

FOUNDED
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THE INVESTMENT COMPANY PLC

REGISTERED No. 4205
ENGLAND AND WALES

REPORT AND ACCOUNTS

31 MARCH 2008

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DIRECTORS AND ADVISERS

Sir Frederick Douglas David Thomson Bt. (*Chairman*)

Stephen John Cockburn (*Managing Director*)

Miss Joan Beryl Webb

Peter Stanley Allen

Philip Albert Lovegrove OBE

Sir David Thomson Bt. (aged 68) was appointed as a director on 19 April 2005 and was elected Chairman on the same day. He was until recently chairman of Through Transport Mutual Insurance Association Ltd and Britannia Steamship Insurance Association Ltd and is Chairman of Meacock Capital plc.

S. J. Cockburn (aged 68) was appointed to the Board in 1991 and as Managing Director in September 1994. He is a non-executive director of Fiske plc and a director of Associated British Engineering plc and Dartmoor Investment Trust plc.

Miss Joan Webb (aged 79) was appointed to the Board in 1991 and is the Company's largest ordinary shareholder.

P. S. Allen (aged 59) was appointed as a director in 1996. He trained as an investment analyst with Kleinwort Benson. He has managed portfolios specialising in preference shares for many years.

P. A. Lovegrove OBE (aged 70) was appointed as a director on 9 November 2006. He has been involved in asset management, corporate finance and corporate recoveries in the City of London for more than 40 years.

Secretary and

Registered Office

J. P. Q. Harrison
3rd Floor, Salisbury House
London Wall
London EC2M 5QS

Registered Auditors

Saffery Champness
Lion House
Red Lion Street
London WC1R 4GB

Legal Advisers

Macfarlanes
10 Norwich Street
London EC4A 1BD

Bankers

Barclays Bank plc
Financial Services Team
Level 11
1 Churchill Place
London E14 5HP

Registrars

Capita Registrars Ltd
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Administrators

Fiske plc
3rd Floor, Salisbury House
London Wall
London EC2M 5QS

Brokers

Collins Stewart Ltd
88 Wood Street
London EC2V 7QR

CHAIRMAN'S STATEMENT

The publication of our accounts this year has been delayed beyond the four months now allowed under the Listing Agreement and we had temporarily to ask for the suspension of our shares in early August.

The manner in which we have treated our Preference Shareholders' interest in the accounts for 2006 and 2007 has been the subject of an enquiry by the Financial Reporting Review Panel and following a review of the arguments put forward by the Panel, in consultation with our professional advisors and Auditors, we have concluded that IFRS requires a different treatment from that which we had adopted in the last two years.

The par value of the preference shares is now reported as debt rather than included in issued capital. This means that the total shareholders' funds reported on the balance sheet is now reduced by an amount so reclassified amounting to £2.5 million. This has no impact on the Net Asset Value per ordinary share which has always taken full account of the preference shareholders' entitlement, which is £1 per share in a winding up.

Likewise the fixed element of the preference shareholders' dividend is now reclassified so as to be reported in the pre-tax result rather than as a shareholders' dividend. This reclassification, amounting to £349,000, has no impact on the earnings per share attributable to ordinary shareholders.

Such treatment as is now required may appear to show a more highly geared balance sheet than previously but in actual fact there is no difference. The ordinary shareholders' interests were always geared by the preference shareholders' capital assets and the earnings on the ordinary shares were geared by the dividends on the preference shares.

The second matter to which I have to draw shareholders' attention refers to a document issued by your company twelve years ago. In 1996 The Investment Company plc went through a capital reorganisation which involved inter alia the division of the ordinary shares then in issue into newly created participating preference shares and a smaller number of ordinary shares – ten then existing ordinary shares of 25p became four participating 50p preference shares and one 50p ordinary. In the documents explaining the proposed transaction to shareholders two and a half pages were devoted to a Summary of the rights attaching to the participating preference shares which would be created if the reconstruction was approved by the existing ordinary shareholders, who would be the recipients of these participating preference shares under the scheme. In the Summary reference is made to an Average Market Price protection clause on liquidation.

Later in the document after the Summary there followed the Notice of the EGM to approve the scheme and the full text of the new clauses in the Articles setting out inter alia the rights of the new participating preference shares. There is however no mention of the Average Market Price provisions about which I wrote to you last year. There is therefore no such AMP clause in the Articles and the Directors could not now recommend to ordinary shareholders that such a clause should be inserted into the Articles since it would not be in the present ordinary shareholders' interest to do so.

In the last two Chairman's statements I have made to you I have assumed that the AMP clause in the Summary of the 1996 document was a true reflection of the Articles subsequently adopted. Your present Directors have recently come across the discrepancy between the Summary and the adopted Articles. Since the application of the AMP provision arises only on liquidation, and the Directors foresee no such likelihood, it is not proposed to take any further action in this matter.

The net asset values of both participating preference and ordinary shares have always been calculated at 100p for the participating preference with the balance of assets to the ordinary.

The directors have declared a final dividend of 5p (2007: 5p) which makes a total of 9p (2007: 9p) for the full year. This dividend will be payable on 12 September 2008 subject to shareholders' approval at the Annual General Meeting to be held on 3 September 2008.

The ordinary shares will be quoted ex-dividend on 13 August 2008 with a record date of 15 August 2008. A dividend of 3.5p was paid on the participating preference shares on 1 April 2008 and a dividend of 5.25p will be paid on those shares at 1 October 2008, the same as was paid on 1 October 2007.

My statement of 21 November 2007 with the Interim Report went into detail about the activities and experience of the Company for the first eight months of the year under review. Over the following four months to 31 March UK stock markets were volatile and since the year end they have continued in that vein with financial sector shares, such as Banks, particularly vulnerable to rumour, bear raids and subsequently rights issues. Only now, in August, is some stability returning to Bank shares with the confident decision of Lloyds TSB Bank to increase (albeit marginally) its interim dividend in defiance of market commentators who have wildly predicted cuts or passed payments. Since Banks and other financial sector companies such as insurance businesses are the issuers of most preference shares quoted, turmoil in that sector has caused lowering of confidence and market prices in such preference issues. Inevitably this has depressed the price of other preference shares to some degree and we calculate that our ordinary share net asset value as at 30 June has fallen by a further 2% since the balance sheet date to 213.1p before deducting the 5p final dividend. The fall in the Audited Net Asset Value over the year from 273.77p to 217.49p reflects the relatively high gearing of the assets attributable to Investment Company ordinary shares on which I commented in the Interim Statement. As volatility declines with the return of greater confidence your board anticipates that asset values will begin to recover.

Sir David Thomson Bt.

Chairman

7 August 2008

DIRECTORS' REPORT

Principal activities and review of the business

The directors have pleasure in presenting to the Members the Company's financial statements for the year ended 31 March 2008, which incorporate the consolidated results of the Company and its subsidiary undertakings.

Review of the Business

The principal activity of the Company is investment in preference shares and prior charge securities with a view to achieving a high rate of income and capital growth over the medium term. A full review of the activities of the Company in the year under review is given in the Chairman's Statement.

The Company also owns an investment dealing company, Abport Limited.

Results and Dividends

A final dividend of 5p (2007 Final: 5p) per ordinary share will be paid, subject to shareholders' approval, on 12 September 2008, which together with the interim dividend of 4p (2007: 4p) makes a total of 9p (2007: 9p) for the year. Half-yearly dividends have been paid on the Participating Preference Shares of 5.25p on 1 October 2007 (2006: 5.25p) and of 3.5p on 1 April 2008 (2007: 3.5p).

The consolidated net asset value per share at 31 March 2008, before deducting the proposed final ordinary dividend, was 217.49p per share (2007: 273.77p).

The consolidated balance sheet shows net assets at 31 March 2008 of £6,629,430 and the Company's balance sheet shows net assets of £9,674,985. The difference relates to the cost of non-voting shares in the Company held by New Centurion Trust Limited, which are shown as a reduction in shareholders' funds in the consolidated balance sheet, the post acquisition results of the Company's subsidiaries and an historic charge for amortised goodwill. A reconciliation of the differences in the balance sheets is given in note 18 to the accounts.

Strategy

The Company's objective is to achieve attractive and sustainable growth in Earnings per Share and Net Asset Value principally through investment in preference shares and prior charge securities.

Future Developments

Redemptions and buy outs by companies of their preference share issues (while usually realising profits for the Company) are resulting in the Company seeking investment in other forms of fixed-interest securities.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks affecting the Group are:

- (i) Investment decisions: the performance of the Company's portfolio is dependent on a number of factors including, but not limited to the quality of initial investment decisions and the strategy and timing of sales;
- (ii) Investment valuations: the valuation of the Company's portfolio and opportunities for realisations depend to some extent on stock market conditions and interest rates; and

- (iii) Macro-economic environment for preference shares and prior charge securities: the environment for issuing of new preference shares and prior charge securities determines whether new issues become available, thus widening the choice and scope of investment opportunities for the Company.

Key performance indicators

During the year the Earnings per Ordinary Share on the revenue account improved from a loss of 2.41p to a profit of 1.34p whilst the Net Asset Value per Ordinary share decreased from 273.77p to 217.49p.

Going Concern

The directors believe that it is appropriate to adopt the going concern basis in preparing the financial statements as the assets of the Company consist mainly of securities which are readily realisable. The directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly have continued to adopt the going concern basis in preparing the financial statements.

Share Capital

At the year end, the Company's authorised and issued share capital consisted of:

	Authorised No.	Issued No.
Ordinary shares of 50p	4,000,000	
of which:		
– voting shares		1,899,891
– non voting ordinary shares		1,717,565
Deferred shares of 50p	100,000	–
Preference shares of 50p	12,640,000	4,994,805

Interest in own shares

On 7 March 2005 the Company acquired the entire issued share capital of its parent company, New Centurion Trust Limited. As a result of the transaction the Company holds 1,717,565 ordinary shares of 50p each in itself. These shares have been re-designated as non-voting shares. The dividends payable on these shares have been waived.

Substantial interests

At the date of approval of the financial statements the following interests of three percent or more of the issued Ordinary share capital had been notified to the Company:

	%	Number of Ordinary shares
Miss J. B. Webb	25.04	475,886
Mrs J. P. Brown	11.17	212,343
Mrs S. Williams	11.17	212,343
Shirlstar Container Transport Limited Pension Fund	10.24	194,650
S. J. Cockburn	9.92	188,647

Rights and obligations attaching to each class of share

The Ordinary Shares entitle the holders to receive all ordinary dividends and all remaining assets on a winding up, after the Participating Preference Shares have been satisfied in full.

DIRECTORS' REPORT *continued*

The non-voting ordinary shares, all of which are held by New Centurion Trust Limited, a wholly owned subsidiary of the Company, rank *pari passu* with the existing ordinary shares except that they do not have a right to vote at General Meetings of the Company.

The deferred shares have no material rights or interests in the Company.

The participating preference shares entitle the holders, in priority to the payment of any dividend to the holders of all or any other shares in the capital of the company, to a fixed net cash cumulative dividend at the rate of 7p per share per annum. In addition, holders are entitled to a participating dividend at the rate of 25% of any dividends paid on the Ordinary Shares in excess of 2p per share for any year, subject to a maximum participating dividend in respect of any year of 3p net per share. On any return of capital holders are entitled to the payment of a premium of 50p per share. The shares also confer voting rights in certain circumstances.

Restrictions on the transfer of shares

The Directors may, in their absolute discretion and without assigning any ground or reason therefor, decline to register any transfer of any share (not being a fully paid share) to a person of whom they shall not approve. They may also decline to register any transfer of any share (including a fully paid share) on which the Company has a lien or in respect of which the shareholder is in default in complying with a notice under Section 212 of the Companies Act 1985.

The Directors are not aware of any agreements between ordinary shareholders that may result in restrictions on the transfer of securities or voting rights. The Directors are not aware of any other restrictions on the transfer of ordinary shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws).

Amendments to Articles of Association

The amendment of the Company's Articles of Association is governed by relevant statutes. The Articles may be amended by special resolution of the shareholders in general meeting.

Corporate Governance

The Company is committed to high standards of corporate governance and to the principles of good governance set out in the Combined Code on Corporate Governance (the Combined Code). The Directors have reviewed the detailed principles and recommendations actioned in the Combined Code and believe that, to the extent that they are relevant to the Company's business, they have complied with the provisions of the Combined Code during the year ended 31 March 2008 and that the Company's current practice is, in all material aspects, consistent with the principles of the Combined Code.

The Board also confirms that, to the best of its knowledge and understanding, procedures were in place to meet the requirements of the Combined Code relating to internal controls throughout the year under review. However, no formal policy or procedures have been documented as the directors do not consider that such practice is appropriate for the Company.

Board of Directors

With the exception of Mr Stephen Cockburn who is Managing Director and is responsible for the investment management, the Board consists of independent non-executive directors. In particular the balance of executive and non-executive directors has been designed to ensure the independence of the Board. The Board is responsible for all matters of direction and control of

the Company, including its investment policy, and no one individual has unfettered powers of decision. The directors review at regular meetings the Company's investments and all other important issues to ensure that control is maintained over the Company's affairs.

The directors meet at regular Board meetings held at least once a quarter. Additional meetings and telephone meetings are arranged as necessary. During the year ended 31 March 2008 the number of full and scheduled Board meetings and Committee meetings attended by each director was as follows:

	Board Meetings		Audit Committee Meetings	
Sir F. D. D. Thomson Bt.	4	(4)	2	(2)
S. J. Cockburn	4	(4)	–	(–)
Miss J. B. Webb	4	(4)	–	(–)
P. S. Allen	4	(4)	–	(–)
C. W. G. Marsh (resigned 21 November 2007)	2	(3)	–	(–)
P. A. Lovegrove	4	(4)	2	(2)

Figures in brackets indicate the maximum number of meetings held in the year in respect of which the individual was a board/committee member

Committees of the Board

The Company has appointed a number of committees to monitor specific operations. However given its size, the Board does not believe that there is a requirement to establish a Nominations Committee.

Audit Committee

The Audit Committee comprises Philip Lovegrove and Sir David Thomson, both of whom are non-executive directors of the Company. The Committee is chaired by Philip Lovegrove and met on two occasions last year to review and approve the Company's Annual Report and Accounts and the Interim Financial Statement.

The primary responsibilities of the Audit Committee are to review the effectiveness of the internal control environment of the Company; to monitor adherence to best practice in corporate governance; to make recommendations to the Board in relation to the re-appointment of the Auditors and to approve their remuneration and terms of engagement; to review and monitor the Auditor's independence and objectivity and the effectiveness of the audit process and provide a forum through which the Company's Auditors report to the Board. The Audit Committee also has responsibility for monitoring the integrity of the financial statements and accounting policies of the Company; and receiving reports from the compliance officer of the Administrator. Committee members consider that individually and collectively they are appropriately experienced to fulfil the role required. The Audit Committee has formal written terms of reference.

Saffery Champness, the Company's Auditors, attend the meeting of the Audit Committee to approve the Annual Report and have direct access to Committee members. A member of the Audit Committee will be present at the Annual General Meeting to deal with any questions relating to the accounts.

DIRECTORS' REPORT *continued*

Due to the size of the Company no policy or procedures exist for staff to raise concerns concerning possible improprieties in matters of financial reporting. A representative of Fiske plc attends each Board meeting and is given the opportunity to raise any matters which may be of concern.

Remuneration Committee

The Remuneration Committee comprises all the independent non-executive directors. During the year, Sir David Thomson chaired the committee which has been formally constituted to determine and approve directors' fees. Directors' fees are determined following proper consideration of the role that individual directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs, having regard to the industry generally. There have been no separate Remuneration Committee meetings during the period under review. The fees of all the directors remain unchanged.

Detailed information on the remuneration arrangements for the directors of the Company can be found in the Directors' Remuneration Report set out below and in note 3 to the financial statements.

Independent professional advice

The Board has formalised arrangements under which the directors, in the furtherance of their duties, may seek independent professional advice at the Company's expense.

Chairman and Senior Independent Director

The Chairman, Sir David Thomson, is deemed by his fellow independent Board members to be independent and to have no conflicting relationships. Sir David Thomson was until recently Chairman of Through Transport Mutual Insurance Association Ltd and Britannia Steamship Insurance Association Ltd and is Chairman of Meacock Capital plc. He considers himself to have sufficient time to commit to the Company's affairs.

Given the size and nature of the Board it is not considered appropriate to appoint a senior independent director and this is non-compliant with Combined Code Provision A.1.2.1. Stephen Cockburn is the Company's Managing Director, and therefore the roles of the Chairman and Managing Director are separated.

Directors' independence

The Board has reviewed the independent status of its individual directors and the Board as a whole.

Stephen Cockburn is the Managing Director of the Company, and is therefore considered not to be independent under the terms of the Combined Code.

The Combined Code requires that this report should identify each non-executive director the Board considers to be independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. In the Board's opinion Sir David Thomson, Messrs Allen and Lovegrove and Miss Webb are all considered to be independent in both character and judgement. Accordingly, four of the five Board members are independent, thus the majority of the Board is comprised of independent non-executive directors.

Under the Articles of Association, all directors with the exception of the Managing Director are subject to periodic retirement and re-election by shareholders. In order to comply with the Combined Code, and the Articles of Association, the directors have adopted a policy providing for all non-executive directors to submit themselves for re-election at least every three years.

A resolution to re-elect Peter Stanley Allen is contained within the notice of the Annual General Meeting on page 40. The other Board members recommend that shareholders vote for the re-election of this individual as they believe that his skills, knowledge and overall performance is of continued benefit to the Company. All directors have actively contributed in meetings throughout the year.

Shareholders are invited to consider the following information on an individual basis, before voting on the re-election of the directors.

Biographies of all the directors, which appear on page 1, demonstrate the wide range of skills and experience they bring to the Board.

Statement of Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985 and those International Financial Reporting Standards (IFRSs) adopted for use in the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In accordance with the FSA's Disclosure and Transparency Rules, the Directors confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

Relations with shareholders

Communication with shareholders is given a high priority by the Board and the directors are available to enter into dialogue with shareholders. All shareholders are encouraged to attend and vote at the Annual General Meeting during which the Board is available to discuss issues affecting the Company.

Board responsibilities and relationship with service providers

The Board is responsible for the determination and implementation of the Company's investment policy and for monitoring compliance with the Company's objectives. Some of the Company's main functions have been subcontracted to service providers, engaged under separate legal agreements. At each Board meeting the directors follow a formal agenda, which is circulated in advance by the Company Secretary. The Board's main roles are to create value for shareholders and to approve the Company's strategic objectives. Specific responsibilities of the Board include: reviewing the Company's investments, asset allocation, gearing policy, cash management, investment outlook and revenue forecasts.

The Board has contractually delegated to Fiske plc (the "Administrator") all day to day accounting and company secretarial duties as well as the administration and safe custody of its investments. The Administrator prepares management accounts, valuations of investments, statements of transactions and forecasts of cash surpluses or requirements which are provided in advance of all regular meetings of the Board (which are held at least four times a year).

Mr Cockburn, as Managing Director, presents these documents at the meetings to allow the Board as a whole to assess the Company's activities and review its performance.

The Board considers, at each meeting, future strategy with regard to the investment criteria to be followed by the Company, including criteria concerning risk. The Board may seek independent advice regarding any proposed investments of an unusual nature, such as investments in unquoted securities. No formal review of the Group's system of internal control has been undertaken during the year.

The Administrator, being regulated by the Financial Services Authority under the Financial Services and Markets Act 2000, continually reviews its own compliance procedures in accordance with the financial, safe custody, conduct of business and other rules to which it is subject.

Management of the Company's assets is conducted by the Managing Director who has discretion to manage the assets of the Company in accordance with the Company's objectives and policies. At each Board meeting, the Managing Director presents verbal and written reports covering the activity, portfolio and investment performance over the preceding period. Ongoing communication with the other members of the Board is maintained between formal meetings.

The directors are responsible to the shareholders for the overall management of the Group and may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Memorandum and Articles of Association and any directions given by special resolution of the shareholders. In particular the Articles of Association empower the directors to

issue and buy back ordinary and preference shares, which powers are exercisable in accordance with authorities approved from time to time by shareholders in general meeting. At the Annual General Meeting in August 2007, shareholders renewed the director's authority to allot Ordinary Shares of 50p each and Participating Preference Shares of 50p each and to make market purchases of Ordinary Shares of 50p each and Participating Preference Shares of 50p each on behalf of the Company subject to the limits set out in those resolutions. Details of the authorities which the directors will be seeking at the Annual General Meeting to be held in September 2008 are set out in the Notice of Meeting on page 40.

The Articles of Association also specifically empower the directors to exercise the Company's powers to borrow money and to mortgage or charge the Company's assets and any uncalled capital and to issue debentures and other securities.

Internal Control

The Combined Code requires that the Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.

Given the size of the Group, an internal audit department is considered unnecessary, although this need is reviewed annually.

The key procedures that have been established with a view to providing effective internal financial control are as follows:

- Investment management is provided by the Managing Director. The Board is responsible for setting the overall investment policy and monitors the action of the Managing Director at regular Board meetings.
- The provision of administration, accounting, custody of assets and company secretarial duties is the responsibility of the Administrator.
- The non-executive directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board monitors their ongoing performance and contractual arrangements.
- Mandates for authorisation of investment transactions and expense payments are set by the Board.

Statement of disclosure to auditors

So far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware and each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Company's auditors have been made aware of that information.

Auditors

The directors review the terms of reference for the auditors and obtain written confirmation that the firm has complied with its relevant ethical guidance on ensuring independence. Saffery Champness provide audit services to the Company and Group as well as corporation tax compliance services. The Board reviews the level of their fees to ensure they remain competitive and to ensure no conflicts of interest arise.

DIRECTORS' REPORT *continued*

Directors and their Share Interests

The Directors who held office in the period up to the date of approval of these accounts and their beneficial interests in the Company's issued share capital at the period end were:

	Interest at end of period		Interest at start of period or date of appointment	
	Ordinary 50p	Participating Pref. 50p	Ordinary 50p	Participating Pref. 50p
Sir David Thomson Bt. (Chairman)*	57,000	–	57,000	–
S. J. Cockburn (Managing Director)**	188,647	28,000	188,647	28,000
Miss J. B. Webb*	475,886	204,800	475,886	204,800
P. S. Allen*	20,000	–	20,000	–
C. W. G. Marsh* (resigned 21 November 2007)	25,000	–	25,000	–
P. A. Lovegrove*	11,000	–	11,000	–

*Non-executive

**In addition, Mr S. J. Cockburn has a non-beneficial interest in 41,000 ordinary shares and 4,000 participating preference shares (at 31 March 2007: 41,000 ordinary shares and 4,000 participating preference shares)

In addition, Miss Joan Webb holds £1,828,502 Unsecured 5% Loan Notes 2010/2015 issued by the Company.

There have been no changes in the above interests since 31 March 2008.

Peter Stanley Allen retires and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

Directors' remuneration report

The Board has prepared this report, in accordance with Schedule 7A to the Companies Act 1985, which applies to companies quoted on the Official List of the London Stock Exchange. The law requires your Company's auditors to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such.

Remuneration Committee

The Remuneration Committee is chaired by Sir David Thomson and consists of the non-executive directors.

Policy on Directors' fees

The Board's policy is that the remuneration of the directors should reflect the experience of the Board as a whole, and is determined with reference to comparable financial organisations and appointments. It is intended that this policy will continue for the current year to 31 March 2009. Directors' fees are determined within the limits set out in the Company's Articles of Association, and they are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

The terms of appointment provide that each of the non-executive directors shall retire and be subject to election at the first Annual General Meeting after their appointment, and not less than every three years thereafter. The service contract of the Managing Director and the agreement for the provision of administration and accommodation services by Fiske plc, in which Mr Cockburn is deemed to be interested as a non-executive director and shareholder of Fiske

plc, are available for inspection by shareholders at the place of the AGM of the Company during the meeting and for 15 minutes beforehand.

Performance graph of Total Shareholder Return

The directors do not receive any performance-related remuneration and there are no comparable indices against which the Company feels able to measure itself. Consequently, it has not prepared a graph showing total shareholder return.

Directors' emoluments for the year ended 31 March 2008 (audited)

The directors who served during the year received the following emoluments in the form of fees and salaries:

	Year ended 31 March 2008	Year ended 31 March 2007
	£	£
Sir David Thomson Bt.	13,000	13,000
S. J. Cockburn	63,000	63,000
Miss J. B. Webb	10,000	11,500
P. S. Allen	10,000	11,500
C. W. G. Marsh	6,413	11,500
P. A. Lovegrove	13,000	6,500

None of the directors has any other entitlement to remuneration for their services to the Company save as mentioned above.

Directors' interests in contracts

Details of directors' interests in contracts are shown in Note 21 to the financial statements. Other than those transactions, none of the directors has or has had any interest in any transaction which is or was unusual in nature or conditions or significant to the business of the Company and which was effected by the Company during the year. At the date of this report, there are no outstanding loans by the Company or its subsidiaries to any director.

Creditor payment policy

The Company's policy is to pay suppliers by return of post. As a result, there were no trade creditors payable at the year end (2007: £nil).

Taxation Status

The directors are of the opinion that the Company is not a close company.

Annual General Meeting

Notice of the Annual General Meeting, which is to be held at the offices of Fiske plc, 3rd Floor, Salisbury House, London Wall, London, EC2M 5QS at 12.30 p.m. on 3 September 2008 is set out on page 40.

Two resolutions, numbered 6 and 7 as set out in the Notice, are being put to the meeting as special business. The first of these, Resolution 6, is requesting a renewal of the existing authority for the Company to make market purchases of Ordinary shares of 50p each and Participating Preference shares of 50p each in the Company. If granted the authority would expire at the conclusion of the Annual General Meeting of the Company held in 2009. The second

DIRECTORS' REPORT *continued*

resolution, Resolution 7, requests a renewal of the existing authority for the Company to allot relevant securities as if Section 89(1) (dis-application of pre-emption rights) of the Companies Act 1985 did not apply. If granted the authority would expire 15 months from the date of the passing of the resolution or if earlier the conclusion of the Annual General Meeting of the Company held in 2009.

The approval of these resolutions will allow the directors flexibility in managing the Company.

Saffery Champness is willing to remain in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

3rd Floor
Salisbury House
London Wall
London EC2M 5QS
7 August 2008

by Order of the Board
James P. Q. Harrison
Secretary

THE INVESTMENT COMPANY PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements of The Investment Company plc for the year ended 31 March 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Change in Equity and the related notes. 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.

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 (IFRS) as adopted for use in 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).

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 Article 4 of the IAS Regulation and whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the 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 unaudited part of the Directors' Report and the Chairman's 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.

THE INVESTMENT COMPANY PLC

INDEPENDENT AUDITORS' REPORT TO

THE MEMBERS *continued*

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate in the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 March 2008 and of its return for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 March 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 consolidated financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

Saffery Champness

Chartered Accountants and
Registered Auditors
7 August 2008

Lion House
Red Lion Street
London WC1R 4GB

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2008

	Notes	Revenue £	2008 Capital £	Total £	Revenue £	2007 Capital £	Total £ As restated
Total income	2	1,043,605	–	1,043,605	911,902	–	911,902
Administrative expenses	3	(375,008)	–	(375,008)	(379,775)	–	(379,775)
Loan note interest	15	(182,850)	–	(182,850)	(182,850)	–	(182,850)
Other finance costs	6	(349,636)	–	(349,636)	(349,636)	–	(349,636)
Other interest payable		–	–	–	(76)	–	(76)
Realised gains on investments		–	728,554	728,554	–	47,008	47,008
Impairment provisions		–	(401,624)	(401,624)	–	280,120	280,120
Net return before taxation		136,111	326,930	463,041	(435)	327,128	326,693
Taxation	4	–	–	–	–	–	–
Net return after taxation	5	136,111	326,930	463,041	(435)	327,128	326,693
Return per 50p Ordinary Share Basic and diluted	8	1.34p	9.03p	10.37p	(2.41)p	8.98p	6.57p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 March 2008

	2008 £	2007 £ As restated
Net return after taxation	463,041	326,693
Movement in unrealised appreciation of investments:		
Recognised in equity	(608,948)	(99,024)
Recognised in profit or loss	(674,400)	(155,562)
Total net recognised (losses)/gains for the financial year	(820,307)	72,107

The notes on pages 25 to 37 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2008

	Issued Capital £	Share Premium £	Own Shares Held £	Capital Redemption Reserve £	Revaluation Reserve £	Capital Reserve £	Revenue Account £	Total £
As restated								
Balance at 1 April 2006	1,822,478	1,019,246	(2,919,861)	671,500	2,678,411	3,662,186	1,024,973	7,958,933
Buy in of own shares	(3,750)	–	–	3,750	–	–	(16,669)	(16,669)
Movement in unrealised appreciation of investments								
– recognised in equity	–	–	–	–	(99,024)	–	–	(99,024)
– recognised in profit or loss	–	–	–	–	(155,562)	–	–	(155,562)
Net increase in net assets from operations	–	–	–	–	–	327,128	(435)	326,693
Ordinary dividends paid	–	–	–	–	–	–	(173,465)	(173,465)
Participating element of preference dividends paid	–	–	–	–	–	–	(87,409)	(87,409)
Balance at 31 March 2007	1,818,728	1,019,246	(2,919,861)	675,250	2,423,825	3,989,314	746,995	7,753,497
Buy in of own shares	(10,000)	–	–	10,000	–	–	(45,361)	(45,361)
Movement in unrealised appreciation of investments								
– recognised in equity	–	–	–	–	(608,948)	–	–	(608,948)
– recognised in profit or loss	–	–	–	–	(674,400)	–	–	(674,400)
Net increase in net assets from operations	–	–	–	–	–	326,930	136,111	463,041
Ordinary dividends paid	–	–	–	–	–	–	(170,990)	(170,990)
Participating element of preference dividends paid	–	–	–	–	–	–	(87,409)	(87,409)
Balance at 31 March 2008	1,808,728	1,019,246	(2,919,861)	685,250	1,140,477	4,316,244	579,346	6,629,430

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2008

	Issued Capital £	Share Premium £	Own Shares Held £	Capital Redemption Reserve £	Revaluation Reserve £	Capital Reserve £	Revenue Account £	Total £
As restated								
Balance at 1 April 2006	1,822,478	1,019,246	–	671,500	2,423,495	3,753,796	1,283,684	10,974,199
Buy in of own shares	(3,750)	–	–	3,750	–	–	(16,669)	(16,669)
Movement in unrealised appreciation of investments								
– recognised in equity	–	–	–	–	351,951	–	–	351,951
– recognised in profit or loss	–	–	–	–	(140,631)	–	–	(140,631)
Net decrease in net assets from operations	–	–	–	–	–	54,871	(109,916)	(55,045)
Ordinary dividends paid	–	–	–	–	–	–	(173,465)	(173,465)
Participating element of preference dividends paid	–	–	–	–	–	–	(87,409)	(87,409)
Balance at 31 March 2007	1,818,728	1,019,246	–	675,250	2,634,815	3,808,667	896,225	10,852,931
Buy in of own shares	(10,000)	–	–	10,000	–	–	(45,361)	(45,361)
Movement in unrealised appreciation of investments								
– recognised in equity	–	–	–	–	(733,540)	–	–	(733,540)
– recognised in profit or loss	–	–	–	–	(699,953)	–	–	(699,953)
Net increase in net assets from operations	–	–	–	–	–	390,166	169,141	559,307
Ordinary dividends paid	–	–	–	–	–	–	(170,990)	(170,990)
Participating element of preference dividends paid	–	–	–	–	–	–	(87,409)	(87,409)
Balance at 31 March 2008	1,808,728	1,019,246	–	685,250	1,201,322	4,198,833	761,606	9,674,985

The notes on pages 25 to 37 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 March 2008

	Notes	£	2008 £	£	2007 £ As restated
Investments	9		10,849,840		13,603,406
Current assets					
Trade and other receivables	12	49,859		81,184	
Investments	13	195,026		84,756	
Cash and bank balances		2,095,866		465,558	
		<u>2,340,751</u>		<u>631,498</u>	
Current liabilities					
Preference dividends payable	6	174,818		174,818	
Trade and other payables	14	231,936		152,182	
		<u>406,754</u>		<u>327,000</u>	
Net current assets			1,933,997		304,498
Non-current liabilities					
5% loan notes maturing 2010/2015	15		(3,657,004)		(3,657,004)
Participating preference shares	15		(2,497,403)		(2,497,403)
Net assets			<u>6,629,430</u>		<u>7,753,497</u>
Capital and reserves					
Issued capital	16		1,808,728		1,818,728
Share premium	17		1,019,246		1,019,246
Own shares held	17		(2,919,861)		(2,919,861)
Capital redemption reserve	17		685,250		675,250
Revaluation reserve	17		1,140,477		2,423,825
Capital reserve	17		4,316,244		3,989,314
Revenue reserves	17		579,346		746,995
Shareholders' funds	18		<u>6,629,430</u>		<u>7,753,497</u>
Net asset value per Ordinary Share of 50p (1,899,891 shares, 2007: 1,919,891 shares)	19		<u>217.49p</u>		<u>273.77p</u>

The notes on pages 25 to 37 form part of these financial statements.

Sir David Thomson Bt.
Stephen. J. Cockburn
 Directors

Approved by the Board
 7 August 2008

COMPANY BALANCE SHEET

At 31 March 2008

	Notes	£	2008 £	£	2007 £ As restated
Investments	9		10,849,840		13,690,315
Investment in subsidiaries at cost	10		5,410,552		5,410,552
			<u>16,260,392</u>		<u>19,100,867</u>
Current assets					
Trade and other receivables	12	303,364		190,604	
Cash and bank balances		2,094,836		459,127	
		<u>2,398,200</u>		<u>649,731</u>	
Current liabilities					
Preference dividends payable	6	174,818		174,818	
Amounts owed to group undertakings		2,422,446		2,416,259	
Trade and other payables	14	231,936		152,183	
		<u>2,829,200</u>		<u>2,743,260</u>	
Net current liabilities			(431,000)		(2,093,529)
Non-current liabilities					
5% loan notes maturing 2010/2015	15		(3,657,004)		(3,657,004)
Participating preference shares	15		(2,497,403)		(2,497,403)
Net assets			<u>9,674,985</u>		<u>10,852,931</u>
Capital and reserves					
Issued capital	16		1,808,728		1,818,728
Share premium	17		1,019,246		1,019,246
Capital redemption reserve	17		685,250		675,250
Revaluation reserve	17		1,201,332		2,634,815
Capital reserve	17		4,198,833		3,808,667
Revenue reserves	17		761,606		896,225
Shareholders' funds	18		<u>9,674,985</u>		<u>10,852,931</u>

The notes on pages 25 to 37 form part of these financial statements.

Sir David Thomson Bt.
Stephen J. Cockburn
 Directors

Approved by the Board
 7 August 2008

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2008

	Notes	£	2008 £	£	2007 £
Cash flows from operating activities					
Cash received from investments		890,432		746,953	
Interest received		179,829		142,705	
Cash paid to and on behalf of employees		(175,671)		(172,344)	
Other cash payments		(124,148)		(210,645)	
Net cash inflow from operating activities	A		770,442		506,669
Cash flows from financing activities					
Bank interest		—		(76)	
Loan note interest paid		(182,850)		(182,850)	
Purchase of own shares		(45,361)		(16,669)	
Fixed element of dividends paid on preference shares		(349,636)		(349,636)	
Participating element of dividends paid on preference shares		(87,409)		(87,409)	
Dividends paid on ordinary shares		(165,122)		(168,826)	
Net cash outflow from financing activities			(830,378)		(805,466)
Cash flows from investing activities					
Purchase of investments		(1,047,201)		(1,881,481)	
Sale of investments		2,737,445		1,596,874	
Net cash inflow/(outflow) from investing activities			1,690,244		(284,607)
Net increase/(decrease) in cash and cash equivalents	B		1,630,308		(583,404)

The notes on page 22 form part of this cash flow statement.

NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2008

	2008 £	2007 £	
A. Reconciliation of net revenue before taxation to net cash inflow from operations:			
Net revenue before taxation	136,111	(435)	
Interest paid	–	76	
Loan note interest paid	182,850	182,850	
Fixed element of preference dividends paid	349,636	349,636	
Investment losses of trading subsidiary	33,374	8,871	
Increase in trade and other receivables	(5,414)	(31,172)	
Increase/(decrease) in trade and other payables	73,885	(3,157)	
	<u>770,442</u>	<u>506,669</u>	
B. Reconciliation of cash flow to movement in net debt			
Increase/(decrease) in cash and cash equivalents in the year	1,630,308	(583,404)	
Change in net debt resulting from cash flows	1,630,308	(583,404)	
Decrease/(increase) in net debt	1,630,308	(583,404)	
Net debt at 1 April 2007	(3,191,446)	(2,608,042)	
Net debt at 31 March 2008	<u>(1,561,138)</u>	<u>(3,191,446)</u>	
C. Analysis of net debt			
	At 31 March 2008 £	Cash Flow £	At 1 April 2007 £
Cash at bank	2,095,866	1,630,308	465,558
Long term debt	(3,657,004)	–	(3,657,004)
	<u>(1,561,138)</u>	<u>1,630,308</u>	<u>(3,191,446)</u>

COMPANY CASH FLOW STATEMENT

For the year ended 31 March 2008

	Notes	£	2008 £	£	2007 £
Cash flows from operating activities					
Cash received from investments		888,532		632,488	
Interest received		179,829		134,705	
Cash paid to and on behalf of employees		(175,671)		(172,344)	
Other cash payments		(122,593)		(206,533)	
Net cash inflow from operating activities	A		770,097		388,316
Cash flows from financing activities					
Bank interest		—		(76)	
Loan note interest paid		(182,850)		(182,850)	
Purchase of own shares		(45,361)		(16,669)	
Fixed element of dividends paid on preference shares		(349,636)		(349,636)	
Participating element of dividends paid on preference shares		(87,409)		(87,409)	
Dividends paid on ordinary shares		(165,122)		(168,826)	
Net cash outflow from financing activities			(830,378)		(805,466)
Cash flows from investing activities					
Purchase of investments		(888,548)		(1,803,931)	
Amounts (advanced to)/received from subsidiaries		(137,898)		196,597	
Sale of investments		2,722,436		1,441,369	
Net cash inflow/(outflow) from investing activities			1,695,990		(165,965)
Net increase/(decrease) in cash and cash equivalents	B		1,635,709		(583,115)

The notes on page 24 form part of this cash flow statement.

NOTES ON THE COMPANY CASH FLOW STATEMENT

For the year ended 31 March 2008

	2008 £	2007 £	
A. Reconciliation of net revenue before taxation to net cash inflow from operations:			
Net revenue before taxation	169,141	(109,916)	
Interest paid	–	76	
Loan note interest paid	182,850	182,850	
Fixed element of preference dividends paid	349,636	349,636	
Increase in trade and other receivables	(5,414)	(31,173)	
Increase/(decrease) in trade and other payables	73,884	(3,157)	
	<u>770,097</u>	<u>388,316</u>	
B. Reconciliation of cash flow to movement in net debt			
Increase/(decrease) in cash and cash equivalents in the year	1,635,709	(583,115)	
Change in net debt resulting from cash flows	<u>1,635,709</u>	<u>(583,115)</u>	
Decrease/(increase)/decrease in net debt	1,635,709	(583,115)	
Net debt at 1 April 2007	<u>(3,197,877)</u>	<u>(2,614,762)</u>	
Net debt at 31 March 2008	<u>(1,562,168)</u>	<u>(3,197,877)</u>	
C. Analysis of net debt			
	At 31 March 2008 £	Cash Flow £	At 1 April 2007 £
Cash at bank	2,094,836	1,635,709	459,127
Long term debt	(3,657,004)	–	(3,657,004)
	<u>(1,562,168)</u>	<u>1,635,709</u>	<u>(3,197,877)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

1. Accounting policies

(a) Basis of preparation

- (i) The consolidated financial statements of The Investment Company Plc, a company with domicile in the United Kingdom and whose principal activities are investing in preference shares and prior charge securities, have been prepared in accordance with International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and in accordance with the Interpretations of International Accounting Standards issued by the Standing Interpretations Committee of the IASB.
- (ii) Standards effective in 2008
IFRS 7 'Financial Instruments: Disclosures' introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the group's financial instruments, or the disclosures relating to taxation and trade and other payables.
- (iii) The consolidated financial statements for the year ended 31 March 2008 have been prepared under the historical cost convention, except for Portfolio Investments which are stated at market value.
- (iv) In accordance with the concession granted under Section 230(2) of the Companies Act 1985 the company's profit and loss account has not been presented separately in these financial statements.

(b) Prior year adjustments

- (i) Profits and losses (including impairment provisions) arising on non current asset investments were previously included in the Consolidated Statement of Recognised income and expense and recognised directly in equity. This treatment was in breach of the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' and so such realised profits and losses are now recognised in the Consolidated Income Statement. Such gains or losses continue to be transferred from profit and loss reserve to the capital reserve as a reserve movement, in accordance with the company's Articles of Association. The effect of these adjustments to the financial statements for the year ended 31 March 2007 is that net return after taxation in the Consolidated Income Statement has been increased by £327,128. The prior year adjustment has no impact on net assets as previously reported. The Consolidated Income Statement, the Consolidated Statement of Recognised income and expense and the Earnings per share disclosures have been restated.
- (ii) The participating preference shares were included as an equity instrument in the financial statements for the year ended 31 March 2007 as the board concluded that complying with IAS 32 in respect of the preference shares would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the IASB's framework. Following discussions with the Financial Reporting Review Panel, the board accepts that this departure from the requirements of IAS 32 was in breach of the requirements of IAS 1 (Presentation of Financial Statements) and that the preference shares should have been treated as a compound financial instrument in the financial statements for the year ended 31 March 2007. The preference shares are now treated as compound financial instruments and the fixed element of preference dividends have been expensed in the Consolidated Income Statement. The effect of this adjustment to the financial statements for the year ended 31 March 2007 is the fixed element of preference share dividends amounting to £349,636 has been reanalysed as finance costs in the Consolidated Income Statement and removed from the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity. The prior year adjustment has reduced net return after taxation by £349,636. The preference shares have been treated as a compound financial instrument in the balance sheet and as a result the Capital and Reserves of the group and the company have been reduced by £2,497,403 and the non-current liabilities have increased accordingly. The prior year adjustment has no impact on net asset value per ordinary share as previously reported. The Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Recognised income and expense and the Earnings per share disclosures have been restated.

(c) Basis of consolidation

The group financial statements comprise the financial statements of The Investment Company Plc and its subsidiaries made up to 31 March 2008.

The results of operations of subsidiary undertakings are included in the consolidated financial statements as from the date of acquisition, which is the date on which control of the acquired subsidiary is effectively transferred to the buyer. The results of operations of subsidiary undertakings disposed of are included in the consolidated income statement until the date of disposal, which is the date on which the parent ceases to have control of the subsidiary undertaking. Intragroup balances and intragroup transactions and resulting unrealised profits are eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

1. Accounting policies (continued)

(d) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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 have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

(e) Preference shares

The participating preference shares entitle the holders, in priority to the payment of any dividend to the holders of all or any other shares in the capital of the company, to a fixed net cash cumulative dividend at the rate of 7p per share per annum. In addition, holders are entitled to a participating dividend at the rate of 25% of any dividends paid on the Ordinary Shares in excess of 2p per share for any year, subject to a maximum participating dividend in respect of any year of 3p net per share.

On any return of capital holders are entitled to the payment of a premium of 50p per share. The shares also confer voting rights in certain circumstances.

The participating preference shares are disclosed as non-current liabilities in accordance with IAS 32 (Financial Instruments: Disclosure and Presentation). The board believes, however, the substance of the preference shares to be that of permanent capital in the company with participation in the future income and gains arising therein.

The participating preference shares were included as an equity instrument in the financial statements for the year ended 31 March 2006 in compliance with IAS 32 (as revised in 2000), which stated that the liability component of a compound financial instrument could be determined as a residual amount after separating the equity component. The board accepts that IAS 32 (as revised in 2003) was the applicable version of the standard and that the treatment of the preference shares as an

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

1. Accounting policies (continued)

equity instrument for the year ended 31 March 2006 was in breach of this revised standard, which states that the liability component of a compound financial instrument is determined first with any residual amount attributed to the equity component.

(f) Dividends

Ordinary dividends are accounted for in the period in which they are declared in accordance with IAS 10. Preference dividends have two dividend elements, the fixed net cash cumulative dividend and the participating dividend. The fixed net cash cumulative element accrues evenly on a daily basis throughout the period. The dividend payable on 1 April 2008 has therefore been treated as a charge against revenue for the year to 31 March 2008. The participating dividend element is accounted for in the period in which the dividend is declared and is treated in the same way as the Ordinary dividend upon which its calculation is based.

(g) Revenue and expenditure

Revenue includes dividends and interest from investments receivable on or before the balance sheet date. Deposit interest receivable, expenses and interest payable are accounted for on an accruals basis.

(h) Earnings per ordinary share

The Group calculates both basic and diluted earnings per ordinary share in accordance with IAS 33 "Earnings Per Share". Under IAS 33, basic earnings per share is computed using the weighted average number of shares outstanding during the period. Earnings are adjusted for the participating element of preference share dividends.

(i) Significant estimates and assumptions

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing material adjustment to carrying amounts of assets and liabilities within the next financial year lie primarily in investments, their fair value and any impairment review.

(j) Investments

IAS 39 requires investment funds to measure assets listed on a recognised Stock Exchange at current bid prices whereas under UK GAAP these assets had been previously measured at current middle market prices. The directors are of the opinion that the bid valuation is 1% lower than the mid valuation due to the nature of the assets concerned and this treatment is reflected in the investment valuation at the year end.

All investments held as non-current assets are shown in the balance sheet at valuation and all purchase and sale of investments are accounted for at trade date. Impairments of available for sale assets are taken to the income statement as required by paragraphs 55(b) and 67 of IAS 39 "Financial Instruments: Recognition and measurement. Such loss is transferred from the profit and loss reserve to the capital reserve in accordance with the Company's articles of association. Other differences between book cost and valuation are taken to the revaluation reserve. Profits and losses on the realisation of investments held as non-current assets are taken to profit and loss.

The Group determines the fair value of financial instruments that are not quoted, based on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is either based on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

(k) Impairment review

At each balance sheet date, a review is carried out to assess whether there is any objective evidence that the Group's available for sale financial assets have become impaired. Where such evidence exists, the amount of any impairment loss is recognised immediately in the Consolidated Income Statement. Any excess of the impairment loss over the amount previously recognised in equity is recognised in the Consolidated Income Statement.

If, in a subsequent period, the fair value of available for sale financial assets increase and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in profit or loss.

For the year ended 31 March 2007, reversals of prior year impairment provisions exceeded new impairment provisions made and hence a credit of £280,120 is recognised in the Consolidated Income Statement for that year. The majority of the reversal arose in respect of the holding of Dartmoor Investment Trust preference shares which being unlisted were valued at £276,500 at 31 March 2006 when the holding of Dartmoor ordinary shares was written down to nil. On 7 September 2006 following a takeover offer the holdings were sold for £456,500 giving rise to a significant reversal of the previous provision.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

1. Accounting policies (continued)

(l) IFRS standards

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

- IFRIC 8 Scope of IFRS 2: Effective for annual periods beginning on or after 1 May 2007;
- IFRIC 9 Reassessment of Embedded Derivatives: Effective for annual periods beginning on or after 1 June 2007;
- IFRIC 10 Interim Financial Reporting and Impairment: Effective for annual periods beginning on or after 1 November 2007;
- IFRIC 11 Group and treasury share transactions: Effective for annual periods beginning on or after 1 March 2008;
- IAS1(revised) Presentation of Financial Statements: Effective for annual periods beginning on or after 1 January 2009; and
- IFRS 8 Operating segments: Effective for annual periods beginning on or after 1 January 2009.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

2. Total Income

	2008 £	2007 £
Dividends	766,793	698,620
Interest on portfolio investments	162,919	142,705
Deemed income distributions	103,795	62,563
Loss on disposal of investments held for trading	(33,374)	(8,871)
Bank deposit interest	43,472	16,885
	1,043,605	911,902

3. Administrative Expenses

	2008 £	2007 £
Staff costs (see note a)	175,673	172,344
Management expenses:		
Administration fee (see note c)	111,000	111,000
Others	62,335	69,606
Fees payable to the Company's auditors:		
– for the audit of the annual accounts of the Group	21,000	18,075
– other services relating to taxation	5,000	8,750
	375,008	379,775

(a) Staff costs during the year:

Salaries and fees (see note b)	145,413	145,333
Social Security costs	12,937	10,193
Pension costs	17,323	16,818
	175,673	172,344

	2008 Number	2007 Number
The average number of persons employed by the Company during the year was		
Directors	5	5
Staff	1	1

Pension commitments

At 31 March 2008 the company had accrued £100,000 (2007: £100,000) towards the purchase of an annuity for a former employee of the Company.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

3. Administrative Expenses (continued)

(b) Directors' remuneration

Directors' remuneration of £115,413 (2007: £117,000) comprised as follows; to Sir David Thomson Bt. £13,000 (2007: £13,000), to Mr. S. J. Cockburn £63,000 (2007: £63,000), to Miss. J. B. Webb £10,000 (2007: £11,500), to Mr. P. S. Allen £10,000 (2007: £11,500), to Mr. P. A. Lovegrove £13,000 (2007: £ 6,500) and to Mr. C. W. G. Marsh £6,413 (2007: £11,500).

Mr S. J. Cockburn is contracted under a service contract with a remuneration of £50,000 which is in addition to his director's fee of £13,000 per annum. All Directors' remuneration was in respect of short-term benefits. There were no post employment benefits, other long term benefits or termination benefits.

(c) An administration charge of £27,750 (2007: £27,750) plus VAT per quarter was charged by Ionian Investment Management, a division of Fiske plc. Mr Cockburn is interested in Fiske plc as a director and substantial shareholder.

4. Taxation

	2008 £	2007 £
Arising on revenue items	—	—
Arising on capital items	—	—
	—	—
	—	—

Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom (30%).

The differences are explained below:

Profit on ordinary activities before taxation	463,041	326,693
Tax on profit on ordinary activities at 30%	138,912	98,009
Effects of:		
Expenses not deductible for tax purposes	343	599
Impairment provision not deductible for tax purposes	120,487	(84,036)
Preference dividends not deductible for tax purposes	104,890	104,890
Income not taxable	(479,742)	(231,700)
Chargeable gains on disposal of investments	—	2,277
Unutilised tax losses carried forward	115,110	109,961
	—	—

Deferred taxation

No provision has been made for deferred taxation. The potential deferred tax asset at 31 March 2008 not recognised was as follows:

	2008 £	2007 £
Short term timing differences	6,000	6,000
Credit on revaluation of investments	(666,861)	(602,645)
	(660,861)	(596,645)

5. Net Revenue after Taxation

As permitted by section 230 of the Companies Act 1985 the parent undertaking has not presented its own Income Statement in these financial statements. The consolidated return for the year of £463,041 (2007: £326,693) includes a profit of £559,307 (2007: Loss of £55,045) which is dealt with in the accounts of the parent undertaking.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

6. Finance Costs		2008		2007
	£	£	£	£
Participating Preference Shares				
Fixed entitlement accrued in first half year 3.5p (2007: 3.5p) Paid 1 Oct 07		174,818	Paid 1 Oct 06	174,818
Fixed entitlement accrued in second half year 3.5p (2007: 3.5p) Payable 1 Apr 08		174,818	Payable 1 Apr 07	174,818
Participating preference dividends accounted as finance costs		<u>349,636</u>		<u>349,636</u>

7. Dividends payable		2008		2007
	£	£	£	£
Participating Preference Shares				
Participating element Paid 1 Oct 07		87,409	Paid 1 Oct 06	87,409
Ordinary Shares				
Prior year final paid 5p (2007: 5p) Paid 28 Aug 07	94,995		Paid 18 Aug 06	96,369
Current year interim paid 4p (2007: 4p) Paid 14 Jan 08	75,995		Paid 12 Jan 07	77,096
Ordinary dividends paid		<u>170,990</u>		<u>173,465</u>
		<u>258,399</u>		<u>260,874</u>

8. Return per ordinary share	Net return	2008 Ordinary shares	Per share Pence	Net return	2007 Ordinary shares	Per share Pence
	£			£		
Revenue						
Net revenue after taxation and participating preference dividend	48,702	3,621,018	1.34p	(87,844)	3,643,415	(2.41)p
Capital						
Net investment gains after taxation	326,930	3,621,018	9.03p	327,128	3,643,415	8.98p
Total	<u>375,632</u>	<u>3,621,018</u>	<u>10.37p</u>	<u>239,284</u>	<u>3,643,415</u>	<u>6.57p</u>

The calculation of basic earnings per share is based on the weighted average number of ordinary shares in issue throughout the year. As the Company has no options or warrants in issue, basic and diluted loss per share are the same.

Adjusted return per share:

Revenue						
Net revenue after taxation	48,702	1,903,453	2.56p	(87,844)	1,925,850	(4.56)p
Capital						
Net investment gains after taxation	326,930	1,903,453	17.18p	327,128	1,925,850	16.99p
Total	<u>375,632</u>	<u>1,903,453</u>	<u>19.73p</u>	<u>239,284</u>	<u>1,925,850</u>	<u>12.42p</u>

The number of ordinary shares used in the calculation of Adjusted return per share is calculated as follows:

Weighted average number of Ordinary Shares of 50p each	3,621,018	3,643,415
Non voting ordinary shares	(1,717,565)	(1,717,565)
	<u>1,903,453</u>	<u>1,925,850</u>

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

9. Investments

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Valuation at 1 April 2007	13,603,406	13,187,670	13,690,315	11,670,854
Unrealised appreciation at 1 April 2007	(775,390)	(795,802)	(862,299)	(672,166)
Cost at 1 April 2007	12,828,016	12,391,868	12,828,016	10,998,688
Additions	888,548	2,078,931	888,548	3,398,649
Cost of disposals	(1,974,324)	(1,642,783)	(1,931,589)	(1,569,321)
Cost at 31 March 2008	11,742,240	12,828,016	11,784,975	12,828,016
Unrealised (diminution)/appreciation at 31 March 2008	(892,400)	775,390	(935,135)	862,299
Valuation at 31 March 2008	10,849,840	13,603,406	10,849,840	13,690,315
Aggregate value of investments listed on a recognised Stock Exchange	8,757,886	9,875,514	8,757,886	9,580,872
Other investments at Directors' valuation	2,091,954	3,727,892	2,091,954	4,109,443
	10,849,840	13,603,406	10,849,840	13,690,315

10. Investment in Subsidiaries

	Company	
	2008	2007
	£	£
At cost	5,410,552	5,410,552

Subsidiaries

At 31 March 2008 the company held interests in the following subsidiary companies:

	Country of Incorporation	% Share capital held	% Share of voting rights	Nature of business
Abport Limited	England	100%	100%	Investment Dealing Company
New Centurion Trust Limited	England	100%	100%	Investment Company

11. Financial Instruments by Category

Group assets per balance sheet as at 31 March 2008	Assets at fair value through the profit and loss account		Available for sale	Total
	Loans and receivables			
	£	£	£	£
Available for sale	–	–	10,849,840	10,849,840
Trade and other receivables	49,859	–	–	49,859
Other financial assets at fair value through the profit and loss	–	195,026	–	195,026
Cash and cash equivalents	2,095,866	–	–	2,095,866
Total	2,145,725	195,026	10,849,840	13,190,591
Group liabilities per balance sheet as at 31 March 2008	Liabilities at fair value through the profit and loss account		Other financial liabilities	Total
	£	£	£	£
Trade and other payables	–	–	231,936	231,936
Dividends payable	–	–	174,818	174,818
Borrowings	–	–	6,154,407	6,154,407
Total	–	–	6,561,161	6,561,161

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

11. Financial Instruments by Category (continued)

Group assets per balance sheet as at 31 March 2007	Loans and receivables £	Assets at fair value through the profit and loss account £	Available for sale £	Total £
Available for sale	–	–	13,603,406	13,603,406
Trade and other receivables	81,184	–	–	81,184
Other financial assets at fair value through the profit and loss	–	84,756	–	84,756
Cash and cash equivalents	465,558	–	–	465,558
Total	546,742	84,756	13,603,406	14,234,904

Group liabilities per balance sheet as at 31 March 2007	Liabilities at fair value through the profit and loss account £	Other financial liabilities £	Total £
Trade and other payables	–	152,182	152,182
Dividends payable	–	174,818	174,818
Borrowings	–	6,154,407	6,154,407
Total	–	6,481,407	6,481,407

12. Trade and other receivables

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Amount due from Abport Limited	–	–	253,505	109,420
Trade and other receivables	49,859	81,184	49,859	81,184
	49,859	81,184	303,364	190,604

Other receivables principally comprise amounts outstanding for trade sales and dividends receivable. These amounts are unsecured, non-interest bearing and have no fixed repayment period.

13. Investments

Investments held as current assets are shown at fair value through profit or loss of £195,206 (2007: £84,756). If they had been shown at cost they would have been carried at £282,546 (2007: £142,511).

14. Trade and other payables

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Other trade payables	231,936	152,182	231,936	152,183
	231,936	152,182	231,936	152,183

Other trade payables principally comprise amounts outstanding for operating expenses. These amounts are unsecured and non-interest bearing. Of the other trade payables: £100,000 (2007: £100,000) is an accrual for a pension contribution for which there is no determined payment date, the remaining other trade payables are due for payment within 30 days.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

15. Interest bearing liabilities

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
5% loan notes maturing 2010/2015	3,657,004	3,657,004	3,657,004	3,657,004
Participating preference shares	2,497,403	2,497,403	2,497,403	2,497,403

The loan notes were issued at par on 7 March 2005 as part of the consideration for the acquisition of New Centurion Trust Limited. The loan notes are unsecured and unsubordinated and will be redeemed by the Company at par as to 50% of their aggregate original principal amount on the fifth anniversary of the completion date, being 7 March 2010, and as to a further 10% on each anniversary thereafter up to and including the tenth anniversary.

Loan notes maturity analysis

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
In more than one year but not more than two years	1,828,502	–	1,828,502	–
In more than two years but not more than five years	1,097,101	2,559,903	1,097,101	2,559,903
In more than five years	731,401	1,097,101	731,401	1,097,101
	3,657,004	3,657,004	3,657,004	3,657,004

The participating preference shares are analysed as to:

	Group and Company			
	2008		2007	
	No.	£	No.	£
Authorised				
Participating Preference Shares of 50p each	12,640,000	6,320,000	12,640,000	6,320,000
Allotted, issued and fully paid Participating Preference Shares of 50p each				
At 1 April 2007 and 31 March 2008	4,994,805	2,497,403	4,994,805	2,497,403

The directors do not consider the fair values of the group's financial instruments to be significantly different from the carrying values.

16. Issued capital

	Group and Company			
	2008		2007	
	No.	£	No.	£
Authorised				
Ordinary shares of 50p each	4,000,000	2,000,000	4,000,000	2,000,000
Deferred Shares of 50p each	100,000	50,000	100,000	50,000
		2,050,000		2,050,000
Allotted, issued and fully paid Ordinary shares of 50p each				
At 1 April 2007	1,919,891	959,946	1,927,391	963,696
Bought in during year	(20,000)	(10,000)	(7,500)	(3,750)
At 31 March 2008	1,899,891	949,946	1,919,891	959,946
Non-voting shares of 50p each				
Non-voting shares held by the Group	1,717,565	858,782	1,717,565	858,782
		1,808,728		1,818,728

The Ordinary Shares entitle the holders to receive all ordinary dividends and all remaining assets on a winding up, after the Participating Preference Shares have been satisfied in full.

The non-voting ordinary shares, all of which are held by New Centurion Trust Limited, a wholly owned subsidiary of the Company, rank *pari passu* with the existing ordinary shares except that they do not have a right to vote at General Meetings of the Company.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

17. Reserves

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Share premium				
Balance at 1 April 2007 and 31 March 2008	<u>1,019,246</u>	<u>1,019,246</u>	<u>1,019,246</u>	<u>1,019,246</u>
Capital redemption reserve				
Balance at 1 April 2007	675,250	671,500	675,250	671,500
Buy in of own shares	10,000	3,750	10,000	3,750
Balance at 31 March 2008	<u>685,250</u>	<u>675,250</u>	<u>685,250</u>	<u>675,250</u>
Revaluation reserve				
Balance at 1 April 2007	2,423,825	2,678,411	2,634,815	2,423,495
Unrealised revaluation of investments	(1,283,348)	(254,586)	(1,433,493)	211,320
Balance at 31 March 2008	<u>1,140,477</u>	<u>2,423,825</u>	<u>1,201,322</u>	<u>2,634,815</u>
Capital reserve				
Balance at 1 April 2007	3,989,314	3,662,186	3,808,667	3,753,796
Realised gains	728,554	47,008	754,107	76,058
Impairment provisions	(401,624)	280,120	(363,941)	(21,187)
Balance at 31 March 2008	<u>4,316,244</u>	<u>3,989,314</u>	<u>4,198,833</u>	<u>3,808,667</u>
Revenue account				
Balance at 1 April 2007	746,995	1,024,973	896,225	1,283,684
Buy in of own shares	(45,361)	(16,669)	(45,361)	(16,669)
Retained revenue earnings for the year	(122,288)	(261,309)	(89,258)	(370,790)
Balance at 31 March 2008	<u>579,346</u>	<u>746,995</u>	<u>761,606</u>	<u>896,225</u>

A full reconciliation of the movement in reserves is shown in the Consolidated Statement of Changes in Equity.

The following is a description of the nature and purpose of the key reserves:

- Own shares held are shares in the Company that are owned by New Centurion Trust Limited which, following its acquisition in March 2005, became a wholly owned subsidiary of the Company.
- The capital redemption reserve reflects the nominal value of deferred shares which have been cancelled and the nominal value of ordinary and preference shares which have been bought in by the Company.
- The revaluation reserve reflects the difference between the cost of portfolio investments and the market value at which they are held on the balance sheet, where market value is greater than cost.
- The capital reserve is the total of accumulated realised gains and losses on disposal of portfolio investments, less unrealised losses.
- Revenue account consists of revenue earnings after taxation, dividends and any transfers to capital redemption reserve arising on the buy-in of own shares.

The own shares held, the capital redemption reserve, the revaluation reserve and the capital reserve are non-distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

18. Reconciliation of movements in shareholders' funds

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Return for the financial year	463,041	326,693	559,307	(55,045)
Dividends	(258,399)	(260,874)	(258,399)	(260,874)
	204,642	65,819	300,908	(315,919)
Purchase of own shares	(45,361)	(16,669)	(45,361)	(16,669)
Other recognised gains and losses relating to the year	(1,283,348)	(254,586)	(1,433,493)	211,320
Net reduction to shareholders' funds	(1,124,067)	(205,436)	(1,177,946)	(121,268)
Opening shareholders' funds	7,753,497	7,958,933	10,852,931	10,974,199
Closing shareholders' funds	6,629,430	7,753,497	9,674,985	10,852,931
Attributable on a winding up to:				
Premium payable to				
Participating Preference shareholders	2,497,403	2,497,403	2,497,403	2,497,403
Ordinary shareholders	4,132,027	5,256,094	7,177,582	8,355,528
	6,629,430	7,753,497	9,674,985	10,852,931

The Participating Preference Shares entitle the holders, in priority to the payment of any dividend to the holders of all or any other shares in the capital of the Company, to a fixed net cash cumulative dividend at the rate per annum of 7p per share. In addition, holders are entitled to a participating dividend at the rate of 25% of any dividends paid on the Ordinary Shares in excess of 2p net per share for any year, subject to a maximum participating dividend in respect of any year of 3p net per share.

On any return of capital holders are entitled to the payment of a premium of 50p per share. The shares also confer voting rights in certain circumstances. This 50p premium, amounting to £2,497,403, falls to be treated as a contingent call on Shareholders' funds as shown in the above table.

A reconciliation of the Consolidated balance sheet and the Company's balance sheet is as follows:

	2008	2007
	£	£
Consolidated balance sheet net assets	6,629,430	7,753,497
Add:		
Cost of non-voting ordinary shares of the Company held by New Centurion Trust Limited	2,919,861	2,919,861
Goodwill on acquisition of New Centurion Trust Limited and Abport Limited being primarily costs of acquisition which have been amortised in the consolidated accounts	354,879	354,879
Less:		
Adjustments for post acquisition trading of subsidiaries	(229,185)	(175,306)
Company balance sheet net assets	9,674,985	10,852,931

19. Net asset value per ordinary share

The net asset value per ordinary share is calculated as follows:

	2008	2007
	£	£
Net assets at 31 March 2008	6,629,430	7,753,497
Less premium attributable to Participating Preference Shareholders	(2,497,403)	(2,497,403)
	4,132,027	5,256,094
Ordinary shares in issue	1,899,891	1,919,891
Net asset value per ordinary share	217.49p	273.77p

The net asset value of the Group as shown on the consolidated balance sheet reflects the market value of the underlying investments of New Centurion Trust Limited and Abport Limited as at 31 March 2008.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

20. Ultimate controlling party

The Company has no ultimate controlling party.

21. Related party transactions

During the year the Company was charged administration fees of £111,000 (2007: £111,000) by Ionian Investment Management which is a division of Fiske plc. Mr S.J. Cockburn is interested as a director and substantial shareholder in Fiske plc.

The Directors consider there to be no key management personnel other than the Directors.

22. Contingent liabilities

There were no contingent liabilities at 31 March 2008 (2007: Nil).

23. Analysis of financial assets and liabilities

Background

The investment objective of the group is to generate income and capital growth over the medium term. The group's financial instruments comprise investments in fixed interest securities and prior charge investments, borrowings for investment purposes, cash balances and debtors and creditors that arise directly from its operations.

Risks

The principal risks the group faces in its portfolio management activities are:

- Market price risk – arising from uncertainty about future prices of financial instruments used by the group;
- Interest rate risk – arising because the group may borrow funds in order to increase the amount of capital available for investment; and
- Liquidity risk – because the group may invest in small companies with more limited marketability and in investments not traded on recognised or designated investment exchanges.

Policy

The investment philosophy of the Directors is to identify areas of value and potential capital growth in the medium term.

Specific policies for managing risks are summarised below and have been applied throughout the period:

1. Market price risk

The Managing Director monitors the prices of financial instruments held by the group on a regular basis.

2. Interest rate risk

The Company finances its operations through existing reserves and an overdraft facility which is reviewed annually. During the year ended 31 March 2008, the group could borrow up to £1,500,000 at 2% over base rate against overdraft facility.

3. Liquidity risk

The group's assets mainly comprise readily realisable quoted and unquoted securities that can be sold to meet funding commitments if necessary. Short term flexibility is achieved through the use of overdraft facilities.

Financial instruments

Non-current assets

	2008 £	2007 £
Listed Investments	8,757,886	9,875,514
Unlisted Investments	2,091,954	3,727,892
	<u>10,849,840</u>	<u>13,603,406</u>

Current asset investments

The group holds current asset investments with a market value of £195,026 (2007: £84,756) at the year end. Investments are subject to fluctuation in value due to market forces including interest rates.

Current assets and current liabilities

The group's current assets and liabilities are denominated in sterling.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 March 2008

23. Analysis of financial assets and liabilities (continued)

Long term loan

The loan notes bear interest at a fixed rate of 5% per annum and are repayable in instalments.

The value of current assets, current liabilities and long term loans are not subject to interest rate risk.

Sensitivity

The direct impact of a 5% movement in the value of the portfolio investments and current asset investments amounts to £520,000 (2006: £684,000), being 29p (2006: 36p) per ordinary share.

The Directors are of the opinion that the direct impact of a movement in short term interest rates on the value of the investments is relatively small due to the illiquid and specialised nature of the investments in the portfolio.

Capital structure and management

The capital structure of the Group consists of net debt, including cash held on deposit, preference shares and ordinary shares.

	2008 £	2007 £
Cash and bank balances	2,095,866	465,558
Interest bearing liabilities	(3,657,004)	(3,657,004)
Participating preference shares	(2,497,403)	(2,497,403)
Net debt	(4,058,541)	(5,688,849)
Ordinary Shareholders' funds	6,629,430	7,753,497
Gearing (net debt/ordinary shareholders' funds)	61.2%	73.4%

The type and maturity of the Group's borrowings are analysed in notes 15 and 18 and the Group's equity is analysed in note 16. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow The Investment Company plc to operate effectively. Where appropriate shareholder returns can be enhanced through buying-in preference shares in the market. Capital is managed on a consolidated basis. The Group is not a member of any body that imposes minimum levels of regulatory capital. No significant external constraints in the management of capital have been identified in the past.

TWENTY LARGEST INVESTMENTS

At 31 March 2008

Stock	Number	% Issue	Book cost £	Market or directors' valuation £	% of total portfolio
1. REA Holdings					
9% cum pref £1	860,009	10.11%	777,198	936,550	
9.5% Gtd Notes 31/12/15/17	150,000	1.00%	150,133	163,350	
			927,331	1,099,900	10.14%
2. Delta Group					
4½% 2nd cum pref £1	1,380,099	71.14%	932,441	963,240	8.88%
3. Fiske					
ordinary §	1,071,000	12.83%	762,783	864,136	7.96%
4. Coats International					
6% red pref £1 †	624,347	4.75%	482,588	565,034	5.21%
5. Fishguard & Rosslare					
3½% gtd preference stock	775,999	62.70%	433,040	464,785	4.28%
6. Amalgamated Metal					
5.4% cum pref £1 †	256,065	18.22%	144,049	204,852	
6% cum pref £1 †	213,510	23.72%	103,844	196,429	
			247,893	401,281	3.70%
7. Satcom Group Holdings					
8% conv bonds 30/06/09	280,000	9.33%	280,280	291,060	
8% conv bonds 31/12/10	100,000	22.22%	100,000	103,950	
			380,280	395,010	3.64%
8. Dunlop Plantations					
6% cum pref £1	538,493	21.54%	369,745	386,503	3.56%
9. Libra Natural Resources					
8% Gtd Conv Bonds 2010	300,000	5.45%	300,000	353,430	3.26%
10. Chemetall					
9% cum red pref 2008 (fnly Brent Int'l)	349,000	2.91%	324,557	342,055	3.15%
11. Turbo Power Systems Inc					
Common shares NPV §	3,437,500	1.08%	275,000	123,363	
6.5% conv notes 2010	250,000	12.50%	200,400	205,000	
Warrants 2010	218,750		—	2,188	
			475,400	330,551	3.05%

TWENTY LARGEST INVESTMENTS *continued*

At 31 March 2008

Stock	Number	% Issue	Book cost £	Market or directors' valuation £	% of total portfolio
12. Liberty					
9½% cum pref £1	199,708	34.58%	146,996	199,708	
6% cum pref £1 (fmly Retail Stores)	250,225	64.99%	107,446	130,054	
			<u>254,442</u>	<u>329,762</u>	3.04%
13. S&U					
6% cum pref £1	67,850	33.93%	56,198	53,401	
31½% pref 12.5p	489,192	13.59%	266,283	256,679	
			<u>322,481</u>	<u>310,080</u>	2.86%
14. Renold					
6% cum pref £1	422,109	72.72%	330,490	307,148	2.83%
15. Manganese Bronze Holdings					
8.25% cum pref £1	282,000	41.22%	234,085	280,576	2.59%
16. Investec Investment Trust					
3½% cum pref	320,073	24.62%	219,250	182,202	
5% cum pref	104,043	30.12%	79,593	78,797	
			<u>298,843</u>	<u>260,999</u>	2.41%
17. Mano River Resources					
9% Conv Loan Notes	250,000	83.33%	250,625	250,000	2.30%
18. Right Management Consultants					
8p cnv pref £1 † (fmly Coutts)	245,000	6.53%	245,840	245,000	2.26%
19. Hawtin					
6½% cum pref £1	268,149	48.87%	152,467	219,011	2.02%
20. Associated British Engineering					
7% cum pref £1	291,251	52.48%	153,809	180,212	
8% cum red pref £1	56,474	35.88%	51,674	34,943	
			<u>205,483</u>	<u>215,155</u>	1.97%
			<u>7,930,814</u>	<u>8,583,656</u>	<u>79.11%</u>

§ Issues with unrestricted voting rights

† Unquoted investments at Directors' valuation

The Group has a total of 81 portfolio investment holdings in 66 companies.

NOTICE OF MEETING

Notice is hereby given that the 142nd Annual General Meeting of members will be held at the offices of Fiske plc, 3rd Floor, Salisbury House, London Wall, London EC2M 5QS at 12.30 p.m. on 3 September 2008 for the following purposes:

Ordinary Business:

1. To receive and adopt the Directors' report and accounts for the year ended 31 March 2008.
2. To receive and approve the Directors' remuneration report for the year ended 31 March 2008.
3. To approve a final dividend of 5 pence per ordinary 50p share in respect of the year ended 31 March 2008.
4. To re-elect Peter Stanley Allen as a Director.
5. To reappoint the Auditors and to authorise the Directors to determine their remuneration.

Special Business

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

6. That the authority conferred by Article 10(B) of the Articles of Association of the Company (as adopted at the Extraordinary General Meeting of the Company held on 11 September 1997) to make market purchases of Ordinary Shares of 50p each and of Participating Preference Shares of 50p each in its capital be further renewed so that the authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008 but not so as to prejudice the completion of a purchase before that date, and be varied as follows:
 - (a) the maximum amount of Ordinary Shares which may be so acquired is 284,983; and
 - (b) the maximum amount of Participating Preference Shares which may be so acquired is 998,961.
7. That the power conferred by Resolution 4 passed at the Extraordinary General Meeting held on 11 September 1997 as renewed and expiring at the conclusion of this Annual General Meeting be further renewed to the effect that the Board be empowered pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to a maximum of the authorised but unissued share capital of each class of share capital of the Company as if Section 89(1) of the Act did not apply to such allotment and provided that this authority shall expire 15 months from the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, save that the Company may prior to the expiry of such

NOTICE OF MEETING *continued*

authority make an offer or agreement under which relevant securities would or might fall to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

3rd Floor
Salisbury House
London Wall
London EC2M 5QS

By Order of the Board
James P. Q. Harrison
Secretary

7 August 2008

Notes:

1. A member of the Company entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member.
2. To be valid, a duly executed form of proxy, together with the power of attorney, if any, under which it is signed, or a notorially certified copy thereof, must be received at the office of the Company's Registrars, Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time fixed for the Meeting or any adjourned Meeting at which the proxy is to vote.
3. The register of Directors' interests in the shares of the Company and the contract of service entered into between the Company and the Managing Director are available for inspection at the Registered Office during normal business hours (Saturdays and Sundays excepted), until the conclusion of the Meeting.

