Personal Assets Trust PLC

Annual Report and Accounts for the Year ended 30 April 2007

Key Features

For the Year to 30 April 2007

	Change	**30 April 2007**	30 April 2006
Market Capitalisation	0.9%	**£193.4m**	£191.6m
Shareholders’ Funds	1.6%	**£192.4m**	£189.4m
Effective Liquidity	–	**50.7%**	40.8%
Share Price	2.6%	**£266.00**	£259.25
NAV per share	3.3%	**£264.70**	£256.14
FTSE All-Share Index	9.2%	**3,355.60**	3,074.26
Premium to NAV	–	**0.5%**	1.2%
Dividend per share	10.8%	**£4.10**	£3.70
Current dividend rate [1]		**£4.20**	

For the 3 Years to 30 April 2007 [2]

	Change	**30 April 2007**	30 April 2004 [3]
Market Capitalisation	40.7%	**£193.4m**	£137.5m
Shareholders’ Funds	42.7%	**£192.4m**	£134.8m
Effective Liquidity	–	**50.7%**	31.4%
Share Price	24.0%	**£266.00**	£214.50
NAV per share	25.9%	**£264.70**	£210.17
FTSE All-Share Index	50.0%	**3,355.60**	2,237.34
Premium to NAV	–	**0.5%**	2.1%
Dividend per share	32.3%	**£4.10**	£3.10

For the 7 Years to 30 April 2007 [4]

	Change	**30 April 2007**	30 April 2000 [3]
Market Capitalisation	159.2%	**£193.4m**	£74.6m
Shareholders’ Funds	160.7%	**£192.4m**	£73.8m
Effective Liquidity	–	**50.7%**	45.3%
Share Price	31.7%	**£266.00**	£202.00
NAV per share	32.5%	**£264.70**	£199.80
FTSE All-Share Index	11.8%	**3,355.60**	3,001.92
Premium to NAV	–	**0.5%**	1.1%
Dividend per share	56.2%	**£4.10**	£2.625

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[1] Double the last interim dividend of £2.10. 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

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

[3] UK GAAP. From 1st May 2004, the Company adopted International Financial Reporting Standards.

[4] See Managing Director’s Report on pages 7–8.

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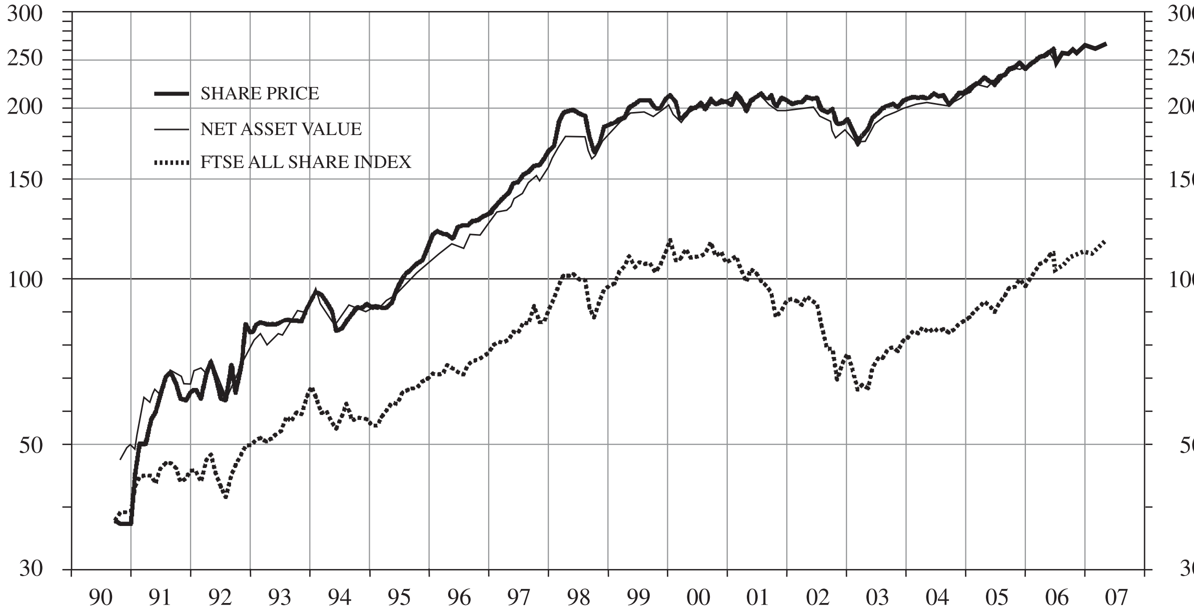
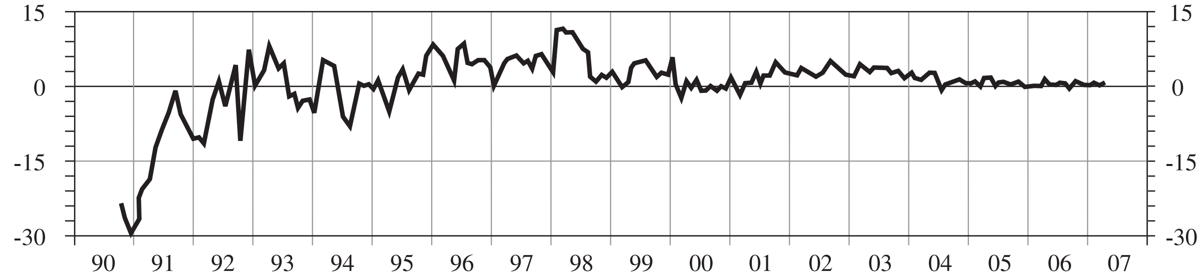
PERFORMANCE 1990-2007*

* PERSONAL ASSETS BECAME SELF MANAGED IN 1990

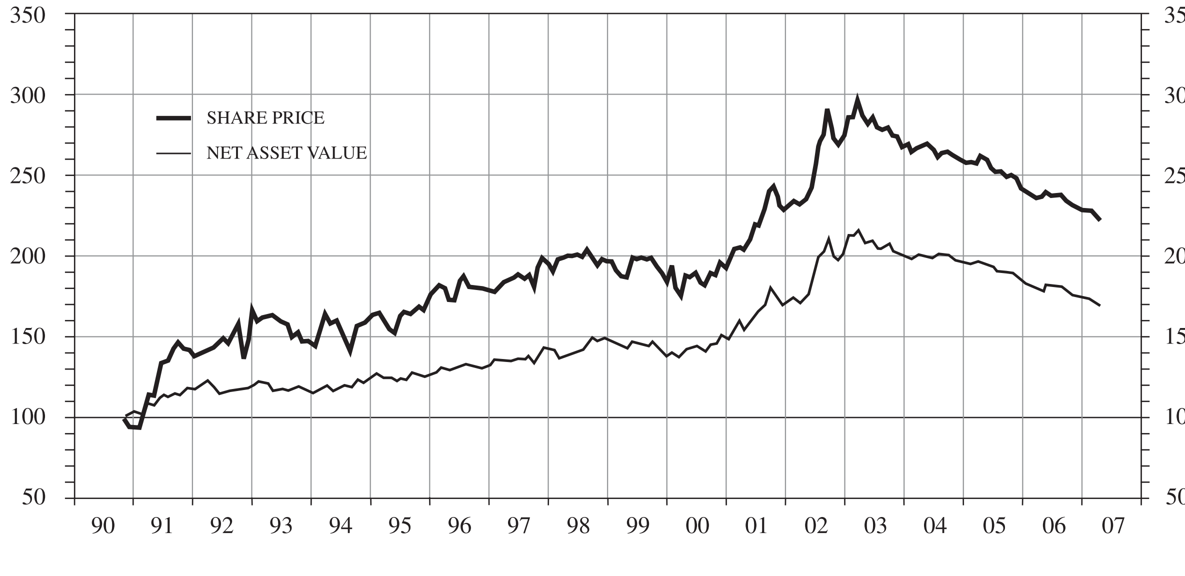
SHARE PRICE AND NET ASSET VALUE IN POUNDS VERSUS FTSE ALL-SHARE



SHARE PRICE (DISCOUNT)/PREMIUM TO NET ASSET VALUE



PERFORMANCE RELATIVE TO FTSE ALL-SHARE



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 £15.9 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 hope in due course to introduce a Self-Invested Personal Pension ("SIPP").

'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 Investment Business Ltd
80 George Street
Edinburgh EH2 3BU

Telephone: 0131 718 1000

Investment Management

Ian Rushbrook *(Managing Director)*
Robin Angus *(Executive Director)*
Steven Budge

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 718 1000

Board of Directors

Bobby White (71) 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 (54) 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 (62) 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) trust research team for many years. He is Chairman of the Association of Investment Companies.

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

Martin Hamilton-Sharp (64) 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 (46), 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 (67) has been responsible for the management of investment trusts for over 35 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 provides secretarial and administrative services to Personal Assets).

Other Trust Directorships: None

CHAIRMAN'S STATEMENT

For those with bearish leanings, as shareholders know us to have been for some time, this past year has not been very rewarding. As you will read in the Managing Director's Report, we are not about to change tack. However, we are perhaps beginning to feel like that young Scottish soldier whose mother, spectating at his passing out parade, was heard to say proudly, *'They're a' oot o' step but oor Jock!'* Bull markets are said to climb a wall of worry; but, if this is a genuine bull market rather than the sustained rally in a bear market that Ian and Robin have long alleged it to be (!), worry seems the last thing on most minds.

The price for risk seems to have been ignored for some time now and the returns from securities of very different quality diverge hardly at all. Consider Argentina, which is able to celebrate the 25th anniversary of its foiled Falkland Islands land-grab with the proceeds of another outrageous theft. In 2001, Argentina was responsible for what no less a pundit than Mr Ed Balls described in a speech last year as the biggest default in history: $100 billion, which in 2005 it magnanimously repaid at 34 cents on the dollar — $67 billion of ill-gotten loot for the Argentines. Then the President, to quote the *Financial Times*, *'bid goodbye to the* [IMF] *with a derisive "ciao"'*. One would imagine that Argentina's name would be mud in the bond markets as a result. Not so. Today this defaulting nation's 2033 *(sic)* Bond is selling on a 7.7% yield compared to 4.7% on a US Bond of comparable maturity. You must either be very young or a hedge fund manager to see value in a 3% risk premium.

As Ian makes clear, we do believe that we are now experiencing 'bubble' conditions in asset pricing. However, the strength of capitalism is its ability to cleanse itself of excess. Now that interest rates (if not Argentine bond yields!) are getting closer to the correct price it may be not too long before the cleansing process starts. Interest rates below an appropriate level are what have produced the asset bubble and the dramatic increase in 'broad money' which, in turn, is leading to inflation. This will be brought back under control only with quite painful remedies. We owe today's glut of cheap money to Alan Greenspan, who consistently refused to let the system clear itself. Politicians around the world — not least our own Gordon Brown, whose definition of 'prudence' is not to be found in any dictionary we have ever encountered — welcomed it with open arms. We, however, find it frightening.

I wrote last year that we had succeeded in avoiding the traditional danger for an investment trust experiencing a spell of underperformance — the opening up of a discount to NAV. As you know, our stated policy is to ensure that the shares of Personal Assets always trade at close to NAV. This they continued to do during the year under review, as they have done ever since the spring of 1995. In recent years, Personal Assets has been a substantial net issuer of new shares. Sceptics kept warning us, however, that our 'no discount' policy might encounter difficulties in the face of selling pressure and it has therefore been satisfying to see that our 'no discount' policy has been as easy to sustain during a year in which we were called upon to buy in more shares than we issued. This will remain true whenever, and to whatever extent, we are called upon to buy in shares in future.

Although our share price closed the year at its highest level ever, our cautious investment policy has meant that shareholders are only a little better off in capital terms than a year ago. We have, however, been able to increase the dividend by a handsome margin, significantly greater than the rate of inflation. As a result of listening to shareholders, we have been paying more attention to the income return available from a Personal Assets holding. This is seen in our Cash Income Option (see page 12) as well as a more rapidly rising dividend. Over the last three years the dividend has risen by 32%, a compound annual rate of nearly 10%, compared to a compound rate of 3.4% in the RPI. The dividend is comfortably covered by earnings and is underpinned by our substantial revenue reserve.

Chairman

MANAGING DIRECTOR'S REPORT

Over the year to 30 April 2007 the FTSE All-Share Index ("FTSE"), our benchmark, rose by 9.2% (having gained 28.3% in the previous year) while the net asset value ("NAV") of Personal Assets Trust ("PAT") increased by only 3.3%, an underperformance of some 5.4%.

Although this year's rise in the FTSE was much smaller than last year's, it surprised me far more. This is because our equity valuation model *(see later)* moved during the year from a 16% overvaluation at the beginning to an overvaluation of more than 40% at the end.

The explanation for our underperformance is simple and mirrors that of last year. We were liquid while the market rose; and our two favoured sectors, major UK Banks and Oils, failed to deliver. While the RBS Group, HBOS and Barclays on average performed in line with the FTSE, BP and Royal Dutch Shell underperformed by an astonishing 23.4% and 17.1% respectively.

In 1990 we chose the FTSE as our benchmark, against which we measure our performance on a rolling three-year basis. Three years seemed at the time to offer a reasonable period over which shareholders could monitor PAT's performance. However, last year I suggested that it failed to cover adequately the extraordinary economic circumstances from 2000 onwards.

To update my last year's analysis, our NAV has risen by 32.5% from 30 April 2000 against our benchmark's 11.8%, an outperformance of 18.5% over seven years. However, over the last three years the rise of 25.9% against our benchmark's 50.0%, representing an underperformance of 16.0%, has come as a striking and unwelcome contrast.

The disparity between the seven and three year relative performances reflects nothing other than the outcome of the application of our unchanged investment management strategy. Last year I quoted Maynard Keynes' aphorism, *'There is nothing so disastrous as the pursuit of a rational investment policy in an irrational world.'* Whilst noting Keynes' rational cynicism, I suggested that for PAT, given our objective of preservation and growth *(in that order)* of shareholders' wealth, *'There was nothing so sensible as the pursuit of a rational investment policy in an irrational world.'* And, provided we were prepared to accept ongoing relative underperformance, *'We could remain liquid longer than markets could remain irrational.'* This strategy remains in place.

So, are financial assets irrationally priced? And if so, what might be the catalyst for a reassessment of values, given that pricing is driven by ever expanding levels of credit and debt — and, hence, liquidity? Three factors are causing today's escalating liquidity and, hence, today's irrational asset prices:

1. Continuing securitisation, packaging and distribution of ever less creditworthy investments to ever more gullible investors. It is especially worrying that these include some for whom 'gullible' would normally seem the most incongruous of adjectives. Recently, UBS, the Swiss bank, following losses on US sub-prime mortgage investments, terminated its hedge fund business run by its fixed income proprietary traders, incurring a loss of around $500 million;

2. Ongoing additions to the enormous pools of high risk equity capital in hedge funds and private equity funds, the managers of which are prepared to use ever-higher gearing in pursuit of ever-diminishing returns. The dramatic increase in the 'Yen carry trade' of borrowing huge sums in Yen and investing the funds elsewhere in higher-yielding currencies or financial assets appears to have added many hundreds of billions of US Dollars to world liquidity; *and*

3. An apparent, ever-widening, belief that *momentum investing* (as demonstrated in its extremest form within the lemming community) is the optimum strategy for achieving relative performance. Robin and I, however, have some difficulty with an underlying logic that requires investors to believe that the higher prices rise, the cheaper must be the assets. Nevertheless, what is clear is that if momentum investing is the dominant strategy, then financial assets must be, *or as we would argue, have already been,* driven to levels of *'bubble'* pricing.

MANAGING DIRECTOR’S REPORT *(CONT’D)*

The second question — *‘What might be the catalyst for a substantial fall in financial markets?’* — is impossible to answer. If the world is fortunate, the catalyst may turn out to be, as ‘chaos theory’ suggests, a butterfly fluttering its wings in Peking. On the other hand, it could be as extreme as Israel’s being driven to eliminate Iran’s nuclear weapon capability. We will know only after the event.

However, the more that liquidity expands, the higher the risks increase for investors. Inflation, too, worries us more and more. Global inflationary pressures keep rising, leaving economies vulnerable to any unforeseen (and unforeseeable) market crises. In the US, core inflation at 2.4% has been well in excess of the Fed’s ‘comfort’ range of 1% to 2% for some considerable time. In the UK, the RPI has risen from 2% to 4.5% since January 2000 and the CPI from 0.8% to 2.8%. Never mind that inflation is still in single digits and seems low compared to the double-digit levels we all remember — what is important is the direction and pace of change. These increases are serious.

To demonstrate why Robin and I are quite so bearish, I have to refer to our equity valuation model. Its genesis was the 1987 Crash, when, after the event, I realised that I was unable to explain why it had happened. Obviously, for the market to fall by 30% in a matter of days it must have been overvalued — but by how much? What valuation metrics could explain a *Day One* equity market value of 100 and a *Day Three* value of 70? My challenge was how to incorporate economic and financial statistics into a model to estimate ‘fair value’ — *not* a forecast of future market levels but, rather, a reliable indicator of fundamental equity values at any time. By 1992 I believed the model to be ‘fit for purpose’ and it was first described in that year’s Annual Report. Robin discussed what it has been telling us recently in Quarterly N$^{o.}$ 44, published at the end of March this year.

Over the last 40 years, there have been seven periods where the model has shown the FTSE as being overvalued by more than 30%. The table below presents the outcomes.

Maximum overvaluation	Jan 1970	Mar 1972	Jan 1976	Jul 1987	Mar 1998	Jul 1999	May 2007
Overvaluation per model	40%	52%	30%	35%	55%	71%	45%
Month of subsequent low	Jul 1970	Dec 1974	Oct 1976	Oct 1987	Oct 1998	Mar 2003	When?
FTSE All-Share fall to low	(28%)	(70%)	(32%)	(33%)	(25%)	(45%)	Awaited!

In summary, UK equities according to our model are now overvalued by 45%, long-dated gilts by 34% and long index-linked gilts by 70%. Given such an overvaluation of all three classes of financial assets, our largest investment is liquidity, at 51% of shareholders’ funds (up from 41% last year).

Last year, I described the *‘The White Queen’s Six Impossible Things’* needed for equity markets to avoid disaster. In summary — foreign investors would continue to fund a US current account deficit of over $800 billion per annum; the dollar wouldn’t collapse and inflation wouldn’t escalate; the oil price would fall; the US government wouldn’t be forced to cut the Federal deficit; the US housing market wouldn’t collapse and consumers would continue to borrow to spend; and, lastly, the extraordinarily low real rates of return on financial assets wouldn’t revert to mean. Alas! The White Queen, in believing her six impossible things, would have achieved a far better performance for PAT in the year to end April 2007 than I managed. However, these ‘six impossible things’ remain major threats.

Most investors justify the prices of financial assets in terms of a benign global environment of high economic growth, stable inflation and low interest rates. We don’t share their Panglossian fervour that *‘all is for the best, in the best of all possible worlds’*. We believe the world’s financial system faces serious systemic threats and that the risks and dangers increase with every upward ratchet in liquidity levels and every consequential increase in financial asset pricing.

Pekingese, Pomeranian or Pug, it matters not which we are, but to paraphrase the Arabic proverb, *‘The dogs may bark, but the [financial] caravan moves on.’*

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 above aggressively 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 over 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 Steven Budge 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 £9,200 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 2007 1,181 account holders held Personal Assets ISAs worth a total of £25.8 million, representing 13.3% of the Company's shares in issue. At the same date, Personal Assets' ISAs, PEPs and Investment Plans were valued in total at £83.5 million and represented 43.2% 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 2007 Budget, shareholders will be able to invest £7,000 in a Personal Assets ISA in this financial year and £7,200 (subject to change by the government) in following years. Such investments may be made by way of a lump sum or by monthly direct debit.
- Existing PEPs were unaffected by the launch of ISAs and will retain their separate existence until April 2008. After this date, PEPs will be classed as ISAs.

WAYS OF INVESTING IN PERSONAL ASSETS

Steven Budge *(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. From April 2008, the allowance will be increased to £7,200, making the monthly amount £600.

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 2007

Company	30 April 2007 £'000	Purchases/ (Sales) £'000	30 April 2006 £'000	Business Activities of Companies
Royal Bank of Scotland	13,896	2,291	10,579	Banking and related financial services
Royal Dutch Shell	13,837	1,075	14,119	International oil and energy
BP	13,572	708	15,424	International oil and energy
HBOS	11,902	1,222	9,481	Banking and related financial services
GlaxoSmithKline	9,412	2,239	7,780	Pharmaceuticals
Barclays	8,724	537	7,672	Banking and related financial services
BT Group	8,223	–	5,701	Telecommunications
Scottish & Newcastle	5,055	–	4,153	Brewing, retail and leisure
Alliance Trust	4,830	4,876	–	Global growth investment trust
Rentokil Initial	1,738	–	1,598	Environmental and property services
British Assets Trust	1,457	(716)	2,077	Global growth and income investment trust
F&C Asset Management	1,417	–	1,613	Investment management company
BAE Systems	1,257	–	1,148	Aerospace and defence
City Natural Resources	1,027	–	780	Mining and natural resources investment trust
Advance UK Trust	916	–	820	Global growth investment trust
F&C UK Select Trust	822	–	701	UK growth investment trust
TR Property	740	–	610	Property investment trust
EP Global Opportunities	415	–	420	Overseas growth investment trust
Scottish Investment Trust	–	(2,691)	2,622	Global growth investment trust
Second Alliance Trust	–	(843)	841	Global growth investment trust
Independent Investment Trust	–	(625)	641	Global growth investment trust
FTSE 100 Future Exposure	(8,731)	(27,406)	18,675	
UK Equity Exposure	**90,509**	**(19,333)**	**107,455**	
Altria Group [1]	1,378	(432)	1,610	Tobacco, brewing, soft drinks, packaged foods
Dover Corp	1,203	–	1,368	Elevators and general engineering products
Actuant Corp	763	–	1,013	Tools, supplies and engineered solutions
Bristol-Myers Squibb	622	–	601	Pharmaceuticals
Kraft Foods [1]	463	432	–	Food and household products
USA Equity Exposure	**4,429**	**–**	**4,592**	
Total Equity Exposure	**94,938**	**(19,333)**	**112,047**	
Liquidity and Assets				
US Treas. Strip 0% 15/05/07	62,388			
Standard Life Sterling Fund	23,588			
Net Current Assets	2,743			
FTSE 100 Future Asset	8,759			
Liquidity	**97,478**		**77,304**	
Shareholders' Funds	**192,416**		**189,351**	

[1] On 2 April 2007, Kraft Foods was divested from Altria Group.

RECORD 1983 - 2007

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	£39 ½	£1.09	£1.00
	1991	9,006	£60.32	£48 ½	£1.45	£1.50
	1992	10,589	£70.92	£66	£1.67	£1.60
	1993	11,441	£75.18	£81 ½	£2.52	£1.80
	1994	12,987	£85.34	£89 ½	£2.12	£1.95
	1995	13,939	£91.59	£87	£2.00	£2.00
	1996	19,473	£115.11	£118 ½	£2.90	£2.20
	1997	27,865	£133.89	£141 ¼	£3.01	£2.30
	1998	48,702	£180.21	£199 ½	£3.57	£2.45
	1999	65,200	£201.26	£202 ½	£3.67	£2.55
	2000	73,751	£199.80	£202	£2.98	£2.62 ½
	2001	78,000	£207.03	£208 ½	£3.27	£2.70
	2002	92,430	£203.38	£209 ½	£3.88	£2.80
	2003	104,324	£186.32	£193 ¾	£3.40	£2.90
	2004 (3)	135,736	£211.67	£214 ½	£3.98	£3.10
	2005	150,997	£222.98	£224 ¾	£3.41	£3.40
	2006	189,351	£256.14	£259 ¼	£3.78	£3.70
	2007	192,416	£264.70	£266	£5.08	£4.10

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 ("IFRS").

INDUSTRIAL AND GEOGRAPHIC ANALYSIS OF EQUITY INVESTMENTS HELD

Category	UK £'000	USA £'000	Total £'000	Percentage
Oil & Gas	27,409	–	27,409	26.4%
Industrials	2,994	1,966	4,960	4.8%
Consumer Goods	5,055	1,841	6,896	6.7%
Healthcare	9,412	622	10,034	9.7%
Telecom	8,223	–	8,223	7.9%
Financials	46,147	–	46,147	44.5%
Total	99,240	4,429	103,669	100.0%
	95.7%	4.3%	100.0%	

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 2007.

Activities and Business Review

A review of the Company's activities and a business review are given on pages 18-19 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 2006. 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 a wholly owned subsidiary, The Edinburgh Agency Limited, a consultancy company incorporated in Scotland. Personal Assets Investments Limited was dissolved pursuant to Section 652A of the Companies Act 1985 on 2 February 2007.

Dividend

	Group £'000
Revenue available for dividends	3,748
Distributed as dividends from current year revenue:	
First interim dividend (£2.00 per share) paid on 27 October 2006	(1,482)
Second interim dividend (£2.10 per share) paid on 27 April 2007	(1,537)
Retained earnings (£1.00 per share)	729

Directors' Interests

The Directors who served during the year and their interests in the shares of the Company at 30 April 2007 and 30 April 2006 were as follows:

Director	**Interest**	**2007**	**2006**
Robert White *(Chairman)*	Beneficial	1,000	1,000
Robin Angus	Beneficial	2,526	2,473
Hamish Buchan	Beneficial	427	420
Martin Hamilton-Sharp	Beneficial	1,449	1,395
Gordon Neilly	Beneficial	188	186
Ian Rushbrook	Beneficial	33,985	33,985

Since 30 April 2007, Mr Angus has acquired a beneficial interest in an additional 2 shares. There have been no other changes in the above holdings between 30 April 2007 and 30 May 2007.

Substantial Interests

As at 30 May 2007 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	188,768	26.0
Personal Assets Trust Investment Plan	125,044	17.2
Ian Rushbrook	33,985	4.7
Including the above, the Rushbrook family's total holdings are	*54,164*	*7.5*
Legal & General	21,882	3.0

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.

DIRECTORS' INDEMNITY

The Company's Articles of Association 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.

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 2007 and to approve the Directors' Remuneration Report contained therein.

Directors

Resolutions 3, 4, 5 and 6 are, respectively, to re-elect Hamish Buchan, Martin Hamilton-Sharp, Gordon Neilly and Robert White, all of whom retire annually.

Resolution 7 and 8 are, respectively, to re-elect Robin Angus and Ian Rushbrook, 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 Robin Angus and Ian Rushbrook 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 9 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 10 is to authorise the Directors to issue new shares up to an aggregate nominal amount of £907,737.50, being 9.99% of the total issued shares as at 30 May 2007.

Resolution 11 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 £907,737.50 (being 9.99% of the total issued shares as at 30 May 2007) 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 10 and 11* will continue in effect until 19 October 2008, or, if earlier, the conclusion of the Company's Annual General Meeting in 2008.

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.

Authority to Buy Back Shares

During the year, the Company purchased 17,400 Ordinary Shares to be held in Treasury and 35 Ordinary shares for cancellation for a total consideration of £4,519,169, representing 2.4% of the Ordinary Shares in issue at the previous year end. The Company also re-issued 3,005 Ordinary Shares from Treasury for a total consideration of £771,362, representing 0.4% of the Ordinary Shares in issue at the previous year end. 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 12 is to renew the authority for a further period until the Company's Annual General Meeting in 2008. 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 30 May 2007, the Company held 23,955 Ordinary Shares in Treasury, representing 3.3% of the total issued Ordinary Share capital.

Resolutions 11 and 12 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 will 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.

Recommendation

Resolutions 11 and 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.

By Order of the Board

SK Davidson

Steven K Davidson
Secretary

80 George Street
Edinburgh EH2 3BU

30 May 2007

BUSINESS REVIEW FOR THE YEAR TO 30 APRIL 2007

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 Companies ("AIC").

The Company 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.

In addition to publishing annual and interim accounts the Company announces net asset values per share daily and provides more detailed statistical information on a monthly basis to the AIC in order to enable investors and brokers to compare its performance and other relevant information with those of its peer group.

The Company also publishes quarterly reports on subjects of investment interest to shareholders together with portfolio information and performance statistics.

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 the principles detailed in the guidance provided by the Turnbull Committee. The Company's internal controls are described in more detail on pages 20–21.

PERFORMANCE

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

Primary

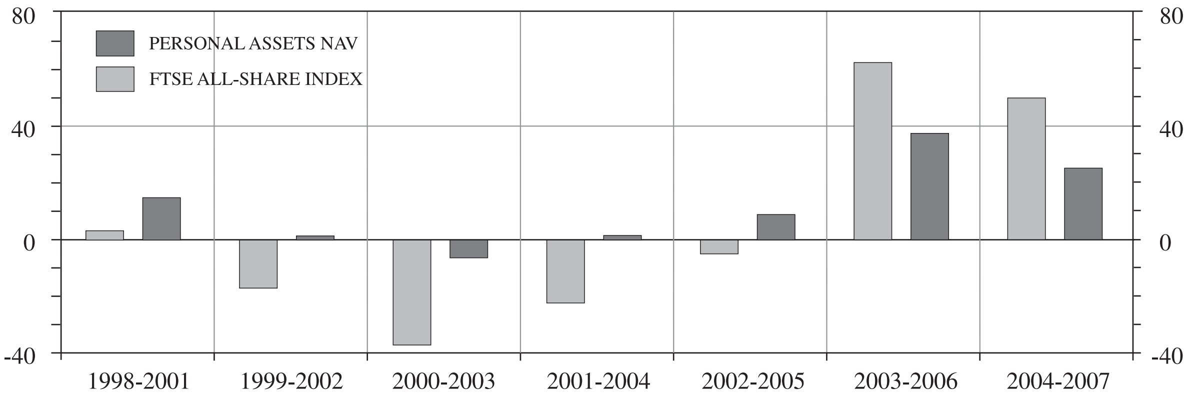
- Net asset value per share against the FTSE All-Share Index over a rolling three-year period
- Dividend policy against the Retail Price Index
- 'No Discount' policy

Secondary

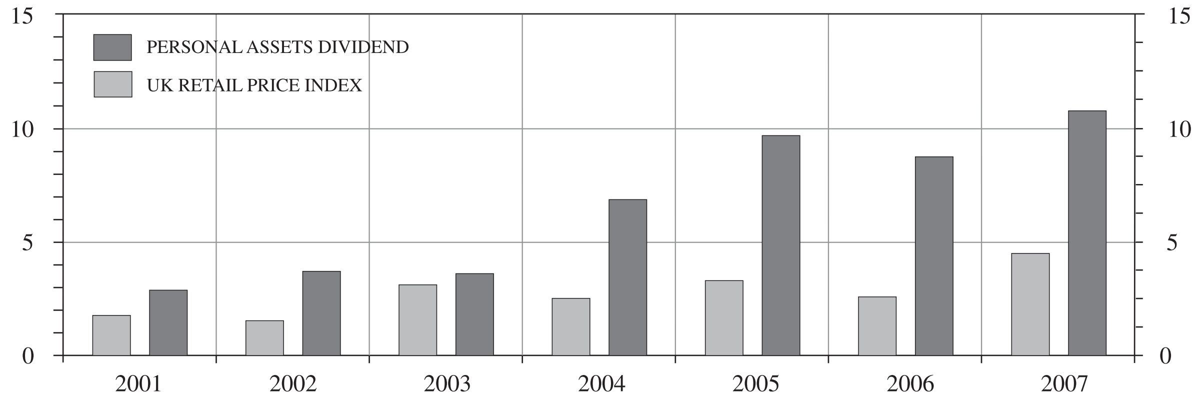
- Total expenses as a percentage of shareholders' funds.

BUSINESS REVIEW FOR THE YEAR TO 30 APRIL 2007 *(CONT'D)*

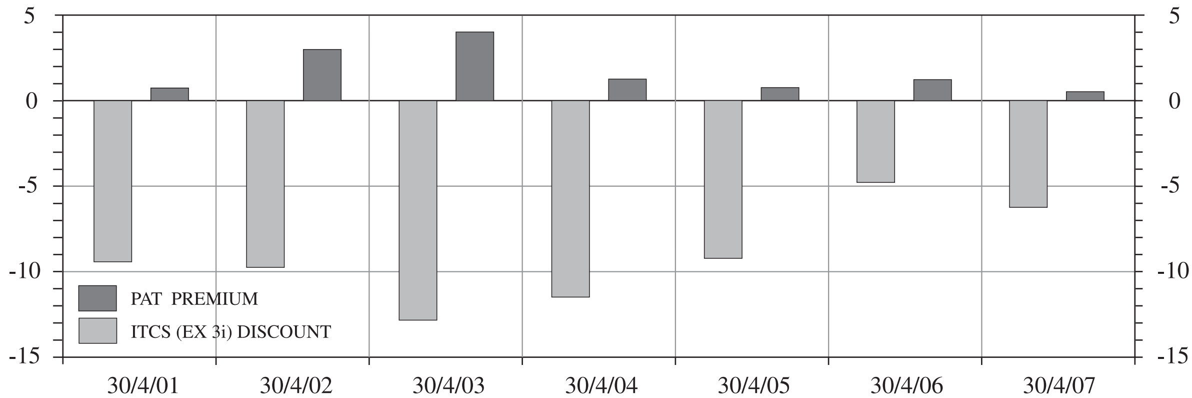
PERCENTAGE CHANGES OVER ROLLING THREE-YEAR PERIODS



PERCENTAGE CHANGES IN DIVIDEND COMPARED TO UK INFLATION



PERSONAL ASSETS – 'NO DISCOUNT' POLICY



Source: Datastream

By Order of the Board

Steven K Davidson
Secretary

80 George Street
Edinburgh EH2 3BU

30 May 2007

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 fundamental. 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.

The Board of Personal Assets Trust PLC has considered the principles and recommendations of the AIC Code of Corporate Governance (“AIC Code”) by reference to the AIC Corporate Governance Guide for Investment Companies (“AIC Guide”). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to Personal Assets Trust as an investment trust company.

The Board considers that it is appropriate to report against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code).

During the year the Company complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

- 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 or Nomination Committees as recommended by provisions C.3.1 and A.4.1 of the Combined 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 for a Senior Independent Director to be appointed as recommended by provision A.3.3 of the Combined Code, as it operates as a unitary Board.

- The Board does not consider it appropriate for the Company to arrange insurance cover in respect of legal action against the Directors as recommended by provision A.1.5 of the Combined Code as the costs exceed any apparent benefits. The Directors are indemnified in terms of the Company’s Articles of Association.

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. Martin Hamilton-Sharp, Gordon Neilly and Robert White have served for more than nine years. However, the Board subscribes to the view expressed within the AIC 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 2007
Robin Angus	18 May 1984	AGM 2007
Hamish Buchan	5 July 2001	AGM 2007
Martin Hamilton-Sharp	16 November 1990	AGM 2007
Gordon Neilly	30 April 1997	AGM 2007
Ian Rushbrook	1 July 1990	AGM 2007

Any new Directors appointed during the year must stand for re-appointment at the first Annual General Meeting following their appointment. All non-executive Directors retire annually, as do Ian Rushbrook and Robin Angus, the two executive Directors. 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 Robert White, who attended five meetings, and Gordon Neilly, who attended four meetings.

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 any 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 considerable 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 £4,000 for the year ended 30 April 2007 *(2006: £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.

A remuneration committee, chaired by Robert White, which comprises the non-executive Directors was set up during the year. The committee reviews the Directors' fees and the remuneration paid to the Managing Director together with the terms and conditions thereof on an annual basis.

During the year the performance of the Board, remuneration committee and individual Directors was evaluated through a discussion based assessment process led by the Chairman. The performance of the Chairman was evaluated by the other Directors.

F&C Investment Business Limited ("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 in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee, as issued by the Financial Reporting Council in October 2005. The process relies principally on F&C's existing risk based system of internal control whereby a test matrix is created that identifies the key functions carried out by the Company and other service providers, 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, including an AAF 01/06 Report on internal controls which is reviewed by a firm of reporting accountants, and from 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, and the Board is satisfied with their effectiveness. These procedures are designed to manage, rather than eliminate, risk and, by their nature, 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

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.

Non-executive Directors do not have service contracts, but on first election are provided with a letter of appointment.

Directors do not receive any pension benefits, share options, long-term incentive schemes or other benefits.

DIRECTORS' FEES

Following review of the level of Directors' fees the Board concluded that the amounts, which had remained unchanged since 2005, should be increased for the forthcoming year. Therefore, with effect from 1 May 2007, the Chairman's fee was increased to £24,000 (previously £22,000) and the Directors' fees were increased to £12,000 (previously £11,000) per annum.

INVESTMENT MANAGEMENT

Investment management services are provided to the Company under a rolling twelve-month contract of employment signed in July 1990 with Ian Rushbrook (Managing Director). The contract covers the costs of salaries[1] of the Company's employees (including its two executive directors), the provision of office premises and equipment[2] and the provision of company secretarial and administration services[3].

The Investment Management Fee is calculated at 0.2125% per quarter (0.85% per annum) of shareholders' funds, payable quarterly in advance. In the year to 30 April 2007 the total cost amounted to £1,818,000 *(2006: £1,763,000)*[4].

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Ian Rushbrook has a rolling twelve month contract of employment (see above). His salary is paid under the Investment Management Fee. In the event of termination of his contract the Company would be liable to pay due entitlement of the Investment Management Fee in lieu of notice.

Robin Angus has a rolling twelve month contract of employment, signed in November 2002. His salary is paid under the Investment Management Fee. In the event of termination of his contract the Company would incur no liability 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:

	Year ended 30 April 2007		Year ended 30 April 2006	
Directors	**Fees**	**Salaries**	**Fees**	**Salaries**
Robert White (Chairman)	£22,000	–	£22,000	–
Robin Angus	£11,000	£144,000	£11,000	£135,000
Hamish Buchan	£11,000	–	£11,000	–
Martin Hamilton-Sharp	£11,000	–	£11,000	–
Gordon Neilly	£11,000	–	£11,000	–
Ian Rushbrook	£11,000	£1,271,000	£11,000	£1,102,000
Total	£77,000	£1,415,000	£77,000	£1,237,000

[1] The Company is also responsible for employer's NIC on its employees' salaries, which in the year to 30 April 2007 amounted to £189,000 *(2006: £145.000).*

[2] £100,000 *(2006: £100,000)* was paid under the Investment Management Fee for the provision of office premises and equipment to Rushbrook & Company, a partnership of which Ian Rushbrook is senior partner.

[3] £43,000 *(2006: £41,000)* was paid under the Investment Management Fee for the provision of company secretarial and administration services to F&C Investment Business Limited.

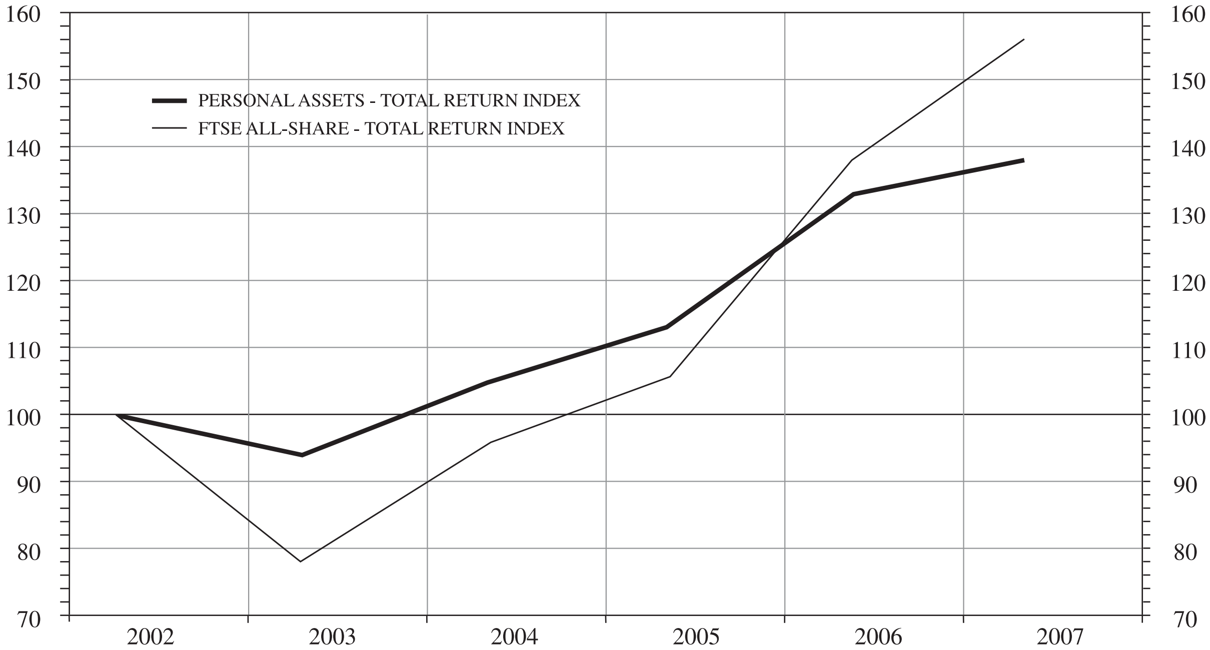
[4] During 2006 the Company was reimbursed under the Investment Management Fee for its costs of £161,000 in acquiring the assets of Collective Assets Trust, reducing its cost from £1,763,000 to £1,602,000.

DIRECTORS' REMUNERATION REPORT *(CONT'D)*

COMPANY PERFORMANCE

The graph below compares, for the five financial years ended 30 April 2007, 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 2007 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

30 May 2007

Group Income Statement

	Notes	Year ended 30 April 2007 Revenue return £'000	Capital return £'000	Total £'000	Year ended 30 April 2006 Revenue return £'000	Capital return £'000	Total £'000
Investment income	2	4,919	–	4,919	4,075	–	4,075
Other operating income	2	983	–	983	593	–	593
(Losses)/gains on investments held at fair value through profit or loss	10	–	(873)	(873)	–	22,296	22,296
Gains on derivatives held at fair value through profit or loss		–	568	568	–	6,255	6,255
Foreign exchange differences		–	5,849	5,849	–	(3,625)	(3,625)
Total income		5,902	5,544	11,446	4,668	24,926	29,594
Expenses	4	(2,136)	–	(2,136)	(1,958)	–	(1,958)
Profit before taxation		3,766	5,544	9,310	2,710	24,926	27,636
Taxation	6,7	(18)	–	(18)	11	–	11
Profit for the year		3,748	5,544	9,292	2,721	24,926	27,647
Earnings per share	9	£5.08	£7.52	£12.60	£3.78	£34.61	£38.39

The 'Total' column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. Under IFRS 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 Companies.

All items in the above statement derive from continuing operations.

Supplementary information

	2007	2006
Dividends per share	£4.10	£3.70
Dividends paid out of current year income		
	£'000	**£'000**
First interim dividend of £2.00 per share *(2006: £1.80 per share)*	1,482	1,306
Second interim dividend of £2.10 per share *(2006: £1.90 per share)*	1,537	1,393
	3,019	2,699

The Accounting Policies on pages 29 to 31 and the Notes on pages 31 to 38 form part of these accounts

BALANCE SHEETS

	Notes	Group 30 April 2007 £'000	Company 30 April 2007 £'000	Group (Restated*) 30 April 2006 £'000	Company (Restated*) 30 April 2006 £'000
Non current assets					
Investments held at fair value through profit or loss	10	189,645	189,784	170,360	170,265
Current assets					
Other receivables	11	2,662	2,672	3,732	3,905
Cash and cash equivalents		304	155	15,391	15,313
Total assets		192,611	192,611	189,483	189,483
Current liabilities					
Other payables	12	(195)	(195)	(132)	(132)
Net assets		192,416	192,416	189,351	189,351
Capital and reserves					
Ordinary share capital	13	9,386	9,386	9,360	9,360
Share premium		87,098	87,098	86,584	86,584
Capital redemption reserve		219	219	219	219
Special reserve (distributable)		22,517	22,517	22,526	22,526
Treasury share reserve		(6,047)	(6,047)	(2,247)	(2,247)
Other capital reserves		75,580	76,498	69,975	70,792
Revenue reserve		3,663	2,745	2,934	2,117
Total equity		192,416	192,416	189,351	189,351
Net asset value per ordinary share	14	£264.70	£264.70	£256.14	£256.14

* See Note 1

The financial statements were approved and authorised for issue by the Board of Directors and signed on its behalf on 30 May 2007 by:

Robert P White, Chairman

The Accounting Policies on pages 29 to 31 and the Notes on pages 31 to 38 form part of these accounts

GROUP STATEMENTS OF CHANGES IN EQUITY

	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Treasury share reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Balance as at 30 April 2006 as previously stated	9,240	89,336	483	17,589	–	69,769	2,934	189,351
Prior year adjustment	120	(2,752)	(264)	4,937	(2,247)	206	–	–
Balance as at 30 April 2006 restated	9,360	86,584	219	22,526	(2,247)	69,975	2,934	189,351
Profit for the year	–	–	–	–	–	5,544	3,748	9,292
Ordinary dividends paid	–	–	–	–	–	–	(3,019)	(3,019)
Issue of ordinary shares	26	514	–	–	710	61	–	1,311
Buy-backs of ordinary shares	–	–	–	(9)	(4,510)	–	–	(4,519)
Balance as at 30 April 2007	9,386	87,098	219	22,517	(6,047)	75,580	3,663	192,416

	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Treasury share 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	–	–	–	–	–	–	(3,918)	(3,918)
Issue of ordinary shares	895	15,771	–	–	2,690	206	–	19,562
Buy-backs of ordinary shares	–	–	–	–	(4,937)	–	–	(4,937)
Balance as at 30 April 2006	9,360	86,584	219	22,526	(2,247)	69,975	2,934	189,351

The Accounting Policies on pages 29 to 31 and the Notes on pages 31 to 38 form part of these accounts

Company Statements of Changes in Equity

	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Treasury share reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Balance as at 30 April 2006 as previously stated	9,240	89,336	483	17,589	–	70,586	2,117	189,351
Prior year adjustment	120	(2,752)	(264)	4,937	(2,247)	206	–	–
Balance as at 30 April 2006 restated	9,360	86,584	219	22,526	(2,247)	70,792	2,117	189,351
Profit for the year	–	–	–	–	–	5,645	3,647	9,292
Ordinary dividends paid	–	–	–	–	–	–	(3,019)	(3,019)
Issue of ordinary shares	26	514	–	–	710	61	–	1,311
Buy-backs of ordinary shares	–	–	–	(9)	(4,510)	–	–	(4,519)
Balance as at 30 April 2007	9,386	87,098	219	22,517	(6,047)	76,498	2,745	192,416

	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special reserve £'000	Treasury share 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	–	–	–	–	–	–	(3,918)	(3,918)
Issue of ordinary shares	895	15,771	–	–	2,690	206	–	19,562
Buy-backs of ordinary shares	–	–	–	–	(4,937)	–	–	(4,937)
Balance as at 30 April 2006	9,360	86,584	219	22,526	(2,247)	70,792	2,117	189,351

The Accounting Policies on pages 29 to 31 and the Notes on pages 31 to 38 form part of these accounts

CASH FLOW STATEMENTS

	Group Year ended 30 April 2007 £'000	Company Year ended 30 April 2007 £'000	Group Year ended 30 April 2006 £'000	Company Year ended 30 April 2006 £'000
Cash flows from operating activities				
Profit before taxation	9,310	9,474	27,636	27,656
Losses/(gains) on investments	305	203	(28,551)	(28,449)
Foreign exchange differences at fair value through the profit or loss	(5,849)	(5,849)	3,625	3,625
Operating cash flow before movements in working capital	3,766	3,828	2,710	2,832
Increase in other receivables	(239)	(239)	(132)	(132)
Increase in other payables	63	63	4	4
Net cash from operating activities before taxation	3,590	3,652	2,582	2,704
Taxation	(18)	(18)	(11)	–
Net cash inflow from operating activities	3,572	3,634	2,571	2,704
Investing activities				
Purchase of FTSE 100 Futures	(3)	(3)	(6)	(6)
Disposal of FTSE 100 Futures	719	719	4,579	4,579
Purchase of investments – equity shares	(12,948)	(12,948)	(14,302)	(14,253)
Purchase of investments – fixed interest and other investments	(160,573)	(160,533)	(173,651)	(173,651)
Disposal of investments – equity shares	4,875	4,875	3,611	3,373
Disposal of investments – fixed interest and other investments	148,488	148,315	187,953	187,953
Net cash (outflow)/inflow from investing activities	(19,442)	(19,575)	8,184	7,995
Financing activities				
Equity dividends paid	(3,019)	(3,019)	(3,918)	(3,918)
Issue of ordinary shares	1,311	1,311	14,002	14,002
Buy-backs of ordinary shares	(4,519)	(4,519)	(4,937)	(4,937)
Net cash (outflow)/inflow from financing activities	(6,227)	(6,227)	5,147	5,147
(Decrease)/increase in cash and cash equivalents	(22,097)	(22,168)	15,902	15,846
Cash and cash equivalents at the start of the year	15,391	15,313	5,875	5,853
Effect of foreign exchange rate changes	7,010	7,010	(6,386)	(6,386)
Cash and cash equivalents at the end of the year	304	155	15,391	15,313

The Accounting Policies on pages 29 to 31 and the Notes on pages 31 to 38 form part of these accounts

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The financial statements of the Group and of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

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 Companies ("the AIC") in December 2005 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendation of the SORP.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

The following new standards have been issued but are not effective for 2007 and have not been early adopted:

In August 2005, the IASB issued IFRS 7 *Financial Instruments: Disclosures* which becomes effective for periods commencing on or after 1 January 2007. The standard requires disclosures about the significance of financial instruments for an entity's financial position and performance. These disclosures incorporate many of the requirements of IAS 32 *Financial Instruments: Disclosure and Presentation*. IFRS 7 also requires information about the extent to which the entity is exposed to risks arising from financial instruments, and a description of management's objectives, policies and processes for managing those risks. The Group will apply IFRS 7 for its accounting period commencing 1 May 2007.

In November 2006, the IASB issued IFRS 8 *Operating Segments* which becomes effective for periods commencing on or after 1 January 2009. This standard requires disclosure on the financial performance of the Group's operating segments.

The Group will apply IFRS 8 for its accounting period commencing 1 May 2009.

The Group does not consider that the future adoption of International Financial Reporting Standards, in the form currently available, will have any material impact on the financial statements as presented.

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 AIC, 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 is 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 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.

Investments in the Company's dealing subsidiary, The Edinburgh Agency Limited, are valued in the balance sheet at fair value.

Capital Redemption Reserve

The Capital Redemption Reserve represents the nominal value of ordinary shares bought back for cancellation by the Company since authority to do this was first obtained at an Extraordinary General Meeting in April 1999.

Special Reserve

The cost of any shares bought back for cancellation is deducted from the Special Reserve, which is a distributable reserve and was created from the cancellation of the Share Premium Account, also following the Extraordinary General Meeting in April 1999.

Treasury Share Reserve

The Treasury Reserve was created following the introduction of Treasury Shares and International Financial Reporting Standards. The cost of any shares bought back to be held in Treasury or subsequent re-sale of shares from Treasury is deducted from or added to the Treasury Share Reserve. The financial statements for 2006 have been restated to disclose separately the Treasury Share Reserve along with a number of related adjustments, none of which affects the net assets of the Group or Company.

Other Capital Reserves

Gains and losses on the realisation of investments, gains and losses on the realisation of FTSE 100 Future contracts, realised exchange differences of a capital nature, returns of capital and profits/ losses on shares sold from Treasury are accounted for in this Reserve.

Increases and decreases in the valuation of investments held at the year end, unrealised gains and losses on FTSE 100 Future contracts and unrealised exchange differences of a capital nature are also accounted for in this Reserve.

Revenue Reserve

Any surplus arising from the profit for the year after payment of dividends is taken to this Reserve.

NOTES TO THE ACCOUNTS *(CONT'D)*

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. The rate of exchange of US$ to Sterling at 30 April 2007 was 1.99985 *(2006: 1.81765)*.

Forward currency contracts are reported at fair value at the year end by using the rates of exchange prevailing at the year end. The forward rate of exchange of US$ to Sterling at 30 April 2007 was 1.99968 *(2006: 1.81782)*.

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

	2007 £'000	**2006 £'000**
Income from investments		
Franked investment income	3,598	2,977
Overseas dividends	1,321	1,098
	4,919	4,075
Other income		
Deposit interest	921	498
Other income	62	95
Total income	5,902	4,668
Total income comprises		
Dividends	4,919	4,075
Other income	983	593
	5,902	4,668
Income from investments		
Listed UK	3,598	2,977
Listed overseas	1,321	1,098
	4,919	4,075

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

	2007 £'000	2006 £'000
Investment Management expenses	1,818	1,602
Directors' fees	77	77
Auditors' remuneration for:		
– audit	13	16
– other services	4	5
Other expenses	224	258
	2,136	1,958

5. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

	2007 £'000	2006 £'000
Directors' fees and salaries (Details of the highest paid Director can be found in the Directors' Remuneration Report on pages 22–23.)	1,492	1,314
Other salaries	71	67
Employer's national insurance	189	145
	1,752	1,526

Excluding the Directors, there was one employee during each of the years ended 30 April 2007 and 30 April 2006.

6. TAX ON ORDINARY ACTIVITIES

	2007 £'000	2006 £'000
Foreign tax suffered	18	11
Prior year adjustment	–	(22)
	18	(11)

The Company had £597,000 unrelieved excess expenses at 30 April 2007 *(2006: £663,000)*. 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:

	2007 £'000	2006 £'000
Profit before tax	9,310	27,636
Corporation tax at standard rate of 30%	2,793	8,290
Effects of:		
Capital gains not subject to taxation	(1,663)	(7,477)
Franked investment income not subject to taxation	(1,079)	(893)
Excess management expenses	(51)	80
Prior year adjustment	–	(22)
Withholding tax suffered	18	11
Current tax year charge (note 6)	18	(11)

8. DIVIDENDS

	2007 £'000	2006 £'000
Amounts recognised as distributions to equity holders in the year:		
Second interim dividend for the year ended 30 April 2005 of £1.80 per ordinary share	–	1,219
Interim dividend for the year ended 30 April 2007 of £2.00 *(2006: £1.80)* per ordinary share	1,482	1,306
Second interim dividend for the year ended 30 April 2007 of £2.10 *(2006: £1.90)* per ordinary share	1,537	1,393
	3,019	3,918

9. RETURN PER SHARE

	2007			2006	
Revenue	Capital	Total	Revenue	Capital	Total
£5.08	£7.52	£12.60	£3.78	£34.61	£38.39

The revenue return per share is based on the net revenue profit for the financial year of £3,748,000 (2006: £2,721,000), and on 737,371 (2006: 720,152) shares, being the weighted average number in issue during the year, excluding Treasury shares.

The capital return per share is based on a net capital gain for the financial year of £5,544,000 (2006: £24,926,000), and on 737,371 (2006: 720,152) shares, being the weighted average number in issue during the year, excluding Treasury shares.

NOTES TO THE ACCOUNTS *(CONT'D)*

10. INVESTMENTS

	Group 2007 £'000	Group 2006 £'000
Investments listed on a recognised investment exchange	189,645	170,360

	Group Listed UK £'000	Listed Overseas £'000	Total £'000
Opening book cost	66,920	79,763	146,683
Opening unrealised appreciation	21,860	1,817	23,677
Opening valuation	88,780	81,580	170,360
Movements in the year			
Purchases at cost	12,948	160,573	173,521
Sales proceeds	(4,875)	(148,488)	(153,363)
Sales – realised gains/(losses) on sales	1,246	(3,309)	(2,063)
Increase in unrealised appreciation	1,141	49	1,190
Closing valuation	99,240	90,405	189,645
Closing book cost	76,239	88,539	164,778
Closing unrealised appreciation	23,001	1,866	24,867
	99,240	90,405	189,645

	Group 2007 £'000	Group 2006 £'000
Equity shares	103,669	93,372
Fixed interest securities	62,388	54,930
Other investments	23,588	22,058
	189,645	170,360
Realised (losses)/gains on sales	(2,063)	8,553
Increase in unrealised appreciation	1,190	13,743
(Losses)/gains on investments	(873)	22,296

Transaction costs

During the year the Group incurred transaction costs of £99,871 *(2006: £99,948)* on the purchase and sale of investments.

10. INVESTMENTS (*CONT'D*)

	Company 2007 £'000	Company 2006 £'000
Investments listed on a recognised investment exchange	188,865	169,447
Subsidiary undertakings	919	818
Total investments	189,784	170,265

	Listed UK £'000	Listed Overseas £'000	Company Unlisted £'000	Company Total £'000
Opening book cost	66,920	78,850	1	145,771
Opening unrealised appreciation	21,860	1,817	817	24,494
Opening valuation	88,780	80,667	818	170,265
Movements in the year				
Purchases at cost	12,948	160,533	–	173,481
Sales proceeds	(4,875)	(148,315)	–	(153,190)
Sales – realised gains/(losses) on sales	1,246	(3,309)	–	(2,063)
Increase in unrealised appreciation	1,141	49	101	1,291
Closing valuation	99,240	89,625	919	189,784
Closing book cost	76,239	87,759	1	163,999
Closing unrealised appreciation	23,001	1,866	918	25,785
	99,240	89,625	919	189,784

	Company 2007 £'000	Company 2006 £'000
Equity shares	104,588	94,190
Fixed interest securities	62,388	54,930
Other investments	22,808	21,145
	189,784	170,265
Realised (losses)/gains on sales	(2,063)	8,553
Increase in unrealised appreciation	1,291	13,634
(Losses)/gains on investments	(772)	22,187

Transaction costs

During the year the Company incurred transaction costs of £99,871 *(2006: £99,948)* on the purchase and sale of investments.

11. OTHER RECEIVABLES

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Due from subsidiary	–	10	–	173
Gain on forward currency contract	1,544	1,544	2,705	2,705
Gain on FTSE 100 Future	28	28	176	176
Prepayments and accrued income	1,041	1,041	756	756
Other debtors	49	49	95	95
	2,662	2,672	3,732	3,905

12. OTHER PAYABLES

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Other creditors	195	195	132	132
	195	195	132	132

13. CALLED-UP SHARE CAPITAL

	Number	2007 £'000
Authorised:		
Ordinary shares of £12.50 each	1,000,000	12,500
Allotted, called-up and fully paid:		
Balance at 30 April 2006	748,794	9,360
Purchased during the year for cancellation	(35)	–
Issued during the year	2,117	26
Balance as at 30 April 2007	750,876	9,386

Of the above shares in issue the movements in the ordinary shares held in Treasury are as follows:

Balance at 30 April 2006	9,560	(2,247)
Purchased during the year	17,400	(4,510)
Issued during the year	(3,005)	710
Balance at 30 April 2007	23,955	(6,047)

The total cost of shares purchased during the year was £4,519,000 and the total proceeds from shares issued were £1,311,000.

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	
	2007	**2006**	**2007**	**2006**
	£	**£**	**£'000**	**£'000**
Ordinary shares	264.70	256.14	192,416	189,351

Net asset value per ordinary share is based on net assets shown above and 726,921 *(2006: 739,234)* ordinary shares, being the number of ordinary shares in issue at the year end.

At the year end the Company held 23,955 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 2007 was 5.25% in the UK *(2006: 4.50%)*.

Floating interest rate exposure at 30 April:	**2007** **£'000**	**2006** **£'000**
Sterling	23,892	37,449

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 2007 the Group held:		
0% US Treasury Strip 15/05/2007	62,388	15 days
At 30 April 2006 the Group held:		
0% US Treasury Strip 15/05/2006	54,930	15 days

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 entered into to manage the Company's effective liquidity.

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:	**2007 £'000**	**2006 £'000**
US Dollars		
Fixed asset investments	66,817	59,522

At 30 April 2007 the Sterling cost of the US Treasury Strip and US equity exposure was protected by a forward currency contract. The gain of £1,544,000 *(2006: gain of £2,705,000)* on the US$135,000,000 *(2006: US$ 107,500,000)* sold forward against £69,055,000 *(2006: £61,842,000)* is included in debtors *(2006: debtors)*.

21. SUBSIDIARY UNDERTAKING

As at 30 April 2007, Personal Assets Trust's subsidiary undertaking, 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 2007**
The Edinburgh Agency Ltd	Scotland	Ordinary £1 shares	100.0	100.0	£919,000

The Edinburgh Agency Ltd generates revenue from the development of investment ideas. Its revenues for the year to 30 April 2007 amounted to £101,000 *(2006: £91,000)* and its profits after tax also amounted to £101,000 *(2006: £107,000)*.

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 IFRS 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 IFRS, 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 Auditors' 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 2007 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1–21. 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 (IFRS) 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 is 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 1990–2007, 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 2007, Record 1983–2007, Directors' Report, Business Review for the Year to 30 April 2007, Corporate Governance, the unaudited part of the 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.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 30 April 2007 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRS 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 2007;
- 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

ERNST & YOUNG LLP

Registered Auditor, Edinburgh

30 May 2007

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 26th Annual General Meeting ("AGM") of Personal Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh, on Thursday 19 July 2007 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 2007 be received.
2. That the Directors' Remuneration Report for the year to 30 April 2007 be approved.
3. That Hamish Buchan, who retires from office annually, be re-elected as a Director.
4. That Martin Hamilton-Sharp, who retires from office annually, be re-elected as a Director.
5. That Gordon Neilly, who retires from office annually, be re-elected as a Director.
6. That Robert White, 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 Ian Rushbrook, who retires from office annually, be re-elected as a Director.
9. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.
10. 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 £907,737.50 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 2008 or, if earlier, at the conclusion of the date of the Company's AGM to be held in 2008, 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:

11. That subject to the passing of resolution numbered 10 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 10 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 2008 or, if earlier, at the conclusion of the Company's AGM to be held in 2008, 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 £907,737.50.

    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 10 in the notice of the meeting" were omitted.

12. 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 2008 or, if earlier at the conclusion of the Company's AGM to be held in 2008, 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.

By Order of the Board

SK Davidson

Steven K Davidson
Secretary

80 George Street
Edinburgh EH2 3BU

30 May 2007

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 2007 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 2007 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 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 2007 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.