# *Electric & General Investment Trust plc*



Annual Report & Accounts
for the year ended
31 May 2005

## 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 31/5/05 Pence | Year ended 31/5/04 Pence | % change |
|---|---|---|---|
| **Net asset value** | 328.08 | 294.19 | 11.52 |
| **Share price** | 304.00 | 247.00 | 23.08 |
| **Earnings per share** | 6.94 | 5.36 | 29.48 |
| **Dividend** | 7.85 | 4.75 | 65.26 |

### DIVIDEND

An interim dividend of 1.85p (2004: 1.85p) was paid to ordinary shareholders on 2 February 2005.

A final dividend of 3.15p (2004: 2.90p) per ordinary share is being recommended to shareholders for approval for payment on 21 September 2005 to shareholders on the register on 5 August 2005.

A special dividend of 2.85p per ordinary share has been declared payable on 21 September 2005 to shareholders on the register on 5 August 2005.

### PERFORMANCE

| Total return per ordinary share | 1 year base 100 | 3 years base 100 | 5 years base 100 |
|---|---|---|---|
| Net asset value† | 113.2 | 101.8 | 66.4 |
| Peer group category size-weighted average† | 117.2 | 107.1 | 88.3 |
| *Benchmark**# | 111.2 | 103.4 | 85.2 |

† Source: AITC – Total return, net dividends re-invested and transaction costs excluded.
# Source: Datastream.
* Benchmark – 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).

## 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) % | *Gross* revenue in £'000 | *Earnings* per ordinary share in pence | *Dividend* per ordinary share in pence |
|---|---|---|---|---|---|---|---|
| 1995 | 204,829 | 218.5 | 200.5 | 8.2 | 6,014 | 3.76 | 3.35 |
| 1996 | 267,089 | 276.8 | 249.5 | 9.9 | 7,175 | 4.63 | 3.65 |
| 1997 | 289,170 | 302.7 | 274.5 | 9.3 | 7,093 | 4.30 | 3.80 |
| 1998 | 350,811 | 380.1 | 358.3 | 5.8 | 7,660 | 4.85 | 4.00 |
| 1999* | 373,616 | 394.0 | 348.5 | 11.6 | 6,903 | 5.39 | 4.00 |
| 2000 | 501,786 | 526.5 | 468.0 | 11.1 | 5,566 | 3.61 | 4.00 |
| 2001 | 413,998 | 419.7 | 399.0 | 5.0 | 6,836 | 4.72 | 4.00 |
| 2002 | 319,248 | 337.5 | 286.0 | 15.3 | 6,374 | 4.56 | 4.20 |
| 2003 | 248,701 | 266.6 | 214.0 | 19.7 | 6,430 | 5.11 | 4.40 |
| 2004 | 264,349 | 294.2 | 247.0 | 16.0 | 6,349 | 5.36 | 4.75 |
| 2005 | 221,959 | 328.1 | 304.0 | 7.3 | 7,967 | 6.94 | 7.85 |

* Restated for changes in accounting policies.

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

for the ten years from 1 June 1995 to 31 May 2005 (1 June 1995 = base 100)

Graphic

* Benchmark – 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).

## COMPANY INFORMATION

**Directors**
Lindsay C N Bury (Chairman)

Gerry P Aherne

John D W Pocock

Jonathan G Ruffer

**Secretary and Registered Office**
BNP Paribas Secretarial Services Limited
55 Moorgate
London EC2R 6PA

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Cassini House
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London SW1A 1LD

**Registrars**
Computershare Investor Services PLC
Lochside House
7 Lochside Avenue
Edinburgh Park
Edinburgh EH12 9DJ

Telephone: +44 (0)870 702 0010

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

**Stockbroker**
Cazenove & Co. Limited
20 Moorgate
London EC2R 6DA

**Solicitor**
Linklaters
One Silk Street
London EC2Y 8HQ

**Savings Scheme Administrator**
BNP Paribas Fund Services UK Limited
55 Moorgate
London EC2R 6PA

Investor helpline: +44 (0)845 358 1113

**Information**
Share price and performance information can be found on the Company's website **www.electricandgeneral.com.**

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**

**L C N Bury***
Aged 66, was appointed to the Board in 1995. Senior non-executive director of the Sage Group plc and a non-executive director of Service Power Technologies, he has just retired from the board of the South Staffordshire Group where he was a non-executive director for 25 years and chairman for 12. Some earlier directorships include 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**

**G P Aherne***
Aged 59, 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.

**J D W Pocock***
Aged 45, was appointed to the Board in 1999. Former chief executive of Druid Group Plc and previously worked with IBM and Andersen Consulting. Currently holds executive directorships in both the Media and Technology sectors.

**J G Ruffer***
Aged 53, 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.

## 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 2005, Taube Hodson Stonex had £5.68 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 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 – Equity Sales from 1989 until 1993 and then BZW as a director – 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

The year to 31 May 2005 has been one of great change for your Company. On 10 September 2004 the Directors appointed Taube Hodson Stonex Partners Limited as the new Manager of the Company in place of Henderson Global Investors. At the same time it was announced that the Company would make a tender offer to repurchase up to 50% of its share capital at a 5% discount to the debt adjusted market value, the tender offer to be coupled to a matching facility to enable existing investors to add to their holdings should they wish. It was also proposed that the Company change its name to Electric & General Investment Trust plc. These measures were passed at an Extraordinary General Meeting on 30 November 2004.

Under the Tender Offer, where the Company offered to buy back 50% of its share capital, 27,032,177 shares were tendered, being 31.30% of the issued share capital then prevailing. Under the matching facility shareholders were able to add to their holdings should they wish at the tender price, and 6,199,372 shares were bought. The net result was that the NAV of the Company reduced by £60,019,000 (22.8%) or £61,333,000 (23.3%) after related expenses.

The Directors have reviewed with the new Manager the investment objectives and policies of the Company and have concluded that they should not be changed. The benchmark index changed from 50% FTSE All-Share Index and 50% FTSE All-World Index to MSCI World Index (excluding income), thus emphasising the true global nature of the portfolio.

For the period to 10 September 2004, the net asset value per ordinary share in the Company was up by 0.71%, the FTSE All-World Total Return Index (sterling adjusted) was up by 3.33% and the FTSE All-Share Total Return Index was up by 3.71%. For the period from 10 September 2004 to 31 May 2005, the net asset value per ordinary share increased by 10.73%, against 7.38% for the MSCI World Index (excluding income).

During the period of the reorganisation, the Company held an abnormally high liquidity position in order to facilitate the buy-back. This has resulted in income being somewhat higher than would normally be expected and an increase in the final dividend, this time to 3.15p, is being recommended, bringing the total to 5p for the year, an increase of 5.26% over the previous year. In addition, a special dividend of 2.85p is proposed. If approved both the final and special dividend will be paid on 21 September 2005 to all shareholders on the register as at 5 August 2005.

Under the management of Taube Hodson Stonex Partners Limited, the Company's portfolio has been thoroughly reorganised, with the number of holdings being reduced from 161 to a portfolio of 64 and three small unquoted investments, which will be realised when suitable opportunities appear. There is net liquidity, after allowing for the £7m of outstanding debenture stock, of 9.2%, predominantly held in UK Government bonds.

One of the major initiatives in the portfolio was to increase exposure to oil and commodities. However, recently profits were taken from the larger mining companies, Rio, BHP and Xstrata, as China, which has been the main driver of metal and coal prices, now seems to be making a serious effort to encourage domestic supplies and discourage speculative demand. Another mining investment, WMC, the Australian nickel producer, was taken over by BHP after a bidding contest with Xstrata. There was also a takeover of one of the larger oil and gas investments, Unocal, which was bid for by Chevron Texaco at a very attractive price. Oil and gas companies still look good value and holdings have been built up in Shell, Statoil, Marathon Oil and Petro Canada, all of which have interesting prospects but also have good refining assets, refining being one of the major pinch points in the global oil chain.

Another theme running through a number of holdings in the portfolio is the belief that the developing economies will grow much faster than the G7 economies. The Manager has repositioned the portfolio to have larger weightings in well run multi-nationals who will benefit from this trend, such as Cadbury Schweppes, Unilever, Carrefour and Nestlé.

The weak US dollar and the relatively poor performance of US stocks is beginning to produce opportunities. For example, a holding was recently bought in Verizon Communications. In addition to its fixed line operation, Verizon owns the majority of Verizon Wireless, one of the largest American mobile networks – the remainder belonging to Vodafone. Vodafone's business is maturing and produces a very large cash flow. The Manager thinks Vodafone may be unable to resist bidding for Verizon in order to obtain the mobile business. An investment was also made in DirecTV, the major US satellite television company that is now controlled by Rupert Murdoch. Satellite television is a strong competitor for subscribers against cable in the US, and demand is likely to increase as high definition television begins to appear. There are significant differences from the UK model, but the per subscriber valuation is attractive.

Japan is still the laggard economy, but from an investment point of view is beginning to look more interesting. Many of the cross-holdings owned by the banks have been sold, freeing up corporate Japan to consider all of their shareholders rather than the other companies in a business group. Some 10.7% of the Company's assets are now invested in Japan. With the exception of Hoya Corporation, the other holdings have a distinct domestic economic bias, for example Kamigumi is the country's largest Port operator, Mediceo is the largest pharmaceutical wholesaler and KDDI Corporation is Japan's second largest mobile telephone company.

In Europe, France and Holland's rejection of the European Constitution and Chancellor Schroder's decision to schedule early elections in Germany, has led to turmoil amongst the political classes. However, it would seem that the volatile environment is a symptom of a necessary debate in Europe about the EU's future economic and political direction. It should not be forgotten that significant reforms have already taken place. The current cross border takeover attempts in Germany and Italy show how far the environment has changed. Germany – far from its popular perception as a laggard – has made significant changes to employment and welfare rules. The Company holds several German financial stocks, which are benefiting from these developments.

Looking ahead, there is concern that US interest rates may need to rise further following a pick up in inflation. However, equities are still attractively valued, particularly when compared with competing assets, such as property and bonds.

**Lindsay Bury**

15 August 2005

## PORTFOLIO ANALYSIS BY ASSET CATEGORY, COUNTRY AND CURRENCY EXPOSURE

### PORTFOLIO ANALYSIS BY ASSET CATEGORY

Graphic

### PORTFOLIO ANALYSIS BY COUNTRY

Graphic

### CURRENCY EXPOSURE

Graphic

## ANALYSIS OF INVESTMENTS BY SECTOR

as at 31 May 2005

| | | Total 2005 | Total 2004 |
|---|---|---|---|
| **Resources** | Mining | 0.9 | 1.7 |
| **11.8%** | Oil & Gas | 10.9 | 9.0 |
| | | 11.8 | 10.7 |
| **Basic Manufacturers** | Chemicals, Construction & | 0.2 | – |
| **2.5%** | Building Materials | 2.3 | 2.5 |
| | | 2.5 | 2.5 |
| **General Industrials** | Aerospace & Defence | – | 3.0 |
| **7.3%** | Diversified Industries | – | 1.1 |
| | Electronic & Electrical Equipment | 4.4 | 3.5 |
| | Engineering & Machinery | 2.9 | 0.9 |
| | | 7.3 | 8.5 |
| **Cyclical Goods** | Automobiles | – | 0.6 |
| **7.9%** | *Household Goods & Textiles* | 7.9 | 0.7 |
| | | 7.9 | 1.3 |
| **Non-Cyclical Consumer Goods** | Food Producers & Processors | 5.8 | 1.3 |
| **9.5%** | Health | 1.0 | 2.5 |
| | Pharmaceuticals | 2.7 | 9.3 |
| | Tobacco | – | 1.0 |
| | | 9.5 | 14.1 |
| **Cyclical Services** | Distributors | – | 0.9 |
| **16.5%** | General Retailers | 4.3 | 6.9 |
| | Leisure & Hotels | 0.2 | 1.4 |
| | Media & Entertainment | 4.4 | 6.0 |
| | Support Services | 1.6 | 4.5 |
| | Transport | 6.0 | 4.0 |
| | | 16.5 | 23.7 |
| **Non-Cyclical Services** | Telecommunications Services | 7.1 | 8.3 |
| **7.1%** | | 7.1 | 8.3 |
| **Utilities** | Electricity | – | 1.0 |
| **0.0%** | | – | 1.0 |
| **Information Technology** | Information Technology Hardware | – | 2.7 |
| **3.7%** | Software & Computer Services | 3.7 | 5.1 |
| | | 3.7 | 7.8 |
| **Financials** | Banks | 10.9 | 10.8 |
| **23.5%** | Insurance | 8.3 | 2.7 |
| | Life Assurance | – | 1.5 |
| | Investment Companies | – | 0.9 |
| | Real Estate | 2.7 | 1.3 |
| | Speciality & Other Finance | 1.6 | 3.6 |
| | | 23.5 | 20.8 |
| **Fixed Interest** | Eurobonds | 10.2 | 1.3 |
| **10.2%** | | 10.2 | 1.3 |
| **Total 2005** | | 100.0 | |
| Total 2004 | | | 100.0 |

There are no convertible securities in the portfolio

## PORTFOLIO VALUATION

| | Sector | £'000 | % of Portfolio |
|---|---|---|---|
| **United Kingdom** | | | |
| UK Treasury 4.5% 07/03/07 | Fixed Interest | 22,097 | 10.2 |
| *Shell Transport & Trading*# | *Oil and Gas* | 6,580 | 3.0 |
| Sage | Software | 4,320 | 2.0 |
| British Sky Broadcasting | Media & Entertainment | 3,933 | 1.8 |
| 02 | Telecommunications | 3,636 | 1.7 |
| Cadbury Schweppes | Food | 3,516 | 1.6 |
| HSBC | Banks | 3,456 | 1.6 |
| Unilever | Food | 3,407 | 1.6 |
| Davis Service Group | Commercial Services | 3,381 | 1.5 |
| BAA | Engineering & Construction | 3,113 | 1.4 |
| Royal Bank of Scotland | Banks | 2,941 | 1.4 |
| Alliance Unichem | Pharmaceuticals | 2,940 | 1.4 |
| GUS | Retail | 2,932 | 1.3 |
| Land Securities | Real Estate | 2,856 | 1.3 |
| Alliance & Leicester | Banks | 2,612 | 1.2 |
| WPP | Advertising | 2,076 | 0.9 |
| Kingfisher | Retail | 1,767 | 0.8 |
| Gcap Media | Media & Entertainment | 1,287 | 0.6 |
| Herald Ventures† | Speciality & Other Finance | 913 | 0.4 |
| Ubinetics† | Wireless Technology | 144 | 0.1 |
| Henderson Unquoted Growth Equites† | Speciality & Other Finance | 118 | 0.1 |
| | | 78,025 | 35.9 |
| **North America** | | | |
| Verizon Communications# | Telecommunications | 4,465 | 2.1 |
| Marathon Oil | Oil and Gas | 4,307 | 2.0 |
| Petro-Canada | Oil and Gas | 3,232 | 1.5 |
| SNC Lavalin | Manufacturing | 2,541 | 1.2 |
| DirecTV | Media & Entertainment | 2,171 | 1.0 |
| Human Genome Science | Biotechnology | 2,171 | 1.0 |
| Morgan Stanley | Diversified Financial Services | 2,013 | 0.9 |
| Teck Cominco | Resources | 1,988 | 0.9 |
| Ace Aviation | Airlines | 1,344 | 0.6 |
| Neurochem | *Biotechnology* | 463 | 0.2 |
| Hilton Hotels | Leisure & Hotels | 323 | 0.1 |
| | | 25,018 | 11.5 |
| **Europe and Emerging Markets** | | | |
| Statoil# | Oil and Gas | 7,597 | 3.5 |
| Nestle# | Food | 5,569 | 2.6 |
| Bayerische Hypo-Vereinsbank# | Banks | 4,817 | 2.2 |
| AMB Generali# | Insurance | 4,576 | 2.1 |
| Carrefour# | Food | 4,480 | 2.1 |
| Fraport# | Airport operator | 4,454 | 2.1 |
| SES Global | Telecommunications | 4,388 | 2.0 |
| TeliaSonera | Telecommunications | 3,649 | 1.7 |
| Vivendi Universal | Media & Entertainment | 3,530 | 1.6 |
| Valeo | Auto Parts & Equipment | 3,513 | 1.6 |
| Commerzbank | Banks | 3,318 | 1.5 |
| Lagardere | Media & Entertainment | 3,253 | 1.5 |
| Allianz | Insurance | 3,243 | 1.5 |
| Schibsted | Media & Entertainment | 3,078 | 1.4 |
| Premiere | Media & Entertainment | 2,998 | 1.4 |

| | Sector | £'000 | % of Portfolio |
|---|---|---|---|
| **Europe and Emerging Markets** (continued) | | | |
| Swiss Reinsurance | Insurance | 2,931 | 1.3 |
| France Telecom | Telecommunications | 2,908 | 1.3 |
| Portugal Telecom | Telecommunications | 2,580 | 1.2 |
| Eurazeo | Investment Companies | 2,364 | 1.1 |
| Medicover | Investment Companies | 884 | 0.4 |
| | | 74,130 | 34.1 |
| **Japan** | | | |
| Hoya Corporation# | Healthcare Products | 4,647 | 2.1 |
| Sompo Japan Insurance | Insurance | 3,365 | 1.6 |
| Mediceo | Pharmaceuticals | 3,137 | 1.4 |
| Mitsubishi Estate | Real Estate | 3,096 | 1.4 |
| Millea Holdings | Insurance | 3,016 | 1.4 |
| Mitsubishi Tokyo Financial | Banking | 2,803 | 1.3 |
| Kamigumi | Commercial Services | 2,085 | 1.0 |
| KDDI Corporation | Telecommunications | 1,963 | 0.9 |
| | | 24,112 | 11.1 |
| **Far East** | | | |
| LG Electronics# | Electrical Components & Equipment | 4,472 | 2.1 |
| Westfield Group | Real Estate | 2,261 | 1.1 |
| AMP | Insurance | 2,004 | 0.9 |
| Alumina | Mining | 2,003 | 0.9 |
| Hutchison Telecommunications | Telecommunications | 1,998 | 0.9 |
| Futuris | Miscellaneous Manufacturing | 1,797 | 0.8 |
| LG Phillips | Electronics | 1,494 | 0.7 |
| | | 16,029 | 7.4 |
| **Total Portfolio** | | 217,314 | 100.0 |

# Included in top ten investments by value

† *Unquoted investments*

## TEN LARGEST INVESTMENTS

***Statoil***
Valuation at 31 May 2005: £7.6m
(Cost £6.2m)

Statoil is Norway's largest oil and gas company, and among the bigger European nationals, with proven reserves of more than 4bn barrels and annual sales of NKr300bn. Management forecasts gas production will grow at 8% per annum over the next ten years. As the bulk of reserves are in the North Sea, Statoil suffers less than peers from geopolitical tensions. It is also a world leader in deepwater exploration and recovery. In 2004, Statoil's profits grew 50% on the back of sustained oil price strength.

**Shell Transport & Trading**
Valuation at 31 May 2005: £6.6m
(Cost £3.9m)

Shell Transport & Trading owns 40% of Royal Dutch/Shell, the world's third largest oil & gas company. Shell T&T is in the process of merging with Royal Dutch to produce a more transparent management and accounting structure, as well as a company with a market capitalisation of almost $200bn. With 28% 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's shares have performed well on the back of rising profits and a planned share buy back.

**Nestle**
Valuation at 31 May 2005: £5.6m
(Cost £5.0m)

Nestle is one of the world's largest consumer food and beverage producers with annual sales of €87bn. It recently struggled with weak brands, and was slow to innovate. The company has outlined a strategy to increase R&D spending and to update 20% of brands each year. Nestle's new management structure, and a number of acquisitions should also help reinvigorate the company. After falling in 2004, sales and profits are expected to rise this year.

**Bayerische Hypo-Vereinsbank**
Valuation at 31 May 2005: £4.8m
(Cost £3.9m)

Bayerische Hypo-Vereinsbank (HVB) is one of Germany's largest commercial and retail banks. The German banking industry has been beset by a slow domestic economy, a weak property market and competition with state and municipal institutions. These led to low valuations relative to other European banks. HVB has a leading position in Eastern Europe through its 78% share in Bank Austria; this area has growth potential as these economies converge with Western Europe. Since year-end, HVB has accepted a merger proposal from Italy's Unicredito, which offers considerable opportunity to raise returns on capital.

***AMB Generali***
Valuation at 31 May 2005: £4.6m
(Cost £4.1m)

AMB Generali is one of Germany's leading life and general insurance companies with investments in excess of €68bn. While the company's premium income has remained flat at just over €10bn for each of the last four years, the outlook for the German insurance industry is positive with competitive pressure lessening. On a price/book basis, AMB Generali is among the least expensive insurers in Europe. The company is well placed to benefit from an increase in private pension provision in Germany.

**Hoya Corporation**
Valuation at 31 May 2005: £4.6m
(Cost £4.3m)

Hoya is a high-technology Japanese glass and opto-electronics producer. Its products are used in hard disk drives, lasers and LCD televisions; it is also a high-end manufacturer of lenses for eyeglasses. As a supplier, Hoya benefits from the growth of the semiconductor and LCD television industries, while also enjoying a less cyclical and volatile business. Last year, Hoya's sales rose 22% and profits rose 60%.

**Carrefour**
Valuation at 31 May 2005: £4.5m
(Cost £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 has allowed sales to increase from €26bn in 1997 to €73bn in 2004. Currently, Carrefour's stores are widely spread, and the company is sub-scale in several markets; management is committed to be among the top three general retailers in each geography and will either make fill-in acquisitions to build scale, or will close or sell operations.

**Fraport**
Valuation at 31 May 2005: £4.5m
(Cost £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 is characterised by long term growth, with strong and stable cash flows. Fraport has also been extending its retail space, which should allow it to increase revenues per customer. In 2004, Fraport's revenues were €2,044m.

**LG Electronics**
Valuation at 31 May 2005: £4.5m
(Cost £3.5m)

LG Electronics is one of the largest manufacturers in the world of mobile phones, televisions, air conditioners, fridges and other consumer electronics. It also has a 45% stake in LG Philips LCD, which makes panels for LCD televisions and monitors. In the past two years alone it has doubled sales, and is now one of the foremost - and highest margin - consumer electronics manufacturers in the world. In 2004, LG Electronics' operating profits more than doubled.

**Verizon Communications**
Valuation at 31 May 2005: £4.5m
(Cost £4.5m)

Verizon is a leading US wireline and wireless telecoms operator with more than $71bn in annual sales. The core of the business was formed by the merger of Bell Atlantic and GTE in 2000; a 55% cellular joint venture - Verizon Wireless - was created by combining the US cellular businesses of GTE and Vodafone. The US telecoms industry has gone through several years of turmoil, with the long distance market seeing rising competitive pressures and consolidation. Despite the difficult environment, Verizon has increased sales and reduced debt.

# REPORT OF THE DIRECTORS

The Directors present their Report and the audited financial statements of the Company for the year ended 31 May 2005.

**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 2004. 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.

**Results and Dividends**

The results for the year are set out in the Statement of Total Return on page 22. The Directors declare a special dividend of 2.85p per ordinary share for the year ended 31 May 2005, payable on 21 September 2005 to all shareholders on the register as at 5 August 2005. The Directors recommend the payment of a final dividend of 3.15p per ordinary share to all shareholders on the register as at 5 August 2005, payable 21 September 2005.

**Net Asset Value**

The net asset value per ordinary share, including retained income at 31 May 2005, was 328.1p (2004: 294.2p).

**Share Capital**

During the year, the Company bought back a total of 21,957,805 of its ordinary shares, which includes 20,832,805 shares acquired through the tender offer and matching facility approved by shareholders on 30 November 2004. Further details appear in note 16 to the accounts on page 31 of this Report.

The authorised and issued share capital of the Company is detailed in note 16 to the accounts. The total number of ordinary shares currently in issue is 65,520,296.

**Management Agreements**

During the year, Henderson Global Investors resigned as Investment Manager and Taube Hodson Stonex Partners Limited ("THS") were appointed 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 2005, fees amounting to £775,000 (inclusive of VAT) were payable to THS. Fees amounting to £412,000 (inclusive of VAT) were payable to HGI for the period prior to the change of Manager. A termination fee amounting to £1,184,000 (inclusive of VAT) was payable to HGI under the terms of the investment management agreement.

Company secretarial services have been delegated by BNP Paribas Fund Services UK Limited 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 10.73%. 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 Pocock 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 Pocock, and accordingly recommended to the Board that a resolution be put to shareholders at the 2005 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:

| | 31/05/05 Ordinary shares | 1/06/04 Ordinary shares |
|---|---|---|
| L C N Bury | 150,000 | 150,000 |
| G P Aherne | 15,000 | 5,000 |
| J D W Pocock | 18,477 | 18,477 |
| J G Ruffer | 3,000 | 3,000 |

Since the year end, Mr Bury has increased his beneficial interest to 230,000 ordinary shares by the acquisition of 80,000 shares on 30 June 2005 and Mr Pocock has increased his beneficial interest to 31,477 ordinary shares by the acquisition of 13,000 shares on 30 June 2005. 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 2005.

**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 |
|---|---|
| Nils Taube | 193,052 |
| John Hodson | 104,919 |
| Cato Stonex | Nil |
| Mark Evans | Nil |
| Simon Edelsten | 5,402 |

Since the year-end, Mr Hodson increased his beneficial interest to 154,450 by the acquisition of 49,531 ordinary shares, Mr Stonex increased his beneficial interest to 30,000 by the acquisition of 30,000 ordinary shares and Mr Evans increased his beneficial interest to 20,000 by the acquisition of 20,000 ordinary shares. Each of these acquisitions took place on 30 June 2005. 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 2005 there were no trade creditors outstanding (2004: nil).

**Substantial Share Interests**

As at the date of this Report, 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 | 7,671,307 | 11.7 |
| Cazenove Capital Management Limited | 3,383,032 | 5.2 |
| Alliance Trust | 2,867,956 | 4.4 |
| Barclays PLC | 2,463,538 | 3.8 |
| Legal & General Group plc | 2,063,869 | 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 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 fifteenth AGM of the Company will be held on 15 September 2005 at 16 Lincoln's Inn Fields, London WC2A 3ED at 12.00 noon.

**Authority to allot shares and to disapply pre-emption rights (resolutions 7 and 8)**

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 2004 to allot authorised but unissued shares in the Company. Resolution 7 will renew the Directors' authorisation to allot up to 5% of the Company's issued shares. Resolution 8 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**

During the year under review, the Company made market purchases for cancellation of 1,125,000 ordinary shares. The shares were purchased at an average discount to net asset value of 16.3% and the aggregate cash consideration paid by the Company for the shares, including stamp duty and commissions, was £2,817,000. At the 2004 AGM, the Company was authorised to make market purchases of up to 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, which was supplemented by a "new authority" approved at the Extraordinary General Meeting held on 30 November 2004 to allow the Company to purchase up to 43,176,550 ordinary shares, of which 20,832,805 ordinary shares were purchased for cancellation. These shares were purchased at a 3.7% discount to net asset value at an aggregate cost of £61,333,000 (including stamp duty and commission).

This new authority expired on 1 March 2005, after which the existing authority continued in force. Resolution 9 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 £491,000 aggregate nominal value) as at the date of this Report.

The authority to purchase shares will last until the AGM of the Company in 2006, 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By Order of the Board

**BNP Paribas Secretarial Services Limited**
Secretary

15 August 2005

## 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.

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 2005, 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 financial year ended 31 May 2005, of the six sets of meetings held, Messrs Bury and Pocock attended all Board and Committee meetings. Mr Aherne and Mr Ruffer were each unavailable for one set of meetings, but submitted comments to the Chairman. All Directors attended the Annual General Meeting and the Extraordinary 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. The Directors meet once a year without the Chairman present. The Chairman at the time of his appointment was, and remains, independent of the Investment Manager.

**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 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 Lindsay Bury joined the Board of the Company in 1995 and has therefore been connected with the Company for more than nine 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 as illustrated by his presiding over the change in Investment Manager. 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 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 without his presence.

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, of which those of the Audit and Nomination Committee were updated on 19 May 2005. 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, the their independence and the objectivity and effectiveness of the audit process.

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 during the year. 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 26.

The Audit Committee met three times during the financial year ended 31 May 2005.

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.

***Nomination Committee***
The Nomination Committee meets at least annually and is responsible for identifying and nominating to the Board new Directors, and for proposing that existing Directors be re-elected on those occasions when the Committee is reviewing the Chairman, or considering his successor, the Nomination Committee is Chaired by another Committee member.

***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.

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 Risk Map has been updated during year to take into account changes to the Company's third party service providers, on whose control systems the Company depends, as noted below.

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 Charted 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 2005.

**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**

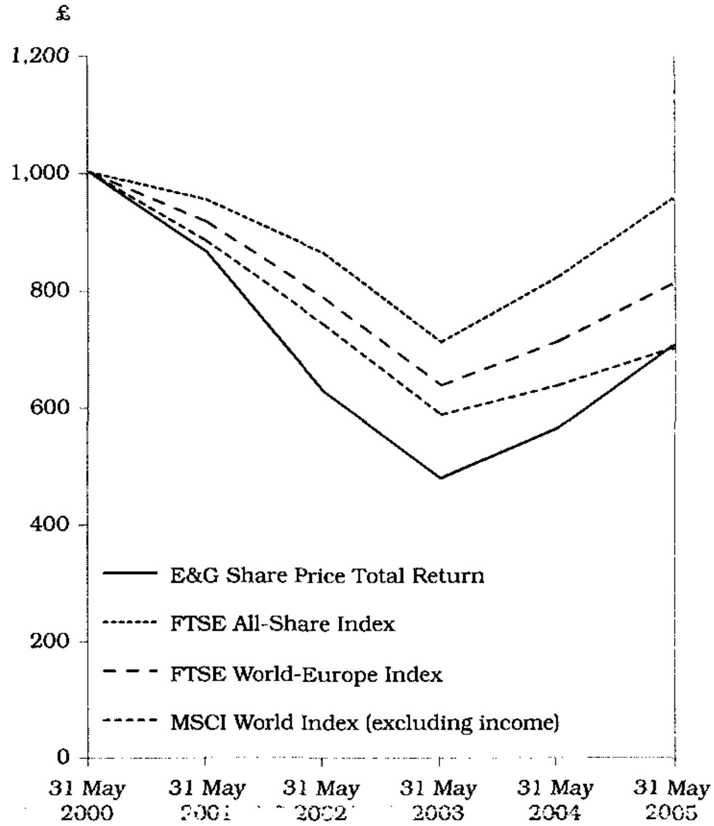
The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Director personally or to a third party specified by him. There are no long-term incentive schemes and Directors are not entitled to receive any benefits in kind, share options, pension 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 the more onerous role.

The Company's Articles of Association were changed during the year to increase the limit of aggregate permissible Director's fees from £90,000 per annum to £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 2000 to 31 May 2005, 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 2004, were as follows:

| | Audited 2005 | Audited 2004 |
|---|---|---|
| L C N Bury | £22,500 | £18,000 |
| G P Aherne | £15,000 | £12,000 |
| R A F McClean[1] | £3,564 | £12,000 |
| C D Palmer-Tomkinson[1] | £3,564 | £12,000 |
| J D W Pocock | £15,000 | £12,000 |
| J G Ruffer | £15,000 | £12,000 |
| R W Smith[2] | Nil | £3,639 |
| Total | £74,628 | £81,639 |

Notes

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

[2] Mr Smith retired from the Board on 18 September 2003.

[3] Directors' fees were increased during 2004 as described in the paragraph below.

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 approved an increase in Directors' fees from £18,000 to £27,000 for the Chairman and from £12,000 to £18,000 for the other Directors, all effective from 1 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 Fund Services UK Limited**
Secretary

15 August 2005

## STATEMENT OF TOTAL RETURN

**(incorporating the revenue account)**

for the year ended 31 May 2005

| Notes | | Year ended 31/05/05 Revenue £'000 | Year ended 31/05/05 Capital £'000 | Year ended 31/05/05 Total £'000 | Year ended 31/05/04 Revenue £'000 | Year ended 31/05/04 Capital £'000 | Year ended 31/05/04 Total £'000 |
|---|---|---|---|---|---|---|---|
| 2 | **Total capital gains from investments** | – | 22,923 | 22,923 | – | 24,372 | 24,372 |
| 3 | Income from fixed asset investments | 7,505 | – | 7,505 | 6,024 | – | 6,024 |
| 4 | Other interest receivable and similar income | 462 | – | 462 | 325 | – | 325 |
| | **Gross revenue and capital gains** | 7,967 | 22,923 | 30,890 | 6,349 | 24,372 | 30,721 |
| 5 | Management and performance fees | (1,208) | (1,322) | (2,530) | (602) | (603) | (1,205) |
| 6 | Other administrative expenses | (360) | – | (360) | (407) | – | (407) |
| | Net return on ordinary activities before interest payable and taxation | 6,399 | 21,601 | 28,000 | 5,340 | 23,769 | 29,109 |
| 7 | Interest payable | (191) | (571) | (762) | (231) | (692) | (923) |
| | **Net return on ordinary activities before taxation** | 6,208 | 21,030 | 27,238 | 5,109 | 23,077 | 28,186 |
| 8 | Taxation on net return on ordinary activities | (936) | 568 | (368) | (398) | 192 | (206) |
| | **Net return on ordinary activities after taxation** | 5,272 | 21,598 | 26,870 | 4,711 | 23,269 | 27,980 |
| | **Dividends** | | | | | | |
| | Overprovision in prior year | 33 | – | 33 | 3 | – | 3 |
| | Interim paid 1.85p (2004: 1.85p) | (1,212) | – | (1,212) | (1,621) | – | (1,621) |
| | Final proposed 3.15p (2004: 2.90p) | (2,064) | – | (2,064) | (2,537) | – | (2,537) |
| | Special declared 2.85p (2004: £nil) | (1,867) | – | (1,867) | – | – | – |
| | | (5,110) | – | (5,110) | (4,155) | – | (4,155) |
| | **Transfer to reserves** | 162 | 21,598 | 21,760 | 556 | 23,269 | 23,825 |
| 9 | **Return per ordinary share** | 6.94p | 28.41p | 35.35p | 5.36p | 26.48p | 31.84p |

The revenue columns of this statement represent the revenue accounts of the Company.

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

No operations were acquired or discontinued during the year.

The notes on pages 25 to 33 form part of these accounts.

## BALANCE SHEET
at 31 May 2005

| Notes | | 2005 £'000 | 2004 £'000 |
|---|---|---|---|
| 10 | **Fixed asset investments** | | |
| | Listed in UK | 76,850 | 137,345 |
| | Listed outside UK | 139,289 | 111,943 |
| | Open Ended Investment Company | – | 1,554 |
| | Unquoted investments at Directors' valuation | 1,175 | 1,118 |
| | | 217,314 | 251,960 |
| | **Current assets** | | |
| 11 | Debtors | 1,262 | 3,725 |
| | Cash at bank and short term deposits | 8,503 | 13,340 |
| | | 9,765 | 17,065 |
| 12 | **Creditors:** amounts falling due within one year | (5,120) | (4,676) |
| | **Net current assets** | 4,645 | 12,389 |
| | **Total assets less current liabilities** | 221,959 | 264,349 |
| 13 | **Creditors:** amounts falling due after more than one year | (7,000) | (7,000) |
| | **Total net assets** | 214,959 | 257,349 |
| | **Capital and reserves** | | |
| 16 | Called-up share capital | 3,276 | 4,374 |
| 17 | Reserves – non distributable: | | |
| | Share premium | 19,937 | 19,937 |
| | Capital redemption reserve | 1,431 | 333 |
| | Realised profits | 166,400 | 220,046 |
| | Unrealised profits | 15,457 | 4,363 |
| 17 | Revenue reserve | 8,458 | 8,296 |
| | **Equity shareholders' funds** | 214,959 | 257,349 |
| 15 | **Net asset value per ordinary share** | 328.1p | 294.2p |

**L C N Bury**
Chairman

The accounts were approved by the Directors on 11 August 2005.

*The notes on pages 25 to 33 form part of these accounts.*

## CASH FLOW STATEMENT

for the year ended 31 May 2005

| Notes | | 2005 £'000 | 2005 £'000 | 2004 £'000 | 2004 £'000 |
|---|---|---|---|---|---|
| 19 | **Net cash inflow from operating activities** | | 4,562 | | 4,724 |
| | **Returns on investments and servicing of finance** | | | | |
| | Debenture interest paid | (752) | | (752) | |
| | Bank overdraft and loan interest paid | (6) | | (239) | |
| | **Net cash outflow from servicing of finance** | | (758) | | (991) |
| | ***Taxation*** | | | | |
| | Tax recovered | | 59 | | 86 |
| | **Financial investments** | | | | |
| | Purchases of investments | (344,812) | | (107,080) | |
| | Sales of investments | 403,946 | | 111,956 | |
| | **Net cash inflow from financial investments** | | 59,134 | | 4,876 |
| | **Equity dividends paid** | | (3,716) | | (3,876) |
| | **Cash inflow before use of liquid resources and financing** | | 59,281 | | 4,819 |
| | **Management of liquid resources** | | | | |
| | Cash withdrawn from short term deposit | | – | | 15,117 |
| | **Financing** | | | | |
| | Purchases of own ordinary shares | (64,150) | | (3,074) | |
| | Foreign currency loans repaid | – | | (15,555) | |
| | **Net cash outflow from movement in financing** | | (64,150) | | (18,629) |
| | **(Decrease)/increase in cash** | | (4,869) | | 1,307 |
| 20 | **Reconciliation of net cash flow to movement in net funds** | | | | |
| | (Decrease)/increase in cash as above | | (4,869) | | 1,307 |
| | Cash outflow from movement in financing | | – | | 15,555 |
| | Cash inflow from movement in liquid resources | | – | | (15,117) |
| | Exchange movements | | 32 | | (1,038) |
| | Movement in net funds | | (4,837) | | 707 |
| | Net funds at 1 June | | 6,340 | | 5,633 |
| | Net funds at 31 May | | 1,503 | | 6,340 |

The notes on pages 25 to 33 form part of these accounts.

## NOTES TO THE ACCOUNTS

for the year ended 31 May 2005

1 ***Accounting Policies***

**a) Basis of accounting**

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (the SORP) dated January 2003.

All of the Company's operations are of a continuing nature.

**b) Valuation of fixed asset investments**

Listed investments in the UK are valued according to the prices issued by the London Stock Exchange, being the closing mid-market prices for all investments other than FTSE 100 constituents and FTSE 100 reserve list constituents, for which the last traded prices are used. 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 taking into account the information available on the investee companies and funds held by the Company.

**c) Capital gains and losses**

Realised and unrealised capital gains and losses on fixed asset investments, together with exchange differences arising on the translation of foreign currency assets and liabilities, are dealt with in the non-distributable reserves.

**d) Income**

Dividends receivable from equity shares are credited to the revenue account on an ex-dividend basis. Bank deposit interest is accounted for on an accruals basis. Income from fixed interest debt securities is recognised on a time apportionment basis and, if material so as to reflect the effective yield on these securities.

**e) Administrative expenses and finance costs**

Administrative expenses, including the management fee, and finance costs are accounted for on an accruals basis. Expenses which are incidental to the purchase or sale of an investment are included in the cost or deducted from the proceeds of the sale of the investment. 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 the maintenance or enhancement of the valuation of investments) to capital.

**f) Deferred taxation**

Following the introduction of FRS 19, deferred taxation is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

**g) Foreign currency**

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. The values of investments and other assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Differences arising from translation at these rates of exchange are dealt with in non-distributable reserves.

**h) Financial instruments**

The Company has entered forward foreign currency contracts during the year to reduce the risk arising from fluctuations in foreign currency exchange rates.

The Company has taken advantage of the exemption allowed under Financial Reporting Standard 13, Derivatives and Other Financial Instruments: Disclosures ("FRS 13") and excluded short-term debtors and creditors from disclosures under financial instruments where allowed (see note 14 on pages 29 to 31).

2 **Total capital gains from investments**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Realised gains based on historical cost | 11,797 | 240 |
| Amounts recognised as unrealised in previous years | (3,938) | 6,182 |
| Realised gains based on carrying value at previous balance sheet date | 7,859 | 6,422 |
| Net movement in unrealised appreciation | 15,032 | 18,988 |
| Net movement on foreign exchange | 32 | (1,038) |
| | 22,923 | 24,372 |

## 3 Income from fixed asset investments

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Franked: Listed investments | 2,846 | 3,748 |
| Unfranked: Listed investments | | |
| Dividend income | 2,904 | 1,943 |
| Interest income | 1,755 | 333 |
| | 7,505 | 6,024 |

## 4 Other interest receivable and similar income

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Bank interest | 441 | 308 |
| Underwriting commission | 21 | 17 |
| | 462 | 325 |

At 31 May 2005 there were no securities on loan from the Company for stock lending purposes (2004: £nil). The maximum aggregate value of securities on loan at any time during the year ended 31 May 2005 was £nil (2004: £nil).

## 5 Management and performance fees

| | 2005 £'000 Revenue | 2005 £'000 Capital | 2005 £'000 Total | 2004 £'000 Revenue | 2004 £'000 Capital | 2004 £'000 Total |
|---|---|---|---|---|---|---|
| Management fee | 550 | 550 | 1,100 | 556 | 557 | 1,113 |
| Termination fee paid to Henderson | 584 | 584 | 1,168 | – | – | – |
| Performance fee provision | – | 101 | 101 | – | – | – |
| Irrecoverable VAT thereon | 74 | 87 | 161 | 46 | 46 | 92 |
| | 1,208 | 1,322 | 2,530 | 602 | 603 | 1,205 |

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

## 6 Other administrative expenses

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Directors' emoluments* | 75 | 82 |
| Auditors' remuneration – for audit services** | 19 | 14 |
| Other expenses payable to the management company† | 36 | 92 |
| Bank charges and safe custody fees | 59 | 61 |
| Other expenses | 171 | 158 |
| | 360 | 407 |

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

** The auditors were also paid £9,000 for services in connection with the Tender Offer. This amount has been included in the purchase consideration of the Tender Offer and charged to capital reserves.

† Other expenses payable to the management company relate to share plan administration and marketing expenses.

## 7 Interest payable

| | 2005 £'000 Revenue | 2005 £'000 Capital | 2005 £'000 Total | 2004 £'000 Revenue | 2004 £'000 Capital | 2004 £'000 Total |
|---|---|---|---|---|---|---|
| *Bank loans and overdrafts* | 3 | 7 | 10 | 43 | 127 | 170 |
| Debenture | 188 | 564 | 752 | 188 | 565 | 753 |
| | 191 | 571 | 762 | 231 | 692 | 923 |

## 8 Taxation on ordinary activities

**a) Analysis of charge in the year**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| UK corporation tax at 30% (2004: 30%) | 401 | – |
| Less double tax relief | (401) | – |
| Foreign withholding taxes | 438 | 274 |
| Overseas taxation reclaimable | (70) | (68) |
| | 368 | 206 |
| Tax on management fee and finance costs charged to capital | 568 | 192 |
| | 936 | 398 |

**b) Analysis of charge in the year**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%.

The differences are explained below:

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Net revenue on ordinary activities before taxation | 6,208 | 5,109 |
| Corporation tax at 30% (2004: 30%) | 1,862 | 1,533 |
| Franked dividend receipts not chargeable to corporation tax | (854) | (1,124) |
| Stock dividends | (11) | (19) |
| Excess expenses (brought forward and utilised in the year)/unused | (78) | 32 |
| Expenses charged to capital | – | (196) |
| Income taxable in different periods | 41 | (23) |
| Overseas withholding tax | 368 | 202 |
| Overseas withholding tax deductible as an expense | (1) | (5) |
| Expenses not deductible for tax purposes | 10 | 28 |
| Double tax relief taken | (401) | (34) |
| UK income tax suffered | – | 4 |
| Taxation on net revenue on ordinary activities | 936 | 398 |

**c) Provision for deferred taxation**

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

The Company has not recognised a deferred tax asset of £580,000 (2004: £713,000) 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.

## NOTES TO THE ACCOUNTS
(continued)

**9 Return per ordinary share**

Revenue return per ordinary share is based on the earnings attributable to the ordinary shares of £5,272,000 (2004: £4,711,000) and on the weighted average number of 76,010,305 (2004: 87,885,445) ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital gains of £21,598,000 (2004: £23,269,000 gains) and on the weighted average number of 76,010,305 (2004: 87,885,445) ordinary shares in issue during the year.

**10 Changes in fixed asset investments**

| | Valuation 31/05/04 £'000 | Purchases £'000 | Sales £'000 | Appreciation/ (depreciation) £'000 | Valuation 31/05/05 £'000 | Cost 31/05/05 £'000 |
|---|---|---|---|---|---|---|
| UK | 138,463 | 165,744 | 234,813 | 8,631 | 78,025 | 73,251 |
| North America | 30,653 | 64,302 | 73,043 | 3,106 | 25,018 | 23,275 |
| Europe and Emerging Markets | 37,388 | 73,434 | 43,614 | 6,922 | 74,130 | 67,745 |
| Japan | 28,455 | 22,256 | 26,289 | (310) | 24,112 | 23,422 |
| Pacific | 17,001 | 18,256 | 23,770 | 4,542 | 16,029 | 14,164 |
| | 251,960 | 343,992 | 401,529 | 22,891 | 217,314 | 201,857 |

**11 Debtors**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Investments sold for future settlement | 122 | 2,539 |
| Taxation recoverable | 89 | 83 |
| Prepayments and accrued income | 1,051 | 1,103 |
| | 1,262 | 3,725 |

**12 Creditors: amounts falling due within one year**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Purchases for future settlement | 637 | 1,494 |
| Proposed final ordinary dividend | 3,931 | 2,537 |
| Accruals | 552 | 645 |
| | 5,120 | 4,676 |

**13 Creditors: amounts falling due after more than one year**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| 10.75% debenture stock 2011 | 7,000 | 7,000 |
| | 7,000 | 7,000 |

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

## 14 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.
- 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 the 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 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 had drawn down foreign currency loans denominated in Japanese yen and US dollars, however these loans had all been repaid at 31 May 2005.

***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.

### 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 2005 £'000 | Monetary liabilities 2005 £'000 | Net monetary assets 2005 £'000 | Monetary assets 2004 £'000 | Monetary liabilities 2004 £'000 | Net monetary assets 2004 £'000 |
|---|---|---|---|---|---|---|
| US Dollar | 25,028 | (637) | 24,391 | 31,425 | – | 31,425 |
| Euro | 50,490 | (29,647) | 20,843 | 1,645 | – | 1,645 |
| Yen | 24,400 | – | 24,400 | 28,456 | – | 28,456 |
| Other European | 23,708 | – | 23,708 | 35,837 | – | 35,837 |
| Other Far East and Australia | 16,156 | – | 16,156 | 17,567 | – | 17,567 |
| | 139,782 | (30,284) | 109,498 | 114,930 | – | 114,930 |

## NOTES TO THE ACCOUNTS
(continued)

**14 Derivatives and other financial instruments** (continued)

***Forward exchange contract***

During the year the Company entered into a forward exchange contract which was outstanding at the year end. The Company has sold Euros for future settlement in Sterling. The details are as follows:

| Date of contract | Settlement date | Amount of Euro sold | Amount of Sterling purchased | Contracted rate | Forward settlement rate at close 31 May 2005 |
|---|---|---|---|---|---|
| 31 May 2005 | 2 September 2005 | 43,759,846 | 30,000,000 | 0.685560 | 0.6821246 |

At the year end the unrealised gain on this contract amounted to £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 2005 was:

| | 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 | Total 2004 £'000 | Floating rate financial assets 2004 £'000 | Fixed rate financial assets 2004 £'000 | Other financial assets on which no interest is paid 2004 £'000 |
|---|---|---|---|---|---|---|---|---|
| Equities | 195,217 | – | – | 195,217 | 248,735 | – | – | 248,735 |
| Fixed interest securities | 22,097 | – | 22,097 | – | 3,225 | – | 3,225 | – |
| Sterling | 8,009 | 8,009 | – | – | 11,907 | 11,907 | – | – |
| US dollar | 11 | 11 | – | – | 771 | 771 | – | – |
| Euro | 68 | 68 | – | – | 96 | 96 | – | – |
| Yen | 288 | 288 | – | – | – | – | – | – |
| Other Far East and Australia | 127 | 127 | – | – | 566 | 566 | – | – |
| | 225,817 | 8,503 | 22,097 | 195,217 | 265,300 | 13,340 | 3,225 | 248,735 |

Floating rate financial assets currently earn interest at the following rates: sterling 4.44%, US dollar 3.11%, Euro 1.89%, yen nil, and Australian dollar 5.20%.

The interest rate profile of the Company's financial liabilities at 31 May 2005 was:

| Currency | Fixed rate financial liabilities 2005 £'000 | Fixed rate financial liabilities 2004 £'000 |
|---|---|---|
| Sterling | 7,000 | 7,000 |

The weighted average interest rate of the fixed rate financial liabilities was 10.75% (2004: 10.75%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 5 years and 7 months (2004: 6 years and 7 months).

**c) Maturity profile of financial liabilities**

The maturity profile of the Company's financial liabilities at 31 May 2005 was as follows:

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| In more than five years | 7,000 | 7,000 |

**14 Derivatives and other financial instruments** (continued)

**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 2005:

| | Book value 2005 £'000 | Fair value 2005 £'000 | Book value 2004 £'000 | Fair value 2004 £'000 |
|---|---|---|---|---|
| 10.75% debenture stock 2011 | 7,000 | 9,167 | 7,000 | 8,649 |

The fair value of the 10.75% debenture 2011 is calculated by reference to the market value at 31 May 2005.

**15 Net asset value per ordinary share**

The net asset value per ordinary share is based on the net assets attributable to ordinary shares of £214,959,000 (2004: £257,349,000) and on the 65,520,296 ordinary shares in issue at 31 May 2005 (2004: 87,478,101).

The movements during the year of the assets attributable to the ordinary shares were as follows:

| | 2005 £'000 |
|---|---|
| Net assets attributable to the ordinary shares at 1 June 2004 | 257,349 |
| Total net return on ordinary activities after taxation | 26,870 |
| Dividends | (5,110) |
| Buy back of own ordinary shares | (64,150) |
| Net assets attributable to the ordinary shares at 31 May 2005 | 214,959 |

**16 Share capital**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Authorised: | | |
| 100,000,000 ordinary shares of 5p each | 5,000 | 5,000 |
| Allotted, called-up and fully paid: | | |
| 65,520,296 (2004: 87,478,101) ordinary shares of 5p each | 3,276 | 4,374 |

During the year the Company made market purchases for cancellation of 1,125,000 ordinary 5p shares for a total consideration of £2,817,000, representing 1.3% of the called up shares. The purchases were carried out to enhance the net asset value per share. The Company also bought in and cancelled a net amount of 20,832,805 ordinary 5p shares under the Tender Offer and Matching Facility for a net consideration of £61,333,000 representing 23.8% of the called up shares at the beginning of the year.

# NOTES TO THE ACCOUNTS
(continued)

## 17 Reserves

| | Share premium £'000 | Redemption reserve £'000 | Realised profits £'000 | Unrealised profits £'000 | Revenue £'000 |
|---|---|---|---|---|---|
| At 1 June 2004 | 19,937 | 333 | 220,046 | 4,363 | 8,296 |
| Buy back of own shares | – | 1,098 | (64,150) | – | – |
| Transfer on disposal of investments | – | – | 3,938 | (3,938) | – |
| Expenses allocated to capital | – | – | (1,893) | – | – |
| Tax relief thereon | – | – | 568 | – | – |
| Net gains on investments | – | – | 7,859 | 15,032 | – |
| Net gains on foreign exchange | – | – | 32 | – | – |
| Retained revenue for the year | – | – | – | – | 162 |
| At 31 May 2005 | 19,937 | 1,431 | 166,400 | 15,457 | 8,458 |

## 18 Reconciliation of movements in shareholders' funds

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Net revenue return on ordinary activities after taxation | 5,272 | 4,711 |
| Dividends | (5,110) | (4,155) |
| | 162 | 556 |
| Increase in non-distributable reserves | 21,598 | 23,269 |
| Purchase of own shares | (64,150) | (3,074) |
| Net (decrease)/increase in shareholders' funds | (42,390) | 20,751 |
| Shareholders' funds at 1 June 2004 | 257,349 | 236,598 |
| Shareholders' funds at 31 May 2005 | 214,959 | 257,349 |

## 19 Reconciliation of operating revenue to net cash inflow from operating activities

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Net revenue return before interest payable and taxation | 6,399 | 5,340 |
| Decrease in accrued income | 62 | 38 |
| (Increase)/decrease in other debtors | (10) | 11 |
| (Decrease)/increase in creditors | (97) | 262 |
| Stock dividends included in investment income | (37) | (63) |
| Tax on unfranked investment income | (433) | (261) |
| Management fee charged to capital | (1,322) | (603) |
| Net cash inflow from operating activities | 4,562 | 4,724 |

## 20 Analysis of changes in net funds

| | At 31 May 2004 £'000 | Cash flow £'000 | Exchange movement £'000 | At 31 May 2005 £'000 |
|---|---|---|---|---|
| Cash | 13,340 | (4,869) | 32 | 8,503 |
| Debt falling due after more than five years | (7,000) | – | – | (7,000) |
| Total | 6,340 | (4,869) | 32 | 1,503 |

## 21 Contingent liabilities

There were contingent liabilities in respect of calls on investments of £nil (2004: £50,000).

There are no underwriting commitments (2004: nil).

## 22 Related party transactions

The Company has no related parties other than the Directors. Details of transactions with the Directors are included in the Report of the Directors on pages 14 and 15, and in the Directors' Remuneration Report on pages 20 and 21.

# REPORT OF THE INDEPENDENT AUDITOR

to the members of Electric & General Investment Trust PLC

We have audited the Company's financial statements for the year ended 31 May 2005 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement, and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

**Respective Responsibilities of Directors and Auditors**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company 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. This other information comprises the Investment Policy, Performance Summary, Company and Investor Information, Investment Manager, Chairman's Statement, Portfolio Analysis, Largest Investments, Report of the Directors, and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of Audit Opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 of the state of affairs of the Company as at 31 May 2005 and of its revenue for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

**Ernst & Young LLP**
Registered Auditor
London

15 August 2005

## 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.**

## NOTICE OF MEETING

Notice is hereby given that the one hundred and fifteenth Annual General Meeting of Electric & General Investment Trust plc will be held on Thursday 15 September 2005 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 2005.

2 To declare a final dividend of 3.15p per ordinary share.

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

4 To re-elect Mr J D W Pocock as a Director of the Company.*

5 To re-appoint Ernst & Young LLP as the Company's Auditors and to authorise the directors to determine their remuneration.

**Special Business**

To consider and, if thought fit, pass resolutions 6 and 7 as an Ordinary Resolutions and resolutions 8 and 9 as Special Resolutions:

6 To approve the Directors' Remuneration Report for the year ended 31 May 2005.

7 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.

8 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.

9 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 Fund Services UK Limited**
Secretary

15 August 2005

* The biographies of these Directors are set out on page 4 and the recommendation for their re-election can be found on page 14 of this Report.

## NOTICE OF MEETING

(continued)

**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 13 September 2005 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 13 September 2005 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 register of directors' interests kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the meeting.

Registered Office:

55 Moorgate
London EC2R 6PA

## VENUE FOR MEETING

The Annual General Meeting will be held at 16 Lincoln's Inn Fields, London WC2A 3ED at the time and date specified on page 36.