



ECLECTIC

ECLECTIC INVESTMENT TRUST PLC
Report and accounts 2008

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FINANCIAL CALENDAR

Ordinary shares ex-dividend	8 October 2008
Dividend payment	31 October 2008
AGM	22 October 2008
Half-year 30 November 2008 announcement	January 2009

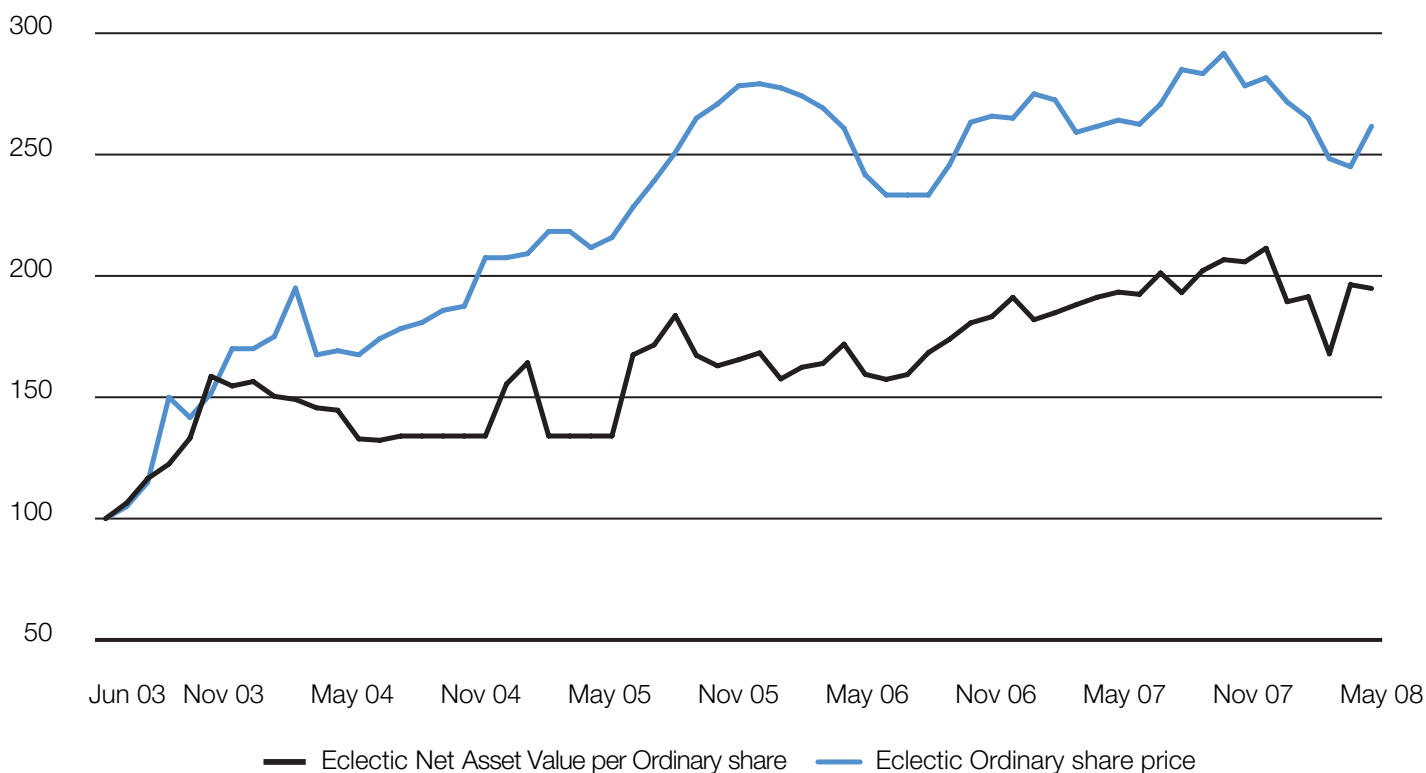
Our objective is to maximise shareholder value by investing in a portfolio of securities anywhere in the world.

FINANCIAL HIGHLIGHTS

- 🌐 Investment portfolio value rose by 2.0%
- 🌐 Gross Assets grew by 5.5% with corresponding increase in borrowings
- 🌐 Net assets fell by 0.3% to £30.1m
- 🌐 NAV per Ordinary share decreased to 165.0p from 165.5p
- 🌐 Total return of £0.2m after tax for the year
- 🌐 Dividend per Ordinary share proposed at 0.75p

Eclectic Ordinary share price and Net Asset Value performance

(From 1 June 2003 to 31 May 2008)



1 June 2003 = 100

Source: Eclectic Investment Trust plc

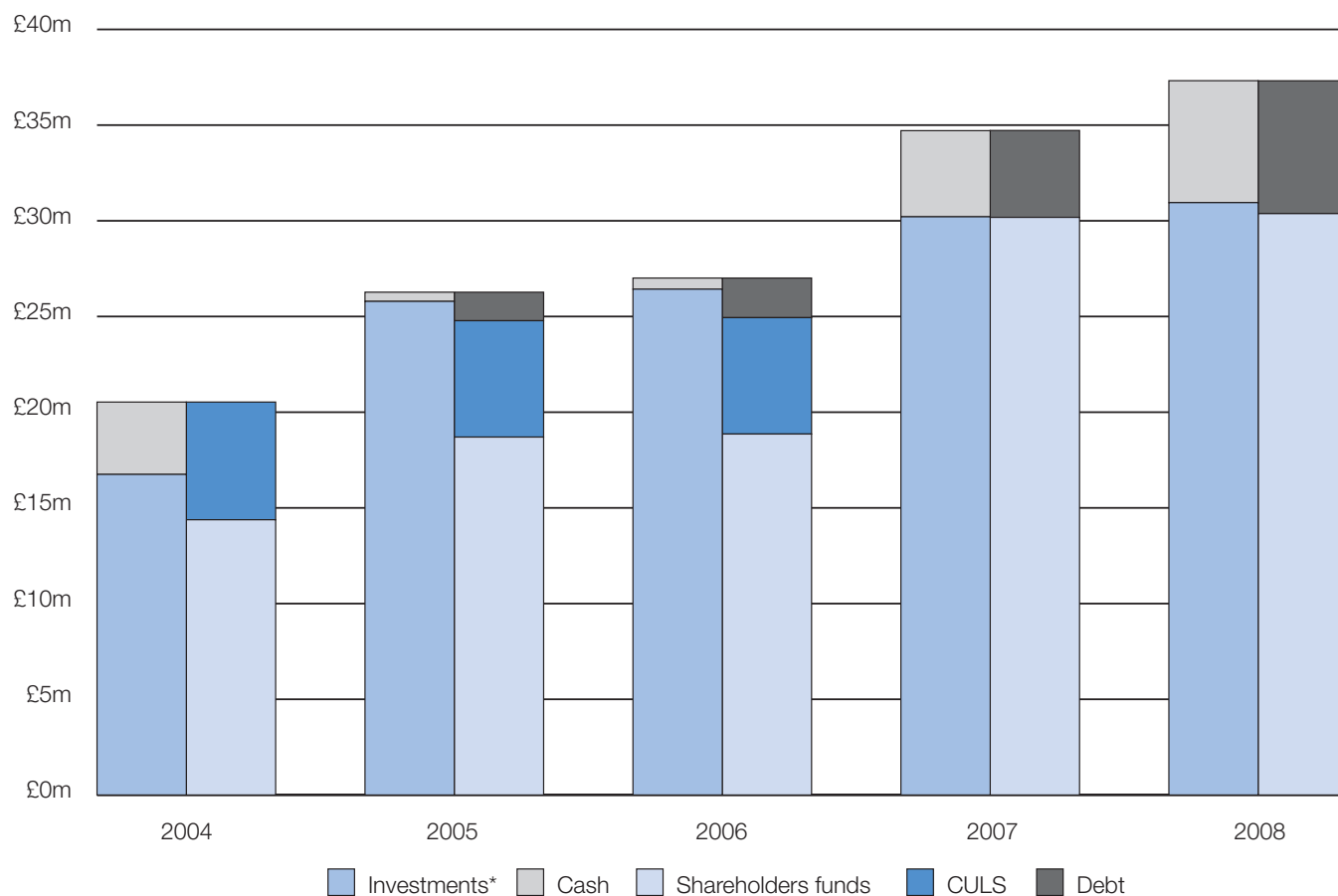
PERFORMANCE SUMMARY

	31 May 2008	31 May 2007	% Change
Basic net asset value per Ordinary share	165.0p	165.5p	(0.3)
Ordinary share price	154.3p	158.5p	(2.6)
Discount	6.5%	4.3%	—
Capital earnings per Ordinary share	2.0p	35.5p	(94.4)
Revenue earnings per Ordinary share	(1.0)p	(0.5)p	(100.0)
Total earnings per Ordinary share	1.0p	35.0p	(97.2)
Dividend per Ordinary share	0.75p	1.5p	(50.0)
Net Assets	£30.1m	£30.2m	(0.3)
Gross Assets	£36.6m	£34.7m	5.5
Bank loans and overdrafts	£6.5m	£4.5m	44.4
Gearing on net assets	21.6%	15.0%	—
Total expense ratio on average shareholders' funds†	1.6%	2.6%	—

† See note 20 to the Financial Statements for further details.

Eclectic portfolio progression and capital structure

(For the years ended 31 May 2004 to 31 May 2008)



Eclectic seeks to invest in undervalued investments worldwide

Investment Strategy and Investment Allocation

The Company looks to identify and invest in investments where the underlying value is not reflected in the market price. This perceived undervaluation may arise from any number of factors including technological, market motivation, prospective financial engineering opportunities, competition or shareholder apathy.

The Company aims to maximise value for shareholders by holding a relatively concentrated portfolio of securities and by investing in instruments appropriate to respective investments.

The portfolio is focused on absolute performance.

Eclectic's investment policy is flexible and permits the Investment Manager to make investments worldwide across all sectors and in a variety of financial instruments. Thus the Company may invest in shares, bonds, convertibles and other types of securities where suitable opportunities arise. It may also invest in unlisted securities where the attractiveness of the investment justifies the risks and lower liquidity associated with such investments.

The investment strategy is not compelled to focus on any country, sector or industry. The Investment Manager seeks to maintain and enhance diversification within the portfolio by investing in a range of sectors, markets and instruments as attractive opportunities arise. The allocation of assets between sectors, markets and instruments

will depend on market conditions and the judgement of the Investment Manager and the Board as to what is in the best interests of the Company and shareholders and so the proportions of the portfolio invested in individual situations, sectors or markets will be flexible. As such, not more than 15 per cent. of the Company's Gross Assets shall be invested in the securities of any one company or group at the time the investment is made.

Hedging

The Company may use bank debt, derivative instruments such as contracts for difference, financial futures, options and warrants to enhance its investment performance.

It may, from time to time, seek actively to protect the portfolio and balance sheet from major corrections by the use of foreign currency hedges, interest rate hedges, stock market put options and similar instruments. Furthermore, the Company looks to invest in instruments that provide additional protection such as convertible notes.

Gearing

The Company will use bank debt to provide long term structural gearing subject to the limits on Borrowing Powers contained in the Company's Articles of Association.

Eclectic has stood up well in a difficult year with NAV per Ordinary share falling by just 0.3% to 165.0p

Continued development of portfolio in line with Investment Policy

Your Company's net asset value has stood up well in recent turbulent markets, with a decline of only 0.3% over the period under review. The benchmark index rose by 8.8% reflecting the fact that the benchmark is based on the yield on Government Securities rather than an equity index, whereas most major stock market indices fell during this period which reflects the very creditable performance of our portfolio.

The Company reported a modest total return for the year of £0.2m, comprising a small revenue loss, mainly arising due to increased finance costs, outweighed by a capital return. The Directors propose a final dividend of 0.75p per Ordinary share, reduced from last year's dividend reflecting the lower revenue earnings. If approved by Shareholders at the Annual General Meeting in October, the dividend will be payable on 31 October 2008 to Shareholders on the register at 10 October 2008.

The progress which I outlined to you in my statement last year in balancing and diversifying the portfolio has continued with a reduced weighting for the ten largest holdings to 68.0% of Gross Assets and a significant growth in the number of holdings in the portfolio from 28 to 38 at 31 May 2008. The geographical and sectoral spread has also widened with increases in the holdings in the UK, the United States and India.

As I reported in last year's statement, the Board believes that the capital base of the Company needs to be expanded to make the overall management of it more economic and to give greater flexibility for investment. However, economic and market circumstances during the year have been such that it has not been appropriate to seek such expansion.

The appeal against the disappointing judgment in our case that was pursued by the Investment Manager on behalf of the Company and other claimants in respect of damages relating to investments made in 1999 in New Cap Reinsurance Corporation has begun and we will announce developments as appropriate, although it is not expected that the outcome will be known for some time. The Company is not expecting to incur significant additional costs from the appeal.

With the extremely difficult economic conditions around the world and uncertainty in all areas, including interest rates, inflation and growth, the next period will undoubtedly continue to be testing. We expect stock markets to continue to be volatile – both in overall terms and in specific investments – which, with a concentrated and focused portfolio such as ours, may lead to significant swings in value arising from individual holdings. This has already been demonstrated since the year end with markets generally falling, our net asset value has fallen by 17.1% at 31 July 2008 and the value of several companies, most notably Trust Company, our largest holding, having a marked impact.

Your Board and Investment Manager will continue to implement the investment policy and to seek to protect portfolio and shareholder value, in what I believe will be a difficult year for all.



Anthony Bushell
Chairman

22 August 2008

Eclectic's NAV per Ordinary share fell by just 0.3% to 165.0p

Continuing diversification of investment portfolio

In the year to 31 May 2008, Net Assets fell by 0.3% to £30.1m, Gross Assets rose by 5.5% to £36.6m and NAV per Ordinary share fell by 0.3% to 165.0p (2007: 165.5p). Further progress was made in rebalancing the portfolio with five new investments in the ten largest holdings which accounted for 68.0% of Gross Assets, compared to 73.4% at the last year end.

Portfolio

The value of the investment portfolio rose by 2.0% to £30.3m. Five new companies entered the ten largest holdings: Austral Pacific Energy, Aurora Investment Trust, Rubicon Europe Trust Group, Midas Capital and Argus Group. During the year, the investments in Global Equity Market Securities matured and the investments in News & Media and Global Mining Investments were realised at a profit over book cost of £2.0m.

Trust Company has again held up in the portfolio with the fall in the share price over the year being compensated for by the stronger exchange rate. During the year, Trust Company announced a special dividend of A\$1 per share (which will be treated as capital in the Company's accounts) to be paid after the year end, arising from the sale of a joint venture. Eclectic's holding in Trust Company continues to be our largest holding and a core investment, accounting for 27.2% of Gross Assets at the year end.

Austral Pacific Energy is the second largest holding, following investments made in 2007 and 2008. Although the year end value of the investment was some 12.8% below the invested cost, steps have been taken to restructure the company's financing and operations.

Société des Bains de Mer de Monaco had an excellent year operationally and although this was not reflected in the share price performance over the period under review, the investment continued to show a good return on cost and to offer strong asset backing in prime assets in Monaco.

Law Debenture's share price fell in line with its net assets per share over the year, falling by 15.6%, despite a strong performance from the operating activities with earnings per share up 16.8%.

Aurora Investment Trust also suffered from the conditions in investment markets although our holding stood at only a 3.6% discount to our invested cost at the year end.

During the period, the Australian dollar strengthened against Sterling from A\$2.3901 to A\$2.0727 and the New Zealand dollar from NZ2.6827 to NZ2.5238.

We have continued to seek to rebalance the portfolio, reducing the concentration in the ten largest investments while maintaining a focused approach. Once again, we have reduced the percentage of Gross Assets accounted for by the ten largest investments to 68.0% against 73.4% last year. We have continued to add new investments into the portfolio, which, at the year end, comprised 38 holdings. This represents a significant increase in the number of investments, up from 28 last year.

As stated in the investment policy, it is our intention to maintain and enhance diversification in the portfolio and asset allocation will depend on a number of factors, including market conditions.

The ten largest holdings are covered in more detail on pages 7 to 10.

Derivatives and CFDs

The Company has continued to utilise derivatives to seek to protect the portfolio against market volatility. Prior to the year end we converted our long S&P put position to a put spread position. At year end we were long, the S&P 1525 contracts with a gross market exposure of US\$45 million and short, an average S&P strike price of 1415. We are rolling the short position to a lower strike to take advantage of the high premium.

We have also continued to use CFDs to maintain or gain exposure to the market including investments in Trust Company, ERG and eBet.

Gearing

At the year end, the balance sheet showed bank loans and overdrafts of £6.5m, representing gearing on Net Assets of 21.6% and cash of £6.6m. The cash is principally being used to margin fund the CFDs.

Return

The consolidated profit after tax for the year was £0.2m with a profit on capital account of £0.4m and a loss on revenue account of £0.2m. The loss mainly arises from the increase in interest payable.

Conclusion

The portfolio held up well in the period in a difficult investment climate. The further reduction in the weighting of the ten largest holdings and the expansion of the number of investments in the portfolio demonstrates the implementation of the investment policy. We will continue to develop the portfolio and to seek to protect value as well as identifying new undervalued investment opportunities around the world.

(ORDINARY SHARES UNLESS OTHERWISE STATED)

This Year	Last Year	Company (Country) Description	At 31 May 2008	
			Fair Value £'000	% of Gross Assets
1	(1)	Trust Company (Australia) Trustee and financial services	9,959	27.2
2	(-)	Austral Pacific Energy – Ordinary, 8% Conv Preference 03/07/2010 and Warrants 25/01/2009 (USA & New Zealand) Oil and gas exploration	3,310	9.1
3	(3)	Société des Bains de Mer de Monaco (Monaco) Property and leisure company	2,921	8.0
4	(4)	Law Debenture (UK) Investment trust and trustee services	2,116	5.8
5	(-)	Aurora Investment Trust (UK) Investment company	1,995	5.4
6	(-)	Rubicon Europe Trust Group (Australia) Real estate	1,010	2.8
7	(6)	eBet – Ordinary and 10% Redeemable Conv Notes 30/09/2010 (Australia) Gaming systems	1,007	2.8
8	(-)	Midas Capital (UK) Investment company	980	2.7
9	(-)	Argus Group (Bermuda) Insurance	819	2.2
10	(8)	DTI – 10% Conv Notes 20/06/2009 (Australia) Transport management systems	724	2.0
Ten largest investments			24,841	68.0
Other investments (28)			5,416	14.8
Total investments			30,257	82.8
Current assets less current liabilities (excluding bank loans and overdrafts)			6,294	17.2
Gross Assets			36,551	100.0

Please refer to note 18 to the Financial Statements on page 42 regarding significant investment exposure to investments in contracts for difference.

CLASSIFICATION OF ASSETS

	2008		2007	
	£'000	%	£'000	%
Equities	25,539	69.9	23,390	67.4
Convertible Securities	4,718	12.9	6,276	18.1
Current assets less current liabilities (excluding bank loans and overdrafts)	6,294	17.2	5,047	14.5
Gross assets	36,551	100.0	34,713	100.0

GEOGRAPHICAL ANALYSIS

	2008		2007	
	£'000	%	£'000	%
Australia	14,939	40.9	14,502	41.8
United Kingdom	6,065	16.6	3,909	11.3
Europe	3,254	8.9	3,300	9.5
United States	3,202	8.8	—	—
India	1,497	4.1	—	—
Bermuda	819	2.2	482	1.4
Asia	316	0.9	1,435	4.1
New Zealand	165	0.4	6,038	17.4
Current assets less current liabilities (excluding bank loans and overdrafts)	6,294	17.2	5,047	14.5
Gross assets	36,551	100.0	34,713	100.0

REVIEW OF THE TEN LARGEST INVESTMENTS

Trust Company Limited

www.trust.com.au

“Trust Company” is an Australian financial services company, providing a range of services to individuals, including fund management, estate administration, financial planning and charitable trustee services, and institutional clients, including custody and trustee services. Trust Company has offices in Australia, Hong Kong and Singapore.

For its financial year to 29 February 2008, Trust Company announced EBITDA up by 18%, with a similar expectation for 2009, with nil debt and liquid resources of A\$78m at the year end. The ordinary dividends for the year were 54 cents, with a further A\$1 per share special dividend arising from the A\$39m sale of the Bank of New York joint venture paid in July 2008. During the period, Trust Company announced merger discussions with Equity Trustees Limited were being held. Those discussions were subsequently terminated.

Eclectic’s holding in Trust Company was unchanged over the period, at 5.9% of the company. The share price fell by 11.4% in the year to A\$10.80 but this was more than compensated for by the movement in the Australian dollar exchange rate.

Austral Pacific Energy Limited

www.austral-pacific.com

“Austral Pacific” is an oil and gas exploration company with interests in more than 15 exploration concessions, production permits and a producing field, located in Australia and New Zealand. The Company is incorporated in Canada and listed in Canada and New Zealand.

In its financial results for the year to 31 December 2007, Austral Pacific reported net revenues of US\$53.9m (up from US\$0.6m in 2006) with a net loss for the year of US\$22.0m. The Company met its target of 700 barrels daily production and believes 2008 will be a year of consolidation, rationalising operating and capital expenditure. In 2008, Austral Pacific has restructured its banking facility, reducing debt to US\$6.5m, partly through the sale of its assets in Papua New Guinea. Austral Pacific has recently closed out its oil hedging programme taking a view on the current oil price. The Company believes it is well positioned to reap the benefit of immediately increased revenue from existing and expected production.

Eclectic invested in 2007 in 8% convertible redeemable preference shares (issued at US\$1.30 and convertible on a one for one basis) and in 2008 in ordinary shares and warrants exercisable at US\$2.25. These fund raisings were used to finance the company’s current and future drilling programmes and working capital. The share price at the year end was 58 cents.

Société des Bains de Mer de Monaco

www.montecarloresort.com

“Société des Bains de Mer de Monaco” operates leisure assets in the Principality of Monaco, including deluxe hotels, casinos, conference and banqueting rooms, bars and restaurants spas and other cultural and leisure venues. The State of Monaco holds 69.5% of the shares.

For the year to 31 March 2008, the company reported a 15% increase in revenue, with an excellent year for gaming, including the turnaround of table games and steady development of automatic machines and continuous growth in hotel activities. This was reflected in a 42% increase in EBITDA and 75% in net profit.

Eclectic holds 0.4% of the shares, having acquired shares at €525 to €660 during the period. At 31 May, the share price was €550, down from €720 at last year end. Subsequent to the year end, a unit of the Qatar Investment Authority indicated its intention to make a tender offer at €725 per share for the shares not held by the State of Monaco. Although this intention was withdrawn following discussions with the company, it is indicative of the underlying value of the assets.

The Law Debenture Corporation p.l.c.

www.lawdeb.com

“Law Debenture” is a UK based investment trust, listed on the London Stock Exchange, with two main business segments: a global growth investment trust and a provider of trustee and related services to wholesale markets and occupational pension schemes. The investment trust is externally managed and has the objective of long term capital growth in real terms and steadily increasing income through investment in a portfolio diversified both geographically and by industry.

Over the year to 31 May 2008, the net asset value of Law Debenture fell to £3.16 from £3.51, and the share price fell by 15.6% to £3.18. For the year to 31 December 2007, Law Debenture reported earnings per share up 16.8% to 14.23p and declared a dividend of 12p per share.

Aurora Investment Trust

www.marsassetmanagement.co.uk

“Aurora” is an investment trust focused on capital appreciation through investments, mainly equities, listed on the London Stock Exchange, weighted towards larger capital stocks and emphasis on companies with exposure to economies growing at faster long-term rates than the UK.

At 31 May 2008 the share price of Aurora was 173.5p, a discount of 15.8% to the net asset value. Eclectic holds 8.9% of the shares in issue which have been acquired over the year at significant discounts to the net asset value at an average price of 180p per share.

Rubicon Europe Trust Group

www.rubiconeurope.com.au

“Rubicon Europe” aims to provide attractive income returns and the potential for capital growth through exposure to a diversified portfolio of European commercial real estate assets and loans. The Rubicon Europe portfolio is diversified with 8 property investments and 8 individual loan assets secured against 524 underlying properties. Together, the real estate assets and loan assets are spread across 7 countries in Europe.

Rubicon Europe’s strategy encompasses two major components: real estate ownership through a diversified portfolio of properties with low risk characteristics and real estate financing to private and corporate owners of commercial real estate in Europe.

At 31 December 2007, Rubicon Europe had net tangible assets per share of A\$1.14 and earnings per share for the year then ended of 9.9 cents. Since then the company has begun the implementation of its policy outlined in its annual report of asset sales to eliminate short term bank debt, reduce gearing overall and provide funds to finance the buy back of shares.

Eclectic holds 2.6% of Rubicon Europe, acquired over the year at an average cost per share just below the year end share price of A\$0.165 per share. Since the year end, Rubicon Europe has announced a 15.5% fall in the value of its assets, leading to breaches in the financing arrangements. Discussions as to the company’s future are ongoing. The share price had fallen to A\$0.043 as at 21 August 2008.

eBet Limited

www.ebetgamingsystems.com

“eBet” is an Australian Stock Exchange listed company with operations and commercial arrangements in Australia, New Zealand, Singapore, Canada and the USA. eBet comprises two primary business units – eBet Gaming Systems and eBet Online. The Gaming Systems division develops and markets a range of

networked solutions for gaming machines including player loyalty and tracking systems, cashless gaming solutions and machine management software. eBet Online develops, markets and operates online gaming technologies and works only with government sanctioned and licensed gaming operators located in regulated jurisdictions.

For the half year to 31 December 2007, eBet announced operating profit up 23% and EBITDA up 32%. eBet is continuing to pursue the development of its gaming products and to exploit new opportunities, for the full year, the company is expecting further significant increases in operating revenues and EBITDA.

Eclectic holds ordinary shares and unlisted 10.0% redeemable convertible notes but its principal exposure is through the convertible notes. The share price of the ordinary shares at 31 May was 5.6 cents, down from 16 cents at the last year end. During the year further investment in the ordinary shares has been made reducing the average cost of the ordinary shares held to 6.5 cents.

Midas Capital plc

www.iimia.co.uk

“Midas”, a UK listed company (formerly iimia MitonOptimal plc) has three divisions specialising in fund management, wealth management and corporate finance and broking. The company has expanded rapidly through merger and acquisition since its formation in 2001, most recently, the merger of Midas Capital Partners and iimia MiltonOptimal in March 2008 resulting in funds under management of £2.75bn.

Eclectic holds 1.6% of the ordinary shares and the share price as at the year end was £1.41, capitalising the company at £80.8m.

Argus Group Holdings Limited

www.argus.bm

“Argus” is Bermuda’s largest domestic insurance company, providing a range of insurance, retirement and financial services to business and individuals. During the year under review, Argus announced a one for ten stock dividend and also increased its quarterly dividend to 16 cents, reflecting the strong performance of the business. In the interim results to 30 September 2007, Argus had record earnings up 6.8% on the previous year.

At 31 May 2008 the share price was BM\$15.50, up 3% from last year end. During the year, Eclectic purchased further ordinary shares and has also realised some profits at prices up to BM\$17.00, resulting in a current holding of 0.7% of the issued capital.

DTI Group Holdings

www.dti.com.au

“DTI”, based in Perth, Western Australia, provides advanced surveillance systems, solutions, and services to the global mass transit industry. Its customers are transit agencies and operators and its range of professional products and services encompass on-board recording equipment, fleet management systems, back-end mass storage and retrieval facilities and end-to-end managed services. In Australasia, DTI has contracts in Adelaide, Perth, Darwin and Brisbane. Internationally, it operates mainly in the US, primarily through an alliance with General Electric and also in the UK.

For the year to 30 June 2007, revenues increased by over 40% to A\$3.1m although the company reported a loss before tax.

In June 2006, Eclectic invested in redeemable convertible 10% unlisted notes. These were originally convertible into ordinary shares or redeemable in 2009. However Eclectic has agreed to the early redemption at par of 25% of the notes and in consideration has been granted warrants to subscribe for ordinary shares at A\$1.50 each.

DIRECTORS

Anthony Bushell†

Chairman, aged 75, is also non-executive chairman of Smaller Companies Value Trust plc. He was previously Chief Investment Manager of the Bank of England. He was appointed to the Board on 1 April 1992 (when the Company's name was The First Spanish Investment Trust plc) and was appointed as Chairman on 26 March 1996.

Peter Burrows AO

Aged 61, a senior stockbroker with Bell Potter Securities. He was formerly the chairman/chief executive of Burrows Limited (which merged with McIntosh Baring Limited and was subsequently acquired by Merrill Lynch), chairman of Garratts Limited and, a director of FTR Holdings Limited, CRI Limited and ASX (Sydney) Limited. Appointed to the Board on 6 April 1998.

Bruce Hervey†

Aged 66, spent over 35 years in the Australian stockbroking industry. Originally a partner in an Australian company, he has latterly served with UBS Warburg and HSBC Securities Limited and is currently a director of GRM International Limited and GRM International B.V., a leading international development management group. Appointed to the Board on 22 January 2002.

Warren McLeland†

Aged 62, formerly a stockbroker and investment banker, is now an adviser in fund management and business strategy to companies. He is a director of Trust Company Limited and Intellect Holdings Limited, in which the Company has investments. Appointed to the Board on 6 April 1998.

All Directors are non-executive and independent

The Board as a whole fulfils the function of the Nomination Committee and the Remuneration Committee.

† Audit and Management Engagement Committee member

INVESTMENT TEAM

Investment Manager

The Investment Manager, Ingot Capital Management Pty Limited ("ICM"), is responsible for the investment portfolio. ICM is also the investment manager for Utilico Limited and Utilico Emerging Markets Limited. ICM holds an Australian Financial Services Licence.

Duncan Saville

Aged 51, is a director of Eclectic's Investment Manager, ICM. He is a chartered accountant with experience in corporate finance and corporate investment. He has been a director of a number of investment trusts and utility companies.

Sandra Pope

Aged 45, joined Eclectic on 1 July 2007 and assists in the running of the Company and the investment portfolio, in conjunction with the Investment Manager. She is a member of the Institute of Chartered Accountants in England and Wales and worked in corporate finance at Hill Samuel and Close Brothers for 8 years.

ADMINISTRATOR AND SECRETARY

Phoenix Administration Services Limited acts as Administrator and Secretary to the Company.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MAY 2008

The Directors submit their Report together with the audited financial statements of the Company and Group for the year ended 31 May 2008.

Results and Dividend

The profit for the year was £176,000 of which a loss of £174,000 is attributable to revenue (2007: £5,328,000, of which a loss of £76,000 was attributable to revenue). A dividend of 0.75p per Ordinary share is proposed in respect of the year ended 31 May 2008 (2007: 1.50p per Ordinary share). If approved by shareholders the dividend will be paid on 31 October 2008 to shareholders whose names appear on the register at the close of business on 10 October 2008 (ex-dividend 8 October 2008).

Activities and Status

The Directors conduct the affairs of the Company with a view to maintaining approval as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 in order to obtain exemption from United Kingdom taxation on capital gains. Such approval is given retrospectively by HM Revenue and Customs (HMRC) in respect of each accounting period of the Company and whilst HMRC approval has been given for the year ended 31 May 2007, this does not preclude HMRC from undertaking a subsequent enquiry into the Company's tax return.

The Company is an investment company as defined in Section 833 of the Companies Act 2006.

Business Review

An analysis of the development and performance of the Company's business during the year is discussed in the Chairman's Statement on page 4 and the Investment Report on pages 5 and 6. The performance of the Company's NAV against its benchmark key performance indicator is discussed in the Chairman's Statement.

The price of shares is subject to the interaction of supply and demand, market and economic influences, Net Asset Value per share and the general perceptions of investors. The share price will accordingly fluctuate and the Company cannot guarantee that it will appreciate in value. The Company's activities are conducted within operational and regulatory environments and could be materially impacted by a failure of systems at third party service providers, a loss of key member(s) of the investment management team, breach of Section 842 Income and Corporation Taxes Act 1988 or breach of the UKLA Listing Rules.

The principal risks in relation to financial instruments and how these are managed are discussed in the Financial instruments and capital disclosures on pages 40 to 43.

Directors

Details of the Directors, all of whom served throughout the year under review, are set out on page 11.

At the forthcoming Annual General Meeting in accordance with the provisions of the Combined Code Messrs A Bushell, P Burrows and W McLeland, who have each served as a Director of the Company for more than nine years, will retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Board does not accept that length of service will necessarily affect the independence of a Director. It considers that a long period of familiarity with the Company's affairs can be an asset to the Board's deliberations and recommends that shareholders vote in favour of the Resolutions proposing the Directors' re-election.

Directors' Interests

The interests of the Directors in the securities of the Company are set out below.

	Ordinary shares of 25p	
	31 May 2008	31 May 2007
A F Bushell	30,000	30,000
P I Burrows	1,282,525	1,282,525
B C Hervey	—	—
W J McLeland	50,000	50,000

No changes in the above interests occurred between 31 May 2008 and 22 August 2008. None of the Directors has been granted or exercised any rights to subscribe for shares of the Company.

No Director was a party to, or had an interest in, any contract or arrangement with the Company.

Investment Manager

The Investment Manager, Ingot Capital Management Pty Ltd ("ICM"), is engaged under the terms of an Investment Management Agreement dated 15 September 2006, as amended by a Supplemental Agreement dated 20 October 2006, which may be terminated by not less than twelve months' notice by either party. Details of the fees payable to ICM under the terms of the Agreements can be found in note 6 to the Financial Statements on page 33.

During the year the Management Engagement Committee conducted a review of the performance of ICM which it considers is satisfactory. The Board, having received the Committee's report are of the opinion that the continued engagement of ICM under the current terms is in the interests of shareholders.

Following the ruling by the European Court of Justice that investment management fees should be exempt from VAT, and the subsequent decision by HM Revenue & Customs (HMRC) not to contest that ruling, the Company has submitted a claim in the sum of £9,154 for VAT written off on management fees.

Substantial Shareholdings

In addition to the Directors' holdings listed on page 12, the Company had been notified of the following significant holdings of 3% or more of the Company's Ordinary shares carrying unrestricted voting rights as at 31 May and 22 August 2008:

	Ordinary shares	% of Issued shares
National Life & Pensions (L) Limited	9,252,332	50.75
Peter Burrows	1,282,525	7.03
Apollo Fund plc	1,250,000	6.86
Lazard Asset Management	1,201,000	6.58

Share capital

At 31 May 2007 and 31 May 2008, the authorised share capital was £10,500,000 divided into 42,000,000 Ordinary shares of 25p each, and the issued share capital was £4,557,375.50 divided into 18,229,502 Ordinary shares of 25p each. There were no changes to the capital structure during the year or between 31 May 2008 and the date of this Report.

At the Annual General Meeting of the Company held on 17 October 2007 shareholders approved a special resolution for the Company to make market purchases of up to 2,732,602 Ordinary shares of the Company. No purchases have been made by the Company pursuant to that authority which therefore remained valid at 31 May 2008 and at the date of this Annual Report. The Board has no current intention of exercising this authority. A special resolution to renew this authority will be submitted for shareholders' approval at the Annual General Meeting of the Company on 22 October 2008.

The following sets out the respective rights and obligations attaching to the Ordinary shares of the Company:

- Voting: The Ordinary shares confer the right to receive notice and to attend and vote at any General Meeting of the Company;
- Dividend: The Ordinary shares carry the right to dividends declared in accordance with the Articles of Association of the Company;
- Winding up: The assets of the Company may, on a winding up, with the sanction of a resolution of the shareholders, be vested in trustees upon trust for members or may be divided amongst the members on the basis determined by the liquidator, subject to relevant statutory protections.

Powers of the Board

Subject to the provisions of the Companies Act, the Memorandum and Articles of Association of the Company and to any directions given by special resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. No alteration of the Memorandum of Association or the

Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given.

The Directors may, by power of attorney or otherwise, appoint any person to be the agent of the Company for such purposes and on such conditions as they determine, including authority for the agent to delegate all or any of his powers.

The Directors may, subject to the restrictions set out in the Articles, exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures and other securities.

Annual General Meeting

The notice convening the Annual General Meeting ("AGM") of the Company for 22 October 2008 is set out at the end of this Annual Report.

Ordinary business

Resolutions 1 to 7 in the notice convening the AGM set out the routine ordinary business to be transacted at the meeting. These resolutions involve the receipt and adoption of the Annual Report and Accounts, approval of the Director's Remuneration Report, the declaration of a dividend, the re-appointment of Directors, the re-appointment of Grant Thornton UK LLP as auditors and the authorisation of the Directors to set the auditors' remuneration.

Special business

Resolution 8 – authority to allot unissued shares

In proposing Resolution 8, the Directors seek authority from shareholders to allot unissued share capital up to an aggregate nominal amount of £1,519,125 equivalent to 6,076,500 Ordinary Shares or approximately 33.33 per cent. of the Company's existing issued ordinary share capital as at 22 August 2008. The Company currently holds no Ordinary shares in Treasury. The purpose of seeking such authority is to take advantage of opportunities in the market as they arise. The Directors currently have no specific opportunities in mind although, as indicated in the Chairman's Statement, the Board believes that the capital base of the Company needs to be expanded to make the overall management more economic and to give greater flexibility for investment within an enlarged portfolio, when the economic and market circumstances are more conducive to such intention. The Board will only issue new shares if it believes it is advantageous to the Company's existing shareholders to do so and would not result in any dilution of net asset value per share. Resolution 8 will be proposed as an Ordinary Resolution and if approved, the Directors' authority will lapse on 21 October 2013 unless previously renewed, varied or revoked by the Company in general meeting.

Resolution 9 – authority to make market purchases of own shares

The Board recommends that shareholders authorise the Company to make market purchases of up to an aggregate of 2,732,602 Ordinary shares, being 14.99% of the current issued share capital of the Company of 18,229,502 Ordinary shares as at 22 August 2008. The Board believes that the ability to make market purchases of Ordinary shares is a valuable mechanism to enhance shareholder value. Purchases will only be made through the market for cash at prices below the prevailing diluted net asset value per Ordinary share when there will be a resulting financial benefit for the remaining shareholders and where such purchases would be in the best interests of shareholders generally. The Board has no current intention of exercising the authority to make market purchases of Ordinary shares.

Under the Listing Rules of the UK Listing Authority, the price which may be paid for the Ordinary shares under any buy back of shares must not be more than 5% above the average of the market values of the Ordinary shares for the five business days before the purchase is made. Ordinary shares may not be purchased for less than their par value of 25 pence per share. The Listing Rules require that if the percentage of a class of shares in the hands of the public falls below 25%, this may result in the suspension or cancellation of listing of these shares on the Official List of the UK Listing Authority. Shares held by persons connected with a director of the issuer or any person who is interested in 5% or more of the shares of the relevant class are deemed not to be held in public hands. It is possible, given the holdings of persons in the Company who hold more than 5% of the Ordinary shares, that if the buy back authority sought in Resolution 9 to be proposed at the AGM were exercised in full, the percentage of Ordinary shares deemed to be held in public hands would fall below 25%. Accordingly, the Directors will not exercise the authority to buy back Ordinary shares where this would cause the percentage of shares deemed to be held in public hands to fall below 25%.

Resolution 9, to be proposed as a Special Resolution, will give the Directors the flexibility of either cancelling the bought back shares or holding them in treasury.

Resolution 10 – disapplication of statutory pre-emption rights

The Directors consider it advisable to renew their authority, due to expire at this year's Annual General Meeting, to allot equity securities for cash, other than to existing shareholders pro rata to their holdings. This authority will enable the Directors, at any time until the Annual General Meeting in 2009, to allot equity securities wholly for cash in connection with a rights issue or otherwise up to an aggregate nominal amount of £227,869. This limited disapplication of pre-emption rights will allow the Directors to allot

up to 911,476 Ordinary Shares, representing approximately 5 per cent. of the issued equity share capital as at 22 August 2008. Resolution 10 will be proposed as a Special Resolution.

Resolution 11 – amendments to the Articles of Association

The Board seeks shareholders' approval for Resolution 11 in the Notice of Meeting, to make amendments to the Company's Articles of Association (the Articles) to take account of certain changes in UK company law brought about by the Companies Act 2006.

Details of the proposed amendments are contained in the Appendix which accompanies this Annual Report.

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where a company's articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

The proposed amendments to the Articles would give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position under the Articles. There are safeguards which will apply when the Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success.

The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed. Resolution 11 will be proposed as a Special Resolution.

Creditors' Payment Policy

It is the Company's policy to obtain the best terms for all business including purchases of investments and to abide by those agreed terms. The Company had no trade creditors (creditors' days: nil) at either 31 May 2008 or 31 May 2007.

Auditors

Grant Thornton UK LLP, Chartered Accountants, have indicated their willingness to continue in office and a resolution will be proposed at the forthcoming Annual General Meeting to re-appoint them as auditors and authorise the Directors to determine the auditors' remuneration for the ensuing year.

On behalf of the Board
Phoenix Administration Services Limited
Secretary

22 August 2008

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law in the United Kingdom requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent Company financial statements on the same basis.

The Group and parent Company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for ensuring that the Report of the Directors and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Rules of the UK Listing Authority.

Financial statements of the Company are published on <http://www.eclectictrust.com>. The Directors are responsible for ensuring the maintenance and integrity of the information relating to the Company published on this website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Declaration

The non-executive Directors listed on page 11, being the persons responsible, hereby confirm to the best of their knowledge:

- that the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group; and
- the Management Report (which comprises the Chairman's Statement and the Business Review) includes a fair review of the development and performance of the business and the position of the Company and the Group, together with the principal risks and uncertainties that the Company and the Group face.

Going Concern

After considering the Company's current financial resources, as the majority of the Net Assets of the Company are securities which are traded on recognised stock exchanges, the Directors are satisfied that its resources are adequate for continuing in business for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

Disclosure of information to auditors

The Directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all of the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and establish that the Company's auditors are aware of that information.

The Annual Report and the Group and parent Company financial statements were approved by the Board on 22 August 2008 and the above responsibility statement was signed on behalf of the Board by:

Anthony Bushell
Chairman

22 August 2008

CORPORATE GOVERNANCE STATEMENT

The Board supports high standards of corporate governance and the following is the Directors' Statement of Compliance with the Combined Code on Corporate Governance issued by the Financial Reporting Council ("FRC") in June 2006 ("the Combined Code")¹ and the Principles contained within the Code of Corporate Governance published in May 2007 by the Association of Investment Companies ("AIC") ("the AIC Principles").¹

The Board has carried out a review of the provisions of the Combined Code and the AIC Principles and confirms that it has complied throughout the period under review with the Combined Code and has followed the AIC Principles, subject to those aspects explained below where the Company has not complied or does not feel it appropriate for a Company of this size to do so.

The Board of Directors

For the year to 31 May 2008 the Board consisted of four members, all of whom are non-executive and independent of the Investment Manager. Particulars of the Directors are set out on page 11. The Board has considered the need to appoint a senior independent Director but believes this is not necessary as all the Directors, including the Chairman, are independent.

The Directors normally meet as a Board on a quarterly basis, the Audit Committee at least twice each year, the Management Engagement Committee at least once each year and the Nomination and Remuneration Committees meet as and when required.

The number of meetings of the Board and Committees is given below, together with individual Director's attendance or participation by telephone conference call at those meetings:

	Board	Audit Committee	Management Engagement Committee	Remuneration Committee
Number held	4	2	1	—
A F Bushell	4	2	1	—
P I Burrows	4	n/a	n/a	—
B C Hervey	4	2	1	—
W J McLeland	4	2	1	—

The Board lays down guidelines within which the Investment Manager implements investment policy but has a schedule of matters reserved for the resolution of the Directors. A full report on the investment holdings and performance is received from the Investment Manager and discussed at Board meetings. The Investment Manager also reports regularly to the Board on the Company's financial position.

All Board members have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that the Company complies with the UK Listing Authority Rules, the statutory provisions of the Companies Acts and other applicable regulations, and with Board procedures. The appointment and replacement of the Company Secretary is a matter for the Board as a whole. The Directors also have the facility to take independent professional advice, where necessary, at the Company's expense.

Board Structure

There is a clear division of responsibilities between the Chairman, the Board, the Investment Manager and other third party service providers. No single Director has unfettered powers of decision. The Chairman is responsible for leadership of the Board ensuring its effectiveness on all aspects of its role, and ensures that the Directors receive accurate, timely and clear information. The Board leads on matters concerning the Company's investment objective, gearing, capital structure, governance, the appointment of service providers and liaison with shareholders. Representatives of the Investment Manager and the Secretary attend or participate by telephone conference call at each Board meeting. The Board, the Investment Manager and Secretary operate in a supportive and cooperative manner.

Board Independence

The Board is fully independent of the Investment Manager and recognises that its prime purpose is to direct the business so as to maximise shareholder value within a framework of proper controls.

Evaluation of the Performance of the Board

The Board conducts evaluations of the performance of the Board, its Committees, individual Directors and third-party service providers. The evaluations are led by the Chairman; other than in respect of the appraisal of his own performance which is led by Mr B Hervey; using regular informal evaluations. The Board is satisfied from the results of the appraisals that the individual Directors, the Board Committees and third party service providers function effectively, collectively and individually, and that the Board contains an appropriate balance of skills and experience for the effective management of the Company.

¹ The Combined Code and the AIC Principles are respectively available on the following web-sites: www.frc.org.uk/corporate/combinedcode.cfm
www.theaic.co.uk/files/technical/AICCode.pdf

Re-election of Directors

In accordance with Principle A.7.2 of the Combined Code, Messrs A Bushell, P Burrows and W McLeland who have each served as Directors of the Company for more than nine years, will retire at the forthcoming Annual General Meeting and being eligible offer themselves for re-election.

The biographies of the Directors are set out on page 11 of this Report. None of the Directors consider longevity of service as an impairment to independence or judgement but were this to become the case the relevant Director(s) would stand down.

The individual Directors demonstrate considerable experience and expertise in the financial services and investment sectors and each Director makes a significant contribution to the Board's deliberations. The Board fully supports the re-election of each Director at the forthcoming Annual General Meeting of the Company.

Remuneration Committee

The Board as a whole fulfils the function of a Remuneration Committee which meets periodically. Notwithstanding Provision B 2.1 of the Combined Code, the Board considers that as only two of the Directors are based in the UK, chairmanship of the Remuneration Committee by the Chairman of the Board is the most appropriate arrangement for the Company. Pursuant to the Company's Articles of Association, the aggregate remuneration of the Directors shall not exceed £75,000 per annum.

Under the UK Listing Rules, where an investment trust company has no executive directors, the Code's provisions relating to directors' remuneration do not apply. Details of the Directors' fees are given in the Directors' Remuneration Report on pages 20 and 21. The Company arranges appropriate insurance cover in respect of any legal action against the Directors.

Nomination Committee

The Board as a whole fulfils the function of a Nomination Committee which considers appointments to the Board. The Directors have between them many years' collective experience within the industry and a broad knowledge of individuals who would have the necessary skills to promote and develop the Company. Accordingly the Nomination Committee does not consider it necessary to engage the services of third party search consultants unless no such suitably skilled individuals can be identified by the members of the Committee.

Management Engagement Committee

Mr A Bushell (as Chairman), Mr B Hervey and Mr W McLeland comprise the Management Engagement Committee which considers the terms of engagement with Ingot Capital Management Pty Limited and Phoenix Administration Services Limited and the fees and other remuneration payable. (See note 6 to the Financial Statements.)

It is the sole responsibility of the Investment Manager to take decisions on the purchase and sale of individual investments. The Company has authorised the Investment Manager to vote on shares held in investee companies at its discretion having regard to the best interests of the Company on ordinary business but the Investment Manager is required to consult with the Chairman before voting on special business.

Financial Reporting

A list of the ten largest investments held by the Company constituting the majority of the Company's investment in the portfolio is given on page 7.

Details of the Company's multi-currency revolving credit ("facility") with The Royal Bank of Scotland International (the "Bank") are disclosed in note 18 to the Financial Statements. The covenants relating to the facility are continuously monitored. Revisions to the facility were agreed by the Bank in April 2008 reducing the required ratio of security cover thereby allowing a greater degree of flexibility in the portfolio. In addition, the borrowing limit of the facility was increased to £6.9m.

Internal Control

There is an ongoing process for identifying, evaluating and managing those risks which are significant for the Group, reflecting the guidance for Directors provided by the Financial Reporting Council ("FRC") in 'Internal Control Revised Guidance for Directors on the Combined Code'. This process has been in place for the year ended 31 May 2008 and up to the date of approval of the Annual Report and is regularly reviewed by the Board.

The Board has ultimate responsibility for ensuring that the Company's service providers implement and operate suitable accounting and internal control systems designed to prevent and detect fraud and error, and for reviewing their effectiveness. An independent custodian is appointed with responsibility for safeguarding the Group's assets. There are clearly defined responsibilities between the Board, the Custodian and the

Investment Manager, with detailed operating procedures in place. The internal controls operated by the Board include the authorisation of the investment strategy and regular reviews of the investment performance and financial results. The system is designed to manage rather than eliminate the risk of being unable to meet business objectives and can provide reasonable but not absolute assurance against material misstatements or loss, as explained by the FRC's guidance. The Board has monitored the operation and effectiveness of the Group's system of internal controls during the period through its ongoing identification, assessment and management of the Group's key risks, and an annual review of the Group's risk matrix is undertaken by the Audit Committee.

The Board has contractually delegated the management of the investment portfolio to the Investment Manager, Ingot Capital Management Pty Limited, the day to day administration and company secretarial functions to Phoenix Administration Services Limited, and the custodial services to the Northern Trust Corporation. These contracts are only entered into after full consideration by the Board of the services undertaken.

The Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal controls operated on behalf of its clients. The Investment Manager's compliance and risk department assesses and reports to the Board on the effectiveness of the internal controls and the business risk exposure of the Investment Manager.

The Administrator's internal controls provide an effective means of control covering business, operational, compliance and financial risks of the Group. A report on these internal controls is provided to the Board at least annually.

The Audit Committee undertakes an annual review of the internal and financial controls of the Investment Manager, the Administrator and the Custodian.

Audit Committee

The Group's Audit Committee comprises Mr A Bushell (as Chairman), Mr B Hervey and Mr W McLeland. The constitution of the Committee satisfies the requirement of Principle C.3.1 of the Combined Code. Notwithstanding Principle 2.4 of the Financial Reporting Council's Guidance on Audit Committees, the Board considers that as only two of the Directors are based in the UK, chairmanship of the Audit Committee by the Chairman of the Board is the most appropriate arrangement for the Company. All members of the Committee are independent and have considerable knowledge of the investment industry. The Board is

satisfied that all members of the Audit Committee have recent and relevant competence and experience.

The Audit Committee monitors the integrity of the financial statements of the Company, and reviews any formal announcements relating to the Company's financial performance and the financial reporting judgements contained therein.

The Audit Committee also monitors and reviews annually the objectivity, effectiveness and qualification of the auditors, the auditors' independence, the scope and fees for non-audit work and, in particular, requires that any non-audit work is undertaken by the auditors' staff not engaged in the provision of audit services. Based on the monitoring and audit process, the Audit Committee makes recommendations to the Board on the appointment, re-appointment and remuneration of the auditors. The auditors currently provide tax compliance services to the Company. The Committee considers the scope of any non-audit work proposed to be undertaken by the auditors and the fees payable for such work, in advance of engagement.

The responsibilities of the Audit Committee also include the review of internal controls and the Company's risk matrix, accounting policies, financial statements and the carrying value of any unquoted investments.

The Audit Committee meets at least twice each year with representatives of the Investment Manager who report on the proper conduct of the Investment Manager's business and internal controls in accordance with the regulatory environment in which both the Group and the Investment Manager operate. Minutes of the Audit Committee's meetings are formally recorded and reported to the Board by the Chairman. The Company's Auditors also attend Audit Committee meetings at least once a year and report on their work procedures, the quality and effectiveness of the Company's accounting procedures and their findings in relation to the Company's statutory audit.

The Audit Committee and the Board are satisfied from a review of both the audit and non-audit work undertaken for the Company by its Auditors during the year that the auditors' independence was not compromised during the year nor is likely to be compromised in the foreseeable future. The Board has accepted the Audit Committee's recommendation that a proposal to re-appoint Grant Thornton UK LLP, as the Group's Auditors, be considered at the forthcoming Annual General Meeting.

As the Group's investment management, accounting and custodial activities are carried out by third party service providers, the Board does not consider it necessary to have a separate internal audit

function. The Audit Committee reviews the whistle blowing procedures of the Investment Manager.

The Audit Committee satisfies itself about the effectiveness of internal controls by requiring service providers to report and give assurance on their controls to the Audit Committee. Although the Directors can thereby provide reasonable assurance against material misstatement or loss, they acknowledge that risk cannot be eliminated altogether. Their approach to managing internal control and risk conforms to the recommendations of the Internal Control – Revised Guidance for Directors on the Combined Code. The Board confirms that in this manner it has reviewed the effectiveness of the Company's internal controls for the period under review, taking into account matters arising up to the date of the Annual Report.

Shareholder Relations

The Company, through the Investment Manager, has regular contact with its institutional shareholders and the views of shareholders are communicated to the Board. The Board supports the principle that the Annual General Meeting ("AGM") provides a constructive opportunity to facilitate communication with the Company's investors, and encourages shareholders to attend and participate in the AGM. The provisions of the Combined Code where appropriate in relation to the forthcoming AGM have been implemented in this Annual Report.

The following may be inspected at the Registered Office of the Company during normal business hours:

The Terms of Reference for Committees of the Board
 The terms and conditions of appointment of the Directors

Social, Economic and Environmental Matters

As an investment trust, the Company has no direct impact on social, economic and environmental issues.

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday 22 October 2008 at 12 noon and the Notice of Meeting is set out on pages 45 and 46. In accordance with the Combined Code, the Notice of Meeting is circulated more than 20 working days before the meeting. Details of the Proxy votes received in respect of each resolution will be available to shareholders at the meeting and subsequently on the Company's website.

DIRECTORS' REMUNERATION REPORT

The Company has prepared this Report, in accordance with the requirements of Schedule 7A to the Companies Act 1985.

An ordinary resolution for the approval of this Report will be put to shareholders at the Annual General Meeting.

The law requires a Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in the Independent Auditors' Report on pages 22 and 23.

Remuneration Committee

All Directors are non-executive and the Board as a whole fulfils the function of a Remuneration Committee. The Board reviewed the Directors' fees in February 2007 (previously reviewed in 2002) and increased the fee for each Director with effect from 1 December 2006 to £12,500 and to £25,000 for the Chairman. The Directors' emoluments for the year are shown in the table on page 21.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and a similar investment objective. It is intended that this policy will continue for the year ending 31 May 2009 and subsequent years.

Pursuant to the Company's Articles of Association, Directors' fees are limited to a maximum aggregate of £75,000 per financial year. Directors are not eligible for bonuses, performance remuneration, pension entitlements, share options, long-term incentive schemes or other benefits. No Director may vote on his own remuneration.

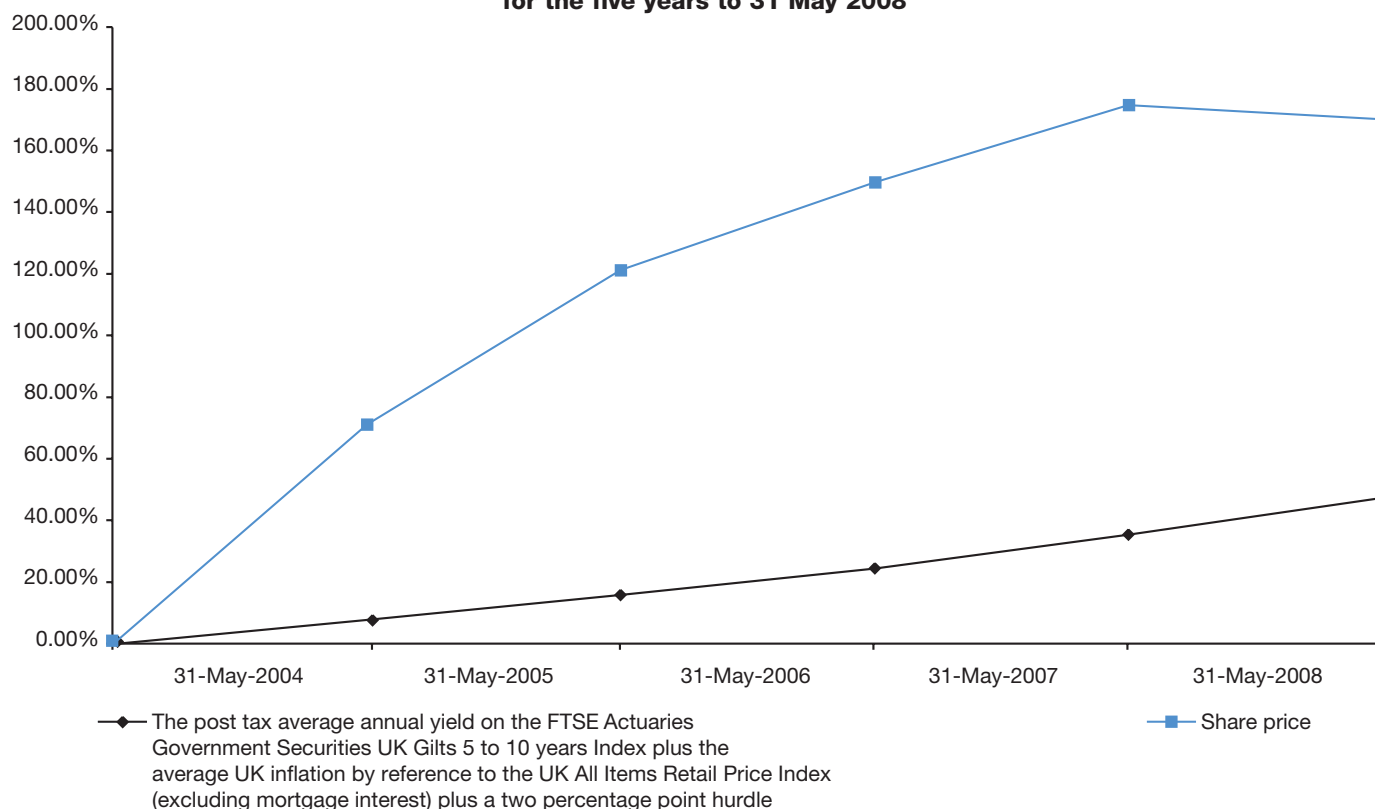
Directors' Service Contracts

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to election at the first Annual General Meeting after their appointment and re-election at least every three years thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

Company's performance

The graph below compares the total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the Company's benchmark which is based on the FTSE Actuaries Government Securities UK Gilts 5 to 10 Years Index.

Total shareholder return performance for Eclectic Investment Trust plc and the post tax average annual return on the FTSE Actuaries Government Securities UK Gilts 5 to 10 years Index plus the average UK inflation by reference to the UK All Items Retail Price Index (excluding mortgage interest) plus a two percentage point hurdle, for the five years to 31 May 2008



Directors' Emoluments for the years ended 31 May (audited)

	2008	2007
	£	£
A F Bushell*	25,000	22,500
P I Burrows†	12,500	11,250
B C Hervey	12,500	11,250
W J McLeland	12,500	11,250
	62,500	56,250

* Chairman of the Board and Audit Committee

† Paid to Trabatú Pty Limited for the services of P I Burrows to act as a Director of the Company.

This Remuneration Report was approved by the Directors on 22 August 2008 and signed on their behalf by:

Phoenix Administration Services Limited

Secretary

INDEPENDENT AUDITORS' REPORT

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF ECLECTIC INVESTMENT TRUST PLC

We have audited the Group and parent Company financial statements (the "financial statements") of Eclectic Investment Trust plc for the year ended 31 May 2008 which comprise the Group Income Statement, the Group and parent Company Statements of Changes in Equity, the Group and parent Company Balance Sheets, the Group and parent Company Cash Flow Statements, and notes 1 to 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 auditor's 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' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are 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 and whether 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, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes specific information that is cross-referred from the Business Review section of the Directors' Report.

In addition we 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 2006 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 only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report and the Corporate Governance Statement. 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 May 2008 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 May 2008;
- 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, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
London

22 August 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY 2008

	Notes	31 May 2008			31 May 2007		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income							
Investment income	2	1,158	—	1,158	1,101	74	1,175
Other income	3	58	—	58	21	—	21
(Losses)/gains on investments held at fair value through profit or loss:							
Non current assets	11	—	(43)	(43)	—	9,118	9,118
Gains/(losses) on current assets held at fair value through profit or loss:							
Derivatives		—	1,455	1,455	—	(2,092)	(2,092)
Forward currency contracts		—	(234)	(234)	—	(349)	(349)
Exchange differences		—	(810)	(810)	—	(91)	(91)
		1,216	368	1,584	1,122	6,660	7,782
Expenses							
Investment management fee	4	(159)	—	(159)	(165)	(556)	(721)
Other expenses	5	(338)	(18)	(356)	(490)	(694)	(1,184)
Finance costs	7	(875)	—	(875)	(507)	—	(507)
		(1,372)	(18)	(1,390)	(1,162)	(1,250)	(2,412)
(Loss)/profit before tax		(156)	350	194	(40)	5,410	5,370
Taxation	8	(18)	—	(18)	(36)	(6)	(42)
(Loss)/profit for the year		(174)	350	176	(76)	5,404	5,328
Earnings per Ordinary share							
	10						
Basic – Ordinary shares		(0.95)p	1.92p	0.97p	(0.50)p	35.48p	34.98p
Diluted – Ordinary shares*		—	—	—	0.04p	29.64p	29.68p

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The revenue and capital columns are supplementary to this and are prepared under the guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

*Where the earnings per Ordinary share are anti-dilutive (2007: revenue earnings), they are shown above for completeness only.

The notes on pages 29 to 43 form part of these Financial Statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MAY 2008

ECLECTIC INVESTMENT TRUST PLC
REPORT AND ACCOUNTS 2008

Group Year ended 31 May 2007

	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	CULS reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
At 31 May 2006	3,005	2,522	500	208	10,213	3,951	(1,261)	19,138
Profit/(loss) for the period	—	—	—	—	4,302	1,102	(76)	5,328
Ordinary dividend paid (see note 9)	—	—	—	—	—	—	(180)	(180)
Transfer to retained earnings (see note 1 (k))	—	—	—	(18)	—	—	18	—
Conversion of 2007 Loan Stock	1,552	4,527	—	(190)	—	—	—	5,889
At 31 May 2007	4,557	7,049	500	—	14,515	5,053	(1,499)	30,175

Group Year ended 31 May 2008

	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
At 31 May 2007	4,557	7,049	500	14,515	5,053	(1,499)	30,175
Profit/(loss) for the period	—	—	—	4,278	(3,928)	(174)	176
Ordinary dividend paid (see note 9)	—	—	—	—	—	(273)	(273)
At 31 May 2008	4,557	7,049	500	18,793	1,125	(1,946)	30,078

Company Year ended 31 May 2007

	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	CULS reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
At 31 May 2006	3,005	2,522	500	208	10,213	1,637	981	19,066
Profit/(loss) for the period	—	—	—	—	4,300	1,104	(76)	5,328
Ordinary dividend paid (see note 9)	—	—	—	—	—	—	(180)	(180)
Transfer to retained earnings (see note 1 (k))	—	—	—	(18)	—	—	18	—
Conversion of 2007 Loan Stock	1,552	4,527	—	(190)	—	—	—	5,889
At 31 May 2007	4,557	7,049	500	—	14,513	2,741	743	30,103

Company Year ended 31 May 2008

	Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
At 31 May 2007	4,557	7,049	500	14,513	2,741	743	30,103
Profit/(loss) for the period	—	—	—	1,542	(1,207)	(159)	176
Ordinary dividend paid (see note 9)	—	—	—	—	—	(273)	(273)
At 31 May 2008	4,557	7,049	500	16,055	1,534	311	30,006

The notes on pages 29 to 43 form part of these Financial Statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 MAY 2008

	Notes	31 May 2008 £'000	31 May 2007 £'000
Non current assets			
Investments held at fair value through profit or loss	11	30,257	29,666
Current assets			
Investments held at fair value through profit or loss		2	2
Derivatives held at fair value through profit or loss		4,078	2,476
Forward currency contracts held at fair value through profit or loss		—	4,494
Other receivables	12	341	6,663
Cash and cash equivalents		6,561	4,503
		10,982	18,138
Total assets		41,239	47,804
Current liabilities			
Derivatives held at fair value through profit or loss		(4,245)	(2,395)
Forward currency contracts held at fair value through profit or loss		—	(4,500)
Other payables	13	(443)	(6,196)
Bank loans and overdrafts		(6,473)	(4,538)
		(11,161)	(17,629)
Net assets		30,078	30,175
Equity attributable to equity shareholders			
Ordinary share capital	15	4,557	4,557
Share premium		7,049	7,049
Capital redemption reserve		500	500
Capital reserve – realised		18,793	14,515
Capital reserve – unrealised		1,125	5,053
Revenue reserve		(1,946)	(1,499)
Total equity	16	30,078	30,175
Net asset value per Ordinary share:			
– Basic	16	165.00p	165.53p

The Financial Statements on pages 24 to 43 were approved by the Board of Directors on 22 August 2008 and were signed on its behalf by:

Anthony Bushell
Chairman

The notes on pages 29 to 43 form part of these Financial Statements.

COMPANY BALANCE SHEET

AS AT 31 MAY 2008

ECLECTIC INVESTMENT TRUST PLC
REPORT AND ACCOUNTS 2008

	Notes	31 May 2008 £'000	31 May 2007 £'000
Non current assets			
Investments held at fair value through profit or loss	11	30,259	29,668
Current assets			
Derivatives held at fair value through profit or loss		538	36
Forward currency contracts held at fair value through profit or loss		—	4,494
Other receivables	12	338	6,663
Cash and cash equivalents		6,557	4,503
Global Equity Risk Protection 'C'	11	2,976	1,696
		10,409	17,392
Total assets		40,668	47,060
Current liabilities			
Derivatives held at fair value through profit or loss		(3,692)	(1,879)
Forward currency contracts held at fair value through profit or loss		—	(4,500)
Other payables	13	(497)	(6,040)
Bank loans and overdrafts		(6,473)	(4,538)
		(10,662)	(16,957)
Net assets		30,006	30,103
Equity attributable to equity shareholders			
Ordinary share capital	15	4,557	4,557
Share premium		7,049	7,049
Capital redemption reserve		500	500
Capital reserve – realised		16,055	14,513
Capital reserve – unrealised		1,534	2,741
Revenue reserve		311	743
Total equity		30,006	30,103

The Financial Statements on pages 24 to 43 were approved by the Board of Directors on 22 August 2008 and were signed on its behalf by:

Anthony Bushell
Chairman

The notes on pages 29 to 43 form part of these Financial Statements.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

		Group	Company	Group	Company
		2008	2008	2007	2007
	Notes	£'000	£'000	£'000	£'000
Net cash inflow/(outflow) from operating activities		504	489	(2,106)	(2,104)
Investing activities					
Purchases of investments		(17,390)	(17,390)	(10,908)	(10,908)
Sales of investments		18,092	18,092	14,745	14,745
Net cash inflow from investing activities		702	702	3,837	3,837
Net cash inflow before financing					
Net cash inflow from financing activities	17(a)	552	552	2,218	2,218
Increase in cash and cash equivalents					
Exchange movements		281	292	(27)	(29)
Change in cash and cash equivalents					
Cash and cash equivalents at beginning of year		4,497	4,497	575	575
Cash and cash equivalents at end of year	17(b)	6,536	6,532	4,497	4,497

Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities

Profit before taxation		194	194	5,370	5,370
Losses/(gains) on investments held at fair value		43	43	(9,118)	(9,118)
Exchange differences		810	799	91	93
Decrease/(increase) in other debtors		7,355	6,681	(6,684)	(5,940)
Increase in accrued income		(179)	(179)	(44)	(44)
(Decrease)/increase in creditors		(7,695)	(7,025)	8,320	7,576
Taxation		(24)	(24)	(59)	(59)
Notional interest charge CULS 2007	1(k)	—	—	18	18
Net cash inflow/(outflow) from operating activities		504	489	(2,106)	(2,104)

The notes on pages 29 to 43 form part of these Financial Statements.

1. Accounting policies

The financial statements of the Group and 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 interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee (“IASC”) that remain in effect, to the extent that IFRS have been adopted by the European Union.

The functional currency of the Group is pounds Sterling because this is the currency of the primary economic environment in which the Group operates. The financial statements are also presented in pounds Sterling.

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the measurement at fair value of certain financial instruments. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice (“the SORP”) for investment trusts issued by the Association of Investment Companies (“the AIC”) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

(b) Basis of consolidation

The Group accounts consolidate the accounts of the Company, its wholly-owned subsidiary undertaking, Eclectic Stocks Limited and the “C” shares of Global Equity Risk Protection Limited.

(c) Presentation of Income Statement

In order to better 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 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 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Company’s compliance with certain requirements set out in Section 842 of the Income and Corporation Taxes Act 1988.

(d) Income

Dividends receivable on equity shares are recognised as revenue for the period on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received. The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective interest rate on the debt securities and shares. Interest receivable from cash and short-term deposits is recognised on an accrual basis. Underwriting commission is recognised as earned. Special dividends are taken to capital unless there is sufficient information available to determine otherwise.

(e) Expenses

Interest is calculated by using the effective interest rate and is charged to finance costs in the Income Statement.

All other expenses and interest payable are accounted for on an accruals basis. Expenses have been treated as revenue except as follows:

- transaction costs incurred on the acquisition or disposal of investments are taken to the capital column of the Income Statement;
- expenses are presented in the capital column of the Income Statement where a connection with the maintenance or enhancement of the value of investments can be demonstrated;
- any performance fees payable are allocated wholly to the capital column of the Income Statement.

(f) Taxation

The tax charged is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against the capital column in the supplementary information in the Income Statement is the “marginal basis”. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue column of the Income Statement, then no tax relief is transferred to the capital column.

(f) Taxation continued

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Income Statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

(g) Investments held at fair value through profit or loss

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors.

When a purchase or sale is made under contract, the terms of which require delivery within a timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All investments are designated by the Company upon initial recognition as held at fair value through profit or loss.

They are included initially at fair value, which is taken to be their cost (excluding expenses incidental to the acquisition which are written off in the Income Statement and allocated to capital at the time of acquisition) 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.

Fair values for unquoted investments, or for investments for which there is only an inactive market, are established by using various valuation methodologies in accordance with International Private Equity and Venture Capital Valuation Guidelines. These may include recent arm's length market transactions, the current fair value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised.

Investments held by the subsidiary undertaking are classified as "held for trading" and are valued at fair value in accordance with the policies above for listed and unlisted holdings. Profits or losses on investments "held for trading" are taken to revenue.

Changes in fair value to all investments held at fair value are recognised in the Income Statement. On disposal, realised gains and losses are also recognised in the Income Statement.

(h) Cash and cash equivalents

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

(i) Dividends payable

Final dividends are recognised in the period in which they are approved by shareholders.

(j) Foreign currency translation

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction. At each balance sheet date, monetary items and non-monetary assets and liabilities, which are fair valued and which are denominated in foreign currencies, are retranslated at the closing rates of exchange. Such exchange differences are

included in the Income Statement and allocated to capital if of a capital nature or to revenue if of a revenue nature. Exchange differences allocated to capital are taken to realised capital reserve or unrealised reserve, as appropriate.

**(k) Convertible Unsecured Loan Stock 2007
(fully converted 31 May 2007)**

Convertible loan stock issued by the Company is regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan stock and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan stock based on their relative carrying amounts at the date of issue. The proportion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan stock.

As the change to the liability becomes fully reflected in the accounts as a realised loss by virtue of the additional interest charge, then the portion of the proceeds initially credited directly to equity becomes a profit for legal purposes to the same extent therefore offsets the loss arising through the higher effect of the interest charge.

(l) Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in market prices, foreign currency exchange rates and interest rates. Derivative transactions which the Group may enter into comprise forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Group's investing activities), contracts for difference to maintain exposure to certain companies and quoted options on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings). The Group does not use derivative financial instruments for speculative purposes. Any gains/losses from derivative transactions are recognised as capital within the Income Statement.

The use of financial derivatives is governed by the Group's policies as approved by the Board.

Derivatives are classified at fair value through profit or loss and further fall within the classification of held for trading as per the accounting standards.

Changes in the fair value of derivative financial instruments are recognised in the Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Investment Income

	2008 £'000	2007 £'000
Overseas investment income	883	806
UK investment income	110	77
Overseas fixed interest income	165	239
UK fixed interest income	—	53
	1,158	1,175
Investment income comprises		
Dividends – income	993	809
Special dividends – capital	—	74
Interest	165	292
	1,158	1,175

3. Other income

	2008 £'000	2007 £'000
Deposit interest	58	21

4. Investment management fees

	2008 £'000	2007 £'000
Investment management fee	159	165
Investment incentive fee – capital (see note 6)	—	556
	159	721

Details of the investment management agreement are disclosed in note 6 to the Financial Statements.

5. Other expenses

	2008 £'000	2007 £'000
Administration fee	85	81
Directors' emoluments	63	56
Fees payable to the Company's auditor for:		
– audit of the Group and Company Financial Statements	22	23
– other services relating to taxation	5	6
– all other services	2	15
Expenses relating to the restructuring of the Company	—	149
Other	161	160
	338	490
Capital charges	18	11
Legal fees – capital (see note 19)	—	683
	356	1,184

6. Disclosure of interests

In accordance with the terms of the investment management agreement dated 15 September 2006, as amended by a Supplemental Agreement dated 20 October 2006, between the Company and Ingot Capital Management Pty Ltd ("ICM"), ICM provides investment management services to the Company for which ICM receives an annual fee of 0.5 per cent. of gross assets less current liabilities (excluding borrowings) of the Company. It is also entitled to a performance fee equal to 15 per cent. of the amount by which the net asset value of the Company at the end of any accounting period, after adding back any distributions made by the Company during the relevant accounting period, exceeds the post tax average annual yield of the FTSE Actuaries Government Securities UK Gilts 5 to 10 Years Index plus the average UK inflation by reference to the UK All Items Retail Price Index (excluding mortgage interest payments) plus a two percentage point hurdle.

No performance fee is payable in respect of the year ended 31 May 2008 (2007: £556,000). The amounts charged during the year are shown in note 4 and as at 31 May 2008 £37,000 (2007: £43,000) of the investment management fee was outstanding. This agreement is terminable by either party on one year's notice.

In accordance with an administration agreement dated 9 January 2002 between the Company and Phoenix Administration Services Limited ("Phoenix"), Phoenix provides administration and company secretarial services to the Company for which Phoenix receives an annual fee of £85,000 (2007: £85,000). This agreement is terminable by either party on three months' notice.

7. Finance costs

	2008	2007
	£'000	£'000
On bank loans and overdrafts	875	388
Convertible Subordinated Unsecured Loan Stock 2007	—	119
	875	507

8. Taxation

(a) Analysis of the charge for the year

	2008			2007		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
UK Corporation tax at 29.69% (2007: 19%)	—	—	—	—	—	—
Overseas tax – double tax relief	—	—	—	—	—	—
Overseas tax suffered	19	—	19	37	6	43
Withholding tax reclaims	(1)	—	(1)	(1)	—	(1)
Total current tax for the year (see note 8 (b))	18	—	18	36	6	42

8. Taxation continued

(b) Factors affecting the current tax charge for the year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK for a large company (30%). The difference is explained below.

	2008	2007
	£'000	£'000
Profit before tax	194	5,370
Corporation tax at 30%	58	1,611
Effects of:		
– UK dividends which are not taxable	(33)	(23)
– Overseas dividends taxable on receipt	(52)	—
– Non taxable gains on investments held at fair value through profit or loss	(110)	(1,976)
– Disallowed expenses	10	208
– Current year excess expenses	119	180
– Irrecoverable overseas tax	18	42
– Revaluation of CULS 2007 under IFRS	8	—
Current tax charge for the year	18	42

(c) Deferred tax

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

There is an unrecognised deferred tax asset of £230,000 (2007: £111,000) which relates to unutilised expenses. The deferred tax asset would only be recovered if the Company were to generate sufficient taxable profits in the future to utilise these expenses.

9. Dividends

	2008	2007
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 May 2007 of 1.50p (2006: 1.50p) per Ordinary share	273	180

Set out below is the final dividend proposed on Ordinary shares in respect of the financial year, which is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered.

	2008	2007
	£'000	£'000
Proposed final dividend for the year ended 31 May 2008 of 0.75p (2007: 1.50p) per Ordinary share	137	273

International Accounting Standard (IAS) 10 "Events after the Balance Sheet date" does not permit proposed dividends to be included in the profit or loss account, with the corresponding liability in the balance sheet. Dividend distributions are recognised as a liability in the period which they are approved by the Company's shareholders.

10. Earnings per Ordinary share

Total earnings per Ordinary share	2008	2007
Total return	£176,000	£5,328,000
Weighted average number of Ordinary shares in issue during the year	18,229,502	15,229,017
Total earnings per Ordinary share	0.97p	34.98p

The total earnings per Ordinary share detailed above can be further analysed between revenue and capital, as set out below:

Revenue earnings per Ordinary share	2008	2007
Revenue return	£(174,000)	£(76,000)
Weighted average number of Ordinary shares in issue during the year	18,229,502	15,229,017
Revenue earnings per Ordinary share	(0.95)p	(0.50)p

Capital earnings per Ordinary share	2008	2007
Capital return	£350,000	£5,404,000
Weighted average number of Ordinary shares in issue during the year	18,229,502	15,229,017
Capital earnings per Ordinary share	1.92p	35.48p

Diluted earnings

For the year ended 31 May 2008 there were no diluted earnings per Ordinary share.

For the year ended 31 May 2007 the diluted earnings per Ordinary share have been calculated on the assumption that the Convertible Subordinated Unsecured Loan Stock 2007 was fully converted on the first day of the financial year, giving a weighted average of 18,229,504 Ordinary shares and based on net profit for the year of £5,412,000. The dilutive earnings per Ordinary share of 29.68p includes the savings of finance costs on the loan stock after taxation.

The diluted earnings per Ordinary share figures detailed above can be further analysed between revenue and capital, as below.

Diluted revenue earnings:

The diluted revenue earnings per Ordinary share have been calculated on the assumption that the Convertible Subordinated Unsecured Loan Stock 2007 was fully converted on the first day of the financial year, giving a weighted average of 18,229,504 Ordinary shares and based on net revenue earnings on ordinary activities after taxation of £8,000. The anti-dilutive revenue earnings per Ordinary share of 0.04p includes the savings of finance costs on the loan stock after taxation.

Diluted capital earnings:

The diluted capital earnings per Ordinary share have been calculated on the assumption that the Convertible Subordinated Unsecured Loan Stock 2007 was fully converted on the first day of the financial year, giving a weighted average of 18,229,504 Ordinary shares and based on net capital earnings on ordinary activities after taxation of £5,404,000.

Net profit of the Company

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own Income Statement. Net profit after taxation of £176,000 has been dealt with in the accounts of the Company (year ended 2007: £5,328,000).

11. Investments held at fair value through profit or loss

Group

	Unlisted Investments £'000	Listed Investments £'000	Total 2008 £'000
Fair value at year end	2,188	28,069	30,257
Opening book cost	5,289	17,429	22,718
Opening unrealised (depreciation)/appreciation	(2,969)	9,917	6,948
Opening fair value	2,320	27,346	29,666
Movements in the year:			
Purchases at cost	28	16,654	16,682
Sales – proceeds	(242)	(15,806)	(16,048)
– realised gains on sales	32	3,341	3,373
Decrease in unrealised depreciation/(appreciation)	50	(3,466)	(3,416)
Closing fair value	2,188	28,069	30,257
Closing book cost	5,107	21,618	26,725
Closing unrealised (depreciation)/appreciation	(2,919)	6,451	3,532
	2,188	28,069	30,257
Sale proceeds	242	15,806	16,048
Investments at cost	(210)	(12,465)	(12,675)
Realised gains on sales based on historical cost	32	3,341	3,373
Gains recognised as unrealised in previous year	(7)	(1,863)	(1,870)
Realised gains on sales based on carrying value at previous year's balance sheet date	25	1,478	1,503
Unrealised appreciation/(depreciation) for the year	57	(1,603)	(1,546)
Net gains/(losses) per the Income Statement	82	(125)	(43)

Investment transaction costs on purchases and sales of investments during the year to 31 May 2008 amounted to £52,000 and £44,000 respectively (2007: £72,000 and £43,000 respectively).

Significant holdings

Where the Company's holdings comprises 3% or more of any class of capital of an investment and the holding is material in the context of the Company's financial statements, the relevant percentage of that class is shown in the review of the ten largest investments. There are no other holdings of 3% or more of any class of capital of an investment which are material to the Company's financial statements.

Company

In addition to the investments listed above under "Group", the Company has two subsidiaries.

Subsidiary	Principal Activity	Percentage of Equity held
Eclectic Stocks Limited	Security trading	100%
Global Equity Risk Protection 'C'	Security trading	100%

Eclectic Stocks Limited has a cost of £2 and a loan from the parent undertaking (fully provided against and therefore written down to a nominal value of £2,000) of £2,316,000. No further provision was made in the Company's accounts during the year to 31 May 2008 (2007: nil).

Global Equity Risk Protection 'C' has a cost of £3,920 and a fair value as at 31 May 2008 of £2,976,000 (2007: £1,696,000).

12. Other receivables

	Group	Company	Group	Company
	2008	2008	2007	2007
	£'000	£'000	£'000	£'000
Sales for future settlement	—	—	2,044	2,044
Closed forward currency contracts for future settlement	—	—	4,483	4,483
Prepayments and accrued income	286	286	90	90
Other debtors	55	52	46	46
	341	338	6,663	6,663

13. Other payables

	Group	Company	Group	Company
	2008	2008	2007	2007
	£'000	£'000	£'000	£'000
Purchases for future settlement	21	21	729	729
Derivatives for future settlement	—	—	228	—
Closed forward currency contracts for future settlement	—	—	4,504	4,504
Amounts due to subsidiary undertaking	—	72	—	72
Accruals and deferred income	422	404	735	735
	443	497	6,196	6,040

14. Non current liabilities: Convertible Subordinated Unsecured Loan Stock 2007

	2008		2007	
	No. of units		No. of units	
	000's	£'000	000's	£'000
Convertible Subordinated Unsecured Loan Stock 2007				
Balance at beginning of year	—	—	6,859	5,871
Units converted during the year	—	—	(6,859)	(5,889)
Additional finance charge to the Income Statement (see note 1 (k))	—	—	—	18
Balance at end of year	—	—	—	—

The 3.5 per cent. (gross) Convertible Subordinated Unsecured Loan Stock 2007 was issued on 25 March 1996 at a par value of 90p. The terms provided that the proceeds of the issue would be managed in a separate portfolio until 30 September 1997, at which time the Conversion Rate was calculated as set out in the Trust Deed dated 3 April 1996. On 9 October 1997 the Company announced that the Conversion Ratio was 22.6363p in nominal amount of Ordinary share capital for each 90p in nominal amount of loan stock. Accordingly, each unit of loan stock may be converted into one Ordinary share of 25 pence nominal amount at the rate of 0.90545251 of an Ordinary share for each unit of loan stock converted. On 2 November 2006 6,248,503 units of loan stock (7 November 2005: 4,660) were converted into 5,657,722 Ordinary shares (7 November 2005: 4,219). On 31 May 2007 there was a compulsory conversion of the remaining 610,639 units of loan stock into 552,904 Ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Called up share capital

	2008		2007	
	No. of shares		No. of shares	
	000's	£'000	000's	£'000
Authorised: Ordinary shares of 25 pence each	42,000	10,500	42,000	10,500
Issued and fully paid:				
Balance at beginning of year	18,230	4,557	12,019	3,005
Conversion of 2007 Loan Stock units in year	—	—	6,211	1,552
Balance at end of year	18,230	4,557	18,230	4,557

On 2 November 2006 6,248,503 Convertible Subordinated Unsecured Loan Stock 2007 units were converted into 5,657,722 Ordinary shares. On 31 May 2007 there was a compulsory conversion of the remaining 610,639 Convertible Subordinated Unsecured Loan Stock 2007 into 552,904 Ordinary shares.

16. Net asset value per share

The consolidated net asset value per Ordinary share and the net asset values attributable to the Ordinary shares at the year end calculated in accordance with the Articles of Association were as follows:

	Net asset value per share attributable		Net asset values attributable	
	2008	2007	2008	2007
	p	p	£'000	£'000
Ordinary shares (basic)	165.00	165.53	30,078	30,175

The movements during the year of the Group's assets attributable to the Ordinary shares were as follows:

	Ordinary shares (basic)
	£'000
Total net assets attributable at beginning of year	30,175
Profit for the year	176
Dividend paid in the year on Ordinary shares (see note 9)	(273)
Total net assets attributable at end of year	30,078

Basic net asset value per Ordinary share is based on Net Assets of £30,078,000 (2007: £30,175,000) and on 18,229,502 (2007: 18,229,502) Ordinary shares, being the number of Ordinary shares in issue at the year end.

17. Group and Company cash flow statement

(a) Analysis of cash flows for headings netted in the cash flow statement

	2008	2007
	£'000	£'000
Financing (Group and Company)		
The Royal Bank of Scotland International multi-currency loan facility	1,916	2,462
Exchange movement	(1,091)	(64)
	825	2,398
Equity dividend paid	(273)	(180)
Net cash inflow from financing activities	552	2,218

(b) Analysis of cash and cash equivalents at end of year

	At			At
	1 June	Cash	Exchange	31 May
	2007	flow	movement	2008
	£'000	£'000	£'000	£'000
Group				
Cash at bank	4,503	1,808	250	6,561
Overdrafts	(6)	(50)	31	(25)
Total	4,497	1,758	281	6,536

	At			At
	1 June	Cash	Exchange	31 May
	2007	flow	movement	2008
	£'000	£'000	£'000	£'000
Company				
Cash at bank	4,503	1,793	261	6,557
Overdrafts	(6)	(50)	31	(25)
Total	4,497	1,743	292	6,532

18. Financial instruments and capital disclosures

Risk management policies and procedures

The investment objective of the Group and Company is to maximise shareholder value by investing in a portfolio of securities anywhere in the world. In pursuit of this objective, the Group and Company may be exposed to various forms of risk, as described below.

When judged appropriate by the Investment Manager, the Company may use the multi-currency loan facility provided by The Royal Bank of Scotland International to the Sterling equivalent of up to £6.9 million (2007: £5 million) at floating rates of interest in order to gear the portfolio. The loan is secured against the assets of the fund other than those assets held by HSBC Australia as disclosed in note 19 to the financial statements. This facility expires on 31 December 2008.

The Board sets out its investment policies and its policy on gearing (both bank borrowing and the effect of derivatives) and diversification of investments on page 3.

The Group and Company also enter into derivative transactions which comprise forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Company's investing activities), quoted options on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings), and contracts for difference to maintain exposure to certain companies.

The Company, itself, does not undertake any trading in financial instruments. Through its subsidiary, Eclectic Stocks Limited, the Group does undertake trading in financial instruments but such activities represent less than 10% of the Group's activities. At the year end Eclectic Stocks Limited held one investment, in New Cap Reinsurance Corporation.

The Board and its Investment Manager consider and review the number of risks inherent with managing the Group and Company's assets which are detailed below.

Foreign currency exposure as at 31 May 2008

	Sterling £'000	Euro £'000	A\$ £'000	NZ\$ £'000	US\$ £'000	Other £'000	Total £'000
Investments held at fair value through profit or loss that are monetary items	—	—	2,188	—	2,530	—	4,718
Current assets – Investments held at fair value through profit or loss	—	—	2	—	—	—	2
Derivatives held at fair value through profit or loss	—	—	(3,153)	—	2,986	—	(167)
Other receivables	55	1	182	—	99	4	341
Cash and cash equivalents	71	—	6,475	3	2	10	6,561
Other payables	(112)	(21)	(282)	(26)	(2)	—	(443)
RBSI multi-currency loan facility	27	(2,264)	(4,616)	—	405	—	(6,448)
Bank overdrafts	(3)	—	—	—	(22)	—	(25)
Foreign currency exposure on net monetary items	38	(2,284)	796	(23)	5,998	14	4,539
Investments held at fair value through profit or loss that are equities	6,065	3,015	12,751	165	672	2,871	25,539
Total net foreign currency exposure	6,103	731	13,547	142	6,670	2,885	30,078

Foreign currency exposure as at 31 May 2007

	Sterling £'000	Euro £'000	A\$ £'000	NZ\$ £'000	US\$ £'000	Other £'000	Total £'000
Investments held at fair value through profit or loss that are monetary items	—	—	2,425	3,851	—	—	6,276
Current assets – Investments held at fair value through profit or loss	—	—	2	—	—	—	2
Derivatives held at fair value through profit or loss	503	—	(1,813)	—	1,391	—	81
Forward currency contracts held at fair value through profit or loss	4,494	—	(2,087)	(2,413)	—	—	(6)
Other receivables	40	1	4,212	2,409	—	1	6,663
Cash and cash equivalents	955	—	3,351	44	21	132	4,503
Other payables	(5,386)	(127)	(119)	(234)	(239)	(91)	(6,196)
RBSI multi-currency loan facility	12	—	(3,194)	—	(1,350)	—	(4,532)
Bank overdrafts	(6)	—	—	—	—	—	(6)
Foreign currency exposure on net monetary items	612	(126)	2,777	3,657	(177)	42	6,785
Investments held at fair value through profit or loss that are equities	3,909	3,098	12,077	2,187	—	2,119	23,390
Total net foreign currency exposure	4,521	2,972	14,854	5,844	(177)	2,161	30,175

The value of the Group and Company's assets and the total return earned by the Company's shareholders can be significantly affected by foreign exchange movements as some of the Company's assets are denominated in currencies other than Sterling, the currency in which the Company's accounts are prepared. The risk is partially offset by the Company's foreign currency borrowings.

During the year the Company entered into various forward foreign exchange contracts, the purpose of which is to manage currency risk arising from the Company's investment activities. As at the year end there were no open contracts.

Over the year, Sterling weakened against the Group and Company's principal investing currencies, the US Dollar by 0.10% (2007: strengthened by 5.71%), the Euro by 13.49% (2007: strengthened by 0.90%), the Australian Dollar by 13.28% (2007: weakened by 3.74%) and the New Zealand Dollar by 5.92% (2007: weakened by 8.87%).

A 5% rise or decline of Sterling against foreign currency denominated (i.e. non Sterling) assets held at the year end would have increased/decreased the net asset value by £1,199,000 or 3.99% of net asset value (2007: £1,283,000 or 4.25% of net asset value). The impact on the profit and loss account is impossible to estimate, since the profit and loss is the net result of all the transactions in the portfolio throughout the year.

Interest rate risk

The Company is only exposed to significant interest rate risk through its multi-currency loan facility with The Royal Bank of Scotland International. Borrowing increased during the year as the multi-currency loan facility was increased from the Sterling equivalent of £5 million to £6.9 million on 10 April 2008.

At the year end the multi-currency loan facility consisted of credit balances in Sterling and US Dollars of £27,000 and \$800,000 respectively and overdraft balances in Euros and Australian Dollars of €2,879,000 and A\$9,569,000 respectively to give a net Sterling equivalent draw down of £6,448,000 (2007: £4,532,000). The floating rate of interest at the year end for the Euro loan was 5.50% (2007: no loan balance) and for the Australian Dollar loan was 9.25% (2007: 8.25%).

If the above level of borrowing were maintained for a year, a 1% increase in LIBOR (up or down) would increase or decrease net revenue by £64,000 or 0.35p per Ordinary share (2007: £45,000 or 0.25p per Ordinary share).

18. Financial instruments and capital disclosures continued

Other price risk

If the fair value of the Group and parent Company's investments at the year end increased/decreased by 10% then it would have had an effect on the Group and Company's capital return equal to £3,009,000 or 16.51p per Ordinary share (2007: £2,975,000 or 16.32p per Ordinary share).

An analysis of the Group's investment portfolio is shown on page 7 disclosing concentration of exposure to specific countries, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in the country.

Liquidity risk

Liquidity risk is generally not significant in normal market conditions as the majority of the Group and Company's investments are listed on recognised stock exchanges and for the most part readily realisable securities which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdrafts and the multi-currency loan facility with The Royal Bank of Scotland International.

All of the Company's financial liabilities as at 31 May 2008 were less than one year based on the earliest date on which payment can be required.

Credit risk

Credit risk is mitigated by diversifying the counterparties through whom the Investment Manager conducts investment transactions. The credit-standing of all counterparties is reviewed periodically with limits set on amounts due from any one broker. Derivative transactions are only carried out with investment banks with strong credit ratings.

The total credit exposure of the Group at the year end as shown on the Balance Sheet was £10,982,000 (2007: £18,138,000).

Fair values of financial assets and financial liabilities

The fair value of the Group and Company's financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments and derivatives), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, cash at bank, due to brokers and multi-currency loans).

The fair value of the Group and Company's unquoted investments is measured by the Directors using valuation methodologies in accordance with International Private Equity and Venture Capital Valuation Guidelines.

Derivative exposure

Derivative instruments such as contracts for difference and options may be used for purposes of efficient portfolio management to maintain or enhance the value of the investment portfolio and any gains/losses are recognised as capital within the Income Statement.

As at 31 May 2008, the Company held three contracts for difference held at fair value in the balance sheet at £(3,153,000). The total notional market exposure through holding contracts for difference amounts to £2,965,000. Included in these contracts for difference are investments with market exposures of £383,000 in ERG Limited and of £2,501,000 in Trust Company Limited.

Through its investment in 'C' shares of Global Equity Risk Protection Limited, the Company has entered into a number of Put and Call Option transactions as part of its efficient portfolio management to maintain or enhance the value of the investment portfolio and any gains/losses are recognised as capital within the Income Statement.

The Company has hedged the S&P 500 Index using long and short Put and Call Options that have varying maturity dates between June 2008 and December 2009. The net hedge to the S&P 500 Index amounted to £1,645,000.

The option premiums paid on the purchase of these open long position contracts was £2,927,000 and their market value as at 31 May 2008 was £3,540,000. The option premiums received on the sale of open short position contracts was £686,000 and their market value as at 31 May 2008 was £(554,000).

There were no open forward foreign exchange contracts as at 31 May 2008.

Capital management policies and procedures

The Group and Company's capital management objectives are:

- to ensure that it is able to continue as a going concern; and
- to maximise shareholder value by investing in a portfolio of securities anywhere in the world; through an appropriate balance of equity capital and debt.

The Board, with the assistance of the Investment Manager, regularly monitors and reviews the broad structure of the Company's capital on an ongoing basis. These reviews include:

- the level of gearing, which takes account of the Company's position and the Investment Manager's views on the market and;
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from last year.

The Company is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.

These requirements are unchanged since last year and the Company has complied with them at all times.

19. Contingent liabilities

As at 31 May 2008 there were no contingent liabilities (31 May 2007: £280,000). As at 31 May 2008 there were no financial commitments (31 May 2007: none).

Guarantee

The Group and Company lodged an appeal in October 2007 against the judgement in the litigation over the investment in New Cap Reinsurance Corporation. The appeal process is not expected to result in significant additional costs to the Company.

The Company has established Bank Guarantees to the plaintiffs in connection with the Company's legal action relating to its investment in New Cap Reinsurance Corporation and investments with a market value of A\$18,900,000 (Sterling equivalent £9,119,000) as at 31 May 2008 (2007: A\$21,333,000, Sterling equivalent £8,925,000) which are held at HSBC Australia as security against any prospective adverse costs regarding legal action in connection with the Company's investment in New Cap Reinsurance Corporation.

There were no legal fees incurred during the year (2007: £683,000) in connection with a claim for damages related to the Group and Company's investment in New Cap Reinsurance Corporation. The investment is carried in the Group and Company's accounts at a negligible value.

20. Total expense ratio

	2008	2007
Shareholders' funds	1.63%	2.61%

The above total expense ratio is based on average shareholders' funds of £30,543,000 (2007: £25,153,000) calculated at the end of each month during the period and revenue operating expenses incurred during the year of £497,000 (2007: £655,000).

21. Related party disclosure

Ingot Capital Management Pty Ltd acts as Investment Manager to the Company. The amounts paid to the Investment Manager are disclosed in note 4 to the Financial Statements and further details of the relationship between the Company and the Investment Manager are set out in note 6 to the Financial Statements. Full details of Directors' interests are set out in the Report of the Directors on page 12.

FIVE YEAR FINANCIAL SUMMARY

	2004*	2005*	2006	2007	2008
	£'000	£'000	£'000	£'000	£'000
Capital	5,521	5,523	5,527	11,606	11,606
Total reserves	9,429	13,573	13,611	18,569	18,472
Convertible Unsecured Loan Stock 2007	5,519	5,690	5,871	—	—
Net operating revenue	352	549	512	467	719
Taxation	29	75	(15)	36	18
Net revenue	(55)	48	31	(76)	(174)
Dividend	120	180	180	273	137
Revenue earnings per Ordinary share	(0.5)p	0.4p	0.3p	(0.5)p	(1.0)p
Dividend per Ordinary share	1.0p	1.5p	1.5p	1.5p	0.75p
Gross interest per unit of Convertible Unsecured Loan Stock 2007	3.5p	3.5p	3.5p	3.5p	—
Diluted net asset value per Ordinary share	112.3p	136.0p	137.2p	n/a	n/a

*The figures for 2006, 2007 and 2008 have been calculated in accordance with International Financial Reporting Standards ("IFRS").
The figures for 2005 and 2004 have been restated in accordance with IFRS.

Notice is hereby given that the 2008 Annual General Meeting of Eclectic Investment Trust plc will be held at 68 Lombard Street, London EC3V 9LJ on Wednesday 22 October 2008 at 12 noon for the following purposes:

Ordinary Business

1. To receive and adopt the Accounts and the Reports of the Directors and the Auditors for the year ended 31 May 2008;
2. to approve the Directors' Remuneration Report for the year ended 31 May 2008;
3. to declare a dividend of 0.75p per Ordinary share;
4. to re-elect Mr A Bushell as a Director of the Company;
5. to re-elect Mr P Burrows as a Director of the Company;
6. to re-elect Mr W McLeland as a Director of the Company;
7. to appoint Grant Thornton UK LLP as Auditor to the Company and authorise the Directors to determine the auditor's remuneration.

Special Business

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

8. THAT in substitution for any existing authority given in accordance with Section 80 of the Companies Act 1985 (as amended) (the "Act") but without prejudice to the exercise of any such authority prior to the passing of this resolution, the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 80 of 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 £1,519,125 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on the fifth anniversary of the date of the passing of this resolution, save that the Company may before such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

To consider and, if thought fit, pass the following resolutions as Special Resolutions:

9. THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 (as amended) (the "Act") to make one or more market purchases (within the meaning of Section 163(3) of the Act) of Ordinary shares of 25p each in the capital of the Company ("Ordinary shares") provided that:
 - (i) the maximum aggregate number of Ordinary shares hereby authorised to be purchased is 2,732,602;
 - (ii) the minimum price which may be paid for an Ordinary share shall be 25 pence (exclusive of associated expenses);
 - (iii) the maximum price which may be paid for an Ordinary share is an amount equal to 105 per cent of the average of the middle market quotations of the Ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date on which the relevant Ordinary share is contracted to be purchased (exclusive of associated expenses); and
 - (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company to be held in 2009 save that the Company may prior to such expiry enter into a contract or arrangement to purchase Ordinary shares under this authority which will or may be completed or executed wholly or partly after the expiry of this authority and may make a purchase of Ordinary shares pursuant to any such contract or arrangement as if the authority hereby conferred had not expired.
10. THAT in substitution for any existing power under Section 95 of the Companies Act 1985 (as amended) (the "Act"), but without prejudice to the exercise of any such power prior to the passing of this resolution, the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) to Section 94(3A) of the Act) wholly for cash pursuant to any existing authority given in accordance with Section 80 of the Act as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:
 - (i) to the allotment of equity securities in connection with an offer such securities by way of rights to holders of Ordinary shares of 25p each in the capital of the Company ("Ordinary shares") on the register of members of the Company on a fixed record date in proportion (as nearly as may be practicable) to their respective holdings of Ordinary shares but subject to such

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements or any legal or practical problems arising under the laws of, or the requirements of, any territory or any regulatory or governmental body or authority or stock exchange; and

- (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £227,869;

and shall expire on the date of the next annual general meeting of the Company to be held in 2009, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired. 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 any existing authority given in accordance with Section 80 of the Act" were omitted.

- 11. THAT the Articles of Association of the Company be and are hereby amended in the manner set out in the Appendix to the Report and accounts of the Company for the year ended 31 May 2008.

Dated this 22nd day of August 2008

By order of the Board

Phoenix Administration Services Limited
Secretary

Notes

- (1) A member of the Company entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and to exercise all or any of the member's rights to speak and vote at the meeting, instead of that member. Proxies need not be members of the Company. A form of proxy for use at the above meeting is provided separately. To be valid the form of proxy must be completed and deposited at the office of the Company's Registrars not less than 48 hours before the time fixed for holding the meeting or adjourned meeting. The return of the form of proxy duly completed will not preclude a member from attending and voting at the meeting.
- (2) Members (and any proxies or corporate representatives appointed) agree, by attending the Annual General Meeting, that they are expressly requesting and willing to receive any communications relating to the Company's securities at the Annual General Meeting.
- (3) The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company at 6pm on 20 October 2008 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6pm on 20 October 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (4) A corporate member of the Company intending to appoint more than one person to attend and vote at the Annual General Meeting as its Corporate Representative pursuant to the provisions of Section 323 "Representation of corporations at meetings" of the Companies Act 2006 (the 'Act'), should note that pursuant to Section 323(4) of the Act "Where the corporation authorises more than one person and more than one of them purport to exercise a power under subsection (3):
 - (a) if they purport to exercise the power in the same way, the power is treated as exercised in that way,
 - (b) if they do not purport to exercise the power in the same way, the power is treated as not exercised."To mitigate the effect of Section 323(4)(b) of the Act, a corporate member may wish to consider appointing multiple proxies to attend and vote at the meeting since, pursuant to the provisions of Section 324 of the Act, proxies have the same rights to attend, speak and vote at a general meeting, as members of the Company.
- (5) If a corporate member of the Company appoints more than one corporate representative at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
- (6) The following documents will be available for inspection at the Registered Office of the Company during usual business hours on any weekday (except Public Holidays) until the date of the meeting and at the meeting for a period of 15 minutes prior to and during the meeting:
 - (a) A statement of all transactions of each Director and of their family interests in the share capital of the Company; and
 - (b) The Memorandum and Articles of Association.
- (7) None of the Directors has a contract of service with the Company.

Resolution 11 set out in the Notice of Annual General Meeting of the Company to be held on 22 October 2008, proposes that the Articles of Association of the Company (the “Articles”) be amended as follows:

- 1 Article 122 of the Articles of Association be deleted in its entirety and be replaced by the following new Article 122:
122. Paragraphs (A) to (I) of this Article are subject to the provisions of the Act and the Companies Act 2006 (as amended from time to time) (the “2006 Act”) and to the provisions of paragraphs (J) to (P) of this Article.
- (A) No Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any contract in which any Director is in any way interested be liable to be avoided, nor shall any Director who is so interested be liable to account to the Company or the members for any remuneration, profit or other benefit realised by the contract by reason of the Director holding that office or of the fiduciary relationship thereby established.
- (B) A Director may hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period (subject to the provisions of the Act and the 2006 Act) and upon such other terms as the Board of Directors of the Company may decide, and may be paid such extra remuneration for so doing (whether by way of salary, commission, participation in profits or otherwise) as the Board of Directors of the Company or any committee authorised by the Board may decide, and either in addition to or in lieu of any remuneration provided for by or pursuant to any other Article.
- (C) A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested or as regards which it has any power of appointment, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in the other company. The Board of Directors of the Company may also cause any voting power conferred by the shares in any other company held or owned by the Company or any power of appointment to be exercised in such manner in all respects as it thinks fit, including the exercise of the voting power or power of appointment in favour of the appointment of the Directors or any of them as directors or officers of the other company, or in favour of the payment of remuneration to the directors or officers of the other company.
- (D) A Director may act by himself or his firm in a professional capacity (otherwise than as Auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- (E) A Director shall not vote on or be counted in the quorum in relation to any resolution of the Board of Directors of the Company concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested but, where proposals are under consideration concerning the appointment, or the settlement or variation of the terms or the termination of the appointment, of two or more Directors to offices or places of profit with the Company or any other company in which the Company is interested, a separate resolution may be put in relation to each Director and in that case each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution unless it concerns his own appointment or the settlement or variation of the terms or the termination of his own appointment or the appointment of another Director to an office or place of profit with a company in which the Company is interested and the Director seeking to vote or be counted in the quorum owns one per cent. or more of it.
- (F) Save as otherwise provided by these Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board of Directors of the Company in respect of any actual or proposed transaction or arrangement with the Company in which he has an interest which (taken together with any interest of any person connected with him) is to his knowledge an interest of which he is aware, or ought reasonably to be aware, does conflict, or can reasonably be regarded as likely to give rise to a conflict, with the interests of the Company and, if he shall do so, his vote shall not be counted, but this prohibition shall not apply to any resolution where that material interest arises only from one or more of the following matters:
- (i) the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
 - (ii) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

- (iii) where the Company or any of its subsidiary undertakings is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- (iv) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- (v) any contract concerning any other company (not being a company in which the Director owns one per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;
- (vi) any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or of any of its subsidiary undertakings and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
- (vii) any contract for the benefit of the employees of the Company or of any of its subsidiary undertakings under which he benefits in a similar manner to the employees and which does not accord to any Director as such any privilege or advantage not accorded to the employees to whom the contract relates; and
- (viii) any contract for the purchase or maintenance of insurance against any liability for, or for the benefit of, any Director or Directors or for, or for the benefit of, persons who include Directors.

- (G) A company shall be deemed to be "a company in which a Director owns one per cent. or more" if and so long as (but only if and so long as) he, taken together with any person connected with him, is to his knowledge (either directly or indirectly) the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of that company or of the voting rights available to members of that company. For the purpose of this paragraph of this Article there shall be disregarded any shares held by the Director or any such person as bare or custodian trustee and in which he has no beneficial interest, any shares comprised in a trust in which his, or any such person's, interest is in reversion or remainder if and so long as some other person is entitled to receive the income of the trust and any shares comprised in an authorised unit trust scheme in which he, or any such person, is interested only as a unit holder.
- (H) Where a company in which a Director owns one per cent. or more is interested in a contract, he also shall be deemed to be interested in that contract.
- (I) If any question shall arise at any meeting of the Board of Directors of the Company as to whether the interest of a Director gives rise to a conflict, or could reasonably be regarded as likely to give rise to a conflict, with the interests of the Company or as to the entitlement of any Director to vote or be counted in the quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be decided by a resolution of the said Board (for which purpose the Director in question shall not be counted in the quorum and provided that the resolution was agreed to without the Director in question voting or would have been agreed if his votes had not been counted) and the resolution shall be conclusive except in a case where the nature or extent of the interest of the Director (so far as it is known to him) has not been fairly disclosed to the Board.
- (J) A Director who is in any way, whether directly or indirectly, interested in an actual or proposed transaction or arrangement with the Company shall declare the nature and extent of his interest at the meeting of the Board of Directors of the Company at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. For the purposes of this Article, a general notice to the Board of Directors of the Company by a Director to the effect that (a) he is a member of a specified company or firm and is to be regarded as interested in any contract which may after the date of the notice be made with that company or firm or (b) he is to be regarded as interested in any contract which may after the date of the notice be made with a specified person who is connected with him, shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract; provided that no such notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next meeting of the Board of Directors after it is given.

- (K) References in this Article to a contract include references to any proposed contract and to any transaction or arrangement whether or not constituting a contract.
- (L) In respect of any situation in which a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, the Board of Directors of the Company may authorise the matter, on such terms as they may determine, provided that:
- (i) the Director has declared the full nature and extent of the situation to the Board; and
 - (ii) it is proposed (either by the Director in question or another) that the Board authorise the matter and upon the resolution to do so the requirement for the quorum is met without counting the Director in question and the resolution was agreed to without such Director voting or would have been agreed to if that conflicted Director's vote had not been counted.
- (M) Any terms determined by the Board of Directors of the Company under paragraph (L) of this Article may be imposed at the time of authorisation or may be imposed subsequently and may include (without limitation):
- (i) the exclusion of the interested Director in question from all information and discussion by the Company of the situation in question; and
 - (ii) (without prejudice to the general obligations of confidentiality) the application to the interested Director of a strict duty of confidentiality to the Company for any confidential information of the Company in relation to the situation in question.
- (N) An interested Director under this Article must act in accordance with any terms determined by the Board of Directors of the Company pursuant to paragraphs (L) or (M) of this Article.
- (O) Any authorisation given by the Board of Directors of the Company under paragraph (L) of this Article may provide that, where the interested Director obtains (other than through his position as a Director of the Company) information that is confidential to a third party, he will not be obliged to disclose it to the Company or to use it in relation to the Company's affairs in circumstances where to do so would amount to a breach of that confidence.
- (P) Subject to the provisions of the Act and the 2006 Act, the Company may by ordinary resolution suspend or relax the provisions of this Article to any extent or ratify any contract not properly authorised by reason of a contravention of this Article provided that nothing in this Article shall permit the Company to cease to comply with the Listing Rules of the United Kingdom Listing Authority.
- 2 Articles 123 to 126 (both inclusive) of the Articles of Association be deleted in their entirety and the subsequent Articles of the Articles of Association be renumbered and all cross references in the Articles of Association be altered to reflect such deletions; and
- 3 the words "The First Spanish Investment Trust PLC" in the definition of "the Company" in Article 2(A) of the Articles of Association be deleted and be replaced by the words "Eclectic Investment Trust plc".

22 August 2008

Directors

A F Bushell (Chairman)
P I Burrows
B C Hervey
W J McLeland

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Shareholder Relations

Copies of the Company's annual and interim reports are available from the Company Secretary, Phoenix Administration Services Limited. The price of the Company's Ordinary shares is listed daily in the Financial Times. The Company's website at **www.eclectictrust.com** is updated daily and provides information about the Company including 15 minute delayed prices, all RNS news announcements and a share price graph. An on-line share dealing facility is available from Hemscott Group Limited which can be accessed from the link on the Company's website.

Individual Savings Account ('ISA')

The shares of Eclectic Investment Trust plc are eligible to be held in an ISA account, subject to HM Revenue and Customs' limits.

