

# **The Edinburgh Investment Trust plc**

Annual Report  
For the year ended 31 March 2008

Company number SC 1836



Managed by

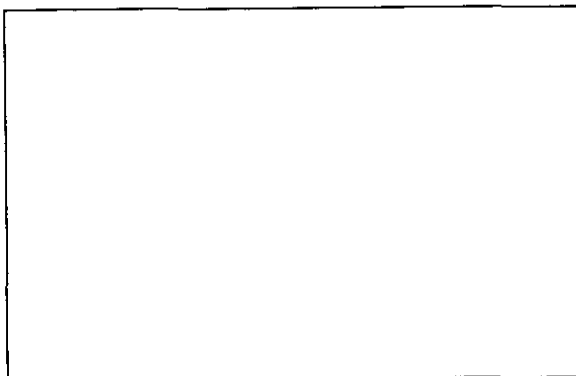


# aic

The Association of  
Investment Companies

---

## The Company's website



[www.itseit.co.uk](http://www.itseit.co.uk)

The site offers investors comprehensive information on  
The Edinburgh Investment Trust plc and its related products  
Just some of the features are

- the latest prices
  - performance figures, charts and commentary
  - product information
  - how to invest
-

# Contents

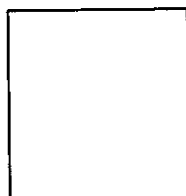
---

Highlights	2
Objectives and Investment Policy	2
Financial Summary	3
Chairman's Statement	4
Corporate Information	6
Board of Directors	6
Directors' Report	8
Business Review	11
Thirty Largest Investments	16
Distribution of Assets	17
Analysis of Shareholders	18
Long Term Record	19
Corporate Governance Statement	21
Statement of Directors' Responsibilities	26
Capital Gains Tax Information	26
Directors' Remuneration Report	27
Independent Auditors' Report	29
Financial Statements	30
Investments	48
Notice of Meeting	50
Financial Calendar	51
Appendix	52
Investing in The Edinburgh Investment Trust plc	54

---

## Highlights

---



Scott Dobbie

"Although your Company in common with most funds with an income bias did not this year meet its capital objective, it has, over the last three years as a whole, achieved a total return of dividends received and share price growth of 38.8% – this compares to 31.3% for the benchmark index and is greater than any other of its AIC UK Growth and Income peer group"

### Performance

Capital growth	
Net asset value ("NAV") – debt at par	14.8%
NAV – debt at market value	15.5%
Share price	16.2%
FTSE All Share Index	10.8%
Dividend growth	
Dividends for the year 19.90 pence <sup>1</sup>	+5.6%
Retail Price Index	+3.8%
Total return (capital growth with income reinvested)	
NAV – debt at par	11.7%
NAV – debt at market value	12.3%
Share price	12.6%
FTSE All Share Index	7.7%

1 Dividends paid and recommended in respect of the financial year

## Objectives and Investment Policy

---

The Company invests in UK securities with the long term objective of achieving

- 1 an increase of the Net Asset Value per share by more than the growth in the FTSE All Share Index, and
- 2 growth in dividends per share by more than the rate of UK inflation

The Company will generally invest only in companies quoted on a recognised stock exchange in the UK or in those which are about to enter the FTSE All Share Index. The portfolio is selected by the Manager on the basis of its assessment of the fundamental value available in individual securities. Whilst the Company's overall exposure to individual securities is monitored carefully by the Board, the portfolio is not primarily structured on the basis of industry weightings. The securities of no one company, as determined at the time of acquisition, may represent more than 10% of the market value of the Company's equity portfolio. Similarly, the Company will not hold more than 5% of the issued share capital (or voting shares) in any one company. Investment in convertibles is subject to normal security limits. Should these or any other limit be exceeded by subsequent market movement, each resulting position is specifically reviewed by the Board.

The Company borrows money to provide gearing to the equity portfolio up to a maximum of £200 million.

Use of derivative instruments is permitted within the following constraints and is monitored carefully by the Board. The writing of covered calls, to a maximum of 10% of the value of the portfolio, is permitted and a maximum of 15% may be invested in FTSE 100 futures. Other derivative contracts may be employed subject to an aggregate of the above limits and to the prior approval of the Board.

## Financial Summary

	31 March 2008	31 March 2007	% change
Capital return			
NAV (debt at par)	474 74p	557 47p	14 8
NAV (debt at market value)	448 53p	530 90p	15 5
FTSE All Share Index	2,927 05	3,283 21	10 8
Share price	403 25p	481 00p	16 2
Income			
First interim dividend paid in November	4 75p	4 40p	
Second interim dividend paid in February	4 75p	4 40p	
Third interim dividend paid in May	4 75p	4 40p	
Final dividend proposed for the year	5 65p	5 65p	
Total dividends proposed for the year	19 90p	18 85p	+5 6
Revenue return per share	21 41p	18 13p'	+18 1
Discount <sup>2</sup>			
Where borrowings are deducted at par value	15 1%	13 7%	
Where borrowings are deducted at market value	10 1%	9 4%	
Gearing			
Actual gearing ratio <sup>3</sup>	12 9%	14 3%	
Maximum potential gearing ratio <sup>4</sup>	21 2%	16 6%	
Total expense ratio <sup>5</sup>			
As % of average shareholders' funds	0 40%	0 42%	

Year to 31 March 2008	High	Low
NAV (debt at par)	580 5p	436 0p
Share price	514 5p	382 0p
Discount (debt at par)	15 1%	11 0%

1 Revenue return lower than total dividends as it is based on weighted average of shares in issue over the year

2 Difference between share price and NAV per share

3 Actual gearing: borrowings less cash and investment in Fidelity Institutional Cash Fund plc ÷ shareholders' funds

4 Potential gearing: borrowings ÷ shareholders' funds

5 Operating expenses (excluding interest) based on average daily shareholders' funds

### Standardised performance on a total return basis

	Year to 31 March 04	Year to 31 March 05	Year to 31 March 06	Year to 31 March 07	Year to 31 March 08
NAV (debt at par)	+33 8%	+16 2%	+27 9%	+12 0%	11 7%
NAV (debt at market value)	+37 7%	+17 7%	+28 2%	+13 8%	12 3%
Share price	+36 2%	+14 7%	+35 3%	+17 4%	12 6%

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

# Chairman's Statement

---

## THE UK EQUITY MARKET

The UK equity market has been highly volatile in the 12 months to 31 March 2008 as it reacted to the national and international effects of the credit crunch. Over the year as a whole, the FTSE All Share Index ("the Index") fell by 10.8%, with particular weakness in banking, building and consumer stocks as investor concerns spread from financial sectors to the broader economy. On the other hand, the mining and oil exploration sectors continued to perform well in response to the continued strong growth in commodity prices.

## CAPITAL AND SHARE PRICE PERFORMANCE

This was a difficult year for income funds and the Company's net asset value ("NAV") fell by 14.8% (debt at par) or 15.5% (debt at market), significantly more than the 10.8% fall in the benchmark Index. The Company's portfolio was overweight banks which underperformed strongly but pay substantial dividends, and underweight mining groups which yield little. Full details of the portfolio performance are contained in the Business Review later in this report. It is noteworthy that although failing to meet its first objective – that NAV growth should exceed that of the Index – the Company's NAV performance has been no worse than average (rank 7th) in the peer group of 12 trusts in the AIC UK Growth and Income sector. (Source Fund Data 12 months to 31 March 2008)

The Company's share price declined by 16.2% – this fall was greater than the benchmark Index and more than the fall in NAV, reflecting an increase over the year in the discount to NAV. The relative fall in share price over the year was disappointing, particularly given the Company's strong price performance in the previous two years. Despite the recent setback, shareholder returns over the past three years have been good. Total return – the sum of growth in share price and dividends received in the three years – is 38.8% of the base price at 1 April 2005. This compares to 31.3% for the benchmark Index, and is greater than any of the 11 other trusts in the peer group already defined.

During the year, the Company bought back 17.2m shares, enhancing the NAV for remaining holders. The Board believes it to be essential to have power to continue the programme in appropriate circumstances, and will seek authority from shareholders at the Annual General Meeting.

## INCOME PERFORMANCE

Shareholders will recall that dividends increased by a total of 43% over the two years ending 31 March 2007. The increase was due both to increasing payouts by underlying investments and to a change in portfolio emphasis towards higher yielding securities. In my statement last year, I counselled that holders could expect a much lower rate of growth in future, since the

portfolio change was one off, and dividend growth generally was expected to slow. Both trends have been apparent in the year under review. Shareholders have received three interim dividends each of 4.75p per share; a final dividend of 5.65p per share is recommended. Total dividends, 19.9p per share, are therefore 5.6% higher than in the previous year. This increase is greater than the increase in RPI in the equivalent period and the Company's second objective – to grow dividends per share by more than UK inflation – has therefore been achieved.

Subject to shareholder approval at the 2008 Annual General Meeting the proposed final dividend of 5.65 pence per share will be paid on 22 July 2008 to shareholders on the Company's register on 6 June 2008 (ex-dividend date 4 June 2008).

## PORTFOLIO STRUCTURE

The portfolio can be geared by investing all or part of the two long term debenture stocks, of £200m book value, in equities. I reported at the interim stage that about 60% of the debenture stocks were invested in the equity market – equivalent to an actual gearing ratio of 9.7%. Having reduced gearing earlier in the financial year, it was increased in January when it was felt that market fundamentals had improved. At the year end, the actual gearing ratio was 12.9%, this compared with 14.3% at 31 March 2007. The performance attribution shown on page 14 demonstrates that gearing in a falling market was detrimental to the year's capital performance.

I described in my statement last year that the Company's funds are allocated by Fidelity to two portfolio managers – one biased to holdings expected to increase dividends by more than the market average and the other with a stronger current income orientation. The first has continued to perform well and has offset some of the weakness in the funds allocated to the higher income portfolio. The latter, even allowing for the difficult market conditions, already described, has not met expectations and the Board and Fidelity are working to improve the capital performance of this part of the portfolio whilst continuing to meet the Company's income objective.

## VAT ON MANAGEMENT FEES

I reported at the Interim stage the ruling by the European Court of Justice that Her Majesty's Revenue and Customs had been wrong in levying VAT on management fees borne by investment trusts. Initially it was believed that recovery could be made of some at least of the tax paid since 2001. A subsequent legal decision means that this potential repayment will be extended to a period of about five years from 1990. The Company is no longer paying VAT on management fees and is currently negotiating recovery of VAT paid since 2002 to its Manager, Fidelity Investments International,

## Chairman's Statement

---

and to Aberdeen Asset Managers, successors to its previous manager, Edinburgh Fund Managers. It is not yet possible to estimate the scale of funds to be rebated and no provision for their receipt has been made in these financial statements. Shareholders should be aware that any funds received will be allocated to income and capital in the proportions in which the original charges were applied.

### OUTLOOK

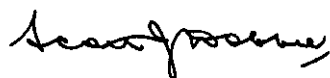
The liquidity crisis which first became apparent in the US sub-prime loans business about nine months ago continued to erode confidence in financial markets. There are now strong signs of increasing inflation, a reduction in the rate of growth of the global economy, and reduced expectations of growth in corporate earnings. Against this background, fixed interest securities, particularly corporate bonds, have fallen sharply in value, whilst equity markets, although volatile, have reacted to a much lesser extent. The resilience of equity markets can be justified, in good part, by ratings which are undemanding relative to historic norms, or to alternative asset classes. Your Board believes that whilst there is some risk of decline in equity values, there is good potential for upward movement when the market sees a return to confidence. The current cautious approach is to remain only partly geared.

A reduction in market earnings is likely to be followed by caution in dividend payments by the corporate sector, and your Board foresees a fall in the rate of growth in the dividends paid on the Company's own investments. We are nevertheless at this stage confident that the Company can next year increase its own dividends by at least the rate of inflation and hence continue to meet its income objective.

**Scott Dobbie**

Chairman

29 May 2008



# Corporate Information

---

## Registered Office

Quartermile One, 15 Lauriston Place  
Edinburgh EH3 9EP

## Manager and Secretary

Fidelity Investments International  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP

Telephone 01732 361144

Fax 01737 836892

Website [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

## Registrars

Equiniti Limited

PO Box 28448

Finance House

Orchard Brae

Edinburgh EH4 1WQ

Telephone 0871 384 2431

Fax 0871 384 2100

Website [www.shareview.co.uk](http://www.shareview.co.uk)

## Bankers and Custodian

JPMorgan Chase Bank, N A

## Auditors

KPMG Audit Plc

Saltire Court

20 Castle Terrace

Edinburgh EH1 2EG

## Company Brokers

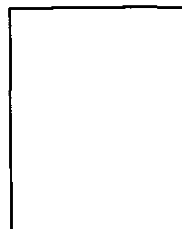
Dresdner Kleinwort

UBS Limited

## Company Registration Number

SC 1836

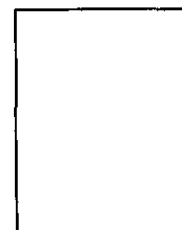
Incorporated 1 March 1889



**Scott Dobbie**  
**CHAIRMAN**

Scott Dobbie<sup>1</sup> CBE (68) was appointed to the Board in 1998 and became Chairman in 2003. He joined Wood Mackenzie & Co. in 1971

and worked with this and successor companies before retiring in 1999. He is the chairman of the Securities & Investment Institute and Standard Life European Private Equity Trust and a Commissioner of the Jersey Financial Services Commission. He is also an adviser to Deutsche Bank.



**Richard Barfield**  
**DIRECTOR**

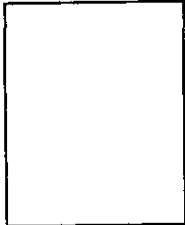
Richard Barfield<sup>2</sup> (61) was appointed to the Board in 2001 and is Senior Independent Director. He was previously Chief Investment Manager at

Standard Life. He is a director of The Baillie Gifford Japan Trust, The Merchants Trust, The JPMorgan Fleming Overseas Investment Trust, the Standard Life Property Income Trust and is a member of the Professional Oversight Board.



## Board of Directors

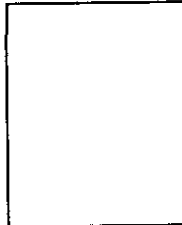
---



### **Jim Pettigrew** **DIRECTOR**

Jim Pettigrew<sup>2</sup> (49) was appointed to the Board on 27 October 2005 and is Chairman of the Audit Committee. He qualified as a

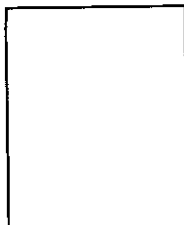
Chartered Accountant in Dundee, has a law degree from Aberdeen University and a post graduate diploma in accountancy from Glasgow University. He is also a member of the Association of Corporate Treasurers. Following a number of finance function positions in Scotland and in London including Group Treasurer of Sedgwick Group plc, he was Group Finance Director, ICAP plc, a FTSE 100 company and the world's largest specialist inter dealer broker from January 1999 to June 2006. He was Chief Operating and Financial Officer of Ashmore Group plc from 2006 to 2007 and was appointed Chief Executive Officer of CMC Markets plc in 2007.



### **William Samuel** **DIRECTOR**

William Samuel<sup>2</sup> (56) was appointed to the Board in 2003. He is currently a vice chairman of Lazard in London having formerly been vice chairman of

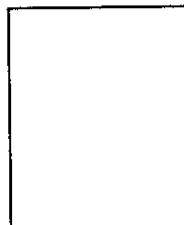
European Investment Banking at Citigroup, chairman of HP Bulmer Holdings and Group Managing Director – Investment Bank at Schroders and a director of Schroders PLC. He is also chairman of Galiform, deputy chairman and senior independent director of Inchcape plc and a non executive director of the Ecclesiastical Insurance Office. He joined Schroders Investment Management Department in 1977 having qualified as a Chartered Accountant and was Head of Investment Banking when Schroders sold its investment banking business to Salomon, Smith, Barney, part of Citigroup in 2000.



### **Nicola Ralston** **DIRECTOR**

Nicola Ralston<sup>2</sup> (52) was appointed to the Board in 2003. She started her financial career in 1977 moving to Schroders in 1979. Between 1999 and

2001 she was Head of Investment Management for the Schroder Group. After leaving Schroders, she worked with a management consulting firm and was a Director of several hedge funds. She was then Head of Global Consulting at Hewitt from 2005 to 2006. In 2007 she joined Liability Solutions, a hedge fund marketing and consulting firm, as a Director. She is also a Governor of the CFA Institute.



### **Sir Nigel Wicks** **DIRECTOR**

Sir Nigel Wicks<sup>2</sup>, GCB, CVO, CBE (67) was appointed to the Board in 2005. After working for The British Petroleum Company, Sir Nigel joined HM

Treasury in 1968. He worked for Prime Ministers Harold Wilson, James Callaghan and Margaret Thatcher. He has been the United Kingdom's Executive Director at the International Monetary Fund and World Bank and the Prime Minister's representative ("Sherpa") for the Economic Summits of the Group of Seven Industrialised Nations. From 1989 to 2000, he was the Treasury's Second Permanent Secretary responsible for international financial matters. The Prime Minister appointed him as Chair of the Committee on Standards in Public Life for the period March 2001 to April 2004. He is Chairman of Euroclear plc and a Commissioner of the Jersey Financial Services Commission.

<sup>1</sup> Member of the Management Engagement and Nomination Committees only  
<sup>2</sup> Member of the Audit, Management Engagement and Nomination Committees

# Directors' Report

---

## BUSINESS AND STATUS

The Company carries on business as an investment trust. HM Revenue & Customs has approved the Company's status as an investment trust under Section 842 of the Income and Corporation Taxes Act ("ICTA") 1988 for the years ended 31 March 2006 and 31 March 2007, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

The Company is not a close company and has no employees. It is registered as an investment company as defined in Section 266 of the Companies Act 1985 and operates as such.

## REVIEW OF ACTIVITIES

During the year the Company followed the normal activities of an investment trust. Details of these are given in the Chairman's Statement and the Business Review.

## COMPANY'S MANAGER

The Manager, Fidelity Investments International, a subsidiary of FII Limited (formerly Fidelity International Limited), provides management, accounting, administrative and secretarial services to the Company under an agreement effective from 1 August 2002. Further details of this agreement are given in the Corporate Governance Statement on page 25.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity Individual Savings Account under the same agreement.

## BUSINESS REVIEW

The Business Review is contained on pages 11 to 15 and is included in the report by reference in accordance with the requirements of Section 234ZZB of the Companies Act 1985.

## COMMISSIONS AND INTERFUNDING

Fidelity has adopted a broker segmentation policy which has reduced the number of brokers used and allows it to concentrate on those brokers who, in its opinion, offer the best service in terms of overall execution. These brokers are Fidelity's "core" brokers. At the same time, the Manager evaluates the research provided by other brokers and uses some of them for their research. These brokers are called *Secondary State Research firms* ("SSRs").

As a consequence of the policy, the "core" brokers earn a larger amount of the commission paid. These "core" brokers pay away some of the increased commission earned to the SSRs, to compensate them for the research provided to Fidelity. Under FSA

regulations this type of payment from one broker to another is currently treated as "softing". The Manager's soft commission policy complies with the UK regulations. Fidelity adopts a best execution policy that applies to all transactions in all instruments, regardless of the fund or account or location of the trading desk.

The Manager has an arrangement with certain brokers whereby a portion of commissions from security transactions may be repaid to the Company to reduce transaction costs. Amounts received by the Company under this arrangement are credited to capital. In the year to 31 March 2008 £118,000 was received (2007 £355,000).

The Company participates in the Manager's interfund programme whereby Fidelity's traders, on occasion, identify situations where one fund managed by Fidelity is buying the same security that another fund is selling. If a trader can confirm that it would be in the interests of both accounts to execute a transaction between them rather than in the market then an interfund transaction is executed at the market price.

There is a regulatory requirement on the Manager to obtain best execution and no individual deal is entered into which prevents compliance with this requirement.

## POLITICAL AND CHARITABLE DONATIONS

The Company has not made any political or charitable donations in the year (2007 nil).

## SHARE CAPITAL

The Company's authorised share capital comprises 316,099,929 ordinary shares of 25 pence each. As at 31 March 2008 198,294,748 (2007 215,496,748) shares were in issue. Each share in issue carries one vote. *Deadlines for the exercise of voting rights in respect of this year's Annual General Meeting* are detailed in the Notes to the Notice of Meeting on pages 50 and 51.

Pursuant to the authority granted at the 2006 Annual General Meeting, 10,392,000 shares were repurchased for cancellation between 1 April 2007 and 16 July 2007. At the Annual General Meeting held on 17 July 2007 the Company's shareholders passed a special resolution which granted the Directors authority to purchase up to 14.99% of the ordinary shares in issue for cancellation. Pursuant to this authority during the period 17 July 2007 and 31 March 2008 a further 6,810,000 ordinary shares of 25 pence each were repurchased for cancellation. In aggregate for the year ended 31 March 2008 the total number of shares repurchased for cancellation was 17,202,000 (representing 8.0% of the issued share capital as at 31 March 2007) (2007 18,449,966 shares). The total cost of these shares was £83,492,000 (2007 £80,571,000). Since the year end a further 2,096,000 shares have been repurchased.

# Directors' Report

The principal purpose of share buybacks is to enhance the net asset value for remaining shareholders. Additionally, they address the imbalance between the supply and demand for the Company's ordinary shares and thereby reduce both the scale and volatility of the discount at which the shares trade in relation to the underlying net asset value. Purchases will only be made if they enhance the net asset value for the remaining shareholders.

## DIVIDENDS

The Directors recommend that a final dividend of 5.65p (2007 same) per share be paid on 22 July 2008 to shareholders on the register at the close of business on 6 June 2008 (ex-dividend date 4 June 2008). If approved by shareholders this will result in a total dividend of 19.90p per share for the year ended 31 March 2008 (2007 18.85p). The Company has a policy of paying three interim dividends and a final dividend each year.

## DIRECTORS

Details of the Directors who served in the year ended 31 March 2008 are set out on pages 6 and 7 with a brief description of their careers, each of which indicates their qualifications for Board membership. All Directors served throughout the year. The Chairman was first appointed to the Board more than nine years ago and in line with the AIC Code retires and offers himself for re-election at the forthcoming Annual General Meeting. Pursuant to the Company's Articles of Association, Sir Nigel Wicks and Mr Barfield retire by rotation and offer themselves for re-election at the Annual General Meeting.

The names of the Directors and their holdings in the Company's shares are shown below.

No contract or arrangement existed during the year in which any of the Directors had a material interest. No Director had a service contract with the Company. There have been no related party transactions requiring disclosure under Financial Reporting Standard ("FRS") 8.

Information on the appointment, re-election and replacement of Directors is included on pages 21 to 23 of the Corporate Governance Statement. Any amendments to the Company's Articles of Association must be made by special resolution.

## DIRECTORS AND OFFICERS' LIABILITY INSURANCE

In addition to the benefits enjoyed under the Manager's global Directors and Officers' insurance arrangements, the Company maintained insurance cover for its Directors and Officers under its own policy as permitted by the Companies Act 2006 (previously section 309A of the Companies Act 1985 (as amended)).

## CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement on pages 21 to 25.

## PAYMENTS POLICY

The Company's principal supplier is the Manager who is paid monthly in accordance with the terms of the Management Agreement, details of which may be found on page 25 of the Corporate Governance Statement. The Company's payments policy for the year to 31 March 2009 (2008 same) is to ensure settlement of suppliers' invoices in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to business taking place.

	Ordinary shares held at 31 March 2008	Ordinary shares held at 31 March 2007	Nature of interest	Change during the year
Richard Barfield	13,984	13,984	Beneficial	n/a
Scott Dobbie <sup>1</sup>	128,266	124,675	Beneficial	Increase in holding of 3,591 shares due to dividend reinvestment
	422,416	422,416	Non beneficial	n/a
Jim Pettigrew	20,000		Beneficial	Purchase of 20,000 shares
Nicola Ralston	15,000	15,000	Beneficial	n/a
William Samuel	23,170	23,170	Beneficial	n/a
Sir Nigel Wicks	3,500	3,500	Beneficial	n/a

Directors and their holdings in the Company

<sup>1</sup> Non beneficial interest largely arising as a result of Mr Dobbie's membership of the Board of Trustees of the Cambridge Endowment for Research in Finance. Since the year end Mr Dobbie's beneficial holding has increased by 955 shares following a reinvestment of dividend.

# Directors' Report

Holder	No of ordinary shares	%	
AXA Group	13,871,256	7.07	Direct and indirect holding for clients
Standard Life Investments	10,100,131	5.15	Direct holding on own account and indirect holding for clients
Rensburg Sheppards	10,070,444	5.13	Indirect holding for clients
Lloyds TSB Group plc	9,587,200	4.89	Includes a maternal interest of 9,184,799 (4.68%) held by Scottish Widows Investment Partnership Limited the balance being shares held by nominee company subsidiaries of Lloyds TSB Group plc
Tattersall Advisory Group	8,943,568	4.56	Indirect holding for clients
Prudential plc	8,351,839	4.26	Direct holding on own account for group
Legal & General Group plc	8,309,075	4.24	Direct holding for clients

## Substantial share interests

### SUBSTANTIAL SHARE INTERESTS

At 29 May 2008 the Company had been advised of the interests (held directly and indirectly) in 3% or more of the voting rights of the Company as shown in the table above

### AUDITORS

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

Resolutions will be proposed at the Annual General Meeting for the re appointment of KPMG Audit Plc as Auditors of the Company and to authorise the Directors to determine their remuneration

### ANNUAL GENERAL MEETING

Notice of the Annual General Meeting of the Company to be held on 21 July 2008 is set out on page 50. It includes two items of special business as set out in the Notice and in the Appendix to this report on pages 52 and 53. The resolutions relating to these items will be proposed as special resolutions

### Special Business

#### Authority to purchase shares

Resolution 9 will be proposed to renew the Company's authority to make market purchases of its own shares. The maximum number of ordinary shares which may be

purchased pursuant to the authority shall be 14.99% of the issued share capital of the Company as at the date of the passing of the resolution. The minimum price which may be paid for an ordinary share shall be 25p. The maximum price for an ordinary share (exclusive of expenses) shall be an amount equal to 105% of the average of the middle market quotations for the Company's ordinary shares for the five business days immediately preceding the date of purchase. This authority, if conferred, will be exercised only if to do so would enhance the net asset value per share and is in the best interests of shareholders generally.

### Amendments to the Company's Articles of Association

Resolution 10 will be proposed to ensure that the Company's Articles of Association are compliant with the requirements of the Companies Act 2006 and other recent regulatory updates and to allow the use of e communications if needed in the future. Further details may be found in the Appendix to this report on pages 52 and 53.

The Directors recommend that shareholders vote in favour of these resolutions. The full text of each resolution is set out in the Notice of Meeting contained on page 50.

*Rebecca Burtonwood*

**Fidelity Investments International**

Secretary  
29 May 2008

## INTRODUCTION

The Board has required the Manager to prepare this Business Review in accordance with the requirements of Section 234ZZB of the Companies Act 1985 and it forms part of the Directors' Report. Its function is to provide a balanced and comprehensive review of the Company's performance and development during the year and its position at the year end. The review also covers the principal risks and uncertainties faced by the Company and sets out key performance indicators used to measure, monitor and manage the Company's business. The law requires the Company's Auditors to report on whether the information given in the Directors' Report and Business Review is consistent with the financial statements. The Auditors' opinion is included in their report on page 29.

## MARKET BACKGROUND

The UK stockmarket declined over the review period, mainly due to the fallout of the turmoil in the sub prime mortgage market and the resultant credit crunch. Additionally, there were increasing fears about an economic slowdown, especially over the latter half of the review period, as the housing market and consumer related sectors witnessed further signs of deceleration. Nevertheless, takeover activity and strong commodity prices provided some support. At the end of the review period to 31 March 2008 the FTSE All Share Index returned 7.7% (on a total return basis).

At the sector level, investors stayed away from financial stocks amid a severe liquidity squeeze in the banking system, which led to the nationalisation of Northern Rock. Despite measures by the government to ease the credit market conditions, banking stocks fell on concerns of further write downs and the consequent stress on their capital structures. Consumer firms such as Marks & Spencer and Next also suffered from the weakening in personal spending. The cuts in the Bank of England base rate were not passed on by the banks, leading to relatively higher borrowing costs. This also had an impact on property stocks, as generally tighter lending conditions led to lower demand for homes.

On a positive note, energy shares benefited from rising oil prices amid projections for increased demand for oil. Metal prices also remained high on continued Asian demand and takeover activity further supported mining shares. Corporate mergers and acquisitions continued, with Rio Tinto buying the US company Alcan and BHP Billiton making an offer for Rio Tinto.

However, funding for deals largely dried up by the first quarter of 2008 and a potential bid for Xstrata did not materialise. Overall, in view of the higher market volatility, investors preferred defensive stocks and this was reflected in the outperformance of large companies over their small and mid sized counterparts.

In 2007, UK GDP grew at a rate of 3.0% compared to 2.9% in 2006. However, in light of the credit market crisis economic growth projections weakened and prompted the Bank of England to cut interest rates twice during the period to the current level of 5.25%. These decisions reversed two previous rate increases, when policy makers were more concerned by the level of inflation, which stood at an above target level of 2.5% in March.

The outlook for stock prices remains uncertain in view of the weak projections for global GDP growth, particularly in the US. Takeover activity continues to be supportive while the recent downturn in markets has opened up selective buying opportunities. The FTSE All Share Index is currently trading at a twelve month forward price to earnings ratio, which is below its historical average. However, stock valuations will depend on earnings growth remaining resilient.

## PORTFOLIO REVIEW

For the twelve months to the end of March 2008, on a total return basis, the net asset value per share declined by 11.7%, the return on the FTSE All Share Index being a 7.7% negative. Over a three year period the Company's net asset value has underperformed the Index, rising by 26.7% against a benchmark return of 31.3% (on a total return basis). However, over the last three years as a whole the Company has achieved a total return of dividends received and share price growth of 38.8% – greater than any other of its AIC UK Growth and Income peer group. While stocks with higher dividend yield have generally performed well over many decades, the last few years have witnessed a period where stocks with lower yields, such as in the mining sector, have done well. Conversely, stocks such as banks and telecoms, which generate good dividends, have underperformed the benchmark. In meeting our objective to provide growth in the dividends the Company pays, we have had to forego some of the capital appreciation seen in the market. We believe that this approach will achieve the best results in the long term.

## Business Review

The portfolio was managed during the year using a multi manager approach, with the Company's assets split between two Fidelity portfolio managers. The two portfolio managers were selected because of their complementary investment styles. Fidelity is a stock picking investment house and each portfolio manager constructs his portfolio using a bottom up approach, where attractive companies are identified first and the portfolio is constructed to reflect these choices.

As at 31 March 2008, the Company's key overweight sector positions resulting from stock selection were in support services, tobacco and oil & gas producers. The Company's key underweight positions were in mining, beverages and food producers.

	At 31 March 2008	
	Portfolio %	Index %
FTSE 100	77.2	83.9
FTSE 250	19.7	13.2
FTSE Small Cap	2.5	2.9
Other	0.6	0.0
	100.0	100.0

Size analysis of the UK equity portfolio index is the FTSE All Share Index

The underweight position in the mining sector was the most significant detractor from portfolio returns, as takeover talks buoyed stocks such as Rio Tinto and Xstrata, while higher metal prices provided further support. Meanwhile, our full weighting in the banking sector proved detrimental, due to concerns about substantial write-downs on their investments and slower lending growth.

The overweight position in building materials supplier Wolseley also proved detrimental, as the outlook for earnings suffered due to a weak US dollar and the downturn in the US housing market.

Among media stocks, the holding in Yell Group, a publisher of directories, also detracted from performance, there are concerns that reduced advertising revenues could inhibit its future cash flows.

On a positive note, the overweight position in mobile telecommunications leader, Vodafone, contributed to portfolio returns. The company's cost cutting initiatives and market share gains in high growth emerging economies have offset revenue erosion in Europe.

Investors also welcomed its decision to keep the stake in its US joint venture, Verizon Wireless, considered to be an attractive asset.

The tobacco sector was again a major contributor to returns, as its defensive qualities were rewarded in an uncertain market environment. Within the sector, Imperial Tobacco announced robust growth in profits for the fiscal year 2007, underpinned by an improving market share. Aerospace & defence companies also provided good returns, with BAE Systems benefiting from strong earnings growth in the first half of 2007.

### PURCHASES

The holdings in Royal Dutch Shell were increased as the company has good long term oil reserves and is benefiting from the continued strength in the oil price. The portfolio managers also added to BAE Systems, as the company continues to win major long term government contracts in the aerospace sector. Other key purchases included Anglo American, the mining company, and AstraZeneca, in the pharmaceutical sector.

### SALES

Holdings in Vodafone were trimmed after a period of strong share price performance, although it remains a core holding. Similarly, the portfolio managers sold shares in BT, as the company faces a competitive environment that will require higher capital spending. Other holdings that were decreased included National Grid, BHP Billiton, HSBC and Royal Bank of Scotland.

### PORTFOLIO AS AT 31 MARCH 2008

The full portfolio as at 31 March 2008 is detailed on pages 48 and 49 and the distribution of assets as at 31 March 2008 may be found on pages 17 and 18.

### GROWTH/INCOME SPLIT

The investment management fee and relevant finance costs are allocated between revenue and capital in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively. Since April 2000, the Company has allocated 70% of management fee and debenture interest to capital and 30% to revenue costs. The Board keeps this policy under annual review and, having examined consensus forecasts of capital return and dividend payments, sees no need to change the existing policy at this time.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Board is ultimately responsible for control systems risk but the day to day operation and monitoring is delegated to the Manager.

## Market risk

The uncertainty over future equity market price movements is an inherent part of the rationale for the Company's existence. The Company's objectives and the means of attaining them are reviewed annually. The Company's portfolio consists of a mix of assets and securities that may display high levels of volatility from time to time in response to economic and other market forces. The Board receives the Manager's performance report against this background on a monthly basis and reviews it at each Board meeting.

## Performance risk

The Board sets risk parameters and performance objectives and it delegates the investment management process to the Manager. The achievement of the Company's performance objectives relative to the market requires active management of the portfolio of assets and securities. Strategy, asset allocation and stock selection decisions by the Manager might lead to underperformance of the benchmark Index and income targets.

Investment selection is delegated to the Manager. The Manager manages the portfolio and the Board sets overall risk parameters, without specifying asset allocation, monitoring performance in that context.

Performance information is provided to the Board on a monthly basis as part of the Board papers. Specific information provided includes benchmark and performance objectives, performance attribution, rolling three year performance, contributors and detractors, major overweights and underweights, largest holdings, size and sector analysis, active money and active holdings. The Manager is responsible for actively monitoring the portfolio selected in accordance with the asset allocation parameters and seeks to ensure that individual stocks meet an acceptable risk reward profile. A review of performance risk and how it relates to the Company's objectives is undertaken annually.

## Gearing risk

The Company has the ability to invest up to £200 million of Debenture Stocks in the equity market. The principal gearing risk is that the level of gearing may have an adverse impact on performance. Secondary risks relate to whether the cost of gearing is too high and whether the length of gearing is appropriate.

Information related to gearing is provided to the Board on a monthly basis as part of the Board papers. In order to manage the level of gearing the Board regularly

considers this item and sets gearing parameters or limits from time to time. The Manager follows these and can invest part of the debenture funds in Fidelity Institutional Cash Fund plc ("ICF") and short term cash deposits to control the level of net gearing. Additionally, the Board regularly reviews the cost of buying back debt against the outlook for equity markets.

## Income/dividend risk

The Company is subject to the risk that income generation from its investments fails to meet the level of income required to meet its objectives.

The Board monitors this risk through the receipt of detailed monthly income forecasts and comparison of receipts against forecast. These are contained within the Board papers. The Board considers the level of income at each meeting.

## Share price risk

There is a risk that the Company's prospects and NAV may not be fully reflected in the share price from time to time.

The share price is monitored on a daily basis. The Board is empowered to repurchase shares within agreed parameters. The discount at which the shares trade to NAV can be influenced by share repurchases. The Company has in the last year repurchased shares within parameters set by the Board and subject to shareholder authority.

## Control systems risk

In addition to delegating internal controls, the Board also delegates a number of specific activities to the Manager including

- Custody and security of the Company's assets
- Financial controls
- Best practice standards in fund management operations
- Meeting regulatory requirements

Consequently in respect of these activities the Company is dependent on the Manager's control systems and those of its Custodian and Registrars, both of which are monitored and managed by the Manager in the context of safeguarding the Company's assets and interests. There is a risk that the Manager fails to ensure that these controls are performed in a satisfactory manner.

# Business Review

A risk based programme of internal audits is carried out by the Manager regularly to test the controls environment. An internal controls report providing an assessment of these risks is prepared by the Manager and considered by the Audit Committee, and is formally reported to and considered by the Board.

## Other risks

The Company may be exposed to other business and strategic risks in the future, including fiscal, legal or regulatory changes.

The Board also periodically reviews the investment of the Company's cash positions in the ICF, to ensure liquidity and concentration risks are adequately managed and that the ICF is assessed for suitability against other similar investment options.

There is an ongoing process for the Board to consider these other risks. In addition, the composition of the Board is regularly reviewed to ensure the membership offers sufficient knowledge and experience to assess and anticipate these risks, as far as possible.

## KEY PERFORMANCE INDICATORS

The key performance indicators ("KPIs") used to determine the progress and performance of the Company over time and which are comparable to those reported by other investment trusts are set out below.

Year to 31 March	2008	2007
Net asset value (debt at par) <sup>1</sup>	11.7%	+12.0%
Net asset value (debt at market) <sup>1</sup>	12.3%	+13.8%
Share price <sup>2</sup>	12.6%	+17.4%
FTSE All Share Index <sup>3</sup>	7.7%	+11.1%
Discount to NAV (debt at par) <sup>1</sup>	15.1%	13.7%
Discount to NAV (debt at market) <sup>1</sup>	10.1%	9.4%
Revenue return per share	21.41p	18.13p
Actual gearing ratio	12.9%	14.3%
Total expense ratio	0.40%	0.42%

All figures are calculated on a total return basis.

Past performance is not a guide to future returns.

1 Calculated in accordance with AIC guidelines.

2 Calculated on a mid to mid basis.

3 Source: Datastream.

Notwithstanding that some KPIs are beyond its control they are measures of the Company's absolute and relative performance and the Board monitors them

at each meeting. Indices and ratios as referred to in the KPI table which assist in managing performance and compliance are regularly reviewed. Expenses are reviewed at each Board meeting enabling the Board, amongst other things, to review costs and consider any expenditure outside that of its normal operations. Apart from the KPIs set out above the Board also regularly reviews the performance of the Company against its peer group of eleven investment trusts with investment objectives, policies and benchmarks similar to the Company's.

The principal risks and uncertainties section above includes descriptions of performance indicators and their monitoring and management which are key to the business of the Company. Long term performance is also monitored and the Long Term Record charts on pages 19 and 20 show this information.

## Attribution Analysis

The attribution analysis below enables the contributions from various sources of income and cost to be determined.

Year to 31 March 2008	
	%
Change in NAV	11.7
Change in FTSE All Share Index	7.7
<b>Relative Return</b>	<b>4.0</b>
Year to 31 March 2008	
Contribution to Relative Return	
UK Equities	2.7
Debtenture Borrowings	
– Net gearing	1.0
– Debtenture interest	0.5
Share Buybacks	+0.9
Futures & options	0.3
Charges	0.4
<b>Total</b>	<b>4.0</b>

All figures are calculated on a total return basis.

Sources: Fidelity and Datastream.

Past performance is not a guide to future returns.

Investments were valued at £1,064,645,000 as at 31 March 2008. Shareholders' funds amounted to £945,038,000 resulting in a net asset value per share of 474.74p. Changes to investments are shown in Note 9 to the financial statements on pages 38 and 39.



### SOCIALLY RESPONSIBLE INVESTMENT

The Manager's primary objective is to produce superior financial returns to investors. It believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. Consequently, its investment process takes social, environmental and ethical issues into account when, in its view, these have a material impact on either investment risk or return.

The Manager recognises and supports the view that social, environmental and ethical best practice should be encouraged as long as the potential for financial return is not reduced. It favours companies committed to high standards of CSR and to the principles of sustainable development.

The Manager does not set out to manage an "ethical investment portfolio" and does not screen out companies from its investment universe purely on the grounds of poor social, environmental or subjective ethical performance. Instead it adopts a positive engagement approach whereby it discusses social, environmental and ethical matters with the management with the aim of improving procedures and attitudes. The Manager believes that this is the most effective way to improve the attitude of business towards CSR and the Board endorses this approach.

## Thirty Largest Investments at 31 March 2008

Company	Market Value £'000	Sector
BP	76,630	Oil & Gas Producers
Royal Dutch Shell 'B'	62,445	Oil & Gas Producers
Vodafone	53,055	Mobile Telecommunications
HSBC	50,123	Banks
Royal Bank of Scotland	39,926	Banks
Imperial Tobacco	32,373	Tobacco
British American Tobacco	32,338	Tobacco
AstraZeneca	30,243	Pharmaceuticals & Biotechnology
National Grid Transco	29,162	Gas, Water & Multi utilities
Legal & General	27,425	Life Assurance
Ten largest investments	433,720	38.0% (2007 43.2%) of total assets less current liabilities
BG Group	24,591	Oil & Gas Producers
Tesco	24,533	Food & Drug Retailers
Anglo American	22,965	Mining
GlaxoSmithKline	22,197	Pharmaceuticals & Biotechnology
Royal Dutch Shell 'A'	21,114	Oil & Gas Producers
Aviva	19,048	Life Assurance
BHP Billiton	18,402	Mining
BAE Systems	15,948	Aerospace & Defence
Man Group	15,741	General Financial
Scottish & Southern Energy	15,622	Electricity
Twenty largest investments	633,881	55.5% (2007 61.3%) of total assets less current liabilities
HBOS	15,554	Banks
Reed Elsevier	14,926	Media
GKN	14,687	Automobiles & Parts
Smiths Group	13,899	General Industrials
Standard Chartered	13,866	Banks
Prudential	12,328	Life Assurance
Capita Group	10,522	Support Services
BT	10,512	Fixed Line Telecommunications
Hays	10,301	Support Services
Wolseley	10,118	Support Services
Thirty largest investments	760,594	66.6% (2007 71.8%) of total assets less current liabilities
Other equity investments represented by 69 holdings	304,051	
Total investments	1,064,645	93.3% (2007 98.1%) of total assets less current liabilities
Net current assets	76,749	
Total assets less current liabilities	1,141,394	100.0%

A full list of investments by sector is given on pages 48 and 49

## Distribution of Assets at 31 March 2008

		Distribution of Assets		FTSE All Share
		2008	2007	Index Weightings
		%	%	%
Oil & Gas	Oil & Gas Producers	16.5	14.0	16.2
	Oil Equipment, Services & Distribution	–	–	0.5
		<b>16.5</b>	<b>14.0</b>	<b>16.7</b>
Basic Materials	Chemicals	0.6	0.4	0.4
	Forestry & Paper	0.1	–	0.1
	Industrial Metals & Mining	–	–	0.1
	Mining	3.9	2.1	10.9
		<b>4.6</b>	<b>2.5</b>	<b>11.5</b>
Industrials	Construction & Materials	–	–	0.4
	Aerospace & Defence	3.3	5.1	2.0
	General Industrials	1.9	1.3	0.6
	Electronic & Electrical Equipment	0.6	1.1	0.4
	Industrial Engineering	1.4	0.8	0.6
	Industrial Transportation	–	–	0.2
	Support Services	6.9	6.8	3.0
		<b>14.1</b>	<b>15.1</b>	<b>7.2</b>
Consumer Goods	Automobiles & Parts	1.3	0.8	0.1
	Beverages	–	0.5	2.9
	Food Producers	0.5	0.6	2.7
	Household Goods	0.6	1.0	1.9
	Personal Goods	–	–	0.2
	Tobacco	5.7	5.1	2.6
		<b>8.1</b>	<b>8.0</b>	<b>10.4</b>
Health Care	Health Care Equipment & Services	0.2	0.4	0.5
	Pharmaceuticals & Biotechnology	5.3	4.1	5.9
		<b>5.5</b>	<b>4.5</b>	<b>6.4</b>
Consumer Services	Food & Drug Retailers	2.6	2.1	2.7
	General Retailers	2.2	2.6	1.7
	Media	5.0	5.1	2.9
	Travel & Leisure	1.7	2.8	2.6
		<b>11.5</b>	<b>12.6</b>	<b>9.9</b>
Telecommunications	Fixed Line Telecommunications	1.0	1.8	1.4
	Mobile Telecommunications	4.7	6.0	5.1
		<b>5.7</b>	<b>7.8</b>	<b>6.5</b>
Utilities	Electricity	1.8	0.8	1.7
	Gas, Water & Multi utilities	3.3	6.6	2.6
		<b>5.1</b>	<b>7.4</b>	<b>4.3</b>
Financials	Banks	11.3	16.4	14.6
	Non life Insurance	0.6	0.9	0.8
	Life Assurance	5.2	4.0	3.7
	Real Estate	0.6	0.1	2.1
	General Financial	3.4	4.3	2.2
	Equity Investment Instruments	–	–	2.8
		<b>21.1</b>	<b>25.7</b>	<b>26.2</b>
Technology	Software & Computer Services	0.8	0.5	0.7
	Technology Hardware & Equipment	0.3	–	0.2
		<b>1.1</b>	<b>0.5</b>	<b>0.9</b>
Total investments		93.3	98.1	100.0
Net current assets		6.7	1.9	–
<b>Total assets less current liabilities</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Distribution of Assets

---

Investments by sector as a % of total assets less current liabilities

## Analysis of Shareholders

---

Percentage of ordinary shares held by shareholders at 31 March 2008

## Long Term Record

Year ended 31 March	Total assets less current liabilities £m	Ordinary shareholders' funds £m	Per ordinary share at 31 March				Discount %	% expenses of average shareholders funds	Actual gearing ratio %	Potential gearing ratio %
			Net asset value p	Revenue return p	Dividend p	Share price p				
1998	1,846.8	1,651.3	559.9	14.48	11.40	500.5	10.6	0.4	6.4	12.1
1999	1,838.4	1,642.6	557.0	11.71	11.85 <sup>1</sup>	464.5	16.6	0.4	11.9	12.3
2000	1,831.3	1,636.9	618.3	9.15	12.15	534.5	13.6	0.5	12.2	12.3
2001	1,576.9	1,373.3	514.0	12.07	12.45	475.5	12.1	0.5	11.9	14.6
2002	1,396.4	1,201.6	484.7	12.50	12.75	422.5	12.8	0.5	11.1	16.7
2003	876.4	681.3	278.6	11.05	13.15	231.0	17.1	0.5	19.0	29.4
2004	1,079.0	883.6	362.0	12.26	13.15	300.5	17.0	0.4	13.4	22.6
2005 <sup>2</sup>	1,198.7	1,003.1	417.1	12.36	13.15	329.8	20.9	0.4	10.3	19.9
2006	1,410.5	1,214.6	517.4	15.28	15.25	429.5	17.0	0.4	11.4	16.5
2007	1,401.3	1,205.2	557.5	18.13	18.85	481.0	13.7	0.4	14.3	16.6
2008	1,141.4	945.0	474.7	21.41	19.90	403.3	15.1	0.4	12.9	21.2

Notes: 1. Of the 11.85p dividend for 1999, 3.80p was paid as a foreign income dividend.

2 2005 numbers have been restated following the changes in the amount of equity shareholders' funds arising from changes to UK GAAP

Shares have been bought back and cancelled as follows

Year to 31 March	Number of shares bought back	Cost £'000
2000	29,978,827	151,762
2001	10,978,930	56,102
2002	6,040,000	28,125
2003	4,025,000	11,935
2004	nil	n/a
2005	3,350,000	9,703
2006	5,500,000	21,758
2007	18,449,966	80,571
2008	17,202,000	83,492

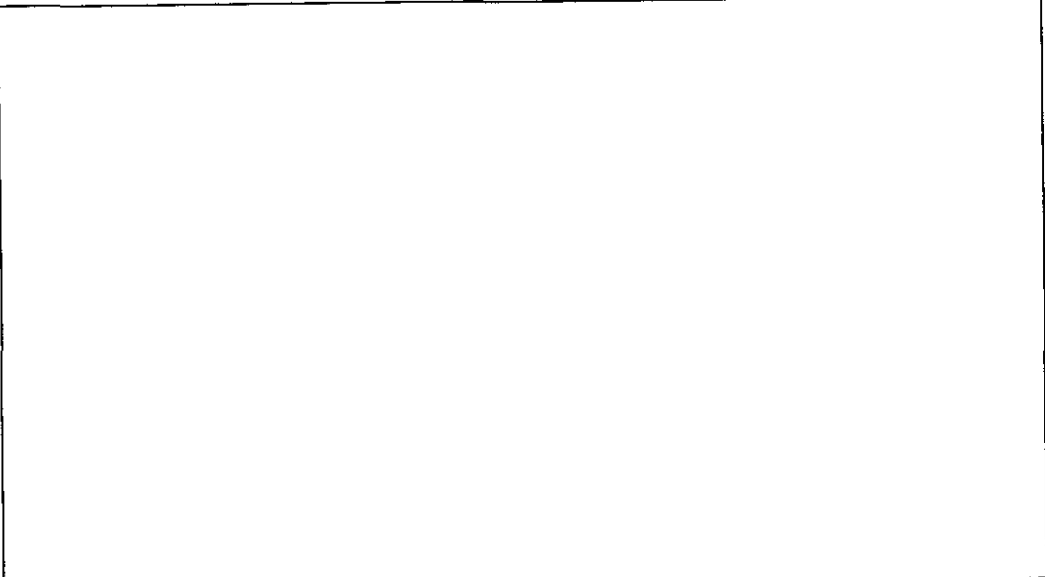
Comparison of Net Dividend Growth of The Edinburgh Investment Trust plc to Underlying Inflation (figures rebased to 100)

Sources AiC and Datastream

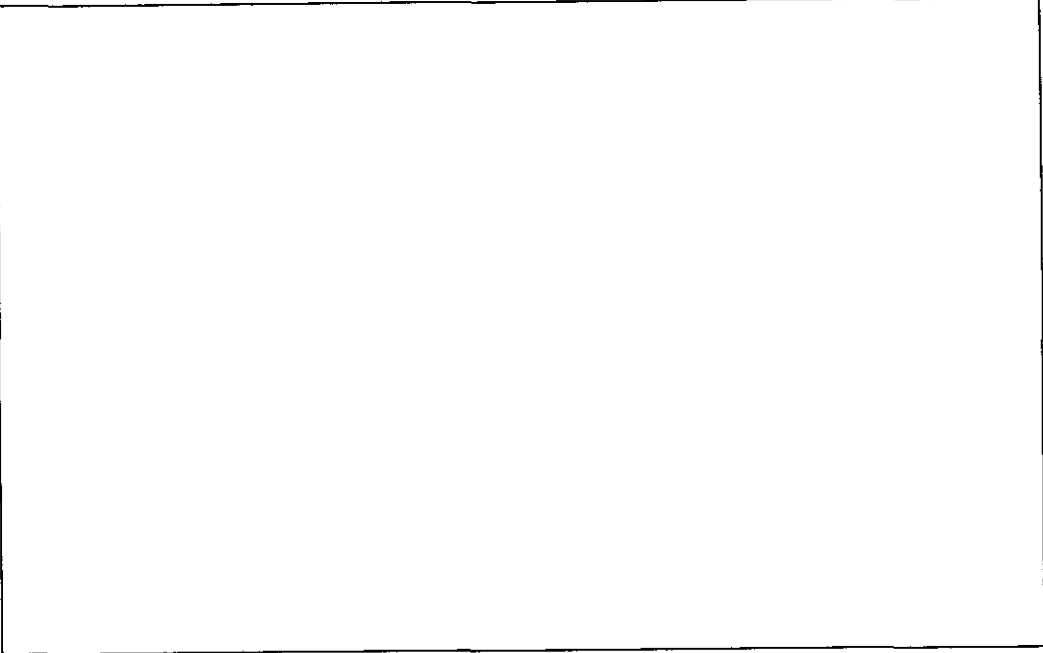
Past performance is not a guide to future returns

## Long Term Record

---

Comparison of NAV and Share Price Total Return Performance of The Edinburgh Investment Trust plc relative to the FTSE All Share Index (figures rebased to 100)


Sources: AIC and Datastream

Share Price discount to NAV of The Edinburgh Investment Trust plc


Sources: AIC and Datastream

Past performance is not a guide to future returns

# Corporate Governance Statement

---

The Company is committed to high standards of corporate governance. The Board has accordingly put in place a framework for corporate governance, which it believes is appropriate for an investment trust company.

## AIC CODE

The Board has considered the principles and recommendations of the Association of Investment Companies' AIC Code of Corporate Governance ("the AIC Code") by reference to the AIC Corporate Governance Guide ("the AIC Guide"). The AIC Code, as explained in the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The Board is accountable to the Company's shareholders for good governance and considers that the Company has complied with the recommendations of the AIC Code and therefore has met its obligations in relation to the Combined Code and associated *disclosure requirements of the Listing Rules* except as set out below.

While the Investment Management Agreement splits out the duties of the Board and the Manager, the Company does not operate with the Manager in the role of Chief Executive Officer. A senior Fidelity manager has, however, been appointed to co-ordinate Fidelity's executive responsibilities and there are, as a matter of course, regular high level discussions between the Board and senior employees representing different functions within Fidelity.

## DIRECTORS

The Board has overall responsibility for the Company's affairs. It delegates, through an investment management agreement and through specific instructions, the day to day management of the Company to the Manager, Fidelity Investments International. The Company has no executives or employees. There is a formal schedule of matters reserved for the Board which includes, among other things, decisions on gearing, Board appointments, appointment of the Company Secretary, strategy, Company structure and risk management strategy.

The Board presently consists of six non-executive Directors, one of whom is Chairman. Scott Dobbie was appointed as a Director on 20 April 1998 and Chairman in July 2003. He has therefore served for more than nine years and is subject to annual re-election. As detailed in the AIC Guide, whilst the

boards of investment companies are likely to benefit from a regular infusion of "new blood", they are perhaps more likely than most to benefit from having at least one director with considerably longer than nine years' experience. When considering the Chairman's independence it should be noted that the Company changed its Manager in 2002.

All of the Directors are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The independent Directors form the membership of the Audit Committee, the Nomination Committee and the Management Engagement Committee. The requirement in the Company's Articles of Association for Directors to retire at the AGM after their 70th birthday is being amended to conform with changes to the law. The Board does not limit the time a Director may serve.

Biographies of the Directors who served in the year to 31 March 2008 appear on pages 6 and 7 of this report. The Directors believe that the Board has a balance of skills, experience, ages and length of service which enables it to provide effective strategic leadership and proper governance of the Company. The Senior Independent Director is Richard Barfield.

The Board usually meets at least nine times each year. There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, objectives, review of investment policy, investment performance, marketing achievements, promotional material, budgets, dividend policy, gearing, asset allocation, peer group information, industry issues, share price performance, share buybacks, share price discount, the shareholder profile of the Company and communication with shareholders. Additionally, Board Committees and sub-groups meet to pursue matters referred from the Board as a whole and the Chairman meets the other Directors regularly without representatives of the Manager being present. The Board considers that it meets sufficiently regularly to discharge its duties effectively and the table on page 22 gives the attendance record for the formal Board and Committee meetings held in the year.

The Company Secretary is a corporate secretary. The appointment of the Company Secretary is a matter for the Board as a whole. The Directors have access to the advice and services of the Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Each of the Directors of the Company is entitled to take independent professional advice, at the Company's expense, in the furtherance of their duties.

# Corporate Governance Statement

## Changes to the Board

All appointments to the Board and replacements of Directors take place in accordance with the Companies Act and the Company's Articles of Association

The Nomination Committee consists of all the Directors and is chaired by Scott Dobbie. The Committee meets on an annual basis and at such other times as may be required. The Committee has written terms of reference and is responsible, among other things, for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies taking into account the need to maintain a balanced Board. Care is taken to ensure that appointees have enough time to devote to the job. External consultants are also used to identify potential candidates. The Committee also considers whether Directors should be recommended for re-election by shareholders.

The Nomination Committee's written terms of reference are available on the Company's website at [www.itseit.co.uk](http://www.itseit.co.uk)

Letters of appointment, which specify the terms of appointment, are issued to new Directors on appointment and include details of the time commitment required and expected duration of appointment. The terms and conditions of appointment of Directors are available for inspection at the registered office of the Company and will be available prior to the forthcoming Annual General Meeting.

A Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting and also that every Director submit himself or herself for re-election at least every three years. Subject to these requirements for re-election, Directors' continued service is at the discretion of the Board.

Due to his length of tenure, Scott Dobbie retires and being eligible offers himself for re-election at the Annual General Meeting. The Board has endorsed his candidature and commends his re-election to shareholders as he has maintained his independence, effectiveness as a Director and as Chairman, and continues to demonstrate his commitment to the Company. In accordance with the Company's Articles of Association, Sir Nigel Wicks and Richard Barfield retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting. The Board endorses their candidature and commends their re-election to shareholders.

## Training

When a new Director is appointed to the Board, he or she is provided with all relevant information regarding the Company and his or her duties and responsibilities as a Director. In addition, a new Director will also spend some time with representatives of the Manager whereby he or she will become familiar with the various processes which the Manager considers necessary for the performance of its duties and responsibilities to the Company. The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company, a number of such courses were attended in the year under review. Thus training is tailored to the needs of individual Directors and, in addition, the Company organises an annual offsite meeting at which the Directors consider a variety of topics which are relevant to the Company and assists the Directors in updating their skills and knowledge. The Directors also receive regular briefings from, among others, the AIC, the Auditors and the Company Secretary regarding any proposed developments or changes in law or regulations that could affect the Company and/or the Directors.

	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Management Engagement Committee Meetings
Richard Barfield	9/9	3/3	1/1	1/1
Scott Dobbie <sup>1</sup>	9/9	3/3	1/1	1/1
Jim Pettigrew	8/9	3/3	1/1	1/1
Nicola Ralston	9/9	3/3	1/1	1/1
William Samuel	9/9	3/3	1/1	1/1
Sir Nigel Wicks	9/9	3/3	1/1	1/1

## Attendance at meetings

<sup>1</sup> The Chairman is not a member of the Audit Committee but was in attendance at the Audit Committee meetings



# Corporate Governance Statement

---

## Directors' remuneration

The level of Directors' fees is determined by the whole Board, although Directors do not vote on their own fees, and therefore a separate Remuneration Committee has not been appointed. Directors' fees are disclosed fully in the annual report (see the Directors' Remuneration Report on pages 27 and 28). Levels of fees are considered to be competitive and sufficient to attract and retain the standard of Directors needed to manage the Company successfully. The limit on aggregate fees is governed by the Company's Articles of Association.

Shareholdings by Directors are encouraged and the Directors' share interests are disclosed in the Directors' Report on page 9.

## Evaluation

An evaluation of the Board, its Committees and of individual members was conducted during the last quarter of the financial year. This took the form of self and peer group assessment by questionnaire followed by discussions between the Chairman and the Directors. The Chairman's performance was assessed by a meeting, chaired by the Senior Independent Director, of all the other Directors. A formal evaluation is completed annually.

## Supply and agenda of information

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. The Board receives in due time information in a form and of a quality appropriate to enable it to discharge its duties. The Board meeting papers are the key source of regular information for the Board, the contents of which are determined by the Board and contain sufficient information on the financial condition of the Company. Key representatives of the Manager attend each Board meeting, enabling the Board to probe further on matters of concern or seek clarification on certain issues. The Board has delegated its corporate governance responsibilities to the Audit, Management Engagement and Nomination Committees, membership of which is set out on pages 6 and 7.

## COMMUNICATION WITH SHAREHOLDERS

The Directors place great importance on communication with the Company's shareholders. The Manager carries out a programme of regular dialogue and individual meetings with institutional shareholders. During the year the Chairman, the Senior Independent Director and other Directors also met representatives of those major shareholders who had accepted an invitation from the Chairman to meet. Written reports of all such meetings are circulated to all Directors. This ensures that all Directors have an understanding of the views of major shareholders.

At the Annual General Meeting all shareholders have the opportunity to put questions to the Board and a presentation from the Manager covers the investment performance and strategy during the financial year and the outlook for the year ahead. The Board hopes that as many shareholders as possible will be able to attend the meeting.

All proxy votes are counted and, except where a poll is called, the details of the level of proxies lodged for each resolution, the balance for and against the resolution and the number of votes withheld will be available after it has been dealt with on a show of hands.

The notice of meeting on page 50 sets out the business of the Annual General Meeting. A separate resolution is proposed on each substantially separate issue including the annual report and financial statements.

The notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting.

The Chairman of the Board, the Nomination Committee and the Management Engagement Committee, Scott Dobbie, and the Chairman of the Audit Committee, Jim Pettigrew, will be available to answer questions at the Annual General Meeting.

The Chairman and the Senior Independent Director may be contacted either through the Company Secretary or care of the Company's registered office at Quartermile One, 15 Lauriston Place, Edinburgh EH3 9EP.

The Company does not have continuation votes.

## ACCOUNTABILITY AND AUDIT

An Audit Committee has been established which is chaired by Jim Pettigrew, consisting of all the Directors with the exception of Scott Dobbie. The qualifications of the members of the Audit Committee are included in their biographies on pages 6 and 7. The Board has taken note of the suggestion that at least one member of the Audit Committee should have recent and relevant financial experience and is satisfied that the Audit Committee is properly constituted in this respect.

The Committee meets at least three times a year and its authority and duties are clearly defined in its written terms of reference which are available on the Company's website [www.itseit.co.uk](http://www.itseit.co.uk). These duties include discussing with the external Auditors the nature and scope of the audit and reviewing the external Auditors' quality control procedures, considering the scope of work undertaken by the Manager's internal audit department, reviewing the Company's procedures for detecting fraud, monitoring the integrity of the financial statements of the

# Corporate Governance Statement

---

Company, reviewing the half yearly and annual financial statements of the Company prior to their submission to the Board, and reviewing the effectiveness of the internal control systems (including financial, operational and compliance controls and risk management) They also include responsibility for reviewing and monitoring the effectiveness of the audit process and the external Auditors' independence and objectivity with particular regard to the provision of non audit services The provision of non audit services is also subject to prior Board approval The Audit Committee of the Board meets the external Auditors in the absence of representatives from the Manager at least once a year to review these and other appropriate matters Shareholders have the opportunity at each Annual General Meeting to vote on the re appointment of the external Auditors for the forthcoming year and to authorise the Directors to determine the level of Auditors' remuneration The Committee also reviews corporate governance issues, the existence and performance of all controls operating in the Company (including the adherence to Section 842 status), the relationship with and the performance of third party service providers (such as the registrars and custodians)

The respective responsibilities of the Directors and the external Auditors in connection with the financial statements appear on pages 26 and 29

In the year to 31 March 2008 the Audit Committee discharged its responsibilities by, among other things

- Reviewing the Company's draft annual and half yearly financial statements prior to Board approval and reviewing the external Auditors' reports thereon
- Reviewing the appropriateness of the Company's accounting policies
- Reviewing the potential impact of any new Financial Reporting Standards
- Reviewing and approving the audit fee and reviewing any non audit fees payable to the Company's external Auditors
- Reviewing the external Auditors' terms of engagement
- Reviewing the external Auditors' plan for the audit of the Company's financial statements
- Reviewing the external Auditors' quality control procedures
- Reviewing and monitoring the effectiveness of the external audit process and the external Auditors' independence and objectivity
- Considering the scope of work undertaken by the Manager's internal audit department
- Reviewing a semi annual report on internal controls and reporting to the Board as described opposite
- Recommending the re appointment of the external Auditors

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can *only provide reasonable and not absolute assurance* against material misstatement or loss

The Board confirms that there is an ongoing process for identifying, evaluating and managing the Company's principal business and operational risks, that it has been in place for the year ended 31 March 2008 and up to the date of approval of the annual report and financial statements, that it is regularly reviewed by the Board and accords with the FRC's Internal Control Revised Guidance, and has been in place for the year ended 31 March 2008

The Manager is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the Company and to manage its affairs properly The system extends to operational and compliance controls and risk management Clear lines of accountability have been established between the Board and the Manager and regular reports on controls and compliance issues are provided to the Audit Committee In carrying out its review, the Audit Committee has had regard to the activities of the Manager, the Manager's compliance and risk functions and the external Auditors The Audit Committee's review also includes consideration of internal controls and similar reports issued by the Manager and other service providers

The Board has reviewed the need for an internal audit function The Board has decided that the systems and procedures employed by the Manager, including its internal audit function and the work carried out by the Company's external Auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained An internal audit function, specific to the Company, is therefore considered unnecessary The Audit Committee meets with the Manager's Head of Internal Audit on an annual basis without other representatives from the Manager being present The Chairman of the Audit Committee has direct access to the Manager's Head of Internal Audit and vice versa

## Whistle blowing procedure

Part of the Manager's role in ensuring the provision of a good service pursuant to the Management Agreement includes the ability for employees of Fidelity to raise concerns through a workplace concerns escalation policy (or "whistle blowing procedure") Fidelity is committed to providing the highest level of service to its customers and to applying the highest

# Corporate Governance Statement

---

standards of quality, honesty, integrity and probity. The aim of the policy is to encourage employees and others working for Fidelity to assist the Company in tackling fraud, corruption and other malpractice within the organisation and in setting standards of ethical conduct. This policy is noted accordingly.

## INVESTMENT MANAGEMENT AGREEMENT

An investment management agreement (the "Management Agreement") dated 19 July 2002 was made between the Company and Fidelity Investments International ("Fidelity"), under which Fidelity has agreed to provide investment management, administrative and secretarial services to the Company for a fee of an amount equal to 0.26 per cent per annum of the Value of Funds under Management (as defined in the Management Agreement, which excludes investments in other funds managed by the Manager) payable monthly and calculated as of the last day of the preceding calendar month to which it relates. The Management Agreement will continue unless and until terminated by either party giving to the other not less than three months' notice. The Management Agreement may also be terminated forthwith as a result of a material breach of the agreement or on the insolvency, liquidation (other than for the purpose of an amalgamation or reconstruction approved by the Board) of Fidelity. In addition, the Company may terminate the Management Agreement without compensation in the two months following a change of control of Fidelity.

## MANAGEMENT ENGAGEMENT COMMITTEE

The Management Engagement Committee which was established in January 2004 with written terms of reference meets at least once a year. The Committee's terms of reference are available at the Company's registered office and on the Company's website [www.itserit.co.uk](http://www.itserit.co.uk). The Committee consists of all the Directors and is chaired by Scott Dobbie. In conducting its annual review of the investment management and secretarial arrangements, the Committee considers, among other things, investment performance, marketing performance, the performance of the Company's Secretariat, the Finance and Control environment, Compliance and Audit and the terms of the Management Agreement.

Following the most recent review, the Board, upon the recommendation of the Committee, is of the opinion that the continued appointment of Fidelity Investments International as Investment Manager and Secretary, on the terms agreed in the Management Agreement, is in the interests of the shareholders as a whole and the Company.

## CORPORATE ACTIVISM AND RESPONSIBILITY AS AN INSTITUTIONAL SHAREHOLDER

The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. Unless there are any particularly controversial issues (which are then referred to the Board) it delegates the responsibility for corporate activism and shareholder voting to Fidelity. These activities are reviewed annually.

The Board has affirmed the Manager's Principles of Ownership in relation to the Company's investments. These principles include the pursuit of an active investment policy through portfolio management decisions, voting on resolutions at general meetings and maintaining a continuing dialogue with the management of investee companies. In its Principles of Ownership the Manager expressly declares that it supports the Statement of Principles drawn up by the Institutional Shareholders Committee setting out the responsibilities of institutional shareholders and agents.

The Manager instructs proxy voting on behalf of the Company in accordance with the Manager's existing guidelines and policies.

## GOING CONCERN

The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Scott Dobbie**

Chairman  
29 May 2008



## Statement of Directors' Responsibilities

---

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that its financial statements comply with the Companies

Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report including a Business Review, a Directors' Remuneration Report and a Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website [www.itreit.co.uk](http://www.itreit.co.uk). Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Directors' Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties it faces.

Approved by the Board on 29 May 2008 and signed on its behalf by

**Scott Dobbie**  
Chairman



## Capital Gains Tax Information

---

The market value of an ordinary share in the Company on 31 March 1982 was 58.49p. The price does not apply to shares held in Scottish United Investors plc at 31 March 1982 which were subsequently acquired by the Company.

# Directors' Remuneration Report

This report has been prepared by the Board of Directors in accordance with the requirements of Chapter 6 of the Companies Act 2006 in respect of the year ended 31 March 2008. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

## REMUNERATION POLICY

The whole Board, which is comprised solely of non executive Directors, acts as a remuneration committee as and when required to consider the level of the fees payable to Directors. The Board's policy is that the level of remuneration of non executive Directors should be fair and sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 31 March 2009 and subsequent years. The Company's Articles of Association limit the total fees payable to Directors to £250,000 per annum. Non executive Directors are not eligible for any performance related fees, bonuses, pension benefits, share options, long term incentive schemes or other benefits.

Since 1 April 2007 Directors' fees have been Chairman £44,000 per annum, Senior Independent Director £27,500 per annum, Chairman of the Audit Committee £27,000 per annum and the remaining Directors £24,200 per annum. No increases to Directors' fees are proposed to take effect for the financial year ending 31 March 2009.

## DIRECTORS' SERVICE CONTRACTS

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment. The letter of appointment provides that Directors should retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter Directors are obliged to retire by rotation, and offer themselves for re election by shareholders at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

All Directors are subject to retirement by rotation and their continued service is subject to the provisions of the Companies Act. Any Director may be removed at any time by the unanimous resolution of the other members of the Board. The Articles provide for retirement at least every three years.

## COMPANY PERFORMANCE

The graph below compares the Company's net asset value and share price performance (on a total return basis) over the last five financial years ending 31 March 2008 with the performance of the FTSE All Share Index over the same period. This Index has been chosen as it corresponds with the Company's stated objectives as shown on page 2.

Comparison of NAV and Share Price Total Return Performance of The Edinburgh Investment Trust plc to FTSE All Share Index

Sources: AIC and Datastream

Past performance is not a guide to future returns

Shareholders should note that the Companies Act requirement is for the points to be plotted on a year end to year end basis

# Directors' Remuneration Report

---

## DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)

During the year under review the fees paid to the Directors were as follows

	2008	2007
Richard Barfield	27,500	25,000
Scott Dobbie	44,000	40,000
Ian Inglis <sup>1</sup>	–	8,167
Jim Pettigrew <sup>2</sup>	27,000	23,666
Nicola Ralston	24,200	22,000
William Samuel	24,200	22,000
Sir Nigel Wicks	24,200	22,000
<b>Total</b>	<b>171,100</b>	<b>162,833</b>

1 Ian Inglis retired as a Director on 19 July 2006

2 Jim Pettigrew was appointed Chairman of the Audit Committee on 19 July 2006

No Director has received any taxable expenses, compensation for loss of office or non cash benefits for the year ended 31 March 2008 (31 March 2007 same)

On behalf of the Board

*Rebecca Burtonwood*

**Fidelity Investments International**

Secretary

29 May 2008

# Independent Auditors' Report

## TO THE MEMBERS OF THE EDINBURGH INVESTMENT TRUST PLC

We have audited the financial statements of The Edinburgh Investment Trust plc for the year ended 31 March 2008 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 26.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review section of the Directors' Report. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not.

We are not required to consider whether the Board's statements on internal controls 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 the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008 and of its loss for the year then ended,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG Audit Plc*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
Edinburgh  
29 May 2008

## Income Statement for the year ended 31 March

	Notes	revenue £'000	2008 capital £'000	total £'000	revenue £'000	2007 capital £'000	total £'000
(Losses)/gains on investments	9	–	(163,699)	(163,699)	–	91,751	91,751
Income	2	51,723	–	51,723	48,565	–	48,565
Investment management fee	3	(1,112)	(2,596)	(3,708)	(1,241)	(2,896)	(4,137)
Other expenses	4	(705)	–	(705)	(751)	–	(751)
Exchange (losses)/gains		(6)	(3)	(9)	5	(128)	(123)
<b>NET RETURN/(LOSS) BEFORE FINANCE COSTS AND TAXATION</b>		<b>49,900</b>	<b>(166,298)</b>	<b>(116,398)</b>	<b>46,578</b>	<b>88,727</b>	<b>135,305</b>
Interest payable	5	(5,850)	(13,651)	(19,501)	(5,850)	(13,651)	(19,501)
<b>NET RETURN/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>44,050</b>	<b>(179,949)</b>	<b>(135,899)</b>	<b>40,728</b>	<b>75,076</b>	<b>115,804</b>
Taxation on return/(loss) on ordinary activities	6	(276)	–	(276)	(14)	–	(14)
<b>RETURN/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR</b>		<b>43,774</b>	<b>(179,949)</b>	<b>(136,175)</b>	<b>40,714</b>	<b>75,076</b>	<b>115,790</b>
<b>RETURN/(LOSS) PER ORDINARY SHARE</b>	7	<b>21 41p</b>	<b>(88 01p)</b>	<b>(66 60p)</b>	<b>18 13p</b>	<b>33 44p</b>	<b>51 57p</b>

A Statement of Total Recognised Gains and Losses has not been prepared as there are no gains and losses other than those reported in this Income Statement  
The total column of the Income Statement is the profit and loss account of the Company  
All revenue and capital items in the above statement derive from continuing operations  
No operations were acquired or discontinued in the year

The notes on pages 34 to 47 form an integral part of these financial statements



## Reconciliation of Movements in Shareholders' Funds for the year ended 31 March

	Notes	called up share capital £'000	share premium account £'000	capital redemption reserve £'000	capital reserve realised £'000	capital reserve unrealised £'000	revenue reserve £'000	total equity £'000
<b>Opening shareholders' funds 1 April 2006</b>		58,487	6,639	14,968	830,830	245,481	58,199	1,214,604
Net recognised gains/(losses) for the year		-	-	-	126,161	(34,538)	-	91,623
Repurchase of ordinary shares		(4,612)	-	4,612	(80,571)	-	-	(80,571)
Management fee to capital		-	-	-	(2,896)	-	-	(2,896)
Debenture interest and amortised expenses to capital		-	-	-	(13,651)	-	-	(13,651)
Revenue after taxation		-	-	-	-	-	40,714	40,714
Dividends paid	8	-	-	-	-	-	(44,596)	(44,596)
<b>Closing shareholders' funds 31 March 2007</b>		53,875	6,639	19,580	859,873	210,943	54,317	1,205,227
Transfer between reserves*		-	-	-	211,728	(211,728)	-	-
Net recognised (losses)/gains for the year	14	-	-	-	(163,759)	57	-	(163,702)
Repurchase of ordinary shares	14	(4,301)	-	4,301	(83,492)	-	-	(83,492)
Management fee to capital	14	-	-	-	(2,596)	-	-	(2,596)
Debenture interest and amortised expenses to capital	14	-	-	-	(13,651)	-	-	(13,651)
Revenue after taxation	14	-	-	-	-	-	43,774	43,774
Dividends paid	8	-	-	-	-	-	(40,522)	(40,522)
<b>Closing shareholders' funds 31 March 2008</b>		49,574	6,639	23,881	808,103	(728)	57,569	945,038

\*See note 14 on page 41

The notes on pages 34 to 47 form an integral part of these financial statements

# Balance Sheet as at 31 March

	Notes	2008 £'000	2007 £'000
<b>FIXED ASSETS</b>			
Investments at fair value through profit or loss	9	1,064,645	1,374,218
<b>CURRENT ASSETS</b>			
Debtors	10	10,733	14,008
Fidelity Institutional Cash Fund plc		52,601	-
Cash at bank		25,444	27,821
		88,778	41,829
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	11	(12,029)	(14,715)
<b>NET CURRENT ASSETS</b>		76,749	27,114
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,141,394	1,401,332
<b>CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	12	(196,356)	(196,105)
<b>TOTAL NET ASSETS</b>		945,038	1,205,227
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	49,574	53,875
Share premium account	14	6,639	6,639
Capital redemption reserve	14	23,881	19,580
Capital reserve realised	14	808,103	859,873
Capital reserve unrealised	14	(728)	210,943
Revenue reserve	14	57,569	54,317
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	15	945,038	1,205,227
<b>NET ASSET VALUE PER ORDINARY SHARE</b>	15	474.74p	557.47p

The financial statements on pages 30 to 47 were approved by the Board of Directors on 29 May 2008 and were signed on its behalf by

SCOTT DOBBIE  
Chairman



The notes on pages 34 to 47 form an integral part of these financial statements

## Cash Flow Statement for the year ended 31 March

	Notes	2008 £'000	2007 £'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	16	<u>46,438</u>	<u>43,755</u>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest paid	5	<u>(19,250)</u>	<u>(19,250)</u>
<b>NET CASH OUTFLOW FROM SERVICING OF FINANCE</b>		<u>(19,250)</u>	<u>(19,250)</u>
<b>FINANCIAL INVESTMENT</b>			
Purchase of investments		(475,734)	(664,058)
Exchange losses		(60)	–
Disposal of investments		624,890	713,493
Realised losses on long futures positions closed		–	(179)
<b>NET CASH INFLOW FROM FINANCIAL INVESTMENT</b>		<u>149,096</u>	<u>49,256</u>
<b>EQUITY DIVIDENDS PAID</b>	8	<u>(40,522)</u>	<u>(44,596)</u>
<b>NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>		<u>135,762</u>	<u>29,165</u>
<b>NET CASH (OUTFLOW)/INFLOW FROM MANAGEMENT OF LIQUID RESOURCES</b>	17	<u>(52,601)</u>	<u>47,451</u>
<b>NET CASH INFLOW BEFORE FINANCING</b>		<u>83,161</u>	<u>76,616</u>
<b>FINANCING</b>			
Repurchase of ordinary shares		(85,595)	(77,225)
<b>NET CASH OUTFLOW FROM FINANCING</b>		<u>(85,595)</u>	<u>(77,225)</u>
<b>DECREASE IN CASH</b>	17	<u>(2,434)</u>	<u>(609)</u>

The notes on pages 34 to 47 form an integral part of these financial statements

# Notes to the Financial Statements

---

## 1 ACCOUNTING POLICIES

---

The Company has prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and the AIC Statement of Recommended Practice ("SORP") for Investment Trusts dated January 2003 and revised in December 2005

a) **Basis of accounting** – The financial statements have been prepared on a going concern basis and under the historical cost convention, modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will be granted

b) **Income** – Income from equity investments is credited to the Income Statement on the date on which the right to receive the payment is established. Interest receivable on fixed interest securities is accounted for on an accruals basis so as to reflect the effective interest rate on the security. Franked dividends are accounted for net of any tax credit. Unfranked investment income includes tax deducted at source. Interest receivable on short term loans and deposits is dealt with on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement.

The premium received on covered call options is taken to income over the life of the contracts where the strike of the option is greater than the price of the underlying security at the time of trade.

c) **Special dividends** – Special dividends are treated as a capital receipt or a revenue receipt depending on the facts and circumstances of each particular case.

d) **Long term borrowings** – Long term borrowings are carried in the Balance Sheet at the cumulative amount of net proceeds on issue plus accrued finance costs. Finance costs include the difference between the repayable value on maturity and the proceeds received on issue which are written off on an effective interest rate basis over the life of the borrowings. Gains and losses on the repurchase or early settlement of debt are wholly charged to capital.

e) **Expenses and finance costs** – All expenses are accounted for on an accruals basis and are charged in full to the revenue column of the Income Statement with the exception of the investment management fee and debenture interest. Expenses are charged to capital where they are incurred in connection with the maintenance or enhancement of the value of the investments. In this respect the investment management fee and relevant finance costs are allocated between revenue and capital in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively. Since April 2000, the Company has allocated 70% of management fee and debenture interest to capital and 30% to revenue costs. In accordance with the SORP the Board has reviewed this policy and, having examined consensus forecasts of capital return and dividend payments, sees no need to change the existing policy at this time.

f) **Taxation** – Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred. A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable.

g) **Foreign currency** – The Directors, having regard to the currency of the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be sterling. Transactions denominated in foreign currencies are calculated in sterling at the rate of exchange ruling as at the date of transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Realised and unrealised capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in capital reserves – realised and unrealised.

h) **Valuation of investments** – The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors and other key personnel. Accordingly, upon initial recognition the investments are designated by the Company as "at fair value through profit or loss". They are included initially at fair value, which is taken to be their cost and subsequently, the investments are valued at "fair value", which is measured as follows:

- Listed investments are valued at bid prices, where the bid price is available, or otherwise at fair value based on published price quotations,
- Unlisted investments where there is not an active market are valued using an appropriate valuation technique so as to establish what the transaction price would have been at the balance sheet date.

# Notes to the Financial Statements

**Transaction costs** – Financial Reporting Standard 26 (“FRS26”) “Financial Instruments: Measurement” requires that the cost of purchasing investments be recognised and accounted for as a separate item from investment gains. However, in accordance with the AIC SORP the Company includes these costs in the cost of investments purchased and has disclosed them in note 9.

i) **Capital reserve-realised** – Gains and losses on the realisation of investments, changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, and realised exchange differences of a capital nature are accounted for in the capital reserve – realised. Purchases of the Company’s own shares for cancellation are also funded from this reserve. The capital element of the investment management fee and relevant finance costs are charged to this reserve. Any associated tax relief is credited to this reserve.

**Capital reserve-unrealised** – Changes in the fair value of investments held at the year end that are not readily convertible to cash without accepting adverse terms, and unrealised exchange differences of a capital nature are accounted for in the capital reserve – unrealised.

j) **Dividends** – In accordance with FRS21 “Events after the Balance Sheet Date” dividends declared and approved by the Company after the balance sheet date have not been recognised as a liability of the Company at the balance sheet date.

	2008 £'000	2007 £'000
<b>2 INCOME</b>		
<i>Income from financial assets designated at fair value through profit or loss</i>		
Franked investment income	45,108	45,237
UK scrip dividends	23	–
Other investment income	742	425
Fixed interest	–	137
Premium on call options	1,199	639
	<u>47,072</u>	<u>46,438</u>
<i>Other income from financial assets not at fair value through profit or loss</i>		
Interest receivable on short term deposits	1,980	1,338
Income from Fidelity Institutional Cash Fund plc	2,601	671
Underwriting commission	46	–
Sundry income	24	118
<b>Total income</b>	<u>51,723</u>	<u>48,565</u>

	2008 £'000	2007 £'000
<b>3 INVESTMENT MANAGEMENT FEE</b>		
Investment management fee (excluding VAT)	3,350	3,521
VAT on investment management fee to 31 October 2007 (see overleaf)	358	616
Investment management fee (including VAT)	3,708	4,137
Charged against capital reserve – realised (see note 14)	<u>(2,596)</u>	<u>(2,896)</u>
Charged against revenue	<u>1,112</u>	<u>1,241</u>

The investment management fee is 0.26% per annum of the total assets of the Company, after deducting current liabilities and excluding commonly managed funds. The investment management fee is chargeable 30% to revenue and 70% to capital.

# Notes to the Financial Statements

With effect from 1 November 2007 management fees have been exempt from VAT charges following the decision of the European Court of Justice in the JPMorgan Claverhouse Investment Trust/AIC case (C 363/05) which confirmed that the VAT exemption applicable to the management of special investment funds should also extend to investment trust companies. Therefore investment trust companies are entitled to recover VAT previously charged on such management fees and HM Revenue & Customs has withdrawn its appeal to the VAT tribunal.

There are uncertainties surrounding the recovery process and amounts and therefore no VAT recoveries have been recognised in these financial statements. It is not certain to what extent the full recovery of VAT will be possible. The Company is no longer paying VAT on its management fees.

	2008 £'000	2007 £'000
<b>4 OTHER EXPENSES</b>		
Directors' fees	171	163
Directors' expenses	39	63
Registrars' fees	153	160
Custody fees	64	42
Printing and publication expenses	68	89
Legal and professional fees	52	60
AIC and other fees and subscriptions	102	119
Other expenses	26	27
<b>Auditors' remuneration</b>		
Fees payable to the Company's Auditors for the audit of the annual financial statements	24	23
Fees payable to the Company's Auditors for all other services	6	5
Charged against revenue	<u>705</u>	<u>751</u>

The non audit fees related to the Auditors' review in connection with the half yearly financial statements in 2007 and 2008 and the annual certificate to the trustee of the debenture stocks

	2008 £'000	2007 £'000
<b>5 INTEREST PAYABLE AND SIMILAR CHARGES</b>		
Financial liabilities not at fair value through profit or loss		
Debentures repayable after more than five years	19,250	19,250
Amortised debenture stock discount and issue expenses	251	251
	<u>19,501</u>	<u>19,501</u>
Charged against capital reserve realised (see note 14)	<u>(13,651)</u>	<u>(13,651)</u>
Charged against revenue	<u>5,850</u>	<u>5,850</u>

	2008 £'000	2007 £'000
<b>6 TAXATION ON ORDINARY ACTIVITIES</b>		
a) Analysis of charge in year		
Overseas taxation	<u>276</u>	<u>14</u>
Total current tax for year (see note 6b)	<u>276</u>	<u>14</u>

## Notes to the Financial Statements

### b) Factors affecting the taxation charge for the year

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for an investment trust company of 30% (2007 30%)

The differences are explained below

	2008 £'000	2007 £'000
Revenue return on ordinary activities before taxation	44,050	40,728
Return on ordinary activities multiplied by the standard rate of corporation tax of 30% (2007 30%)	13,215	12,218
Effects of		
Income not subject to corporation taxation	(13,539)	(13,571)
Increase in excess management expenses/excess loan relationship debits in the revenue account	324	1,353
Overseas taxation	276	14
Current corporation taxation charge (Note 6a)	276	14

Investment trust companies are exempt from taxation on capital gains if they meet the HM Revenue & Customs criteria set out in s842 of the Income and Corporation Taxes Act 1988 for a given period. Therefore, any capital return is not included in the above reconciliation

### c) Deferred taxation

At 31 March 2008, the Company had net surplus management expenses and net surplus losses on loan relationships (being the excess of interest payable on the debenture stocks and any other borrowing over interest receivable) totalling £227,185,728 (2007 £209,854,510) and eligible unrelieved foreign taxation totalling £197,343 (2007 £86,464). A deferred tax asset has not been recognised in respect of these. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future taxation liabilities through the use of existing surplus expenses.

	revenue	2008 capital	total	revenue	2007 capital	total
<b>7 RETURN/(LOSS) PER ORDINARY SHARE</b>						

Basic	21.41p	(88.01p)	(66.60p)	18.13p	33.44p	51.57p
-------	--------	----------	----------	--------	--------	--------

Returns/(losses) per ordinary share are based on the net revenue return on ordinary activities after taxation of £43,774,000 (2007 £40,714,000), the net capital loss in the year of £179,949,000 (2007 return £75,076,000) and the total loss in the year of £136,175,000 (2007 return £115,790,000) and on 204,452,781 ordinary shares (2007 224,522,324) being the weighted average number of ordinary shares in issue during the year.

	2008 £'000	2007 £'000
<b>8 DIVIDENDS</b>		
First interim dividend of 4.75 pence per share paid on 23 November 2007 for the year ended 31 March 2008 (2007 4.40 pence)	9,601	9,609
Second interim dividend of 4.75 pence per share paid on 8 February 2008 for the year ended 31 March 2008 (2007 4.40 pence)	9,449	9,604
Third interim dividend of 4.40 pence per share paid on 18 May 2007 for the year ended 31 March 2007 (2006 nil)	9,444	—
Final dividend of 5.65 pence per share paid on 18 July 2007 for the year ended 31 March 2007 (2006 10.85 pence)	12,028	25,383
	40,522	44,596

# Notes to the Financial Statements

The third interim dividend of 4.75 pence per share, amounting to £9,441,000 was paid on 22 May 2008 for the year ended 31 March 2008 (2007: 4.40 pence) and has not been included as a liability in these financial statements.

The Directors have proposed a final dividend of 5.65 pence per share, amounting to £11,085,000, which is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The total dividend payable in respect of the year ended 31 March 2008, which is the basis on which the requirements of s842 Income and Corporation Taxes Act 1988 are considered, is stated below:

	2008 £'000	2007 £'000
First interim dividend of 4.75 pence per share paid (2007: 4.40 pence)	9,601	9,609
Second interim dividend of 4.75 pence per share paid (2007: 4.40 pence)	9,449	9,604
Third interim dividend of 4.75 pence per share paid on 22 May 2008 (2007: 4.40 pence)	9,441	9,444
Proposed final dividend of 5.65 pence per share payable (2007: 5.65 pence)	11,085	12,028
	<u>39,576</u>	<u>40,685</u>
	2008 £'000	2007 £'000

## 9 INVESTMENTS

Listed in the UK	1,064,645	1,374,218	
Total listed investments	<u>1,064,645</u>	<u>1,374,218</u>	
	listed UK £'000	unlisted £'000	total £'000
Opening book cost	1,162,490	663	1,163,153
Opening fair value adjustment	<u>211,728</u>	<u>(663)</u>	<u>211,065</u>
Opening fair value of investments	1,374,218	—	1,374,218
Movements in the year			
Purchases at cost	475,726	—	475,726
Sales proceeds	(621,600)	—	(621,600)
Sales realised gains on sales	84,318	—	84,318
Changes in fair value	<u>(248,017)</u>	<u>—</u>	<u>(248,017)</u>
Closing fair value of investments	<u>1,064,645</u>	<u>—</u>	<u>1,064,645</u>
Closing book cost	1,100,934	663	1,101,597
Closing fair value adjustment	<u>(36,289)</u>	<u>(663)</u>	<u>(36,952)</u>
Closing fair value of investments	<u>1,064,645</u>	<u>—</u>	<u>1,064,645</u>



## Notes to the Financial Statements

	£'000	2008 £'000	£'000
<b>Net gains on investments</b>			
Gains on sales	84,318	–	84,318
Changes in fair value	(248,017)	–	(248,017)
	<u>(163,699)</u>		<u>(163,699)</u>
	£'000	2007 £'000	£'000
<b>Net gains on investments</b>			
Gains on sales	126,161	–	126,161
Changes in fair value	(34,372)	(38)	(34,410)
	<u>91,789</u>	<u>(38)</u>	<u>91,751</u>

The portfolio turnover rate for the year was 36.6% (2007: 46.5%)

	2008 £'000	2007 £'000
<b>Costs of investment transactions</b>		
Purchases expenses	2,613	3,400
Sales expenses	521	575
	<u>3,134</u>	<u>3,975</u>

All of the investments are financial assets designated at fair value through profit or loss on initial recognition.

With effect from 1 April 2007, changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, at the balance sheet date are considered to be realised. Fair value gains on unlisted investments are not treated as readily convertible to cash, whereas the treatment of fair value gains on listed investments depends upon the individual circumstances of each investment.

	2008 £'000	2007 £'000
<b>10 DEBTORS</b>		
Securities sold for future settlement	1,415	4,672
Accrued income	9,254	9,087
Overseas tax recoverable	–	155
Brokers' rebate receivable	35	68
Prepayments	29	26
	<u>10,733</u>	<u>14,008</u>

	2008 £'000	2007 £'000
<b>11 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		
Securities purchased for future settlement	5,839	5,870
Interest due on debenture stocks	2,836	2,836
Other creditors	763	1,315
Amount payable on share repurchases	2,591	4,694
	<u>12,029</u>	<u>14,715</u>

# Notes to the Financial Statements

	2008 £'000	2007 £'000
<b>12 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>		
11½% debenture stock 2014	100,000	100,000
7¼% debenture stock 2022	100,000	100,000
Unamortised discount and expenses of debenture issue	(3,644)	(3,895)
	<u>196,356</u>	<u>196,105</u>

The 11½% debenture stock is redeemable at par on 30 June 2014 and interest is payable in half yearly instalments in June and December each year. The 7¼% debenture stock is redeemable at par on 30 September 2022 and interest is payable in half yearly instalments in March and September each year.

Both debenture stocks are secured by a floating charge over the whole of the assets of the Company.

The market value of the debenture stocks at 31 March 2008 was £251,974,000 (2007: £257,248,000).

The effect on the net asset value of deducting the debenture stocks at market value rather than at par is disclosed in note 15.

	2008 £'000	2007 £'000
<b>13 CALLED UP SHARE CAPITAL</b>		
<b>Authorised</b>		
316,099,929 (2007: 316,099,929) ordinary shares of 25 pence each	<u>79,025</u>	<u>79,025</u>
<b>Allotted, called up and fully paid</b>		
<b>Beginning of year</b>		
215,496,748 (2007: 233,946,714) ordinary shares of 25 pence each	53,875	58,487
1 April 2007 to 31 March 2008: repurchase of 17,202,000 shares (2007: 18,449,966)	<u>(4,301)</u>	<u>(4,612)</u>
<b>End of year</b>		
198,294,748 (2007: 215,496,748) ordinary shares of 25 pence each	<u>49,574</u>	<u>53,875</u>

The Company does not have any externally imposed capital requirements. The capital of the Company is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 2.

## Notes to the Financial Statements

	share premium account £'000	capital redemption reserve £'000	2008 capital reserve realised £'000	capital reserve unrealised £'000	revenue reserve £'000
<b>14 RESERVES</b>					
Beginning of year	6,639	19,580	859,873	210,943	54,317
Transfer between reserves*	-	-	211,728	(211,728)	-
Exchange (losses)/gains on other net assets	-	-	(60)	57	-
Net gain on realisation of investments	-	-	(163,699)	-	-
Repurchase of ordinary shares	-	4,301	(83,492)	-	-
Management fee to capital	-	-	(2,596)	-	-
Debenture interest and amortised expenses	-	-	(13,651)	-	-
Net revenue after taxation for the year	-	-	-	-	43,774
Dividends paid to shareholders	-	-	-	-	(40,522)
<b>End of year</b>	<b>6,639</b>	<b>23,881</b>	<b>808,103</b>	<b>(728)</b>	<b>57,569</b>

\*In accordance with TECH 02/07 Distributable Profits, with effect from 1 April 2007, changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, at the balance sheet date are included in realised, rather than unrealised, capital reserves. The balances on both reserves at 1 April 2007 have been amended by a reserve transfer to reflect this change.

## 15 NET ASSET VALUE PER SHARE

Total shareholders' funds have been calculated in accordance with the provisions of FRS26. The analysis of total shareholders' funds on the face of the balance sheet does not reflect the rights, under the Articles of Association, of the ordinary shareholders on a return of assets. These rights are reflected in the net asset value and the asset value per share attributable to ordinary shareholders at the year end, adjusted to reflect the deduction of the debenture stocks at par. A reconciliation between the two sets of figures follows.

	2008	2007
Total shareholders' funds (£)	945,038,000	1,205,227,000
Less: Debenture stocks discount (£)	(54,000)	(57,000)
Debenture stocks issue expenses (£)	(3,590,000)	(3,838,000)
Net assets – debt at par (£)	<u>941,394,000</u>	<u>1,201,332,000</u>
Number of ordinary shares in issue at year end	<u>198,294,748</u>	<u>215,496,748</u>
Total shareholders' funds per share (pence)	476.58	559.28
Less: Unamortised debenture stocks discount and issue expenses (pence)	(1.84)	(1.81)
Net asset value per share – debt at par (pence)	<u>474.74</u>	<u>557.47</u>

## Notes to the Financial Statements

	2008 £'000	2007 £'000
<i>The movements during the year of the assets attributable to the ordinary shares were as follows</i>		
Net assets debt at par at 31 March 2007	1,201,332	1,210,458
Total recognised capital (loss)/gain for the year	(179,949)	75,076
Revenue return for the year	43,774	40,714
Dividends appropriated in the year	(40,522)	(44,596)
Movement in unamortised debenture stocks discount and issue expenses	251	251
Repurchase of ordinary shares	(83,492)	(80,571)
Net assets debt at par at 31 March 2008	<u>941,394</u>	<u>1,201,332</u>

The net asset value per share adjusted to include the debenture stocks at market value rather than at par is as follows

	2008 £'000	2007 £'000
Net assets debt at par at 31 March 2008 (from above)	941,394	1,201,332
Adjust for debt at market value		
Debt at par	200,000	200,000
Debt at market value	(251,974)	(257,248)
Adjusted capital net assets debt at market value 31 March 2008	<u>889,420</u>	<u>1,144,084</u>
Number of ordinary shares in issue at year end	<u>198,294,748</u>	<u>215,496,748</u>
Adjusted capital net asset value per share debt at market value (pence)	448 53	530 90

### 16 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 £'000	2007 £'000
Net (loss)/return before finance costs and taxation	(116,398)	135,305
Capital loss/(return) for the year	<u>166,298</u>	<u>(88,727)</u>
Net revenue return before finance costs and taxation	49,900	46,578
Scrp dividends	(23)	-
(Increase)/decrease in accrued income	(167)	392
Decrease/(increase) in other debtors	152	(30)
Decrease in other creditors	(552)	(275)
Management fee charged to capital	(2,596)	(2,896)
Overseas taxation paid	<u>(276)</u>	<u>(14)</u>
Net cash inflow from operating activities	<u>46,438</u>	<u>43,755</u>

## Notes to the Financial Statements

	2008 £'000	2007 £'000
<b>17 RECONCILIATION OF NET CASH MOVEMENTS TO MOVEMENT IN NET DEBT</b>		
Net debt at the beginning of the year	(168,284)	(119,845)
Net cash outflow	(2,434)	(609)
Unrealised exchange gains/(losses)	57	(128)
Fidelity Institutional Cash Fund plc	52,601	(47,451)
Amortisation of debt	(251)	(251)
Change in net debt	49,973	(48,439)
Net debt at the end of the year	(118,311)	(168,284)

	2008 £'000	Cash flows £'000	Other non cash movements £'000	Exchange losses £'000	2007 £'000
<b>Analysis of balances</b>					
Fidelity Institutional Cash Fund plc	52,601	52,601	–	–	–
Cash at bank	25,444	(2,434)	–	57	27,821
Debt due after more than one year	(196,356)	–	(251)	–	(196,105)
	(118,311)	50,167	(251)	57	(168,284)

	share capital £'000	2008 debentures £'000	total £'000	share capital £'000	2007 debentures £'000	total £'000
<b>18 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR</b>						
Beginning of the year	60,514	196,105	256,619	65,126	195,854	260,980
Repurchase of ordinary shares	(4,301)	–	(4,301)	(4,612)	–	(4,612)
Amortised discount and issue expenses	–	251	251	–	251	251
End of the year	56,213	196,356	252,569	60,514	196,105	256,619

## 19 FINANCIAL INSTRUMENTS

### Management of risk

The investment objectives of the Company are detailed in Objectives and Investment Policy on page 2. In pursuit of this objective, the Company may be exposed to various forms of risk, as described below and as described on pages 12 to 14 within the Principal Risks and Uncertainties section.

The Company's financial instruments comprise

- Equity shares held in accordance with the Company's investment objectives and policy
- Futures and covered call options held in accordance with the Company's investment objectives and policy
- Cash, liquid resources and short term debtors and creditors that arise from its operations
- Debenture stocks

# Notes to the Financial Statements

---

The risks arising from the Company's financial instruments are market risk (which comprises equity price risk, interest rate risk and foreign currency exposure), liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

## Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and changes in exchange rates. The Board meets monthly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objectives. The Investment Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk/reward profile.

The Company has the option to invest up to £200 million of the debenture stocks in the equity market. In a rising market the Company would benefit, but in a falling market the impact could be severe. In order to manage the level of gearing, the Investment Manager invests part of the assets available in Fidelity Institutional Cash Fund plc and short term cash deposits. This controls the level of net gearing.

Long futures positions have been used as a quick and effective means to increase the Company's exposure to the equity market. There were no transactions in futures during the year (2007 realised capital losses £179,000).

## Foreign currency risk

Almost all of the financial assets and financial liabilities of the Company are denominated in sterling, therefore the net assets and total return are not significantly affected by currency movements.

## Interest rate risk

All of the Company's long term debt is fixed rate which exposes the Company to changes in market value in the event that the debt is repaid before maturity. The debenture stocks in issue provide secure long term funding while short term flexibility is achieved through overdraft facilities. Information on the debenture stocks is provided in note 12.

## Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short term flexibility is achieved by the use of overdraft facilities as required.

## Credit risk

Counterparty credit risk is not judged to be significant as transactions are carried out with a large number of brokers, all transactions are settled on a delivery versus payment basis and limits are set on the amount that may be due from any one broker.

Investments may be adversely affected if any of the institutions with which money is deposited or the Company's custodian suffers insolvency or other financial difficulties. All security transactions are through brokers which have been approved as an acceptable counterparty. This is reviewed on an ongoing basis.

## Notes to the Financial Statements

### Financial assets

The Company's financial assets comprise equity investments, short term debtors and cash. The currency cash flow profile of these financial assets is shown below.

2008	investments at fair value through profit or loss £'000	short term debtors book value £'000	cash at bank £'000	total £'000
US dollar	–	–	157	157
UK sterling	1,064,645	63,334	25,287	1,153,266
	<u>1,064,645</u>	<u>63,334</u>	<u>25,444</u>	<u>1,153,423</u>
2007	investments at fair value through profit or loss £'000	short term debtors book value £'000	cash at bank £'000	total £'000
US dollar	–	–	938	938
UK sterling	1,374,218	13,853	26,883	1,414,954
	<u>1,374,218</u>	<u>13,853</u>	<u>27,821</u>	<u>1,415,892</u>

The Balance Sheet includes debtors which are not classified as financial assets.

### Financial liabilities

The Company finances its investment activities through its ordinary share capital, reserves and borrowings. The Company's financial liabilities comprise its debenture stocks and other short term creditors. The currency cash flow profile of these financial liabilities is shown below.

	2008			2007		
	UK sterling denominated debentures £'000	short term creditors £'000	total £'000	UK sterling denominated debentures £'000	short term creditors £'000	total £'000
UK sterling	<u>196,356</u>	<u>12,029</u>	<u>208,385</u>	<u>196,105</u>	<u>14,715</u>	<u>210,820</u>

### Foreign currency risk sensitivity analysis

At 31 March 2008, if sterling had strengthened by 5% in relation to the US dollar, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by £8,000 (2007: £47,000). A 5% weakening of sterling against the US dollar, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts.

# Notes to the Financial Statements

## Interest rate risk profile of financial assets and liabilities

The analysis below summarises the extent to which the Company's assets and liabilities are affected by changes in interest rates

2008	cash flow interest rate risk £'000	fair value interest rate risk £'000	no interest rate risk £'000	total £'000
Investments at fair value through profit or loss	–	–	1,064,645	1,064,645
Other debtors	52,601	–	10,733	63,334
Cash balances	25,444	–	–	25,444
<b>Total financial assets</b>	<b>78,045</b>	<b>–</b>	<b>1,075,378</b>	<b>1,153,423</b>
Creditors	–	–	(12,029)	(12,029)
Fixed rate unsecured debenture stocks	–	(196,356)	–	(196,356)
<b>Total financial liabilities</b>	<b>–</b>	<b>(196,356)</b>	<b>(12,029)</b>	<b>(208,385)</b>
<b>Total financial assets/(liabilities)</b>	<b>78,045</b>	<b>(196,356)</b>	<b>1,063,349</b>	<b>945,038</b>

2007	cash flow interest rate risk £'000	fair value interest rate risk £'000	no interest rate risk £'000	total £'000
Investments at fair value through profit or loss	–	–	1,374,218	1,374,218
Other debtors	–	–	13,853	13,853
Cash balances	27,821	–	–	27,821
<b>Total financial assets</b>	<b>27,821</b>	<b>–</b>	<b>1,388,071</b>	<b>1,415,892</b>
Creditors	–	–	(14,715)	(14,715)
Fixed rate unsecured debenture stocks	–	(196,105)	–	(196,105)
<b>Total financial liabilities</b>	<b>–</b>	<b>(196,105)</b>	<b>(14,715)</b>	<b>(210,820)</b>
<b>Total financial assets/(liabilities)</b>	<b>27,821</b>	<b>(196,105)</b>	<b>1,373,356</b>	<b>1,205,072</b>

The Balance Sheet includes debtors which are not classified as financial assets

## Interest rate risk sensitivity analysis

At 31 March 2008 if interest rates would have increased by 0.5% the total return on ordinary activities would have increased by £390,000 (2007: £70,000). A decrease in the interest rates by 0.5% would have had an equal but opposite effect.

## Other price risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets. Details of how the Board sets risk parameters and performance objectives can be found on pages 12 to 14 under the Principal Risks and Uncertainties section.

## Other price risk sensitivity analysis

A full list of the Company's investments is shown on pages 48 and 49. In addition, a list of the thirty largest investments analysed by industrial sector is shown on page 16.

All of the Company's investments are in quoted equities. A 3% increase in the market value of these investments at 31 March 2008 would have increased total assets and total return on ordinary activities by £31,939,000 (2007: £41,227,000). A decrease of 3% would have had an equal but opposite effect.



# Notes to the Financial Statements

## Financial liabilities

The interest rate risk profile of the Company's financial liabilities at 31 March 2008 and 2007 is as follows

	2008 £'000	2007 £'000
Fair value interest rate risk		
After more than five years	<u>196,356</u>	<u>196,105</u>

## Fair value of financial assets and liabilities

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in note 1 investments are shown at fair value which is bid market price. In the case of cash, book value approximates to fair value due to the short maturity of the instruments. The exceptions are the unsecured long term fixed rate debenture stocks, whose fair values as at 31 March 2008, given below, have been calculated on the basis of quoted market prices for the stocks

	2008		2007	
	fair value £'000	book value £'000	fair value £'000	book value £'000
11½% debenture stock 2014	132,291	100,000	133,730	100,000
7½% debenture stock 2022	119,683	100,000	123,518	100,000
	<u>251,974</u>	<u>200,000</u>	<u>257,248</u>	<u>200,000</u>

## Borrowings

	effective interest rate %	maturity	2008 £'000	2007 £'000
After more than five years				
11½% debenture stock 2014	11.50	30 June 2014	100,000	100,000
7½% debenture stock 2022	7.75	30 September 2022	100,000	100,000
			<u>200,000</u>	<u>200,000</u>

## 20 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments as at 31 March 2008 (2007: nil)

## 21 TRANSACTIONS WITH THE MANAGER

The Directors have complied with the provisions of FR58 which require disclosure of related party transactions and balances. Fidelity Investments International is the Manager and Secretary of the Company and details of the services provided and fees paid are given on pages 8 and 25 and note 3 on pages 35 and 36

# Investments at 31 March 2008

	£'000		£'000
<b>BASIC MATERIALS</b>		<b>FINANCIALS</b>	
CHEMICALS		BANKS	
Croda International	5,519	HSBC	50,123
Victrex	809	Royal Bank of Scotland	39,926
MINING		HBOS	15,554
Anglo American	22,965	Standard Chartered	13,866
BHP Billiton	18,402	Lloyds TSB	6,336
Eurasian Natural Resources	3,292	Alliance & Leicester	2,504
PAPER & FOREST PRODUCTS		GENERAL FINANCIAL	
MONDI	637	Man Group	15,741
MONDI CDI	259	Intermediate Capital	10,013
	<u>51,883</u>	3i Group	6,978
		ICAP	3,951
		Catties	2,772
<b>CONSUMER GOODS</b>		LIFE ASSURANCE	
AUTOMOBILES & PARTS		Legal & General	27,425
GKN	14,687	Aviva	19,048
FOOD PRODUCERS		Prudential	12,328
Associated British Foods	5,320	NON LIFE ASSURANCE	
HOUSEHOLD GOODS		Catlin Group	4,644
Taylor Wimpey	3,818	Brit Insurance Holdings	2,497
Barratt Developments	3,691	REAL ESTATE	
TOBACCO		Helical Bar	7,227
Imperial Tobacco	32,373		<u>240,933</u>
British American Tobacco	32,338		
	<u>92,227</u>		
<b>CONSUMER SERVICES</b>		<b>HEALTH CARE</b>	
FOOD & DRUG RETAILERS		HEALTH CARE EQUIPMENT & SERVICES	
Tesco	24,533	Whatman	2,742
Majestic Wine	4,421	PHARMACEUTICALS & BIOTECHNOLOGY	
GENERAL RETAILERS		AstraZeneca	30,243
DSG International	5,905	GlaxoSmithKline	22,197
Home Retail	5,896	Shire	6,260
Kesa Electricals	4,738		<u>61,442</u>
HMV	3,530		
Woolworths	1,991	<b>INDUSTRIALS</b>	
Dignity	1,901	AEROSPACE & DEFENCE	
Pendragon	908	BAE Systems	15,948
Jessops	184	Rolls Royce	8,062
MEDIA		VT Group	8,022
Reed Elsevier	14,926	Meggitt	5,797
Aegis	7,721	Rolls Royce 'B'	179
ITE Group	6,771	ELECTRONIC & ELECTRICAL EQUIPMENT	
Pearson	6,576	Spectris	5,767
T&F Informa	5,658	Renishaw	741
Taylor Nelson Sofres	5,432	GENERAL INDUSTRIALS	
Yell Group	5,367	Smiths Group	13,899
Trinity Mirror	2,730	Rexam	8,207
Yougov	794	INDUSTRIAL ENGINEERING	
TRAVEL & LEISURE		Rotork	8,567
Arriva	7,500	IMI	4,777
Millennium & Copthorne	3,708	FKI	2,779
Tui Travel	3,369	SUPPORT SERVICES	
William Hill	3,119	Capita Group	10,522
The Restaurant Group	1,359	Hays	10,301
	<u>129,037</u>	Wolseley	10,118
		Serco	9,541

## Investments at 31 March 2008

	£'000
Mitie	6,944
Group 4 Securicor	6,141
Travis Perkins	5,986
Bunzl	5,650
Intertek Testing	4,599
SIG	3,944
Filtrona	2,711
Sthree	2,487
Galiform	2,112
	<u>163,801</u>
<b>OIL &amp; GAS</b>	
OIL & GAS PRODUCERS	
BP	76,630
Royal Dutch Shell 'B'	62,445
BG Group	24,591
Royal Dutch Shell 'A'	21,114
ENI Lasmio	580
	<u>185,360</u>
<b>TECHNOLOGY</b>	
SOFTWARE & COMPUTER SERVICES	
Computacenter	3,100
Fidessa	2,988
LogicaCMG	2,519
TECHNOLOGY HARDWARE EQUIPMENT	
Psion	3,837
	<u>12,444</u>
<b>TELECOMMUNICATIONS</b>	
FIXED LINE TELECOMMUNICATIONS	
BT	10,512
Cable & Wireless	6,358
MOBILE TELECOMMUNICATIONS	
Vodafone	53,055
	<u>69,925</u>
<b>UTILITIES</b>	
ELECTRICITY	
Scottish & Southern Energy	15,622
Drax Group	4,430
GAS, WATER & MULTI UTILITIES	
National Grid Transco	29,162
Centrica	8,379
	<u>57,593</u>
	<u>1,064,645</u>

# Notice of Meeting

---

Notice is hereby given that the one hundred and nineteenth Annual General Meeting of The Edinburgh Investment Trust plc will be held at the Weston Link, National Galleries of Scotland, Princes Street, Edinburgh on Monday 21 July 2008 at 2.30pm, for the following purposes

## ORDINARY BUSINESS

- 1 To receive the report of the Directors and Auditors and the financial statements for the year ended 31 March 2008
- 2 To approve a final dividend on the ordinary shares
- 3 To re elect Mr Scott Dobbie a Director of the Company
- 4 To re elect Sir Nigel Wicks a Director of the Company
- 5 To re elect Mr Richard Barfield a Director of the Company
- 6 To approve the Directors' Remuneration Report for the year ended 31 March 2008
- 7 To re appoint KPMG Audit Plc as Auditors of the Company
- 8 To authorise the Directors to determine the remuneration of the Auditors for the year to 31 March 2009

## SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions

### Special Resolution

- 9 That, in substitution for any existing authority, the Company be and it is hereby authorised in accordance with Section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of Section 163(3) of the Act) of any of its ordinary shares of 25p each ("shares") in such manner and upon such terms as the Directors of the Company may from time to time determine, provided that

- (i) the maximum number of shares hereby authorised to be purchased is 14.99% of the issued share capital of the Company as at the date of the passing of this resolution,
- (ii) the minimum price which may be paid for a share shall be 25p,
- (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the shares for the five business days immediately preceding the date of purchase, and
- (iv) unless previously revoked, renewed or varied, the authority hereby conferred shall expire on the earlier of 20 January 2009 or at the conclusion of the Annual General Meeting of the Company to be held in 2009, save that the Company may, prior to such expiry enter into a contract or contracts to purchase shares under such authority which would or might be executed wholly or partly after the expiry of such authority and the Company may make such a purchase in pursuance of any such contract or contracts as if the authority hereby conferred had not expired

### Special Resolution

- 10 That, the revised Articles of Association, in the form produced to the Annual General Meeting and initialled by the Chairman of the Meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association

By order of the Board

*Rebecca L. Burtonwood*

**Fidelity Investments International**

Secretary

10 June 2008

## NOTES

- 1 A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies (who need not be a shareholder of the Company) to exercise all or any of his rights to attend, speak and vote at the Annual General Meeting. Where more than one proxy is appointed, each proxy must be appointed for different shares. A proxy need not be a member of the Company.
- 2 A form of proxy for use by shareholders is enclosed with these financial statements. Completion and return of the form of proxy will not prevent any shareholder from attending the meeting and voting in person. To be valid, the form of proxy should be lodged together with any power of attorney or other authority (if any) under which it is signed or a notationally certified copy of such power or authority at the address stated thereon, so as to be received not less than 48 hours before the time of the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.
- 3 In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
- 4 In accordance with Section 325 of the Companies Act 2006 ("2006 Act") the right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the 2006 Act. Persons nominated to receive information rights under Section 146 of the 2006 Act who have been sent a copy of this notice of meeting are hereby informed in accordance with Section 149(2) of the 2006

## Notice of Meeting

---

Act, that they may have the right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. *Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.*

- 5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the register of members of the Company as at 6.00pm on 19 July 2008 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries in the register of members after 6.00pm on 19 July 2008 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to

attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.

- 6 There are special arrangements for holders of shares through the Fidelity Investment Trust Share Plan and the Fidelity ISA/PEP and for holders through the Aberdeen Investment Trust Share Plan, the Aberdeen Investment Trust PEP, the Aberdeen ISA and the Edinburgh Fund Managers Investment Trust Pension. These are explained in the Letter of Direction which such holders will have received with this report.
- 7 Shareholders and any proxies or representatives they appoint agree by attending the meeting that they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
- 8 Copies of the Directors' letters of appointment will be available prior to the Annual General Meeting. No Director has a service contract with the Company.

### Registered office

Quartermile One, 15 Laiston Place, Edinburgh EH3 9EP

## Financial Calendar

---

### FINANCIAL CALENDAR

This year's Annual General Meeting will be held at the Weston Link, National Galleries of Scotland, Princes Street, Edinburgh on Monday 21 July 2008 at 2.30pm. Shareholders are asked to reply on the enclosed form if they will be attending the meeting. Following the meeting shareholders will have the opportunity to meet the Board and representatives of the Manager informally. Tea and biscuits will be served.

Announcements, ordinary share dividend payments, debenture stock interest payments and the issue of the annual and half yearly reports may normally be expected in the following months:

June	Annual report and financial statements published. Interest paid on 11½% debenture stock.	November	Report for half year to 30 September published. First interim dividend paid.
July	Annual General Meeting and final dividend paid.	December	Interest paid on 11½% debenture stock.
September	Interest paid on 7¾% debenture stock.	February	Second interim dividend paid.
October	Half yearly figures announced.	March	Interest paid on 7¾% debenture stock.
		May	Third interim dividend paid. Preliminary figures and recommended final dividend for year announced.

# Appendix

---

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

Resolution 10 in the Notice of Meeting included in this Annual Report is a special resolution relating to the adoption of new Articles of Association ("New Articles") in order to take account of changes in company law brought about by the Companies Act 2006 ("the 2006 Act"). Since it is expected that the 2006 Act will not be fully in force until October 2009, there may be further changes to be made to the New Articles at the Company's annual general meeting in 2009. The proposed principal changes to be made to the existing Articles of Association ("Existing Articles") are set out below. The proposed New Articles showing all the changes are available for inspection at the Company's registered office from the date of this Annual Report until the close of the Annual General Meeting.

### 1 Directors' conflicts of interests

The 2006 Act sets out Directors' general duties. The provisions largely codify the existing law, but with some changes. Under the 2006 Act, a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests, or otherwise ensure that such conflict is approved by shareholders in general meeting. This requirement is very broad and could apply, for example, if a Director becomes a Director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts of other Directors where the articles of association contain a provision to this effect.

The relevant provisions of the 2006 Act in relation to conflicts of interest will not come into force until 1 October 2008. However, in anticipation of this, it is proposed that the New Articles will have an effective provision which will give the Directors authority to approve such conflicts of interest. There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. Firstly, only independent Directors (ie those who have no interest in the matter being considered) will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's

success. The independent Directors will be able to impose limits or conditions when giving authorisation of which they think is appropriate.

The New Articles also contain provisions to ensure that a Director must not impart confidential information in respect of the matter which gives rise to a conflict of interest or potential conflict of interest, if under a duty of confidentiality to another company. The New Articles also contain provisions stating that a Director need not participate in Board discussions or consider Board papers in respect of the matter which gives rise to a conflict of interest or potential conflict of interest. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors in accordance with the 2006 Act.

### 2 Electronic communications

The Companies Act 1985 ("the 1985 Act"), allowed companies to use electronic communications in certain contexts, for instance to send annual financial statements and notices of meetings to shareholders. The new provisions in the 2006 Act apply more generally to all types of company communications made pursuant to the 2006 Act. In order for the Company to fully implement the new electronic communications regime in the future, shareholders must approve the New Articles.

The amendments to the Existing Articles will not of themselves force either the Company or any individual shareholder to send or receive notices, documents or information (including annual financial statements and circulars) by electronic means. They will, however, allow the Company to approach the shareholders in the future for their individual agreement to use electronic mail and/or publication on the Company's website for Company communications. It is the Board's intention that it will, in due course, approach shareholders for their individual agreement to use either electronic mail and/or publication on the Company's website of Company communications. Shareholders should ensure that they read such a request letter carefully and follow the instructions set out in it. The implementation of the electronic communications regime will enable the Company to reduce costs, reduce the environmental impact of its business and generally enhance the level and quality of communications with shareholders.

## 3 Shareholder meetings

3.1 The New Articles reflect the fact that the 2006 Act does not contain any references to extraordinary general meetings of shareholders. Under the 2006 Act, any meeting other than an annual general meeting is simply classified as a general meeting.

3.2 It is now the position under the 2006 Act, that future annual general meetings of the Company must be held within 6 months of the end of the relevant accounting reference period. The 1985 Act previously stated that annual general meetings must be held once in every calendar year. The New Articles therefore reflect this.

3.3 The provisions in the Existing Articles dealing with the convening of general meetings and length of notice required to convene general meetings have now been amended to conform to new provisions in the 2006 Act. In particular, a general meeting to consider a special resolution can be convened on 14 clear days notice whereas previously, 21 clear days notice was required.

## 4 Proxies

The 2006 Act now provides that shareholders can appoint multiple proxies. Proxies can also now speak at general meetings. The 2006 Act also provides that proxies shall have the same right to vote on a show of hands as shareholders. The New Articles therefore reflect these provisions.

## 5 Transfers of shares

The 2006 Act provides that if the Directors refuse to register a transfer, then in addition to sending the purported transferee notice of refusal, the Directors must also give reasons for the refusal and any further information about such reasons that the purported transferee may reasonably request. The Existing Articles have therefore been amended in this regard.

## 6 Age limit

The Existing Articles state that a Director must resign once he reaches the age of 70. Such a provision could now fall foul of the Employment Equality (Age) Regulations 2006 and it is therefore proposed that this provision is removed from the New Articles. It is worth noting that shareholders will still have the opportunity to propose a resolution for the removal of the Directors under the relevant legislation. The New Articles will also continue to provide that a Director must vacate his office, if, amongst other things, he becomes incapable by reason of unsound mind, he is absent from meetings for 6 consecutive months, he is declared bankrupt or his co-Directors elect to remove him from office. In addition, the AIC Code on Corporate Governance provides that once a Director serves a 9 year term, he shall submit himself for re-election at each subsequent annual general meeting.

## 7 Directors' indemnities

The 2006 Act now provides that a company which is a trustee of an occupational pension scheme can now indemnify a Director against liability incurred in connection with the company's activities as trustee of the scheme. The New Articles therefore reflect this change.

# Investing in The Edinburgh Investment Trust plc

---

**The Manager of this Company – Fidelity Investments International – offers a range of options, so that you can invest in the way that is best for you. As The Edinburgh Investment Trust plc is a company listed on the London Stock Exchange you can also buy its shares through a stockbroker, share shop or bank**

## INVESTING INSIDE AN ISA

You may invest in the Company's shares through the Fidelity ISA ("Individual Savings Account"). A Fidelity ISA can be an excellent way to get more from your investment, because you will not have to pay income or capital gains tax on your returns.

With effect from 6 April 2008 the distinction between Mini and Maxi ISAs was removed and the maximum investment in a stocks and shares ISA is £7,200.

The minimum investment in the Fidelity ISA is £1,000 as a lump sum, £250 as a top up or £50 a month in a regular savings plan.

**5 in 1 ISA** – The Edinburgh Investment Trust plc is one of five investment trusts managed by Fidelity. You can invest in the entire range through the Fidelity 5 in 1 ISA, which spreads your money equally across all five investment trusts. This offers a simple and convenient way to invest across Europe, the UK, Japan and Asia – giving you a broadly diversified portfolio in a single investment. You can invest in the 5 in 1 ISA from just £100 a month or £1,000 lump sum.

**Charges** – The standard initial charge for the Fidelity ISA is 3.5%. The annual ISA administration charge for The Edinburgh Investment Trust plc in a Fidelity ISA is 0.5% + VAT. There is an additional annual charge of 0.5% + VAT when you invest through a Financial Adviser.

## MOVING MONEY FROM PREVIOUS PEPs AND ISAs

If you have opened ISAs or PEPs with other investment companies, you can move them into the Fidelity ISA and invest in The Edinburgh Investment Trust plc without losing any tax benefits. This is known as a transfer and it can be a great way to give your portfolio a new focus, or to realign it with your current investment goals. Please note that during the transfer your money will not be invested in the stockmarket so you may miss out on any growth during this time.

**Charges** – The standard initial charge for a transfer is 3.5%. You will not have to pay any additional transfer costs. However, please bear in mind that your current ISA or PEP manager may ask you to pay an exit fee. The annual charge is as shown in the "Investing inside an ISA" section.

## INVESTING OUTSIDE AN ISA

If you prefer to invest outside an ISA, or have already used your full ISA allowance, the Fidelity Investment Trust

Share Plan offers you a low cost and convenient way to put money into The Edinburgh Investment Trust plc. The minimum investment is £1,000 as a lump sum, £250 as a top up or £50 a month in a regular savings plan.

**Investing for children** – The Share Plan is a flexible and inexpensive way to invest on behalf of children. All you have to do is enter the initials or name of the child in the Designation Box on the Share Plan application form. A special leaflet on investing for children through investment trusts is available from Fidelity.

**Charges** – There are no charges for buying, selling or holding shares through the Fidelity Investment Trust Share Plan other than Stamp duty of 0.5%, which is currently payable on all share purchases. However, if you invest through an Independent Financial Adviser, there may be an initial charge of up to 3%.

## MOVING EXISTING SHARES TO FIDELITY

If you have an Edinburgh Investment Trust plc ISA or PEP with the previous manager, Edinburgh Fund Managers ("EFM"), you will have been advised that its management has been transferred to Aberdeen Asset Management ("Aberdeen"). You can transfer your Aberdeen ISA or PEP to Fidelity who will pay the exit fee charged by Aberdeen.

Alternatively, if you have invested through the Aberdeen Investment Trust Share Plan (formerly the EFM InvestIT Saving Scheme or the EFM LEAP Saving Scheme) you can move your shares to the Fidelity Investment Trust Share Plan and Fidelity will cover any exit fees charged by Aberdeen. This transfer could be particularly useful for investors who wish to restart a monthly savings plan (no longer available with the Aberdeen Investment Trust Share Plan) and want all their holdings together in one account.

An additional bonus for investors transferring holdings from Aberdeen is that Fidelity will accept monthly savings contributions below its normal minimum investment of £50 a month.

**Holding shares directly** – If you have shares in The Edinburgh Investment Trust plc that you bought through a broker or share shop you can transfer them into the Fidelity Investment Trust Share Plan. Doing this allows you to reinvest your dividends and make further investments without having to pay brokerage fees. You will also be able to set up a monthly savings plan and receive statements and valuations twice a year.



# Investing in The Edinburgh Investment Trust plc

---

## BENEFICIAL OWNERS OF SHARES – INFORMATION RIGHTS

With effect from 1 October 2007 registered shareholders of fully listed companies are able to nominate the underlying beneficial owners of their shares to receive information rights from 1 January 2008. You should contact your registered shareholder *direct* to request to receive your information rights. Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's Registrars, Equiniti Limited, or to the Company direct.

## INVESTING ONLINE

You can invest online in The Edinburgh Investment Trust plc shares via [www.fidelity.co.uk/sharenetwork](http://www.fidelity.co.uk/sharenetwork). Fidelity ShareNetwork enables you to buy or sell shares in any listed company during normal London Stock Exchange trading hours – between 8am and 4.30pm any working day. Shares in ShareNetwork can either be held direct or in an ISA, subject to the normal ISA limits and restrictions. You will be shown a live price and be able to buy or sell immediately. If an order is placed when the market is closed, it will be processed as soon as the market reopens. Unlike many online share dealing services, Fidelity ShareNetwork gives you personal CREST membership for shares held direct. This means that shares are registered on the CREST system in your own name and everything relating to your shares – dividends, annual reports and so on – will be sent direct to you and you will be able to attend and vote at shareholder meetings in your own name. Personal CREST membership does not apply to ISA holdings which must be held in the name of the ISA manager's nominee under ISA regulations. Fidelity ShareNetwork has a very competitive cost structure. Share purchases or sales are executed on line for only £9 per trade. (Stamp duty is also payable on purchases at the rate of 0.5%). There is an account administration fee of £5 per month, however many different shares you own and whatever their value.

## CONTACT INFORMATION

Private investors  
call free to 0800 41 41 10, 9am to 6pm, 7 days a week

Financial advisers  
call free to 0800 41 41 81, 8am to 6pm,  
*Monday to Friday*

[www.itseit.co.uk](http://www.itseit.co.uk) or  
[www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

Existing shareholders who have a specific query regarding their holding or need to provide update information, for example a change of address, should contact the appropriate administrator

## Holders of ordinary shares

Equiniti Limited (formerly Lloyds TSB Registrars),  
Registrars to The Edinburgh Investment Trust plc,  
PO Box 28448, Finance House, Orchard Brae,  
Edinburgh EH4 1WQ

Telephone 0871 384 2431 (calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary)

[www.shareview.co.uk](http://www.shareview.co.uk)

## Share Plan investors

Fidelity Investment Trust Share Plan, Equiniti Limited  
(formerly Lloyds TSB Registrars), PO Box 4605, Aspect  
House, Spencer Road, Lancing, West Sussex, BN99 6QY

Telephone 0871 384 2781 (calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary)

## ISA/PEP investors

Fidelity, using the freephone numbers given above,  
or by writing to

UK Customer Service, Fidelity Investments, Oakhill  
House, 130 Tonbridge Road, Hildenborough,  
Tonbridge, Kent TN11 9DZ

General enquiries should be made to Fidelity, the  
Investment Manager and Secretary, at Fidelity  
Investments International Investment Trusts, Beech  
Gate, Millfield Lane, Lower Kingswood, Tadworth,  
Surrey KT20 6RP

# Investing in The Edinburgh Investment Trust plc

---

## KEEPING YOU UPDATED

If you hold The Edinburgh Investment Trust plc in an ISA or PEP, you will receive a yearly report detailing all your transactions and the value of your shares. Investors with the Fidelity Investment Trust Share Plan will receive statements and valuations twice a year.

The share price of The Edinburgh Investment Trust plc appears daily in The Financial Times, The Times, The Guardian, The Daily Telegraph, The Scotsman and The Herald. Price and performance information is also available at [itsert.co.uk](http://itsert.co.uk).

Investors can obtain the real time share price by phoning **FT Cityline on 0906 843 0000**, selecting option 2 and entering 2422 (calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephony networks may vary).

## FURTHER INFORMATION

For application forms or more information about any of the investment options described here, please call the **Fidelity Investment Trust Line on 0800 41 41 10** and talk to a Fidelity customer representative (9am to 6pm).

Alternatively, you may like to visit the **Fidelity London Investor Centre** at 25 Cannon Street, near St Paul's Cathedral.

You can also find out more by visiting [fidelity.co.uk](http://fidelity.co.uk) and [itsert.co.uk](http://itsert.co.uk) or contacting your Financial Adviser.

The Fidelity Individual Savings Account ("ISA") is offered and managed by Financial Administration Services Limited. The Fidelity Investment Trust Share Plan is managed by Fidelity Investments International. Both companies are authorised and regulated by the Financial Services Authority. The Fidelity Investment Trust Share Plan is administered by Equiniti Limited and shares will be held in the name of Lloyds TSB Registrars Savings Nominees Limited. The value of savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future. Fidelity investment trusts are managed by Fidelity Investments International. Fidelity only gives information about its own products and services and does not provide investment advice based on individual circumstances. Should you wish to seek advice, please contact a Financial Adviser. Issued by Fidelity Investments International, authorised and regulated by the Financial Services Authority.

For the purposes of Sections 21 and 25 of the Financial Services and Markets Act 2000, the content of this report has been approved by Fidelity Investments International.

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is not a guide to future returns.

For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment. Investing in small and emerging markets can be more volatile than other more developed markets.

Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may already have been acted upon by Fidelity.

Fidelity, Fidelity International and the Pyramid Logo are trademarks of FIL Limited.

CB33994/na

The printing inks used for this report are made from vegetable based oils and 95% of cleaning solvents are recycled for further use. The electricity was all generated from renewable sources and on average 87% of any waste associated with this production will be recycled. Printed using pureprint® environmental print technology by a CarbonNeutral® company, registered to the Environmental Management System, ISO 14001 and EMAS, the Eco Management and Audit Scheme.

The FSC logo identifies products which contain wood from well managed forests certified in accordance with the rules of the Forest Stewardship Council.

This document is printed on Revive 50/50, a paper containing 50% recovered fibre & 50% virgin fibre. Pulps used are elemental chlorine free, manufactured at a mill with the ISO 14001 Environmental Management System.

The carbon emissions from this publication have been assessed and reduced with the remaining emissions offset in a carbon reduction project.