Summary

- *Stockmarkets were strong over the year with the FTSE All-World Index rising 11.9% in sterling.*
- *NAV per unit rose by 19.2%, ahead of comparator indices.*
- *Performance benefited from stock selection, buybacks and gearing.*
- *The stock price rose by 19.6% due to NAV per unit growth and discount narrowing.*
- *The stock price discount to NAV tightened from 9.5% to 8.5%.*

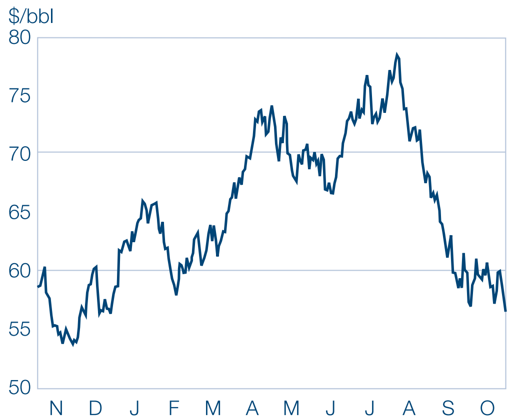
GLOBAL EQUITY MARKET REVIEW

Global equity markets rose for the fourth consecutive financial year, continuing a recovery stretching from March 2003. The global FTSE All-World Index and UK FTSE All-Share Index both rose strongly, by 11.9% and 17.9% respectively, in sterling terms.

The world economy remained strong in 2006 as the momentum of 2005's 4.5-5% growth was sustained. Among the major economies, China and India recorded the fastest growth at around 10% and 8% respectively. A number of smaller economies in Latin America and the Pacific also saw good economic growth. Among the more developed regions, the US economy remained steady at around 3.5% while the recent laggards in economic performance terms, Japan and Europe, accelerated as they benefited from strong export demand. The UK economy also registered another year of steady, if below trend, growth. The robust growth across the world was achieved in spite of rising short term interest rates and high oil prices (which peaked during the year at $79 per barrel) as supply and regional security fears coincided.

Oil Price

Year to 31 October 2006

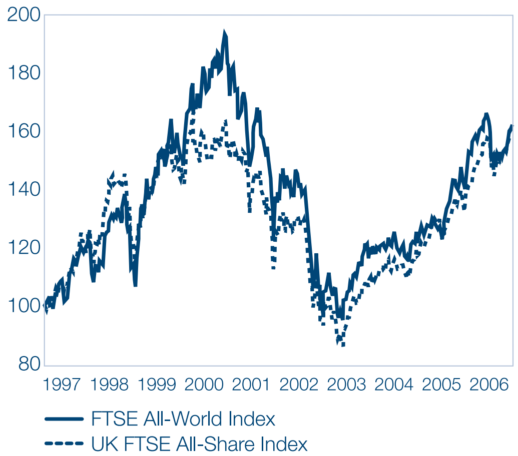


Source: Thomson Datastream

The US Fed Funds rate increased from 3.75% to 5.25% through six quarter-point increases between November and July, thereby extending the sequence of consecutive rate increases to 17. The European Central Bank increased its official rate, which had been held at 2% since mid-2003, five times over the year to 3.25%. Japan too saw interest rates rise as the authorities ended the zero-rate policy with the first increase in official rates for six years, signalling some respite from the persistent deflation which has dogged Japan in recent years.

Stockmarket Performance

10 years to 31 October 2006



Source: Thomson Datastream

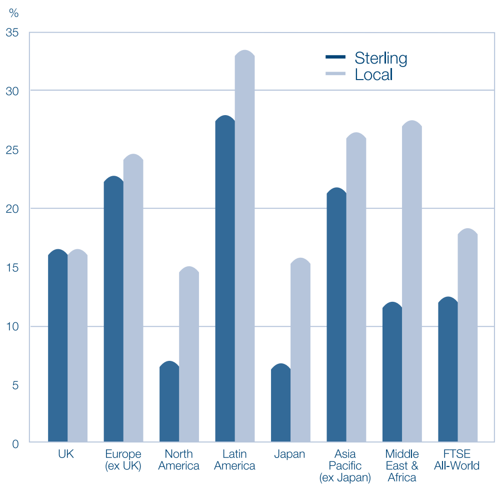
While global equities achieved a second consecutive year of double-digit capital gains, progress over the year was uneven. Global markets rose by over 15% between November and March reflecting rising corporate profits and optimism regarding inflation, even as economic growth accelerated. However, after peaking in early April with major stockmarket indices near record levels, equities subsequently fell sharply as accelerating US core inflation stoked fears of renewed interest rate increases. These concerns were exacerbated by the strength of the oil price and unnerved investors who had been pursuing buoyant emerging market equities and commodities, often using low-cost leverage.

This correction lasted until mid-June. Markets were then volatile over the summer as economic and political developments were re-appraised. US interest rates subsequently rose again, but by only 0.25%. Global equities then rallied, encouraged by increased M&A activity, signs that US interest rates were near a peak and, critically, the sharp decline in the oil price which ended the year at $56.

In local currency terms, all regions generated double-digit percentage gains. However, it was the emerging markets of the world, Latin America, Middle East & Africa and Asia Pacific (ex Japan), which performed best over the year. Of the more developed markets, Europe (ex UK) did well, reflecting the combined benefits of strong export demand and corporate restructuring. In sterling terms however, returns were more dispersed as dollar and yen weakness against sterling lowered returns in both North America and Japan to around 6%.

Regional Performances

Year to 31 October 2006



Indices are components of the FTSE All-World Index Series

Performance Attribution Analysis

Year to 31 October 2006

	%
Increase in NAV per ordinary unit	+19.21
Increase in FTSE All-World Index	+11.91
Relative performance	+6.52
Equity portfolio	+3.86
Gearing	+0.39
IFRS revenue component	+0.37
Buybacks	+0.47
Interest and expenses charged to capital	–0.53
Reduction in pension liability	+0.04
Tender uplift	+1.74
Residual	+0.18
Relative performance	+6.52

Stockholders voted to dispense with the formal benchmark during the year. For relative performance attribution, the All-World Index is the more appropriate comparator given the global nature of the portfolio. Comparison with the All-Share Index demonstrates to UK-based stockholders the benefit, or otherwise, of diversifying into overseas stockmarkets.

The company's NAV per ordinary unit (with borrowings taken at par) increased by 19.2%, beating both of the company's new comparator indices. In capital return terms, the FTSE All-World Index (Sterling) increased by 11.9% and the UK FTSE All-Share Index increased by 17.9%. For the record, NAV performance also beat the company's former benchmark which increased by 14.4%.

Almost two-thirds of the 6.5% relative outperformance was attributable to the global equity portfolio. This, in turn, was due to good sector positioning and stock selection across most industrial sectors.

The uplift in NAV per stock unit following the tender offer in February contributed 1.7% to the NAV outperformance. This uplift is derived from the repurchase of the 27.75% of stock tendered at a discount of 9% (with borrowings taken at par) after taking account of the costs of the exercise, including the costs of a matching reduction in borrowings.

Gearing made a positive contribution of 0.4% while the 0.5% benefit to continuing stockholders from buybacks under the company's stock buyback scheme offset the –0.5% contribution from interest and expenses charged to capital.

Changes in Asset Distribution by Sector

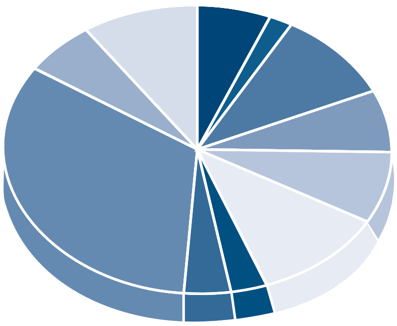
Year to 31 October 2006

	Opening Valuation* £m	Tender-related (Sales) £m	Other Net Purchases (Sales) £m	Appreciation (Depreciation) £m	Closing Valuation £m
Oil & Gas	110.3	(25.1)	(41.1)	8.1	52.2
Basic Materials	22.3	(10.3)	(1.2)	6.5	17.3
Industrials	118.4	(42.9)	(11.3)	19.8	84.0
Consumer Goods	65.8	(19.0)	(3.0)	15.5	59.3
Healthcare	91.5	(29.8)	1.3	4.3	67.3
Consumer Services	87.5	(35.9)	22.3	18.6	92.5
Telecommunications	33.6	(6.9)	(3.4)	0.8	24.1
Utilities	48.5	(14.2)	(10.7)	9.0	32.6
Financials	296.8	(77.2)	1.1	51.0	271.7[1]
Technology	57.0	(17.6)	4.0	6.5	49.9
Total equities	931.7	(278.9)	(42.0)	140.1	750.9
Net current assets	112.6	(12.6)	(11.2)	(0.1)	88.7
Total assets	1,044.3	(291.5)	(53.2)	140.0	839.6
Borrowings at par	(148.0)	40.9	0.0	(0.2)	(107.3)
Pension liability	(1.9)	0.0	0.0	0.2	(1.7)
Equity stockholders' funds	894.4	(250.6)	(53.2)[2]	140.0	730.6

[1] Includes £22.2m of investments which are unlisted.
[2] Includes stock buybacks and interest and expenses apportioned to capital.
* Figures have been restated, where applicable, in accordance with accounting changes referred to in the Chairman's Review and detailed in the Notes to the Financial Statements.

Distribution of Total Assets by Sector

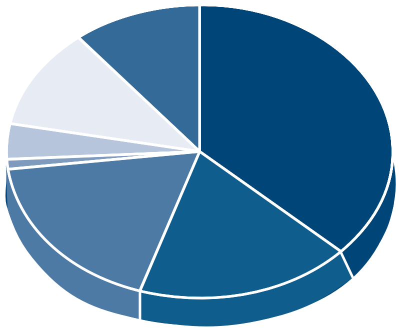
At 31 October 2006



	2006 %	2005* %
Oil & Gas	6.2	10.6
Basic Materials	2.0	2.1
Industrials	10.0	11.3
Consumer Goods	7.1	6.3
Healthcare	8.0	8.8
Consumer Services	11.0	8.4
Telecommunications	2.9	3.2
Utilities	3.9	4.6
Financials	32.4	28.4
Technology	5.9	5.5
Net current assets	10.6	10.8
Total assets	100.0	100.0

Distribution of Total Assets by Region

At 31 October 2006



	2006 %	2005* %
UK	37.9	38.8
Europe (ex UK)	17.8	16.5
North America	18.7	23.0
Latin America	0.6	0.0
Japan	3.8	3.8
Asia Pacific (ex Japan)	10.6	7.1
Net current assets	10.6	10.8
Total assets	100.0	100.0

Changes in Distribution

After having reduced effective gearing from the relatively high levels employed as markets bottomed in 2003, gearing employed in equities was maintained at an average level of 105%, slightly below the level of 2005. Gearing ended the year at 104.1%, after deducting dividends proposed but not paid (2005 – 105.2%). The potential gearing ratio, that is if total borrowings were invested in equities, was 114.9% (2005 – 116.7%). The average interest cost of borrowings, all of which are fixed rate and long-term, is 5.9% (2005 – 5.9%). Net current assets totalled £88.7m or 10.6% of total assets (2005 – 10.8%).

In order to finance the £252.8m return of capital required by the tender acceptance level of 27.75% and the reduction in borrowings required to preserve potential gearing at pre-tender levels, £278.9m of equities were sold in January.

The proportion of the portfolio in North America was lowered as we reduced exposure to the oil industry, US housing and computer manufacturing. The proportion of the portfolio invested in the Asia Pacific region was increased as we added new holdings in the area and built up a number of existing regional investments.

By industrial sector, the principal changes made during the year included: first, a 4.9% reduction in the proportion of the portfolio invested in Oil & Gas in order to lock in profits and lower our exposure on signs of weaker oil prices; second, a 4.5% increase in Financials to take advantage of attractive valuations; third, smaller, selective reductions in Industrials on signs of slowing global growth and lower exposure to US housing; and fourth, a 2.9% increase in exposure to Consumer Services through new holdings in the media and leisure industries.

After outperforming the old benchmark in each of the two previous years, the global equity portfolio this year outperformed global markets by a broad margin, rising in value by 16.5% compared with the 11.9% return from the FTSE All-World Index.

Over the year, the equity portfolio appreciated by £140.1m of which just under one-third stemmed from listed Financials. Absolute portfolio gains were generated in all ten industrial sectors comprising the FTSE All-World Index.

Portfolio Turnover

Total purchases of investments amounted to £234.0m (2005 – £399.2m) and sales were £554.9m (2005 – £406.8m). Investment sales were 59.0% (2005 – 42.1%) of average total assets. Turnover levels were high due to the tender offer-related £278.9m equity sale programme. Excluding tender-related sales, the ratio of investment sales as a percentage of average total assets (adjusted for the tender) was 34.6%. Dealing expenses during the tender sale process were minimised by using a low cost portfolio programme trade. Commission paid to brokers on purchases and sales during the year was £1.1m (2005 – £1.3m).

Forward currency contracts were used to guarantee exchange rates for a portion of our US dollar-denominated dividend income.

Holdings In Listed Funds

Our holdings include investments in listed investment funds of £26.8m (2005 – £30.0m). These are held to provide, variously, exposure to private equity, UK smaller companies and UK property.

The company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

UNLISTEDS

Unlisted Portfolio

The unlisted portfolio appreciated by £6.0m, reflecting strong performances from Boston Ventures V and VI (US) as well as the listed Hg Capital Trust (UK).

Distributions from the maturing unlisted portfolio, coupled with partial sales of Hg Capital at the time of the tender offer, amounted to £14.9m. Distributions included those from Apax Europe V-B (UK) and the highly successful Aberforth LP 1B (UK) which is close to its planned wind-up date.

We did not enter into any new partnerships during the year. At year end, our commitments to invest in partnerships totalled £3.1m (2005 – £4.1m) and we expect that these will be funded by distributions from existing holdings.

The unlisted portfolio was valued at a total of £30.7m (2005 – £39.6m) which is equivalent to 4.2% (2005 – 4.4%) of stockholders' funds. Included in the unlisted portfolio is £8.5m invested in listed funds which specialise in unlisted investments.

OIL & GAS

Oil & Gas holdings appreciated by £8.1m with a sizeable gain from Suncor Energy (Canada). BG Group (UK) benefited from a combination of strong trading and bid speculation. We made substantial reductions to our holdings in order to lock in profits reflecting a belief that the oil price had reached unsustainable highs in the short term. We have continued to run down our formerly large holding in BP (UK) which has suffered from operational difficulties. US rig operator Todco and US integrated oil group ConocoPhillips did not perform well over our second half as the oil price weakened.

We eliminated two smaller holdings and introduced three new holdings in Oil & Gas: EnCana (Canada) which, like Suncor, is well positioned with long life oil reserves, Brazilian major Petrobras and drill-bit specialist Smith International (US).

BASIC MATERIALS

In Basic Materials, holdings appreciated by £6.5m with good contributions from both of our miners, Rio Tinto (UK) and BHP Billiton (UK). However, the latter was held back slightly by its oil industry exposure. The mining sector is benefiting from sustained strong demand for industrial raw materials from China and has been one of the strongest parts of the market.

INDUSTRIALS

This is a diverse group of manufacturers and service companies. The appreciation of £19.8m achieved was the second largest industry sector gain after Financials. We lowered the proportion of the portfolio invested in Industrials in order to reduce the exposure to US housing and book profits in companies where profitability was at risk of falling from cycle-high levels.

We sold five holdings outright including ports and transportation group P&O (UK), which was the subject of a takeover bid. We also made large reductions in aerospace group Meggitt (UK) and building materials company Wolseley (UK) reflecting industry cycle concerns in both cases. Three new names were added: electrical distributor Wesco (US), catering equipment manufacturer Enodis (UK) and haulage group Swift Transportation (US) which was the subject of a takeover approach just after the year end.

The principal contributions in this area stemmed from outsourcing group Serco (UK) which appreciated by £3.5m, P&O and German industrial laser group Rofin-Sinar. We also achieved good returns from construction-to-concessions company Vinci (France). Australian listed construction group Rinker suffered during the year on US housing exposure concerns. However, a bid emerged late in the year and it too appreciated usefully.

CONSUMER GOODS

Consumer Goods holdings appreciated by £15.5m reflecting good performances from a number of holdings. A strong share price move early in the year enabled UK house-builder Persimmon to appreciate by £5.2m as investors reappraised its valuation. We also benefited from impressive performances by German auto components and tyre group Continental and our two Japanese car manufacturers, Suzuki and Toyota. We added to our automotive exposure late in the year through the restructuring Italian automotive group, Fiat. Of three holdings sold, we locked in profits of £1.8m during the year from German sports goods manufacturer adidas and, as part of our move to limit exposure to US housing, we sold George Wimpey (UK).

HEALTHCARE

Relatively good returns from healthcare equipment holdings were countered to a degree by a poor performance from contact lens specialist Bausch & Lomb (US), which encountered product difficulties, culminating in a £1.5m loss over the year. Dialysis group Fresenius Medical Care (Germany), which we purchased last year after it acquired former holding Renal Care (US), achieved gains of £2.0m. We sold out of health benefits group Wellpoint (US) and benefited from bid speculation to lock in gains at hearing aid manufacturer GN Store Nord (Denmark). Similarly in pharmaceuticals, good performances by AstraZeneca (UK), blood products group CSL (Australia) and Roche (Switzerland) were offset partially by a number of lacklustre performances from other holdings. We switched out of Novartis (Switzerland) into Amgen (US) which has a promising new product pipeline, and introduced two other holdings, Endo Pharmaceuticals (US) and Sanofi-Aventis (France).

CONSUMER SERVICES

Consumer services holdings performed well and appreciated by £18.6m over the year. In spite of rising interest rates, retail holdings performed well with good contributions from Esprit (Hong Kong), GUS (UK) and Halfords (UK). Japanese electrical retailer Yamada Denki appreciated by £2.0m while the share price of a new holding taken early in the year, Marks & Spencer (UK), outperformed convincingly, reflecting an improved operating performance. UK business information group Informa received an approach in October and made the largest contribution in this sector. Luxury goods group Tod's (Italy) and transport operator First Group (UK) also did well, appreciating by £2.5m and £2.9m respectively.

TELECOMMUNICATIONS

Portfolio exposure to the telecommunications industry has been modest in recent years. UK fixed-line operator BT provided the best returns with a £2.4m appreciation. This was offset partially by further disappointment from Vodafone (UK) and also from Deutsche Telekom (Germany) which was sold ahead of further price weakness. During the year we added to China Mobile (Hong Kong) which we believe has good growth prospects in what is a highly competitive industry.

UTILITIES

Utilities proved to be one of the best performing parts of the market over the year, due in large part to omni-present M&A speculation. This M&A activity stems from infrastructure fund demand for utilities' stable long term cash flows and also cross-border industry consolidation. The portfolio benefited from this theme with ScottishPower (UK) under almost constant bid speculation which culminated in an approach after the year-end. UK water group AWG also received an offer while E.On (Germany) too performed well. We sold US utility, Sempra Energy, in order to lock in profits.

FINANCIALS

Listed Financials holdings appreciated by £45.0m, just under one third of our entire gains for the global equity portfolio. A net five new holdings were added and the proportion of the portfolio invested in Financials was increased by 4.5% to just under one third of the portfolio.

There were good performances from the majority of bank holdings with a notable contribution of £5.6m from Barclays (UK), our largest holding, as well as the other UK banks. European banks also contributed with a £3.4m appreciation from BNP Paribas (France) and £2.0m from UBS (Switzerland). Insurance holdings did well with Legal & General (UK), AXA (France), ING (Netherlands) and Allianz (Germany) all producing good gains. One disappointment was Japanese credit company, Aiful, which suffered from evolving regulation in its home market. While we crystallised a loss on the year of £1.5m by selling it outright, the stock subsequently fell much further.

General Financial sector names did well with investment bank Lehman Brothers (US) and rating agency Moody's (US) appreciating by £2.3m and £1.7m respectively reflecting buoyant financial markets. We took profits through partial sales of these two holdings.

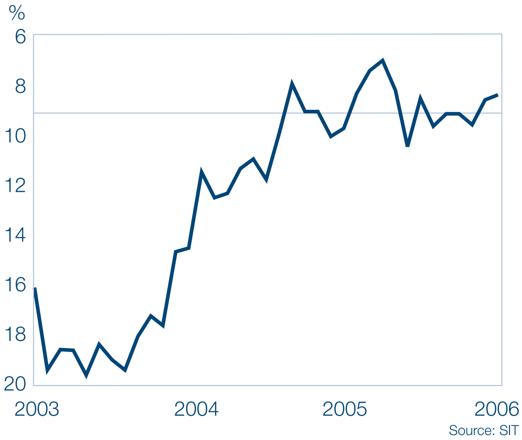
An increasing emphasis on Far East financials saw new holdings in Kookmin Bank (South Korea) and Sumitomo Trust & Banking (Japan). Our presence in European financials was bolstered through new purchases of leading Italian bank UniCredit, which offers exposure to Eastern Europe, and Swedish investment holding company Investor. Late in the year we purchased a Hong Kong-listed Chinese residential property developer, Guangzhou R&F Properties, which generated a sizeable early return on our investment.

TECHNOLOGY

Security software provider, Symantec (US), performed poorly as fierce competition impacted on product pricing. We sold out of the holding, too early as it transpired, resulting in a loss. However, this was recouped by the better performances from payroll software group Sage (UK) and imaging software provider Adobe Systems (US). In hardware, order weakness and increased competition in the personal computer industry prompted a decision to eliminate direct exposure to PC manufacturers through outright sales of Dell (US) and Acer (Taiwan). The sale of Dell proved to be timely, coming ahead of a sharp fall in its share price. We also took profits on graphics and digital media processor group Nvidia (US) to lock in gains for the year of £2.5m after a strong share price performance early in the year. The largest contribution came from Taiwan-based contract-manufacturer of iPods™ and other consumer electronics devices, Hon Hai Precision Industry, which appreciated by £3.9m.

Discount to NAV* with borrowings at market value

3 years to 31 October 2006



*After deducting dividends proposed but not paid.

The stock price rose by 19.6% over the year reflecting the 18.7% increase in NAV per ordinary unit (with borrowings at market value) and the narrowing of the discount on that basis from 9.5% to 8.5%.

Under the company's stock buyback scheme which is intended to maintain the discount at 9% or less in normal market conditions, 7.8m units were repurchased for cancellation (5.16% out of the existing 14.99% authority) at an average discount of 9.5% and at a cost of £34.3m inclusive of dealing expenses.

Analysis of Stock Register

At 31 October 2006

Category of holder	Number	Ordinary Capital %
Individuals	27,406	65.1*
Investment companies	58	4.3
Insurance companies	10	16.8
Pension funds	32	7.7
Other	73	6.1
Total	27,579	100.0

*Includes 17.8% held in SIT Savings' products.

GLOSSARY

Total assets means total assets less current liabilities.

NAV is net asset value per ordinary unit after deducting borrowings at par or market value, as stated.

Borrowings at par is the book value of the company's borrowings, the nominal value less unamortised issue expenses.

Borrowings at market value is the company's estimate of the fair value of its borrowings.

Discount is the difference between the market price and the NAV expressed as a percentage of the NAV.

Gearing is the term used to describe the process of borrowing money for investment purposes in the expectation that the returns on the investments purchased will exceed the cost of those borrowings.

Potential gearing is the gearing ratio if all borrowings were invested in equities – (stockholders' funds + borrowings at par) expressed as a percentage of stockholders' funds.

Effective gearing is the true geared position of the Company – (stockholders' funds + borrowings at par + pension liability – net current assets), expressed as a percentage of stockholders' funds.

GDP references are to gross domestic product adjusted for inflation.