate to have an internal audit function. The Investment Manager and BNP Paribas Fund Services UK Limited have established internal control frameworks to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of their clients. The Investment Manager reports to the Board on the operation of its internal controls and risk management, in so far as it impacts on the Company, and in addition, reports compliance with the terms of its delegated authority under the investment management agreement on a quarterly basis. The Company Secretary also reports any breaches of law and regulation as and when they arise and on a quarterly basis. This enables the Board to promptly address any issues of concern regarding the management of the Company.

By the procedures set out above, and in accordance with the Turnbull Guidance for Directors on the Combined Code published by the Institute of Chartered Accountants in England & Wales, the Directors have kept under review the effectiveness of the Company's internal controls throughout the year under review and up to the date of this Report.

## DIRECTORS' REMUNERATION REPORT

### Introduction

The Directors are pleased to present their Report on Directors' Remuneration for the year ended 30 June 2008.

The Company's Auditor is required to report on certain information contained within this Report. Where information set out below has been audited it is indicated as such. The Auditor's opinion is included within the Auditor's Report on page 40.

The Board comprises non-executive Directors and as a whole considers Directors' remuneration. Accordingly, no separate Remuneration Committee has been appointed for the year ended 30 June 2008. As described on page 23 of the Corporate Governance report, the remit of the Management Engagement Committee was extended as of its first meeting, expected to be in 2009, and Directors' remuneration will henceforth be discussed by the Remuneration and Management Engagement Committee.

In accordance with the Company's Articles of Association, new Directors are required to stand for election at the first AGM following their appointment and thereafter, are required to retire by rotation so that over a three year period all Directors will have retired and stood for re-election. No Director has a contract of service with the Company, they are instead bound by the terms of their letter of appointment. A Director may resign by notice in writing to the Board at any time; there are no set notice periods.

### Policy on Directors' Remuneration

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes and Directors are not entitled to receive any benefits in kind, share options, pension or retirement benefits, nor compensation for loss of office. On account of the Directors' non-executive status it is deemed appropriate that no aspect of Directors' fees is performance-related. Directors are entitled to claim expenses in respect of duties undertaken in connection with the management of the Company and any associated tax liabilities.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board to be paid a higher fee than the other Directors in recognition of his more onerous role.

The Company's Articles of Association set the limit of aggregate permissible Directors' fees at £130,000 per annum. In order to accommodate any further increase in Directors' fees and further appointments to the Board, shareholders are being asked to approve an increase to the limit on the aggregate fees payable to the Directors. A new total limit of £170,000 is being proposed as one of the changes to the Articles of Association, a resolution for which is to be put to the AGM.

### Directors' Emoluments (Audited)

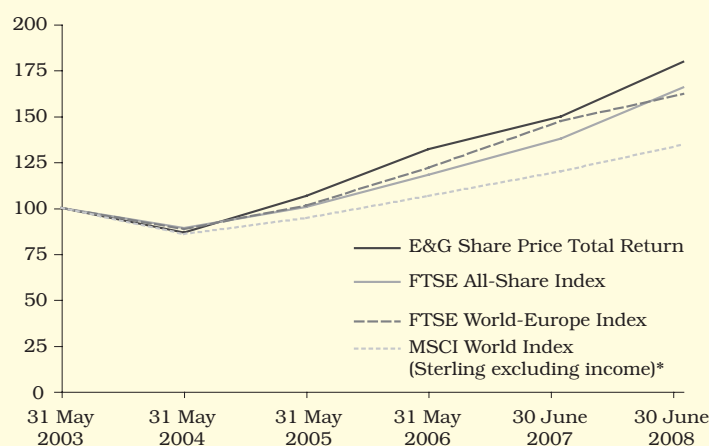
The fees payable by the Company in respect of each of the Directors who served during the year under review, and during the period ended 30 June 2007, were as follows:

	(Audited) Year ended 30 June 2008	(Audited) Period ended 30 June 2007*
	£	£
L C N Bury	33,750	36,562
G P Aherne	22,500	24,375
J D W Pocock	22,500	24,375
J G Ruffer	22,500	24,375
<b>Total</b>	<b>101,250</b>	<b>109,687</b>

\* As the Company extended its accounting reference date to 30 June, the Directors' fees for 2007 reflect a 13 month pay cycle.

It is the Company's policy to review the level of fees paid to Directors annually, taking into account fees paid to directors of other investment trusts and changes in circumstances. In accordance with this policy, the fees paid to Directors did not change during the year under review. It is the Board's intention for this policy on Directors' remuneration to continue to apply to the forthcoming and subsequent financial periods.

### Performance Graph



\* Source: Bloomberg

Following the appointment of Taube Hodson Stonex Partners LLP as the Company's Investment Manager, the Directors changed the benchmark index to MSCI World Index (Sterling excluding income) to reflect the global nature of the portfolio. This is considered the most appropriate comparison for the Company to track its share price performance (assuming all dividends are re-invested) to ordinary shareholders. The performance graph above charts the share price total return (rebased to 100 and assuming that all dividends are reinvested) to ordinary shareholders from 31 May 2003 to 30 June 2008, compared to the total return on notional investments in the FTSE All-Share Index, the FTSE World-Europe Index and the MSCI World Index (Sterling excluding income).

### Directors' and Officers' Liability Insurance

Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors and is renewed annually.

By order of the Board

**BNP Paribas Secretarial Services Limited**

Secretary

14 August 2008

**INCOME STATEMENT**  
for the year ended 30 June 2008

Notes	Year ended 30 June 2008			Period ended 30 June 2007			
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	
9	(Losses)/gains on investments	-	(29,103)	(29,103)	-	49,984	49,984
2	Income	9,664	-	9,664	8,114	-	8,114
	Foreign exchange gains/(losses)	-	411	411	-	(10)	(10)
2	Other interest receivable and similar income	421	-	421	455	-	455
3	Investment management fee	(657)	(657)	(1,314)	(701)	(701)	(1,402)
3	Performance fee	-	(802)	(802)	-	(1,513)	(1,513)
4	Administrative expenses	(567)	-	(567)	(527)	-	(527)
	<b>Net return on ordinary activities before interest payable and taxation</b>	<u>8,861</u>	<u>(30,151)</u>	<u>(21,290)</u>	<u>7,341</u>	<u>47,760</u>	<u>55,101</u>
5	Interest payable	(194)	(564)	(758)	(198)	(595)	(793)
	<b>Net return on ordinary activities before taxation</b>	<u>8,667</u>	<u>(30,715)</u>	<u>(22,048)</u>	<u>7,143</u>	<u>47,165</u>	<u>54,308</u>
6	Taxation	(2,091)	570	(1,521)	(940)	365	(575)
	<b>Net return on ordinary activities after taxation</b>	<u><u>6,576</u></u>	<u><u>(30,145)</u></u>	<u><u>(23,569)</u></u>	<u><u>6,203</u></u>	<u><u>47,530</u></u>	<u><u>53,733</u></u>
8	<b>Return per ordinary share (pence):</b>						
	<b>Basic</b>	<u>10.07</u>	<u>(46.15)</u>	<u>(36.08)</u>	<u>9.47</u>	<u>72.54</u>	<u>82.01</u>

The total column of this statement represents the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

The Company has no recognised gains or losses other than those recognised in the Income Statement above.

The accompanying notes are an integral part of the Financial Statements.

## BALANCE SHEET

at 30 June 2008

Notes		As at 30 June 2008 £'000	As at 30 June 2007 £'000
	<b>Investments</b>		
9	Investments at fair value through profit or loss	287,978	316,576
	<b>Current assets</b>		
10	Debtors and prepayments	2,134	3,025
	Cash and short term deposits	8,045	8,837
		10,179	11,862
11	<b>Creditors: amounts falling due within one year</b>	(3,280)	(4,651)
	<b>Net current assets</b>	6,899	7,211
	<b>Total assets less current liabilities</b>	294,877	323,787
	<b>Creditors: amounts falling due after more than one year</b>		
12	Debentures	(7,000)	(7,000)
13	Provision for liabilities and charges	(594)	(1,239)
	<b>Net assets</b>	287,283	315,548
	<b>Capital and reserves</b>		
14	Called up share capital	3,266	3,266
	Share premium account	19,937	19,937
	Capital redemption reserve	1,441	1,441
	Capital reserves	246,861	277,006
	Revenue reserve	15,778	13,898
	<b>Equity shareholders' funds</b>	287,283	315,548
	<b>Net asset value per ordinary share (pence):</b>		
17	<b>Basic</b>	439.82	483.09

The Financial Statements were approved by the Board of Directors and authorised for issue on 14 August 2008 and were signed on its behalf by:

**Lindsay Bury**  
Chairman

The accompanying notes are an integral part of the Financial Statements.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

### For the year ended 30 June 2008

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2007	3,266	19,937	1,441	219,706	57,300	13,898	315,548
Return on ordinary activities after taxation	-	-	-	23,208	(53,353)	6,576	(23,569)
Dividends paid (see note 7)	-	-	-	-	-	(4,696)	(4,696)
<b>Balance at 30 June 2008</b>	<u>3,266</u>	<u>19,937</u>	<u>1,441</u>	<u>242,914</u>	<u>3,947</u>	<u>15,778</u>	<u>287,283</u>

### For the period ended 30 June 2007

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 May 2006	3,276	19,937	1,431	199,385	30,955	11,528	266,512
Return on ordinary activities after taxation	-	-	-	21,185	26,345	6,203	53,733
Purchase of own shares for cancellation	(10)	-	10	(864)	-	-	(864)
Dividends paid (see note 7)	-	-	-	-	-	(3,833)	(3,833)
<b>Balance at 30 June 2007</b>	<u>3,266</u>	<u>19,937</u>	<u>1,441</u>	<u>219,706</u>	<u>57,300</u>	<u>13,898</u>	<u>315,548</u>

The accompanying notes are an integral part of the Financial Statements.

**CASH FLOW STATEMENT**  
for the year ended 30 June 2008

	<b>Year ended 30 June 2008 £'000</b>	<b>Period ended 30 June 2007 £'000</b>
<b>Return on ordinary activities before taxation</b>	(21,290)	55,101
Adjustments for:		
Losses/(gains) on investments	29,103	(49,984)
Effect of foreign exchange rates	(411)	10
Increase in accrued income	(184)	(5)
Decrease/(increase) in other debtors	1,612	(1,616)
Tax on unfranked investment income	(859)	(666)
(Decrease)/increase in creditors	(1,296)	1,569
<b>Net cash inflow from operating activities</b>	<u>6,675</u>	<u>4,409</u>
<b>Servicing of finance</b>		
Debenture interest paid	(752)	(815)
Bank overdraft and loan interest paid	(6)	21
<b>Net cash outflow from servicing of finance</b>	<u>(758)</u>	<u>(794)</u>
<b>Taxation</b>		
UK corporation tax paid	(401)	–
<b>Net cash outflow from taxation</b>	<u>(401)</u>	<u>–</u>
<b>Financial investment</b>		
Purchases of investments	(148,646)	(134,586)
Sales of investments	147,580	139,628
Net loss from forward foreign currency exchange contract	(957)	–
<b>Net cash (outflow)/inflow from financial investment</b>	<u>(2,023)</u>	<u>5,042</u>
<b>Equity dividends paid</b>	(4,696)	(3,833)
<b>Net cash (outflow)/inflow before financing</b>	<u>(1,203)</u>	<u>4,824</u>
<b>Financing</b>		
Purchase of own ordinary shares	–	(864)
<b>(Decrease)/increase in cash</b>	<u>(1,203)</u>	<u>3,960</u>
<b>Reconciliation of net cash flow to movements in net funds</b>		
(Decrease)/increase in cash as above	(1,203)	3,960
Exchange movements	411	(10)
Movement in net funds in the period	(792)	3,950
Net funds at start of period	1,837	(2,113)
<b>Net funds at end of period</b>	<u><u>1,045</u></u>	<u><u>1,837</u></u>
Represented by:		
Cash	8,045	8,837
Debt due after more than one year	(7,000)	(7,000)
	<u><u>1,045</u></u>	<u><u>1,837</u></u>

The accompanying notes are an integral part of the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2008

### 1. Accounting policies

#### (a) Basis of preparation and going concern

The Financial Statements have been prepared in accordance with applicable UK Generally Accepted Accounting Practice (UK GAAP) and with the the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (issued January 2003 and revised in December 2005). They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The Financial Statements have been prepared on a going concern basis, which the Directors believe is appropriate for the reasons outlined in the Directors' Report on page 19.

During the year the Company adopted FRS 29 'Financial Instruments: Disclosures'. This standard mainly concerns the disclosure of financial instruments and risks. These disclosures can be found primarily in note 18.

The comparative figures are for the 13 months ended 30 June 2007.

#### (b) Revenue, expenses and interest payable

Income from investments (other than special dividends), including taxes deducted at source, is included in the revenue column of the Income Statement by reference to the date on which the investment is quoted ex-dividend. Special dividends are credited to capital or revenue, according to the circumstances, by reference to the date on which the investment is quoted ex-dividend. Expenses and interest payable are treated on an accruals basis. On the basis of the Board's expected long term split of returns in the form of capital gains and income of 75% and 25% respectively, the Company charges 75% of its finance costs and management fee (to the extent that it relates to maintenance or enhancement of the valuation of investments) to the capital column of the Income Statement. The performance fee however is charged entirely to the capital column of the Income Statement as it is earned predominantly from capital outperformance and the remainder of expenses are charged to the revenue column of the Income Statement.

Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Income Statement.

#### (c) Investments

Investments have been designated upon initial recognition as fair value through profit or loss. Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned, and are initially measured as fair value. Subsequent to initial recognition, investments are valued at fair value. For listed investments, this is deemed to be bid market prices or closing prices for SETS stocks sourced from The London Stock Exchange. SETS is the London Stock Exchange's electronic trading service covering most of the market including all FTSE All-Share and the most liquid AIM constituents. Gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item in the Income Statement.

Overseas listed investments and investments which are quoted but are unlisted are valued at their closing or bid prices as issued by various sources. Unquoted investments are valued by the directors taking into account the information available on the investee companies and funds held by the Company, in accordance with International Private Equity and Venture Capital ("IPEVC") valuation guidelines.

#### (d) Dividends payable

Interim, special and final dividends are recognised in the period in which they are paid.

#### (e) Capital reserves

##### Realised

Gains or losses on investments realised in the year that have been recognised in the Income Statement are transferred to the realised capital reserve.

In addition, expenses and finance costs, together with the related taxation effect, are charged to the realised reserve in accordance with (b) above.

##### Unrealised

Increases and decreases in the fair value of investments are recognised in the Income Statement and are then transferred to the unrealised capital reserve.

#### (f) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the Balance Sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying temporary differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the Financial Statements which are capable of reversal in one or more subsequent periods.

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 1. Accounting policies (continued)

#### (g) Foreign currency

Overseas monetary assets and liabilities are converted into Sterling at the rate of exchange ruling at the Balance Sheet date. Transactions during the year involving foreign currencies are converted at the rate of exchange ruling at the transaction date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

#### (h) Financial instruments

Derivative financial instruments are used to manage the risk associated with foreign currency fluctuations of the investment portfolio. This is achieved by the use of foreign currency contracts. All derivative financial instruments are held at fair value. Derivative financial instruments are recognised initially at fair value on the contract date and subsequently re-measured to the fair value at each reporting date. All changes in the fair value are taken to the Income Statement. Debenture issues, bank loans and overdrafts are recorded at the proceeds received net of direct issues costs.

### 2. Income

	Year ended 30 June 2008	Period ended 30 June 2007
	£'000	£'000
<b>Income from investments</b>		
UK listed – franked	1,794	2,119
Dividend income	6,381	4,622
Interest income	1,489	1,373
	9,664	8,114
<b>Other interest receivable and similar income</b>		
Bank interest	421	399
Treasury bill interest	–	55
Other income & underwriting commission	–	1
	421	455
<b>Total income</b>	10,085	8,569

### 3. Investment Management Fee

	Year ended 30 June 2008			Period ended 30 June 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	209	627	836	212	636	848
Investment management fee – administration	418	–	418	424	–	424
	627	627	1,254	636	636	1,272
Irrecoverable VAT thereon (where applicable)	30	30	60	65	65	130
	657	657	1,314	701	701	1,402
Performance fee provision	–	929	929	–	1,416	1,416
Irrecoverable VAT thereon (where applicable)	–	–	–	–	97	97
Write back of irrecoverable VAT provision	–	(127)	(127)	–	–	–
	–	802	802	–	1,513	1,513
<b>Total</b>	657	1,459	2,116	701	2,214	2,915

A summary of the terms of the Investment Management Agreement is given on page 18 in the Report of the Directors.

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 3. Investment Management Fee (continued)

Taube Hodson Stonex Partners LLP is entitled to a performance fee if the NAV, as calculated on the basis of audited annual accounts, exceeds the movement in the MSCI World Index (Sterling excluding income).

The calculation is based on NAV's over rolling three year periods, although the first period was from 1 January 2005 until 30 June 2007. Thereafter period two commenced 1 July 2005 and ended on 30 June 2008, period three commenced 1 July 2006 and ends on 30 June 2009 and period four commenced on 1 July 2007 and ends on 30 June 2010.

The objective of the performance bonus is to give the Investment Manager ten per cent of any such outperformance up to a maximum of 0.6% of the NAV. In relation to the second period a performance fee of £1,493,000 (excluding VAT) payable to the Investment Manager in September 2008 has been charged wholly to capital.

In addition, a provision of £561,000 (excluding VAT) has been made for estimated performance fees to date in relation to periods three and four (2007: £1,125,000 excluding VAT, for periods two and three).

### 4. Administrative Expenses

	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
Directors' emoluments	101	109
Auditor's remuneration – for audit services	21	20
Bank charges and safe custody fees	79	68
Other expenses	366	330
	567	527

Details of the amounts paid to Directors are included in the audited part of the Directors' Remuneration Report on page 24.

### 5. Interest Payable

	Year ended 30 June 2008			Period ended 30 June 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank loans and overdrafts	6	–	6	(6)	(16)	(22)
Debenture	188	564	752	204	611	815
	194	564	758	198	595	793

### 6. Taxation

Total tax charge for the year:

	Year ended 30 June 2008			Period ended 30 June 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK Corporation tax	1,461	–	1,461	–	–	–
Double tax relief	(725)	–	(725)	–	–	–
Irrecoverable overseas tax	729	–	729	575	–	575
Prior year adjustment	23	–	23	–	–	–
Tax relief to capital	570	(570)	–	365	(365)	–
Total current tax	2,058	(570)	1,488	940	(365)	575
Deferred tax	33	–	33	–	–	–
Total tax charge	2,091	(570)	1,521	940	(365)	575

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

A reconciliation of the current tax charge is set out below:

	<b>Year ended</b>	<b>Period ended</b>
	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>£'000</b>	<b>£'000</b>
Revenue return on ordinary activities before taxation	8,667	7,143
Return on ordinary activities at the UK standard tax rate of corporation tax (29.5%) (2007: 30%)	2,557	2,143
Franked dividend receipts not chargeable to corporation tax	(529)	(636)
Income taxable in different periods	(5)	51
Overseas withholding tax	729	577
Expenses not deductible for tax purposes	7	(1)
Double tax relief taken	(724)	(1,194)
Prior year adjustment on withholding tax recoverable	23	-
Current revenue tax charge for the year	<u>2,058</u>	<u>940</u>

### 7. Dividends

	<b>Year ended</b>	<b>Period ended</b>
	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>£'000</b>	<b>£'000</b>
Amounts recognised as distributions to equity holders in the period:		
Final dividend for 2007: 5.19p (2006: 3.85p)	3,390	2,523
Interim dividend for 2008: 2.00p (2007: 2.00p)	1,306	1,310
	<u>4,696</u>	<u>3,833</u>

The proposed final dividend for 2008 is subject to approval by shareholders at the 2008 AGM and has not been included as a liability in these Financial Statements.

We set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 842 ICTA are considered. The revenue available for distribution by way of dividend for the year is £6,576,000 (2007: £6,203,000).

	<b>Year ended</b>	<b>Period ended</b>
	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>£'000</b>	<b>£'000</b>
Interim dividend for 2008: 2.00p (2007: 2.00p)	1,306	1,310
Proposed final dividend for 2008: 5.85p (2007: 5.19p)	3,821	3,390
	<u>5,127</u>	<u>4,700</u>

### 8. Return per Ordinary Share

The return per ordinary share is based on the following figures:

	<b>Year ended 30 June 2008</b>			<b>Period ended 30 June 2007</b>		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>
Basic	<u>10.07</u>	<u>(46.15)</u>	<u>(36.08)</u>	<u>9.47</u>	<u>72.54</u>	<u>82.01</u>

The total return per ordinary share is calculated on the net return on ordinary activities after taxation of (£23,569,000) (2007: £53,733,000) and on 65,318,174 (2007: 65,519,405) ordinary shares, being the weighted average number of shares in issue during the year.

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 8. Return per Ordinary Share (continued)

The revenue return per ordinary share is calculated on the net revenue on ordinary activities after taxation of £6,576,000 (2007: £6,203,000) and on 65,318,174 (2007: 65,519,405) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The capital return per ordinary share is calculated on net capital returns for the year of (£30,145,000) (2007: £47,530,000) and on 65,318,174 (2007: 65,519,405) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Both the total and capital returns noted above for the year under review are negative.

### 9. Investments

	Valuation 30 June 2007 £'000	Purchases £'000	Sales £'000	Depreciation £'000	Valuation 30 June 2008 £'000	Cost 30 June 2008 £'000
UK	89,045	54,849	70,727	(18,921)	54,246	57,219
North America	68,941	28,426	26,039	(6,334)	64,994	63,984
Europe and Emerging Markets	103,424	33,764	11,000	(22,434)	103,754	100,059
Japan	25,989	17,923	4,919	(2,666)	36,327	36,719
Pacific ex Japan	29,177	12,461	10,117	(2,864)	28,657	25,916
	<u>316,576</u>	<u>147,423</u>	<u>122,802</u>	<u>(53,219)</u>	<u>287,978</u>	<u>283,897</u>

#### (Losses)/gains on investments held at fair value through profit or loss

	2008 £'000	2007 £'000
Realised gains on sales	25,207	23,639
Loss on forward foreign currency exchange contract	(957)	–
Changes in valuation of Investments	(53,219)	26,345
Unrealised loss on forward foreign currency exchange contract	(134)	–
	<u>(29,103)</u>	<u>49,984</u>

#### Transaction costs

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Income Statement. The total costs were as follows:

	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
Purchases	186	215
Sales	175	123
	<u>361</u>	<u>338</u>

### 10. Debtors: Amounts Falling Due Within One Year

	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Investments sold for future settlement	741	312
Taxation recoverable	342	234
Prepayments and accrued income	1,051	2,479
	<u>2,134</u>	<u>3,025</u>

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 11. Creditors: Amounts Falling Due Within One Year

	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Purchases for future settlement	862	2,085
Performance fee	1,493	2,069
Accruals	457	497
Corporation tax payable	334	–
Unrealised loss on forward foreign currency exchange contracts	134	–
	3,280	4,651

### 12. Creditors: Amounts Falling Due After More Than One Year

	As at 30 June 2008 £'000	As at 30 June 2007 £'000
10.75% debenture stock 2011	7,000	7,000

The 10.75% debenture stock is due to be redeemed at par on 30 November 2011 and interest is payable in half yearly instalments in May and November.

The debenture stock is secured by a floating charge over all the Company's assets.

### 13. Provision for Liabilities and Charges

	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Opening balance	1,239	1,795
Performance fee earned during the year/period	929	1,513
Payable 2008	(1,493)	(2,069)
Adjustment to irrecoverable VAT	(114)	–
Closing balance	561	1,239
<b>Deferred taxation on accrued income</b>		
Opening balance	–	–
Movement in year	33	–
Closing balance	33	–
Total provision for liabilities and charges	594	1,239

### 14. Called up Share Capital

	As at 30 June 2008 £'000	As at 30 June 2007 £'000
<b>Called up, allotted and fully paid</b>		
65,318,174 (2007: 65,318,174) ordinary shares of 5p each	3,266	3,266

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 15. Analysis of Changes in Net Funds

	At 30 June 2007 £000	Cashflow movements £000	Exchange movements £000	At 30 June 2008 £000
Cash at bank and short term deposits	8,837	(1,203)	411	8,045
Debentures	(7,000)	–	–	(7,000)
Net funds	1,837	(1,203)	411	1,045

### 16. Commitments and Contingencies

As at 30 June 2008 there were no contingent liabilities (30 June 2007: nil).

### 17. Net Asset Value (“NAV”) per Ordinary Share

	As at 30 June 2008	As at 30 June 2007
Net assets attributable	£287,283,000	£315,548,000
Number of ordinary shares in issue at period end	65,318,174	65,318,174
NAV per ordinary share (pence)	439.82	483.09

The NAV per share at 30 June 2008, adjusted to include the debenture stock at market value rather than at par is 438.23p (2007: 481.13p).

### 18 Risk Management, Financial Assets and Liabilities

#### a) Management of Risk

The Company’s financial instruments held during the year comprise:

- Equity shares held within the portfolio;
- Fixed interest stock held within the portfolio;
- Debenture stock issued to finance its investing activities;
- Forward foreign currency exchange contracts; and
- Cash and short term debtors and creditors which arise from its investing activities.

The debenture stock carries a fixed rate of interest.

The main risks arising from these financial instruments are market price risk, foreign currency risk, liquidity risk, interest rate risk and credit risk. The Board’s policies for managing these risks are summarised below and have been applied throughout the year.

#### **Market price risk**

An investment trust is exposed to market price risk due to fluctuations in market prices of the investments held in its portfolio. It is the Board’s policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular country or sector. The allocation of assets to international markets together with stock selection covering small, medium and large companies are other factors which act to reduce market price risk. The Investment Manager actively monitors market prices throughout the year and reports to the Board which meets regularly to consider investment strategy.

#### **Foreign currency risk**

A significant proportion of the Company’s investment portfolio is invested in overseas securities and the Company’s total return and Balance Sheet can be affected by fluctuations in foreign currency exchange rates. It is not the Company’s policy to hedge this risk on a continuing basis, but the Company may from time to time enter forward foreign currency exchange contracts to reduce the risk of holding investments whose operations are denominated in foreign currencies. From time to time the Company will hold foreign currency cash balances as well as foreign currency balances due to and receivable from brokers. These assets and liabilities arise from the Company’s investing activities. The exposure is short term and therefore not considered to be material.

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 18 Risk Management, Financial Assets and Liabilities (continued)

#### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. The maturity of the Company's existing borrowings are set out in part (c) to this note.

#### **Interest rate risk**

The Company's exposure to risk arising from interest rate fluctuations is minimal. The financial liabilities carry fixed rates of interest. The Company has cash on deposit at floating rates but these are short term and therefore carry no material risk.

#### **Credit risk**

This is the risk of failure of the counterparty to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss.

The risk is not significant and is managed as follows:

- investment transactions are carried out with a large number of brokers whose credit standing is reviewed periodically by the Investment Manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a monthly basis. In addition, the custodian carries out a stock reconciliation to the administrators' records on a monthly basis to ensure discrepancies are picked up on a timely basis. The Investment Manager's compliance department carries out periodic reviews of the custodian's operations and reports its findings to the Investment Manager's Board; and
- cash is only held with reputable banks with high quality external credit enhancements; and
- none of the Company's financial assets are secured by collateral or other credit enhancements.

#### **b) Risk Profile of Financial Assets and Financial Liabilities**

##### **Currency exposure**

A significant proportion of the Company's financial assets is denominated in currencies other than Sterling with the effect that the Balance Sheet and total return can be significantly affected by currency movements. The revenue account is subject to currency fluctuations arising on overseas income.

Currency	Net			Net		
	Investments	monetary assets/ (liabilities)	Total currency exposure	Investments	monetary assets/ (liabilities)	Total currency exposure
	2008 £'000	2008 £'000	2008 £'000	2007 £'000	2007 £'000	2007 £'000
Australian Dollar	15,785	–	15,785	14,688	175	14,863
Canadian Dollar	15,470	454	15,924	19,991	15	20,006
Euro	81,673	(76)	81,597	70,719	–	70,719
Hong Kong Dollar	12,872	57	12,929	10,886	1,594	12,480
Japanese Yen	36,327	122	36,449	25,989	2,065	28,054
Norwegian Krone	9,096	(862)	8,234	12,845	–	12,845
Singapore Dollar	–	–	–	3,603	–	3,603
South African Rand	221	60	281	4,976	–	4,976
Swedish Krona	2,556	–	2,556	2,989	–	2,989
Swiss Franc	10,208	1	10,209	11,895	–	11,895
US Dollar	49,524	1,398	50,922	48,950	(843)	48,107
	233,732	1,154	234,886	227,531	3,006	230,537
Sterling	54,246	5,745	59,991	89,045	4,205	93,250
	<u>287,978</u>	<u>6,899</u>	<u>294,877</u>	<u>316,576</u>	<u>7,211</u>	<u>323,787</u>

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

Included within the above analysis are the following two forward foreign currency exchange contracts:

Date of Contract	Settlement Date	Amount EUR	Contracted rate	Unrealised loss as at 30th June 2008
3 April 2008	7 July 2008	13,000,000	0.789	£36,000
3 April 2008	7 July 2008	26,000,000	0.788	£98,000

### **Interest rate risk profile of financial assets and financial liabilities**

The Company's financial assets comprise equity shares, which neither pay interest nor carry a maturity date, fixed interest securities, bank balances and short term deposits. The interest rate profile of the assets, excluding short term debtors, of the Company at 30 June 2008 was:

	Other financial assets				Other financial assets			
	Floating rate financial Total 2008 £'000	Fixed rate financial assets 2008 £'000	Fixed rate financial assets 2008 £'000	on which no interest is paid 2008 £'000	Floating rate financial Total 2007 £'000	Fixed rate financial assets 2007 £'000	Fixed rate financial assets 2007 £'000	on which no interest is paid 2007 £'000
Equities	259,847	–	–	259,847	291,368	–	–	291,368
Fixed interest securities	28,131	–	28,131	–	25,208	–	25,208	–
Sterling	6,718	6,718	–	–	6,461	6,461	–	–
US dollar	1,146	1,146	–	–	313	313	–	–
Euro	59	59	–	–	–	–	–	–
Japanese Yen	122	122	–	–	2,063	2,063	–	–
	<u>296,023</u>	<u>8,045</u>	<u>28,131</u>	<u>259,847</u>	<u>325,413</u>	<u>8,837</u>	<u>25,208</u>	<u>291,368</u>

The rates of interest earned on floating rate financial assets at the year end were as follows:

Sterling 5.07% (2007: 5.29%)

US Dollar 1.60% (2007: 5.08%)

Euro 3.31% (2007: 3.94%)

Japanese Yen 0.30% (2007: nil)

The weighted average interest rates and weighted average periods for financial assets whose rates were fixed were as follows:

Currency	Weighted average period for which which rates are fixed 2008	Weighted average interest rate 2008 %	Weighted average period for which which rates are fixed 2007	Weighted average interest rate 2007 %
Sterling	8 months	4.03	6.3 months	6.45
US Dollar	1.9 months	8.00	11.4 months	7.65

The weighted average rate is based on the current yield of each asset, weighted by its market value.

The interest rate profile of the Company's financial liabilities at 30 June 2008 was:

Currency	Fixed rate financial liabilities 2008 £'000	Fixed rate financial liabilities 2007 £'000
Sterling	<u>7,000</u>	<u>7,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 18 Risk Management, Financial Assets and Liabilities (continued)

#### b) Risk Profile of Financial Assets and Financial Liabilities (continued)

The weighted average interest rate of the fixed rate financial liabilities was 10.75% (2007: 10.75%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 2 years and 6 months (2007: 3 years and 6 months).

#### c) Maturity profile of financial liabilities

The maturity profile of the Company's financial liabilities at 30 June 2008 was as follows:

	2008	2007
	£'000	£'000
In two to five years	7,000	7,000

#### d) Fair values of financial assets and financial liabilities

All of the Company's assets are held at fair value.

Set out below is a comparison by category of book values and fair values of the Company's financial liabilities as at 30 June 2008 and 30 June 2007:

	Book value 2008 £'000	Fair value 2008 £'000	Book value 2007 £'000	Fair value 2007 £'000
10.75% debenture stock 2011	7,000	8,038	7,000	8,285

The fair value of the 10.75% debenture 2011 is calculated by reference to the market value at 30 June 2008.

#### e) Price risk sensitivity

If market prices at the Balance Sheet date had been 10% higher or lower while all other variables remained constant, the return attributable to ordinary shareholders for the year ended 30 June 2008 would have been increased/decreased by £28,798,000 (2007: increased/decreased by £31,658,000) and equity reserves would have increased/decreased by the same amount.

#### f) Foreign currency sensitivity

Where the Company's equity investments are priced in a foreign currency, they have been included within the price risk sensitivity above so as to show the overall level of exposure.

If Sterling had strengthened by 5% relative to all currencies, the Income Statement and net assets attributable to shareholders would have decreased by the amounts shown below:

	2008	2007
	£'000	£'000
Income Statement - after tax		
Revenue return	(234)	(158)
Capital return	(917)	(846)
Net assets	(1,151)	(1,004)

If Sterling had weakened by 5% relative to all currencies, the Income Statement and net assets attributable to shareholders would have increased by the amounts shown below.

	2008	2007
	£'000	£'000
Income Statement - after tax		
Revenue return	259	175
Capital return	1,013	935
Net assets	1,272	1,110

In the opinion of the Directors, neither of the above sensitivity analyses are representative of the year as a whole since the level of exposure changes frequently.

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### **g) Interest rate sensitivity**

Movements in interest rates would not significantly affect either net assets attributable to ordinary shareholders or return after tax.

### **19. Capital Management Policies and Procedures**

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern, and
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes the nature and planned level of gearing, which takes account of the Investment Manager's views on the market and the extent to which revenue in excess of that which is required to be distributed should be retained.

### **20. Contingent Assets**

On 5 November 2007, the European Court of Justice ruled that management fees on investment trusts should be exempt from VAT. HMRC has announced its intention not to appeal against this ruling to the UK VAT Tribunal and therefore protective claims which have been made in relation to the Company will be processed by HMRC in due course. It is likely that a repayment will be made by HMRC in respect of VAT which has been charged on investment management fees in past years and the Board is currently quantifying the potential repayment that should be due. The amount the Company will receive, the period to which it will refer, and the timescale for receipt are at present uncertain and the Company has taken no account in these Financial Statements of any such repayment. The Company has not been charged VAT on its investment management fees from October 2007.

### **21. Related Party Transactions**

During the year, £7,000 was paid to John Pocock in addition to his Directors' fees. This was for consultancy work in relation to the development of the website and was approved by the Board.

**REPORT OF THE INDEPENDENT AUDITOR**  
to the members of Electric & General Investment Trust plc

We have audited the Financial Statements of Electric & General Investment Trust plc for the year ended 30 June 2008 which comprises the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement and the related notes 1 to 21. These Financial Statements have been prepared under 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 auditor's 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 Auditor**

The Directors responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view, 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 and the information given in the Report of the Directors is consistent with the Financial Statements.

We also report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance report reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only

the Financial Highlights, Performance, Corporate Objective, Investment Policy, Historical Record, Dividend, Benchmark, Growth in NAV and Share Price and NAV per share performance, Company Information, Reporting and Financial Calendar, Directors, Investment Manager, Chairman's Statement, Portfolio Analysis by Asset Category, Country and Currency Exposure, Analysis of Investments by Sector, Portfolio Valuation, Ten Largest Investments, Report of the Directors, Corporate Governance, the unaudited part of the Directors' Remuneration Report, Notice of Meeting, Appendix and Capital Gains Tax Information. 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2008 and of its net return for the year then ended;
- 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; and
- the information given in the Report of the Directors is consistent with the Financial Statements.

**Ernst & Young LLP**

Registered Auditor  
London

14 August 2008

## NOTICE OF MEETING

Notice is hereby given that the one hundred and eighteenth Annual General Meeting of Electric & General Investment Trust plc will be held at the offices of JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA on Wednesday, 24 September 2008 at 12 noon for the purpose of transacting the following business:

### Ordinary Business

1. To receive the Report of the Directors and audited accounts for the year ended 30 June 2008.
2. To declare a final dividend of 5.85p per ordinary share.
3. To re-elect Mr L C N Bury\* as a Director of the Company.
4. To re-elect Mr J Pocock\* as a Director of the Company.
5. To re-appoint Ernst & Young LLP as the Independent Auditor of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before members.
6. To authorise the Directors to determine the remuneration of Ernst & Young LLP as Auditor of the Company.

### Special Business

To consider and, if thought fit, pass resolutions 7 and 8 as Ordinary Resolutions and resolutions 9, 10 and 11 as Special Resolutions:

7. To approve the Directors' Remuneration Report for the year ended 30 June 2008.
8. THAT, the Board be and is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £163,295 (being 5% of the issued ordinary share capital at the date of this notice) and this authority shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
9. THAT, subject to the passing of resolution 8 set out in the Notice of Meeting dated 14 August 2008, the Board be and is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, provided that this power shall be limited:
  - (a) to the allotment of equity securities whether by way of a rights issue, open offer or otherwise to ordinary shareholders and/or holders of any other securities in accordance with the rights of those securities where the equity securities respectively attributable

to the interests of all ordinary shareholders and/or such holders are proportionate to the respective numbers of ordinary shares and such securities held by them (or are otherwise allotted in accordance with the rights attaching to such securities) subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or local or practical problems under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever;

- (b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal value of £163,295 (being 5% of the issued ordinary share capital at the date of this notice); and
- (c) to the allotment of equity securities at a price of not less than NAV per share (as determined by the Directors from time to time);

and shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

10. THAT the Company be authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") upon and subject to the following conditions:

- (a) the maximum number of ordinary shares which may be purchased is 14.99% of the Company's issued ordinary share capital at the date of the Annual General Meeting equivalent to 9,791,194 ordinary shares at the date of this notice;
- (b) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not exceed:
  - i) 105% of the average middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days preceding the date of purchases; or
  - ii) the higher of the price of the last independent trade and highest current independent bid for an ordinary share made on the London Stock Exchange;
- (c) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 5p being the nominal value per ordinary share; and
- (d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company save

## NOTICE OF MEETING

(continued)

that the Company may, before such expiry, enter into a contract to purchase ordinary shares under which such purchases will or may be completed or executed wholly or partly after the expiry of this authority and may make a purchase of ordinary shares in pursuance of any such contract.

11. THAT the Articles of Association contained in the document produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2008 Annual General Meeting.

By order of the Board

### BNP Paribas Secretarial Services Limited

Secretary

14 August 2008

\* The biographies of these Directors are set out on page 5 and the recommendation for their re-election can be found on pages 17 and 21 of this Report.

#### Notes

1. Pursuant to Regulation 41(i) of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of Electric and General Investment Trust plc at the close of business on Monday, 22 September 2008 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after close of business on Monday, 22 September 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting. If the meeting is adjourned then, to be so entitled, members must be entered on the register of members at the close of business on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.
2. Pursuant to Section 324 of the Companies Act 2006 a member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, to speak and vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed and to be valid must be lodged at the office of the Company's Registrars, Computershare Investor Services Plc, The Pavilions, Bridgewater Road, Bristol BS99 6ZY, not less than forty-eight hours before the time fixed for the meeting.  
  
This right does not apply to persons nominated to receive information rights pursuant to Section 146 of the Companies Act 2006. Persons nominated to receive information rights under Section 146 of the Companies Act 2006 have been sent this Notice of Meeting and are hereby informed, in accordance with Section 149(2) of the Companies Act 2006, that they may have the right under an agreement with the registered member by whom they were nominated to be appointed, to have someone else appointed, as a proxy for this meeting. If they have no such right or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
3. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives

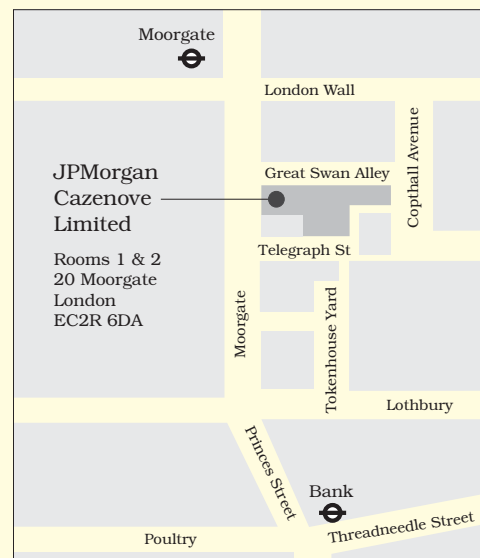
who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – [www.icsa.org.uk](http://www.icsa.org.uk) – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

4. This notice is sent for information only to holders of debenture stock who are not entitled to attend or vote at the meeting.
5. By attending the meeting, members and their proxies and representatives are understood by the Company to have confirmed their agreement to receive any communications (including communications relating to the Company's securities) made at the meeting.
6. The following documentation will be available for inspection at the registered office of the Company during usual business hours on weekdays (Saturdays and public holidays excepted) until the date of the meeting and at the place of the meeting:
  - a) A Statement of all transactions of each Director and of their family interests in the share capital of the Company;
  - b) The Memorandum and Articles of Association; and
  - c) Letters of appointment of non-executive Directors.
7. As at 13 August 2008 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital consists of 65,318,174 ordinary shares, carrying one vote each. The Company holds no ordinary shares in treasury. The total voting rights in the Company as at 13 August 2008 (being the latest practicable date prior to the publication of this Notice) are 65,318,174.
8. A copy of the Articles of Association as proposed to be adopted by Resolution 11 will be available for inspection during usual business hours on weekdays (Saturdays and public holidays excepted) at the Company's registered office, 55 Moorgate, London EC2R 6PA, until the conclusion of the AGM on Wednesday, 24 September 2008, and will also be available for inspection at the meeting from at least 30 minutes prior to the commencement of the meeting until its conclusion.
9. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests of the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any member holding 3 per cent. or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Services Authority.

Registered Office:

55 Moorgate  
London EC2R 6PA

### LOCATION OF MEETING



## APPENDIX

### EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

#### 1. Articles Which Duplicate Statutory Provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution. Examples include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

#### 2. Form of Resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed as the concept of extraordinary resolutions has not been retained under the Companies Act 2006. Further, the remainder of the provision is reflected in full in the Companies Act 2006.

The Current Articles enable members to act by written resolution. Under the Companies Act 2006 public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

#### 3. Convening Extraordinary and Annual General Meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being removed in the New Articles because the relevant matters are provided for in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

#### 4. Votes of Members

The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. The new Articles give the Directors discretion, when calculating the time limits, to exclude weekend and bank holidays. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions.

#### 5. Age of Directors on Appointment

The Current Articles contain a provision stating that where a general meeting is convened at which, to the knowledge of the Board, a Director is to be proposed for appointment or reappointment who is at the date of the meeting 70 or more, the Board shall give notice of his age in the notice convening the meeting or in a document accompanying the notice. Such a provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

#### 6. Conflicts of Interest

The Companies Act 2006 sets out Directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another investment trust (or other company) or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty. The New Articles give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

## **APPENDIX**

(continued)

### **7. Increase in aggregate maximum Directors' fees**

The maximum amount payable in Directors' fees under the new Articles is increased from £130,000 to £170,000. The increase to the maximum permitted amount of fees payable will give the Directors the flexibility to increase the amount of Directors fees actually paid or to appoint an additional Director in the future, should they deem it appropriate.

### **8. Notice of Board Meetings**

Under the Current Articles, when a Director is abroad he can request that notice of Directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a Director who is abroad.

### **9. Records to be Kept**

The provision in the Current Articles requiring the Board to keep accounting records has been removed as this requirement is contained in the Companies Act 2006.

### **10. Distribution of Assets Otherwise Than in Cash**

The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

### **11. Electronic and Web Communications**

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

### **12. General**

Generally the opportunity has been taken to bring clearer language into the New Articles.

## CAPITAL GAINS TAX INFORMATION

### Disposals made on and before 5 April 2008

In 1998 considerable changes were made to the way that chargeable gains are calculated for non-corporate shareholders in respect of disposals made on or after 6 April 1998. From that date pooling no longer applies and disposals are matched against shares acquired in the following order:

- same date acquisitions;
- acquisitions within the following 30 days;
- previous acquisitions on or after 5 April 1998 (using the “last in first out” basis);
- any shares held in the pool as at 5 April 1998;
- any shares held in the pool as at 5 April 1982;
- any shares acquired before 6 April 1965; and
- any shares acquired subsequent to the disposal.

For disposals on or after 6 April 1998 indexation is still allowed but only up to April 1998. This has been replaced by taper relief which reduces the amount of the chargeable gain on these disposals the longer the shares are held. The taper is 5% for each complete year of ownership after the first two complete years, with a maximum reduction of 40% after ten complete years. In calculating the tapering relief, assets held before 17 March 1998 qualify for an extra year.

### Disposals made on and after 6 April 2008

In the Finance Act 2008 considerable changes were again made to the way that chargeable gains are calculated for non-corporate shareholders in respect of disposals made on or after 6 April 2008.

From that date all shares held are pooling and the previous matching rules and tapering relief are abolished. In addition, instead of any capital gain being taxed at the individual’s marginal rate of tax, the gains will be taxed at a flat rate of 18%.

There continues to be an annual exemption available which for individuals is £9,600 for the tax year ended 5 April 2009. (£9,200 for the year ended 5 April 2008).

Separate rules continue to apply to corporate holders.

**The calculation of the tax on chargeable gains will depend on personal circumstances. The above information is of a general nature and is not exhaustive. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.**

