

THE INDEPENDENT INVESTMENT TRUST PLC

ANNUAL REPORT AND ACCOUNTS

For the year ended 30 November 2007

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in The Independent Investment Trust PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

OBJECTIVE AND POLICY

The Company's objective is to provide good absolute returns over long periods by investing the great majority of its assets in UK and International quoted securities. Most of the Company's portfolio is currently invested in UK equities, but this will not necessarily remain the case. The Company's investment policy is contained within the Business Review on page 8.

RISKS

The features described above are designed to allow the Company an unusually high degree of freedom to exploit the directors' judgement. To the extent that the directors' judgement is flawed, future results could be unusually poor.

The Independent Investment Trust PLC, as a listed company, is subject to the requirements of the Listing Rules of the Financial Services Authority (FSA) but it is not directly regulated by the FSA, either as a collective investment scheme or as an authorised person. Moreover, its employees are not registered with the FSA as authorised persons. If you are in any doubt about the Company's regulatory status, you should consult your stockbroker or financial adviser.

SUMMARY STATISTICS

for the year ended 30 November 2007

	2007	2006	<i>% change</i>
Net asset value per share	227.1p	282.6p	(19.6)
Earnings per share	5.36p	4.78p	12.1
Proposed dividend per share (Including interim dividend paid of 2.00p (2006 – 2.00p))	5.00p	4.50p	11.1

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Douglas McDougall OBE *Chairman*

Douglas McDougall was a partner in Baillie Gifford & Co from 1969 until April 1999. From 1989, when he was appointed joint senior partner, until his retirement in 1999, he was in overall charge both of the firm's investment departments and of its investment policy committee. He is chairman of The Law Debenture Corporation plc, Foreign & Colonial Eurotrust plc and The Scottish Investment Trust PLC and a director of The Monks Investment Trust PLC, Pacific Horizon Investment Trust PLC, Herald Investment Trust plc and Stramongate Assets PLC. He is a former chairman of IMRO, the Association of Investment Companies and the Fund Managers' Association.

Max Ward *Managing Director*

Max Ward was a partner in Baillie Gifford & Co from 1975 until April 2000, and was head of the firm's UK Equity Department from 1981 until his retirement in 2000. From 1989 until 2000 he was the manager of Scottish Mortgage Investment Trust PLC. He is a director of Aegon UK plc and of Foreign and Colonial Investment Trust plc.

James Ferguson *Senior Independent Director*

James Ferguson joined Stewart Ivory (previously Stewart Fund Managers) in 1970. He was appointed a director in 1974, and became chairman in 1989, a post he held until his retirement in 2000. He is chairman of Value & Income Trust plc, The Monks Investment Trust PLC, The Scottish Oriental Smaller Companies Trust plc and Edinburgh U.S. Tracker Trust. He is a director of Northern 3 VCT plc, Audex Properties PLC and Lloyds TSB Scotland PLC. He is a former deputy chairman of the Association of Investment Companies and is a former member of the Executive Committee of the Fund Managers' Association.

The Hon. Robert Laing

Robert Laing was admitted as a solicitor in England in 1977 and in Scotland in 1985. He worked for Slaughter and May from 1975 until 1983, when he joined Maclay Murray & Spens. He has been a partner in Maclay Murray & Spens (now Maclay Murray & Spens LLP) since 1985.

All the directors are members of the audit committee and nomination committee and all the directors except Max Ward are members of the remuneration committee. Douglas McDougall is the chairman of all three committees.

INVESTMENT MANAGEMENT

The board maintains overall control over the formulation of the Company's investment policy and has overall responsibility for the Company's activities. The board has delegated responsibility for day-to-day investment management to Max Ward, the Company's managing director. Max Ward has a rolling twelve month contract for services with the Company under which he received a salary of £100,000 for the year under review.

Up until now we have been able to report consistently good results and have permitted ourselves a little leeway in doing so. The figures for the year to 30 November 2007, however, are no laughing matter, but rather justify the warning that has been prominently displayed in all our reports, that the Company has been designed to allow an unusually high degree of freedom to exploit the directors' judgement, and that to the extent that that judgement is flawed results may be unusually poor.

The 19.6% fall in our net asset value over the year (from 282.6p to 227.1p) was the more painful for having occurred during a period when the FTSE All Share Index actually rose by 5.2%. The NAV total return figures for the year can be found in the managing director's report. The decline in the NAV was amplified in the share price by a move over the year from a premium of 3.3% to a discount of 8.9%.

Some element of our difficulties can be ascribed to a natural reaction in sectors, such as housebuilding, that had performed well over a number of years. The scale of this reaction was, however, greatly exacerbated by the problems confronting the banking industry in general, and Northern Rock in particular. Our failure to foresee these problems left us more exposed to such sectors than we should have been and meant that the necessary process of retrenchment that ensued was carried out on relatively unfavourable terms. In addition to these problems, we made a number of mistakes in the stocks we chose and had no exposure to the mining industry, the strong performance of which was an important contributor to the robust performance of the overall market.

Despite our poor results in the year under review, our longer term performance remains satisfactory. Between 18 October 2000 and 30 November 2007, we produced a NAV total return of 159%, equivalent to a rate of roughly 15% per annum, of which 2.9% per annum can be offset by RPI inflation. By comparison, the notional return available from the FTSE All Share Index over the period amounted to 39%, or roughly 5% per annum. It is our view that the best returns from equity investment are obtained by concentrating on a relatively long time horizon and being willing to accept disappointing returns over shorter periods – a familiar refrain from fund managers reporting on disappointing results.

Throughout the first half of our year, it was possible to consider the performance of the UK economy in isolation and to infer that, while the overall level of demand was uncomfortably high, a period of judicious monetary tightening should be capable of engineering a soft landing. By July, however, it had become apparent that the problems of the US financial system arising from imprudent lending decisions had severely affected liquidity in sterling and euro money markets. As a direct result of this, Northern Rock found itself having to draw upon the Bank of England as a lender of last resort, an event that precipitated a major and general tightening in credit standards. The immediate effect of this has already been seen in the downward movement of residential and commercial property prices and it is widely expected that a further consequence will be a period of pronounced weakness for consumer expenditure. This background has been profoundly unhelpful to our portfolio with its heavy concentration on banks, housebuilders and retailers. We have persisted with our determination to hold good companies through periods of cyclical weakness, but we reduced our overall exposure to these obviously vulnerable sectors to reflect a high level of uncertainty about their immediate prospects.

We have again had an active year. There have been two important consequences of this activity: a significant increase in our exposure to energy investments and a move from net borrowings amounting to 15% of shareholders' funds at 30 November 2006 to net cash amounting to 13% of shareholders' funds at 30 November 2007. There have been no new areas of enthusiasm for us, but we have retained our loyalty to many of our former favourites, albeit in most cases with lower absolute levels of exposure. The only foreign currency borrowings at 30 November 2007 were in euros and were matched by a forward contract to purchase euros. We have thus eliminated all our foreign currency hedging.

The banking industry and those industries, such as housebuilding and retailing, that depend upon a ready supply of reasonably priced credit to their customers for their prosperity are the obvious victims of the evaporation of liquidity in wholesale money markets, but the scale of the market's devaluation of these sectors has taken us by surprise. Similarly poor performances were recorded by our recruitment holdings and our European property holdings, none of which has yet experienced any significant deterioration in trading. Indeed, the only area of our portfolio that has performed with any credit during the year under review has been

energy, and within our energy holdings it has been the offshore drillers that have stood out as higher than expected oil prices have bolstered investors' confidence in the durability of the current drilling boom. Further comments on performance can be found in the managing director's report.

Earnings per share for the year were 5.36p (4.78p). We are proposing a final dividend of 3p (2.5p) to make a total for the year of 5p (4.5p), an increase of 11.1%. This is a better outcome than we had expected at the time of the interim results and reflects the benefits to the income account of a switch from net borrowings to net cash.

A combination of modestly rising expenses and a steep decline in the value of our net assets has produced an unwelcome rise in our Total Expense Ratio – from 0.26% of year end shareholders' funds to 0.33%. Despite this, we remain one of the most economically run companies in the investment trust sector.

We stated last year that we should like to buy in shares should the opportunity arise to do so at a discount to net asset value. Given that our shares have recently been selling at a discount, it may surprise you that we have not bought any in. The main reason for this is a belief that the level of discount at which one may prudently buy in stock is a function of the liquidity of the stocks in the underlying portfolio. One of the consequences of the recent market volatility has been a drying up of liquidity in many small and medium sized stocks, which has led to our taking a more cautious view than we had originally hoped of the level of discount at which we would act.

I have to admit that we entered the credit crisis in September on the wrong foot. Though our holdings, leaving aside the special case of the banks, had strong balance sheets, many of their customers were dependent on credit. Where do we go from here?

One of the consequences of the upheavals in the world banking system seems likely to be a sharp slowdown in growth in western economies. That this should be happening at a time when there are still significant inflationary pressures makes the job of the central banks a difficult one. The Bank of England appears to recognise the need for lower interest rates, but it remains to be seen whether the pace of decline will be sufficient to head off the gathering recessionary forces. The operating environment for many of our companies will be more difficult than they have experienced for many years and their performance in this environment will be a function of management quality and balance sheet strength.

In the days immediately following the Northern Rock collapse, we changed course to the extent of moving from gearing of 18% to net liquidity of 10%. With hindsight, we did not go nearly far enough, but the consequences of not having acted hardly bear thinking about.

Our major position, the 25%+ of funds which we have invested in the energy sector, is based not on a view of short term movements in the oil price, where our guess is no better than anybody else's, but on the argument that the chances of a flattening out and indeed decline in the supply of oil are being under-estimated, while demand, led by the developing world, is likely to continue to grow. This view is backed by investment in service companies, which would benefit from an increasingly desperate search for oil in difficult locations, rather than in oil companies, which will be squeezed by declining production and rising costs. That is our big positive position at the moment.

For the rest of the portfolio, which the managing director and I chew over incessantly in an attempt to keep our spirits up, we think that we are invested, on the whole, in well run companies with good long term prospects, the share prices of which have in many cases halved or worse to levels which are extremely low in relation to recent results. They will undoubtedly suffer in the short term, but should they survive, as we expect they will, they will prove to have been cheap at current levels. This is the tune which we whistle in these difficult days, and we are naïve enough to be reassured by it.

Once again, we should like to encourage you to come to the AGM, which is to be held in the Baillie Gifford offices at Calton Square at 11.00am on 27 March 2008. It will help our planning if we know how many shareholders are likely to attend, and I shall be grateful if you will mark the proxy form accordingly and return it to us. I look forward to seeing as many of you as possible there.

Douglas McDougall
31 January 2008

During the year to 30 November 2007, The Independent Investment Trust produced a NAV total return of -18%. This is a disappointing outcome, particularly for a period when theoretical investments in the FTSE All Share Index and The FTSE World Index would have produced positive total returns of 8.5% and 7.9%.

We drew attention a year ago to the big increase in our energy stake on the back of growing concerns about the future availability and price of energy. We made further additions to this stake in the early part of our year, taking advantage of a period of temporary weakness in the oil price. Towards the end of the year, however, the strong underlying performance of our tar sands companies and our drillers, together with our doubts about the short term sustainability of an oil price that had risen particularly sharply during the year, caused us to sell all our tar sands holdings and to reduce our drilling stake. Overall, despite net sales of £6.7m during the year, the value of our energy stake rose from £40.1m at 30 November 2006 to £41.4m at 30 November 2007.

We continue to believe that there will be a strong long term demand for offshore drilling rigs as long as oil prices are expected to remain above \$50 in today's money. We acknowledge, however, that the supply of such rigs is lumpy with the result that there may well be periods of weakness in rates as new supply is absorbed by the market. For this reason, we have started to broaden our oilfield services exposure with the purchase of small holdings in two of the industry's leading companies: Schlumberger and Halliburton. Their fortunes are related to the number of rigs in operation rather than the rates commanded by such rigs.

Our Canadian gas companies have been a major disappointment to us, partly because of the stubborn refusal of the gas price to mirror the strong performance of the oil price, but also because some of our holdings have achieved disappointing results from their exploration programmes, which has put them under financial stress. We are in the process of rationalizing our exposure to this area, in the hope of ending up with a smaller number of holdings in the more robust companies. Elsewhere in the energy field, we have taken a holding in CleanEnergyBrazil, a vertically integrated producer of cane sugar and ethanol. We think the economics of sugar-based ethanol production are attractive at oil prices well below current levels.

Our willingness to retain a big exposure to the retail industry in the face of a deteriorating outlook for consumer expenditure has cost us dear in the year under review: an investment of £29.5m at 30 November 2006 had fallen in value to £18.8m by 30 November 2007, despite net purchases of £3.1m. Part of this poor performance is attributable to poor judgement: a short-lived investment in Sports Direct proved very expensive and our furniture retailers have had a much worse trading experience than we expected. Our other retail holdings, however, have all traded at least as well as could be expected in a tough environment, which gives us great hope for their prospects once the retail market improves, as we expect it to over the next two to three years. In the meantime, we expect their competitive position to improve as weaker operators succumb to financial pressures. In a related area, the sale of our holding in Domino's Pizza on grounds of price provides a powerful reminder of the difficulties of juggling in and out of the shares of inherently strong companies. Even after a steep fall in recent weeks, the Domino's price has barely returned to the level at which we sold.

Our longstanding enthusiasm for the banking sector has depended on an implicit assumption that the banking system in Britain and Ireland was in good health. That a drying up of liquidity in the wholesale market should have precipitated the collapse of Northern Rock has exposed the naivety of this assumption and cost us a lot of money, both through the holding we had taken in Northern Rock itself and through the devaluation of our other holdings in the sector. When the news broke, we decided to reverse an earlier policy of increasing our exposure to the sector by making substantial sales. Among the stocks we sold completely was Anglo Irish, which had been one of our most successful investments. We continue to have great admiration for the company, but believe that its high exposure to real estate lending will make life more difficult for it in the immediate future and affect market sentiment towards its shares. Overall, our bank holdings fell in value from £25.9m on 30 November 2006 to £16.1m on 30 November 2007 despite net purchases of £1.4m.

The arrival of a year of poor performance from our big housebuilding stake has been long overdue and this has no doubt contributed to the scale of the decline being greater than we were prepared for: a position worth £46.3m on 30 November 2006 had fallen in value to £13.4m by 30 November 2007 after net sales during the year of £17.7m.

For much of our year, it appeared that a steady rise in interest rates would engineer a soft landing for the British housing market, the persistent buoyancy of which had become a source of concern to the Bank of England. Unfortunately, the shock to confidence provided by the Northern Rock debacle and the subsequent tightening in mortgage lending standards have increased the probability of a grim year for housing in 2008. The management teams of our housebuilding holdings have considerable experience of operating in depressed markets and we are optimistic that they can bring their companies through a period of falling house prices in good shape. If we are right about this, there is considerable upside potential in current share prices once the market starts to look beyond the immediate trading outlook. In the meantime, we should point out that since we set up in business in 2000, the sales we have made of housebuilders have generated some £17m more than our housebuilding purchases. In other words, it is still the case that we have benefited hugely from our exposure to the sector.

Recruitment is another sector that has stood us in good stead over the life of The Independent, but which has been a painful exposure for us in the year under review: our stake in the sector fell in value from £19.4m on 30 November 2006 to £7.5m on 30 November 2007 after net sales of £9.4m. The poor performance of the sector, which really dates from August, can be attributed to growing concerns about the global economic outlook, to which these companies are particularly sensitive. The sales we made were all at prices well above those currently prevailing and we await an opportunity to increase our stake in the sector, for which we still consider long term prospects to be outstanding.

Our investments in continental European property, all of which are quoted in London, have performed disappointingly as investors have assumed that the weakness currently evident in UK property prices will flow through to continental property prices. It remains to be seen whether this actually happens, but in the meantime the shares look cheap. In June we took advantage of a falling share price to buy back a small part of the hugely successful holding in DTZ we sold out of in the previous year. This move was premature and we have since sold the holding at a loss.

Elsewhere in the portfolio, Kiln and Herald both lost ground (although Kiln has since risen strongly in reaction to its agreement to be taken over), while Intermediate Capital was rewarded for having read the private equity cycle well. We made good sales of Johnston Press and Sage, but would have done better to have held onto United Utilities, Wogen and Prodesse.

Max Ward
31 January 2008

LIST OF INVESTMENTS AS AT 30 NOVEMBER 2007

Sector	Name	At November 2007		At November 2006
		Value £'000	%	Value £'000
Housebuilders	Barratt Developments	4,648	3.1	-
	Persimmon	6,368	4.2	13,140
	Telford Homes	2,400	1.6	4,508
		<u>13,416</u>	<u>8.9</u>	
Retailing	Dunelm Group	6,501	4.3	8,280
	Land of Leather Holdings	4,613	3.1	7,000
	SCS Upholstery	1,210	0.8	5,670
	Topps Tiles	6,470	4.3	7,425
	<u>18,794</u>	<u>12.5</u>		
Recruitment	Michael Page International	4,564	3.0	6,528
	SThree	2,936	2.0	5,655
		<u>7,500</u>	<u>5.0</u>	
Technology and Telecommunications	Herald Investment Trust	6,400	4.3	3,645
Oilfield Services	Diamond Offshore Drilling – USA	5,646	3.8	3,939
	ENSCO – USA	7,857	5.2	5,268
	Halliburton – USA	1,778	1.2	-
	Noble – USA	8,873	5.9	-
	Schlumberger – USA	1,814	1.2	-
	Transocean – USA	5,332	3.5	-
	<u>31,300</u>	<u>20.8</u>		
Oil and Gas Exploration	Cyries Energy – Canada	535	0.4	1,270
	Duvernay Oil – Canada	1,432	0.9	1,982
	Fairborne Energy Trust – Canada	329	0.2	-
	ProEx Energy – Canada	860	0.6	940
	RSX Energy – Canada	382	0.2	757
	Tristar Oil & Gas – Canada	2,485	1.7	-
	<u>6,023</u>	<u>4.0</u>		
Renewable Energy	CleanEnergyBrazil†	4,046	2.7	-
Banks	Lloyds TSB	6,930	4.6	6,486
	Royal Bank of Scotland	9,175	6.1	3,682
		<u>16,105</u>	<u>10.7</u>	
Insurance	Hiscox Insurance Portfolio Fund	1,748	1.2	1,767
	Kiln	5,250	3.5	5,250
		<u>6,998</u>	<u>4.7</u>	
Miscellaneous Financials	Intermediate Capital Group	3,620	2.4	4,728
Property	Develica Deutschland (quoted in Euro)	3,073	2.0	3,841
	Kenmore European Industrial Fund	4,200	2.8	5,500
	Orchid Developments Group	2,227	1.5	2,635
	Puma Brandenburg	4,200	2.8	7,245
	DTZ Holdings	1,304	0.9	-
	<u>15,004</u>	<u>10.0</u>		
Value of investments sold during the year				<u>93,556</u>
TOTAL INVESTMENTS		129,206	86.0	210,697
Net liquid assets		30,962	20.6	14,452
TOTAL ASSETS BEFORE BANK LOANS		160,168	106.6	225,149
Bank loans		(9,994)	(6.6)	(38,279)
EQUITY SHAREHOLDERS' FUNDS		<u>150,174</u>	<u>100.0</u>	<u>186,870</u>

All holdings are domiciled in the UK unless otherwise stated.

†Includes a holding in warrants.

The directors have pleasure in submitting their Annual Report together with the results of the Company for the year ending 30 November 2007.

Business Review

Business and Status

The Company is an investment company within the meaning of section 266 of the Companies Act 1985.

The Company carries on business as an investment trust. It was approved by HM Revenue & Customs as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 November 2006, subject to any matters that may arise from any subsequent enquiry by HM Revenue & Customs into the Company's tax return. In the opinion of the directors the Company has subsequently conducted its affairs so as to enable it to continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year.

Investment Objective and Policy

The Company's objective is to provide good absolute returns over long periods by investing the great majority of its assets in quoted securities. The major part of the Company's portfolio is currently invested in UK equities, but this will not necessarily remain the case.

The Company's asset allocation policy is essentially opportunistic: the directors will sanction the allocation of money to those geographic areas that appear to offer the most favourable combinations of risk and reward. There are no maximum exposure limits on the amounts to be allocated to individual geographic areas, but in determining the allocation to an individual area the directors will consider the quality and quantity of information about that area available to the Company. They will also consider the difficulty the Company might have in monitoring its investments in that area in the context of a limited managerial resource. An important reason for the Company's historical commitment to UK equities has been the easy access it has had to an abundant supply of information on UK companies.

The Company has the freedom to invest up to 10% of its assets in unquoted securities, but the directors have no current intention of investing in unquoted securities.

The Company may, from time to time, use derivatives (futures, options and the like) to protect shareholders' funds, to hedge currency exposure or as a cost effective alternative to conventional gearing. When using derivatives, the directors will ensure that the true economic exposure incurred through their use will be consistent with the principles outlined here.

It has been the policy of the directors since the Company's inception to sanction levels of exposure to individual companies and industries that would be considered unusually high by many conventional equity managers. In such cases, considerable care is taken by the directors at the time that the positions are established to ensure that the risk associated with them is reasonable in the context of the potential they offer. In particular, great emphasis is placed on the fundamental characteristics of the businesses and on their valuations. The directors will not sanction new investment in any sector that makes up more than 40% of the Company's shareholders' funds or in any company that makes up more than 15% of the Company's shareholders' funds.

The directors are aware that in some quarters it is believed that the composition of market indices is a good starting point for the measurement of portfolio risk. They do not share this belief and pay no attention to the composition of market indices when assessing the level of risk within the portfolio. Instead, they consider the fundamental characteristics of the individual investments – such as cyclicity, profitability, balance sheet structure and valuation – to arrive at a subjective assessment of the level of risk associated with each. They then make a further subjective assessment of the extent to which levels of concentration in particular industries leaves the Company exposed to unexpected external events. It is the conscious policy of the directors to operate with less diversification of risk than might be considered normal by many investment managers.

The directors believe that the judicious use of gearing represents an attractive means of enhancing long term returns to shareholders. When circumstances are appropriate, the directors will sanction levels of gearing that would be considered unusually high by many investment trust boards. The directors consider that borrowings are most appropriately used to

finance less risky equities offering relatively high yields. Whenever the Company has net borrowings, the directors seek to ensure that the value of the subsection of the portfolio comprising such holdings exceeds the value of the net borrowings. The directors will not sanction any increase in borrowings if the level of gearing is greater than 50% of net assets.

A detailed analysis of the Company's Investment Portfolio is set out on page 7 and in the Managing Director's Report.

Performance

At each board meeting, the directors consider a number of performance measures to assess the Company's success in achieving its objectives.

The key performance indicators (KPIs) used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share on a total return basis;
- the discount or premium to net asset value; and
- the total expense ratio.

The net asset value performance for both the financial year and since inception is contained in the Chairman's Statement along with information on the discount and total expense ratio.

A review of the year and the investment outlook is contained in the Chairman's Statement and the Managing Director's Report on pages 3 to 6.

Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities and include market risk, interest rate risk, liquidity risk, foreign currency risk and loss of investment trust status.

The Company operates as an investment trust company in accordance with section 842 of the Income and Corporation Taxes Act. As such, the Company is exempt from capital gains tax on the sale of its investments. The board monitors investment movements and the level of forecast income and expenditure and the amount of the proposed dividends to ensure that the provisions of section 842 are not breached. An explanation of market risk, interest rate risk, liquidity risk and foreign currency risk and how they are managed are contained in note 18 to the accounts on pages 30 and 31.

Dividends

The board recommends a final dividend of 3.00p per ordinary share which, together with the interim already paid, makes a total of 5.00p for the year.

The recommended final dividend, if approved, will be paid on 7 April 2008 to shareholders on the register at the close of business on 14 March 2008.

Corporate Governance

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the Combined Code on Corporate Governance published in 2006 (the "Combined Code"), were applied throughout the financial year.

Compliance

The Company has complied throughout the year under review with the provisions of the Combined Code, except that:

- (i) Max Ward, the managing director, is a member of the audit committee. The Board believes that it is appropriate for Max Ward to be a member of the audit committee given his understanding of the business, integrity and independence of mind; and
- (ii) the chairman of the Board is also chairman of the remuneration committee. The chairman's fees and those of the non-executive directors are determined by the board rather than the remuneration committee.

The Board

The Independent Investment Trust is run by its board, which consists of a chairman, a managing director and two non-executive directors. The board retains overall control over the

Company's investment policy and has responsibility for all the Company's activities including strategy, borrowings, gearing, treasury matters and dividend policy. The board also reviews the financial statements, investment transactions, revenue budgets and performance. Full and timely information is provided to the board to enable the board to function effectively and to allow directors to discharge their responsibilities.

The chairman is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda. The board has delegated the day-to-day management of the portfolio to Max Ward, the managing director. The secretarial and administration responsibilities have been delegated to Baillie Gifford & Co. The senior independent director is James Ferguson.

The directors believe that the board has a balance of skills and experience which enable it to provide effective strategic leadership and proper governance of the Company. Information about the directors, including their relevant experience, can be found on page 2.

There is an agreed procedure for directors to seek independent professional advice if necessary and at the Company's expense.

The Company also maintains Directors' and Officers' Liability insurance.

Independence of directors

The chairman and non-executive directors are considered to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The chairman and James Ferguson are both directors of The Monks Investment Trust PLC but the board does not believe that this affects their independent judgement.

Meetings

There is an annual cycle of board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, revenue budgets, dividend policy and communication with shareholders. The board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for the board and committee meetings held during the year. All of the directors attended the Annual General Meeting.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings	5	2	1	1
DCP McDougall	5	2	1	1
MCB Ward	5	2	1	–
JGD Ferguson	4	2	1	1
The Hon RJ Laing	4	2	1	1

Mr MCB Ward is not a member of the remuneration committee.

Nomination Committee

The nomination committee consists of the whole board. Douglas McDougall is chairman of the committee. The committee meets on an annual basis and at such other times as may be required. The committee has written terms of reference which include reviewing the board structure, identifying and nominating candidates for appointment to the board, appraising the board, considering whether directors should be recommended for re-election by shareholders, succession planning and training. The terms of reference are available on request and on the website: www.independentinvestmenttrust.co.uk.

Performance evaluation

The nomination committee met to assess the performance of the chairman, each director, the board as a whole and its committees after inviting each director and the chairman to consider and respond to a questionnaire. The appraisal of the chairman was led by the senior independent director. The appraisals and evaluations considered amongst other criteria the balance of skills of the board, the contribution of individual directors and the overall effectiveness of the board and its committees. Following this process it was concluded that the performance of each director, the chairman, the board and its committees continued to be effective and each director and the chairman remained committed to the company. A review of

the chairman's and other directors' commitments was carried out and the nomination committee is satisfied that they are capable of devoting sufficient time to the Company. There were no significant changes to the chairman's other commitments during the year.

The appointment of new directors will be considered by the nomination committee taking into account the need to maintain a balanced board.

Terms of Appointment and Re-elections

Max Ward has a rolling 12 month contract for services with the Company, details of which are given in the Remuneration Report on page 17.

Letters which specify the terms of appointment are issued to new non-executive directors. The letters of appointment are available for inspection on request. Non-executive directors are initially appointed for a three year term and, at the end of the period, the appointment may be renewed for a further period. The board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can add significantly to the strength of the board.

The Company's Articles provide that a director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The Articles also provide that one third of the directors retire by rotation each year and that each director submits himself for re-election at least once every three years.

The directors retiring and offering themselves for re-election, together with the reasons why the board supports the re-elections, are set out on page 13.

Induction and Training

New directors appointed to the board will have formal induction meetings with the managing director and Baillie Gifford & Co. All directors are encouraged to receive training relevant to their roles as directors.

Remuneration Committee

The remuneration committee consists of all the directors other than Max Ward. Douglas McDougall is chairman of the committee. The committee meets on an annual basis and on such other times as may be required. The terms of reference include reviewing the effectiveness and performance of the Company's managing director. The terms of reference are available on request and on the website: www.independentinvestmenttrust.co.uk.

The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 17 and 18.

Internal Controls and Risk Management

The board is responsible for the Company's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance against material misstatement or loss.

The board confirms that there is a process for identifying, evaluating and managing the significant risks faced by the Company in accordance with "Internal Control: Revised Guidance for Directors on the Combined Code". The board also confirms that it has reviewed the effectiveness of the system of internal controls and it has procedures in place to ensure regular future reviews.

The board takes responsibility, upon the advice of the secretaries, for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company. This responsibility also extends to maintaining effective operational and compliance controls and risk management.

The Company's internal controls strategy, which has largely been based upon Baillie Gifford & Co's existing risk based system of internal controls, has been to identify the significant risks facing the Company and to confirm that the key controls to manage those risks are operating effectively.

The practical measures to ensure compliance with regulations and with Company Law, and to provide effective and efficient operations as they relate to secretarial and administrative matters, have been delegated to Baillie Gifford & Co.

Baillie Gifford & Co conducts an annual review of its internal controls, which is documented within an internal controls report. The report is independently reviewed by Baillie Gifford & Co's auditors and a copy is submitted to the board. The Baillie Gifford & Co heads of Regulatory Risk and Business Risk & Internal Audit provide the board with regular reports on Baillie Gifford's monitoring programmes as they relate to its secretarial and administrative functions. The reporting procedures for these departments are defined and formalised within a service level agreement.

Custody of investments is contracted to an independent custodian, The Bank of New York Mellon.

A detailed risk map is prepared which identifies the significant risks faced by the Company and the key controls to manage these risks are confirmed as in place and operating effectively.

These procedures ensure that consideration is given regularly to the nature and extent of risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year, they also provide a mechanism to assess whether further action is required to manage the risks identified. The board confirms that these procedures have been in place throughout the Company's financial year, and continue to be in place up to the date of approval of this report.

Internal Audit

The audit committee carries out an annual review of the need for an internal audit function. The committee continues to believe that the size of the Company does not justify a separate internal audit function.

Accountability and Audit

The respective responsibilities of the directors and auditors in connection with the Financial Statements are set out on pages 16 and 19.

The accounts have been prepared on the going concern basis as, having made appropriate enquiries, it is the directors' opinion that, having adequate resources, the Company will continue in operational existence for the foreseeable future.

Audit Committee

The audit committee comprises the whole board. Its authority and duties are clearly defined within its written terms of reference which are available on request and on the Company's website. The chairman of the audit committee is Douglas McDougall.

The committee's responsibilities which were discharged during the year, include:

- monitoring and reviewing the integrity of the half-yearly and annual financial statements and the internal financial controls;
- making recommendations to the board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services (there were no non-audit services provided in the period);
- reviewing and monitoring the independence, objectivity and effectiveness of the external auditors;
- reviewing the arrangements in place whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company; and
- considering annually whether there is a need for the Company to have its own internal audit function.

The Committee considers the experience and tenure of the audit partner and staff and the nature and level of services provided. The Committee receives confirmation from the auditors that they have complied with the relevant UK professional and regulatory requirements on independence.

Relations with shareholders

The board places great importance on communication with shareholders. The directors have frequent discussions with shareholders. The chairman and the other directors are available for

discussion with shareholders as appropriate and shareholders wishing to communicate with the chairman or any other director should do so by writing to him at the address on the inside back cover.

The Company's Annual General Meeting is viewed as an opportunity to communicate with shareholders. The level of proxies lodged for each resolution is announced at the meeting and is published on the Company's website. The notice period for the Annual General Meeting is at least twenty working days.

Voting Policy and Socially Responsible Investment

In voting on its shareholdings, the Company will normally support management. The Company votes against resolutions which are considered to damage shareholders' rights or economic interests. The Company believes that it is in the shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments and takes these issues into account as they affect the investment objectives.

Directors

The directors, who served throughout the year under review, and their interests in the Company were as follows:

Name	Nature of interest	30 November 2007		30 November 2006	
		Ordinary shares	Options	Ordinary shares	Options
DCP McDougall (Chairman)	Beneficial	8,000,000	2,150,000	8,000,000	2,150,000
MCB Ward (Managing)	Beneficial	5,130,000	5,000,000	5,130,000	5,000,000
JGD Ferguson	Beneficial	1,010,000	1,000,000	1,010,000	1,000,000
The Hon. RJ Laing	Beneficial	860,000	–	860,000	–
	Non-beneficial	10,000	–	10,000	–

The share options were granted by the Company on 11 September 2000 to its four founding shareholders, three of whom are directors. They are exercisable at a price per share equal to the net asset value per share at the time of exercise. No consideration was paid for the grant of options, which all expire on 31 August 2010. No options were exercised during the year (2006 – 900,000).

There have been no changes intimated in the directors' interests up to 29 January 2008.

In accordance with the Company's Articles, James Ferguson, Robert Laing and Max Ward retire at the Annual General Meeting and offer themselves for re-election. Following formal evaluation, their performance is considered to be effective and they remain committed to the Company. Their contribution to the board is greatly valued and the board recommends their re-election to shareholders. Max Ward has a service contract with the Company.

Substantial Holdings

The following information has been intimated to the Company as at 29 January 2008:

Name	Number of ordinary 25p shares held	% of issued capital
A&OT Investments Limited	10,100,000	15.3%
Mr DCP McDougall	8,000,000	12.1%
Mr MCB Ward	5,130,000	7.8%
Mr AEH Salvesen	2,020,000	3.1%

Share capital

Capital structure

The Company's capital structure consists of 66,128,895 ordinary shares of 25p each (2006 – 66,128,895 ordinary shares).

Dividends

The ordinary shares carry a right to receive dividends. Interim dividends are determined by the Directors, whereas the proposed final dividend is subject to shareholder approval at the Annual General Meeting.

Capital entitlement

On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

Voting

On a show of hands, every ordinary shareholder present in person or by proxy has one vote. On a poll, every ordinary shareholder present in person has one vote for every share he/she holds and a proxy has one vote for every share in respect of which he/she is appointed.

Information on the deadlines for proxy appointments can be found on page 33.

Repurchase of Shares

The Company currently has authority to make market purchases up to 14.99% of its own issued ordinary shares in order to address any imbalance between the supply and demand for its shares and to increase the net asset value per remaining share.

The Company may hold bought-back shares "in treasury" and then:

- (i) sell such shares (or any of them) for cash (or its equivalent under the Treasury Shares Regulations); or
- (ii) cancel the shares (or any of them).

All buy-backs up to the 10% issued share capital limit imposed by the Treasury Share Regulations will initially be held in treasury (while shares bought back in excess of that limit will be cancelled). Shares will only be re-sold from treasury at a premium to the most recently calculated net asset value per share.

No shares were bought back in the year under review.

The directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 14.99% of the Company's ordinary shares in issue at the date of passing of the resolution, such authority to expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 or 26 September 2009, whichever is the earlier. Such purchases will only be made through the market for cash at prices below the most recently calculated net asset value per ordinary share, which will result in an increase in the net asset value of the remaining ordinary shares. In accordance with the Listing Rules of the UK Listing Authority, the maximum price (excluding expenses) that may be paid on the exercise of the authority must not exceed the higher of (i) 105 per cent of the average of the middle market quotations for the Shares over the five business days immediately preceding the date of purchase and (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange. The minimum price that may be paid will be 25p per share. Purchases of shares will be made within guidelines established, from time to time, by the board. At the date of these accounts the total number of options to subscribe for ordinary shares of the Company is 8,900,000, representing approximately 13% of the issued share capital at that date and would represent approximately 16% if the authority referred to above were exercised in full.

Authority to allot shares and dis-application of pre-emption rights

The Company also has the authority to allot new shares up to an aggregate nominal amount of £10,467,016. This authority expires on 14 March 2010.

The existing dis-application of pre-emption rights in respect of the issue of equity securities for cash by the Company which authorises the directors to allot new shares up to an aggregate nominal amount of £10,467,016 for cash without first offering such shares to existing shareholders *pro rata* to their existing holdings, also expires on 14 March 2010.

The directors do not consider that the Company is a vehicle for institutional investors and will not be bound by the institutional guidelines on pre-emption which limit non-pre-emptive issues for cash in any 12 month and rolling three year period. The directors will not, however, allot ordinary shares for cash at a price below the most recently calculated net asset value per share without offering such shares on a *pro rata* basis to shareholders.

Articles of Association

An amendment to the Company's Articles of Association has been proposed in the light of changes made with effect from 2005 by the Companies (Audit, Investigations and Community

Enterprise) Act 2004 to the law relating to the Company's ability to indemnify its directors and officers (excluding its auditors) in respect of liabilities incurred by them in connection with their activities on behalf of the Company.

The proposed amendment would extend the indemnity currently permitted under the Articles of Association to cover the liability of a director or officer (excluding an auditor) to a third party, other than the Company, for negligence, default or breach of trust or duty. It would not permit the director or officer to be indemnified in respect of such liabilities to the Company itself or cover any liability to pay any regulatory or criminal fines and would not cover any liability incurred by the director or officer in defending any criminal proceedings in which he is convicted or civil proceedings brought by the Company in which judgment is given against him. The indemnity would also not apply to any liability to the extent that it is recovered from another person. Resolution No. 10, as set out in the Notice of Annual General Meeting, will be proposed to amend the Company's Articles of Association to reflect these changes and widen the indemnity which the Directors and other officers of the Company are entitled to receive from the Company.

Copies of the proposed revised Articles of Association will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) until the close of the Annual General Meeting at the registered office of the Company. Copies of the proposed revised Articles of Association will also be available for inspection at the place of the Annual General Meeting for 15 minutes before and during the meeting.

Recommendation

The directors consider each resolution being proposed at the Annual General Meeting to be in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of them, as they intend to do in respect of their own beneficial holdings of shares which amount in aggregate to 15,000,000 shares, representing approximately 23% of the current issued share capital of the Company.

Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to get the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is its policy to abide by these terms. The Company had no trade creditors at 30 November 2007.

Disclosure of Information to Auditors

The directors confirm that so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, Ernst & Young LLP, are willing to continue in office and in accordance with sections 385 and 390A of the Companies Act 1985 resolutions concerning their re-appointment and remuneration will be put to the Annual General Meeting.

By order of the board

BAILLIE GIFFORD & Co

Secretaries

31 January 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 which give a true and fair view of the state of affairs of the Company and of the income of the Company for that period. In preparing those financial statements, the directors are required to:

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

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

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

The board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 19.

Remuneration Committee

The board has established a remuneration committee, which consists of all the directors other than Max Ward. Its terms of reference include reviewing the remuneration of Max Ward. The remuneration of the other directors is reviewed by the board as a whole.

Policy on Directors' Remuneration

The policy is that the remuneration of directors should be set at a level sufficient to attract and retain directors of the appropriate quality and experience. It should also be fair and reflect the experience of the board as a whole. It is intended that this policy will continue for the year ending 30 November 2008 and subsequent years.

The directors' fees, including Max Ward's salary, are determined within an aggregate limit set out in the Company's Articles of Association, which currently stands at one half of one per cent of the Company's total assets. The directors do not receive bonuses, pension benefits, long-term incentive schemes or other benefits. Three of the directors were granted share options at launch in their capacity as founding shareholders. These options are only exercisable at the full net asset value per share at the time of exercise. It is not intended that any further share options will be issued.

During the year the remuneration committee reviewed Max Ward's salary and concluded that his salary should remain unchanged at £100,000 per annum. In addition, the board reviewed the fees of the other directors and concluded that they should remain unchanged at £33,500 per annum for the chairman and £13,500 per annum for the other directors.

Directors' and officers' liability insurance cover is held by the Company in respect of the directors.

Directors' Service Contracts

Max Ward has a rolling 12 month contract for services with the Company. Under the terms of this contract, which is terminable by either party on 12 months' notice, Mr Ward has been employed as the managing director to manage the investments and assets of the Company in return for an annual salary as shown in the table on page 18. Mr Ward is also entitled to reimbursement of any travelling and other out-of-pocket expenses incurred by him in the performance of his duties for the Company provided that they have been approved by the board.

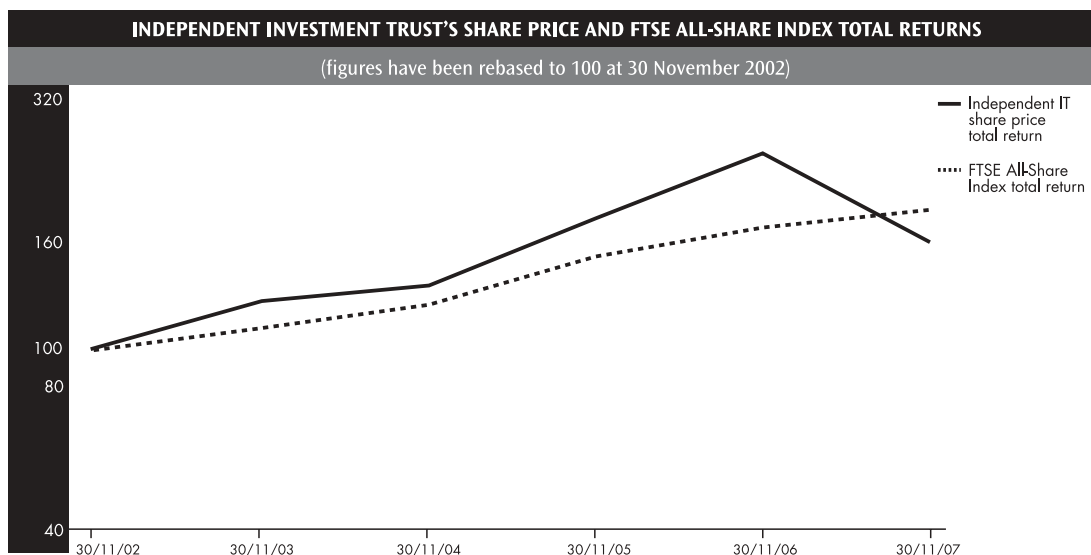
Although it is the board's policy that the chairman and the non-executive directors do not have service contracts they have been provided with appointment letters. All the directors are required to retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter they are obliged to retire by rotation and, if they wish, to offer themselves for re-election at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

Name	Date of appointment	Due date for re-election
DCP McDougall	18 October 2000	AGM 2009
MCB Ward	18 October 2000	AGM 2008
JGD Ferguson	18 October 2000	AGM 2008
The Hon. RJ Laing	18 October 2000	AGM 2008

DIRECTORS' REMUNERATION REPORT

Company Performance

The graph below compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the return on a notional investment made up of shares in the component parts of the FTSE All-share index. This index was chosen for comparison purposes both because it is a widely used measure of performance for UK listed companies and because the bulk of the Company's assets are invested in UK equities.



Source: Thomson Financial Datastream. All figures are total returns (assuming all dividends are re-invested) in sterling terms and have been plotted using a logarithmic scale.

Directors' Emoluments for the Year (audited)

The directors who served in the year received the following emoluments in the form of fees and salaries:

	2007 £	2006 £
DCP McDougall (Chairman)	33,500	33,500
MCB Ward (Managing)	100,000	100,000
JGD Ferguson	13,500	13,500
The Hon. RJ Laing	13,500	13,500
	160,500	160,500

Approval

The Directors' Remuneration Report on pages 17 and 18 was approved by the board of directors and signed on its behalf on 31 January 2008:

DCP McDOUGALL
Chairman

TO THE MEMBERS OF THE INDEPENDENT INVESTMENT TRUST PLC

We have audited the financial statements of The Independent Investment Trust plc for the year ended 30 November 2007 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement, and the related notes 1 to 18. 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 United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and the information given in the Report of the Directors is consistent with the financial statements.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding the 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 control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. Other information comprises only the Company Summary, Board of Directors, Chairman's Statement, Managing Director's Report, List of Investments, Directors' Report, unaudited part of the Directors' Remuneration Report, and Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 November 2007 and of its net return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
Edinburgh, 31 January 2008

INCOME STATEMENT

		For the year ended 30 November 2007			For the year ended 30 November 2006		
	<i>Notes</i>	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	9	–	(37,900)	(37,900)	–	44,077	44,077
Currency gains	13	–	636	636	–	2,840	2,840
Income	2	6,056	–	6,056	5,199	–	5,199
Administrative expenses	3	(500)	–	(500)	(489)	–	(489)
Net return before finance costs and taxation		5,556	(37,264)	(31,708)	4,710	46,917	51,627
Finance costs of borrowings	5	(1,949)	–	(1,949)	(1,582)	–	(1,582)
Net return on ordinary activities before taxation		3,607	(37,264)	(33,657)	3,128	46,917	50,045
Tax on ordinary activities	6	(63)	–	(63)	(7)	–	(7)
Net return on ordinary activities after taxation		3,544	(37,264)	(33,720)	3,121	46,917	50,038
Net return per ordinary share:	7						
Basic		5.36p	(56.35)p	(50.99)p	4.78p	71.87p	76.65p
Diluted (FRS 22)		5.32p	(55.98)p	(50.66)p	4.75p	71.45p	76.20p
Note:							
Dividends paid and proposed per ordinary share	8	5.00p			4.50p		

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

All revenue and capital items in this statement derive from continuing operations.

A statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 24 to 31 are an integral part of this statement.

BALANCE SHEET

	Notes	At 30 November 2007		At 30 November 2006	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments held at fair value through profit or loss	9		129,206		210,697
Current assets					
Debtors	10	6,698		3,846	
Cash at bank and in hand	18	24,373		10,731	
		31,071		14,577	
Creditors					
Amounts falling due within one year	11	(10,103)		(38,404)	
Net current assets/(liabilities)			20,968		(23,827)
Total assets less current liabilities			150,174		186,870
Capital and reserves					
Called-up share capital	12		16,532		16,532
Share premium			15,242		15,242
Special distributable reserve			38,663		38,663
Capital reserve – realised	13		76,139		54,102
Capital reserve – unrealised	13		(914)		58,387
Revenue reserve	13		4,512		3,944
Equity shareholders' funds			150,174		186,870
Net asset value per ordinary share					
	14		227.1p		282.6p

The Accounts were approved and authorised for issue by the board on 31 January 2008.

DCP McDougall
Chairman

The accompanying notes on pages 24 to 31 are an integral part of this statement.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 30 November 2007

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Reserve – Realised £'000	Capital Reserve – Unrealised £'000	Revenue Reserve £'000	Total Share- holders' Funds £'000
Shareholders' funds at 1 December 2006	16,532	15,242	38,663	54,102	58,387	3,944	186,870
Net return on ordinary activities after taxation	–	–	–	22,037	(59,301)	3,544	(33,720)
Dividends paid during the year (note 8)	–	–	–	–	–	(2,976)	(2,976)
Shareholders' funds at 30 November 2007	16,532	15,242	38,663	76,139	(914)	4,512	150,174

For the year ended 30 November 2006

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Reserve – Realised £'000	Capital Reserve – Unrealised £'000	Revenue Reserve £'000	Total Share- holders' Funds £'000
Shareholders' funds at 1 December 2005	16,307	13,046	38,663	21,863	43,709	3,759	137,347
Net return on ordinary activities after taxation	–	–	–	32,239	14,678	3,121	50,038
Issue of shares	225	2,201	–	–	–	–	2,426
Expenses of share issue	–	(5)	–	–	–	–	(5)
Dividends paid during the year (note 8)	–	–	–	–	–	(2,936)	(2,936)
Shareholders' funds at 30 November 2006	16,532	15,242	38,663	54,102	58,387	3,944	186,870

The accompanying notes on pages 24 to 31 are an integral part of this statement.

CASH FLOW STATEMENT

	Notes	For the year ended 30 November 2007		For the year ended 30 November 2006	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	15		5,234		4,842
Servicing of finance					
Interest paid		(1,968)		(1,618)	
Net cash outflow from servicing of finance			(1,968)		(1,618)
Taxation					
Income tax recovered		–		8	
Total tax recovered			–		8
Capital expenditure and financial investment					
Acquisitions of investments		(63,881)		(80,168)	
Disposals of investments		105,070		74,632	
Realised currency (loss)/gain		(19)		157	
Net cash inflow/(outflow) from capital expenditure and financial investment			41,170		(5,379)
Equity dividends paid			(2,976)		(2,936)
Net cash inflow/(outflow) before financing			41,460		(5,083)
Financing					
Issue of shares		–		2,421	
Net bank loans (repaid)/drawn down		(27,818)		13,381	
Net cash (outflow)/inflow from financing			(27,818)		15,802
Increase in cash	16		13,642		10,719
Reconciliation of net cash flow to movement in net funds/(debt)	16				
Increase in cash in the year			13,642		10,719
Decrease/(increase) in bank loans			27,818		(13,381)
Exchange movement on bank loans			467		2,683
Movement in net funds/(debt) in the year			41,927		21
Net debt at 1 December			(27,548)		(27,569)
Net funds/(debt) at 30 November			14,379		(27,548)

The accompanying notes on pages 24 to 31 are an integral part of this statement.

1 PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies, which are unchanged from the prior year and have been applied consistently, are set out below.

(a) Basis of accounting

The accounts are prepared on the assumption that approval as an investment trust will continue to be granted.

The accounts have been prepared in accordance with The Companies Act 1985, applicable UK accounting standards and with the SORP issued in 2003, revised in 2005.

In order to better reflect the activities of the trust and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

Financial assets and financial liabilities are recognised in the balance sheet of the Company when it becomes a party to the contractual provisions of the instrument.

The Directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

(b) Investments

Purchases and sales of investments are accounted for on a trade date basis.

Listed investments are valued at fair value through profit or loss. The fair value of listed security investments is bid value or, in the case of FTSE 100 constituents, last traded prices issued by the London Stock Exchange.

Listed investments include Open Ended Investment Companies ("OEICs") authorised in the UK; these are valued at closing prices and are classified for valuation purposes according to the principal geographical area of the underlying holdings.

(c) Income

(i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

(ii) Interest from fixed interest securities is recognised on an effective yield basis.

(iii) Unfranked investment income includes the taxes deducted at source.

(iv) Franked investment income is stated net of tax credits.

(v) Interest receivable on deposits is recognised on an accruals basis.

(vi) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account.

(d) Expenses

All expenses are accounted for on an accruals basis and are charged through the revenue column of the income statement except where they relate directly to the acquisition or disposal of an investment (transaction costs), in which case they are taken to the income statement as a capital item.

(e) Operating lease rentals

Total operating lease rentals in respect of premises occupied by the Company are spread evenly over the term of the lease.

(f) Finance costs

Finance costs are accounted for on an accruals basis and are charged through the revenue column of the income statement.

(g) Deferred taxation

Deferred tax 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 right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Deferred tax is measured without discounting and based on enacted tax rates.

(h) Foreign currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or revenue reserve as appropriate.

1 PRINCIPAL ACCOUNTING POLICIES (continued)**(i) Share repurchases**

Purchases of the Company's own shares are funded from the special distributable reserve.

(j) Capital reserves

Realised: Gains and losses on realisation of investments and realised exchange differences of a capital nature are dealt with in this reserve.

Unrealised: Unrealised appreciation/(depreciation) represents the amount by which the market value of assets and liabilities differs from their book value and is dealt with in this reserve.

	Year to 30 November 2007 £'000	Year to 30 November 2006 £'000
2 INCOME		
Income from investments		
Listed UK dividends – franked	3,926	4,588
Listed UK dividends – unfranked	681	–
Total listed UK dividends	<u>4,607</u>	<u>4,588</u>
Listed overseas dividends	647	112
	<u>5,254</u>	<u>4,700</u>
Other income		
Deposit interest	788	489
Other income	14	10
	<u>802</u>	<u>499</u>
Total income	<u>6,056</u>	<u>5,199</u>

3 ADMINISTRATIVE EXPENSES

Administrative expenses include the following:

Directors' fees and staff costs – note 4	236	234
Secretarial and administrative services	71	71
Information technology expenses	21	23
Power, telephone, rates and insurance	51	49
Operating lease rentals – office rent	28	29
Auditors' remuneration – statutory audit	17	16

The Company is self-managed and therefore does not pay an investment management fee to external fund managers. Secretarial and administrative services are provided by Baillie Gifford & Co.

4 DIRECTORS' FEES AND STAFF COSTS

Directors' fees and salaries	161	161
Other salaries	52	51
Social security costs	23	22
	<u>236</u>	<u>234</u>

Two persons were employed under a contract during the year (2006 – 2): Max Ward, the managing director, and Vivien Keighren, the office manager.

5 FINANCE COSTS OF BORROWING

Bank loans	<u>1,949</u>	<u>1,582</u>
------------	--------------	--------------

	Year to 30 November	Year to 30 November
	2007 £'000	2006 £'000
6 TAX ON ORDINARY ACTIVITIES		
Analysis of charge in year		
Overseas taxation	63	7
Factors affecting tax charge for year		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%).		
The differences are explained below:		
Revenue return on ordinary activities before taxation	3,607	3,128
Revenue return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 – 30%)	1,082	938
Income not taxable (franked investment income)	(1,178)	(1,376)
Income taxable in different periods	(50)	19
Overseas withholding tax on income taxable in different periods	11	2
Unrelieved overseas withholding tax in year not utilised	52	5
Taxable losses in year not utilised	146	419
Current tax charge for the year	63	7

Capital returns are not included in the above analysis, since as an investment trust, the Company's capital gains are not taxable.

Factors that may affect future tax charges

At 30 November 2007 the Company had a potential deferred tax asset of £830,000 (2006 – £725,000) on taxable losses and unrelieved withholding tax which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been provided on these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and it is not liable to tax on its capital gains. The potential deferred tax asset has been calculated using a corporation tax rate of 28% (2006 – 30%).

The Chancellor of the Exchequer, in his Budget statement on 21 March 2007, announced a number of proposed changes to tax legislation, including a reduction in the rate of UK corporation tax from 30% to 28% with effect from April 2008.

7 NET RETURN PER ORDINARY SHARE

	Year to 30 November 2007			Year to 30 November 2006		
	Revenue	Capital	Total	Revenue	Capital	Total
Basic	5.36p	(56.35)p	(50.99)p	4.78p	71.87p	76.65p
Diluted (FRS 22)	5.32p	(55.98)p	(50.66)p	4.75p	71.45p	76.20p

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £3,544,000 (2006 – £3,121,000) and on 66,128,895 (2006 – 65,280,676) ordinary shares of 25p, being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital loss for the financial year of £37,264,000 (2006 – net capital gain of £46,917,000) and on 66,128,895 (2006 – 65,280,676) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Dilution of revenue return is attributable to the difference between the average share price and the average exercise price of the outstanding options for the year. The diluted returns per share are based on the above returns and on 66,562,850 shares (2006 – 65,664,422), being the weighted average number of shares in issue during the year plus the notional number of shares that would have been issued for no consideration using an average share price of 295.0p (2006 – 252.0p) and an average exercise price for the options of 281.0p (2006 – 242.0p).

	Year to 30 November 2007		Year to 30 November 2006	
	Pence	£'000	Pence	£'000

8 ORDINARY DIVIDENDS**Amounts recognised as distributions in the year**

Previous year's final dividend paid 10 April 2007	2.50	1,653	2.50	1,631
Interim dividend paid 31 August 2007	2.00	1,323	2.00	1,305
	<u>4.50</u>	<u>2,976</u>	<u>4.50</u>	<u>2,936</u>

We also set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered. The revenue available for distribution by way of dividend for the year is £3,544,000 (2006 – £3,121,000).

Dividends paid and proposed in respect of the year

Interim dividend paid 31 August 2007	2.00	1,323	2.00	1,305
Proposed final dividend payable 7 April 2008	3.00	1,984	2.50	1,653
	<u>5.00</u>	<u>3,307</u>	<u>4.50</u>	<u>2,958</u>

9 INVESTMENTS

	At 30 November	
	2007 £'000	2006 £'000
Listed at fair value – UK	91,883	158,997
– Overseas	37,323	51,700
	<u>129,206</u>	<u>210,697</u>

	Listed in UK £'000	Listed overseas £'000	Total £'000
Cost of investments held at 1 December 2006	109,943	43,339	153,282
Unrealised appreciation at 1 December 2006	49,054	8,361	57,415
Value of investments held at 1 December 2006	<u>158,997</u>	<u>51,700</u>	<u>210,697</u>
Movements in year:			
Purchases at cost	39,651	24,230	63,881
Sales – proceeds	(62,444)	(45,028)	(107,472)
– realised gains on sales	10,932	9,442	20,374
Movement in unrealised appreciation/(depreciation)	(55,253)	(3,021)	(58,274)
Value of investments held at 30 November 2007	<u>91,883</u>	<u>37,323</u>	<u>129,206</u>
Cost of investments held at 30 November 2007	98,082	31,983	130,065
Unrealised (depreciation)/appreciation at 30 November 2007	(6,199)	5,340	(859)
Value of investments held at 30 November 2007	<u>91,883</u>	<u>37,323</u>	<u>129,206</u>

The purchases and sales proceeds figures above include transaction costs of £237,000 (2006 – £195,000) and £165,000 (2006 – £136,000) respectively.

NOTES TO ACCOUNTS

	Year to 30 November	Year to 30 November
	2007 £'000	2006 £'000
9 INVESTMENTS (continued)		
(Losses)/gains on investments		
Realised gains on sales	20,374	30,704
Movement in unrealised appreciation	(58,274)	13,373
	<u>(37,900)</u>	<u>44,077</u>

Of the realised gains on sales during the year of £20,374,000 (2006 – £30,704,000), a net gain of £32,372,000 (2006 – £16,906,000) was included in unrealised appreciation at the previous year end.

10 DEBTORS

Amounts falling due within one year

Income accrued (net)	346	88
Sales for subsequent settlement	6,141	3,739
Unrealised gain on forward currency contract	189	–
Other debtors and prepayments	22	19
	<u>6,698</u>	<u>3,846</u>

11 CREDITORS

Amounts falling due within one year

Bank loans	9,994	38,279
Other creditors and accruals	109	125
	<u>10,103</u>	<u>38,404</u>

Borrowing facilities

The Company has arranged a one year £50 million facility expiring May 2008 and a three year £20 million facility expiring May 2010 with Lloyds TSB Scotland.

At 30 November 2007 drawings were as follows:

3 year facility – €14 million at 4.9125% maturing 17 December 2007.

The main covenants relating to the above loans are:

- (i) Net borrowings must not exceed 30% of the Company's net asset value.
- (ii) Investments should be held in not less than 15 separate businesses and not less than 5 different sectors.

12 CALLED-UP SHARE CAPITAL

	At 30 November 2007		At 30 November 2006	
	Number	£'000	Number	£'000
Authorised ordinary shares of 25p each	116,896,960	29,224	116,896,960	29,224
Allotted, issued and fully paid ordinary shares of 25p each	66,128,895	16,532	66,128,895	16,532

At 30 November 2007 there were outstanding options to acquire 8,900,000 (2006 – 8,900,000) ordinary shares in the Company. The options, which were granted to the founding shareholders on 11 September 2000 and expire on 31 August 2010, are exercisable at a price per share equivalent to the net asset value at the time of exercise. No options were exercised during the year.

The Company has authority to buy back 9,912,721 ordinary shares for cancellation.

	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
13 RESERVES			
At 1 December 2006	54,102	58,387	3,944
Net gain on realisation of investments	20,374	–	–
Movement in unrealised appreciation on investments	–	(58,274)	–
Exchange differences on bank loans	1,682	(1,215)	–
Exchange differences on forward currency contracts	77	188	–
Other exchange differences	(96)	–	–
Revenue return on ordinary activities in the year	–	–	3,544
Dividends paid in the year	–	–	(2,976)
At 30 November 2007	76,139	(914)	4,512

14 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share and the net asset value attributable to the ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	At 30 November 2007		At 30 November 2006	
	Pence	£'000	Pence	£'000
Ordinary shares	227.1	150,174	282.6	186,870

The net asset value per share is based on net assets as shown above and on 66,128,895 shares (2006 – 66,128,895), being the number of shares in issue at the year end.

Dilution of revenue return is attributable to the difference between the share price and the exercise price of the outstanding options. Because these options are exercisable at net asset value, no dilution to the net asset value arises from their exercise.

15 RECONCILIATION OF NET RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year to 30 November 2007 £'000	Year to 30 November 2006 £'000
Net return before finance costs and taxation	(31,708)	51,627
Losses/(gains) on investments	37,900	(44,077)
Currency gains	(636)	(2,840)
(Increase)/decrease in accrued income	(258)	128
(Increase)/decrease in debtors	(3)	7
Increase in creditors	2	4
Overseas tax	(63)	(7)
	5,234	4,842

16 ANALYSIS OF CHANGE IN NET FUNDS/(DEBT)

	At 1 December 2006 £'000	Cash flows £'000	Exchange movement £'000	At 30 November 2007 £'000
Net cash – cash at bank and in hand	10,731	13,642	–	24,373
Loans due within one year	(38,279)	27,818	467	(9,994)
	(27,548)	41,460	467	14,379

17 CONTINGENT LIABILITIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 30 November 2007 the Company had an annual commitment of £28,500 under an operating lease in respect of premises. The current operating lease commitment will expire on 19 April 2008.

18 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company's financial instruments comprise its investment portfolio, cash balances, loans and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income.

The Company may, from time to time, use derivatives (futures, options and the like) to protect shareholders' funds or as a cost effective alternative to conventional gearing.

The principal risks the Company faces in its portfolio management activities are market price risk, interest rate risk, liquidity risk and foreign currency risk. The Company takes account of these risks when setting investment policy and making investment decisions.

Market Price Risk

The Company's exposure to market price risk comprises mainly movements in the value of its equity investments. A detailed breakdown of the investment portfolio is given on page 7. Economic and market data are monitored by the managing director within an overall investment strategy approved by the board. Trading in financial instruments is not within the normal activities of an investment trust, nor is it the Company's policy to trade in such instruments. Transactions in financial instruments generally arise as a result of strategic investment decisions.

Interest Rate Risk

The Company finances its operations by means of shareholders' funds and bank borrowings.

The Company has negotiated multi-currency borrowing facilities at interest rates linked to LIBOR and may draw down funds for a period of up to 3 years (see note 11).

Liquidity Risk

The Company's policy with regard to liquidity is to ensure continuity of funding. Short term flexibility is achieved by short term borrowing facilities.

The Company's assets comprise mainly readily realisable securities which can be sold freely to meet funding commitments if necessary.

Foreign Currency Risk

The Company is exposed to foreign currency risk through its overseas investments and a number of its investments quoted in London. It is not the Company's policy to hedge this risk on a continuing basis, but the Company may from time to time match specific overseas currency exposure with foreign currency borrowings. During the year, the Company opened a forward currency contract for US\$10 million to hedge against dollar weakness, which was closed in June 2007 realising a gain of £77,000. At 30 November 2007, the Company had an unrealised gain of £188,000 on a forward currency contract to purchase €14 million, the purpose of which was to eliminate the foreign currency hedge provided by the Company's euro loan.

The revenue account is subject to currency fluctuation arising on overseas income. The Company does not hedge this currency risk.

FOREIGN CURRENCY RISK

The foreign currency risk profile of financial assets and financial liabilities at 30 November was:

Financial Assets

	Year to 30 November 2007			Year to 30 November 2006		
	Investments £'000	Cash and deposits £'000	Short term debtors* £'000	Investments £'000	Cash and deposits £'000	Short term debtors £'000
Sterling	84,610	21,538	(3,377)	155,157	10,690	3,836
Canadian dollar	6,023	635	4	18,731	-	3
Euro	7,273	16	10,003	15,404	41	-
US dollar	31,300	2,184	68	21,405	-	7
	129,206	24,373	6,698	210,697	10,731	3,846

*Short term debtors includes a net unrealised gain on a forward currency contract to sell sterling and buy euros. The currency exposure on this contract at 30 November 2007 is as follows: euro £10,003,000; sterling (£9,815,000). The forward currency contract was opened for the purpose of eliminating the foreign currency hedging provided by the euro loan, shown below.

18 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)**FOREIGN CURRENCY RISK (continued)**

Financial Liabilities	Year to 30 November 2007			Year to 30 November 2006		
	Loans £'000	Purchases for subsequent settlement £'000	Other creditors and accruals £'000	Loans £'000	Purchases for subsequent settlement £'000	Other creditors and accruals £'000
Sterling	-	-	46	-	-	42
US dollar	-	-	-	23,791	-	58
Euro	9,994	-	63	14,488	-	25
	<u>9,994</u>	<u>-</u>	<u>109</u>	<u>38,279</u>	<u>-</u>	<u>125</u>

The cash deposits earn interest at floating rates based on prevailing bank base rates.

INTEREST RATE RISK

The interest rate risk profile of financial assets and financial liabilities at 30 November was:

Financial assets

There were no financial assets subject to interest rate risk at November 2007 or 2006, other than the cash deposits shown above.

Financial liabilities

The interest rate risk profile of the Company's financial liabilities at 30 November was:

Floating rate – euro

The maturity profile of the Company's financial liabilities at 30 November was:

Within one year

	Year to 30 November 2007 £'000	Year to 30 November 2006 £'000
Floating rate – euro	<u>9,994</u>	<u>38,279</u>
Within one year	<u>9,994</u>	<u>38,279</u>

Fair value of financial assets and financial liabilities

The directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet with the exception of borrowings. The fair value of the loans is shown below.

Fair value of financial assets

A full list of the Company's investments by broad industrial or commercial sector is given on page 7.

Fair value of financial liabilities

The Company's borrowings are included in the accounts in accordance with FRS 25. A comparison with the fair value (closing offer value) is as follows:

	Year to 30 November 2007		Year to 30 November 2006	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Floating rate euro bank loan	<u>9,994</u>	<u>9,994</u>	<u>38,279</u>	<u>38,279</u>

Gain and losses on hedges

During the year the Company realised a gain of £77,000 (2006 – £224,000) in respect of a forward currency contract which was opened during the year to hedge against dollar weakness. At 30 November 2007, there was an unrealised gain of £188,000 in respect of a forward currency contract opened during the year to eliminate the foreign currency hedge provided by the Company's euro loan.

Realised currency gains/losses are taken to the capital reserve and are not reflected in the revenue account unless they are of a revenue nature.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the seventh Annual General Meeting of The Independent Investment Trust PLC will be held within the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Thursday, 27 March 2008 at 11.00 am for the following purposes:

Ordinary Business

1. To receive and adopt the Accounts of the Company for the year to 30 November 2007 with the Reports of the directors and of the Independent Auditors thereon.
2. To approve the Directors' Remuneration Report for the year to 30 November 2007.
3. To declare a final dividend.
4. To re-elect Mr MCB Ward as a director.
5. To re-elect Mr JGD Ferguson as a director.
6. To re-elect The Hon RJ Laing as a director.
7. To reappoint Ernst & Young LLP as Independent Auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
8. To authorise the directors to determine the remuneration of the Independent Auditors of the Company.
9. That, in substitution for any existing authority, the Company be 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 ordinary shares of 25p each in the capital of the Company ("Shares"), provided that:
 - (a) the maximum aggregate number of Shares hereby authorised to be purchased shall be 14.99% of the issued share capital on the date on which this resolution is passed;
 - (b) the minimum price which may be paid for a Share shall be 25p;
 - (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be not more than the higher of: (i) 105 per cent of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares for the five business days immediately preceding the date of purchase; and (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange; and
 - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 or 26 September 2009, whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

Special Business

To consider and, if thought fit, to pass the following resolution as a special resolution:

10. That the Articles of Association of the Company be and hereby are amended as follows:
 - (a) Article 166 shall be amended by:
 - (i) deleting the words "Director, Secretary, other officer, employee or" and the words "officer, employee or" from the first sentence of Article 166; and
 - (ii) deleting the last sentence of Article 166 and replacing it with the following: "The indemnity shall not apply to any liability to the extent that it is recovered from another person.";
 - (b) a new Article 166A shall be inserted as follows:

"166A. Subject to the provisions of and so far as may be consistent with the Statutes, but without prejudice to any indemnity to which such person may otherwise be entitled, every Director, Secretary, other officer or employee of the Company, other than any person (whether an officer or not) engaged by the Company as auditor, shall be indemnified out of the assets of

the Company against all costs, charges, losses, expenses and liabilities incurred by him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office including (without prejudice to the generality of the foregoing) any liability incurred by him for negligence, default, breach of duty or breach of trust by him as a Director, Secretary, other officer or employee of the Company. The indemnity shall not apply to any liability to the extent that it is recovered from another person.”

By order of the board
 BAILLIE GIFFORD & CO
 Secretaries

19 February 2008

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy for the use of members is enclosed and to be valid must be lodged with the Registrars of the Company not later than 48 hours before the time set for the meeting, or any adjourned meeting.
2. Only holders of ordinary shares are entitled to attend or be represented at the meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered on the Company's register of members by 11.00 am on 25 March 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 or vote at the meeting (or adjourned meeting) in respect of the number of shares registered in their name at that time. Changes to the entries on the register of members after 11.00 am on 25 March 2008 or, in the event that the meeting is adjourned, in 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.
4. A copy of Max Ward's service contract with the Company shall be available for inspection at the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting. The other directors do not have service contracts with the Company.
5. Copies of the existing Articles of Association of the Company and the proposed revised Articles of Association will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) until the close of the Annual General Meeting at the registered office of the Company and at the offices of Baillie Gifford & Co. Copies of the proposed revised Articles of Association will also be available for inspection at the place of the Annual General Meeting for 15 minutes before and during the meeting.
6. As at 29 January 2008, the latest practicable date prior to publication of this document, the Company had 66,128,895 ordinary shares in issue with a total of 66,128,895 voting rights.
7. Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

DIRECTORS

DCP McDougall OBE (Chairman)

MCB Ward (Managing)

JGD Ferguson (Non-executive)

The Hon. RJ Laing (Non-executive)

All of

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REGISTRARS

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Company Registration No. 210685