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Electric & General Investment Trust plc

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COMPANIES HOUSE 13/09/2006

Annual Report & Accounts
for the year ended
31 May 2006

CONTENTS

ELECTRIC & GENERAL INVESTMENT TRUST PLC

The aim of the Company is to produce above average capital growth by investing in an international portfolio of companies

BENCHMARK

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

FINANCIAL HIGHLIGHTS

Per ordinary share	Year ended 31/05/06 Pence	Restated Year ended 31/05/05 Pence	% change
Net asset value – as per final accounts	406.76	333.76	21.9
Share price	377.50	304.00	24.2
Return per share	6.54	6.94	-5.8
Total return per share	80.85	35.31	129.3
Dividend	5.70	7.85[Ø]	-27.4

DIVIDEND

An interim dividend of 1.85p (2005: 1.85p) was paid to ordinary shareholders on 23 February 2006.

A final dividend of 3.85p (2005: 3.15p) per ordinary share is being recommended to shareholders for approval for payment on 18 September 2006 to shareholders on the register on 25 August 2006. This compares with 5.00p paid for the year ended 31 May 2005 which excluded a special dividend of 2.85p.

PERFORMANCE

Total return per ordinary share	1 year base 100	3 years base 100	5 years base 100
Net asset value[†]	125.2	159.0	103.8
Benchmark[*#]	112.8	156.1	112.7

† Source: AITC – Total return, net dividends re-invested and transaction costs excluded.

Source: Datastream.

* Benchmark – 1 year – MSCI World Index (excluding income)
– 3 year and 5 year – to 10 September 2004: 50% FTSE All-Share Index and 50% FTSE All-World Index; and from 10 September 2004: MSCI World Index (excluding income).

Ø This compares with 5.00p paid for the year ended 31 May 2005 which excluded a special dividend of 2.85p.

HISTORICAL RECORD

Year to 31 May	Total assets less current liabilities in £'000	Net asset value per ordinary share in pence	Mid-market price per ordinary share in pence	Discount/ (premium) %	Return per ordinary share in pence	Dividend per ordinary share in pence
1996	267,089	276.8	249.5	9.9	4.63	3.65
1997	289,170	302.7	274.5	9.3	4.30	3.80
1998	350,811	380.1	358.3	5.8	4.85	4.00
1999*†	373,616	394.0	348.5	11.6	5.39	4.00
2000	501,786	526.5	468.0	11.1	3.61	4.00
2001	413,998	419.7	399.0	5.0	4.72	4.00
2002	319,248	337.5	286.0	15.3	4.56	4.20
2003	248,701	266.6	214.0	19.7	5.11	4.40
2004	264,349	294.2	247.0	16.0	5.36	4.75
2005*	225,679	333.8	304.0	8.9	6.94	7.85
2006	**273,512**	**406.8**	**377.5**	**7.2**	**6.54**	**5.70**

† Restated due to revised accounting policy.

* Restated due to revised accounting standards, see note 19 for details.

GROWTH IN NET ASSET VALUE AND SHARE PRICE (EXCLUDING DIVIDENDS)

for the ten years from 1 June 1996 to 31 May 2006 (1 June 1996 = base 100)

GRAPHIC

NAV PER SHARE PERFORMANCE

From 10 September 2004 (rebased to £100) to 31 May 2006

GRAPHIC

COMPANY INFORMATION

Directors
Lindsay C N Bury (Chairman)

Gerry P Aherne

John D W Pocock

Jonathan G Ruffer

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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
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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**.

The Company publishes the net asset value 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 or PEP Scheme) can check their holding with our Registrar, Computershare Investor Services PLC. The link can be found via **www.computershare.com**.

REPORTING AND FINANCIAL CALENDAR

Results
Interim results announced: January

Year end results announced: July

Annual General Meeting held: September

Dividends
Interim: February

Final/second interim: August/September

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 Trust Companies
An investment company as defined under Section 266 of the Companies Act 1985
Registered in England, Number 31506

DIRECTORS

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

Chairman

Lindsay C N Bury*
Aged 67, was appointed to the Board in 1995. Chairman of Bango Plc and a non-executive director of Service Power Technologies, he has just retired from the board of Sage Group plc where he was senior non-executive director. Some earlier directorships include South Staffordshire Group where he was a non-executive director for 25 years and chairman for 12, ACT Group where he was a founder and director prior to the acquisition by Misys plc, Portals Holdings for 20 years prior to the acquisition by De La Rue plc and Dunbar plc, where he was a founder and director for 12 years prior to its acquisition by Allied Hambro. His city career includes five years at Schroders, seven years at Singer & Friedlander as well as 10 years managing the investment department at Dunbar.

Directors

Gerry P Aherne*
Aged 60, was appointed to the Board in 2003. He is currently a director and remuneration committee chairman of Henderson Global Investors plc. He was previously a director of Schroder Investment Management Limited and a non-executive director of PRI Group 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*†
Aged 46, was appointed to the Board in 1999. Former chief executive of Druid Group Plc and previously worked with IBM and Andersen Consulting. Currently holds other directorships in both Technology and Financial Services, including Higham Group plc.

Jonathan G Ruffer*
Aged 54, was appointed to the Board in 2001. 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.

* Independent Director and member of the Audit, Nomination and Management Engagement Committees which are all chaired by Mr Bury.

† Senior Independent Director.

INVESTMENT MANAGER

Taube Hodson Stonex Partners Limited ("Taube Hodson Stonex") is an independent fund management company which is ultimately owned by its five fund managers, Nils Taube, John Hodson, Cato Stonex, Mark Evans and Simon Edelsten and is authorised and regulated by the Financial Services Authority. As at 31 May 2006, Taube Hodson Stonex had £7.88 billion funds under management (excluding those of the Company).

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

Nils Taube
Nils began his working life with stockbrokers Kitcat & Aitken, rising to senior partner in 1975. In 1971 he started the unit trust known today as St. James's Place International Unit Trust. In 1982, Lord Rothschild bought 30% of Kitcat & Aitken and Nils became the manager of the quoted investments of the J. Rothschild group of businesses. This association continued until 1996 when he and his colleagues, John Hodson and Cato Stonex, established Taube Hodson Stonex. St. James's Place Capital remains Taube Hodson Stonex's main client. He was a director of Henderson Electric and General Investment Trust plc from 1964 to 1988.

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 Philips 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.

CHAIRMAN'S STATEMENT

Policy and Objective

The Company's objective is to maximise total return while pursuing a progressive dividend policy where achievable within the overriding objective of capital growth. The Investment Manager invests internationally in a relatively concentrated portfolio. The Investment Manager does not aim to replicate the global indices, but looks to invest in strong businesses with good growth prospects.

Benchmark

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

Performance

For the year ended 31 May 2006 the net asset value of the Company increased by 21.90%, which compares to an increase of 12.56% in the MSCI World Index (excluding income). Over the same period the Company's share price increased by 24.18%, the difference in performance being made up by the discount to net asset value having come down from 7.30% to 5.20% per share.

Dividend

Because the Company has been investing in some of the more unpopular areas of the stock market, there were some very good dividend yields for the second year running and as Investment Trusts must not retain more than 15% of their income from shares and securities the dividend has been increased to 3.85p making a total of 5.70p for the year. This final dividend of 3.85p per ordinary share is recommended for payment to shareholders on the register as at 25 August 2006 payable 18 September 2006. Last year the total dividend was 7.85p but this included a special dividend of 2.85p. I should emphasise that the Company is primarily being run for capital growth and that this level of dividend increase should not be relied upon in future years.

Market Background

Global stock markets performed well for most of the year under review, buoyed by global growth and high levels of takeover activity. Investor sentiment was surprisingly strong until mid-May when Ben Bernanke, the new chairman of the Federal Reserve, warned that inflationary pressures may lead to further rises in short term interest rates. As I cautioned in the interim report, the stock market recovery was in its third year and a setback, at some stage, was always likely. The Company has been fairly well invested for most of the year. However, since the beginning of the year liquidity has gradually built up to 12% and most of the new investments that have been made have been relatively defensive. While the Company's net asset value will obviously be affected by the recent stock market falls, I am confident in the Company's investments.

Over the past year much investor interest has been focused on Japan, where the economic recovery has continued and now appears to be self sustaining. The Bank of Japan recently signalled its confidence in the country's economy by announcing a shift from an effective zero interest regime. However, as is often the case, some of the predictions for growth have been exaggerated and there is now some room for short term disappointment. The Company's Japanese investments – which were generally selected to benefit from recovery in the domestic economy – have performed well and during the year good profits have been realised from the sale of a number of holdings, including Mitsubishi Tokyo, one of the leading banks, and Sompo and Millea, two of the large insurance companies. A partial sale was also made in Mitsubishi Estates, whose primary assets are in the main business district of Tokyo. The Company only held one export orientated company, Hoya, which has also been sold following a very good performance caused by the success of the Apple iPod, where it supplied a key component. The company also benefited from the growth of the LCD TV market.

During the second half of the year, the Company bought shares in Chiba Bank, Japan's second largest regional bank, which should benefit from any further consolidation amongst the country's regional banks.

Continuing the banking theme, the Company has participated in two new issues in China, which is beginning the process of opening the banking sector to foreign investors. This has been made possible by the progress that has been made in reducing the non-performing loan problem of Chinese banks. The first major bank to be floated was Bank of Communications, in which HSBC has a 20% holding, with an option to increase their ownership to 40%. HSBC is helping the bank to put in modern systems and credit controls and Chairs the credit committee. Shares were purchased in the Initial Public Offering ("IPO") and the price has risen substantially. The Company also recently participated in the new issue of Bank of China, one of the big four Chinese banks with connections to Royal Bank of Scotland, who have a representative on the Board. This company is particularly interesting in that it is the largest lender of consumer mortgages in China. This is a business that should have good growth potential as more Chinese people own their own homes as the economy develops – the Company has profited from similar phenomena in other developing countries.

Europe, Germany and France share many of the same problems, but readiness for reform is less advanced in the latter. In Germany, Angela Merkel, the new chancellor, scores high approval ratings; there is a palpable sense that German society understands the need for change, and following the recent county elections some bolder moves by the new government are to be expected. In contrast, M. de Villepin's proposal to start the process of reforming the French labour market met with anger and demonstrations, which finally persuaded the French President to back down. While the pace of change will be different, both countries are now on course for reform.

New investments made during the second half include Deutsche Post and ING group, both of which will benefit from a European recovery. The Company also participated in the IPO of Electricité de France in November, and subsequently added to the holding. EDF owns a large and reliable fleet of nuclear power stations and will benefit from expected changes to the French energy pricing regime. At present the French Government keeps the price of electricity for most customers at an artificially low rate. This is likely to change over the next few years as EU pressure frees up Europe's energy markets and brings an end to anti-competitive practices.

On the sale side, Generali, the large Italian insurance company tendered for the minorities in AMG Generali, which was one of the Company's largest holdings. While the price was not quite what the Investment Manager had hoped for, it has produced a good return.

Several other holdings have been sold or trimmed. Of particular note is Sage, the very successful UK software company which the Investment Manager felt was fully priced and BAA, which has been subject to a contested takeover bid and where part of the holding was sold before the year end to lock in some of the profit. The remainder has since been sold after the conclusion of the bid by Ferrovial.

The telecom sector has been a stock market laggard and the Investment Manager decided to purchase Vodafone, which on conventional financial ratios is good value. In addition, the Investment Manager believes that the new 3G data services should prove attractive and begin to repay some of the heavy investments made. In contrast to the lacklustre performance of developed market telecom companies, emerging market mobile companies have performed strongly. The Company's investment in Hutchison Telecom, which has a strong position in India, has performed well and the Investment Manager took some profits at good prices.

Another new investment is CVS Corp, the American pharmacy and PBM (Pharmacy Benefit Manager), which is the largest pharmacy business in America. Pharmacy companies benefit from the continuing growth in demand for drugs from the world's aging population, and from the high margins allowed on the sale of generic products. The Company already owns pharmacy stocks in Europe and Japan for these reasons.

Oil and mining stocks dominated the news in 2005, and the Company's resource stocks benefited accordingly. The holding in Canadian gold miner Placer Dome, for example, was sold at a good profit following Barrick's bid and the proceeds were switched into Australia's Newcrest Mining. Some of the Company's large oil companies were either sold or reduced. Encana, for instance, was sold and some profits were taken from ConocoPhillips and Marathon Oil. The successful investment in Teck Cominco, the coal and zinc producer, was also sold.

New investments were made in Alcoa, one of the world's two leading aluminium companies, and in Oil Search, an Australian oil and gas exploration company. Alcoa experienced a difficult year in 2005, but has recently announced a good set of figures. Aluminium prices, having lagged behind other metals, have now started to rise, but the full impact of the increase has yet to be realised because of the contract pricing system. Oil Search has formed a consortium with Exxon to build a gas pipeline from Papua New Guinea – where its gas fields have a life span of more than 50 years – to Australia. Once the pipeline is underway next year, the prospects look very encouraging.

Prospects

Recent market volatility has allowed the Investment Managers to add to a few of the existing holdings and start to build a small number of new positions. However, with liquidity standing at just below 10% at the time of writing, the Company has plenty of room for manoeuvre, especially when current geo-political tensions die down.

Accounting Standards

The Company has changed some of its accounting policies due to the impact of the revised UK GAAP effective from this period. Details can be found in the notes to the accounts.

Lindsay Bury

1 August 2006

PORTFOLIO ANALYSIS BY ASSET CATEGORY, COUNTRY AND CURRENCY EXPOSURE

as at 31 May 2006

Portfolio Analysis by Asset Category

GRAPHIC

Portfolio Analysis by Country

GRAPHIC

Currency Exposure

GRAPHIC

ANALYSIS OF INVESTMENTS BY SECTOR

as at 31 May 2006

		Total 2006 %	Total 2005 %
Resources	Mining	**6.0**	0.9
15.1%	Oil & Gas	**9.1**	10.9
		15.1	11.8
Basic Manufacturers	Chemicals & Construction	**1.9**	0.2
5.0%	*Building Materials*	**3.1**	2.3
		5.0	2.5
General Industries	Electronic & Electrical Equipment	**2.4**	4.4
3.3%	Engineering & Machinery	**0.9**	2.9
		3.3	7.3
Cyclical Goods	Automobiles	**2.4**	–
2.4%	Household Goods & Textiles	**-**	7.9
		2.4	7.9
Non-Cyclical Consumer Goods	Food Producers & Processors	**5.4**	5.8
10.5%	Health	**0.8**	1.0
	Pharmaceuticals	**4.3**	2.7
		10.5	9.5
Cyclical Services	General Retailers	**4.1**	4.3
18.9%	Leisure & Hotels	**1.3**	0.2
	Media & Entertainment	**6.8**	4.4
	Support Services	**1.5**	1.6
	Transport	**5.2**	6.0
		18.9	16.5
Non-Cyclical Services	Telecommunications Services	**8.2**	7.1
8.2%		**8.2**	7.1
Utilities	Electricity	**3.2**	–
3.2%		**3.2**	–
Information Technology	Software & Computer Services	**0.1**	3.7
0.1%		**0.1**	3.7
Financials	Banks	**9.2**	10.9
20.8%	Insurance	**6.0**	8.3
	Consolidated Enterprises	**0.8**	–
	Investment Companies	**1.6**	–
	Real Estate	**1.6**	2.7
	Speciality & Other Finance	**1.6**	1.6
		20.8	23.5
Fixed Interest	Eurobonds	**12.5**	10.2
12.5%		**12.5**	10.2
Total		**100.0**	100.0

There are no convertible securities in the portfolio.

PORTFOLIO VALUATION
as at 31 May 2006

	Sector	£'000	% of Portfolio
United Kingdom			
UK Treasury 4.5% 07/03/07	Fixed Interest	25,971	9.8
UK Treasury 5% 07/03/08	Fixed Interest	7,037	2.7
Rio Tinto#	Mining	6,765	2.5
Royal Dutch Shell#	Oil & Gas	5,464	2.0
Vodafone#	Telecommunications	5,043	1.9
British Sky Broadcasting	Media & Entertainment	3,832	1.4
Standard Chartered	Banks	3,648	1.4
National Grid Transco	Electricity	3,494	1.3
Cadbury Schweppes	Food Producers & Processors	3,355	1.3
Alliance Unichem	Pharmaceuticals	3,304	1.2
Royal Bank of Scotland	Banks	3,138	1.2
Davis Service Group	Commercial Services	2,841	1.1
BAA	Engineering & Construction	2,327	0.9
WPP	Advertising	2,325	0.9
GUS	Retail	2,146	0.8
Yell	Advertising	1,760	0.7
Herald Ventures*	Speciality & Other Finance	1,190	0.4
Boots	Retail	806	0.3
Burberry	Personal Goods	359	0.1
Henderson Unquoted Growth Equities*	Speciality & Other Finance	98	0.1
Ubinetics*	Wireless Technology	19	0.1
		84,922	32.1
North America			
Petro-Canada	Oil & Gas	4,575	1.7
Verizon Communications	Telecommunications	3,831	1.4
SNC Lavalin	Manufacturing	3,652	1.4
Hilton Hotels	Leisure & Hotels	3,599	1.3
Alcoa	Mining	3,589	1.3
Marathon Oil	Oil & Gas	3,457	1.3
Florida East Coast Industries	Transport	3,072	1.1
Manulife Financial	Insurance	2,914	1.1
Addax Petroleum	Oil & Gas	2,532	0.9
CVS Corporation	Retail	2,507	0.9
DirecTV	Media & Entertainment	2,484	0.9
Home Depot	Building Materials	2,329	0.9
Intel	Electronic & Electrical Equipment	2,219	0.8
Pfizer	Chemicals	2,150	0.8
Human Genome Science	Biotechnology	2,042	0.8
Ace Aviation	Airlines	1,951	0.7
		46,903	17.3
Europe and Emerging Markets			
Volkswagen#	Automobiles	6,541	2.4
Nestle#	Food	6,143	2.3
Unicredito Italiano#	Banks	5,472	2.0
TeliaSonera#	Telecommunications	5,448	2.0
Carrefour#	Food	5,092	1.9
Electricite De France#	Electricity	5,004	1.9
Fraport#	Airport Operator	4,862	1.8
Statoil	Oil & Gas	4,552	1.7
Allianz	Insurance	4,166	1.5

PORTFOLIO VALUATION
(continued)

	Sector	£'000	% of Portfolio
Europe and Emerging Markets (continued)			
Deutsche Post AG	Transport	4,106	1.5
Vivendi Universal	Media & Entertainment	4,042	1.5
Swiss Reinsurance	Insurance	3,812	1.4
Lagardere	Media & Entertainment	3,504	1.3
Schibsted	Media & Entertainment	3,221	1.2
Eurazeo	Investment Companies	2,926	1.1
Portugal Telecom	Telecommunications	2,883	1.1
ING	Insurance	2,707	1.0
AGFA Gevaert	Electronic & Electrical Equipment	2,623	1.0
Deutsche Postbank AG	Banks	2,577	1.0
France Telecom	Telecommunications	2,327	0.9
Total SA	Oil & Gas	2,298	0.9
Medicover	Investment Companies	1,338	0.5
Premiere	Media & Entertainment	1,212	0.5
		86,856	32.4
Japan			
Mediceo	Pharmaceuticals	4,345	1.6
KAO Corporation	Chemicals	2,998	1.1
Chiba Bank	Banks	2,484	0.9
Kamigumi	Commercial Services	2,188	0.8
Mitsibushi Estate	Real Estate	2,166	0.8
Takeda Pharamaceutical	Pharmaceuticals	2,032	0.8
Astellas Pharma Company	Pharmaceuticals	1,875	0.7
		18,088	6.7
Far East			
Bank of Communications Hong Kong	Banks	3,222	1.2
DBS Group	Finance	2,857	1.1
Alumina	Mining	2,797	1.0
Newcrest Mining	Mining	2,777	1.0
AMP	Insurance	2,569	1.0
National Australia Bank	Banks	2,500	0.9
Hutchison Telecommunications	Telecommunications	2,491	0.9
Futuris	Building Materials	2,324	0.9
Westfield Group	Real Estate	2,111	0.8
Hutchison Whampoa	Consolidated Enterprises	2,107	0.8
Oil Search	Oil & Gas	1,964	0.7
LG Phillips	Electronics	1,764	0.7
Bank of China	Banks	1,234	0.5
		30,717	11.5
Total Portfolio		267,486	100.0

Included in top ten investments by value
* Unquoted investments

	2006 £'000	2005 £'000
Equity	233,172	193,831
Convertible stocks	–	–
Fixed interest	33,008	22,097
Other	1,306	1,175
	267,486	217,103

TEN LARGEST INVESTMENTS

Rio Tinto
Valuation at 31 May 2006: £6.8m (2005: nil)
(Cost £4.1m) (2005: nil)

Rio Tinto, an Anglo Australian company, is one of the world's largest miners. Sales in 2005 rose 47% to $19.0bn with net profits up to $5.2bn; growth was driven by rising raw material prices. Rio Tinto has benefited from the growth of China, where rapid industrialisation has created an almost insatiable demand for many basic materials. It has also invested in developing new and existing resources and production growth is expected to be strong.

Volkswagen AG
Valuation at 31 May 2006: £6.5m (2005: nil)
(Cost £4.4m) (2005: nil)

Volkswagen is one of the world's largest automobile and truck makers, and owns the Audi, VW, Bentley, Skoda and Seat brands. In the past two years, Volkswagen has successfully reduced costs and increased margins. There could be further room for improvement as the company moves production to lower cost countries and secures concessions from unions. In addition, car demand in Germany has been depressed for several years; as the economy improves, sales should rise.

Nestlé
Valuation at 31 May 2006: £6.1m (2005: £5.6m)
(Cost £5.0m) (2005: £5.0m)

Nestle is one of the world's largest consumer food and beverage producers with annual sales of €91bn. Growth in developed markets has been modest but it has substantial interests in emerging economies representing approximately 35% of current sales. The company is implementing a strategy to increase research and development spending and to update 20% of brands each year. Revenues and earnings are expected to rise in 2006.

Unicredito Italiano
Valuation at 31 May 2006: £5.5m (2005: nil)
(Cost £3.0m) (2005: nil)

Unicredito is an Italian banking group. Following the 2005 acquisition of HypoVereinsbank, Unicredito now has significant interests in Germany and in Eastern Europe, particularly in Poland. In these emerging economies, demand for financial products is growing strongly. The German and Italian mortgage markets are also under-penetrated relative to UK and US; a growing culture of home ownership should increase returns for Unicredito.

Royal Dutch Shell
Valuation at 31 May 2006: £5.5m (2005: £6.6m)
(Cost £2.9m) (2005: £3.9m)

Royal Dutch Shell is the world's third largest oil & gas company, with more than 11 billion barrels of reserves. 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 peers. The company also has a very interesting long-term position in Canadian oil sands; these will make up an increasing proportion of future oil production, and are largely not included in current reserve figures.

TeliaSonera
Valuation at 31 May 2006: £5.4m (2005: £3.6m)
(Cost £4.9m) (2005: £4.0m)

TeliaSonera AB is the incumbent telecoms operator in Sweden and Finland, and also owns stakes in mobile companies in the Baltics, Turkey, Russia and Eurasia. These mobile assets in emerging economies have been largely ignored by the market, and offer significant growth opportunities in the future. TeliaSonera has little debt, and is paying out an increasing proportion of profits as dividends.

Carrefour
Valuation at 31 May 2006: £5.1m (2005: £4.5m)
(Cost £4.2m) (2005: £4.2m)

Carrefour is the largest supermarket chain in France, and also has profitable international operations spanning Asia and the Americas. Development of new markets, and a merger with Promodes, allowed sales to increase from €26bn in 1997 to €75bn in 2005. Currently, Carrefour's stores are widely spread, and the company is sub-scale in several markets; something management is addressing. The company has also invested heavily in IT to improve profitability across the group.

Vodafone
Valuation at 31 May 2006: £5.0m (2005: nil)
(Cost £5.9m) (2005: nil)

Vodafone is one of the world's largest telecoms operators, with stakes in businesses across the world. The market has been sceptical of the company's ability to continue to grow sales and earnings in mature mobile markets, and has judged many of its ventures as failures. Strategic initiatives – such as the sale of Vodafone Japan – may narrow the gap between the break-up value and the current share price. The development of 3G data services could also be an important longer term driver of sales.

Electricité de France
Valuation at 31 May 2006: £5.0m (2005: nil)
(Cost £4.0m) (2005: nil)

Electricité de France (EDF) is France's biggest power generator and distributor, and is the world's largest nuclear power station owner. The combination of high oil prices and European governments' commitments to cut CO_2 emissions has made nuclear power economically attractive. Most electricity prices are regulated in France and the generator's share of revenues is kept at an artificially low level; this could change in future. There is also room for EDF – which until late 2005 was state owned – to increase margins as it cuts the size of its workforce.

Fraport
Valuation at 31 May 2006: £4.9m (2005: £4.5m)
(Cost £2.5m) (2005: £3.8m)

Fraport owns and operates the airports in Frankfurt and a number of other cities, including Lima, Peru and Antalya, Turkey. The airport sector benefits from long-term growth in air travel, with strong and stable cash flows. Fraport has also been extending its retail space, which should allow it to increase revenues per customer.

The Directors have pleasure in presenting their Report and the audited financial statements of the Company for the year ended 31 May 2006.

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 objective 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 6 and 7.

Status of the Company
The Company is an investment company within the meaning of Section 266 of the Companies Act 1985 and satisfies the requirements for an investment trust under Section 842 of the Income & Corporation Taxes Act 1988 for all accounting periods up to and including 31 May 2005. 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.

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

Life of the Company
Electric and General Investment Trust plc has no limited life provisions in its Articles of Association.

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 (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.

Current and Future Developments
Details of the Company's developments over the year to 31 May 2006, along with its prospects for the future are set out in the Chairman's Statement on pages 6 and 7.

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 Risk and Uncertainties
As an investment company the principal risks faced by the Company relates the nature of the individual investments and the investment activities generally, and include market price risk, foreign currency risk, interest rate risk and liquidity risk. Further details of these risks and how they are managed are set out in note 18 of the notes to the financial statements on page 32.

Results and Dividends
The results for the year are set out in the Income Statement on page 22. The Directors recommend the payment of a final dividend of 3.85p per ordinary share to all shareholders on the register as at 25 August 2006, payable 18 September 2006.

Net Asset Value
The net asset value per ordinary share, including retained income at 31 May 2006, was 406.76p (2005: 333.76p).

Share Capital
During the year, the Company did not use the authority to buy back shares.

The authorised and issued share capital of the Company is detailed in note 13 to the accounts. The total number of ordinary shares currently in issue is 65,520,296.

Management Agreements
Taube Hodson Stonex Partners Limited ("THS") are appointed as Investment Manager to manage the Company's assets under an agreement dated 1 November 2004. Under the terms of the 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 will be calculated and payable by reference to the period from 1 January 2005 to 31 May 2007 and thereafter 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 net asset value per share has fallen over that period). The management charge and performance fee are payable together with applicable VAT. The agreement may be terminated by either party at not less than six months' notice. During the year ended 31 May 2006, fees amounting to £1,135,000 (inclusive of VAT) (2005: £775,000) 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 have delegated the provision of secretarial services to its wholly owned subsidiary, BNP Paribas Secretarial Services Limited. BNP Paribas Fund Services UK Limited receives a fee of 0.05% of the total assets of the Company per annum (excluding VAT) subject to a minimum fee of £110,000 per annum. The agreement may be terminated by either party giving not less than six months' written notice.

Continuing Appointment of the Manager

Since their appointment in September 2004, the Manager has successfully increased the Company's net asset value per share by 21.9% for the year ended 31 May 2005. The Board is satisfied with the Manager's performance and believes that the continued appointment of the Manager, on its current terms, is in the interests of shareholders.

Directors

The Directors of the Company and their biographical details are set out on page 4. All the Directors held office throughout the year.

In accordance with the Articles of Association and the Combined Code on Corporate Governance, Messrs Bury and Aherne are retiring by rotation and, being eligible, will be seeking re-election by shareholders at the forthcoming Annual General Meeting. The Nomination Committee, having reviewed their performance as Directors and their individual contributions to the operation of the Company, concluded that the Company benefited from the services and advice of Messrs Bury and Aherne, and accordingly recommended to the Board that a resolution be put to shareholders at the 2006 Annual General Meeting that they be re-elected. The Board concurred with the Nomination Committee's recommendation and recommends that shareholders vote in favour of their re-election.

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:

	31/05/06 Ordinary shares	1/06/05 Ordinary shares
L C N Bury	250,000	150,000
G P Aherne	1,000	15,000
J D W Pocock	31,477	18,477
J G Ruffer	3,000	3,000

There have been no other changes in the interests of the Directors since the year-end up to the date of this Report. No Director holds any interests in the debenture stock of the Company.

None of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year to 31 May 2006.

Investment Manager's Directors' Share Interests

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

	Ordinary shares 31/05/06	Ordinary shares 31/05/05
Nils Taube	193,052	193,052
John Hodson	154,450	104,919
Cato Stonex	30,000	Nil
Mark Evans	20,000	Nil
Simon Edelsten	39,202	5,402

There have been no other changes in the interests of the Directors of the Investment Manager up to the date of this Report. No Director of the Investment Manager holds any interests in the debenture stock of the Company.

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 31 May 2006 there were no trade creditors outstanding (2005: nil).

Substantial Share Interests

As at 31 May 2006, the Company has received notification of the following interests exceeding 3% of the ordinary share capital of the Company:

Beneficial owner	Number of shares held	% of issued share capital
BNP Paribas Share Schemes	7,135,936	10.9
Cazenove Capital Management Ltd.	3,634,184	5.6
HSBC Halbis Partners (UK) Ltd.	2,927,705	4.5
The Alliance Trust Plc	2,871,099	4.4
Kleinwort Benson Private Bank Limited	2,708,950	4.1
Gerrard Investment Management Ltd.	2,626,147	4.0
Rensburg Sheppards Investment Management Ltd.	2,557,283	3.9
Brewin Dolphin Securities Ltd.	2,473,359	3.8
Legal & General Investment Management (UK) Ltd.	2,347,896	3.6
Rathbone Investment Management Ltd.	2,029,499	3.1

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.

Auditors
The Independent Auditors, Ernst & Young LLP, have expressed their willingness to continue in office as the Company's Auditors. The Audit Committee has responsibility for making a recommendation to the Board on the reappointment of the external auditors. 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 Auditors. Accordingly, resolutions are to be proposed at the forthcoming Annual General Meeting for their re-appointment, and to authorise the Directors to fix their remuneration for the ensuing year.

Annual General Meeting ("AGM")
The one hundred and sixteenth AGM of the Company will be held on Thursday, 14 September 2006 at the offices of JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA at 12.00 noon.

Authority to Allot Shares and to Disapply Pre-emption Rights (resolutions 8 and 9)
The Board is seeking shareholders' approval at the AGM in respect of three items of special business, in addition to the approval of the Directors' Report on Remuneration. The Directors have not used the powers granted to them at the AGM in September 2005 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 net asset value 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
At the 2005 AGM, the Company was authorised to make market purchases of up to 9,821,492 (2004: 12,866,612) of the Company's own issued shares for cancellation. Since the granting of this authority, the Directors have not utilised this power.

This authority expires at the conclusion of the AGM on 14 September 2006. 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 9,821,492 ordinary shares or £491,074 aggregate nominal value) as at the date of this Report.

The authority to purchase shares will last until the AGM of the Company in 2007, 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 conditions are suitable, with the aim of maximising the benefits to shareholders.

The Directors have no present intention to exercise this authority unless to do so would result in an increase in net asset value per ordinary share. 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.

Statement of Directors' Responsibilities in Respect of the Financial Statements
Company law 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 profit and loss 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the ongoing basis until it is inappropriate to presume that the Company will continue in business.

  The Directors confirm that the accounts comply with the above requirements.

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 intend to change the Annual Reporting Date in 2007 from 31 May to 30 June in order to assist performance comparison.

Audited Information
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

By order of the Board
BNP Paribas Secretarial Services Limited
Secretary

1 August 2006

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 July 2003.

In addition, the AITC Code of Corporate Governance was issued by the Association of Investment Trust Companies in July 2003 and revised in February 2006, providing specific corporate governance guidelines to investment trusts.

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 to 31 May 2006, the Company complied with the provisions 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 31 May 2006, of the five sets of meetings held, Messrs Bury and Aherne attended all five Board and four Committee meetings. Mr Pocock and Mr Ruffer were each unavailable for one Board meeting and one Audit Committee meeting, but submitted comments to the Chairman. All Directors attended the Annual General Meeting 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 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 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.

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. The names of the Directors together with their biographical details are set out on page 4 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 Directors' length of service should not necessarily compromise their contribution to the Board as continuity and experience can add significantly to its strength. Mr Bury joined the Board of the Company in 1995 and has therefore been connected with the Company for more than ten years. The Board has considered the independence of Mr Bury with particular care and considers that his individual skills and considerable knowledge of both the Company and the industry provide continuity and an overall balance to the Board. In particular, he 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, Mr Bury continues to be deemed an independent non-executive Director.

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 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 Annual General Meeting ("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, with the potential to extend only after a rigorous review of 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 the Chairman, Mr Bury, is required to stand for re-election at this and all subsequent years during his 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. The Chairman of the Board acts as Chairman for all the Committees. 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 Auditors' report 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, their independence and the objectivity and effectiveness of the audit process. The Board considers the Auditors to remain independent.

The Audit Committee monitors the non-audit services being provided to the Company by its external Auditors, 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 Auditors annually to ensure this does not impair their independence or objectivity.

Details of the amounts paid to the external Auditors during the financial year under review, for audit and other services, *are set out in the notes to the financial statements on* page 28.

The Audit Committee met twice during the financial year ended 31 May 2006.

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 polices 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 or those occasions when the Committee is reviewing the Chairman, or considering his successor, the Nomination Committee is Chaired by another Committee member.

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.

Directors' Remuneration

The Board as a whole considers Directors' remuneration in accordance with the limits set by the Company's Articles of Association and a separate Remuneration Committee has not been established.

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 20.

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 to 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. 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. In accordance with the Code, the Notice of Meeting of the 2006 AGM will be circulated more than 20 working days before the Meeting. Details of proxy votes received in respect of each resolution will be made available to shareholders at the Meeting.

The Company discloses the full portfolio annually and at least the top 10 holdings are disclosed to the market at each financial quarter end.

Internal Controls
The Code requires the Directors, at least annually, to conduct a review of the effectiveness of the Company's system 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. The Audit Committee considers annually whether there is any need for an internal audit function. As most of the Company's functions are delegated to third parties, and at least the two major suppliers, Taube Hodson Stonex Partners Limited ("THS") and BNP Paribas Fund Services UK Limited, have their own internal audit function, 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 agreed that it would be inappropriate to have an internal audit function.

The Investment Manager and Administrator have established internal control frameworks to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of their clients. THS reports to the Board on the operation of its internal controls and risk management within THS, 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 as and when they arise.

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 present their Report on Directors' Remuneration for the year ended 31 May 2006.

Remuneration Committee

The Board comprises non-executive Directors and as a whole considers Directors' remuneration. Accordingly, no separate Remuneration Committee has been appointed.

Directors' Service Contracts

In accordance with the Company's Articles of Association, new Directors are required to stand for election at the first Annual General Meeting 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 anytime, there are no set notice periods.

Policy on Directors' Remuneration

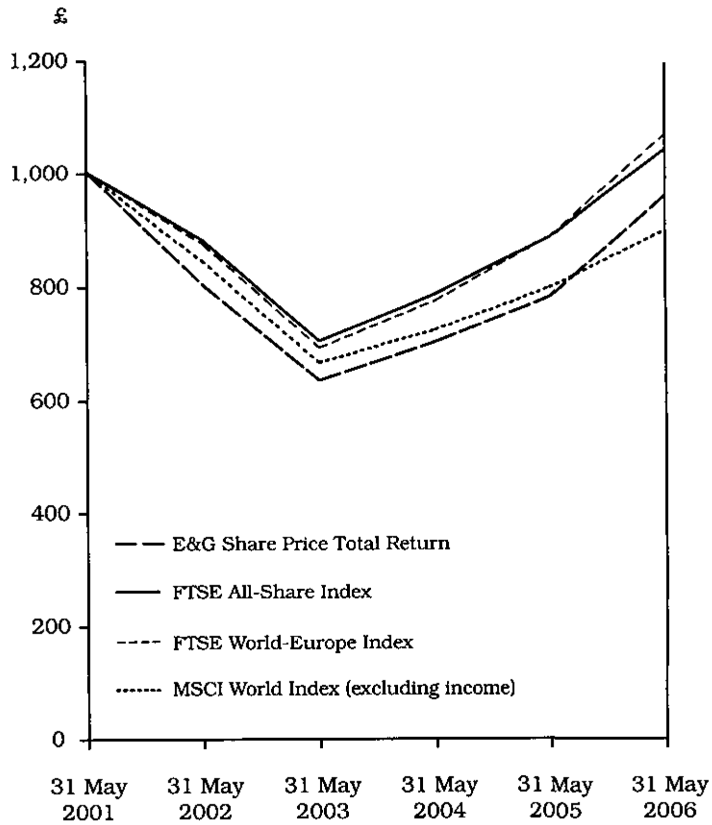
The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Director personally or to a third party specified by him. There are no long-term incentive schemes and Directors are not entitled to receive any benefits in kind, share options, pension 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 Director's fees at £130,000 per annum to accommodate any increase in Directors' fees and further appointments to the Board.

Performance Graph



Source: Datastream

Following the appointment of Taube Hodson Stonex Partners Limited as the Company's Investment Manager, the Directors changed the benchmark index to the MSCI World Index (excluding income) to reflect the true 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 (based on a notional investment of £1,000 and the re-investment of dividends) to ordinary shareholders since 1 June 2001 to 31 May 2006, compared to the total return on notional investments in the FTSE All-Share Index, the FTSE World-Europe Index and the MSCI World Index.

Directors' Emoluments

The fees payable by the Company in respect of each of the Directors who served during the year under review, and during the year ended 31 May 2005, were as follows:

	Audited 2006	Audited 2005
L C N Bury	£27,000	£22,500
G P Aherne	£18,000	£15,000
R A F McClean*	Nil	£3,564
C D Palmer-Tomkinson*	Nil	£3,564
J D W Pocock	£18,000	£15,000
J G Ruffer	£18,000	£15,000
Total	£81,000	£74,628

Notes

* Mr McClean and Mr Palmer-Tomkinson both retired from the Board on 16 September 2004.

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 the Board did not approve an increase in the level of fees paid to Directors regarding the year under review. The last increase in the level of fees paid to Directors was in December 2004.

It is the Board's intention for this policy on Directors' remuneration to continue to apply to the forthcoming and subsequent financial periods.

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

1 August 2006

INCOME STATEMENT

for the year ended 31 May 2006

Notes		Year ended 31/05/06 Revenue £'000	Year ended 31/05/06 Capital £'000	Year ended 31/05/06 Total £'000	Restated Year ended 31/05/05 Revenue £'000	Restated Year ended 31/05/05 Capital £'000	Restated Year ended 31/05/05 Total £'000
	Gains on investments	–	50,233	50,667	–	22,860	22,860
2	Income	6,623	–	6,623	7,505	–	7,505
	Foreign exchange gains	–	434	434	–	32	32
2	Other interest receivable and similar income	238	–	238	462	–	462
3	Investment management fee	(537)	(538)	(1,075)	(1,208)	(1,209)	(2,417)
3	Performance fee	–	(1,682)	(1,682)	–	(113)	(113)
4	Administrative expenses	(498)	–	(498)	(360)	–	(360)
	Net return on ordinary activities before interest payable and taxation	5,826	48,447	54,273	6,399	21,570	27,969
5	Interest payable	(200)	(598)	(798)	(191)	(571)	(762)
	Net return on ordinary activities before taxation	5,626	47,849	53,475	6,208	20,999	27,207
6	Taxation	(1,344)	845	(499)	(936)	568	(368)
	Net return on ordinary activities after taxation	4,282	48,694	52,976	5,272	21,567	26,839
	Return per ordinary share (pence):						
8	**Basic**	6.54	74.32	80.85	6.94	28.37	35.31

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

The financial statements for the year ended 31 May 2005 have been restated to reflect the change to accounting practices as set out in the accompanying notes.

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 31 May 2006

Notes		As at 31/05/06 £'000	Restated As at 31/05/05 £'000
	Investments		
9	Investments at fair value through profit or loss	267,486	217,103
	Current assets		
10	Debtors	4,620	1,262
	Cash and short term deposits	4,887	8,503
		9,507	9,765
11	**Creditors: amounts falling due within one year**	(3,481)	(1,189)
	Net current assets	6,026	8,576
	Total assets less current liabilities	273,512	225,679
	Creditors: amounts falling due after more than one year		
12	Debentures	(7,000)	(7,000)
	Net assets	266,512	218,679
	Capital and reserves		
13	Called up share capital	3,276	3,276
14	Share premium account	19,937	19,937
14	Capital redemption reserve	1,431	1,431
14	Realised reserves	199,385	166,400
14	Unrealised reserves	30,955	15,246
14	Revenue reserve	11,528	12,389
	Equity shareholders' funds	266,512	218,679
	Net asset value per ordinary share (pence):		
17	**Basic**	406.76	333.76

The financial statements were approved by the Board of Directors and authorised for issue on 1 August 2006 and were signed on its behalf by:

L C N Bury
Chairman

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 May 2006

	Share capital £'000	Share premium £'000	Redemption reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 May 2005 as originally reported	3,276	19,937	1,431	166,400	15,457	8,458	214,959
Restatements (see note 19)	–	–	–	–	(211)	3,931	3,720
Balance at 31 May 2005 (restated)	3,276	19,937	1,431	166,400	15,246	12,389	218,679
Return on ordinary activities after taxation	–	–	–	32,985	15,709	4,282	52,976
Dividends paid (see note 7)	–	–	–	–	–	(5,143)	(5,143)
Balance at 31 May 2006	3,276	19,937	1,431	199,385	30,955	11,528	266,512

For the year ended 31 May 2005

	Share capital £'000	Share premium £'000	Redemption reserve £'000	Capital reserve-realised £'000	Capital reserve-unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 May 2004 as originally reported	4,374	19,937	333	220,046	4,363	8,296	257,349
Restatements (see note 19)	–	–	–	–	(180)	2,537	2,357
Balance at 31 May 2004 (restated)	4,374	19,937	333	220,046	4,183	10,833	259,706
Return on ordinary activities after taxation	–	–	–	10,504	11,063	5,272	26,839
Buy back of own shares	(1,098)	–	1,098	(64,150)	–	–	(64,150)
Dividends paid (see note 7)	–	–	–	–	–	(3,716)	(3,716)
Balance at 31 May 2005 (restated)	3,276	19,937	1,431	166,400	15,246	12,389	218,679

The accompanying notes are an integral part of the financial statements.

CASH FLOW STATEMENT

for the year ended 31 May 2006

Notes		Year ended 31/05/06 £'000	Restated Year ended 31/05/05 £'000
15	**Net cash inflow from operating activities**	4,913	4,562
	Servicing of finance		
	Debenture interest paid	(752)	(752)
	Bank overdraft and loan interest paid	(33)	(6)
	Net cash outflow from servicing of finance	(785)	(758)
	Taxation		
	Tax recovered	–	59
	Financial investment		
	Purchases of investments	(154,702)	(344,812)
	Sales of investments	151,667	403,946
	Net cash (outflow)/inflow from financial investment	(3,035)	59,134
	Equity dividends paid	(5,143)	(3,716)
	Net cash (outflow)/inflow before financing	(4,050)	59,281
	Financing		
	Purchase of own ordinary shares	–	(64,150)
	Decrease in cash	(4,050)	(4,869)

Reconciliation of net cash flow to movements in net funds

Decrease in cash as above	(4,050)	(4,869)
Exchange movements	434	32
Movement in net funds in the year	(3,616)	(4,837)
Net funds at 1 June	1,503	6,340
Net funds at 31 May	(2,113)	1,503

The accompanying notes are an integral part of the financial statements.

NOTES TO THE ACCOUNTS
for the year ended 31 May 2006

1. Accounting Policies

(a) Basis of preparation and going concern

The financial statements have been prepared in accordance with applicable UK Accounting Standards and with 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. The Directors believe this is appropriate for the reasons outlined in the Report of the Directors on page 15.

The financial statements, and the net asset value per share figures, have been prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). The New Financial Reporting Standards, issued as part of the programme to converge UK GAAP with International Financial Reporting Standards ("IFRS"), which were applicable for the accounting year ended 31 May 2006 have been adopted and the financial statements for the twelve months ended 31 May 2005 have also been restated (see note 19). The main change arising from these revisions to UK GAAP, in relation to the Company's financial statements are that investments are valued at bid price and dividends to shareholders declared after the balance sheet date are now shown in the period of payment rather than in the reporting period. Dividends were previously recognised in the statement of total return (now income statement). These are now dealt with as an appropriation of equity and are taken directly through equity in the reconciliation of movements in shareholders' funds.

(b) Revenue, expenses and interest payable

Income from investments (other than special dividends), including taxes deducted at source, is included in revenue 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. Short-term deposits, 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 capital. The performance fee however is charged entirely to capital and the remainder of expenses are charged to revenue.

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 the 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 for UK blue chip securities including all the FTSE 100 constituents and the most liquid FTSE 250 along with some other securities. Gains and losses arising from changes in fair value are included in net profit or loss for the year as a capital item in the income statement and are ultimately recognised in the unrealised reserve.

Overseas listed investments and investments which are quoted but are unlisted are valued at their closing or middle market prices as issued by various sources. Unquoted investments are valued by the Directors using the International Private Equity and Venture Capital Guidelines taking into account the information available on the investee companies and funds held by the Company.

(d) Dividends payable

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

(e) Realised capital reserve

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, any prior unrealised gains or losses on such investments are transferred from the unrealised capital reserve to realised capital reserve on disposal of the investment.

(f) Unrealised capital reserve

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

(g) Deferred taxation
Deferred taxation is recognised in respect of all temporary 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. Temporary differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

(h) 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 of a capital or revenue nature respectively.

2. Income

	2006 £'000	2005 £'000
Income from investments		
UK listed – franked	1,453	2,846
Dividend income	4,215	2,904
Interest income	955	1,755
	6,623	7,505
Other interest receivable and similar income		
Bank interest	226	441
Other income & underwriting commission	12	21
	238	462
Total income	6,861	7,967

At 31 May 2006 there were no securities on loan from the Company for stock lending purposes (2005: £nil).

3. Investment Management Fee

	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Investment management fee	433	434	867	550	550	1,100
Termination fee paid to Henderson	–	–	–	584	584	1,168
Performance fee provision	–	1,487	1,487	–	101	101
Irrecoverable VAT thereon	104	299	403	74	87	161
	537	2,220	2,757	1,208	1,322	2,530

A summary of the terms of the management agreement is given on page 14 in the Report of the Directors.

NOTES TO THE ACCOUNTS
(continued)

4. Administrative Expenses

	2006 £'000	2005 £'000
Directors' emoluments	81	75
Auditor's remuneration – for non-audit services	6	2
Auditor's remuneration – for audit services	25	17
Other expenses payable to the management company	-	36
Bank charges and safe custody fees	65	59
Other expenses	321	171
	498	360

Details of the amounts paid to Directors are included in the audited part of the Directors' Remuneration Report on page 21.

5 Interest Payable

	2006			2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank loans and overdrafts	11	35	46	3	7	10
Debentures	189	563	752	188	564	752
	200	598	798	191	571	762

6. Taxation

	2006			2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Overseas withholding tax	499	–	499	438	–	438
Overseas taxation reclaimable	–	–	–	(70)	–	(70)
Tax on management fee and finance costs charged to capital	845	(845)	–	568	(568)	–
	1,344	(845)	499	936	(568)	368

There was no provision for deferred taxation made for either this year or the previous year.

The Company has not recognised a deferred tax asset of £648,000 (2005: £580,000) arising as a result of excess management expenses and excess business charges. These expenses would only be utilised if the Company were to generate sufficient taxable profits in the future. It is considered too uncertain that the Company will generate such profits and therefore no deferred tax asset has been recognised.

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

	2006 £'000	2005 £'000
Revenue return on ordinary activities before taxation	5,626	6,208
Return on ordinary activities at the UK standard tax rate of corporation tax (30%)	1,688	1,862
Franked dividend receipts not chargeable to corporation tax	(436)	(854)
Stock dividends	–	(11)
Excess expenses (brought forward and utilised in the year)/unused	–	(78)
Income taxable in different periods	(37)	41
Overseas withholding tax	482	368
Overseas withholding tax deductible as an expense	(2)	(1)
Expenses not deductible for tax purposes	12	10
Double tax relief taken	(379)	(401)
Prior year adjustment on withholding tax recoverable	16	–
Current revenue tax charge for the year	1,344	936

NOTES TO THE ACCOUNTS
(continued)

7. Dividends

	2006 £'000	Restated 2005 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for 2005: 3.15p (2004: 2.90p)	2,064	2,504
Special dividend for 2005: 2.85p (2004: nil)	1,867	–
Interim dividend for 2006: 1.85p (2005: 1.85p)	1,212	1,212
	5,143	3,716

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting 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 of the Income and Corporation Taxes Act 1988 are considered. The revenue available for distribution by way of dividend for the year is £4,282,000 (2005: £5,272,000).

	2006 £'000	Restated 2005 £'000
Overprovision in prior year	–	(33)
Interim dividend for 2006: 1.85p (2005: 1.85p)	1,212	1,212
Proposed final dividend for 2006: 3.85p (2005: 3.15p)	2,523	2,064
Special dividend for 2006: nil (2005: 2.85p)	–	1,867
	3,735	5,110

8. Return per Ordinary Share

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

	2006 Revenue Pence	2006 Capital Pence	2006 Total Pence	Restated 2005 Revenue Pence	Restated 2005 Capital Pence	Restated 2005 Total Pence
Basic	6.54	74.32	80.85	6.94	28.37	35.31

The total return per ordinary share is calculated on ordinary activities after taxation of £52,976,000 (2005: £26,839,000) and on 65,520,296 (2005: 76,010,305) ordinary shares, being the weighted average number of shares in issue during the year.

The revenue return per ordinary share is calculated on the net revenue on ordinary activities after taxation of £4,282,000 (2005: £5,272,000) and on 65,520,296 (2005: 76,010,305) 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 £48,694,000 (2005: £21,567,000) and on 65,520,296 (2005: 76,010,305) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

9. Changes in Fixed Asset Investments

	Restated Valuation 31/05/05 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 31/05/06 £'000	Cost 31/05/06 £'000
UK	78,025	66,677	59,867	87	84,922	80,062
North America	26,476	35,149	16,745	2,023	46,903	41,679
Europe and Emerging Markets	74,055	25,850	20,893	7,846	86,858	72,701
Japan	24,053	9,313	17,776	2,496	18,086	14,959
Pacific	14,494	18,323	5,357	3,257	30,717	27,130
	217,103	155,312	120,638	15,709	267,486	236,531

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:

	2006 £'000	2005 £'000
The following transaction costs were incurred during the year:		
Purchases	402	576
Sales	280	619
	682	1,195

10. Debtors: amounts falling due within one year

	2006 £'000	2005 £'000
Investments sold for future settlement	3,617	122
Taxation recoverable	160	89
Prepayments and accrued income	843	1,051
	4,620	1,262

11. Creditors: amounts falling due within one year

	2006 £'000	Restated 2005 £'000
Purchases for future settlement	1,247	637
Accruals	2,234	552
	3,481	1,189

12. Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
10.75% debenture stock 2011	7,000	7,000

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

13. Called up Share Capital

	2006 £'000	2005 £'000
Called up, allotted and fully paid		
65,520,296 (2005: 65,520,296) ordinary shares of 5p	3,276	3,276

14. Reserves

	Share premium £'000	Capital redemption reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue reserve £'000
At 1 June 2005 (restated)	19,937	1,431	166,400	15,246	12,389
Expenses allocated to capital	–	–	(2,818)	–	–
Tax relief thereon	–	–	845	–	–
Net gains on investments	–	–	34,524	15,709	–
Net gains on foreign exchange	–	–	434	–	–
Revenue return on ordinary activities after taxation	–	–	–	–	4,282
Less dividends paid	–	–	–	–	(5,143)
At 31 May 2006	19,937	1,431	199,385	30,955	11,528

15. Reconciliation of Net Total Revenue Before Finance Costs and Taxation to Net Cash Inflow From Operating Activities

	2006 £'000	Restated 2005 £'000
Net returns before finance costs and taxation	54,273	27,969
Adjustments for:		
Realised gains on investments	(34,524)	(7,859)
Unrealised gains on investments	(15,709)	(15,000)
Effect of foreign exchange rates	(434)	(32)
Adjustments for:		
Stock dividends included in investment income	–	(38)
Tax on unfranked investment income	(483)	(433)
Decrease in accrued income	100	62
Decrease/(increase) in other debtors	21	(10)
Increase/(decrease) in creditors	1,669	(97)
Net cash inflow from operating activities	4,913	4,562

Analysis of changes in net debt

	At 31 May 2005 £000	Cashflow £000	At 31 May 2006 £000
Cash at bank and short-term deposits	8,503	(3,616)	4,887
Debentures	(7,000)	–	(7,000)
Net debt	1,503	(3,616)	(2,113)

16. Commitments and Contingencies

As at 31 May 2006 there were no contingent liabilities (2005: nil).

17. Net Asset Value per Ordinary Share

	2006	Restated 2005
Net assets attributable	£266,512,000	£218,679,000
Number of ordinary shares in issue	65,520,296	65,520,296
NAV per ordinary share (pence)	406.8	333.8

18 Derivatives and Other Financial Instruments

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.
- Foreign currency term loans used as a cost effective method of financing its investing activities.
- Cash and short-term debtors and creditors which arise from its investing activities.

The debenture stock carries a fixed rate of interest.

The risks arising from these financial instruments are due to fluctuations in market prices, foreign currency exchange rates and interest rates on cash deposits. The Board's policy for managing these risks is summarised below.

Market price risk

An investment trust is exposed to market 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

The Company's total return and balance sheet can be affected by fluctuations in foreign currency exchange rates. The Company may 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. The Company has no foreign currency loans at the year end.

Liquidity risk

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.

NOTES TO THE ACCOUNTS
(continued)

b) Risk profile of financial assets and financial liabilities

Currency exposure

A significant portion of the Company's financial assets are denominated in currencies other than sterling with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Monetary assets 2006 £'000	Monetary liabilities 2006 £'000	Net monetary assets 2006 £'000	Monetary assets 2005 £'000	Monetary liabilities 2005 £'000	Net monetary assets 2005 £'000
US Dollar	47,954	–	47,954	25,028	(637)	24,391
Euro	59,984	–	59,984	50,490	(29,647)	20,843
Yen	19,789	–	19,789	24,400	–	24,400
Other European	27,137	–	27,137	23,708	–	23,708
Other Far East and Australia	30,982	(1,247)	29,735	16,156	–	16,156
	185,846	(1,247)	184,599	139,782	(30,284)	109,498

Forward exchange contract

There were no forward rate exchange contracts outstanding at the year end (2005: £150,000).

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 of the Company at 31 May 2006 was:

	Total 2006 £'000	Floating rate financial assets 2006 £'000	Fixed rate financial assets 2006 £'000	Other financial assets on which no interest is paid 2006 £'000	Total 2005 £'000	Floating rate financial assets 2005 £'000	Fixed rate financial assets 2005 £'000	Other financial assets on which no interest is paid 2005 £'000
Equities	234,478	–	–	234,478	195,006	–	–	195,006
Fixed interest securities	33,008	–	33,008	–	22,097	–	22,097	–
Sterling	3,188	3,188	–	–	8,009	8,009	–	–
US dollar	964	964	–	–	11	11	–	–
Euro	265	265	–	–	68	68	–	–
Yen	324	324	–	–	288	288	–	–
Other Far East and Australia	146	146	–	–	127	127	–	–
	272,373	4,887	33,008	234,478	225,606	8,503	22,097	195,006

Floating rate financial assets currently earn interest at the following rates:

Sterling 4.39% (2005: 4.44%)

US dollar 4.87% (2005: 3.11%)

Euro 2.42% (2005: 1.89%)

Yen 0.02% (2005: nil)

Australian dollar 5.40% (2005: 5.20%)

18 Derivatives and Other Financial Instruments (continued)

The interest rate profile of the Company's financial liabilities at 31 May 2006 was:

Currency	Fixed rate financial liabilities 2006 £'000	Fixed rate financial liabilities 2005 £'000
Sterling	7,000	7,000

The weighted average interest rate of the fixed rate financial liabilities was 10.75% (2005: 10.75%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 4 years and 7 months (2005: 5 years and 7 months)

c) Maturity profile of financial liabilities
The maturity profile of the Company's financial liabilities at 31 May 2006 was as follows:

	2006 £'000	2005 £'000
In more than five years	7,000	7,000

d) Loan facility
An unsecured, committed undrawn loan facility of £10 million was available from The Royal Bank of Scotland plc. In addition the Company has an uncommitted undrawn overdraft facility with a sub-custodian, the extent of which is determined by the sub-custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. The facilities are subject to regular review by the providers.

e) 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 31 May 2006:

	Book value 2006 £'000	Fair value 2006 £'000	Book value 2005 £'000	Fair value 2005 £'000
10.75% debenture stock 2011	7,000	8,831	7,000	9,167

The fair value of the 10.75% debenture 2011 is calculated by reference to the market value at 31 May 2006.

NOTES TO THE ACCOUNTS
(continued)

19. Restatements

As stated in the accounting policies, the Board has elected to continue to adopt UK Generally Accepted Accounting Practice ("UK GAAP") and therefore complies with the new Financial Reporting Standards issued as part of the programme to converge UK GAAP with IFRS. Figures as at 31 May 2004 and 2005 have been restated and the impact is shown below:

Under FRS 26: "Financial Instruments: Recognition and Measurement" – investments should be valued at their fair value which is deemed to be bid market prices or closing prices for SETS stocks sourced from The London Stock Exchange. Previously, listed investments (other than SETS stocks) were valued at mid market prices. The financial statements for the years ended 31 May 2004 and 2005 have been restated to reflect investments at their fair value.

Under FRS 21: "Events after the Balance Sheet Date" – dividends should only be accrued in the accounts if they are a liability at the balance sheet date, therefore they are now recognised in the period in which they are declared and authorised, not in the period in which they are proposed. No provision has therefore been made for the final or special dividends on ordinary shares for the years ended 31 May 2005 and 2006. The financial statements for the years ended 31 May 2004 and 2005 have been restated to remove the final and special dividends that were accrued at those dates. Dividends are no longer recognised through the income statement, instead these are taken to the statement of reconciliation of movement in shareholders' funds as an appropriation of equity.

Reconciliation of Balance Sheets	As at 31/05/05 £'000	As at 31/05/04 £'000
Net assets as previously reported	214,959	257,349
Restatement of investments at bid values	(211)	(180)
Reversal of provision of final dividend	3,931	2,537
Restated net assets	218,679	259,706

Reconciliation of the Income Statement	Year ended 31/05/05 £'000
Total transfer to reserves as originally reported in the Statement of Total Return	21,760
Add back dividends*	5,110
Changes from mid to bid basis at 31 May 2004	180
Changes from mid to bid basis at 31 May 2005	(211)
Restated total recognised gains and losses	26,839

* Now shown in Reconciliation of Movements in Shareholders' Funds.

Reconciliation of Net Asset Value per Share	As at 31/05/05 £'000 Pence	As at 31/05/04 £'000 Pence
Net asset value as previously reported	328.08	294.19
Restatement of investments at bid values	(0.32)	(0.21)
Reversal of provision of final dividend	6.00	2.90
Restated net asset value	333.76	296.88

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 31 May 2006 which comprises the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement and the related notes 1 to 19. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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 Statement reflects the Company's compliance with the nine provisions of the 2003 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 Company Profile, Benchmark, Financial Highlights, Dividend and Performance, Historical Record, Growth in Net Asset Value and Share Price, Directors, Investment Manager, Chairman's Statement, Portfolio Analysis, 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, Form of Proxy 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 31 May 2006 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

Ernst & Young LLP
Registered Auditor
London

1 August 2006

NOTICE OF MEETING

Notice is hereby given that the one hundred and sixteenth Annual General Meeting of Electric & General Investment Trust plc will be held at the offices of JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA on Thursday, 14 September 2006 at 12.00 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 31 May 2006.

2 To declare a final dividend of 3.85p per ordinary share.

3 To re-elect Mr L C N Bury as a Director of the Company.*

4 To re-elect Mr G P Aherne as a Director of the Company.*

5 To re-appoint Ernst & Young LLP as Independent Auditors 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 Auditors of the Company.

Special Business

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

7 To approve the Directors' Remuneration Report for the year ended 31 May 2006.

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 £163,800.74 (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. The Directors may only use this authority when it would be advantageous to the Company's existing shareholders.

9 THAT, subject to the passing of the previous resolution, 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 £163,800.74 (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 net asset value 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 9,821,492 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; and

(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 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.

By order of the Board

BNP Paribas Secretarial Services Limited
Secretary

1 August 2006

* The biographies of these Directors are set out on page 4 and the recommendation for their re-election can be found on page 15 of this Report.

Notes

1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of Electric and General Investment Trust plc at 12.00 noon on Tuesday, 12 September 2006 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 12.00 noon on Tuesday, 12 September 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2 An ordinary shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote on his behalf. Such proxy need not be a member of the Company. A form of proxy is enclosed and to be valid must be lodged with the Registrar of the Company not less than forty-eight hours before the time fixed for the meeting. If shareholders so wish, the form of proxy may be returned in an envelope addressed to Computershare Investor Services PLC, FREEPOST, SWB 1002, PO Box 1075, Bristol BS99 3FA.

3 The completion of the form of proxy will not preclude ordinary shareholders from attending and voting in person at the meeting.

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 any weekday (except bank holidays) 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.

Registered Office:

55 Moorgate
London EC2R 6PA

CAPITAL GAINS TAX INFORMATION

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.

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.