

Chairman's Statement

CAPITAL

Over the year to 31 October 2007 the net asset value per ordinary unit (NAV) with borrowings at par rose by 17.1%, ahead of the company's principal comparator indices, the FTSE All-World Index which rose by 12.5% and the UK FTSE All-Share Index which rose by 10.0%. Measured with borrowings at market value, the NAV increased by 18.9%. The NAV performance again reflected the contribution from the global equity portfolio which outperformed the FTSE All-World Index for a fourth consecutive year. Good stock selection was achieved across the portfolio with strong contributions from a number of sectors including Oil & Gas, Consumer Goods, Consumer Services and Telecommunications. The largest individual contributions came from China Mobile, Nintendo, National Oilwell Varco and Guangzhou R&F Properties.

Critical to the successful performance during the period was a timely move out of Financials. From the beginning of the financial year, we steadily sold some £88m of financial holdings, particularly those with clear exposure to investment banking, as we sensed an end to buoyant market conditions. The proceeds were reinvested in a number of new and existing holdings across different industries. In particular, the additions to holdings in the oil service industry were highly profitable. We also lowered significantly our exposure to the pharmaceutical industry which subsequently proved to be the worst performing sector globally. These sector changes had the effect of lowering exposure to the UK and increasing North America. We also made cautious but profitable initial moves into South Africa and India. Effective gearing was maintained at an average of 103% over the year, within a range of 100% to 105%.

Industry sector returns over the year were far more widely dispersed than in 2006. The poor returns from Financials reflected the crisis in financial markets emanating from the deterioration in the US sub-prime mortgage market – the dominant feature of the year. Weakness in Financials, Health Care and Consumer Services meant that the other seven major industry groups in the All-World Index generated above-market returns. The variation in regional stockmarket sterling performance was extreme, ranging from increases of over 50% for both Asia Pacific (ex Japan) and Latin

America to a decline of 6% for Japan. It was important that we were well represented in Asia Pacific (ex Japan) and our holdings there collectively matched that region's exceptional return while our small collection of Japanese investments also did well, returning 20.0%. Europe (ex UK) and North America both recorded double-digit gains in local currency; the latter was reduced to just 5.3% in sterling owing to dollar weakness, while euro strength pushed Europe (ex UK) sterling returns to 17.9%.

As was the case last year, merger and acquisition activity had a marked bearing on performance. Our portfolio benefited as ten holdings merged or were acquired or approached, including Scottish & Newcastle, to which we had added, and ScottishPower. Over the year, we eliminated smaller investments and reduced the number of holdings in the global listed portfolio by 19 to 98. The portfolio remains widely diversified by industry and geographic location of operations.

The restructuring of the investment management approach in January 2004 continued to yield benefits. Between the end of January 2004 and 31 October 2007, the NAV with borrowings at par rose by 70.9%, outperforming our comparator indices: the FTSE All-World Index rose by 49.3% and the UK FTSE All-Share Index rose by 57.9%. Over the same period the stock price rose by 92.4%.

INCOME

Dividend income generated was again strong and ahead of our expectations. Good dividend growth combined with higher interest rates on deposits, control over expenses and a reduced weighted average number of stock units allowed earnings per ordinary unit to increase by 17.4% to 11.02p (2006 – 9.39p).

The board is recommending an increase of 4.4% in the regular dividend for the year to 9.10p per ordinary unit (2006 – 8.72p), which compares with the October UK RPI annual inflation rate of 4.2%. We have increased our dividend in each of the last 24 years and it is a stated objective of the company to increase the dividend by more than the UK rate of inflation. In view of the strength of dividend income growth and the company's strong revenue reserve position, the board is again recommending an additional special dividend of 2.00p per ordinary unit, making a combined distribution for the year of 11.10p.

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STOCK PRICE, BUYBACKS AND DISCOUNT

The stock price rose by 17.3%, broadly mirroring the NAV performance and reaching an all-time high of 535p in October 2007. Under the company's buyback policy, 8.9m stock units were repurchased for cancellation over the financial year (utilising 5.89 percentage points of the 14.99% authority renewed at the January 2007 AGM) at an average discount of 9.5% and a cost of £44.2m inclusive of dealing expenses. The repurchases were funded from net reductions to the equity portfolio. The average discount over the year, with borrowings at market value, was 9.1% and the estimated average daily discount since the introduction of the scheme in February 2006 was also 9.1%. The stock price discount to NAV (after deducting dividends proposed but not paid) with borrowings at market value widened to 9.9% (2006 – 8.5%) at the year end.

COMPANY SECRETARY

Iain Harding retired in October after 28 years of service as company secretary. Iain was a quite exceptionally able and loyal servant to the company over this long period and, on behalf of the board and stockholders, I would like to record our appreciation for his distinguished service. Iain has been succeeded by Steven Hay, who had been assistant secretary since 2003.

OUTLOOK

This was a year of extremes in financial markets. Most major regional stockmarket indices reached all-time highs, with notably strong performances from China-linked and Latin American stockmarkets. It is remarkable that such strong returns were achieved in the face of high oil prices and slowing growth in large parts of the world and especially while the full implications of the credit crisis, for both financial institutions and the wider world economy, remain unknown.

While corporate profits are generally forecast to rise again in 2008, expectations for the rate of growth are being lowered in the US and other developed markets. Although equity valuations generally appear reasonable by historic standards, some wide variations within sectors are appearing and after some very strong gains, a number of prominent growth stocks and China-linked equities are on demanding valuations. Volatility within markets has risen again and, though central banks have begun to reduce interest rates, some near-term caution is warranted. We have enjoyed a strong bull market in equities since 2003, but conditions are now likely to be more difficult.



Douglas McDougall

Chairman

30 November 2007