

**THE INDEPENDENT INVESTMENT TRUST PLC**

**ANNUAL REPORT AND ACCOUNTS**

For the year ended 30 November 2008

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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. The major part of the Company's portfolio is currently invested in UK equities but this will not necessarily remain the case. When appropriate, the directors will sanction relatively high levels of gearing and a relatively concentrated portfolio structure. The portfolio is constructed without reference to the composition of any stockmarket index. Further details of the Company's investment policy are given in the Directors' Report.

## RISKS

The principal risks facing the Company relate to the Company's investment activities. These risks are market price risk, interest rate risk, foreign currency risk and liquidity risk. An explanation of these risks and how they are managed is contained in note 18 in the Accounts. Other risks faced by the Company are detailed in the Directors' Report. The Company's policy is 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.

## SUMMARY STATISTICS

for the year ended 30 November 2008

	2008	2007	% change
Net asset value per share	144.6p	227.1p	(36.3)
Earnings per share	6.34p	5.36p	18.3
Proposed dividend per share (Including interim dividend paid of 2.00p (2007 – 2.00p))	5.00p	5.00p	–
Proposed special dividend per share	0.75p	–	–

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

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.

**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, Edinburgh U.S. Tracker Trust and Northern 3 VCT plc. He is a director of 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.

For the second year in succession we find ourselves reporting on a most disappointing set of figures. The world has changed in ways we failed to anticipate and we are now working to construct a strategy for the new era. You should not be under any illusion that this will be an easy task.

The fall in our net asset value (from 227.1p to 144.6p) was a remarkable 36%, but was not significantly worse than the 35% capital fall in the FTSE All-Share Index over the same period. The NAV total return figures for the year can be found in the Managing Director's Report on page 5. Once again, the pain we have suffered as shareholders has been exacerbated by a rise in the discount, from 8.9% to 18.7%.

The dominant feature of the past year has been the failure of the international financial system to cope with the stresses imposed upon it. The origins of these stresses are varied but include reckless lending, imprudent dependence on wholesale funding and involvement in derivative instruments that turned out to be more risky than had been expected. The failure has already resulted in government involvement in the financial system – as shareholder, guarantor, lender and asset purchaser – on a scale without precedent in recent history. The fact that this involvement has tended to be reactive rather than pre-emptive has been damaging to confidence. Moreover, there is no obvious sign yet that it has succeeded in alleviating the tight conditions prevailing in credit markets to any appreciable extent. The combination of tight credit markets and rapidly deteriorating economic conditions has been devastating to many businesses that once appeared – to us at least – to have secure and prosperous futures. We have therefore had to carry out a further major redeployment of our assets, often in conditions as panicky as any we have experienced. Inevitably in such circumstances, there have been decisions that we would prefer not to have made. Foremost among these has been our belated foray into mining companies, which have cost us a surprisingly large amount of money in a surprisingly short period of time. We also regret not having cut back our energy stake more aggressively in the early summer: we were inhibited from doing so by our belief – still held – that the medium term challenges confronting oil supply continue to be formidable.

Even after two poor years, our longer term performance remains satisfactory. Between inception on 18 October 2000 and 30 November 2008, we produced a NAV total return of 65.8%, equivalent to a rate of roughly 6.5% 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 –5.7%, or roughly –0.7% per annum. At a time when investment horizons everywhere appear to be shortening, we continue to see benefits in taking a longer term view.

It has again been a busy year for us. The unprecedented level of uncertainty we feel about the future has persuaded us to move towards a more diversified portfolio than has been our custom. Our initial inclination has been to exempt energy from this move towards greater diversification on the grounds that we continue to believe that longer term prospects for economic growth are dependent on the discovery and exploitation of new energy sources, but even this decision is under constant review. Apart from energy, the only large industry exposures we now have are recruitment and retailing, and the representation of both of these is well below previous peaks. Housebuilding, banking and property – all previous areas of concentration – accounted for less than 6% of shareholders' funds at 30 November 2008 and now represent less than 3% following the sale in December of our last bank holding. Throughout the year, we operated with significant cash or near cash. This reached a peak of almost 30% of our shareholders' funds in late summer, but had fallen to 15% by 30 November 2008 (13% at 30 November 2007) as we increased our equity exposure in October and November. Fears about the banking system led us to put most of our cash into short dated government bonds in September. Renewed caution since our year-end has led to our cash balances moving back above 30% of shareholders' funds. Further comments on the portfolio can be found in the Managing Director's Report on pages 5 and 6.

Earnings per share for the year were 6.34p (5.36p). This figure does not include the so-called stock dividends of the banks, since these were not alternatives to cash payments and reflected the fact that the companies in question were in no position to make any distribution. We are proposing a final dividend of 3.00p (3.00p) to make a total for the year of 5.00p (5.00p). In addition, we intend to pay a special dividend of 0.75p purely to allow us to retain our status as an investment trust. It is too early to make any prediction about dividends for the current year.

Once again, the decline in our net asset value has provoked a deterioration in our Total Expense Ratio – from 0.33% of year end shareholders' funds to 0.59%. Our expenses for the year have been inflated by a move to new offices, but they remain low in relation to a fund of our size.

The depressed rating of our shares has given us the opportunity to buy in our own stock. The terms on which we have been able to do this have reflected the volatile and illiquid conditions prevailing in the market generally. We are keen to use our buy-back powers to help provide liquidity in our own shares, but only when this can be done without prejudicing the interests of continuing shareholders. In the year under review, we bought back a total of just under 950,000 shares on terms that added roughly 0.13p to our net asset value per share.

When we floated The Independent, we thought it unlikely that derivatives would play an important part in our activities, but we took powers to deploy them in specific circumstances, namely to protect shareholders' funds or as a cost effective alternative to conventional gearing. To date we have not used these powers, but we now believe that derivatives should be part of our armoury to cope with a broader range of circumstances. We are therefore seeking to add index futures to the limited scope in derivatives already available to us. We believe these could enable us to alter the Company's exposure to equity markets more efficiently: in recent months market conditions have made it difficult and expensive to effect significant changes in asset allocation by transacting in individual stocks, and access to index futures would have allowed the job to have been done more easily and more cheaply. We ask you to sanction the use of index futures in Resolution 9. We are also proposing, in Resolution 8, a number of technical changes to the articles of association to bring them into line with The Companies Act 2006.

The events of the last eighteen months have changed the investment landscape. At national level, arguments about rates of growth of GDP and levels of inflation have given way to discussions about recession or depression and inflation or deflation. At company level, debates about earnings estimates have been replaced by analysis of cash requirements and access to funding. This is not an environment in which one can advance predictions with any degree of confidence. We have sought to position ourselves to survive a range of possible outcomes by concentrating on companies that are either inherently insulated from the economic cycle or well enough financed to withstand a prolonged period of poor trading. And, of course, we retain our big energy stake, which is fundamental to our longer term perspective on the world economy. We are certain to confront surprises in the year ahead and we retain an open mind as to how to react to them.

I should like to thank Baillie Gifford for their continued excellent secretarial service, and in particular on this occasion Pauline Imlach, who recently passed on responsibility for our account to Seonaid Cook. I also thank the invaluable Vivien Judge, who holds our small operation together.

Finally, I should like to pay tribute to Ian Rushbrook, whose sad death was reported last October. Ian was an invaluable source of help (usually proffered over champagne or the finest claret) in the complex business of setting up The Independent. Despite having a radically different investment philosophy to us, Ian was one of our original shareholders and we had many animated discussions with him over the years. We send our condolences to his family and his colleagues at Personal Assets.

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 4.30pm on 26 March 2009. 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  
30 January 2009

During the year to 30 November 2008, The Independent Investment Trust produced a NAV total return of -35%. This is a most unsatisfactory outcome, albeit recorded in unusually difficult conditions: theoretical investments in the FTSE All-Share Index and The FTSE World Index would have produced total returns of -32% and -25% respectively.

Our biggest exposure by far remains our energy stake. In common with many other industries, the oil industry has seen a dramatic change in its immediate outlook in recent months. Strong demand and shortages of supply have given way to abundant supply and shortages of demand more rapidly than most market participants would have believed possible. The result has been a collapse in the price of oil and the complete reversal of the strong first half performance of our energy portfolio. For the year as a whole, the value of our energy stake fell from £41.4m at 30 November 2007 to £30.2m at 30 November 2008 after net sales of £2.7m.

At 30 November 2008, the stake had three significant components: offshore drillers, accounting for almost 60%; service companies, accounting for almost 30%; and oil and gas exploration companies, accounting for 9% (the balance represented CleanEnergy Brazil, the sugar based ethanol producer).

Weak prices for oil and gas at a time when capital is both scarce and expensive are bound to have an effect on exploration activity. We expect difficult business conditions for both our exploration companies and our service companies in 2009 and, in recognition of this, have reduced our exposure to both subsectors since 30 November. The expected weakness in exploration activity is of less immediate concern to our offshore drillers because high quality deep water rigs remain in short supply and those already in operation have the protection of long contracts at favourable rates. That said, a prolonged period of low oil prices would ultimately have a serious impact on their business as well.

We hope that we have a realistically cautious view of the immediate prospects for our energy holdings, but our rationale for owning them is based much more on our fears about the medium term. In particular, we continue to believe that the current level of exploration activity is insufficient to guarantee adequate supplies of oil in the years ahead. The world needs to keep finding new oil fields in order to offset the effect of progressive declines in the production rates of existing fields.

We took advantage of the weakness in the share prices of recruitment companies to rebuild our exposure to the sector: after net purchases of £6.8m, the value of our stake in the industry rose from £7.5m at 30 November 2007 to £10.7m at 30 November 2008. This may seem a curious time to be buying recruitment companies given that most of the industry's profits will probably disappear in 2009. Experience suggests, however, that one needs to buy the shares before the trough in the profits cycle and, while there is undoubtedly a risk in being early, this risk is mitigated by the strong financial characteristics of our holdings, all of which seem certain to survive. Looking beyond the immediate future, we continue to believe that the industry is at a relatively early stage of its international development, offering great opportunities to its well run companies.

Our big exposure to retailers was little short of disastrous in the last two years as we persistently underestimated the impact of a tough environment on some of our weaker holdings. Between 30 November 2007 and 30 November 2008, the value of our retail stake fell from £18.8m to £9.4m despite net purchases of £3.1m. We recognise that the industry will be operating against a difficult background in the immediate future, but we think this will create opportunities for its stronger members as weaker players go to the wall. Following the sale of Home Retail in December, our only significant holding in the sector is Dunelm, which has a strong trading format and robust finances.

Housebuilding, banking and property are three areas for which we have shown considerable enthusiasm in the past. All three have seen their prospects deteriorate to an extraordinary degree as the financial crisis has deepened. We have reacted by cutting back our stakes in them, but we note with due humility the amount of money that could have been saved if we had acted earlier in the year. We would also have saved ourselves a considerable sum if we had been able to resist the temptation to buy into the mining industry at completely the wrong time, albeit that much of our buying was funded by sales in the energy sector which now look inspired.

As the prospects for the economy deteriorated, we found ourselves drawn again to the defensive characteristics of the tobacco companies, making purchases of both Imperial Tobacco and British American Tobacco towards the end of our year. In a similar vein, we added to our depleted stake in the insurance industry in the autumn, judging that the rating environment was likely to be helped both by a high level of hurricane losses in 2008 and by the difficult conditions prevailing in capital markets. These last have already impaired the industry's existing capital and seem likely to prevent it from raising new capital on any significant scale. Less immediately successful were our tentative initial purchases of the bus and train companies, First Group and Go-Ahead Group. Both companies have defensive bus interests and prodigious cash flows. Our view was that the economic vulnerability associated with their rail interests was already discounted in their valuations, but this may have been a bit naïve. Similar arguments led us to buy the lessor of power generating equipment, Aggreko.

In the financial sector, we have taken holdings in IG Group and The Alliance Trust. The former is a great cash generator, while the latter is a very cheap general investment trust currently benefiting from a new managerial regime. Elsewhere, we retain a big holding in Herald Investment Trust, which provides cheap exposure to the technology sector, an area of the market that should continue to produce interesting investment opportunities.

Max Ward  
30 January 2009

LIST OF INVESTMENTS AS AT 30 NOVEMBER 2008

Sector	Name	At November 2008		At November
		Value £'000	%	2007 Value £'000
Housebuilders	Telford Homes	412	0.4	2,400
Industrials	Aggreko	1,790	1.9	-
Retailing	Dunelm Group	5,800	6.2	6,501
	Home Retail Group	3,045	3.2	-
	Land of Leather Holdings	15	-	4,613
	Topps Tiles	490	0.5	6,470
		9,350	9.9	
Recruitment	Hays	2,198	2.3	-
	Michael Page International	4,290	4.6	4,564
	Robert Walters	1,680	1.8	-
	SThree	2,560	2.7	2,936
		10,728	11.4	
Technology and Telecommunications	Herald Investment Trust	3,700	3.9	6,400
Mining	BHP Billiton	891	0.9	-
	Blackrock World Mining Trust	1,260	1.3	-
	Rio Tinto	241	0.3	-
	Xstrata	465	0.5	-
		2,857	3.0	
Offshore Drillers	Diamond Offshore Drilling – USA	5,763	6.1	5,646
	ENSCO – USA	1,267	1.3	7,857
	Noble Corp – USA	6,963	7.4	8,873
	Transocean – USA	4,349	4.6	5,332
		18,342	19.4	
Oilfield Services	Halliburton – USA	2,293	2.4	1,778
	Schlumberger – USA	4,288	4.6	1,814
	Wellstream Holdings	1,925	2.0	-
		8,506	9.0	
Oil and Gas Exploration	BPZ Resources – USA	520	0.6	-
	ProEx Energy – Canada	914	1.0	860
	Tristar Oil & Gas – Canada	1,230	1.3	2,485
		2,664	2.9	
Renewable Energy	Clean Energy Brazil†	677	0.7	4,046
Banks	Lloyds TSB	2,997	3.2	6,930
Tobacco	British American Tobacco	1,696	1.8	-
	Imperial Tobacco	2,424	2.6	-
		4,120	4.4	
Transport	First Group	940	1.0	-
	Go-Ahead Group	1,002	1.1	-
		1,942	2.1	
Miscellaneous Financials	Alliance Trust	2,520	2.7	-
	IG Group Holdings	897	1.0	-
	Intermediate Capital Group	1,737	1.8	3,620
		5,154	5.5	
Property	Kenmore European Industrial Fund	787	0.9	4,200
	Orchid Developments Group	960	1.0	2,227
		1,747	1.9	
Insurance	Amlin	1,831	1.9	-
	Chaucer Holdings	1,200	1.3	-
	Hiscox Insurance Portfolio Fund	1,632	1.7	1,748
		4,663	4.9	
Fixed Interest	Bundesrepub Dtl 3¾% 2009 – Germany	4,150	4.4	-
	US Treasury Note 3½% 2009 – USA	3,948	4.2	-
		8,098	8.6	
Value of investments sold or written off during the year				37,906
<b>TOTAL INVESTMENTS</b>		87,747	93.1	129,206
Net liquid assets		6,492	6.9	30,962
<b>TOTAL ASSETS BEFORE BANK LOANS</b>		94,239	100.0	160,168
Bank loans		-	-	(9,994)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		94,239	100.0	150,174

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 ended 30 November 2008.

### **Business Review**

#### **Business and Status**

The Company is an investment company within the meaning of section 833 of the Companies Act 2006.

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 2007, 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. As described in the Chairman's Statement, authority is currently being sought for a broader use of derivatives. The Company's investment policy consequent on such authority being granted is described on pages 16 and 17.

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 since inception is contained in the Chairman's Statement along with information on the discount and total expense ratio. The movement in net asset value per share on a total return basis for the financial year is shown in the Managing Director's Report.

### **Review of the Year and Future Trends**

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 Company's assets consist mainly of listed securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 18 to the accounts on pages 33 to 37.

Other risks faced by the Company include the following:

Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report. Breach of Section 842 of the Income and Corporation Taxes Act 1988 could lead to the Company being subject to tax on capital gains. Baillie Gifford's Heads of Business Risk & Internal Audit and Regulatory Risk provide regular reports to the audit committee on Baillie Gifford's monitoring programmes. The board monitors investment movements and the level of forecast income and expenditure to ensure the provisions of Section 842 are not breached.

Operational/Financial Risk – failure of Baillie Gifford's accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. The board reviews Baillie Gifford's Report on Internal Controls. The reports by other key third party providers are reviewed by Baillie Gifford on behalf of the board.

### **Social, Community, Employee Responsibilities and Environmental Policy**

The Company has only two employees. As an investment trust, the Company has no direct social, community, or environmental responsibilities. Its principal responsibility to shareholders is to ensure that the investment portfolio is properly invested and managed. Details of the Company's policy on socially responsible investment are set out on page 13.

### **Dividends**

The board recommends a final dividend of 3.00p per ordinary share and a special dividend of 0.75p per ordinary share which, together with the interim already paid, makes a total of 5.75p for the year.

The recommended final and special dividends, if approved, will be paid on 7 April 2009 to shareholders on the register at the close of business on 13 March 2009.

### **Corporate Governance**

#### *Compliance*

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") and the AIC Code of Corporate Governance were applied throughout the financial year.

The board confirms that the Company has complied throughout the year under review with the provisions of the Combined Code and the AIC Code of Corporate Governance, except that:

- (i) The chairman of the board, Douglas McDougall, is chairman of the audit committee. As the board considers Mr McDougall to be independent and believes there are no conflicts of interest, the board believes it is appropriate for him to chair the committee.
- (ii) 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
- (iii) 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.

#### *Terms of Appointment*

Max Ward has a rolling 12 month contract for services with the Company, details of which are given in the Directors' Remuneration Report on pages 20 and 21.

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. Directors who have served for more than nine years offer themselves for re-election annually.

#### *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 common directorship 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	4	2	1	1
DCP McDougall	4	2	1	1
MCB Ward	4	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](http://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.

*Induction and Training*

New directors appointed to the board will have formal induction meetings with the managing director and Baillie Gifford & Co. Regular briefings are provided on changes in regulatory requirements that could affect the Company and the directors. 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 at 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](http://www.independentinvestmenttrust.co.uk).

The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 20 and 21.

*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 system of internal controls, which is documented within an internal controls report. The report complies with Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations made available to Third Parties. 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 19 and 22.

*Going Concern*

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 board, Douglas McDougall, is chairman of the audit committee. As the board considers Mr McDougall to be independent and believes there are no conflicts of interest, the board believes it is appropriate for him to chair the committee.

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. The committee does not believe that there has been any impairment to the auditors' independence.

*Relations with Shareholders*

The board attaches great importance to 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 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 2008		1 December 2007	
		Ordinary shares	Options	Ordinary shares	Options
DCP McDougall (Chairman)	Beneficial	8,513,000	2,150,000	8,000,000	2,150,000
MCB Ward (Managing)	Beneficial	5,300,000	5,000,000	5,130,000	5,000,000
JGD Ferguson	Beneficial	1,190,000	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 (2007 – none).

There have been no changes intimated in the directors' interests up to 28 January 2009.

In accordance with the Company's articles, Douglas McDougall retires at the Annual General Meeting and offers himself for re-election. Following formal evaluation, his performance is considered to be effective and he remains committed to the Company. His contribution to the board is greatly valued and the board recommends his re-election to shareholders.

The Company maintains directors' and officers' liability insurance.

During the year the Company entered into deeds of indemnity in favour of each of the directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the director is convicted or civil proceedings brought by the Company in which judgement is given against him.

### Substantial Holdings

The following information has been intimated to the Company as at 28 January 2009:

Name	Number of ordinary 25p shares held	% of issued capital
A&OT Investments Limited	10,100,000	15.7%
Mr DCP McDougall	8,513,000	13.3%
Mr MCB Ward	5,300,000	8.3%
Mr AEH Salvesen	2,020,000	3.1%

### Share Capital

#### Capital Structure

The Company's capital structure consists of 65,180,000 ordinary shares of 25p each at 30 November 2008 (2007 – 66,128,895 ordinary shares). There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the 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 39.

**Repurchase of Shares**

During the year to 30 November 2008 the Company bought back 948,895 ordinary shares (nominal value £237,000) on the London Stock Exchange for cancellation. The total consideration for these shares was £1,286,000. Between 1 December 2008 and 28 January 2009 the Company bought back a further 980,000 ordinary shares (nominal value £245,000) for cancellation. The total consideration for these shares was £1,073,000.

The principal reasons for share buybacks are 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 immediately cancel, or 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).

Shares will only be resold from treasury at a price at or above net asset value per share.

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 respect of the year ending 30 November 2009. 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 signing these accounts the total number of options to subscribe for ordinary shares of the Company is 8,900,000, representing approximately 14% 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.

#### **Amendment to the Articles of Association**

Over the past year, and since the articles of association (the "Articles") of the Company were last updated, company law in the United Kingdom has undergone major reform through the coming into force of parts of the Companies Act 2006 (the "2006 Act"). Accordingly, the board considers it prudent to replace the Company's existing articles of association with new articles which take account of these developments (the "New Articles").

The 2006 Act is being brought into force in stages, with full implementation scheduled by October 2009. At this year's AGM, the Company proposes to adopt provisions which reflect changes in the law brought about by the 2006 Act in respect of, amongst other things, electronic communications, notice periods for meetings, proxy voting and directors' conflicts of interest.

A copy of the New Articles will be available for inspection at Royal London House, 22-25 Finsbury Square, London, EC2A 1DX and Calton Square, 1 Greenside Row, Edinburgh EH1 3AN during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of the notice of the AGM (the "Notice") until the conclusion of the Annual General Meeting.

A summary of the material changes proposed to be brought about by the adoption of the New Articles is set out in the Appendix to the Notice.

#### **Investment Policy**

As explained in the Chairman's Statement, the directors consider that the Company's investment policy in relation to derivatives should be expanded to permit a broader use of derivative instruments subject to the following restrictions:

- (a) the Company's strategy for the use of derivative instruments must have the prior authorisation of the board;
- (b) the Company shall not use derivative instruments to the extent that such use would achieve an economic exposure within the Company's portfolio which would not be permitted by the other requirements of the Company's investment policy including asset allocation, risk diversification and maximum exposures;
- (c) the Company shall aggregate the effective gearing of all of its outstanding derivative instruments with its borrowings and shall not invest in a derivative instrument if, immediately following such investment, the Company's aggregate gearing would exceed a sum equal to 50% of its net assets.

The directors consider that the proposed expansion of the Company's investment policy in relation to derivatives amounts to a material change to the investment policy set out in the Company's prospectus published on 9 October 2000 and the directors are therefore seeking shareholders' approval of this proposed change to investment policy at the Annual General Meeting. The Company's amended investment objective and policy would be as follows:

#### **"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 and index futures.

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 use derivatives (futures, options and the like) to protect shareholders' funds, to hedge currency exposure, as a cost effective alternative to conventional gearing or in order to obtain or adjust its exposure to individual markets. The Company's investment policy in relation to the use of derivative instruments shall be subject to the following restrictions:

- (a) the Company's strategy for the use of derivative instruments must have the prior authorisation of the board;
- (b) the Company shall not use derivative instruments to the extent that such use would achieve an economic exposure within the Company's portfolio which would not be permitted by the other requirements of the Company's investment policy including asset allocation, risk diversification and maximum exposures; and
- (c) the Company shall aggregate the effective gearing of all of its outstanding derivative instruments with its borrowings and shall not invest in a derivative instrument if, immediately following such investment, the Company's aggregate gearing would exceed a sum equal to 50% of its net assets.

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, at the time of such increase, the level of gearing including effective gearing arising from investment in derivative instruments is greater than 50% of net assets."

### **Recommendation**

The directors consider each resolution being proposed at the Annual General Meeting to be in the best interests of the Company's 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 15,873,000 shares, representing approximately 25% 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 2008.

**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*

30 January 2009

## 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. Under that law they have elected to prepare the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

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

Each of the directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

By order of the board

DCP McDOUGALL

Chairman

30 January 2009

### Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Accounts:

- The maintenance and integrity of the Independent Investment Trust PLC website is the responsibility of Baillie Gifford & Co; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 22.

#### 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 2009 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

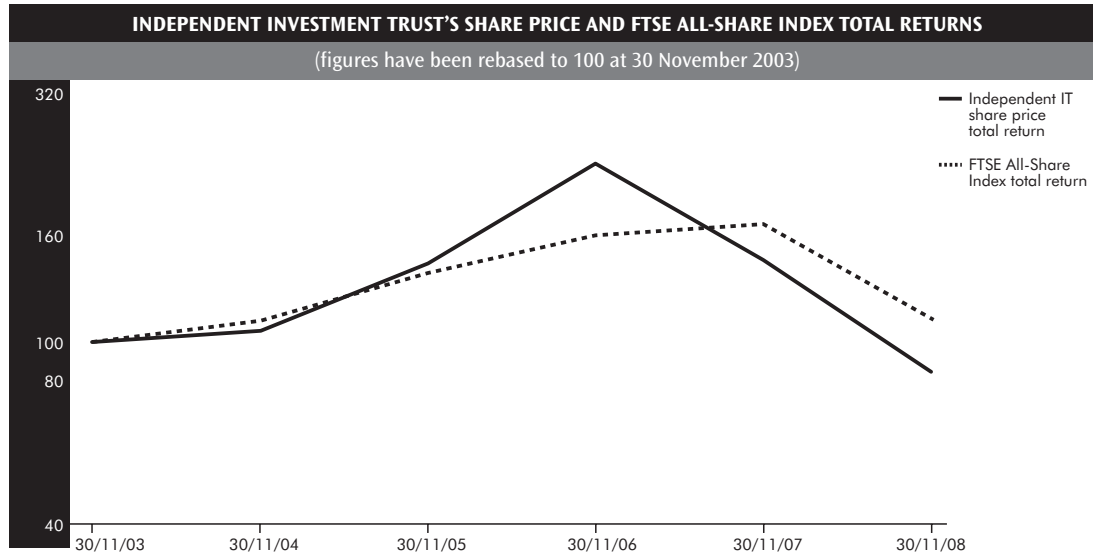
Max Ward has a rolling 12 month contract for services with the Company. Under the terms of this contract, which is terminable by either party on 12 months' notice, Mr Ward has been employed as the managing director to manage the investments and assets of the Company in return for an annual salary as shown in the table on page 21. 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 2010
JGD Ferguson	18 October 2000	AGM 2010
The Hon.RJ Laing	18 October 2000	AGM 2010

**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:

	2008 £	2007 £
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
	<u>160,500</u>	<u>160,500</u>

**Approval**

The Directors' Remuneration Report on pages 20 and 21 was approved by the board of directors and signed on its behalf on 30 January 2009.

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 2008 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, 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 and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Company Summary, Board of Directors, Chairman's Statement, Managing Director's Report, List of Investments, Directors' Report, unaudited part of the Directors' Remuneration Report, Notice of Annual General Meeting and Appendix to 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 November 2008 and of its net loss for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP  
*Registered Auditor*  
Edinburgh, 30 January 2009

	For the year ended 30 November 2008			For the year ended 30 November 2007			
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	9	–	(57,849)	(57,849)	–	(37,900)	(37,900)
Currency gains	13	–	2,318	2,318	–	636	636
Income	2	4,866	–	4,866	6,056	–	6,056
Administrative expenses	3	(554)	–	(554)	(500)	–	(500)
<b>Net return before finance costs and taxation</b>		4,312	(55,531)	(51,219)	5,556	(37,264)	(31,708)
Finance costs of borrowings	5	(67)	–	(67)	(1,949)	–	(1,949)
<b>Net return on ordinary activities before taxation</b>		4,245	(55,531)	(51,286)	3,607	(37,264)	(33,657)
Tax on ordinary activities	6	(61)	–	(61)	(63)	–	(63)
<b>Net return on ordinary activities after taxation</b>		4,184	(55,531)	(51,347)	3,544	(37,264)	(33,720)
<b>Net return per ordinary share:</b>	7						
Basic		6.34p	(84.16)p	(77.82)p	5.36p	(56.35)p	(50.99)p
Diluted (FRS 22)		6.34p	(84.16)p	(77.82)p	5.32p	(55.98)p	(50.66)p
Note:							
Dividends paid and proposed per ordinary share	8	5.75p			5.00p		

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. No operations were acquired or discontinued during the year.

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 27 to 37 are an integral part of this statement.

## BALANCE SHEET

	Notes	At 30 November 2008		At 30 November 2007	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments held at fair value through profit or loss	9		87,747		129,206
<b>Current assets</b>					
Debtors	10	603		6,698	
Cash at bank and in hand		6,300		24,373	
		<u>6,903</u>		<u>31,071</u>	
<b>Creditors</b>					
Amounts falling due within one year	11	<u>(411)</u>		<u>(10,103)</u>	
<b>Net current assets</b>					
			6,492		20,968
<b>Total assets less current liabilities</b>					
			<u>94,239</u>		<u>150,174</u>
<b>Capital and reserves</b>					
Called-up share capital	12		16,295		16,532
Share premium			15,242		15,242
Special distributable reserve	13		37,377		38,663
Capital redemption reserve	13		237		-
Capital reserve	13		19,694		75,225
Revenue reserve	13		5,394		4,512
<b>Equity shareholders' funds</b>					
			<u>94,239</u>		<u>150,174</u>
<b>Net asset value per ordinary share</b>					
	14		144.6p		227.1p

The Accounts were approved and authorised for issue by the board on 30 January 2009.

DCP McDougall  
Chairman

The accompanying notes on pages 27 to 37 are an integral part of this statement.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

**For the year ended 30 November 2008**

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve		Revenue Reserve £'000	Total Share- holders' Funds £'000
					Realised £'000	Unrealised £'000		
Shareholders' funds at 1 December 2007	16,532	15,242	38,663	–	76,139	(914)	4,512	150,174
Net return on ordinary activities after taxation	–	–	–	–	(11,712)	(43,819)	4,184	(51,347)
Shares bought back for cancellation	(237)	–	(1,286)	237	–	–	–	(1,286)
Dividends paid during the year (note 8)	–	–	–	–	–	–	(3,302)	(3,302)
Shareholders' funds at 30 November 2008	16,295	15,242	37,377	237	64,427	(44,733)	5,394	94,239

**For the year ended 30 November 2007**

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve		Revenue Reserve £'000	Total Share- holders' Funds £'000
					Realised £'000	Unrealised £'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

The accompanying notes on pages 27 to 37 are an integral part of this statement.

## CASH FLOW STATEMENT

	Notes	For the year ended 30 November 2008		For the year ended 30 November 2007	
		£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	15		4,039		5,234
<b>Servicing of finance</b>					
Interest paid		(118)		(1,968)	
<b>Net cash outflow from servicing of finance</b>			(118)		(1,968)
<b>Capital expenditure and financial investment</b>					
Acquisitions of investments		(87,418)		(63,881)	
Disposals of investments		77,143		105,070	
Realised currency gain/(loss)		2,519		(19)	
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>			(7,756)		41,170
<b>Equity dividends paid</b>			(3,302)		(2,976)
<b>Net cash (outflow)/inflow before financing</b>			(7,137)		41,460
<b>Financing</b>					
Shares bought back for cancellation		(929)		-	
Net bank loans repaid		(10,007)		(27,818)	
<b>Net cash outflow from financing</b>			(10,936)		(27,818)
<b>(Decrease)/increase in cash</b>	16		(18,073)		13,642
<b>Reconciliation of net cash flow to movement in net funds</b>					
(Decrease)/increase in cash in the year			(18,073)		13,642
Decrease in bank loans			10,007		27,818
Exchange movement on bank loans			(13)		467
<b>Movement in net funds in the year</b>			(8,079)		41,927
<b>Net funds/(debt) at 1 December</b>			14,379		(27,548)
<b>Net funds at 30 November</b>			6,300		14,379

The accompanying notes on pages 27 to 37 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, 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 cash dividends the net amount of the cash dividend declared is credited to the revenue account.

(vii) Stock dividends, where there is no cash alternative, are treated as capital items.

### (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 reserve**

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

Unrealised: The amount by which the market value of assets and liabilities differs from their book value is dealt with in this reserve.

	Year to 30 November	Year to 30 November
	2008 £'000	2007 £'000
<b>2 INCOME</b>		
<b>Income from investments</b>		
Franked investment income	3,097	3,926
UK unfranked investment income	533	681
Overseas dividends	634	647
Overseas interest	74	–
	<u>4,338</u>	<u>5,254</u>
<b>Other income</b>		
Deposit interest	508	788
Other income	20	14
	<u>528</u>	<u>802</u>
<b>Total income</b>	<u>4,866</u>	<u>6,056</u>
<b>Total income comprises:</b>		
Dividends from financial assets designated at fair value through profit or loss	4,241	5,254
Interest from financial assets designated at fair value through profit or loss	97	–
Deposit interest	508	788
Underwriting commission	20	14
	<u>4,866</u>	<u>6,056</u>
<b>Income from investments:</b>		
Listed UK	3,641	4,607
Listed Overseas	697	647
	<u>4,338</u>	<u>5,254</u>

**3 ADMINISTRATIVE EXPENSES**

Administrative expenses include the following:

Directors' fees and staff costs – note 4	238	236
Secretarial and administrative services	71	71
Information technology expenses	25	21
Power, telephone, rates and insurance	70	51
Operating lease rentals – office rent	48	28
Auditors' remuneration – statutory audit	18	17

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	54	52
Social security costs	23	23
	<u>238</u>	<u>236</u>

Two persons were employed under a contract during the year (2007 – 2): Max Ward, the managing director, and Vivien Judge, the office manager.

	Year to 30 November	Year to 30 November
	2008 £'000	2007 £'000
<b>5 FINANCE COSTS OF BORROWING</b>		
Bank loans	67	1,949
<b>6 TAX ON ORDINARY ACTIVITIES</b>		
<b>Analysis of charge in year</b>		
Overseas taxation	61	63
<b>Factors affecting tax charge for year</b>		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28.67%) The differences are explained below:		
Revenue return on ordinary activities before taxation	4,245	3,607
Revenue return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.67% (2007 – 30%)	1,217	1,082
Income not taxable (franked investment income)	(888)	(1,178)
Income taxable in different periods	4	(50)
Overseas withholding tax	61	63
Taxable losses in year (utilised)/not utilised	(333)	146
Current tax charge for the year	61	63

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 2008 the Company had a potential deferred tax asset of £573,000 (2007 – £830,000) 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% (2007 – 28%).

7 NET RETURN PER ORDINARY SHARE	Year to 30 November 2008			Year to 30 November 2007		
	Revenue	Capital	Total	Revenue	Capital	Total
Net return on ordinary activities after taxation (£'000)	4,184	(55,531)	(51,347)	3,544	(37,264)	(33,720)
Weighted average number of ordinary shares in issue during the year	65,985,599	65,985,599	65,985,599	66,128,985	66,128,985	66,128,985
Net return per ordinary share:						
Basic	6.34p	(84.16)p	(77.82)p	5.36p	(56.35)p	(50.99)p
Diluted (FRS 22)	6.34p	(84.16)p	(77.82)p	5.32p	(55.98)p	(50.66)p

Returns per ordinary share are based on the return for the financial year and on the weighted average number of ordinary shares in issue during the year as shown above.

Dilution of returns 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 65,985,599 shares (2007 – 66,562,850), 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 179.0p (2007 – 295.0p) and an average exercise price for the options of 196.0p (2007 – 281.0p). For the year to 30 November 2008 no shares would have been issued for no consideration as the average share price was below the average exercise price.

	Year to 30 November 2008		Year to 30 November 2007	
	Pence	£'000	Pence	£'000

## 8 ORDINARY DIVIDENDS

### Amounts recognised as distributions in the year

Previous year's final dividend paid 7 April 2008	3.00	1,984	2.50	1,653
Interim dividend paid 29 August 2008	2.00	1,318	2.00	1,323
	<u>5.00</u>	<u>3,302</u>	<u>4.50</u>	<u>2,976</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 £4,184,000 (2007 – £3,544,000).

### Dividends paid and proposed in respect of the year

Interim dividend paid 29 August 2008	2.00	1,318	2.00	1,323
Proposed final dividend payable 7 April 2009	3.00	1,955	3.00	1,984
	<u>5.00</u>	<u>3,273</u>	<u>5.00</u>	<u>3,307</u>
Proposed special dividend payable 7 April 2009	0.75	489	–	–
	<u>5.75</u>	<u>3,762</u>	<u>5.00</u>	<u>3,307</u>

## 9 INVESTMENTS

	At 30 November 2008 £'000	At 30 November 2007 £'000
	<b>Financial assets designated at fair value through profit or loss on initial recognition</b>	
Listed UK – equity instruments	52,062	91,883
Listed Overseas – equity instruments	27,587	37,323
– debt instruments	8,098	–
	<u>87,747</u>	<u>129,206</u>

	Listed in UK £'000	Listed overseas £'000	Total £'000
Cost of investments at 1 December 2007	98,082	31,983	130,065
Fair value adjustment at 1 December 2007	(6,199)	5,340	(859)
Fair value of investments at 1 December 2007	<u>91,883</u>	<u>37,323</u>	<u>129,206</u>
Movements in year:			
Purchases at cost	61,524	25,894	87,418
Sales – proceeds	(42,566)	(28,436)	(71,002)
– realised gains on sales	(18,828)	4,853	(13,975)
Amortisation of fixed interest book cost	(2)	(24)	(26)
Changes in fair value	(39,949)	(3,925)	(43,874)
Fair value of investments at 30 November 2008	<u>52,062</u>	<u>35,685</u>	<u>87,747</u>
Cost of investments at 30 November 2008	98,210	34,270	132,480
Fair value adjustment at 30 November 2008	(46,148)	1,415	(44,733)
Fair value of investments at 30 November 2008	<u>52,062</u>	<u>35,685</u>	<u>87,747</u>

The purchases and sales proceeds figures above include transaction costs of £393,000 (2007 – £237,000) and £105,000 (2007 – £165,000) respectively.

	At 30 November 2008 £'000	At 30 November 2007 £'000
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## 9 INVESTMENTS (continued)

### Net losses on investments designated at fair value through profit or loss on initial recognition

Realised (losses)/gains on sales	(13,975)	20,374
Changes in fair value	<u>(43,874)</u>	<u>(58,274)</u>
	<u>(57,849)</u>	<u>(37,900)</u>

Of the realised losses on sales during the year of £13,975,000 (2007 – realised gain of £20,374,000), a net loss of £4,286,000 (2007 – gain of £32,372,000) was included in fair value adjustments at the previous year end.

## 10 DEBTORS

### Amounts falling due within one year

Income accrued (net)	559	346
Sales for subsequent settlement	–	6,141
Unrealised gain on forward currency contract	–	189
Other debtors and prepayments	<u>44</u>	<u>22</u>
	<u>603</u>	<u>6,698</u>

## 11 CREDITORS

### Amounts falling due within one year

Bank loans	–	9,994
Purchases for subsequent settlement	357	–
Other creditors and accruals	<u>54</u>	<u>109</u>
	<u>411</u>	<u>10,103</u>

### Borrowing facilities

The Company has a three year £20 million facility expiring May 2010 with Lloyds TSB Scotland.

At 30 November 2008 drawings were nil (2007 – €14 million at 4.9125%).

The main covenants relating to the above loan 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 2008		At 30 November 2007	
	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	<u>65,180,000</u>	<u>16,295</u>	<u>66,128,895</u>	<u>16,532</u>

At 30 November 2008 there were outstanding options to acquire 8,900,000 (2007 – 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.

During the year the Company bought back 948,895 ordinary shares of 25p each at a cost of £1,286,000. At 30 November 2008 the Company had authority remaining to buy back a further 8,963,826 ordinary shares for cancellation.

	Capital redemption reserve £'000	Special distributable reserve £'000	Capital reserve		Revenue reserve £'000
			Realised £'000	Unrealised £'000	
<b>13 RESERVES</b>					
At 1 December 2007	–	38,663	76,139	(914)	4,512
Net loss on realisation of investments	–	–	(13,975)	–	–
Changes in fair value	–	–	–	(43,874)	–
Exchange differences on bank loans	–	–	(256)	244	–
Other exchange differences	–	–	2,326	–	–
Exchange differences on forward currency contracts	–	–	193	(189)	–
Revenue return on ordinary activities in the year	–	–	–	–	4,184
Shares bought back for cancellation	237	(1,286)	–	–	–
Dividends paid in the year	–	–	–	–	(3,302)
At 30 November 2008	237	37,377	64,427	(44,733)	5,394

The Institute of Chartered Accountants in England and Wales, in its technical guidance TECH 01/08, states that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, can be treated as realised, provided the change recognised can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits in respect of such securities, currently taken through the Unrealised column of the Capital Reserve, can be regarded as distributable and may be used to fund share buybacks.

The special distributable reserve, which arose from the reduction of the share premium account in 2000 may also be used to fund share buybacks.

The revenue reserve may be distributed by way of dividend.

**14 NET ASSET VALUE PER ORDINARY SHARE**

	At 30 November 2008		At 30 November 2007	
	Pence	£'000	Pence	£'000
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:				
Ordinary shares	144.6	94,239	227.1	150,174

The net asset value per share is based on net assets as shown above and on 65,180,000 shares (2007 – 66,128,895), being the number of shares in issue at the year end.

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

	Year to 30 November	Year to 30 November
	2008 £'000	2007 £'000
Net return before finance costs and taxation	(51,219)	(31,708)
Losses on investments	57,849	37,900
Amortisation of fixed interest book cost	26	–
Currency gains	(2,318)	(636)
Increase in accrued income	(213)	(258)
Increase in debtors	(22)	(3)
(Decrease)/increase in creditors	(3)	2
Overseas tax	(61)	(63)
Net cash inflow from operating activities	4,039	5,234

**16 ANALYSIS OF CHANGE IN NET FUNDS**

	At 1 December 2007 £'000	Cash flows £'000	Exchange movement £'000	At 30 November 2008 £'000
Cash at bank and in hand	24,373	(18,073)	–	6,300
Loans due within one year	(9,994)	10,007	(13)	–
	<u>14,379</u>	<u>(8,066)</u>	<u>(13)</u>	<u>6,300</u>

**17 CONTINGENT LIABILITIES, GUARANTEES AND FINANCIAL COMMITMENTS**

At 30 November 2008 the Company had an annual commitment of £35,000 under an operating lease in respect of premises. The current operating lease commitment will expire on 28 November 2012.

**18 FINANCIAL INSTRUMENTS**

As an Investment Trust, the Company invests in equities and makes other investments so as to achieve its investment objective of providing good absolute returns over long periods by investing the great majority of its assets in UK and international quoted securities. In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise short term volatility. Risk provides the potential for both loss and gains. In assessing risk, the board encourages the managing director to exploit the opportunities that risk affords.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

**Market Risk**

The fair value or future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The board of directors reviews and agrees policies for managing these risks and the Company's managing director both assesses the exposure to market risk when making individual investment decisions and monitors the overall level of market risk across the investment portfolio.

Details of the Company's investment portfolio are shown in note 9. Details of derivative financial instruments outstanding at the balance sheet date are shown on page 37.

The Company's managing director may not enter into derivative transactions without the prior approval of the board.

**Currency Risk**

Some of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and that in which it reports its results). Consequently, movements in exchange rates may affect the sterling value of those items.

The managing director monitors the Company's exposure to foreign currencies and reports to the board on a regular basis. He assesses the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. However, the country in which a company is listed is not necessarily where it earns its profits. The movement in exchange rates on overseas earnings may have a more significant impact upon a company's valuation than that arising from a simple translation of the currency in which the company is quoted.

Foreign currency borrowings and forward currency contracts may be used to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. At 30 November 2007 the Company had an unrealised gain of £189,000 on a forward currency contract, the purpose of which was to eliminate the foreign currency hedge provided by the Company's euro loan. The forward currency contract was closed in December 2007 realising a gain of £193,000.

**18 FINANCIAL INSTRUMENTS (continued)****Currency Risk (continued)**

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

At 30 November 2008	Investments £'000	Cash and deposits £'000	Loans £'000	Other debtors and creditors* £'000	Net exposure £'000
US dollar	29,390	3,972	–	157	33,519
Euro	4,150	–	–	111	4,261
Canadian dollar	2,144	–	–	–	2,144
Total exposure to currency risk	35,684	3,972	–	268	39,924
Sterling	52,063	2,328	–	(76)	54,315
	87,747	6,300	–	192	94,239

\*Includes net non-monetary assets of £42,000.

At 30 November 2007	Investments £'000	Cash and deposits £'000	Loans £'000	Other debtors and creditors* £'000	Net exposure £'000
US dollar	31,300	2,184	–	68	33,552
Euro	7,273	16	(9,994)	9,940	7,235
Canadian dollar	6,023	635	–	4	6,662
Total exposure to currency risk	44,596	2,835	(9,994)	10,012	47,449
Sterling	84,610	21,538	–	(3,423)	102,725
	129,206	24,373	(9,994)	6,589	150,174

\*Includes net non-monetary assets of £22,000.

**Currency Risk Sensitivity**

At 30 November 2008, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. The analysis is performed on the same basis for 2007.

	2008 £'000	2007 £'000
US dollar	1,676	1,678
Euro	213	362
Canadian dollar	107	333
	1,996	2,373

**Interest Rate Risk**

Interest rate movements may affect directly:

- the fair value of any investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- the fair value of any fixed-rate borrowings; and
- the interest payable on any variable rate borrowings.

Interest rate movements may also impact upon the market value of investments outwith fixed income securities. The effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity.

**18 FINANCIAL INSTRUMENTS (continued)****Interest Rate Risk (continued)**

The possible effects on fair value and cashflows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements.

The board reviews on a regular basis the amount of investments in cash and fixed income securities and the income receivable on cash deposits, floating rate notes and other similar investments.

The Company may finance part of its activities through borrowings at approved levels. The amount of any such borrowings and the approved levels are monitored and reviewed regularly by the board. Movements in interest rates, to the extent that they affect the market value of the Company's fixed rate borrowings, may also affect the amount by which the Company's share price is at a discount or a premium to the net asset value, on the assumption that the share price is unaffected by movements in interest rates.

The cash deposits generally comprise call or short term money market deposits of less than one month which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate. The interest rate risk profile of financial assets and financial liabilities at 30 November was:

**Financial assets**

30 November 2008

	Fair value £'000	Weighted average interest rate	Weighted average period until maturity
Fixed Rate:			
Euro bonds	4,150	3.75%	0.3 years
US bonds	3,948	3.125%	0.4 years

The main change to the interest rate risk profile of the Company's financial assets during the year has been a net investment in fixed rate bonds of £7,327,000. There were no financial assets subject to interest rate risk at 30 November 2007, other than the cash deposits shown in the credit risk exposure table on page 36.

**Financial liabilities**

	Year to 30 November 2008 £'000	Year to 30 November 2007 £'000
The interest rate risk profile of the Company's financial liabilities at 30 November was:		
Floating rate – euro	–	9,994
The maturity profile of the Company's financial liabilities at 30 November was:		
Within one year	–	9,994

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

The Company repaid its €14m floating rate loan in December 2007.

**Interest Rate Risk Sensitivity**

An increase of 100 basis points in bond yields as at 30 November 2008 would have decreased total net assets and total return on ordinary activities by £27,000 (2007 – nil), all other things being equal. A decrease of 100 basis points would have had an equal but opposite effect.

**Other Price Risk**

Changes in market prices other than those arising from interest rate risk may also affect the value of the Company's net assets.

The board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the managing director. The board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce any index. Investments are selected based upon the merit of individual companies and therefore performance may well diverge from comparative indices.

**18 FINANCIAL INSTRUMENTS (continued)**

**Other Price Risk Sensitivity**

A full list of the Company's investments by broad industrial or commercial sector is given on page 7. In addition, an analysis of the investment portfolio is contained in the Managing Director's Report.

85% of the Company's net assets are invested in equities. A 5% increase in quoted equity valuations at 30 November 2008 would have increased total assets and total return on ordinary activities by £3,982,000 (2007 – £6,460,000). A decrease of 5% would have had an equal but opposite effect.

**Liquidity Risk**

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is not significant as the majority of the Company's investment assets are in quoted securities that are readily realisable. The board provides guidance to the managing director as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings.

The Company has the power to take out borrowings, which give it access to additional funding when required.

**Credit Risk**

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

This risk is managed as follows:

- where the managing director makes an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question;
- the Company's listed investments are held on its behalf by The Bank of New York Mellon, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The managing director monitors the Company's risk by reviewing the custodian's internal control reports and reporting their findings to the board;
- investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the managing director. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed;
- the creditworthiness of the counterparty to transactions involving derivatives, structured notes and other arrangements, wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest, are subject to rigorous assessment by the managing director; and
- cash is only held at banks that have been approved by the board as creditworthy.

**Credit Risk Exposure**

The exposure to credit risk at 30 November was:

	2008 £'000	2007 £'000
Fixed interest investments	8,098	–
Cash and short term deposits	6,300	24,373
Debtors	561	6,676
	14,959	31,049

None of the Company's financial assets are past due or impaired.

**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.

Short term loans are held at a value equivalent to fair value.

**18 FINANCIAL INSTRUMENTS (continued)****Gains and losses on hedges**

There were no open forward currency contracts at 30 November 2008. The following forward currency contract was open at 30 November 2007:

At 30 November 2007	Currency sold	Currency amount sold	Currency bought	Currency amount bought	Settlement date	Fair value £'000
	Sterling	(£9,815,000)	Euro	14,000,000	17/12/07	189

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.

**Capital management**

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital as detailed in note 12. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 8. Shares may be issued and/or repurchased as explained on page 15.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the eighth 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, 26 March 2009 at 4.30pm for the following purposes:

### Ordinary Business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Accounts of the Company for the year to 30 November 2008 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 2008.
3. To declare a final dividend of 3.00p per ordinary share and a special dividend of 0.75p per ordinary share for the year to 30 November 2008.
4. To re-elect Mr DCP McDougall as a director.
5. 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.
6. To authorise the directors to determine the remuneration of the Independent Auditors of the Company.

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

7. 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 respect of the year ending 30 November 2009, 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:

8. That the draft regulations produced to the meeting and, for the purposes of identification, initialled by the chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

9. To approve the change to the Company's investment policy as set out on pages 16 and 17 of the Directors' Report.

By order of the board  
BAILLIE GIFFORD & CO

*Secretaries*

17 February 2009

## Notes

1. A member entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies to attend, speak and 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 less than 48 hours before the time set for the meeting, or any adjourned meeting. Any Power of Attorney or any other authority under which the proxy is signed (or a duly certified copy of such power or authority) must be included with the proxy form. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.
2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the Register of Members of the Company as at the close of business on 24 March 2009 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 any adjourned meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the Register of Members after the close of business on 24 March 2009 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 or any adjourned meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
3. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – [www.icsa.org.uk](http://www.icsa.org.uk) – for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.
4. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
5. A copy of Max Ward's service contract with the Company will 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.
6. A copy of the New 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 Royal London House, 22–25 Finsbury Square, London EC2A 1DX and Calton Square, 1 Greenside Row, Edinburgh EH1 3AN.
7. As at 28 January 2009, the latest practicable date prior to publication of this document, the Company had 64,200,000 ordinary shares in issue with a total of 64,200,000 voting rights.
8. 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.
9. The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditors' Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100.

### **Summary of the proposed material changes to the Articles of Association of the Company**

The principal changes which would arise from the adoption of the New Articles are set out below.

#### **Electronic and web communication**

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic means and/or website communication. The New Articles contain a number of provisions designed to maximise the Company's ability to use electronic systems, including websites, for communication with shareholders.

The New Articles give the directors the discretion to use electronic communication to distribute notices of meetings, annual reports, accounts and summary financial statements. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and under the New Articles, the Company must have received a positive response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when relevant documents or information are placed on the website and a member can always request a hard copy version of the document or information. The use of the electronic communication regime by the Company will enable the Company to reduce costs, reduce the environmental impact of its business and generally enhance the quality of communication with shareholders.

#### **Form of resolutions and convening meetings**

The existing Articles contain provisions referring to "extraordinary" resolutions and "extraordinary" general meetings. These concepts have been abolished under the 2006 Act with effect from 1 October 2007. Meetings of shareholders other than annual general meetings are referred to simply as general meetings. Any resolution requiring a 75 per cent majority will be a "special" resolution.

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform to the new provisions of the 2006 Act. In particular, general meetings to consider special resolutions can now be convened on 14 clear days' notice whereas previously 21 clear days' notice was required. The annual general meeting of the Company still requires 21 clear days' notice.

#### **Proxies**

Under the 2006 Act, proxies are entitled to vote on a show of hands, whereas under the existing Articles proxies are only entitled to vote on a poll. The time limits for the appointment of proxies have also been altered by the 2006 Act so weekends and bank holidays can be excluded for the purposes of the timing for delivery of proxies. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the shareholder. The New Articles reflect these changes.

#### **Corporate representatives**

The 2006 Act permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting. However, where multiple corporate representatives exercise votes in different ways, the 2006 Act provides that no votes have been exercised. The New Articles reflect the provisions in the 2006 Act.

#### **Conflicts of interest**

The New Articles reflect the new provisions of the 2006 Act in relation to directors' conflicts of interests which came into force on 1 October 2008.

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company, an advisor to

the Company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect. The 2006 Act also allows articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

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

It is also proposed that the New Articles contain provisions relating to confidential information, attendance at board meetings and the availability of board papers to protect a director being in breach of duty if a conflict of interest or a potential conflict of interest arises. It is the board's intention to report annually on the Company's procedures for ensuring that the board's powers to authorise conflicts are operating effectively.

It is proposed that the New Articles will contain provisions giving the directors authority to approve situations involving directors' conflicts of interest and to allow conflicts of interest to be dealt with by the board.

#### **Periodic retirement**

The Combined Code on Corporate Governance recommends that directors must submit themselves for election by shareholders at the first annual general meeting after their appointment and to re-election thereafter at intervals of no more than three years. The New Articles reflect these provisions.

#### **Stock**

The existing Articles provide that the Company may by ordinary resolution convert any fully paid shares into stock. The 2006 Act abolishes the power to convert shares into stock but allows a company that currently has stock to re-convert this stock back into paid up shares of any nominal value by means of an ordinary resolution. The 2006 Act removes the current requirement for a company's articles to permit re-conversion, but a company wishing to re-convert its stock will still have to pass an ordinary resolution in advance authorising it to do so. The New Articles reflect the provisions of the 2006 Act.

#### **Requirements for registration of transfer and refusal to transfer**

The 2006 Act introduces a new requirement for companies to register transfers or to provide the transferee with reasons for refusal as soon as possible. The New Articles reflect this new requirement.

#### **CREST and the Uncertificated Securities Regulations**

The New Articles reflect the Uncertificated Securities Regulations 2001 and the 2006 Act provisions by permitting shareholders holding uncertificated shares to appoint, instruct, amend and revoke proxy appointments using the CREST system.

#### **Articles that duplicate statutory provisions**

Certain other provisions in the current Articles which replicate provisions contained in companies legislation are amended to bring them into line with the 2006 Act.

**DIRECTORS**

DCP McDougall OBE (Chairman)  
MCB Ward (Managing)  
JGD Ferguson (Non-executive)  
The Hon. RJ Laing (Non-executive)

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