

**THE INDEPENDENT INVESTMENT TRUST PLC**

**HALF-YEARLY FINANCIAL REPORT**

For the six months to 31 May 2008

## **SUMMARY STATISTICS**

for the six months to 31 May 2008

Net asset value per share of 216.3p down 4.8%  
(since 30 November 2007)

Earnings per share of 4.23p (2.69p)

Interim dividend per share of 2.00p (2.00p)

## **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.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

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 of the Company's Annual Report and Accounts for the year to 30 November 2007. The principal risks and uncertainties have not changed since the publication of the Annual 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.

## **RESPONSIBILITY STATEMENT**

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with the Accounting Standards Board's statement 'Half-Yearly Financial Reports';
- b) the Chairman's Statement includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- c) the Half-Yearly Financial Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Douglas McDougall  
Chairman

8 July 2008

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.

The six month period ending 31 May 2008 was a difficult and volatile one for stockmarket investors. We generated a total return over the period of -3.4%, which is not significantly different from the total return notionally attributable to the FTSE All Share Index of -4.2%.

Our net asset value fell by 4.8% over the period – from 227.1p to 216.3p – and we are declaring an unchanged interim dividend of 2p, to be paid on 29 August 2008 from earnings of 4.23p (2.69p last year). The combination of a big move out of higher yielding shares and the potential for dividend cuts from the dividend payers that remain means that our current portfolio yield is lower than it has been for some time. This will not have a dramatic effect on earnings for the current year, but it is possible that earnings in future years will be well below the current level of dividend. The board expects to recommend a maintained dividend this year and will take account of the strong revenue reserve built up in previous years in considering future dividend payments, but ultimately dividends have to be earned.

Two features have dominated the economic background: the intensification of the credit crunch and the resurgence of inflationary pressures. The former has caused severe problems for the banking industry and industries, such as housebuilding, commercial real estate and retailing, which had prospered on the back of the free availability of cheap credit. The resurgence in inflationary pressures has prevented the Bank of England from delivering the relaxation of monetary policy that normally attends signs of distress in the banking system. The result has been that many of the companies and industries from which we derived so much benefit in our early years have been confronted with trading conditions that were – and continue to be – worse than anything we had thought possible. Given how slow we were to recognize this developing disaster, we consider ourselves lucky to have emerged from the period with results that were not egregiously poor. Much of the credit for this belongs with our big energy stake, which has benefited from the extraordinary rise in oil and gas prices.

Our turnover has been below the hectic levels of our last financial year, but still higher than we would ideally like it to be. This reflects the continuing need for reassessment of the prospects of companies we had once hoped to hold through thick and thin. Net transactions have had less of an impact on the industrial distribution of our portfolio than valuation changes, but they are responsible for our one new area of exposure: mining. Prisoners of our miserable history (in a previous incarnation) of investment in mining companies, we have been slow to recognize the strength in demand for metals, preferring to focus on oil and gas. By 31 May 2008, energy and mining together accounted for almost half our shareholders' funds with cash (adjusted for the call on our Royal Bank of Scotland rights) representing a further 11%. A year earlier, areas other than energy and mining accounted for 78% of our shareholders' funds and we had borrowings amounting to 11% of our shareholders' funds.

The genesis of our energy stake was a conviction that the prospect of shortages of oil could only be averted by a major increase in the effort devoted to finding new oil fields, together with a fear that if shortages were to emerge in the imminent future, developed economies would be in a poor position to adapt to them. Both the conviction and the fear have strengthened over the last year as persistently weakening projections for non-OPEC production have combined with persistently strong demand in Asia and the Middle East to give OPEC the whip hand in the pricing of oil. As a foretaste of what will happen when there is a genuine shortage, it has been a frightening experience: the oil price has risen to levels not dreamt of a year ago while a common political reaction has been to seek ways of mitigating the effect of higher prices on demand.

It is quite possible – even likely – that high oil prices will have a sufficiently moderating effect on demand to bring about a period of oil price weakness. This might well be reflected in lower stockmarket valuations for our energy holdings, but we feel no temptation to anticipate this by making substantial sales at current prices because these seem to us still a poor reflection of what we believe to be excellent long term prospects. The value of our energy stake rose from £41.4m at 30 November 2007 to £56.0m at 31 May 2008, after net purchases of £1.3m.

One of the bigger mistakes we have made over the last eighteen months has been to underestimate the effect of tightening monetary conditions on discretionary spending. Our long term enthusiasm for the retail sector has therefore been particularly expensive in the six months to 31 May 2008. A stake worth £18.8m at 30 November 2007 had fallen in value to £12.8m six months later, despite net purchases of £3.5m. The main casualties were our furniture retailers, Land of Leather and SCS Upholstery, both of which have struggled to survive, but we also suffered an unexpectedly severe hit from our holding in Topps Tiles. Our other two retail holdings, Dunelm and Home Retail, have so far demonstrated commendable resilience in a tough environment, for which they have been given little credit in the stockmarket. Both have strong balance sheets and are inherently cash generative businesses; our current intention is to ride out the storm with them.

Alone among our traditional affiliations, the recruitment companies held their ground in the period under review: our stake in the industry rose in value from £7.5m at 30 November 2007 to £10.8m at 31 May 2008 with essentially all of the gain being attributable to net purchases. Share prices in the sector had fallen sharply during the final quarter of 2007 in anticipation of a severe deterioration in trading conditions. While the market's expectation of deterioration has persisted, the fact that it was

slow to materialize allowed a measure of stability to return to the share prices in the latter part of the period. We regard the immediate outlook for the industry, which is international in nature, as wholly unpredictable, but we remain convinced that its long term outlook is excellent. On this basis, we are looking for opportunities to make further additions to our stake when share prices seem unduly depressed.

Even by the standards of recent years, the performance of our bank holdings in the six months to 31 May 2008 was disappointing. A stake worth £16.1m at the start of the period had declined in value to £10.7m (after making provision for the take-up of our Royal Bank of Scotland rights) by the end of the period, with only £0.1m being attributable to net sales. Judging by the confident statements attending the results announcements in early March, the true fragility of the industry's position only became apparent to managements later that month. It was then communicated to shareholders in the form of further substantial write-downs of assets and a series of heavily dilutive equity issues. The effect of this on shareholder confidence has been predictably devastating and shareholders, ourselves included, have been left wondering how to value these businesses. Our sense is that the shares are now oversold, but we have little conviction in this view.

As mentioned above, the one area of new exposure for us is mining. The arguments for mining shares are more about global economic trends than they are about the characteristics of the individual companies and, as such, are alien to our natural approach to investment. In addition to this, many years spent mulling over projections of supply and demand for various metals have left us sceptical about the value of such projections. The decision to buy mining shares has therefore been a difficult one for us, but in the end we have been swayed by the sheer scale of the projections for spending on infrastructure in Asia and the Middle East. The possibility that these economies will continue to grow even as the developed world flounders is one that seems plausible to us. Towards the end of the half year, we invested £10.2m in mining shares in recognition of this; the stake was worth £10.2m on 31 May 2008.

Our property holdings, which are now exclusively invested in continental Europe, have continued to suffer in share price terms: a stake worth £15.0m at 30 November 2007 had declined in value to £9.3m by 31 May 2008, after sales of £2.8m. It remains difficult to assess the degree to which the malaise affecting commercial property prices in the UK will spread to continental Europe, but the stockmarket is assuming the worst. In the event that our companies survive – which cannot be viewed as a certainty in the current environment – their share prices will probably turn out to have been very cheap at current levels.

Housebuilding is no longer a significant area of investment for us (the holding in Persimmon has been sold since the end of May), but it was at the start of the period, when our stake in the industry was worth £13.4m. At that point it was our intention to ride the cycle out, confident in the operational strengths of our companies and reassured by their performance in past housing recessions. It became clear in April, however, that the tightening of lending standards by mortgage providers would make this housing downturn worse than any in living memory. The picture of companies struggling to sell houses at any price with anxious bankers looking over their shoulders at the dwindling value of their landbanks was one that appalled us and we have reluctantly concluded that we should abandon the sector to its fate. This act of deserting well run businesses that have made us large amounts of money in the past at their time of need has been a painful one. As a reminder of the ephemeral nature of good investment stories it has been an important lesson for us.

The only other development of note within the portfolio was the takeover bid for Kiln at a price which exceeded our most optimistic hopes.

The difficulties we have experienced over the last year have led to a de-rating of our shares, which now sell at a discount to net asset value. We are prepared to use our buy back powers opportunistically for the benefit of continuing shareholders. Since the end of May, we have bought in 245,895 shares on terms that have improved the net asset value per share.

Throughout the world uncomfortably high rates of raw material inflation are causing difficulties for policy-makers. In the case of the UK, these difficulties are compounded by the parlous state of the banking system and the continuing need for individuals and businesses to strengthen their balance sheets. The immediate outlook for much of the domestic economy is sombre indeed and, bruised by our experience over the last twelve months, we are conscious of the possibility that much of the apparent statistical cheapness of our domestic holdings may simply reflect the fact that we have yet to appreciate how bad things are going to get. That said, our big commitment to energy and mining provides a degree of insulation against problems that are peculiar to the UK, while our cash balances would moderate the impact of a general fall in stock prices on our fortunes. Above all, we retain an open mind as to the moves that might be required to cope with a constantly changing picture.

The principal risks facing the Company are set out on the inside front cover of this report. We draw your attention, in particular, to the unusually important role of the directors' judgement in the success or failure of the Company's policy.

Douglas McDougall  
8 July 2008

## LIST OF INVESTMENTS AS AT 31 MAY 2008

Sector	Name	Value £'000	%
Housebuilders	Persimmon	3,850	2.7
	Telford Homes	1,310	0.9
		<u>5,160</u>	<u>3.6</u>
Retailing	Dunelm Group	6,430	4.5
	Home Retail Group	2,577	1.8
	Land of Leather Holdings	500	0.3
	SCS Upholstery	399	0.3
	Topps Tiles	2,930	2.0
	<u>12,836</u>	<u>8.9</u>	
Recruitment	Michael Page International	5,434	3.8
	Robert Walters	2,314	1.6
	SThree	3,101	2.2
	<u>10,849</u>	<u>7.6</u>	
Technology and Telecommunications	Herald Investment Trust	6,100	4.3
Mining	BHP Billiton	2,871	2.0
	Blackrock World Mining Trust	1,490	1.0
	Rio Tinto	1,816	1.3
	Xstrata	3,989	2.8
	<u>10,166</u>	<u>7.1</u>	
Offshore Drillers	Diamond Offshore Drilling – USA	6,898	4.8
	ENSCO – USA	7,266	5.1
	Noble Corp – USA	9,585	6.7
	Transocean – USA	6,067	4.2
	<u>29,816</u>	<u>20.8</u>	
Oilfield Services	Halliburton – USA	2,453	1.7
	Schlumberger – USA	6,641	4.6
	Wellstream Holdings	6,805	4.8
	<u>15,899</u>	<u>11.1</u>	
Oil and Gas Exploration	Duvernay Oil – Canada	3,437	2.4
	ProEx Energy – Canada	1,518	1.1
	Tristar Oil & Gas – Canada	1,853	1.3
	<u>6,808</u>	<u>4.8</u>	
Renewable Energy	Clean Energy Brazil†	3,567	2.5
Banks	Lloyds TSB	5,372	3.8
	Royal Bank of Scotland	3,533	2.5
	<u>8,905</u>	<u>6.3</u>	
Insurance	Hiscox Insurance Portfolio Fund	1,715	1.2
Miscellaneous Financials	Intermediate Capital Group	3,507	2.4
Property	Develica Deutschland (quoted in Euro)	1,982	1.4
	Kenmore European Industrial Fund	3,000	2.1
	Orchid Developments Group	1,935	1.4
	Puma Brandenburg	2,280	1.6
	<u>9,197</u>	<u>6.5</u>	
<b>TOTAL INVESTMENTS</b>		<u>124,525</u>	<u>87.1</u>
Net liquid assets		<u>18,482</u>	<u>12.9</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>143,007</u>	<u>100.0</u>

All holdings are domiciled in the UK unless otherwise stated.

†Includes a holding in warrants.

**INCOME STATEMENT**  
(unaudited)

For the six months ended 31 May 2008

	<i>Notes</i>	Revenue £'000	Capital £'000	Total £'000
Realised (losses)/gains on investments		–	(2,525)	(2,525)
Unrealised (losses)/gains on investments		–	(5,794)	(5,794)
Currency gains		–	340	340
Income from investments and interest receivable		3,156	–	3,156
Other income		7	–	7
Administrative expenses		(298)	–	(298)
<b>Net return before finance costs and taxation</b>		<b>2,865</b>	<b>(7,979)</b>	<b>(5,114)</b>
Finance costs of borrowings		(47)	–	(47)
<b>Net return on ordinary activities before taxation</b>		<b>2,818</b>	<b>(7,979)</b>	<b>(5,161)</b>
Tax on ordinary activities		(22)	–	(22)
<b>Net return on ordinary activities after taxation</b>		<b>2,796</b>	<b>(7,979)</b>	<b>(5,183)</b>
<b>Net return per ordinary share:</b>	<b>3</b>			
Basic		4.23p	(12.07)p	(7.84)p
Diluted (FRS 22)		4.23p	(12.07)p	(7.84)p
Note:				
Dividends paid and proposed per ordinary share	<b>4</b>	2.00p		

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.

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.

For the six months ended 31 May 2007			For the year ended 30 November 2007		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
-	13,710	13,710	-	20,374	20,374
-	5,091	5,091	-	(58,274)	(58,274)
-	242	242	-	636	636
3,204	-	3,204	6,042	-	6,042
7	-	7	14	-	14
(257)	-	(257)	(500)	-	(500)
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2,954	19,043	21,997	5,556	(37,264)	(31,708)
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(1,132)	-	(1,132)	(1,949)	-	(1,949)
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1,822	19,043	20,865	3,607	(37,264)	(33,657)
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(42)	-	(42)	(63)	-	(63)
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1,780	19,043	20,823	3,544	(37,264)	(33,720)
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2.69p	28.80p	31.49p	5.36p	(56.35)p	(50.99)p
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2.67p	28.54p	31.21p	5.32p	(55.98)p	(50.66)p
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2.00p			5.00p		
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**BALANCE SHEET**  
(unaudited)

		At 31 May	At 31 May	At 30 November
	Notes	2008 £'000	2007 £'000	2007 £'000
<b>Fixed assets</b>				
Investments held at fair value through profit or loss		124,525	231,329	129,206
<b>Current assets</b>				
Debtors		443	561	6,698
Cash at bank and in hand		20,831	19,617	24,373
		21,274	20,178	31,071
<b>Creditors</b>				
Amounts falling due within one year	5	(2,792)	(45,467)	(10,103)
<b>Net current assets/(liabilities)</b>		18,482	(25,289)	20,968
<b>Total assets less current liabilities</b>		143,007	206,040	150,174
<b>Capital and reserves</b>				
Called-up share capital		16,532	16,532	16,532
Share premium		15,242	15,242	15,242
Special distributable reserve		38,663	38,663	38,663
Capital reserve – realised		73,900	69,078	76,139
Capital reserve – unrealised		(6,654)	62,454	(914)
Revenue reserve		5,324	4,071	4,512
<b>Equity shareholders' funds</b>		143,007	206,040	150,174
<b>Net asset value per ordinary share</b>	6	216.3p	311.6p	227.1p
<b>Ordinary shares in issue</b>		66,128,895	66,128,895	66,128,895

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
(unaudited)

**For the six months ended 31 May 2008**

<i>Notes</i>	Share Capital £'000	Share Premium £'000	Special Distributable Reserve £'000	Capital Reserve – Realised £'000	Capital Reserve – Unrealised £'000	Revenue Reserve £'000	Total Shareholders' Funds £'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	–	–	–	(2,239)	(5,740)	2,796	(5,183)
Dividends paid	4	–	–	–	–	(1,984)	(1,984)
Shareholders' funds at 31 May 2008	16,532	15,242	38,663	73,900	(6,654)	5,324	143,007

**For the six months ended 31 May 2007**

<i>Notes</i>	Share Capital £'000	Share Premium £'000	Special Distributable Reserve £'000	Capital Reserve – Realised £'000	Capital Reserve – Unrealised £'000	Revenue Reserve £'000	Total Shareholders' Funds £'000
Shareholders' funds at 1 December 2006	16,532	15,242	38,663	54,102	58,387	3,944	186,870
Net return on ordinary activities after taxation	–	–	–	14,976	4,067	1,780	20,823
Dividends paid	4	–	–	–	–	(1,653)	(1,653)
Shareholders' funds at 31 May 2007	16,532	15,242	38,663	69,078	62,454	4,071	206,040

**For the year ended 30 November 2007**

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

**CONDENSED CASH FLOW STATEMENT**  
(unaudited)

	For the six months ended 31 May	For the six months ended 31 May	For the year ended 30 November
	2008 £'000	2007 £'000	2007 £'000
Net cash inflow from operating activities	2,741	2,515	5,234
Net cash outflow from servicing of finance	(98)	(1,089)	(1,968)
Net cash inflow from financial investment	5,806	4,752	41,170
Equity dividends paid	(1,984)	(1,653)	(2,976)
<b>Net cash inflow before financing</b>	<b>6,465</b>	<b>4,525</b>	<b>41,460</b>
Net cash (outflow)/inflow from bank loans	(10,007)	4,361	(27,818)
<b>(Decrease)/increase in cash</b>	<b>(3,542)</b>	<b>8,886</b>	<b>13,642</b>
<b>Reconciliation of net cash flow to movement in net funds/(debt)</b>			
(Decrease)/increase in cash in the period	(3,542)	8,886	13,642
Net cash outflow/(inflow) from bank loans	10,007	(4,361)	27,818
Exchange movement on bank loans	(13)	210	467
<b>Movement in net funds/(debt) in the period</b>	<b>6,452</b>	<b>4,735</b>	<b>41,927</b>
Net funds/(debt) at start of the period	14,379	(27,548)	(27,548)
<b>Net funds/(debt) at end of the period</b>	<b>20,831</b>	<b>(22,813)</b>	<b>14,379</b>
<b>Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities</b>			
Net return before finance costs and taxation	(5,114)	21,997	(31,708)
Losses/(gains) on investments	8,319	(18,801)	37,900
Currency gains	(340)	(242)	(636)
Changes in debtors and creditors	(102)	(397)	(259)
Overseas tax	(22)	(42)	(63)
<b>Net cash inflow from operating activities</b>	<b>2,741</b>	<b>2,515</b>	<b>5,234</b>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**  
**(unaudited)**

1 The condensed set of financial statements comprises the statements set out on pages 4 to 8 together with the related notes on page 9. They have been prepared on the basis of the same accounting policies set out in the Company's Annual Financial Statements at 30 November 2007 and in accordance with the ASB's Statement 'Half-Yearly Financial Reports' and have not been audited or reviewed by the Auditors pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'.

2 The financial information contained within this Half-Yearly Financial Report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the year ended 30 November 2007 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditors' Report on those accounts was not qualified and did not contain statements under the sections 237(2) or (3) of the Companies Act 1985.

**3 Net return per ordinary share**

	Six months ended 31 May	Six months ended 31 May	Year ended 30 November
	<b>2008</b> £'000	2007 £'000	2007 £'000
Revenue	2,796	1,780	3,544
Capital	(7,979)	19,043	(37,264)
Total	<u>(5,183)</u>	<u>20,823</u>	<u>(33,720)</u>

The returns per share are based on the above returns and on 66,128,895 (31 May 2007 and 30 November 2007 – 66,128,895) shares, being the weighted average number of shares in issue during each period.

Dilution of revenue return is attributable to the difference between the average share price and the average exercise price of the outstanding options for the period. The diluted revenue returns per share are based on the above returns and on 65,401,536 shares (31 May 2007 – 66,726,541; 30 November 2007 – 66,562,850), being the weighted average number of shares in issue during the period plus the notional number of shares that would have been issued for no consideration using an average share price of 199.6p (31 May 2007 – 316.5p; 30 November 2007 – 295.0p) and an average exercise price for the options of 215.9p (31 May 2007 – 295.2p; 30 November 2007 – 281.0p).

**4 Dividends**

	Six months ended 31 May	Six months ended 31 May	Year ended 30 November
	<b>2008</b> £'000	2007 £'000	2007 £'000
<b>Amounts recognised as distributions in the period:</b>			
Previous year's final dividend of 3.00p (2007 – 2.50p) paid 7 April 2008	1,984	1,653	1,653
Interim dividend for the year ended 30 November 2007 of 2.00p paid 31 August 2007	–	–	1,323
	<u>1,984</u>	<u>1,653</u>	<u>2,976</u>
<b>Dividends paid and proposed in the period:</b>			
Interim dividend for the year ending 30 November 2008 of 2.00p (2007 – 2.00p)	1,323	1,323	1,323
Final dividend (2007 – 3.00p)	–	–	1,984
	<u>1,323</u>	<u>1,323</u>	<u>3,307</u>

The interim dividend in respect of the six months to 31 May 2008 was declared after the period end date and has therefore not been included as a liability in the balance sheet. It is payable on 29 August 2008 to shareholders on the register at the close of business on 8 August 2008. The ex dividend date is 6 August 2008.

5 The Company has a three year £20m facility with Lloyds TSB Scotland which expires May 2010. At 31 May 2008, there were no outstanding drawings (31 May 2007 – £42.4m (US\$55m and €21.5m); 30 November 2007 – £10m (€14m)).

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

At 31 May 2008 there were outstanding options to acquire 8,900,000 (31 May 2007 and 30 November 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.

At 31 May 2008 the Company had authority to buy back 9,912,721 ordinary shares as well as the authority to allot new shares up to an aggregate nominal amount of £10,467,016.

7 Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sales proceeds, as appropriate. During the period, transaction costs on purchases amounted to £220,000 (31 May 2007 – £95,000; 30 November 2007 – £237,000) and transaction costs on sales amounted to £50,000 (31 May 2007 – £53,000; 30 November 2007 – £165,000).

#### DIRECTORS

DCP McDougall OBE (Chairman)

MCB Ward (Managing)

JGD Ferguson (Non-executive)

The Hon. RJ Laing (Non-executive)

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