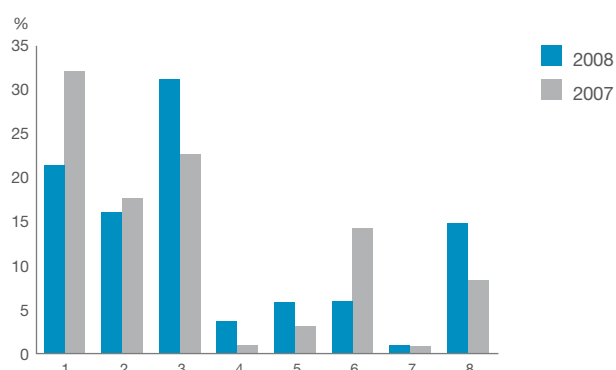


Management Review

Distribution of Total Assets by Region

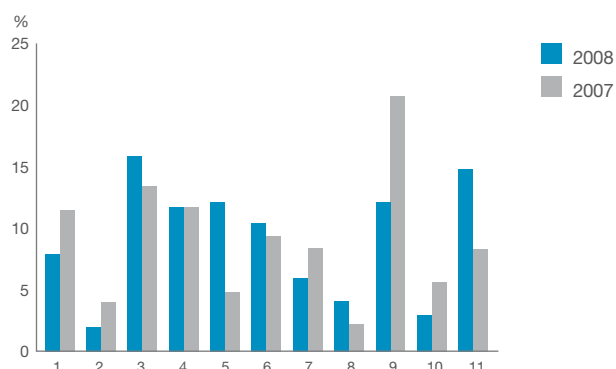
At 31 October 2008



	2008 %	2007 %
1 UK	21.4	32.1
2 Europe (ex UK)	16.1	17.7
3 North America	31.2	22.7
4 Latin America	3.7	1.0
5 Japan	5.8	3.1
6 Asia Pacific (ex Japan)	6.0	14.3
7 Middle East & Africa	1.0	0.8
8 Net current assets	14.8	8.3
Total assets	100.0	100.0

Distribution of Total Assets by Sector

At 31 October 2008



	2008 %	2007 %
1 Oil & Gas	7.9	11.5
2 Basic Materials	2.0	4.0
3 Industrials	15.9	13.4
4 Consumer Goods	11.7	11.7
5 Health Care	12.1	4.8
6 Consumer Services	10.4	9.4
7 Telecommunications	6.0	8.4
8 Utilities	4.1	2.2
9 Financials	12.1	20.7
10 Technology	3.0	5.6
11 Net current assets	14.8	8.3
Total assets	100.0	100.0

Changes in Asset Distribution by Sector

	Opening Valuation £m	Net Purchases/ (Sales) £m	Appreciation/ (Depreciation) £m	Closing Valuation £m
Oil & Gas	104.7	(44.9)	(9.5)	50.3
Basic Materials	36.9	(3.8)	(20.3)	12.8
Industrials	121.9	9.9	(30.9)	100.9
Consumer Goods	106.9	(3.6)	(29.1)	74.2
Health Care	44.1	32.7	(0.3)	76.5
Consumer Services	85.7	21.3	(41.3)	65.7
Telecommunications	76.6	(11.0)	(27.8)	37.8
Utilities	19.7	12.6	(6.7)	25.6
Financials	188.3	(39.8)	(71.6)	76.9 ¹
Technology	50.6	(13.3)	(18.4)	18.9
Total equities	835.4	(39.9)	(255.9)	539.6
Net current assets	75.2	14.0	4.7	93.9
Total assets	910.6	(25.9)	(251.2)	633.5
Borrowings	(107.4)	(0.1)	0.0	(107.5)
Pension liability	(0.8)	0.0	0.5	(0.3)
Equity stockholders' funds	802.4	(26.0)²	(250.7)	525.7

1. Includes £12.5m of investments which are unlisted. 2. Includes stock buybacks and interest & expenses apportioned to capital.

Summary

- Five year long bull market ended abruptly in 2008
 - Subsequent sharp falls formed a severe bear market
 - Sterling weakness had a major bearing on returns for UK investors
 - Portfolio was moved to a defensive stance during the year
 - Cash raised ahead of further market weakness in October
 - Investments made in a number of stocks at depressed valuations
-

Global Equity Market

The five year long bull market ended abruptly in 2008 with subsequent sharp falls culminating in a severe bear market. This reversal was a reaction to the collective impacts of the US sub-prime mortgage crisis, the worldwide credit crisis and an imminent global economic slowdown.

Over the 12 months to 31 October 2008, the FTSE All-World Index was down by 28.9% and the UK FTSE All-Share Index was lower by 36.8%.

The defining events of the year included the collapse of Lehman Brothers in September, the fall in equity markets, and the decline in sterling which boosted sterling returns from the major overseas stockmarkets.

The financial year to 31 October 2008 opened with markets close to all-time highs as central banks tried to ease the initial strains stemming from the US mortgage crisis which had surfaced in mid-2007. Global equities had been rising for over five years with tailwinds from a strong world economy and buoyant corporate profitability. Although the oil price had been rising sharply over the summer and US interest rates had been increasing until 2006, there were few indications of an imminent recession.

Stockmarket Performance
10 years to 31 October 2008



Source: Thomson Datastream

The banking and credit crisis had its roots in a property asset bubble created in part by loose monetary policy. Other factors included the over-promotion of sub-prime mortgages, parcelled and sold on as less risky securities than they proved to be. With large parts of the global financial system over-committed to mortgage assets underpinned by borrowers unable to service them, the situation was made yet more opaque by the widespread use of credit derivatives.

It was only as the year progressed that the true extent of the problems facing the global financial system emerged. Markets were generally weak over the first five months of the year as banks marked down the value of mortgage-linked portfolios. Equity market sector leadership rotated towards more defensive areas as investors became more risk averse. The Chinese equity market, which had become highly valued in late 2007, fell sharply between November and January. Another sign of waning risk appetites was the appreciation of the Japanese yen which signalled the end of the so-called 'carry trade', whereby investors borrowed in yen to speculate in higher yielding assets.

Buoyed initially by strong demand from China and then latterly by speculation, the oil price had been rising sharply over the summer of 2007. Rising energy costs along with simultaneous increases in metals prices and other commodities fuelled inflation concerns.

However, by December the US growth outlook had deteriorated such that the risk of recession outweighed the inflationary threat. The Federal Reserve Bank (Fed) cut rates by 0.25% in December with two further cuts in January to leave rates at 3.0%. UK rates were also cut in December and February by 0.25% to 5.25%. By March, major problems surfaced as Wall Street bank Bear Stearns struggled for funding and was salvaged by US rival JPMorgan Chase.

Sterling weakened as further UK interest rate cuts were anticipated and the condition of the domestic banking system became critical while in the US, housing and economic data worsened. In March, US rates were cut by a further 0.75% to 2.25%. Global markets were buoyed by the rescue of Bear Stearns and assertive actions by central banks and rallied between mid-March and mid-May. However, global markets fell 9% in June as the oil price surge towards \$140 per barrel fuelled new concerns over the prospect of rising inflation and slowing growth.

Markets were volatile in July as the inflation-sensitive European Central Bank increased interest rates by 0.25% to 4.25% and the major US mortgage provider IndyMac Bank was placed into receivership. However, markets rallied again over the late summer. During this spell, the oil price peaked at around \$146 per barrel and the hitherto resilient Latin America region started to underperform. The stockmarkets of China and the Asia Pacific region continued to slide, and, with a sharp sell-off in oil due to demand concerns, the oil-heavy Russian stockmarket collapsed, falling 14% in July alone.

Oil Price
Year to 31 October 2008

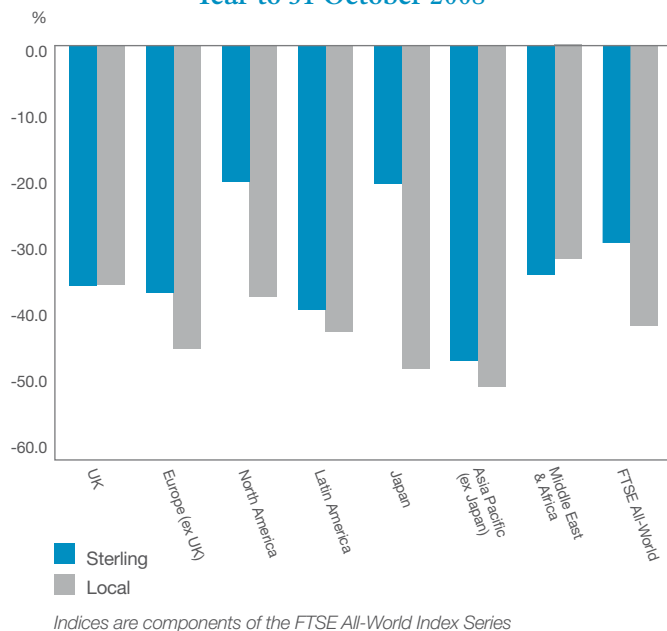


Source: Thomson Datastream

It was in September that the full force of the credit crisis struck markets. The US authorities formalised the rescue of the government sponsored entities Fannie Mae and Freddie Mac which were integral to the \$12 trillion US mortgage market. September also featured extraordinary gyrations in the value of major financial institutions and a series of momentous events including: the sale of Wall Street bank Merrill Lynch; the collapse of Lehman Brothers; insurer AIG borrowing \$85bn to stave off bankruptcy; and the unveiling of the US Troubled Asset Relief Programme (TARP) bailout package. In the UK and elsewhere, the inter-bank money markets ceased to function normally. The global financial system was on the brink of collapse.

The initial draft of TARP failed to pass through the US legislature causing more turmoil. However, a revised version of the \$700bn package was passed in early October. This was no panacea though as the following week saw the US S&P 500 Index drop 18% in the worst week for US shares since 1933. On 8 October, the world's major central banks announced a coordinated sequence of interest rate cuts. Plans were announced whereby UK banks would be forced to bolster their capital ratios, with optional underwriting by the UK government which could lead to partial nationalisation. Other nations announced alternative plans for supporting their banking systems. There were also serious problems in Iceland when its banking system collapsed. During October, there was a palpable shift in sentiment away from solely the credit crisis as the deteriorating world economy and risk of recession became the focus of investor concerns. At the end of October, the Fed cut rates once more to leave US official rates at 1.0% while the oil price dropped by 37% over the month to end at just under \$60 – down 59% from its mid-year peak. The FTSE All-World Index fell by 10.4% in September and a further 11.8% in October with forced selling by hedge funds facing redemptions a key feature.

Regional Performance
Year to 31 October 2008



Regional Performance

In local currency terms, all of the regions comprising the FTSE All-World Index fell by over 30%. Middle East & Africa (-31.3%) and the UK (-35.0%) fell by the least. North America fell by 36.7%. The others all fell by over 40%: Latin America (-41.7%), Europe (ex UK) (-44.3%), Japan (-47.0%) and Asia Pacific (ex Japan) (-49.8%). Within Asia Pacific, the Chinese and Hong Kong markets fell by 68.2% and 56.9% respectively as the Chinese growth bubble burst.

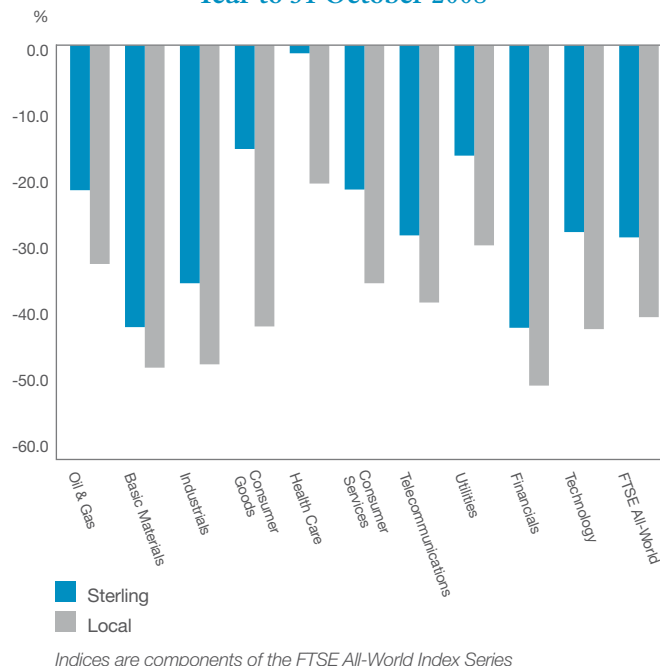
For sterling-based investors however, currency had a major bearing on returns. The US dollar appreciated by 22.2% against sterling, reducing North America's sterling fall to just 20.0%. In Japan, the local decline of almost 50% was transformed by the 33.6% appreciation of the yen against sterling to a decline of 20.2%, making Japan and North America the most resilient areas globally in sterling terms. The euro was more subdued, rising by 11.3% against the pound over the year. Sterling's weakness was attributable partly to anticipation of falling interest rates allied with the deterioration in the UK's fiscal position as well as heavy exposure to troubled banks and falling property values.

Industry Sector Performance

As the reality of an imminent economic slowdown took hold, there was an inversion of the prevailing sector trends. The strongest area, by a wide margin, was the defensive Health Care sector which was barely changed over the year (-1.2%). Utilities were resilient in relative terms but still fell by 16.6% while Consumer Goods

(-15.6%) also held up better than most due to relatively good performances from defensive areas including tobacco, household goods and food producers. Oil & Gas outperformed the global index but fell by 21.8% reflecting the sharp drop in the oil price over the second half of the year. The three underperforming industry groups were either financial or cyclical: Industrials (-35.8%), Basic Materials (-42.4%) and Financials (-42.5%).

Industry Sector Performance
Year to 31 October 2008



Performance Attribution Analysis

The company's NAV (with borrowings at par) fell by 32.1%, ahead of one of the two performance comparators, the FTSE All-Share Index (-36.8%) but behind the other, the FTSE All-World Index which fell by 28.9%.

In view of the significant impact of currency over the year, the performance attribution against the FTSE All-World Index is presented overleaf showing both geographical and industry sector analyses. Taking the latter first, stock selection appears poor at -8.5% offset in part by a positive contribution from sector positioning. The sector positioning result was attributable to first, being heavy in Oil & Gas mid-year before selling £77m of oil holdings as the oil price peaked; second, being light in Financials; and third, moving the portfolio to a defensive stance. Stock selection was disappointing in Telecommunications, Consumer Goods and Consumer Services.

Management Review (continued)

The geographic attribution captures the role of currency movements and enables a more complete analysis. The combined impact of being relatively under-exposed in the US and Japan, whose currencies appreciated materially against sterling, together with the consequent over-exposure to the UK, lowered performance by 3.9% with a much smaller impact from stock selection. Gearing had a neutral impact despite falling markets as effective gearing was eliminated over the summer and cash was raised ahead of the market falls in early October. Stock buybacks added 0.3% while gains on dollar and other cash deposits added 0.9%. Interest and expenses charged to capital lowered the NAV by 0.5%.

Performance Attribution Analysis Year to 31 October 2008

	%	
Decrease in NAV		-32.1
Decrease In FTSE All-World Index		-28.9
Relative performance		-4.6
	by Sector	by Geography
Allocation	3.2	-3.9
Stock selection	-8.5	-1.4
Total equities	-5.3	-5.3
Gearing		0.0
Currency movements on cash deposits		0.8
Buybacks		0.3
Interest and expenses charged to capital		-0.5
Reduction in pension liability		0.1
Relative performance		-4.6

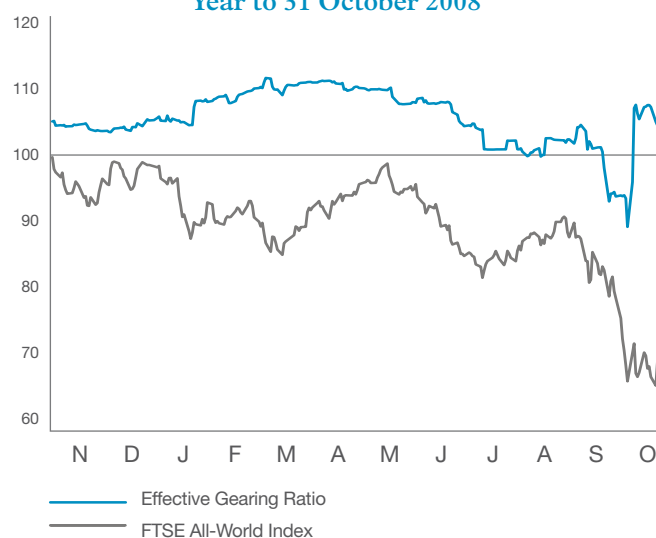
Changes in Distribution

Partly in view of the prospects for sterling, the US allocation was raised to its highest level in recent times and similarly, the UK allocation was taken to new lows.

Some gearing was deployed in mid-January ahead of a market rally between mid-March and mid-May and was then removed as markets sold off in the summer. Gearing had effectively been eliminated going into September which was a weak month for global markets. Further cash was raised in late September with a move to a less than 100% invested position for the first time in many years, taking effective gearing down to approximately 93%. As markets fell further in the first half of October, a further £17m of holdings which had held up well over the year were sold.

After the sharp falls of early October, investments were made in a range of good quality growth and cyclical companies, together with further investment in certain existing holdings, which had fallen heavily. This opportunistic programme restored a fully invested position with a small amount of gearing deployed at the year end but with the majority still retained in cash.

Effective Gearing Year to 31 October 2008



Gearing was deployed actively and effective gearing was within a range of 89% to 112% with an average level of 106% (2007 – 103%). Effective gearing ended the year at 104.3%. The potential gearing, that is if total borrowings were invested in equities, was 120.8%. The average interest cost of borrowings, all of which are fixed rate and long term, was 5.9% (2007 – 5.9%). Net current assets at the year end totalled £93.9m or 14.8% of total assets (2007 – 8.3%) and the total equity portfolio depreciated by £255.9m (2007 – appreciation £118.3m).

Over the year, there were net reductions to the equity portfolio of £39.9m with £22.9m of these proceeds being used for stock buybacks.

Industry Sectors*

Oil & Gas

The Oil & Gas industry performed strongly until May, peaking shortly ahead of the July top in the oil price. Over the year, it outperformed global markets by 10.0%. Exposure to service companies and drillers was built up to take advantage of strong demand and by the end of June, 21.5% of the equity portfolio was in Oil & Gas. Profits were taken as the oil price started to fall from its highs with £77m of sales over the summer. A large reduction in Petrobras (Brazil) proved timely as was the complete sale of Petrochina in January as part of a broader move out of China.

Basic Materials

Basic Materials also peaked in May. Mining shares were seen as plays on China-led global growth. Agrochemicals company, Monsanto (US), was built into one of the largest holdings mid-year and outperformed very strongly. NAV relative performance benefited from a low industry exposure here as it fell by 42.4%.

Industrials

Global Industrials fell by 35.8%, underperforming by 9.8%. Stock selection was good with contributions from US infra-red technology specialist Flir Systems and catering equipment supplier Enodis (UK). The poor market conditions were exemplified by UK outsourcer Serco, which outperformed world markets by 15.2% but still depreciated by £3.1m. Bank note printer De La Rue (UK) and US railroad operator Norfolk Southern both produced useful gains. However, construction equipment group Komatsu (Japan), oil rig builder Keppel Corp (Singapore) and aerospace parts maker Meggitt (UK) all depreciated.

Consumer Goods

The Consumer Goods industry group outperformed by 18.7%, helped by resilient performances from food producers, tobacco and beverages stocks. Large reductions were made to automobile investments Continental (Germany) and Fiat (Italy) on economic concerns. The residual holding in Fiat lost value. A new holding in US house builder, Toll Brothers, generated a useful gain. However, it was an error to retain UK house builder Persimmon on valuation grounds. Hong Kong-listed consumer goods manufacturer HengAn International proved resilient as did new holding KT&G (Korea).

Health Care

Health Care was the strongest performing global industry group and its decline of 1.2% over the year translated into a relative outperformance of 38.9%. £32.7m was added to Health Care over the year, helping boost its allocation from 5.3% to 14.2% of the equity portfolio. Three large holdings performed well over the period: largest holding, Gilead Sciences (US); German kidney care specialist Fresenius Medical Care; and Roche (Switzerland).

Consumer Services

Consumer Services fell by 21.7% over the year, outperforming by 10.1% as defensive areas such as food retailers and some general retailers held up. Two new food retailers were added: Carrefour (France) and Belgian discount retailer Colruyt, with the latter being a very strong performer. Mexican food retailer Walmex, a subsidiary of Wal-Mart Stores (US), was built up while the parent company was also bought and performed well. Two holdings held back performance in this area; first, Informa was built up on M&A potential but the absence of an acceptable offer and its high borrowings resulted in underperformance. Second, despite sizeable reductions to a large holding in clothing group Esprit (Hong Kong), the shares underperformed on economic concerns. Japanese rail operator East Japan Railway generated gains with some profits taken late in the year.

Telecommunications

The Telecommunications industry group performed in line with the broader market. China Mobile, which had generated gains of £13.6m in the previous year, suffered as Chinese equity markets were sold off. This sizeable holding was sold outright ahead of significant further price falls relating to prospects for tighter regulation. Mexican mobile operator América Móvil underperformed moderately. Fixed-line operators BT (UK) and AT&T (US) were sold to leave the emphasis on mobile telephony and emerging markets with a new holding taken in African mobile operator MTN (South Africa). In Japan, a new holding in mobile operator KDDI performed well.

Utilities

Globally, Utilities outperformed the FTSE All-World Index but fell by 16.6%. £12.6m was added to this area over the year with a major addition to United Utilities (UK) proving worthwhile in relative terms as its share price depreciated by only 2.9% over the year.

* Relative performance references are against the FTSE All-World Index Series (in sterling terms).

Financials

Financials was the worst performing industry sector, down by 42.5% over the year. While Financials holdings were reduced by £74.3m in 2006/07, residual holdings depreciated heavily. A further £39.8m net sales were made this year. A major mistake, other than not getting out of UK and European banks completely, was to misinterpret the rising dividends from UK banks in early 2008 as a positive sign. The extent of their involvement in US mortgage debt was also underestimated. Once UK bank exposure was reined in, stock selection in this area was reasonable with main exposures latterly through BNP Paribas (France) and HSBC (UK) proving resilient. Elsewhere in Financials, we avoided much of the trouble outwith the UK and had no exposure to Lehman Brothers, Bear Stearns, Fannie Mae, Freddie Mac or AIG.

Technology

Fearing the impact of a widespread fall in consumer demand, several technology hardware holdings were sold outright with reductions of £25.2m made. Outright sales included a timely exit from Hon Hai Precision Industry (Taiwan) which manufactures iPods for Apple (US), which was also sold outright along with mobile handset manufacturer Nokia (Finland) and Cisco Systems (US). In technology software, there were additions of £11.9m primarily invested in publishing software leader Adobe Systems (US) and new holdings in software group Oracle (US) and Chinese internet business Tencent (Hong Kong), both of which performed well from purchase.

Portfolio Turnover

Total purchases of investments amounted to £827.7m (2007: £388.2m) and sales were £867.6m (2007: £422.0m) including purchases and sales of UK gilts. The ratio of investment sales as a percentage of average total assets was 112.4% (2007: 48.2%). Commission paid to brokers during the year was £2.4m (2007: £1.3m).

Investment turnover was well above normal levels due to a number of factors. First, the application and removal of gearing between January and May; second, the raising of cash in September; third, moving the portfolio to a more defensive position over the year; fourth, the reinvestment of cash after stockmarket weakness in October and fifth, the purchase and sale of UK gilts as an alternative to bank deposits during the banking crisis. Considerable use of low-cost dealing facilities was made to limit dealing expenses.

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

Holdings in UK Listed Investment Companies

Company holdings include investments in UK listed investment companies of £14.2m (2007: £21.7m). These are held to provide, variously, exposure to private equity, commercial property, mining and environmental equities. The company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

Unlisted Portfolio

The company's unlisted portfolio appreciated by £0.3m reflecting a number of small uplifts and currency benefits in US partnerships, offset by depreciations in the listed Hg Capital Trust (UK) and also Apax Europe V-B. Distributions from the maturing unlisted portfolio partnerships totalled £4.3m. No new partnerships were entered into during the year and outstanding commitments to invest in such partnerships totalled £1.9m (2007: £1.9m).

The unlisted portfolio was valued at £21.1m (2007: £25.0m) which is equivalent to 4.0% of stockholders' funds. Included in the unlisted portfolio is £8.7m (2007: £9.9m) invested in Hg Capital, a listed fund which specialises in unlisted investments. Provisions were taken against unlisted partnership valuations where deemed appropriate to reflect the falls in equity markets at the year end.

Discount to ex-income NAV with borrowings at market value 5 years to 31 October 2008



Source: SIT

Stock Price, Discount and Buybacks

The stock price fell by 29.7% in weak global stockmarkets. The stock price discount to ex-income NAV (with borrowings at market value) narrowed over the year from 9.9% to 7.5%.

Under the company's buyback policy, which is intended to keep the discount at or below 9% in normal market conditions, 4.6m stock units were repurchased for cancellation over the financial year (adding 0.3% to NAV performance and utilising 2.22 percentage points of the 14.99% authority renewed at the January 2008 AGM) at an average discount of 9.6% and a cost of £22.9m inclusive of dealing expenses. The average discount over the year was 8.5% and the estimated daily average since the introduction of the scheme in February 2006 was 8.9%.

Analysis of Stock Register at 31 October 2008

Category of holder	Number	Ordinary capital %
Individuals	25,444	63.8*
Investment companies	54	5.2
Insurance companies	13	19.0
Pension funds	31	5.5
Other	115	6.5
Total	25,657	100.0

* Includes 18.5% 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.

Ex-income NAV is the NAV excluding revenue for current year.

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 of our stock units and their 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 – net current assets), expressed as a percentage of stockholders' funds.

GDP references are to gross domestic product adjusted for inflation.

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