PERSONAL ASSETS TRUST PLC

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 APRIL 2006

KEY FEATURES

FOR THE YEAR TO 30 APRIL 2006

	Change	**30 April 2006**	30 April 2005 (UK GAAP)
Market Capitalisation	25.9%	**£191.6m**	£152.2m
Shareholders' Funds	26.4%	**£189.4m**	£149.8m
Effective Liquidity	–	**40.8%**	35.3%
Share Price	15.4%	**£259.25**	£224.75
NAV per share	15.8%	**£256.14**	£221.26
FTSE All-Share Index	28.3%	**3,074.26**	2,397.05
Premium to NAV	–	**1.2%**	1.6%
Dividend per share	8.8%	**£3.70**	£3.40
Current dividend rate *		**£3.80**	

* Double the last interim dividend of £1.90. It is our policy never to cut the dividend rate. Shareholders can therefore be confident that each half-yearly dividend will at least equal the previous one.

FOR THE 3 YEARS TO 30 APRIL 2006 †

	Change	**30 April 2006**	30 April 2003 (UK GAAP)
Market Capitalisation	76.6%	**£191.6m**	£108.5m
Shareholders' Funds	81.6%	**£189.4m**	£104.3m
Effective Liquidity	–	**40.8%**	26.2%
Share Price	33.8%	**£259.25**	£193.75
NAV per share	37.5%	**£256.14**	£186.32
FTSE All-Share Index	62.5%	**3,074.26**	1,891.50
Premium to NAV	–	**1.2%**	4.0%
Dividend per share	27.6%	**£3.70**	£2.90

† As long term investors we measure our net asset value performance against our benchmark, the FTSE All-Share Index, over rolling three-year periods.

FOR THE 6 YEARS TO 30 APRIL 2006 ‡

	Change	**30 April 2006**	30 April 2000
Market Capitalisation	156.8%	**£191.6m**	£74.6m
Shareholders' Funds	156.6%	**£189.4m**	£73.8m
Effective Liquidity	–	**40.8%**	45.3%
Share Price	28.3%	**£259.25**	£202.00
NAV per share	28.2%	**£256.14**	£199.80
FTSE All-Share Index	2.4%	**3,074.26**	3,001.92
Premium to NAV	–	**1.2%**	1.1%
Dividend per share	41.0%	**£3.70**	£2.625

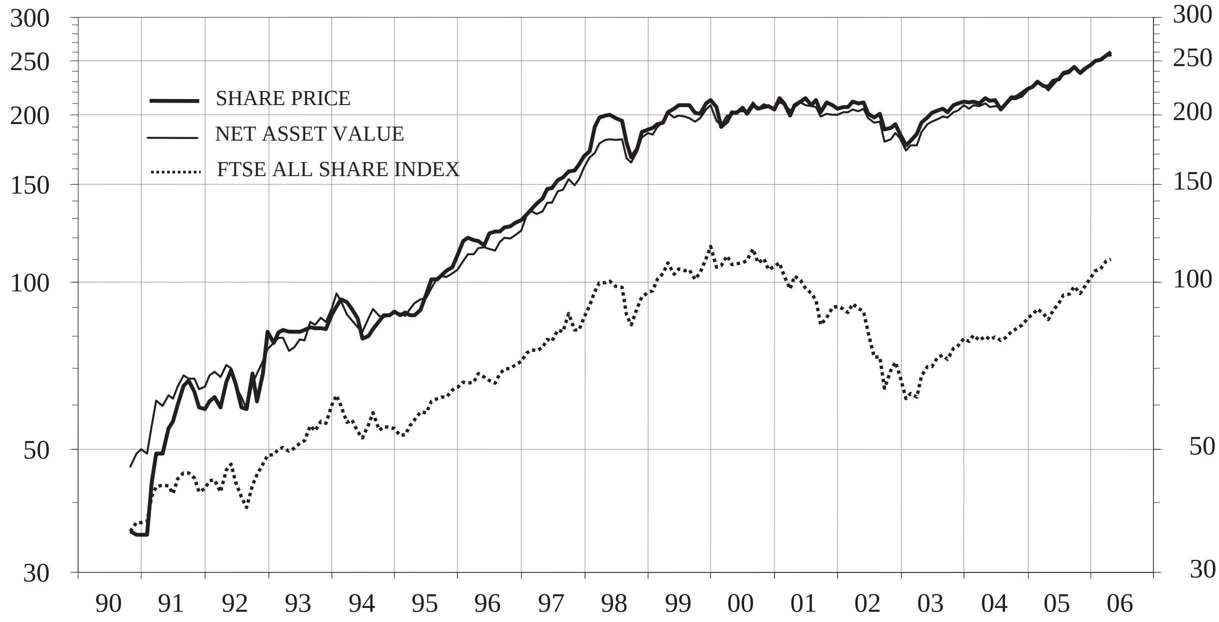
‡ See Managing Director's Report on pages 7–8.

TABLE OF CONTENTS

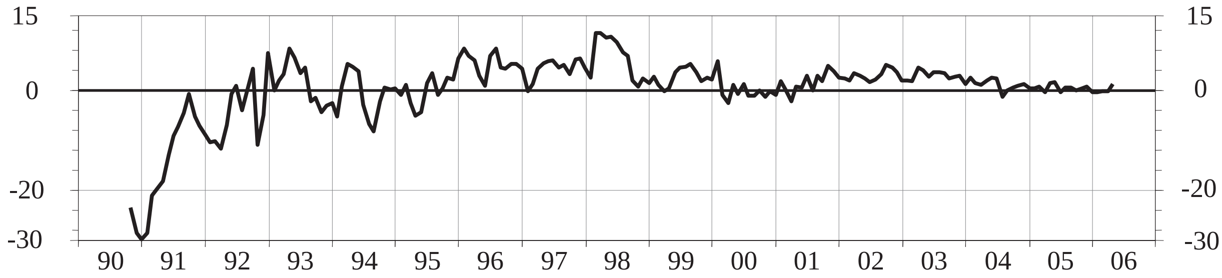
PERFORMANCE 1990-2006*

*** PERSONAL ASSETS BECAME SELF MANAGED IN 1990**

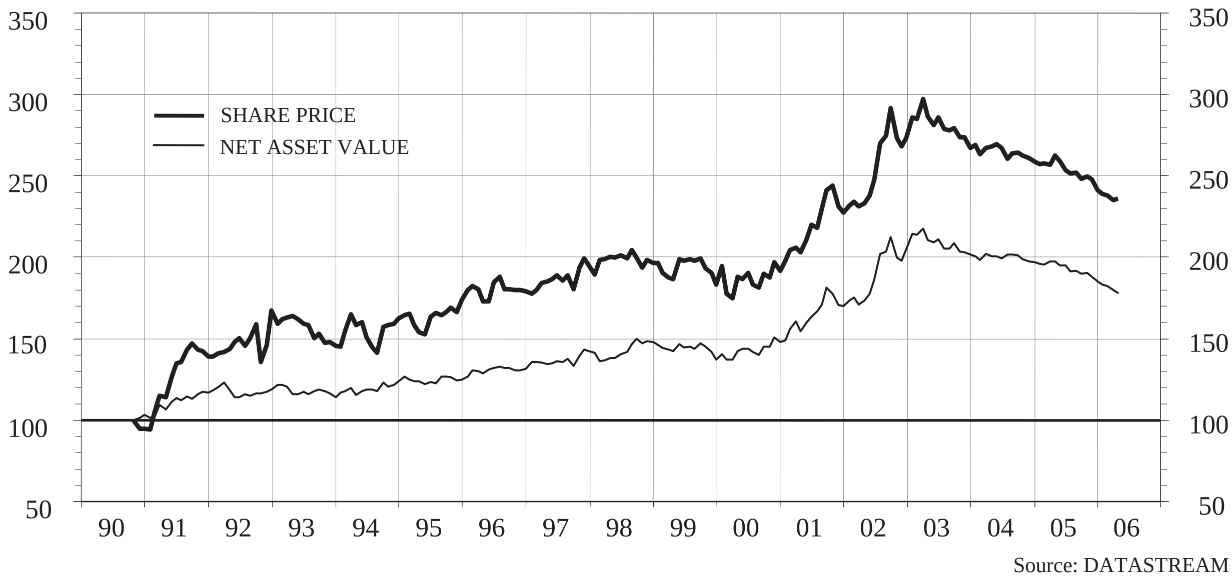
SHARE PRICE AND NET ASSET VALUE IN POUNDS VERSUS FTSE ALL-SHARE



SHARE PRICE (DISCOUNT)/PREMIUM TO NET ASSET VALUE



PERFORMANCE RELATIVE TO FTSE ALL-SHARE



Source: DATASTREAM

About Personal Assets

Objective and Investment Policy

Personal Assets is an investment trust run expressly for private investors. Its capital structure is the simplest possible for an investment trust, consisting only of ordinary shares. Its investment policy is to protect and increase (in that order) the value of shareholders' funds over the long term and to earn as high a total return as is compatible with a lower level of volatility than the FTSE All-Share Index. Since Personal Assets invests for the long term, the Board assesses performance not annually at the end of each accounting year but over rolling three-year periods. For further information about how the Company is run, see *The Board's Policies for Personal Assets* on pages 9–10.

Dividend Policy

We aim to pay as high, secure and sustainable a dividend as is compatible with maintaining our investment flexibility. We intend the present dividend rate to grow at least in line with inflation and it is our policy never to cut the dividend rate, so shareholders know that each half-yearly payment will at least equal the previous one.

Management

Personal Assets is run by its Board. The Directors and their families together hold shares in the Company worth £15.5 million. Those who manage Personal Assets therefore have a community of interest with those who invest in it.

Service to Shareholders

The Board regards Personal Assets as being in business primarily to provide the best service it can to its shareholders, whom we envisage as being private investors who either have a substantial amount of capital or expect to build it out of income. This objective is reflected in our range of zero-charge investment plans and in the Quarterly Reports we send to shareholders.

Tax-Efficient and Cost-Effective Investment

The Board aims to provide tax-efficient and cost-effective ways for shareholders to invest in the Company. These include a zero-charge ISA, a zero-charge PEP and a zero-charge Investment Plan. The Investment Plan provides three options: a Single Investment Option; a Monthly Investment Option; and a Cash Income Option which allows investors to receive a quarterly cash income from the sale of shares. We also offer ISA/PEP transfer and share selling facilities. Further details of all these ways of investing in Personal Assets (which offer investors a way of buying or selling shares usually within the bid/offer spread) can be found on page 12. In addition, we are working on a Self-Invested Personal Pension ("SIPP"), which we hope will be available to investors during the current year.

'No Discount' Policy *(see chart on previous page)*

Investment trusts have long suffered from high and volatile discounts to net asset value ("NAV"). Sometimes, too, the shares of individual investment trusts may sell temporarily at a significant premium to NAV. This can put those investing regularly through investment plans at a disadvantage, because they may find themselves buying shares at a sizeable premium which almost certainly will not be sustained and which will therefore have an adverse effect on the return from their investment. ***Because of the disadvantages to shareholders of such discount and premium fluctuations, the Board's policy is to ensure that the shares of Personal Assets always trade at close to NAV.*** Each year we seek authority from shareholders to allot new shares, to buy back for cancellation up to 14.99% of our share capital, and to hold shares in Treasury for re-sale. If need be, we will ask shareholders to renew this authority at other times during the year.

Corporate Information

Board of Directors

Robert White *(Chairman)*
Robin Angus
Hamish Buchan
Martin Hamilton-Sharp
Gordon Neilly
Ian Rushbrook

Company Secretary

Steven Davidson
F&C Asset Management plc
80 George Street
Edinburgh EH2 3BU

Telephone: 0131 465 1000

Investment Management

Ian Rushbrook *(Managing Director)*
Robin Angus *(Executive Director)*
Steven Budge *(Administration and Dealing)*
10 St Colme Street
Edinburgh EH3 6AA

Telephone: 0131 225 9995

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Telephone: 0870 601 5366

PEP/ISA Administrators

Halifax Share Dealing Limited
Trinity Road
Halifax HX1 2RG

Telephone: 0845 850 0181

Investment Plan Administrators

Lloyds TSB Registrars Scotland
PO Box 28506
Finance House
Orchard Brae
Edinburgh EH4 1XZ

Telephone: 0870 606 0268

Custodian Bankers

JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

Stockbrokers

JPMorgan Cazenove
20 Moorgate
London EC2R 6DA

Solicitors

Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Registered Office

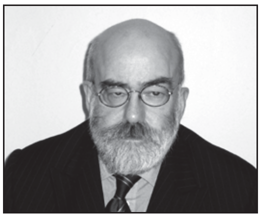
80 George Street
Edinburgh EH2 3BU

Telephone: 0131 465 1000

Board of Directors

Bobby White (70) has been a non-executive Director of Personal Assets since 1994 and was elected Chairman later that year. After qualifying as a chartered accountant he spent his working life in stockbroking as a partner in Wood Mackenzie and then, after ownership changes, as a director of Robert White & Co and Bell Lawrie White.

Other Trust Directorships: None.



Robin Angus (53) has worked in the investment trust sector since 1977 and has been a Director of Personal Assets since 1984 (Executive Director since 2003). He trained as an investment trust manager at Baillie, Gifford & Co and worked with Hamish Buchan for 17 years as an investment trust analyst.

Other Trust Directorships: None.

Hamish Buchan (61) joined the Board as a non-executive Director in 2001. Formerly Chairman (Scotland) of NatWest Securities, he has worked in the investment trust sector since 1969 and headed the award-winning Wood Mackenzie (later, NatWest Securities) investment trust research team for many years. He is Chairman of the Association of Investment Trust Companies.

Other Trust Directorships: Aberforth Smaller Companies; JPMorgan American (Chairman); Scottish Investment Trust; Shires Income; Standard Life European Private Equity.

Martin Hamilton-Sharp (63) has been a non-executive Director since 1990. For over 20 years he was responsible for managing Equitable Life Assurance Society's substantial investment trust portfolio. He later served as a director of Jupiter Asset Management.

Other Trust Directorships: Northern Investors.

Gordon Neilly (45), Chief Executive of Intelli Corporate Finance, was previously Finance and Business Development Director of Ivory & Sime. Company Secretary of Personal Assets for 10 years, he joined the Board as a non-executive Director in 1997 and has considerable experience and knowledge of investment trusts.

Other Trust Directorships: INVESCO Leveraged High Yield Fund.

Ian Rushbrook (66) has been responsible for the successful management of investment trusts for over 30 years. He joined the Board in 1990 as Investment Director (Managing Director since 2004) and is a former Deputy Chairman of Ivory & Sime (a predecessor company of F&C Asset Management, which supplies secretarial and administrative services to Personal Assets).

Other Trust Directorships: None

CHAIRMAN'S STATEMENT

A year ago, I questioned for how long a buoyant economy could be maintained on the back of a huge increase in public sector employment and a consumer boom largely financed by borrowing against inflated property values. I must admit that the answer seems to be — much longer than I imagined. As a result, our bearish stance has produced a disappointing performance against our benchmark not only in the past year but also (and for the first time ever) against our preferred three year rolling average. Over the three years to 30 April 2006 we under-performed the FTSE All-Share Index by 15%.

However, as Robin remarks in the Quarterly accompanying this Annual Report, *'Measuring performance without risk is like measuring height without breadth, or longitude without latitude.'* The danger of a severe market fall is, we believe, an increasingly serious one. In view of our stated aim of protecting the value of our shareholders' funds even in priority to striving to increase them, Ian and the Board as a whole regard a substantial element of the underperformance arising from our liquidity level as having been an insurance premium against the possibility of making real capital losses.

Despite our recent relative underperformance, it is not all gloom. Over the three-year period our share price rose by £65½ and our net asset value per share ("NAV") by 37%. Whereas some years ago I was lamenting that we were getting poorer while outperforming our benchmark, our recent experience has been the very opposite. Our share price on 30 April 2006, at £259¼ (compared to last year's £224¾ and £193¾ three years previously), stood within a whisker of its all time high and our dividend was nearly 10% higher than last year's (itself 10% higher than in the previous year).

One danger we did succeed in avoiding was the traditional one for an investment trust experiencing a spell of underperformance — the opening up of a discount to NAV. Our stated policy is to ensure that the shares of Personal Assets always trade at close to NAV and this continued to be the case during the year under review, as it has been since the spring of 1995.

Cheap money and feverish activity in the mergers and acquisitions markets, the two tending to go hand in hand, accounted for much of last year's strength in equity markets. The oil price and booming metal prices were also significant, however, and these two groups comprise a sizeable percentage of the main share indices (although, as Ian points out, the performance of our holdings in the major oils was disappointing). It is hard to imagine that the end users of these commodities regard their recent price movements as bullish, but for the primary producers it should be close to heaven on earth. That harbinger of doom (or perhaps critic of financial lassitude), the gold price, may be trying to tell us something. However, this bull market (or what Ian and Robin have hitherto preferred to describe as a rally in a long term bear market) is now in its 39th month. This is very mature historically and our best course in the market's present state, we believe, is to protect the last three years' absolute gains.

As indicated in last year's Report, our sister company, Collective Assets, was wound up in June 2005 and holders of 95% of Collective Assets' issued share capital elected to take Personal Assets shares. Collective Assets' portfolio comprised shares in investment management companies and investment trusts. These were taken into Personal Assets' portfolio, where happily the latter proved to be among our top performers during the year.

The total number of new shares issued during the year, including 55,612 used to acquire Collective Assets and 6,437 (net of buy-backs) issued for our zero charge investment plans, was 62,049, having a year end market value of £16.1 million. Last year we launched our Cash Income Plan (see page 12) and this year we are working on a Personal Assets Self-Invested Personal Pension ("SIPP") within which holders can balance their investment between cash and Personal Assets shares.

Chairman

MANAGING DIRECTOR'S REPORT

Whereas last year I described the UK market as being *'unremarkable'*, this year proved painfully exceptional. To my chagrin, the FTSE All-Share, our benchmark, rose by 28.3% while Personal Assets Trust ("PAT") increased its net asset value by only 15.8%, an underperformance of 9.7%.

Not only were we liquid while the market rose considerably, but also not a single holding in our two favoured sectors, the UK Major Oils and Banks, managed to match the FTSE All-Share. As *'Private Eye'* might say, *'You couldn't make it up.'*

The underperformance was principally due to my belief that equities were overvalued, hence our high level of liquidity. For a natural equity investor such as PAT, liquidity offers protection against a substantial equity fall — but at an opportunity cost equal to the difference between the return from equities and the yield on deposits. This is akin to buying fire insurance. The fact that the house didn't burn down doesn't mean that the insurance premium was wasted. Indeed, since the risk of 'fire' has in our view grown even greater this year following the remarkable rise in UK equities, we have increased our insurance cover, raising PAT's liquidity from 33% to 41% by the year end.

Over the six-year period from 30 April 2000 to 30 April 2006, the UK equity market rose by 2.4%. However, this period splits neatly into two very different halves, 2000/03 and 2003/06, the Fed rate having been reduced from 6.5% to 1% in the first and then raised from 1% to 5% in the second.

In 1990 we selected as a benchmark index the FTSE All-Share, against which we would measure our capital performance over a rolling three-year basis. This seemed at the time to offer a reasonable period over which shareholders could monitor our competence.

And so it proved until 2003, when over the three-year period to 30 April of that year we showed a stellar relative performance of 48.0% against our benchmark. This was, however, the result of a *loss* of 6.8% against a 37.0% fall in our benchmark — *perhaps satisfying intellectually but, in practice, far from pleasing to shareholders.*

Over the last three years, we have shown an abysmal relative performance of minus 15.4% against our benchmark. This was however, the result of a gain of 37.5% against a rise in our benchmark of 62.5% — *a reasonable absolute gain but, relatively speaking, highly disappointing to shareholders.*

Although the current bull market (if it may be called that, which we doubt) has, unusually, done no more than cancel out the previous bear market, over the last two three-year periods taken together we achieved a relative performance of 25.2%. This was the result of a rise of 28.2% against the rise in our benchmark of only 2.4% — *overall, a not unsatisfactory result for shareholders.*

John Maynard Keynes, England's most famous economist and a considerable speculator, who in his lifetime lost two personal fortunes but fortunately managed to make a third, said, *'There is nothing so disastrous as the pursuit of a rational investment policy in an irrational world'*. He also coined the ultimate admonition to speculators: *'Markets can remain irrational longer than you can remain solvent'*. Both quotations are pertinent in understanding PAT's investment philosophy. Our objective is the preservation and growth (in that order) of shareholders' wealth, which is the antithesis of Keynes' high-risk approach to investment. I would argue that, for a risk-averse investor, *'There is nothing so* ***sensible*** *as the pursuit of a rational investment policy in an irrational world'*. Furthermore, provided we are prepared to accept ongoing relative underperformance (while making reasonable absolute returns), *'We can remain liquid longer than markets can remain irrational'*.

Underlying everything that has happened in financial markets over the past six years has been the lack of an adequate explanation as to why the real rate of return ("RRR") on financial securities has more than halved, hence driving up all asset prices to bubble valuation levels.

MANAGING DIRECTOR'S REPORT *(CONT'D)*

The claim by Ben Bernanke (successor to Alan Greenspan as Chairman of the Federal Reserve) that the huge US current account deficit, a negative US savings rate and extraordinarily low RRRs are due to a 'global savings glut' is pure *'Alice in Wonderland'* logic. The missing element in his analysis is that of credit availability in the world's reserve currency, the dollar. ***The Federal Reserve has offered the world's banking system infinite dollar borrowings at a negative cost over the past six years.*** Yet this, the elephant in the Fed Boardroom, still seemingly remains invisible to Bernanke.

Despite the almost universal acceptance of Bernanke's 'global savings glut' hypothesis, I believe it (and, more importantly, his conclusion that there was nothing to worry about) to be pernicious nonsense. It is noteworthy that Alan Greenspan has never endorsed Bernanke's analysis, either as an explanation for the reduction in the RRRs on financial assets or for the 'anomaly' that long rates didn't rise despite the increase in the Fed rate from 1% in June 2004 to a current level of 5%. The explanation is simply that Alan Greenspan knew exactly why the RRR halved and long rates didn't rise.

Although Greenspan has never publicly expounded his theory, in September 2005, as Fed Chairman, he published a major research paper, *'Estimates of Home Mortgage Originations, Repayment and Debt'*, demonstrating the vast importance of the mortgage market to the US's (and hence the world's) financial markets. Between 2000 and 2006, outstanding US mortgages increased by $3.5 trillion, from $5 trillion to $8.5 trillion. Far more startling, however, is that this represented merely the difference between the origination of $14.8 trillion of new mortgages and ***the refinancing of outstanding mortgages of $11.3 trillion*** *(equal to around $38,000 for every man, woman and child in the USA).* Quarterly N°. 40 (February 2006) explained how mortgage refinancing relentlessly drove down the RRRs on financial securities and how cessation of mortgage refinancing will inevitably drive returns back up to normal levels, with everything that this implies for future valuations of financial assets.

How long can Western governments continue to pursue economic policies that, while apparently producing ever greater levels of GDP, require both government and consumers to borrow ever-greater amounts of money to forestall economic collapse? We are living in a financial world as surreal as Lewis Carroll's *'Alice's Adventures in Wonderland'* and *'Through the Looking Glass'*.

'I can't believe THAT!' Alice told the White Queen in *'Through the Looking Glass'*. *'Can't you?'* the Queen said in a pitying tone. *'Try again: draw a long breath, and shut your eyes.'* Alice laughed. *'There's no use trying,'* she said. *'One CAN'T believe impossible things.' 'I dare say you haven't had much practice,'* said the Queen. *'When I was your age, I always did it for half-an-hour a day. Why, sometimes I've believed as many as six impossible things before breakfast.'*

The White Queen's *'impossible things'* in the next year or so will have to include the following:

1. Foreign investors will continue to fund the US current account deficit of over $800 billion per annum, and won't withdraw their funds;
2. The dollar won't collapse and inflation won't escalate;
3. The oil price doesn't really affect the economy (and anyway, by focusing on 'core' inflation, the Federal Reserve ignores it!), Iran will accept US 'nuclear logic' and the oil price will fall;
4. The US government won't be forced to cut back the Federal deficit;
5. The US housing market won't collapse and US consumers will go on borrowing to spend; *and*
6. The extraordinarily low RRRs on financial assets won't revert to mean.

But who knows when this will happen? In expecting market rationality to reassert itself, maybe Robin and I are merely playing Estragon and Vladimir in *'Waiting for Godot'*, Samuel Beckett's boring play. Perhaps Alan Greenspan played 'the boy' who brought the message, *'Mr. Godot told me to tell you he won't come this evening but surely tomorrow.'* So, is Ben Bernanke Godot?

Ian Rushbrook Managing Director

The Board's Policies for Personal Assets

The Management of Personal Assets

The day-to-day management of the portfolio is the responsibility of Ian Rushbrook, the Managing Director. Robin Angus works alongside Ian as an Executive Director and they meet weekly with the Chairman and with other Directors. The Board takes all major decisions collectively.

The Board's Investment Philosophy

The way we invest is determined not by abstract theory but by a desire to achieve our practical objectives of first protecting and then increasing our shareholders' funds, as described in *About Personal Assets*, on page 3. Personal Assets has no policy restrictions to interfere with the investment management process. Furthermore, since it is owned almost entirely by individuals it need not take account of the differing and at times conflicting objectives of the investing institutions. We distrust all investment theories, processes and 'styles', trying instead to be prudent and flexible and to use our common sense.

The Board's Investment Principles

Although we have no policy restrictions or investment specialisation we do have certain principles for making investment decisions. The most important of these are as follows.

- **Investment Decisions that make a Difference.** In managing Personal Assets we concentrate on decisions that will have an appreciable effect on our net asset value per share. First in order of importance come decisions about the attractiveness or otherwise (relative to cash) of the markets in which we invest and about the sectors we favour within equity markets. Stock selection complements these decisions. Because of our belief in decisions that *'make a difference'*, our preferred practice (although there will always be exceptions to this) is not to buy a quantity of securities worth less than 2% of shareholders' funds at the time the investment is made, or to use derivatives *(see below)* to reduce or increase our equity exposure by less than a similar amount.

- **Stable, Long-Term Investing.** High turnover costs money. It also wastes opportunity, since good investment decisions (in particular, those taken for long-term strategic reasons) often take time to come to fruition. One of an investment manager's greatest temptations is to take a profit on a good investment decision too early. Another is to feel one must be constantly justifying one's existence by *'doing something'*. We resist these temptations.

- **International Diversification to reduce Risk.** Most of our shareholders are UK residents or expatriates whose personal liabilities are denominated mainly in Sterling and who may also (we assume) have invested a significant proportion of their net worth in Personal Assets. Their need to match their long-term Sterling liabilities with Sterling assets suggests it is prudent for our portfolio to have a high Sterling content. Some international diversification will at times be desirable in order to reduce risk. We start by recognising that the UK equity market is in itself much more diversified than most other equity markets, the companies in the FTSE 100 deriving a considerable percentage of their profits from overseas. Even if we held only FTSE 100 stocks in our portfolio, therefore, we would still be substantially diversified internationally. Depending on circumstances, however, Personal Assets may want to increase this diversification by holding in addition overseas investments directly. A suitable overseas, or non-Sterling, risk exposure for Personal Assets might be as high as 40% of total assets or as low as zero.

- **Recognising our Limitations.** We cannot satisfy the needs of all investors. Our aim is to serve the needs (including decisions about gearing and liquidity) of Sterling-based equity investors who share our view that the protection of capital ranks in priority even above pursuing capital growth. Accordingly, shareholders who want to diversify their portfolio through a stake in an aggressively-managed investment trust, or in specialised investment areas either in the UK or overseas, should look for this elsewhere, over and above their holdings in Personal Assets.

The Board's Policies for Personal Assets *(cont'd)*

- **Gearing and Liquidity.** Our starting point is that Personal Assets is an equity investor and so in normal circumstances the Board would expect Personal Assets to maintain a fully invested portfolio. In practice, however, circumstances much of the time are not *'normal'*. For instance, Personal Assets has for several years not been fully invested, because the Board has considered that equity markets have been seriously overvalued. The Board believes in the active, although always carefully considered, use of both gearing and liquidity in investment management. When markets look particularly attractive and we want to increase our equity exposure to more than 100% of shareholders' funds, we will do so in a flexible way by using either short-term borrowed funds or *(more likely)* derivatives such as FTSE 100 Futures. When we believe markets to be overvalued, we may either hold part of our resources in cash or short-term fixed-interest securities, or use such derivatives as a way of reducing our equity exposure.
- **Fixed-Interest Securities.** Personal Assets may from time to time hold fixed-interest securities rather than holding cash on deposit or using derivatives. It is not tax-efficient for Personal Assets to hold fixed-interest gilts for capital gain and so it does not do so. This does not, however, apply to the preference shares of UK companies or to foreign fixed-interest securities.
- **Currencies.** If a foreign currency in which we hold equity, fixed interest or other investments (at present this is only the US Dollar) looks overvalued we hedge all our exposure to it by selling forward foreign exchange contracts, to lock in gains and protect the Sterling value of our foreign investments.
- **Unlisted Investments.** The Board believes that, for a trust like Personal Assets, investing in unlisteds takes more time and energy than it is worth. Therefore we don't.
- **Use of other Investment Trusts.** Personal Assets may invest from time to time in other investment trusts when doing so would help us achieve our desired investment exposures. Investment trusts are public limited companies like any other and investing in them can be both efficient and rewarding. Sometimes they sell at discounts which make them look attractive compared to other UK equities. In addition, if we felt confident about the attractions of a geographical or industrial area in which we lacked expertise we would buy shares in other investment trusts which provided the exposure we wanted. In the light of the changes to the London Stock Exchange Listing Rules for investment trusts which became effective in November 2003, however, it should be placed on record here that Personal Assets has a policy of not investing more than 15% of its gross assets in other listed investment companies (including investment trusts).
- **The Importance of a Sustainable and Predictable Dividend.** Personal Assets has never been, and is unlikely ever to be, a high-income investment trust. Nevertheless, our dividend rate today is nearly four times what it was when Personal Assets became independently managed in 1990 and we regard it as important to pay a secure and growing dividend upon which shareholders can rely. We pay two dividends a year, and it is our policy never to pay a dividend which is lower than the last one. Shareholders can therefore be sure that each half-yearly payment will at least equal the previous one and so can work out the minimum current annual dividend rate by doubling the last dividend payment.

INVESTMENT TRUSTS FOR INDIVIDUAL INVESTORS

ADVANTAGES OF INVESTING THROUGH INVESTMENT TRUSTS

Many years of experience have convinced the Board that higher-rate taxpayers or people who have substantial capital can derive considerable advantages from investing through investment trusts rather than managing their own portfolios directly or through a financial adviser — a subject discussed in detail in Quarterlies N$^{os.}$ 27-29, copies of which are still available from the Company Secretary at the address on page 4.

- **Professional Management/Board Accountability**. Private investors usually lack the time and specialist expertise to devote their full attention to their investment portfolios. ***Investment trusts offer them the benefit of full-time, professional portfolio management***, while the direct relationship between the shareholders and the Board of Directors whom they elect (and who are responsible for performance) ensures accountability for investment decisions.

- **Tax Efficiency: Income.** Investors managing their portfolios directly or through an adviser cannot offset against their taxable income the investment management and administration costs they incur. Nor can they offset the interest paid on borrowings for equity investment purposes. ***Investment trusts can offset all such costs against their taxable income.***

- **Tax Efficiency: Capital** *and* **Purity of Investment Decisions.** Higher-rate taxpayers are taxed at their top rate of Income Tax (currently 40%) on all realised capital gains in excess of £8,800 per annum. Higher-rate taxpayers managing their portfolio themselves or through professional advisers will therefore find themselves either paying Capital Gains Tax or being forced into unsuitable, tax-driven investment decisions. Investment trusts, however, are wholly free of Capital Gains Tax on gains realised within their portfolios. ***Investment trusts can therefore buy and sell investments as they choose on investment grounds alone.***

ADVANTAGES OF INVESTING THROUGH ISAS

On 6 April 1999 the Government replaced Personal Equity Plans (“PEPs”) with Individual Savings Accounts (“ISAs”). Personal Assets accordingly established a zero-charge ISA in succession to its zero-charge PEP. By 30 April 2006 1,223 account holders held Personal Assets ISAs worth a total of £25.0 million, representing 13.0% of the Company’s shares in issue. At the same date, Personal Assets’ ISAs, PEPs and Investment Plans were valued in total at £84.6 million and represented 44.1% of the Company’s shares in issue.

New investment continues to flow into Personal Assets PEPs as investors transfer their existing PEPs from other PEP managers.

Full details of the Personal Assets ISA may be obtained from the Company Secretary at the address on page 4. The following points, which may be of special interest to shareholders of Personal Assets, are set out here for information only.

- A Personal Assets ISA consists solely of shares of Personal Assets. All the running costs are borne by the Company and ***there are no charges to investors***.

- Investments held in an ISA are free of Capital Gains Tax.

- As announced in the March 2005 Budget, shareholders will be able to invest £7,000 in a Personal Assets ISA in each of the four tax years until 2009/10. This may be done by way of a lump sum or by monthly direct debit and would enable a married couple to shelter a total of £56,000 from Capital Gains Tax.

- Existing PEPs were unaffected by the launch of ISAs and retain their tax-free status.

WAYS OF INVESTING IN PERSONAL ASSETS

Steven Budge, Client Administration and Dealing *(left)*, and **Steven Davidson**, our Company Secretary *(right)*, will be pleased to provide information about the ways of investing in Personal Assets listed below. Their telephone numbers and addresses are on page 4.

The shares of Personal Assets are listed on the Official List and traded on the London Stock Exchange and private investors can buy or sell shares by placing an order either directly with a stockbroker or through an Independent Financial Adviser. Alternatively, investments can be made through the Company's **Investment Plan** (which offers three options, as outlined below), **Individual Savings Account ("ISA")** or **Personal Equity Plan ("PEP")**.

The Board believes investment costs for shareholders should be kept as low as possible. ***No charges are therefore made by Personal Assets to shareholders using these plans.***

THE PERSONAL ASSETS INVESTMENT PLAN

The Single Investment Option accepts lump sums of £5,000 or more. As in all these options, dividends are automatically reinvested. Investors who want to invest £5,000 or more but to receive dividends directly can elect in their application form to have their shares transferred to the main Share Register immediately after buying them through the Plan.

The Monthly Investment Option is by direct debit only (minimum £500 per month).

The Cash Income Option lets investors draw an annual income of £4,000 or more (minimum £1,000 per quarter) from a shareholding in Personal Assets held within the Plan. Depending on their own tolerance of risk and view of markets, investors can choose to receive an annual 4%, 7% or 10% of the starting value of their holding as a quarterly cash income from the sale of shares. The minimum starting sum will depend on the percentage rate of cash income chosen.

THE PERSONAL ASSETS ISA AND THE PERSONAL ASSETS PEP

The Personal Assets zero-charge Individual Savings Account ("ISA") consists solely of Personal Assets shares and all cash (whether from subscriptions or dividends) is invested in the Company's shares on the earliest dealing day. Dealing days are Wednesday and Friday of each week. Subscribers must invest the maximum amount permissible in each year. Subscriptions may be made either by lump sum or by monthly direct debit. The current rate of monthly direct debit is £580 together with an initial payment sufficient to make up the ISA to the full £7,000.

Existing Personal Assets PEPs were unaffected by the launch of ISAs.

TRANSFER OF OTHER PEPS/ISAS INTO THE PERSONAL ASSETS PEP/ISA

Transfers may be made into the Personal Assets PEP/ISA of PEPs/ISAs currently managed by other managers. Details are available from either Steven Budge or Steven Davidson.

DISPOSAL OF SHAREHOLDINGS

Personal Assets offers a facility whereby holders may sell their shares without incurring any stockbroking costs. Details are available from either Steven Budge or Steven Davidson.

PORTFOLIO COMPARISONS FOR THE YEAR TO 30 APRIL 2006

Company	30 April 2006 £'000	Purchases/ (Sales) £'000	30 April 2005 £'000	Business Activities of Companies
BP	15,424	3,259	9,398	International oil and energy
Royal Dutch Shell	14,119	4,855	7,363	International oil and energy
Royal Bank of Scotland	10,579	–	9,296	Banking and related financial services
HBOS	9,481	–	7,604	Banking and related financial services
GlaxoSmithKline	7,780	1,748	4,851	Pharmaceuticals
Barclays	7,672	–	6,009	Banking and related financial services
BT Group	5,701	3,214	2,394	Telecommunications
Scottish & Newcastle	4,153	–	3,717	Brewing, retail and leisure
Scottish Investment Trust	2,622	598	1,268	Global growth investment trust
British Assets Trust	2,077	–	1,598	Global growth and income investment trust
F&C Asset Management	1,613	1,461	–	Investment management company
Rentokil Initial	1,598	–	1,560	Environmental and property services
BAE Systems	1,148	–	702	Aerospace and defence
Second Alliance Trust	841	618	–	Global growth investment trust
Advance UK Trust	820	–	560	Global growth investment trust
City Natural Resources	780	569	–	Mining and natural resources investment trust
ISIS UK Select Trust	701	85	417	UK growth investment trust
Independent Investment Trust	641	366	–	Global growth investment trust
TR Property	610	434	–	Property investment trust
EP Global Opportunities	420	319	–	Overseas growth investment trust
Foreign & Colonial Inv Trust	–	(1,840)	1,410	International general investment trust
SMG	–	(283)	294	Central Scotland TV broadcaster, newspapers
Other UK Equities	–	(90)	74	
Exposure to FTSE 100 Future	18,675	(16,134)	34,809	
UK Equity Exposure	**107,455**	**(821)**	**93,324**	
Altria Group	1,610	–	1,360	Tobacco, brewing, soft drinks, packaged foods
Dover Corp	1,368	–	951	Elevators and general engineering products
Actuant Corp	1,013	–	642	Tools, supplies and engineered solutions
Bristol-Myers Squibb	601	–	586	Pharmaceuticals
Other USA Equities	–	(4)	4	
USA Equity Exposure	**4,592**	**(4)**	**3,543**	
Total Equity Exposure	**112,047**	**(825)**	**96,867**	
Liquidity and Liabilities				
US Treas. Strip 0% 15/05/06	54,930			
Standard Life Sterling Fund	22,058			
Net Current Assets	18,815			
Liability to FTSE 100 Future	(18,499)			
Liquidity	**77,304**		**54,130**	
Shareholders' Funds	**189,351**		**150,997**	

RECORD 1983-2006

Date 30 April		Shareholders' Funds £'000	Net asset Value per share	Share price	Earnings per share	Dividend per share
Launch						
September	1983	5,397	£36.15	£22		
	1984	4,797	£32.13	£30	£0.43	£0.40
	1985	6,011	£40.26	£39	£0.21	£0.20
	1986	6,988	£46.80	£40	£0.38	£0.35
	1987	9,168	£61.40	£54	£0.61	£0.50
	1988	8,283	£55.47	£44	£1.12	£1.00
	1989	9,174	£61.44	£51	£1.46	£1.25(1)
	1990(2)	8,462	£56.67	£39½	£1.09	£1.00
	1991	9,006	£60.32	£48½	£1.45	£1.50
	1992	10,589	£70.92	£66	£1.67	£1.60
	1993	11,441	£75.18	£81½	£2.52	£1.80
	1994	12,987	£85.34	£89½	£2.12	£1.95
	1995	13,939	£91.59	£87	£2.00	£2.00
	1996	19,473	£115.11	£118½	£2.90	£2.20
	1997	27,865	£133.89	£141¼	£3.01	£2.30
	1998	48,702	£180.21	£199½	£3.57	£2.45
	1999	65,200	£201.26	£202½	£3.67	£2.55
	2000	73,751	£199.80	£202	£2.98	£2.62½
	2001	78,000	£207.03	£208½	£3.27	£2.70
	2002	92,430	£203.38	£209½	£3.88	£2.80
	2003	104,324	£186.32	£193¾	£3.40	£2.90
	2004(3)	135,736	£211.67	£214½	£3.98	£3.10
	2005	150,997	£222.98	£224¾	£3.41	£3.40
	2006	189,351	£256.14	£259¼	£3.78	£3.70

Per share values have been adjusted for the 1 for 100 consolidation of ordinary shares in January 1993.

(1) Includes special dividend of £0.25 per share.
(2) Personal Assets became self managed in 1990.
(3) From 1 May 2004 the Company adopted International Financial Reporting Standards ("IFRSs").

INDUSTRIAL AND GEOGRAPHIC ANALYSIS OF EQUITY INVESTMENTS HELD

Category	UK £'000	USA £'000	Total £'000	Percentage
Oil & Gas	29,543	–	29,543	31.6%
Industrials	2,746	2,381	5,127	5.5%
Consumer Goods	4,153	1,610	5,763	6.2%
Healthcare	7,780	601	8,381	9.0%
Telecom	5,701	–	5,701	6.1%
Financials	38,857	–	38,857	41.6%
Total	88,780	4,592	93,372	100.0%
	95.1%	4.9%	100.0%	

Rate of Exchange to Sterling

As at 30 April	2006	2005
US Dollar	1.81765	1.90990

DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report together with the Accounts of the Company and the Group for the year to 30 April 2006.

ACTIVITIES AND BUSINESS REVIEW

A review of the Company's activities and a business review are given on pages 19–20 and in the Chairman's Statement and Managing Director's Report.

PRINCIPAL ACTIVITY AND STATUS

The Company is an investment company as defined by section 266 of the Companies Act 1985. It carries on the business of an investment trust and has been approved as such by the Inland Revenue up to 30 April 2005. Subsequently the Company's affairs have been conducted so as to enable it to continue to seek such approval. The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year.

The Company has two wholly owned subsidiaries, both incorporated in Scotland: Personal Assets Investments Limited, an investment company; and The Edinburgh Agency Limited, a consultancy company.

DIVIDEND

	Group £'000
Revenue available for dividends	2,721
Distributed as dividends from current year revenue:	
First interim dividend (£1.80 per share) paid on 28 October 2005	(1,306)
Second interim dividend (£1.90 per share) paid on 28 April 2006	(1,393)
Retained earnings (£0.03 per share)	22

DIRECTORS' INTERESTS

The Directors who served during the year and their interests in the shares of the Company at 30 April 2006 and 30 April 2005 were as follows:

Director	Interest	2006	2005
Robert White *(Chairman)*	Beneficial	1,000	800
Robin Angus	Beneficial	2,473	2,351
Hamish Buchan	Beneficial	420	214
Martin Hamilton-Sharp	Beneficial	1,395	1,174
Gordon Neilly	Beneficial	186	183
Ian Rushbrook	Beneficial	33,985	26,500

Since 30 April 2006, Mr Angus has acquired a beneficial interest in an additional 6 shares and Mr Neilly an additional share through the automatic re-investment of dividends. There have been no other changes in the above holdings between 30 April 2006 and 26 May 2006.

SUBSTANTIAL INTERESTS

As at 26 May 2006 the following holdings represented 3% or more of the issued share capital of the Company:

Substantial Holders	Shares Held	Percentage
Personal Assets Trust PEP/ISA	191,685	25.9
Personal Assets Trust Investment Plan	134,597	18.2
Ian Rushbrook	33,985	4.6
Including the above, the total holdings of the Rushbrook family amount to	54,187	7.3

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

As far as the Directors are aware, there is no relevant audit information (as defined by section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

FINANCIAL INSTRUMENTS

Information on the Company’s financial instruments can be found on page 37. Further information is given in *The Board’s Policies for Personal Assets* on pages 9–10.

ALLOCATION OF EXPENSES

During the year the Board reviewed the allocation of management expenses between revenue and capital. It was felt that the simplest and most transparent way of accounting for expenses was to charge them all to revenue.

RELATED PARTY TRANSACTION

Collective Assets Trust plc (“CAT”), a UK listed investment trust with the same investment manager as the Company, amalgamated with the Company by way of a scheme for the reconstruction and winding up of CAT (“the “Scheme”) which became effective on 29 June 2005. Prior to CAT’s entering into members’ voluntary liquidation pursuant to the Scheme, each of the Directors of PAT (with the exceptions of Gordon Neilly and Robert White) was also a director of, and a shareholder in, CAT. The Scheme offered shareholders in CAT the option to elect either to exit for cash at net asset value or to roll over their investment into the Company on a net asset value for net asset value basis. Ordinary shares in the Company were allotted to those CAT shareholders who elected to receive such shares pursuant to the Scheme at a subscription price of £231.45 per share.

The opportunity to receive shares in the Company was available to all CAT shareholders (other than certain overseas shareholders and certain shareholders who would have been entitled to receive less than one share in the Company) on an identical and unrestricted basis. Nonetheless, each allotment of shares to a Director of the Company who was also a director of, and a shareholder in, CAT was considered to be a related party transaction under the Listing Rules of the UK Listing Authority.

Directors of the Company who were also directors of, and shareholders in, CAT received the following numbers of ordinary shares in the Company pursuant to the Scheme:

Director	**Ordinary Shares in the Company received**
Ian Rushbrook	22,585
Hamish Buchan	196
Robin Angus	66
Martin Hamilton-Sharp	167

Robert White, who was a shareholder in, but not a director of, CAT, received 167 ordinary shares in the Company pursuant to the Scheme.

RESOLUTIONS TO BE PROPOSED AT THE ANNUAL GENERAL MEETING

Annual Report and Accounts

Resolutions 1 and 2 are, respectively, to receive the Annual Report and Accounts for the year to 30 April 2006 and to approve the Directors’ Remuneration Report contained therein.

Directors

Resolutions 3, 4 and 5 are to re-elect Gordon Neilly, Robert White and Martin Hamilton-Sharp, who, having served on the Board for more than nine years, retire annually. It is noted that Robert White has attained the age of 70 since the Company’s Annual General Meeting in 2005. Accordingly, even if he had not been required to seek re-election annually, he would have been required under the Companies Act to vacate office at the conclusion of the forthcoming Annual General Meeting unless his appointment had been approved by the Company at such meeting.

Resolutions 6 and 7 are, respectively, to re-elect Ian Rushbrook and Robin Angus, who, as executive Directors, also retire annually.

The Board confirms that each of the Directors seeking re-election continues to make a significant contribution to Board deliberations, and that Ian Rushbrook and Robin Angus continue to undertake their executive duties in an effective and committed manner. The Board therefore believes that it is in the interests of shareholders that these Directors be re-elected.

Auditors

Resolution 8 is to re-appoint Ernst & Young LLP as auditors.

Authority to Issue Shares

In order to meet the continuing demand for shares by the Company's investment plans, two Resolutions will be proposed.

Resolution 9 is to authorise the Directors to issue new shares up to an aggregate nominal amount of £923,450.00, being 9.99% of the total issued shares as at 26 May 2006.

Resolution 10 is to enable the Directors to issue such new shares and to re-sell shares from Treasury (see *Treasury Shares* below) up to an aggregate nominal amount of £923,450.00 (being 9.99% of the total issued shares as at 26 May 2006) for cash without first offering such shares to existing shareholders *pro rata* to their existing shareholdings.

If approved by shareholders, the authorities sought by *Resolutions 9 and 10* will continue in effect until 19 October 2007, or, if earlier, the conclusion of the Company's Annual General Meeting in 2007.

The Directors issue new shares only when they believe it is advantageous to the Company's shareholders to do so and in no circumstances would such issue of new shares or re-sale of shares from Treasury result in a dilution of net asset value per share.

Since the year end, the Company has allotted 274 Ordinary Shares and, as at the date of this document, there are 739,508 Ordinary Shares in issue.

Authority to Buy Back Shares

During the year, the Company purchased 21,073 Ordinary Shares with an aggregate nominal value of £263,412.50 to be held in Treasury for a total consideration of £4,937,000, representing 3.1% of the Ordinary Shares in issue at the previous year end. The Company also re-issued 11,513 Ordinary Shares from Treasury for a total consideration of £2,896,000. The Company's current authority to make market purchases of up to 14.99% of the issued Ordinary Shares expires at the end of the Annual General Meeting.

Resolution 11 is to renew the authority for a further period until the Company's Annual General Meeting in 2007. The price paid for shares on exercise of the authority will not be less than the nominal value of £12.50 per share or more than 5% above the average of the middle market quotations of those shares for the five business days before the shares are purchased. The authority, which may be used to buy back shares either for cancellation or (subject to statutory limits) to be held in Treasury, will be used to purchase shares only if, in the opinion of the Directors, a purchase would be in the best interests of the shareholders as a whole and would result in an increase in the net asset value per share for the remaining shareholders.

Treasury Shares

Under UK company law investment trusts are able to acquire their own shares to hold in Treasury for re-sale. The Directors consider that this facility gives the Company more flexibility in managing its share capital. As at 26 May 2006, the Company held 9,560 Ordinary Shares in Treasury.

Resolutions 10 and 11 would provide the Directors with the authority they need to manage Treasury shares.

Any buy-back of shares into Treasury and re-sale of shares from Treasury will operate within the following limits:

- no more than 10% of the Company's listed shares shall be held in Treasury at any time;
- Treasury shares will only be sold at a premium to the net asset value of the shares at the time of sale; *and*
- Treasury shares will not be sold at a discount of more than 10% to the middle market price of the shares at the time of sale.

The Board had previously intimated that it was its intention to cancel shares held by the Company in Treasury where these had been held in Treasury for a period of 12 months. However, in order that the Company is able to derive the greatest benefit from the increased flexibility which the Treasury share facility provides, the Board has reconsidered this policy and has decided that it will not place a limit on the time for which shares may be held by the Company in Treasury.

Amendment of Articles

The Companies (Audit, Investigations and Community Enterprise) Act 2004 ("the 2004 Act") changed, with effect from 6 April 2005, the circumstances in which directors are permitted at law to be indemnified by a company against personal liabilities incurred by them in carrying out their duties as directors. This change reflected a general recognition of directors' increased exposure to liabilities arising from legal proceedings brought by third parties.

DIRECTORS’ REPORT *(CONT’D)*

However, the current article 150 of the Company’s Articles of Association, which reflects the legal position prevailing prior to the 2004 Act, does not allow the Company to take advantage of the changes made by the 2004 Act. The Directors are therefore proposing that the Company adopt a new article 150 which would allow the Directors to be indemnified by the Company to the extent permitted by the 2004 Act. The proposed new article 150 is set out in full in *Resolution 12*.

The principal benefit to the Directors of the proposed change to the Articles of Association would be that the Company would be permitted to pay a Director’s costs in defending proceedings against him as such costs are incurred, although the Director would be required to repay any funds advanced by the Company if he were convicted in criminal proceedings or judgement were given against him in civil proceedings or if he were unsuccessful in an application to the court for relief from liability under the Companies Act 1985. This differs from the position under the current Articles, under which a Director would be entitled to receive funds from the Company to meet his defence costs, where he has been successful in his defence, only at the end of the relevant proceedings.

As a result of the changes made under the 2004 Act, the Company would now be permitted at law to indemnify a Director generally against liabilities which the Director incurs in connection with his duties, with the exception of liabilities incurred:

- to the Company (or any subsidiary of the Company);
- to pay a criminal fine or a regulatory penalty;
- in defending criminal proceedings in which he is convicted;
- in defending civil proceedings brought against him by the Company (or any subsidiary of the Company) in which judgment is given against him; *or*
- in an unsuccessful application to the court for relief from liability under the Companies Act 1985.

Accordingly, *Resolution 12* seeks to alter the Company’s Articles of Association so as to align the scope of the protection which is provided by the Company to the Directors under the Articles with the scope of protection which is permitted by the 2004 Act. Specifically, the new article 150 would entitle any Director or other officer of the Company, if a majority of the Directors so determines, to be indemnified out of the assets of the Company against any liability incurred by him as a Director or other officer of the Company to the extent permitted by law.

Recommendation

Resolutions 10 to 12 are, pursuant to the Company’s Articles of Association, considered “special business”. The Directors consider the passing of such resolutions to be in the best interests of the Company and its shareholders as a whole and, accordingly, the Directors recommend that all shareholders vote in favour of them. The Directors intend to vote in favour of all of the resolutions to be proposed at the Annual General Meeting in respect of their own beneficial holdings of 39,466 ordinary shares in the Company (representing approximately 5% of the Company’s current issued ordinary share capital).

By Order of the Board

SK Davidson

Steven K Davidson
Secretary

80 George Street
Edinburgh EH2 3BU

26 May 2006

Business Review for the Year to 30 April 2006

Introduction

The review which follows is designed to provide shareholders with information about:

- the environment within which the Company operates;
- the Board's strategy for achieving its stated objectives;
- principal risks and risk management; *and*
- shareholders' returns measured against key performance indicators.

Competitive and Regulatory Environment

The Company is an investment trust quoted on the London Stock Exchange and is a member of the Association of Investment Trust Companies ("AITC").

It is a closed ended company and is obliged to comply with the Companies Acts, the rules of the UK Listing Authority and International Accounting Standards. In addition to annual and interim accounts published under those rules the Company announces net asset values per share daily and provides more detailed statistical information on a monthly basis to the AITC in order for investors and brokers to compare its performance and other relevant information with those of its peer group.

The Company also operates so as to comply with section 842 of the Income and Corporation Taxes Act 1988, which allows it to be exempted from capital gains tax on investment gains.

Strategy for Achieving Objectives

The principal objective of the Company is to protect and increase (in that order) the value of shareholders' funds over the long term and to earn as high a total return as is compatible with a lower level of volatility than the FTSE All-Share.

The objective is a long term one and the Board believes that rolling three-year periods are a suitable time over which to assess the returns.

A review of the Company's returns during the financial year, the position of the Company at the year end and the outlook for the coming year are contained within the Chairman's Statement and Managing Director's Report on pages 6–8.

The day to day management of the portfolio is the responsibility of Ian Rushbrook, the Managing Director. Robin Angus works alongside Ian as an executive Director and they meet weekly with the Chairman and with other Directors. The Board takes all major decisions collectively. The investment strategy of the Company concentrates on decisions that will have an appreciable effect on the net asset value per share.

The Board's investment principles are described in more detail on pages 9-10 and the Managing Director's Report on pages 7–8 provides a review of the investment portfolio and of market conditions during the year.

Principal Risks and Risk Management

The Board believes that the principal risks to shareholders, which it seeks to mitigate through continual review of its policies and through shareholder communication, are events or developments which can affect the general level of share prices, including, for instance, inflation or deflation, economic recessions and movements in interest rates.

In the mitigation and management of these risks, the Board regularly monitors the investment environment and the management of the Company's investment portfolio, and applies rigorously the principles detailed in the guidance provided by the Turnbull Committee. The Company's internal controls are described in more detail on pages 21–22.

Performance

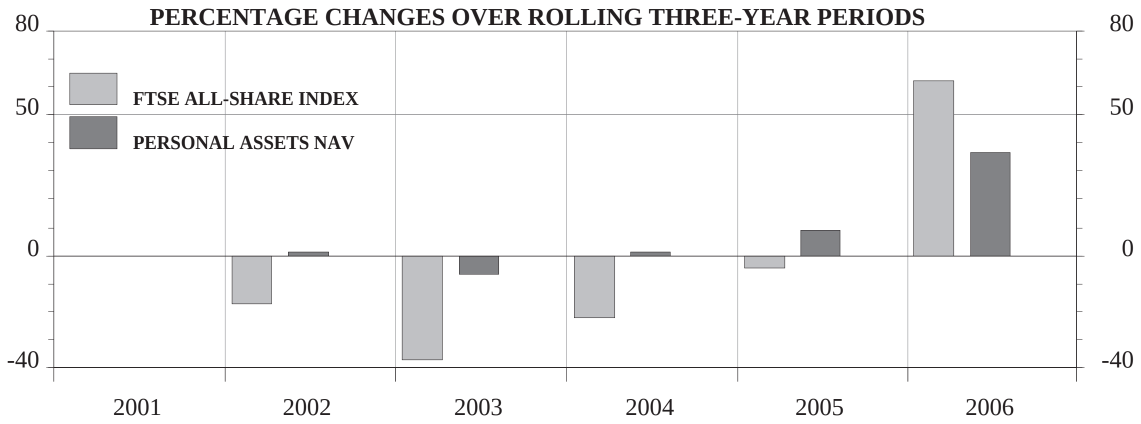
The Board assesses its performance in meeting the Company's objective against the following primary and secondary Key Performance Indicators:

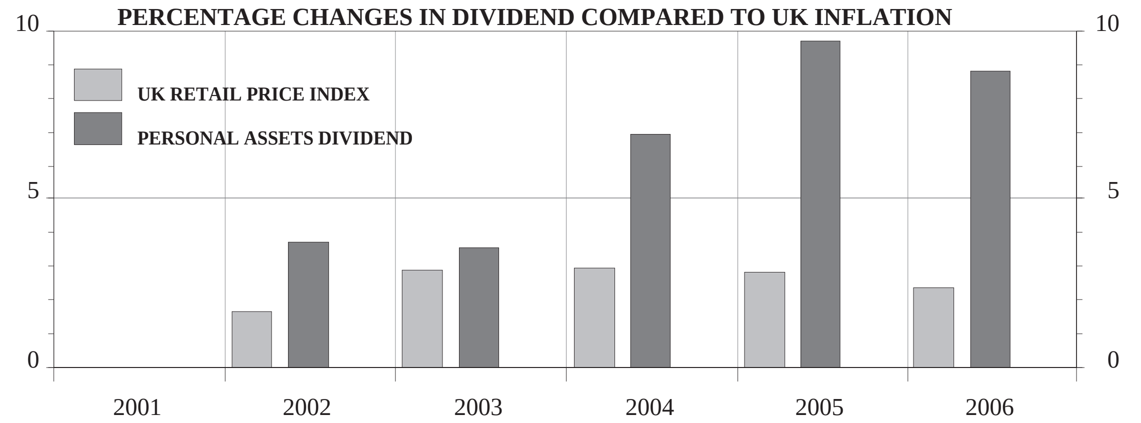
Primary

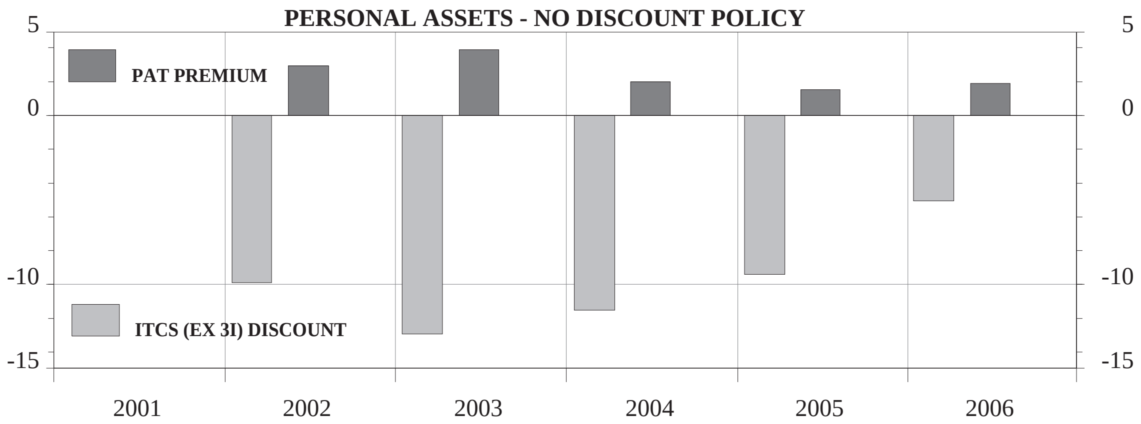
- Net asset value per share against the FTSE All-Share Index over a rolling three-year period
- Dividend policy against the Retail Price Index
- 'No Discount' policy

Secondary

- Total expenses as a percentage of shareholders' funds.







By Order of the Board

Steven K Davidson
Secretary

80 George Street
Edinburgh EH2 3BU

26 May 2006

CORPORATE GOVERNANCE

Personal Assets Trust is a self-managed investment trust run by its Board, which takes all major decisions collectively. While two of the Directors, Ian Rushbrook and Robin Angus, have executive duties, all of the Directors regard themselves and one another as equal in the duties and responsibilities they owe to shareholders and accordingly work together as a unitary Board within which the Chairman (who is elected by the Directors from among their own number) acts as *primus inter pares*.

The Directors are elected by the shareholders and regard corporate governance and accountability to shareholders as being of the highest importance. They therefore place considerable emphasis on running the Company in the way they believe to be best suited to the successful management of an investment trust on behalf of its shareholders.

During the year the Company complied with the Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council in July 2003 except where the Directors believe that to do so would not be in the best interests of shareholders, and has taken into account the recommendations of the AITC Code of Corporate Governance ("the AITC Code") which was also issued in July 2003 and was updated in February 2006 *(see below)*. The instances of non-compliance with the Code are explained in the following three paragraphs.

- The Board considers that the setting up of a series of separate Committees to cover certain matters would prevent individual Directors from having a full understanding of the Company. Accordingly, the Board does not consider it appropriate for the Company to have separate Audit, Remuneration or Nomination Committees as recommended by the Code. All matters recommended for delegation to such Committees are considered by the full Board. Any Director with any possible conflict of interest must declare this and, unless requested to remain, leave the meeting prior to discussion and determination of such matters by the other Directors.

- The Board does not consider it appropriate to follow the Code's recommendation that Directors should be appointed for a specified term. Nor, as a unitary board, does the Board believe that a senior independent director should be appointed. The Board believes that the Company's Articles of Association, which require that all Directors be subject to re-election by rotation at the Annual General Meeting, are a more appropriate basis for ensuring the independence and accountability of the Board.

- The Board does not consider it appropriate for the Company to arrange insurance cover in respect of legal action against the Directors.

In March 2006, the Company considered and adopted the updated AITC Code on Corporate Governance, issued in February 2006. The Company complies with the AITC Code at the year end.

All of the non-executive Directors are considered to be independent in character and judgement and, in the opinion of the Board, there are no relationships or circumstances which are likely to affect the judgement of any Director. Gordon Neilly, Robert White and Martin Hamilton-Sharp have served for more than nine years. However, the Board subscribes to the view expressed within the AITC Code that long-serving Directors should not be prevented from forming part of an independent majority, and does not consider that a Director's length of tenure reduces his ability to act independently.

Directors' fees are determined within the limits set out in the Company's Articles of Association. The present limit is £100,000 in aggregate per annum and the approval of shareholders in a General Meeting would be required to change this limit.

Director	Date of Appointment	Due date for Re-election
Robert White (Chairman)	1 February 1994	AGM 2006
Robin Angus	18 May 1984	AGM 2006
Hamish Buchan	5 July 2001	AGM 2008
Martin Hamilton-Sharp	16 November 1990	AGM 2006
Gordon Neilly	30 April 1997	AGM 2006
Ian Rushbrook	1 July 1990	AGM 2006

Any new Directors appointed during the year must stand for re-appointment at the first Annual General Meeting following their appointment. Non-executive Directors who have served on the Board for more than nine years retire annually, as do Ian Rushbrook and Robin Angus, the two executive Directors. All other Directors retire by rotation at least every three years. Other than for the two executive Directors there is no notice period and no provision for compensation on early termination of appointment.

During the year there were six Board meetings, each of which was attended by all of the Directors except Gordon Neilly, who attended five meetings.

CORPORATE GOVERNANCE *(CONT'D)*

Only the two Directors with executive duties, Ian Rushbrook and Robin Angus, have contracts of service with the Company. Details of the service contracts with the two executive Directors, their remuneration, and fees paid to other Directors during the year, are shown in the Directors' Remuneration Report.

Individual Directors may, after having obtained the consent of one other Director, seek independent professional advice at the Company's expense on any matter that concerns the furtherance of their duties.

Voting on corporate resolutions of companies in which the Company invests is a matter for the whole Board. All resolutions on which the Company is entitled to vote are monitored and although normally the Company would vote in favour of all Board resolutions, any contentious matters are referred to the Directors by e-mail for comment. Any Director disagreeing that the Company should cast an affirmative vote informs the Company Secretary and requests that his view be considered by a sub-committee of the Board consisting of any two Directors (not to include the Managing Director unless a quorum would otherwise be unavailable in time). The sub-committee then considers the matter and informs the Director of its conclusion. Should the Director disagree with the sub-committee's conclusion, a full Board meeting is called to consider the matter.

The Board welcomes the views of shareholders and places great importance on communications with them. The Managing Director reports back to the Board on meetings with shareholders and the Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Board.

The full Board, in carrying out the responsibilities of an audit committee, reviews the Annual and Interim Accounts, the system of internal controls, and the terms of appointment of the auditors together with their remuneration. The Board also reviews the objectivity of the auditors together with the terms under which they are appointed to perform non-audit services. The Board reviews the scope and results of the audit, its cost effectiveness and the independence of the auditors, with particular regard to non-audit fees. Such fees amounted to £5,000 for the year ended 30 April 2006 *(2005: £5,000)* and related to the provision of taxation services. Notwithstanding such services the Board considers Ernst & Young LLP to be independent of the Company.

F&C Asset Management plc ("F&C") provides secretarial and other corporate services to the Company.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. It has, therefore, established an ongoing process designed to meet the particular needs of the Company, as well as the risks to which it is exposed, and which is consistent with the guidance provided by the Turnbull Committee. Based principally on F&C's existing risk based system of internal control, this approach seeks to identify two broad categories of risk: inherent, driven by business type; and strategic, driven by business development. These are then used to create a test matrix which identifies the key functions carried out by the Company, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. The test matrix is regularly updated. A formal annual review of these procedures is carried out by the Board, based on the reports from F&C and other service providers and discussions with the Managing Director and external auditors. Such procedures have been in place throughout the year and up to the date of approval of the accounts. By their nature these procedures are designed to manage rather than eliminate risk and can only provide reasonable, but not absolute, assurance against material mis-statement or loss.

The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by F&C in the provision of secretarial and other corporate services, including their internal audit function and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets and shareholders' investment, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

The Directors believe that the Group and the Company have adequate resources to continue operating for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the accounts.

DIRECTORS' REMUNERATION REPORT

POLICY ON DIRECTORS' REMUNERATION

As stated under Corporate Governance on page 21, the Board does not consider it appropriate for the Company to have a separate Remuneration Committee as recommended by the AITC Code. Other than Ian Rushbrook and Robin Angus, all the Directors are considered to be independent and all matters recommended for delegation to the Remuneration Committee are considered by the full Board.

The Board's policy is that fees should be sufficient to attract and retain Directors capable of managing the Company on behalf of its shareholders. Directors' fees are reviewed annually.

Other than the two executive Directors, Directors do not have service contracts, but new Directors are provided with a letter of appointment.

No Directors are eligible for pension benefits, share options, long-term incentive schemes or other benefits.

DIRECTORS' FEES

Following review of the level of Directors' fees for the forthcoming year the Board concluded that the amounts should remain unchanged.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Ian Rushbrook has a rolling twelve month contract of employment, signed in July 1990.

His salary, payable quarterly in advance, is calculated as the residual of 0.2125% per quarter of shareholders' funds after deduction of the secretarial fee payable to F&C Asset Management plc, the salary of Robin Angus as an executive Director and the salaries of other employees, the provision of office premises, consultancy fees and any other costs pertaining to the investment management of Personal Assets. In the event of early termination of Ian Rushbrook's contract of employment the Company would be liable to pay due entitlement of money in lieu of notice.

Robin Angus has a rolling twelve month contract of employment. His salary is payable monthly in arrears and is financed as stated above. Therefore, no costs would be incurred by the Company in the event of early termination of his contract, for so long as Ian Rushbrook remains Managing Director.

DIRECTORS' REMUNERATION FOR THE YEAR (AUDITED)

The Directors received remuneration from fees and salaries as follows:

Director	**2006**	**2005**
Robert White (Chairman)	£22,000	£20,000
Robin Angus	£146,000*	£139,000*
Hamish Buchan	£11,000	£10,000
Martin Hamilton-Sharp	£11,000	£10,000
Gordon Neilly	£11,000	£10,000
Ian Rushbrook	£1,113,000†	£840,000†
Total	£1,314,000	£1,029,000

* The remuneration of £146,000 *(2005: £139,000)* received by Robin Angus consisted of a salary of £135,000 *(2005: £129,000)* and a Director's fee of £11,000 *(2005: £10,000)*.

† The remuneration of £1,113,000 *(2005: £840,000)* received by Ian Rushbrook consisted of a salary of £1,102,000 *(2005: £830,000)* and a Director's fee of £11,000 *(2005: £10,000)*. An additional amount of £100,000 *(2005: £100,000)* was paid by the Company for the provision of office premises, to a partnership of which Ian Rushbrook is senior partner.

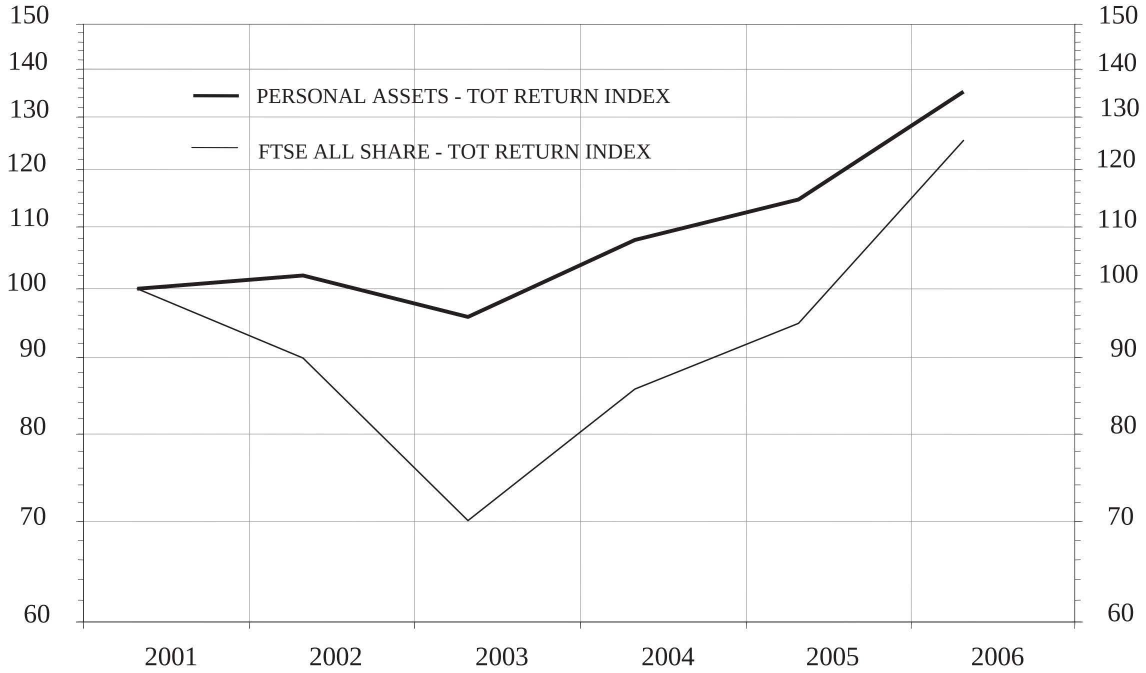
During the year Ian Rushbrook reimbursed Personal Assets Trust ("PAT") for all costs incurred by PAT in relation to the Scheme of Arrangement with Collective Assets Trust ("CAT") by which PAT acquired the assets of CAT. These costs amounted to £161,000.

All other amounts shown in the above table relate to Directors' fees.

COMPANY PERFORMANCE

The graph below compares, for the five financial years ended 30 April 2006, the total return (assuming all dividends were reinvested) to ordinary shareholders in each period compared to the total shareholder return on a notional investment in the FTSE All-Share Index. This index represents a comparable broad equity market index and is the Company's benchmark. An explanation of the performance of the Company for the year ended 30 April 2006 is given in the Chairman's Statement and Managing Director's Report.

Share Price and FTSE All-Share Index Total Return Performance Graph



On behalf of the Board

Robert P White
Chairman

26 May 2006

GROUP INCOME STATEMENT

	Notes	Year ended 30 April 2006 Revenue return £'000	Capital return £'000	Total £'000	Year ended 30 April 2005 Revenue return £'000	Capital return £'000	Total £'000
Investment income	2	4,075	–	4,075	2,667	–	2,667
Other operating income	2	593	–	593	430	–	430
Gains on investments held at fair value through profit or loss *	10	–	22,296	22,296	–	2,226	2,226
Gains on derivatives held at fair value through the profit or loss		–	6,255	6,255	–	1,924	1,924
Foreign exchange differences		–	(3,625)	(3,625)	–	3,824	3,824
Total income		4,668	24,926	29,594	3,097	7,974	11,071
Expenses	4	(1,958)	–	(1,958)	(775)	(837)	(1,612)
Profit before taxation		2,710	24,926	27,636	2,322	7,137	9,459
Taxation	6,7	11	–	11	(76)	41	(35)
Profit for the year		2,721	24,926	27,647	2,246	7,178	9,424
Earnings per share	9	£3.78	£34.61	£38.39	£3.41	£10.88	£14.29
Dividends per share		£3.70			£3.40		
Dividends paid out of current year income		£'000			£'000		
First interim dividend of £1.80 per share *(2005: £1.60 per share)*		1,306			1,044		
Second interim dividend of £1.90 per share *(2005: £1.80 per share)*		1,393			1,219		
		2,699			2,263		

The 'Total' column of this statement represents the Group's Income Statement, prepared in accordance with IFRSs. Under IFRSs the Income Statement is the equivalent of the Statement of Total Return

The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Trust Companies.

All items in the above statement derive from continuing operations.

* This represents realised and unrealised gains on investments during the year.

BALANCE SHEETS

	Notes	Group 30 April 2006 £'000	Company 30 April 2006 £'000	Group 30 April 2005 £'000	Company 30 April 2005 £'000
Non current assets					
Investments held at fair value through profit or loss *	10	170,360	170,265	146,115	145,940
Current assets					
Other receivables	11	3,732	3,905	719	894
Cash and cash equivalents		15,391	15,313	5,875	5,853
Total assets		189,483	189,483	152,709	152,687
Current liabilities					
Other payables	12	(132)	(132)	(1,712)	(1,690)
Net assets		189,351	189,351	150,997	150,997
Capital and reserves					
Ordinary share capital	13	9,240	9,240	8,465	8,465
Share premium		89,336	89,336	70,813	70,813
Capital redemption reserve		483	483	219	219
Special reserve (distributable)		17,589	17,589	22,526	22,526
Other capital reserves		69,769	70,586	44,843	45,762
Revenue reserve		2,934	2,117	4,131	3,212
Total equity		189,351	189,351	150,997	150,997
Net asset value per ordinary share	14	£256.14	£256.14	£222.98	£222.98

The financial statements were approved by the Board of Directors and authorised for issue on 26 May 2006. They were signed on its behalf by:

Robert P White, Chairman

* This represents investments held at the year end valued at bid price.

GROUP STATEMENTS OF CHANGES IN EQUITY

	Notes	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Balance as at 30 April 2005		8,465	70,813	219	22,526	44,843	4,131	150,997
Profit for the year		–	–	–	–	24,926	2,721	27,647
Ordinary dividends paid	8	–	–	–	–	–	(3,918)	(3,918)
Issue of ordinary shares	13	1,039	18,523	–	–	–	–	19,562
Buy-backs of ordinary shares	13	(264)	–	264	(4,937)	–	–	(4,937)
Balance as at 30 April 2006		9,240	89,336	483	17,589	69,769	2,934	189,351

	Notes	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Balance as at 30 April 2004		8,016	62,355	157	23,588	37,725	2,929	134,770
IFRSs adjustments		–	–	–	–	(60)	1,026	966
Restated balance as at 1 May 2004		8,016	62,355	157	23,588	37,665	3,955	135,736
Profit for the year		–	–	–	–	7,178	2,246	9,424
Ordinary dividends paid	8	–	–	–	–	–	(2,070)	(2,070)
Issue of ordinary shares	13	511	8,458	–	–	–	–	8,969
Buy-backs of ordinary shares	13	(62)	–	62	(1,062)	–	–	(1,062)
Balance as at 30 April 2005		8,465	70,813	219	22,526	44,843	4,131	150,997

The Accounting Policies on pages 30 to 31 and the Notes on pages 31 to 40 form part of these accounts

COMPANY STATEMENTS OF CHANGES IN EQUITY

	Notes	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Balance as at 30 April 2005		8,465	70,813	219	22,526	45,762	3,212	150,997
Profit for the year		–	–	–	–	24,824	2,823	27,647
Ordinary dividends paid	8	–	–	–	–	–	(3,918)	(3,918)
Issue of ordinary shares	13	1,039	18,523	–	–	–	–	19,562
Buy-backs of ordinary shares	13	(264)	–	264	(4,937)	–	–	(4,937)
Balance as at 30 April 2006		9,240	89,336	483	17,589	70,586	2,117	189,351

	Notes	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Balance as at 30 April 2004		8,016	62,355	157	23,588	38,567	2,087	134,770
IFRSs adjustments		–	–	–	–	(60)	1,026	966
Restated balance as at 1 May 2004		8,016	62,355	157	23,588	38,507	3,113	135,736
Profit for the year		–	–	–	–	7,255	2,169	9,424
Ordinary dividends paid	8	–	–	–	–	–	(2,070)	(2,070)
Issue of ordinary shares	13	511	8,458	–	–	–	–	8,969
Buy-backs of ordinary shares	13	(62)	–	62	(1,062)	–	–	(1,062)
Balance as at 30 April 2005		8,465	70,813	219	22,526	45,762	3,212	150,997

The Accounting Policies on pages 30 to 31 and the Notes on pages 31 to 40 form part of these accounts

CASH FLOW STATEMENTS

	Group Year ended 30 April 2006 £'000	Company Year ended 30 April 2006 £'000	Group Year ended 30 April 2005 £'000	Company Year ended 30 April 2005 £'000
Cash flows from operating activities				
Profit before taxation	27,636	27,656	9,459	9,437
Gains on investments	(28,551)	(28,449)	(4,150)	(4,227)
Foreign exchange differences at fair value through the profit or loss	3,625	3,625	(3,824)	(3,824)
Operating cash flow before movements in working capital	2,710	2,832	1,485	1,386
Increase in other receivables	(132)	(132)	(86)	(86)
Increase/(decrease) in other payables	4	4	(5)	3
Net cash from operating activities before taxation	2,582	2,704	1,394	1,303
Taxation	(11)	–	(42)	(22)
Net cash inflow from operating activities	2,571	2,704	1,352	1,281
Investing activities				
Purchase of FTSE 100 Futures	(6)	(6)	(9)	(9)
Disposal of FTSE 100 Futures	4,579	4,579	4,006	4,006
Purchase of investments – equity shares	(14,302)	(14,253)	(8,867)	(8,554)
Purchase of investments – fixed interest and other investments	(173,651)	(173,651)	(336,037)	(336,037)
Disposal of investments – equity shares	3,611	3,373	3,779	3,728
Disposal of investments – fixed interest and other investments	187,953	187,953	332,303	332,303
Net cash inflow/(outflow) from investing activities	8,184	7,995	(4,825)	(4,563)
Financing activities				
Equity dividends paid	(3,918)	(3,918)	(2,070)	(2,070)
Issue of ordinary shares	14,002	14,002	6,153	6,153
Buy-backs of ordinary shares	(4,937)	(4,937)	(1,062)	(1,062)
Net cash inflow from financing activities	5,147	5,147	3,021	3,021
Increase/(decrease) in cash and cash equivalents	15,902	15,846	(452)	(261)
Cash and cash equivalents at the start of the year	5,875	5,853	6,201	5,988
Effect of foreign exchange rate changes	(6,386)	(6,386)	126	126
Cash and cash equivalents at the end of the year	15,391	15,313	5,875	5,853

The Accounting Policies on pages 30 to 31 and the Notes on pages 31 to 40 form part of these accounts

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with such interpretations by the International Accounting Standards and Standing Interpretations Committee as have been approved by the International Accounting Standards Committee ("IASC") and still remain in effect, to the extent that these have been adopted by the European Union.

The disclosures required by First-time Adoption of International Financial Reporting Standards ("IFRS1") concerning the transition from UK GAAP to IFRSs are given in notes 22–23.

The principal accounting policies adopted are set out below. Where the presentational guidance set out in the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Trust Companies ("the AITC") in December 2005 is consistent with the requirements of IFRSs, the Directors have sought to prepare the financial statements on a basis compliant with the recommendation of the SORP.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries) made up to 30 April each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Presentation of Income Statement

In order better to reflect the activities of an investment trust company, and in accordance with guidance issued by the AITC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend. Additionally, the net profit is the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 842 of the Income and Corporation Taxes Act 1988.

Income

Dividends are recognised as income when the shareholders' right to receive payment has been established, normally the ex-dividend date.

Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend is recognised as income.

Interest income is accounted for on an accruals basis.

Expenses

All expenses are accounted for on an accruals basis and are charged fully to revenue.

Transaction costs incurred on the acquisition or disposal of investments are expensed.

Taxation

In accordance with the SORP, the marginal rate of tax is applied to taxable net revenue.

Deferred Taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Investments held at fair value through profit or loss

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within a timeframe established by the market concerned, and are initially measured at fair value.

Investments are designated as investments held at fair value through the profit or loss, and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Investments in unit trusts or OEICs are valued at the closing price released by the relevant investment manager.

Unquoted investments are valued by the Directors at the lower of cost or market value, based on all information available to them at the time of valuation.

Foreign Currency

Transactions denominated in foreign currencies are recorded at the actual exchange rate as at the date of the transaction.

Monetary assets denominated in foreign currencies at the year end are reported at fair value by using the rate of exchange prevailing at the year end.

Forward currency contracts are reported at fair value at the year end by using the rates of exchange prevailing at the year end.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is a contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Financial liabilities and equity instruments are recorded at the proceeds received, net of issue costs.

2. INCOME

	2006 £'000	**2005 £'000**
Income from investments		
Franked investment income	2,977	2,069
Investment income from fixed interest securities	–	17
Overseas dividends	1,098	581
	4,075	2,667
Other income		
Deposit interest	498	382
Other income	95	48
Total income	4,668	3,097
Total income comprises		
Dividends	4,075	2,650
Fixed interest securities	–	17
Other income	593	430
	4,668	3,097
Income from investments		
Listed UK	2,977	2,086
Listed overseas	1,098	581
	4,075	2,667

3. BUSINESS SEGMENT

The Directors are of the opinion that the Group is engaged in a single segment of business of investing in equity shares, fixed interest securities and other investments.

4. EXPENSES

	2006			2005		
	Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Management Expenses	1,561	–	1,561	451	837	1,288
Directors' fees	77	–	77	70	–	70
Auditors' remuneration for:						
– audit	16	–	16	12	–	12
– other services	5	–	5	5	–	5
Other expenses	299	–	299	237	–	237
	1,958	–	1,958	775	837	1,612

5. DIRECTORS' FEES AND STAFF COSTS

	2006 £'000	**2005 £'000**
Directors' fees and salaries (details of the highest paid Director can be found in the Directors' Remuneration Report on pages 23–24).	1,314	1,029
Other salaries	67	74
Employer's national insurance	145	141
	1,526	1,244

Excluding the Directors, there was one employee during each of the years ended 30 April 2006 and 30 April 2005.

6. TAX ON ORDINARY ACTIVITIES

	2006			2005		
	Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Corporation tax at 30 % *(2005: 30%)*	–	–	–	60	(41)	19
Foreign tax suffered	11	–	11	16	–	16
Prior year adjustment	(22)	–	(22)	–	–	–
	(11)	–	(11)	76	(41)	35

The Company had £958,118 unrelieved excess expenses at 30 April 2006 *(2005: £643,256)*. It is uncertain whether the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset in respect of these expenses has been recognised.

7. FACTORS AFFECTING TAX CHARGE FOR YEAR

The revenue account tax charge for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2006 £'000	2005 £'000
Return on ordinary activities before taxation	2,710	2,322
Corporation tax at standard rate of 30%	813	697
Effects of:		
Franked investment income not subject to taxation	(893)	(621)
Excess management expenses	80	–
Prior year adjustment	(22)	–
Withholding tax suffered	11	–
Current tax year charge (note 6)	(11)	76

8. DIVIDENDS

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders in the year:		
Second interim dividend for the year ended 30 April 2005 of £1.80 *(2004: £1.60)* per ordinary share	1,219	1,026
Interim dividend for the year ended 30 April 2006 of £1.80 *(2005: £1.60)* per ordinary share	1,306	1,044
Second interim dividend for the year ended 30 April 2006 of £1.90 per ordinary share	1,393	–
	3,918	2,070
Proposed second interim dividend for the year ended 30 April 2005 of £1.80 per ordinary share	–	1,219

9. RETURN PER SHARE

	2006			2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	£3.78	£34.61	£38.39	£3.41	£10.88	£14.29

The revenue return per share is based on the net revenue profit for the financial year of £2,721,000 *(2005: £2,246,000)*, and on 720,152 *(2005: 659,358)* shares, being the weighted average number in issue during the year.

The capital return per share is based on a net capital gain for the financial year of £24,926,000 *(2005: £7,178,000)*, and on 720,152 *(2005: 659,358)* shares, being the weighted average number in issue during the year.

10. INVESTMENTS

	Group 2006 £'000	Group 2005 £'000
Investments listed on a recognised investment exchange	170,360	146,115

	Group Listed UK £'000	Group Listed Overseas £'000	Group Total £'000
Opening book cost	50,686	85,495	136,181
Opening unrealised appreciation	7,829	2,105	9,934
Opening valuation	58,515	87,600	146,115
Movements in the year			
Purchases at cost	18,694	174,819	193,513
Sales proceeds	(3,366)	(188,198)	(191,564)
Sales – realised gains on sales	906	7,647	8,553
Increase/(decrease) in unrealised appreciation	14,031	(288)	13,743
Closing valuation	88,780	81,580	170,360
Closing book cost	66,920	79,763	146,683
Closing unrealised appreciation	21,860	1,817	23,677
	88,780	81,580	170,360

	Group 2006 £'000	Group 2005 £'000
Equity shares	93,372	62,058
Fixed interest securities	54,930	62,768
Other investments	22,058	21,289
	170,360	146,115
Realised gains/(losses) on sales	8,553	(445)
Increase in unrealised appreciation	13,743	2,671
Gains on investments	22,296	2,226

Transaction costs

During the year the Group incurred transaction costs of £99,948 on the purchase and sale of investments *(2005:£42,809)*.

10. INVESTMENTS *(CONT'D)*

	Company 2006 £'000	Company 2005 £'000
Investments listed on a recognised investment exchange	169,447	144,977
Subsidiary undertakings	818	963
Total investments	170,265	145,940

	Company Listed UK £'000	Listed Overseas £'000	Unlisted £'000	Total £'000
Opening book cost	50,652	84,415	13	135,080
Opening unrealised appreciation	7,808	2,102	950	10,860
Opening valuation	58,460	86,517	963	145,940
Movements in the year				
Purchases at cost	18,694	174,770	–	193,464
Sales proceeds	(3,332)	(187,982)	(12)	(191,326)
Sales – realised gains on sales	906	7,647	–	8,553
Increase/(decrease) in unrealised appreciation	14,052	(285)	(133)	13,634
Closing valuation	88,780	80,667	818	170,265
Closing book cost	66,920	78,850	1	145,771
Closing unrealised appreciation	21,860	1,817	817	24,494
	88,780	80,667	818	170,265

	Company 2006 £'000	Company 2005 £'000
Equity shares	94,190	62,962
Fixed interest securities	54,930	62,768
Other investments	21,145	20,210
	170,265	145,940
Realised gains/(losses) on sales	8,553	(463)
Increase in unrealised appreciation	13,634	2,766
Gains on investments	22,187	2,303

Transaction costs

During the year the Company incurred transaction costs of £99,948 on the purchase and sale of investments *(2005:£42,809)*.

11. OTHER RECEIVABLES

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Due from subsidiary	–	173	–	175
Gain on forward currency contract	2,705	2,705	–	–
Gain on FTSE 100 Future	176	176	–	–
Prepayments and accrued income	756	756	614	614
Other debtors	95	95	105	105
	3,732	3,905	719	894

12. OTHER PAYABLES

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Liability on forward currency contract	–	–	56	56
Loss on FTSE 100 Future	–	–	1,506	1,506
Tax payable	–	–	22	–
Other creditors	132	132	128	128
	132	132	1,712	1,690

13. CALLED-UP SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised:		
1,000,000 *(2005: 1,000,000)* ordinary shares of £12.50 each	12,500	12,500
Allotted, called-up and fully paid:		
677,185 ordinary shares of £12.50 each at 30 April 2005	8,465	
Shares issued in respect of allotments	1,039	
Bought back for Treasury	(264)	
739,234 ordinary shares of £12.50 each at 30 April 2006	9,240	

During the year 83,122 shares were allotted, including 11,513 shares from Treasury, raising £19,562,000.

Of the 83,122 shares allotted, 24,024 shares were allotted for non cash consideration of £5,560,000. All other shares allotted during the year were allotted for cash.

During the year 21,073 shares were bought back at a cost of £4,937,000. These shares were placed in Treasury. Following the re-issue of 11,513 of these shares there are 9,560 shares held in Treasury at the year end.

14. NET ASSET VALUE PER SHARE

The net asset value per ordinary share and the net asset value attributable to the ordinary shares at the year end were as follows:

	Net asset value per share attributable		Net asset value attributable	
	2006	**2005**	**2006**	**2005**
	£	**£**	**£'000**	**£'000**
Ordinary shares	256.14	222.98	189,351	150,997

Net asset value per ordinary share is based on net assets shown above and 739,234 *(2005: 677,185)* ordinary shares, being the number of ordinary shares in issue at the year end.

At the year end the Company held 9,560 ordinary shares in Treasury. To avoid any dilution of existing shareholders' interests, the Company will not re-issue these shares at below net asset value per share.

15. FINANCIAL INSTRUMENTS

The Group holds investments in listed companies and fixed interest securities, and holds cash balances. It also invests in FTSE 100 Futures and may from time to time enter into forward currency contracts. Cash balances are held for future investment and forward currency contracts are used to manage the exchange risk of holding foreign investments. Further information is given in *The Board's Policies for Personal Assets* on pages 9–10.

The fair value of all financial assets and liabilities is not materially different from the carrying value. Forward currency contracts are valued at current exchange rates.

16. INTEREST RATE RISK

Floating Rate

When the Group holds cash balances, such balances are held on overnight deposit accounts and call deposit accounts. The Group also invests in Standard Life Sterling Fund. The benchmark rate which determines the interest payments received on cash balances and income from Standard Life Sterling Fund is the bank base rate, which at 30 April 2006 was 4.50% in the UK *(2005: 4.75%)*.

Floating interest rate exposure at 30 April:	**2006** **£'000**	**2005** **£'000**
Sterling	37,449	27,164

Fixed rate and zero rate

The Group may from time to time hold fixed interest or zero interest investments.

	£'000	**Period to maturity**
At 30 April 2006 the Group held:		
0% US Treasury Strip 15/05/2006	54,930	15 days
At 30 April 2005 the Group held:		
0% US Treasury Strip 15/05/2005	62,768	15 days

NOTES TO THE ACCOUNTS *(CONT'D)*

17. LIQUIDITY RISK

The Group's assets mainly comprise readily realisable securities which can be sold to meet commitments if necessary.

18. CREDIT RISK

The Group's principal financial assets are investments, bank balances, cash and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no concentration of credit risk and exposure is spread over a large number of counterparties.

19. MARKET PRICE RISK

The management of market price risk is part of the fund management process and is fundamental to equity investment. The portfolio is managed with an awareness of the effects of adverse price movements in the UK equity market with an objective of maximising overall returns to shareholders.

The Company continued to use derivatives during the year. These contracts were specifically entered into to reduce the Company's effective liquidity and increase equity exposure to FTSE 100 companies.

Further information is given in *The Board's Policies For Personal Assets* on pages 9–10.

20. FOREIGN CURRENCY RISK

The Group invests in overseas securities.

Currency exposure at 30 April:	**2006 £'000**	**2005 £'000**
US Dollars		
Fixed asset investments	59,522	66,313

At 30 April 2006 the Sterling cost of the US Treasury Strip and US equity exposure was protected by a forward currency contract. The gain of £2,705,000 *(2005: liability of £56,000)* on the U$107,500,000 *(2005: U$ 126,700,000)* sold forward against £61,842,000 *(2005: £66,327,000)* is included in debtors *(2005: creditors)*.

21. SUBSIDIARY UNDERTAKINGS

As at 30 April 2006, Personal Assets Trust's subsidiary undertakings, which have been consolidated, were as follows:

Company	**Country of Incorporation & Operation**	**Description of shares held**	**% of Class held**	**% of Equity held**	**Value 30 April 2006**
The Edinburgh Agency Ltd	Scotland	Ordinary £1 shares	100.0	100.0	£818,000
Personal Assets Investments Ltd	Scotland	Ordinary £1 shares	100.0	100.0	£nil

The Edinburgh Agency Ltd generates revenue from the development of investment ideas. Its revenues for the year to 30 April 2006 amounted to £91,000 *(2005: £87,000)* and its profits after tax (incorporating prior year adjustment) amounted to £107,000 *(2005: £87,000)*.

Personal Assets Investment Ltd undertakes investment activities. Its revenues for the year to 30 April 2006 amounted to £27,000 *(2005: £11,000)* and its profits after tax (incorporating prior year adjustment) amounted to £32,000 *(2005: £11,000)*. During the year the Company paid two dividends, totalling £284,000, to Personal Assets Trust plc.

22. RESTATEMENT OF OPENING BALANCES AS AT 30 APRIL 2004

With effect from 1 May 2004 the Company has adopted International Financial Reporting Standards ("IFRSs"). In accordance with IFRS1 the following is a summary of the results as at and for the year ended 30 April 2004, previously reported under UK GAAP, and a reconciliation to the restated IFRSs results.

Investments were designated as held at fair value under IFRSs and are carried at bid prices which equate to their fair value of £132,251,000. Previously, under UK GAAP, they were carried at mid prices. The aggregate difference is a revaluation downwards of £60,000.

No provision has been made for the second interim dividend on the ordinary shares for the year ended 30 April 2004 of £1.60 per share. Under IFRSs, dividends are not recognised until paid.

The previous headings of *Capital Reserve — realised* and *Capital Reserve — unrealised* are now included under the heading *Capital reserves*.

23. (a) RESTATEMENT OF BALANCES AS AT AND FOR THE YEAR ENDED 30 APRIL 2005

With effect from 1 May 2004 the Company has adopted IFRSs. In accordance with IFRS1 the following is a summary of the results as at and for the year ended 30 April 2005, previously reported under UK GAAP, and a reconciliation to the restated IFRSs results.

Investments are designated as held at fair value under IFRSs and are carried at bid prices which equate to their fair value of £146,115,000. Previously, under UK GAAP, they were carried at mid prices. The aggregate difference is a revaluation downwards of £56,000.

No provision has been made for the first interim dividend on the ordinary shares for the period ended 30 April 2005 of £1.80 per share. The second interim dividend paid in respect of the year ended 30 April 2004 of £1.60 per share is now provided for in this period. Under IFRSs, dividends are not recognised until paid.

The previous headings of *Capital Reserve — realised* and *Capital Reserve — unrealised* are now included under the heading *Capital reserves*.

23. (b) RECONCILIATION OF THE STATEMENT OF TOTAL RETURN TO THE INCOME STATEMENT FOR THE YEAR ENDED 30 APRIL 2005

Under IFRSs the Income Statement is the equivalent of the Statement of Total Return reported previously.

	Notes	2005 £'000	EPS impact in pounds
Total transfer to reserves per the Statement of Total Return		7,157	–
Add back dividends paid and declared	1	2,263	–
Investments held at fair value changed from mid to bid basis at 30 April 2004	2	60	0.09
Investments held at fair value changed from mid to bid basis at 30 April 2005	2	(56)	(0.09)
Net profit per the Income Statement		9,424	–

Notes to the reconciliation

1. Ordinary dividends paid during the period are dealt with through the *Statement of Changes in Equity*.
2. The portfolio valuations at 30 April 2004 and 30 April 2005 are required to be valued at fair value under IFRSs. These values are lower than the previous valuations by £60,000 and £56,000 respectively.

NOTES TO THE ACCOUNTS *(CONT'D)*

23. (c) RESTATEMENT OF BALANCES OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 30 APRIL 2005

Tax paid of £20,000 is now allocated to operating activities under IFRSs. Previously, under UK GAAP, taxation was shown separately.

Ordinary dividends paid of £2,070,000 are now allocated to financing under IFRSs. Previously, under UK GAAP, dividends were shown separately.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the company and of the group and the financial performance and cash flows of the company and of the group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- provide additional disclosures when compliance with the specific requirements in the IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and performance; *and*
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

Independent Auditor's Report to the Members of Personal Assets Trust plc

We have audited the group and parent company financial statements ("the financial statements") of Personal Assets Trust plc for the year ended 30 April 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Change in Shareholders' Equity and the related notes 1–23. 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 are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as 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, 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 Article 4 of the IAS Regulation and that the information given in the Directors' Report is consistent with the financial statements.

We also 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 information specified by law regarding directors' remuneration and other transactions are not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC 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 group'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 Key Features, Performance 1990–2006, About Personal Assets, Corporate Information, Board of Directors, Chairman's Statement, Managing Director's Report, The Board's Policies for Personal Assets, Investment Trusts for Individual Investors, Ways of Investing in Personal Assets, Portfolio Comparisons for the Year to 30 April 2006, Record 1983–2006, Directors' Report, Business Review for the Year to 30 April 2006, Corporate Governance, Directors' Remuneration Report and 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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.

INDEPENDENT AUDITORS' REPORT *(CONT'D)*

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 April 2006 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 April 2006;
- 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 Article 4 of the IAS Regulation; *and*
- the information given in the Directors' Report is consistent with the financial statements.

ERNST & YOUNG LLP

Registered Auditor, Edinburgh

26 May 2006

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 25th Annual General Meeting ("AGM") of Personal Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh, on Wednesday 19 July 2006 at 12 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. That the Report and Accounts for the year to 30 April 2006 be received.
2. That the Directors' Remuneration Report for the year to 30 April 2006 be approved.
3. That Gordon Neilly, who retires from office annually, be re-elected as a Director.
4. That Robert White, having attained the age of 70 and who retires from office annually, be re-elected as a Director.
5. That Martin Hamilton-Sharp, who retires from office annually, be re-elected as a Director.
6. That Ian Rushbrook, who retires from office annually, be re-elected as a Director.
7. That Robin Angus, who retires from office annually, be re-elected as a Director.
8. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.
9. That the Directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £923,450.00 in substitution for any existing authority under section 80 of the Act but without prejudice to any exercise of any such authority prior to the date hereof, such authority to expire on 19 October 2007 or, if earlier, at the conclusion of the date of the Company's AGM to be held in 2007, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, before such expiry, make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry, and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

To consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions:

10. That subject to the passing of resolution numbered 9 in the notice of the meeting and in place of all existing powers the Directors be generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of sections 94(2) to section 94(3A) of the Act) for cash, pursuant to the authority conferred by resolution numbered 9 in the notice of the meeting as if section 89(1) of the Act did not apply to the allotment. This power:

    a) expires on 19 October 2007 or, if earlier, at the conclusion of the Company's AGM to be held in 2007, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if this power had not expired; *and*

    b) shall be limited to:

    i) the allotment of equity securities in connection with an issue in favour of holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of ordinary shares, but subject to such exclusions or other arrangements as the Directors deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of a regulatory body or stock exchange; *and*

    ii) the allotment of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount equal to £923,450.00.

    This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by resolution numbered 9 in the notice of the meeting" were omitted.

NOTICE OF ANNUAL GENERAL MEETING *(CONT'D)*

11. That, in substitution for any existing authority, the Company be authorised, generally and unconditionally, in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of £12.50 each ("Shares") in the share capital of the Company, provided that:

    (i) the maximum aggregate number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary share capital on the date on which this resolution is passed;

    (ii) the minimum price (exclusive of costs) which may be paid for a Share shall be £12.50;

    (iii) the maximum price (exclusive of costs) which may be paid for a Share shall be 105% 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;

    (iv) unless previously varied, revoked or renewed by the Company in general meeting, such authority shall expire on 19 October 2007 or, if earlier at the conclusion of the Company's AGM to be held in 2007, save that the Company may, before such expiry, enter into a contract to purchase Shares under such authority which will or may be completed or executed wholly or partly after such expiry and may make a purchase of Shares pursuant to any such contract as if the power conferred hereby had not expired.

12. That the existing article 150 *("Indemnity")* of the Articles of Association of the Company be deleted and replaced by the following replacement article 150:

    150. Subject to the provisions of the Statutes, the Company may maintain for any director or other officer insurance against any liability. Subject to the provisions of the Statutes, but without prejudice to any indemnity (including from the Company) to which the person concerned may otherwise be entitled, every director or other officer of the Company may, if a majority of the Board so determines, be indemnified out of the assets of the Company against any liability incurred by him as a director or other officer of the Company to the extent permitted by the Statutes. For the purposes of this Article no person appointed or employed by the Company as an auditor is an officer of the Company.

By Order of the Board

Steven K Davidson
Secretary

80 George Street
Edinburgh EH2 3BU

26 May 2006

NOTES

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on her/his behalf. Such a proxy need not be a member of the Company. A form of proxy for use by members is enclosed with this Annual Report. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. To be effective, the form of proxy, duly completed and executed, must be lodged at the address shown on the form of proxy at least 48 hours before the time of the meeting together with any power of attorney under which it is signed.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered on the Company's Register of Members by 6.00pm on 17 July 2006 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 and vote at the meeting (or 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 6.00pm on 17 July 2006 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 disregarded in determining the rights of any person to attend and vote at the meeting, notwithstanding any provision in any enactment, the Articles of Association of the Company or other instrument to the contrary.

The Articles of Association, the terms and conditions of appointment of the non-executive Directors and copies of the executive Directors' service contracts will be available for inspection at the registered office of the Company during normal business hours and at the meeting from 11.45am on 19 July 2006 until the conclusion of the meeting.

Members are requested to inform Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA of any change of address.