

THE LAXEY  
INVESTMENT TRUST PLC  
(FORMERLY TEA PLANTATIONS  
INVESTMENT TRUST PLC)

REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2007

2007

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## Financial Calendar

24 January 2008	Preliminary announcement of results for the year ended 30 September 2007
15 February 2008	Report and financial statements sent out to shareholders
18 March 2008	Annual General Meeting

## Directors, Manager and Advisers

D.E.H. Panter (*Chairman*)\*

D.J.M. Blackler O.B.E.

J.C. Colvile\*

C.W. Kingsnorth

A. Boyd\* C.M.G.

A.J.R. Collins

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Company Number 03268761

# Chairman's Statement

## INTRODUCTION AND RESULTS

I have pleasure in presenting my report for the year ended 30 September 2007.

The Company had gross revenue of £318,049 (2006: £363,919); after deducting management expenses, interest and taxation, the revenue return on ordinary activities was a loss of £89,289 (2006: surplus of (£53,652)). There was also a capital surplus of £739,879 (2006: £238,885). The combined revenue and capital returns resulted in a profit for the year ended 30 September 2007 of £650,590 (2006: £292,537) and a welcome increase in the net asset value of The Laxey Investment Trust PLC to 103.81p (2006: 97.65p), representing an increase over the previous year of 6%.

## TRADING BACKGROUND AND OUTLOOK

On 6 March 2007 the shareholders of Tea Plantations Trust PLC ("TPIT") agreed that the TPIT should continue as an investment trust company and enter into a two year realisation and transition phase under the new name of The Laxey Investment Trust PLC ("LIT"). The objective was to sell existing illiquid Sri Lankan investments and re-invest the proceeds in accordance with a new investment policy. That policy is one of an active value investor and represents the core strategy of the Investment Manager, Laxey Partners (UK) Limited. Shareholders will be given the opportunity for the Company's new strategy to be continued at a general meeting which is expected to be held in March 2009.

In pursuance of this policy change the Investment Manager has since March 2007 embarked on a divestment programme and pursued an aggressive acquisition of new investments outside Sri Lanka. In the year to 30 September 2007, LIT held equity positions in 25 companies listed in 8 countries covering a wide range of investments in real estate construction and development, financial intermediaries and fund managers. It is early days to try to assess these but overall values were 5% higher at the end of September than the purchase price. Since then stock markets everywhere have been declining following the collapse of the sub-prime mortgage market in the US and under these conditions, our portfolio has done well to have seen a decline of only 2% to the last declared NAV of 101.21p on 24 January 2008.

At 30 September 2007 just 27% of the LIT portfolio remained in Sri Lankan investments. The largest divestment and LIT's biggest position was in Ceylon Tea Services. This represented 20% of the portfolio at 24 September 2007 when it was sold at a premium of 14% to the then prevailing price, showing the Company a handsome capital profit.

Meanwhile Sri Lankan Plantations have had a poor crop in the tea sector, but an excellent one in terms of prices. Results from those companies in which we have investments have reversed the trend of earlier years and produced some useful profits, whilst cash flow has also improved. To an extent this has been assisted by the continuing decline in the value of the Rupee, but management on the estates has also become significantly more efficient over the period of our investment. Both rubber and oil palm have had a good year particularly the latter.

On the back of this more optimistic sentiment it is hoped that we will be able to find buyers for the more illiquid Sri Lankan assets, although price levels are likely to reflect the difficult trading climate that is being experienced worldwide which may somewhat delay sales.

This prognostication is made whilst the political and economic situation in Sri Lanka remains unsatisfactory. However the Liberation Tigers of Tamil Eelam ("LTTE") appears to be facing a more determined offensive from Government Forces on the ground following their withdrawal from the ceasefire. The LTTE also seem to have found conditions more difficult for procuring arms which seems to be weakening it.

*Chairman's Statement (continued)*

The flawed Presidential Election in Kenya has also underpinned price levels in tea at the start of the year and coupled with dry weather in East Africa the prospects are looking more encouraging for our exodus from Sri Lanka. The sale of these assets provides the opportunity to complete the new activist approach of the Company's policy.

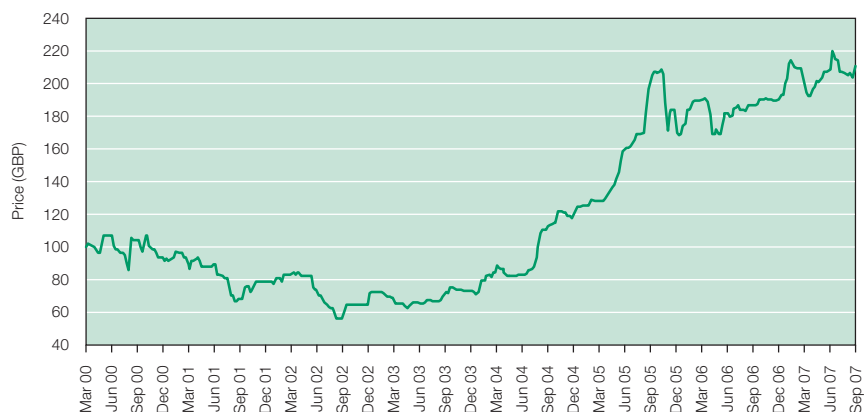
Mr D.E.H. Panter  
*Chairman*  
8 February 2008

# Investment Manager's Report and Portfolio Review

## INVESTMENT MANAGER'S REPORT

For the year ended 30 September 2007, the net asset value ("NAV") of LIT grew by 6.31%. Very encouragingly, since the re-organisation in March and the implementation of our new active value investment policy the NAV has grown by 20.07%.

**The Laxey Investment Trust NAV Growth (rebased)  
from March 2000 to September 2007**



The period under review coincided with the financial markets' liquidity crisis of August 2007.

Following the turmoil in the credit markets in August the full extent of the problems some highly leveraged banks and funds are experiencing is still not yet fully known. There are many holes in balance sheets all around the world and these will continue. Many institutions are scrambling to hide their sins and put their houses in order. The off-balance sheet nature of many of the leveraged structures that contributed to the crisis and their lack of market pricing compounded the cover-up.

This is a leverage issue. It was an excessive and inappropriate leverage in the sense that many structures seem to have relied on the short term commercial paper market to finance themselves, holding much longer dated assets without banking lines in place to support them. Our concern over excess leverage in the markets is well documented. In a report published last year, we speculated on how much of the world's equity was financed by debt. We suggested 50% and asked if readers could suggest alternative numbers. Nobody came back with a different number.

## PORTFOLIO REVIEW

Those positions in which we have been or are still active that have contributed towards performance for the period under review are as follows:

### Implenia AG

Formed following the merger of two leading Swiss construction companies in early 2006, Implenia AG is a Swiss listed company with a market cap of SFr615.12m. It provides general contracting, industrial and commercial construction services as well as real estate development. It is the market leader with a market share of 5.00%, about 3x the size of its closest competitor.

We believe that Implenia AG is a prime takeover target given its current undemanding valuation and the quality of assets amidst the ongoing European consolidation.

*The story so far*

Since the outset, Implenia has refused to recognise and properly register our entire stake. We have been advised that there are no legal grounds for doing so and in response Laxey Partners Limited has filed lawsuits against the Implenia AG board of directors, six of whom (of a total of eight) will be up for re-election at the company's AGM in April 2008.

Despite stating that the company wishes to remain independent, the board of directors has been as equally reluctant to consider shareholder friendly initiatives as it is to talk to potential acquirers, of which there are many, including Laxey Partners Limited which launched a bid for Implenia AG in early November.

As at 30 September 2007 LIT had a 0.52% economic interest in Implenia AG, worth £1,321,849, 11.52% of the Company's portfolio.

**Sambu Construction Company Limited ("Sambu")**

A Korean company, Sambu specialises in government construction projects as well as building office blocks, industrial plants, hotels, apartments, schools and shopping malls.

Across its funds Laxey Partners Limited has a 7.40% stake in Sambu. On a sum of the parts basis, we consider Sambu to be trading at a deep discount to its underlying value (45.00% by our reckoning), and to its peers. One of the ways it could unlock this value would be through the sale or redevelopment of its assets, the largest of which is located in the Gangnan-gu district of Seoul – one of Korea's most prestigious residential areas. With this in mind, Laxey Partners Limited is in dialogue with the management of Sambu.

With a fantastic ROI of 100% at 30 September 2007 LIT had a 0.76% economic interest in Sambu, worth £1,879,618, 16.38% of the Company's portfolio.

**Nippon Commercial ("Nippon")**

Nippon Commercial is a Japanese REIT that invests in medium to large sized offices and high quality retail facilities in Tokyo and other major Japanese cities.

We expect office rents for the kind of property owned by Japanese REITs to see significant rental growth over the next few years and Nippon Commercial is well placed to benefit from both office rental growth on its existing portfolio and the positive spread still available on debt funded property purchases in Japan. The company's shares are currently trading at a significant discount to NAV.

As at 30 September 2007 LIT had a 0.04% economic interest in Nippon, worth £193,786, 1.69% of the Company's portfolio.

**Amanah Millenia Fund Bhd ("Amanah")**

A closed-end fund registered in Malaysia, Amanah pursues investments in small and mid-cap companies listed on the Kuala Lumpur Stock Exchange, as well as other regional stock exchanges.

In June 2007 Amanah faced its 10th year continuation vote. With liquidation looming – the fund averaged a discount of 26.56% in 2004, 22.55% in 2005 and 15.26% in 2006 – the Amanah board proposed a semi-annual tender for 10.00% of shares at 97.00% of NAV as well as a reduction in management fees from 1.25% to 0.75%.

In the run up to continuation, and as the fund's largest shareholder, Laxey Partners Limited had been encouraging the board to pre-empt the vote and come up with a scheme to please all shareholders: either an exit or a continuation. Unfortunately, the scheme proposed above fell short of this and liquidation became inevitable.

To this end, Andrew Pegge of Laxey Partners Limited joined the Amanah board and in line with a revised board recommendation Amanah failed its 10th anniversary continuation vote in June. Liquidation proposals were formulated ahead of the self imposed 3 month deadline and at the time of writing, 74.00% of the portfolio was already in cash and the fund was trading at an 8.50% discount to NAV.

As at 30 September 2007 LIT had a 0.08% economic interest in Amanah, worth £65,012, 0.57% of the Company's portfolio.

#### **Land Securities Group PLC ("Land Securities")**

With newly acquired REIT status, the FTSE 100 Land Securities is trading at a 25.00% discount to NAV. Land Securities is the fourth largest REIT in the world but has launched its new REIT status into a property market that is digesting five interest rate rises and a poor historic spread over gilts. Perhaps more interestingly the REITs can become take-over targets after one year. If they are taken over in the first year they would have to pay back all the tax saved by converting to a REIT but not so after one year. That year was up on 31 December 2007 and we believe Land Securities will have to address its discount before someone else does.

Land Securities has recently announced that it will begin a one year 3 way break up process that will spin off its property management outsourcing division, a retail unit and its London office development arm.

Across its funds, Laxey Partners Limited has a 1.00% stake in Land Securities.

#### **Sri Lankan Interests**

As at 30 September 2007, 26.96% of the Company's portfolio constituted the following Sri Lankan interests and corresponding returns on market price:

	% of portfolio as at 30/09/07	Return from 30/09/06 to 30/09/07	Return from 31/03/07 to 30/09/07
	%	%	%
Aitken Spence Plantations Management Limited	4.36	20.15	(2.26)
Ceytea Plantation Management Limited	5.06	17.81	(0.56)
Forbes Plantations (Pvt) Limited	3.34	(17.17)	1.14
James Finlay Limited	7.89	(9.09)	12.78
Kegalle Plantations Limited	2.05	(10.64)	0.00
Kelani Valley Plantations Limited	0.24	10.55	(1.79)
Maskeliya Plantations Limited	0.26	(3.16)	(5.15)
Metropolitan Resource Holdings Limited	3.77	101.25	(10.56)

Laxey Partners (UK) Limited  
8 February 2008

## Investments as at 30 September 2007

Holding	Country of Incorporation	Country of Operation	Country of Listing	Market Value £	30 September 2007	30 September 2006	
					% of Net Assets	% of Net Assets	
<b>Listed investments</b>							
57,640		Korea	Korea	Korea	1,879,618	17.15	–
675,000		UK	UK	UK	1,417,500	12.93	–
96,800		Switzerland	Switzerland	Switzerland	1,321,849	12.06	–
1,395,418		Sri Lanka	Sri Lanka	Sri Lanka	905,657	8.26	11.52
1,200,000		Russia	Russia	Russia	777,481	7.09	–
615,598		Guernsey	Russia	UK	610,981	5.57	–
2,481,027							
		Sri Lanka	Sri Lanka	Sri Lanka	432,081	3.94	2.48
1,294,200		Sri Lanka	Sri Lanka	Sri Lanka	235,190	2.15	5.71
91		Japan	Japan	Japan	193,786	1.77	–
100,000		UK	UK	UK	183,750	1.68	–
200,000							
		UK	Bulgaria	UK	164,000	1.50	–
205,270		Cayman Islands	China	UK	123,927	1.13	–
100,000		UK	Cuba	Guernsey	76,783	0.70	–
417,900		Malaysia	Malaysia	Malaysia	65,012	0.59	–
72,200		UK	UK	UK	29,602	0.27	–
296,600		Sri Lanka	Sri Lanka	Sri Lanka	29,517	0.27	0.37
116,900		Sri Lanka	Sri Lanka	Sri Lanka	27,819	0.25	0.49
41,000		British Virgin Islands	Brazil	UK	19,520	0.18	–
26,000							
		Singapore	Singapore	Singapore	14,958	0.14	–
3,470		Korea	Korea	Korea	14,517	0.13	–
–		Sri Lanka	Sri Lanka	Sri Lanka	–	–	32.09
–							
		Sri Lanka	Sri Lanka	Sri Lanka	–	–	0.07
–		Sri Lanka	Sri Lanka	Sri Lanka	–	–	–
–		Sri Lanka	Sri Lanka	Sri Lanka	–	–	15.31
–		UK	UK	UK	–	–	12.89
					8,523,548	77.76	
<b>Unlisted investments</b>							
38,726		Poland	Poland	N/A	1,473,783	13.45	–
3,136,500		Sri Lanka	Sri Lanka	N/A	580,705	5.30	5.70
2,500,000		Sri Lanka	Sri Lanka	N/A	499,855	4.56	4.81
12,500,000		Sri Lanka	Sri Lanka	N/A	383,464	3.50	5.36
50,000		Jersey	East Europe	N/A	13,961	0.13	–
					2,951,768	26.94	
<b>Contracts for difference</b>							
		Various	Various	Various	174	–	
					174	–	
					11,475,490	104.70	
					(515,042)	(4.70)	
					10,960,448	100.00	

The total number of investments at 30 September 2007 was 25.

\* Unquoted investments value provided by an independent valuer (see pages 8 to 13).

† Valued at Directors' valuation.

# Valuation of Shares of Unquoted Plantation Management Companies

The Laxey Investment Trust PLC (“LIT”) has invested in the following unquoted Plantation Management Companies (“PMCs”) which hold controlling interests in the corresponding Regional Plantation Companies (“RPCs”):

## Plantation Management Company

Ceytea Plantation Management Limited (“CPL”)  
Forbes Plantations (Pvt) Limited (“FPL”)  
Aitken Spence Plantation Managements Limited (“ASPM”)

## Regional Plantation Company

Horana Plantations Limited (“HPL”)  
Kahawatte Plantations Limited (“KPL”)  
Elpitiya Plantations Limited (“EPL”)

This report presents valuations (per share) for the above mentioned PMCs as at 30 September 2007.

## 1. VALUATION METHODOLOGY

The methodology used in the valuations of the PMCs is as follows:

1. The overall value of each PMC is first estimated as the sum of the following two components:
  - a) The net asset value of the company as per its end September 2007 unaudited accounts after making the following two adjustments:
    - Valuing the shares of the respective RPCs owned by each PMC (these shares are the largest investments by far of each PMC) at their market value. The books of most PMCs presently show these shares at their cost of acquisition.
    - Making any further adjustments to the assets/liabilities of each PMC as shown in the balance sheet that need to be made because of specific circumstances.
  - b) The present value of the “free cash flow” of each of the PMCs resulting from their contracts to manage their respective RPCs.<sup>1</sup>
2. The total estimated overall value of each PMC is then divided by its number of issued shares to estimate the value per share of the PMC.

In general, a conservative approach is used in making the estimates. To this extent, the estimated values per share of the PMCs can be considered as lower bound estimates.

<sup>1</sup> CPL and ASPM have entered into management contracts with their respective RPCs, where the RPCs pay management fees to the PMCs as a percentage of earnings before interest depreciation taxes (“EBIDTA”) of their RPCs.

## 2. REAL DISCOUNT RATE USED IN VALUATIONS

In his valuation report dated May 2003 for the same investments the author argued that the appropriate discount rate to be used to calculate the present value of expected future management fees based on EBIDTA should be 8%. The same basis will be continued in this valuation report.

### 3. VALUATIONS OF PMCs

#### 3.1 Ceytea Plantation Management Limited (“CPL”)

##### Adjusted Net Asset Value

Table 3.1.1 shows CPL’s balance sheet as at 30 September 2007. In this balance sheet investment by CPL in 12.75 million ordinary shares of HPL have been valued at the cost of acquisition (Rs 10.00 per share plus stamp duties and other related costs).

**Table 3.1.1: CPL Balance Sheet as at 30 September 2007 (in Rs 1000s)**

Fixed assets	4,669
Investments in HPL shares	149,415
Investment in Uni-Dil Packaging	161,992
	<u>316,076</u>
Current assets	39,881
Current liabilities	<u>(12,943)</u>
Net current assets	26,938
Long term liabilities	<u>(1,949)</u>
Net assets employed	341,065
Financed by:	
Share capital (13.6 million Rs 10 shares)	136,000
Revaluation reserve	53,900
Retained profit	<u>151,165</u>
	341,065

CPL has, several years ago, taken up 100% of the issued share capital in Uni-Dil Packaging, an unquoted printing company. This investment is shown at cost (Rs. 161.992 million) in the balance sheet. Uni-Dil has continued to make profits in excess of Rs 30 million per year over the past several years up to the fiscal year ending 31 March 2007. However, the six month profit to end September 2007 was only Rs 7.07 million although the net asset value of the company as at end September 2007 was Rs 295.956 million. Under the circumstances the cost of the investment in Uni-Dil as shown in the balance sheet is conservatively used as the value of this investment to CPL.

HPL is a company quoted on the Colombo Stock Exchange (“CSE”) and its shares were trading at Rs 19.75 per share on 30 September 2007. This price is therefore used to value the 12.75 million HPL shares owned by CPL for the purpose of the present valuation exercise which results in CPL’s interest in HPL being valued at Rs 251.813 million rather than the Rs 149.415 million shown in the balance sheet. This would increase the net asset value of CPL to Rs 443.463 million.

### Net Present Value of Free Cash Flow from Management Agreement

The Boards of Directors of HPL and CPL have decided that CPL will charge annual management fees of 10% of HPL's EBIDTA capped at Rs 30 million from 2007/08 onwards. In order to estimate what future management fees would be under this fee structure, Table 3.1.2 shows what HPL's EBIDTA was during the three latest fiscal years and the direct costs incurred by CPL in providing management services during these three years.

From Tables 3.1.2 HPL's average annual EBIDTA during the three year period was Rs 223.894 million. We assume this average EBIDTA will be earned by HPL in future years (in 2007 Rupees). At the applicable 10% management fee rate, CPL would therefore earn Rs 22.389 million per year in management fees in 2008/09 and later years. From Table 3.1.2 the average direct costs incurred by CPL to provide management services to HPL during the past three years were Rs 6.567 million. As in the case of EBIDTA we assume that this average cost (in 2007 Rupees) will be incurred in future years, which would result in CPL earning Rs 15.822 million per year after costs from the contract to manage HPL. Using a corporate tax rate of 30% and a discount rate of 8% per annum, the net present value of the stream of management fees (less costs) will be Rs 138.443 million. This amount is a free cash flow earned by CPL from its management fees above and beyond the net asset value per share of HPL owned by CPL.

**Table 3.1.2: HPL EBIDTA and direct costs of CPL in providing management services (in Rs 1000s)**

	2006/7	2005/6	2004/5
HPL earnings before management fees and interest	213,587	172,858	144,578
Add: Amortisation and depreciation	54,225	46,476	40,138
Finance lease interest at estate level	–	–	(180)
HPL EBIDTA	267,812	219,334	184,536
Direct costs incurred CPL in providing management services	8,924	5,593	5,184

### Estimated Value per Share of CPL

Adding the Rs 443.463 million adjusted net asset value of CPL to the value of CPL's free cash flow from its agreement to manage HPL, the overall value of CPL is estimated to be Rs 581.906 million. The value per share of CPL's 13.6 million total shares as at 30 September 2007 is therefore Rs 42.79.

### 3.2 Forbes Plantations (Pvt) Limited ("FPL")

#### Adjusted Net Asset Value

Table 3.2.1 shows the FPL's balance sheet as at 30 September 2007. In this balance sheet, the Rs 690.772 million investment by FPL in 50.0925 million shares of KPL has been written down by Rs 214.906 million to account for diminution in value of these shares.

**Table 3.2.1: FPL Balance Sheet as at 30 September 2007 (in Rs 1000s)**

Fixed assets	
Investments in KPL shares	690,772
Less: Provision for diminution in value of investments	(214,906)
	475,866
Current assets	61,177
Current liabilities	(117,009)
	(55,832)
Net current assets	
Term loan from Sampath Bank	(1,750)
	418,284
Net assets employed	
Share capital (62.5 million Rs 10 shares)	625,000
Share discount account	(125,000)
Profit/loss brought forward	(80,992)
Net profit/loss for current year	(724)
	418,284

The quoted price of KPL shares on the CSE was Rs 10.00 per share as at 30 September 2007. Using this price to value the 50.0925 million KPL shares owned by FPL results in these shares having a value of Rs 500.925 million as opposed to the Rs 475.866 million shown in the balance sheet and will result in an adjusted net asset value of FPL of Rs 443.343 million.

#### **Net Present Value of Free Cash Flow from Management Agreement**

In terms of the management agreement between FPL and KPL, KPL is required to pay FPL management fees each year, starting in 2003, calculated as a percentage of KPL's EBIDTA. The agreement specified that the percentages applicable would be reduced gradually starting at a high of 25% for 2003 down to 17% from 2007 onwards. However, in September 2005 the Boards of FPL and KPL decided that the management fees should be reduced to 10% of EBIDTA for the period July to December 2005 and the fees charged in later years should be reviewed on an annual basis. A subsequent decision was taken to waive all management fees from 2005. Under the above circumstances there will be no additional free cash flow to FPL from the management of KPL.

#### **Value per Share of FPL**

The adjusted net asset value of FPL as at end March 2007 was Rs 443.343 million. On this basis the value per share of FPL's 62.5 million total shares on 30 September, 2007 is therefore Rs 7.09.

### 3.3 Aitken Spence Plantation Managements Limited (“ASPM”)

#### Adjusted Net Asset Value

Table 3.3.1 shows ASPM’s balance sheet as at 30 September 2007. In this balance sheet investments in 15.1856 million EPL ordinary shares have been valued at their cost of acquisition (Rs 30.25 per share plus related direct costs of Rs 0.75 per share).

**Table 3.3.1: ASPM Balance Sheet as at 30 September 2007 (in Rs 1000s)**

Investment in EPL shares	466,109
Current assets	296,366
Current liabilities	(80,154)
	<hr/>
Net current assets	216,212
Long term liabilities	(3,040)
	<hr/>
Net assets employed	679,281
Share capital (21.3 million Rs 10 shares)	213,000
Capital reserves	208,666
Accumulated profits	257,615
	<hr/>
	679,281

The quoted price of EPL shares on the CSE was Rs 33.00 per share as at 30 September 2007. Using this price to value the 15.1856 million EPL shares owned by ASPM results in these shares being worth Rs 501.125 million as opposed to the Rs 466.109 million that they are valued in the balance sheet. Adjusting for this increase in value results in adjusted net assets employed by ASPM as at 30 September 2007 of Rs 714.297 million.

#### Net Present Value of Free Cash Flow from Management Agreement

In terms of the management agreement between ASPM and EPL, EPL is required to pay ASPM annual management fees of 17.5% of EPL’s annual EBIDTA from 2007/08 onwards.

To estimate what future management fees would be under the new fee structure, Table 3.3.2 shows what EPL’s EBIDTA was during each of the last three fiscal years. The last row in the same table also shows what ASPM’s direct costs were in providing management services in each of these years.

EPL's average annual EBIDTA during the three year period was Rs 184.042 million and the average direct costs incurred by ASPM to provide management services to EPL was Rs 1.345 million. Assuming that these averages reflect future EPL EBIDTA in 2007 Rupees and using the 17.5% of EBIDTA that ASPM will charge as management fees from 2007/08 onwards, ASPM can expect to earn Rs 30.862 million annually as management fees in the future after subtracting direct costs. Making an adjustment for taxes (payable at a 30% rate) the after tax annual management fees that ASPM will earn is estimated to be Rs 21.60 million. Using a real discount rate of 8% per annum, the present value of the future stream of net after tax management fees (after deducting direct costs incurred in providing the management services) is Rs 270.000 million. This amount is a free cash flow earned by ASPM from its management fees above and beyond the net asset value per share of EPL owned by ASPM.

**Table 3.3.2: EPL EBIDTA and direct costs of ASPM in providing management services (in Rs 1000s)**

	2006/7	2005/6	2004/5
EPL EBIDTA	235,700	119,054	197,373
Direct costs incurred ASPM in providing management services	1,589	1,031	1,415

#### Value per Share of ASPM

Adding the Rs 714.297 million adjusted net asset value of ASPM to the total present value of the free cash flow of the company (from EBIDTA based management fees), the overall value of the company is estimated to be Rs 984.297 million. The value per share of ASPM's 21.3 million shares on 30 September 2007 is therefore Rs 46.21.

#### 4. SUMMARY

In summary, the estimated values per share as at 30 September 2007 of the PMCs in which LIT has a stake are as follows:

PMC	Value per Share (Rs)
Ceytea Plantation Management Limited	42.79
Forbes Plantations (Pvt) Limited	7.09
Aitken Spence Plantation Managements Limited	46.21

Romesh Dias Bandaranaike Ph.D  
November 2007

## Directors

Details of the Directors, all of whom are non-executive, are set out below.

**David Panter,\*** Chairman, aged 73, has spent over 40 years in the tea industry. He retired in 1996 as a consultant to Thompson Lloyd & Ewart, one of the largest and oldest tea broking firms in London. Prior to this he was the chairman of Geo. White & Company Limited, which was merged into Thompson Lloyd & Ewart Limited in 1993. He spent 25 years as a tea broker in London and as a consultant to the World Bank, Overseas Development Authority, and to various plantation projects. Previously he had 16 years service in India where he was chairman of Carritt Moran & Company Limited and a director of a number of tea plantation companies.

**David Blackler O.B.E.,** aged 78, has been connected with the tea industry for most of his working life. In the 1950s he was employed by the Colombo Commercial Company as a tea buyer and became a tea broker in 1965. For 25 years he was a director of John Keells Holdings Limited, one of the largest conglomerates in Sri Lanka, retiring as the chairman, and is now a consultant to that company.

**Jonathan Colville,\*** aged 50, has been a stockbroker for 20 years. He is currently a specialist in natural resource shares for Mirabaud Securities. From 1985 to 1995 he was a senior stockbroker for James Capel & Co.

**Colin Kingsnorth,** aged 44, is a director of Laxey Partners (UK) Limited, the Investment Manager to the Company and was chief executive officer of Regent Fund Management (UK) Ltd, the Company's previous investment manager, from 1995 to January 1999. He holds a BSc in Economics and is an associate member of the Institute of Investment Management and Research. He started his career with Robert Fleming Asset Management Limited in London where he worked with investment trusts, particularly the Fleming Enterprise Investment Trust and the Fleming Technology Investment Trust. He became head of investment trust research at Olliff & Partners PLC in 1988, where he developed expertise in corporate finance and corporate restructuring. In 1991 he joined Buchanan Partners Limited where he managed emerging market funds. In 1995 he joined Regent Fund Management (UK) Ltd and was one of the founding shareholders where he was chief executive and fund manager.

**Alistair Boyd,\*** CMG, aged 73, was an adviser to the CDC Group plc ("CDC") with particular reference to CDC's activities in sub-Saharan Africa. Until 1994 he was deputy chief executive of CDC and had before then undertaken a variety of assignments for CDC, residing in Malaysia, Tanzania, Kenya and Zambia. He is chairman of the Southern Africa Business Association which supports trade and investment links between the European Union and Southern Africa. His connections with Africa include vice-chairman of the Royal African Society, chairman of G2G (Gateway to Growth) and chairman of the African Medical Research Foundation (UK).

**Adrian Collins,** aged 53, has worked in the fund management business for over 30 years, a large part of which was spent at Gartmore Investment Management, where latterly he was managing director. He is a consultant to Strand Partners Limited, a corporate finance business based in the West End of London. He is chairman of Corvus Capital plc and is also on the boards of City Natural Resources High Yield Trust plc, Deutsche Land plc, Midas Capital Partners Ltd, New City High Yield Trust plc and a number of other companies.

\* Member of Audit Committee

## Directors' Report and Business Review

The Directors present their report and audited financial statements together with their business review for the year ended 30 September 2007.

### **BUSINESS REVIEW**

In keeping with regulations which came into force on 12 January 2006, the Directors' Report now includes a Business Review intended to present a balanced and comprehensive analysis of the development and performance of the business of the Company during the financial year and the position of the Company at the year end, together with a description of the principal risks and uncertainties facing the Company and an indication of the likely future developments in its business. The Directors also include an analysis using key performance indicators to aid understanding of the above.

### **COMPANY'S BUSINESS AND STATUS**

The Company, is an investment company within the meaning of Section 266 of the Companies Act 1985, and has received approval as an investment trust from HM Revenue & Customs under Section 842 of the Income and Corporation Taxes Act 1988 in respect of the year ended 30 September 2006 and in the opinion of the Directors has subsequently directed its affairs to enable it to continue to obtain approval for the year ended 30 September 2007.

### **INVESTMENT OBJECTIVE, STRATEGY AND POLICY**

The investment objective of the Company is to provide Shareholders with a combination of capital growth and regular dividend income by making investments with the aim of profiting through the reduction of the discount at which these investments trade to their underlying value, where the Board and the Investment Manager consider there is scope for value enhancement. Examples of target entities include asset rich businesses such as closed-end funds, property companies and cash-rich entities.

The Investment Manager identifies and invests in entities around the world and with the support of other shareholders in those entities, engages with management to realise the identified value. This is the central investment policy pursued by all funds managed by Laxey and the Company intends to participate in Laxey's active value approach.

From time to time, the Company, through the Investment Manager seeks to establish a dialogue with management of each investee company in order to establish support for its proposals. In some situations, the Company will seek through the requisitioning of appropriate resolutions at general meetings to, for example, change the composition of investee boards, introduce share buy-back schemes or tender offers, liquidate funds or propose the partial sale of assets and convert funds from closed-ended to open-ended status. The Company will not, however, take legal or management control of an investee company, while this is prohibited by the Listing Rules.

The Company will seek to enhance returns through the selective use of gearing and may use derivative products and instruments for the purposes of efficient portfolio management.

## **RESULTS AND DIVIDEND**

The gross revenue for the year ended 30 September 2007 was £318,049 (2006: £363,919) and after deducting management expenses, interest and taxation the revenue return on ordinary activities of the Company, was a loss of £89,289 (2006: surplus of £53,652). There was also a capital return of £739,879 (2006: £238,885). The combined revenue and capital returns resulted in a profit for the year ended 30 September 2007 of £650,590 (2006: £292,537).

The Directors do not recommend the payment of a dividend.

At the close of business on 30 September 2007, the net asset value per Ordinary share of 25p was 103.81p (2006: 97.65p).

## **KEY PERFORMANCE INDICATORS**

The key measures of performance by which the Directors judge the success of the Company are the growth in the share price and the Net Asset Value. These are referred to in the Chairman's Statement on pages 2 and 3. The Company does not have a stated benchmark index to which its performance is compared.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

Certain principal risks and uncertainties have been identified by the Directors. These are confirmed below together with cross-references to other parts of the Report where they are commented upon in more detail including how the Company seeks to control such risks and uncertainties.

### **1. Investment Related Risks**

The principal risks the Company faces in its investment management activities are set out in note 18 to the Financial Statements on pages 41 to 44 together with the policies for managing these risks, which have been applied throughout the year.

### **2. Political and Economic Situation in Sri Lanka**

As referred to in the Chairman's Statement the political and economic situation in Sri Lanka remains unsatisfactory. The Directors have monitored and continue to monitor this situation carefully.

### **3. Financial and Regulatory Risks**

There is also a principal risk that arises from poor company and market performance in general. The overall financial situation of the Company and the market performance is reviewed in detail at each Board Meeting.

In addition a breach of Company law and other regulatory rules may result in the Company being fined or suspended from the London Stock Exchange. The Board, with its advisers, monitor the Company's regulatory obligations on an ongoing basis.

Further details concerning the ongoing process for identifying, evaluation and managing all significant risks faced by the Company are contained in the section headed 'Internal Controls' on page 23.

## DIRECTORS

The Directors of the Company in office at 30 September 2007 and their interests in its shares and warrants are listed below (all of which were beneficially owned). All the Directors served throughout the year.

### Directors' interests

Name	30 September 2007	1 October 2006
	Ordinary Shares	Ordinary Shares
D.E.H. Panter	80,000	80,000
D.J.M. Blackler	16,857	16,857
J.C. Colvile	20,000	20,000
C.W. Kingsnorth	701,457	356,457
A. Boyd	7,000	7,000
A.J.R. Collins	–	–

There were no changes in Directors interests up to the date of this report.

None of the Directors has an existing or proposed service contract with the Company.

In accordance with the Articles of Association and the Board's policy concerning the re-election of Directors, Messrs Panter, Blackler, Boyd and Kingsnorth retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. It is the Board's unanimous view that all the aforementioned Directors should be re-elected in view of their expertise and experience relevant to the role together with the commitment demonstrated since their initial appointment.

## USE OF FINANCIAL INSTRUMENTS

The policy and practice of the Company with regard to financial instruments is set out in note 18 to the financial statements.

## SUPPLIER PAYMENT POLICY

The Company does not follow any code or standard on payment practice however it is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. There were no amounts owed to suppliers in respect of invoices received but unpaid at 30 September 2007.

## DURATION OF THE COMPANY

At the Extraordinary General Meeting of the Company held on 6 March 2007, a resolution was passed that the Company continue to operate as an investment trust company for a two year period. Prior to the end of this period a similar resolution will be proposed to Shareholders.

## SUBSTANTIAL SHAREHOLDERS

As at the date of this report, the Company had been notified of the following interests requiring disclosure under the Disclosure and Transparency Rules of the Financial Services Authority:

Holder	Number of Ordinary Shares	Percentage
Overseas Asset Management (Cayman) Ltd	1,195,000	11.32
C F Miton Special Situation Fund	1,150,000	10.89
Laxey Partners	732,365	6.94
Credit Agricole Cheuvreux International Ltd	721,000	6.83
iimia Investment Group	707,135	6.70
Colin Kingsnorth	701,457	6.64
Credit Suisse Securities Europe Ltd	620,000	5.87
HSBC International Trustee	603,569	5.72
Citigroup Global Markets UK Equity Ltd	564,705	5.35
New Star Pacific Growth Fund	550,000	5.21
Deutsche Bank Aktiengesellschaft	500,000	4.74

## SHARE CAPITAL

The Company's share capital comprises 18,000,000 authorised ordinary shares of 25 pence each of which 10,557,717 are allotted, called-up and fully paid. Each share carries one vote. There are no restrictions on transfer other than that transfers must be in respect of a fully paid share of one class, must be in respect of a share on which the Company does not have a lien and in favour of not more than four joint holders as transferees. Details of significant shareholders known to the Company are shown under the heading 'Substantial Shareholders' in this report.

## DONATIONS

The Company made no political or charitable donations during the year.

## INVESTMENT MANAGEMENT AND ADMINISTRATION

Under a new management agreement dated 2 February 2007, the Company appointed Laxey Partners (UK) Limited as the Investment Manager (conditionally on the passing of the continuation resolutions approved by shareholders at the Company's Extraordinary General Meeting held on 6 March 2007) to continue to provide, or procure the provision of investment management and administration services to the Company in accordance with the new investment objective, strategy and policy.

The Investment Manager will be entitled to receive from the Company for its services as investment manager a monthly fee at a rate equivalent to 1 per cent, per annum (exclusive of any VAT or any similar tax thereon) of the average monthly net asset value of the Company. This fee will accrue and be payable monthly in arrears.

The management agreement is subject to termination by not less than six months' notice by either party.

In the opinion of the Company's Directors the continuing appointment of the Investment Manager on the terms agreed is in the interest of the shareholders as a whole, particularly in view of the Investment Manager's specialised experience.

### **DISCLOSURE OF INFORMATION TO AUDITORS**

As far as the Directors are aware, there is no relevant audit information of which the Company's Auditors are unaware, and they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

### **SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING**

Under Resolution 8, it is proposed in line with common practice that the Directors are authorised to allot up to £879,809.75 of relevant securities in the Company (equivalent to 3,519,239 ordinary shares of 25 pence, representing approximately 33% of the Company's issued share capital) for a period ending at the conclusion of the Annual General Meeting in 2009. The Directors have no present intention to issue further ordinary shares in the Company.

Resolution 9 proposes that the Directors be conferred the authority to issue equity securities of the Company for cash other than on a pre-emptive basis as provided by the Companies Act 1985 ("the Act"). Other than in connection with a rights or scrip dividend or other similar issue, the authority contained in this resolution will be limited to issues of ordinary shares and/or sales of treasury shares representing an aggregate nominal value of £131,971.46, which in turn represents 5% of the issued ordinary share capital of the Company at 8 February 2008. This authority will expire at the conclusion of next years Annual General Meeting. As at 8 February 2008, the Company did not hold any shares in treasury.

Resolution 10 proposes that the Articles of Association of the Company ("the Articles") be amended in order to reflect the changes that have been made as a result of the Companies Act 2006 (the 2006 Act) to directors' conflicts of interest. Under the 2006 Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. It is therefore proposed that the Articles are amended in order that from 1 October 2008, directors have authority to approve such situations of conflict.

There are safeguards which will apply when directors decide whether to authorise a conflict or a potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think that this is appropriate.

It is also proposed that the Articles contain provisions relating to confidential information, board discussions and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors in accordance with the 2006 Act.

**RECOMMENDATION**

The Board considers that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole and are most likely to promote the success of the Company for the benefit of its shareholders as a whole. Accordingly your Board recommends that the Shareholders should vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings amounting to 825,314 ordinary shares.

**RE-APPOINTMENT OF AUDITORS**

Ernst & Young LLP have expressed their willingness to continue in office as Auditor and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By order of the Board  
Maclay Murray & Spens LLP  
Company Secretary  
8 February 2008

## Corporate Governance

Arrangements have been put in place by the Board which it believes are appropriate to an investment trust company and enable the Company to apply Principles of Good Corporate Governance and comply with the provisions as set out in Section 1 of the Combined code of best practice (“the Combined Code”) as required by the Listing Rules of the Financial Services Authority.

### **STATEMENT OF COMPLIANCE WITH THE PROVISIONS OF THE 2003 COMBINED CODE**

The Directors have reviewed the principles outlined in the Combined Code as published in July 2003 by the Financial Reporting Council and believe that, insofar as they are relevant to the Company’s business, they have complied with the provisions of the Code during the year to 30 September 2007, subject to the exceptions explained below.

### **THE BOARD AND COMMITTEES**

The Board is responsible for all matters of control and direction of the Company, including its investment policy which is managed by Laxey Partners (UK) Limited. The Board possess a wide range of expertise and experience relevant to the direction of the Company and consider that they commit sufficient time to the Company’s affairs.

The Board wholly comprises non-executive directors and meets regularly throughout the year to review the Company’s investments and all other important issues to ensure that control is maintained over the Company’s affairs. As all the Directors are non-executive, the Chairman, Mr D.E.H. Panter, is the senior non-executive Director. With the exception of Mr C. Kingsnorth, the Board considers that all the Directors are independent in character and judgement.

A schedule of matters specifically reserved for the decision of the Board was adopted on 15 January 2002 for application at all meetings. On the same date a procedure was adopted for Directors in the furtherance of their duties, to take independent professional advice, if necessary at the Company’s expense.

Directors are selected and appointed by the Board as a whole. The Directors have access to independent advice from the Company Secretary. To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information.

The Directors do not have service contracts with the Company. However, under the Articles of Association, they are required to retire by rotation and their re-appointment is subject to Shareholders’ approval. Each Director must submit himself for re-election at intervals of no more than three years. In accordance with current corporate governance, the Board has agreed as a policy that all Directors of the Company aged 70 years and over will offer themselves for re-election at each Annual General Meeting (“AGM”).

In addition, all Directors who have served on the Board for more than nine years, together with all Directors who are not considered independent in character and judgement will offer themselves re-election at each AGM. There is no chief executive position within the Company. Being an externally managed investment trust the Company has no employees and therefore has no requirement for a chief executive.

An Audit Committee comprising the Chairman, Mr D.E.H. Panter, Mr J.C. Colville and Mr A. Boyd supports the Board. The committee has written terms of reference, which deal with its authorities and duties.

The Company does not have a formal Nomination Committee to consider new appointments to the Board which is not in accordance with A4.1 of the Code. The reason for this is that the Board as a whole would consider any such appointments.

The Company holds Board meetings once a quarter and additional meetings are arranged as necessary. During the year to 30 September 2007 there were five scheduled Board meetings and individual details of attendance by the Directors are shown below:

Director name	Attendance at Board meetings during the year to 30 September 2007
D.E.H. Panter	5
D.J.M. Blackler	2
J.C. Colvile	4
C.W. Kingsnorth	5
A. Boyd	3
A.J.R. Collins	4

During the year to 30 September 2007 there was one scheduled Audit Committee meeting and this was attended by all the members of that Committee (as shown on page 14 and confirmed above).

In exercising and discharging its responsibilities, the Company's Audit Committee meets with representatives of the Investment Manager and receives reports upon the quality and effectiveness of the accounting records and management information maintained on behalf of the Company. It reviews the annual financial statements and reviews the nature and scope of the statutory audit and the findings thereon. In addition, the Audit Committee reviews and monitors the external auditor's independence and objectivity together with the effectiveness of the audit process. The Audit Committee is attended by the auditors who provide a formal statement of independence each year. The terms of reference of the Audit Committee are available as required. It is intended that these will be reviewed during the year ending 30 September 2008 and updated as necessary.

During the year the auditors received £40,000 for services in relation to the changes to the Company's name, investment policy and extension of the Company's life. The Board have considered the auditors' independence and objectivity, including a review of non-audit services, and consider, notwithstanding this work, that the auditors are independent.

In addition, a Committee of the Board was constituted by a resolution of the Board of Directors duly passed at a meeting held on 12 December 2006 for the purposes of approving the final documentation relating to the continuation proposals for the Company. This Committee comprised Mr J.C. Colvile and Mr A.J.R. Collins. It met once and formally approved the final proof of the circular to shareholders setting out the proposals for the continuation of the Company for a further two year period with a new investment objective and strategy and a change of name to The Laxey Investment Trust PLC and ancillary documentation. These proposals were approved by shareholders at the Company's Extraordinary General Meeting held on 6 March 2007.

Given the comments above and notwithstanding A.6 of the Combined Code, the Board has not established a formal process for the annual evaluation of the performance of the Board, its Audit Committee and the individual Directors. The Directors have informally evaluated performance, both individually and as a Board. During the year ending 30 September 2008, the Board will be seeking to further review and evaluate its own collective effectiveness.

## **INTERNAL CONTROLS**

The Directors acknowledge that they are responsible for the Company's system of internal controls and for monitoring its effectiveness. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed, and by their very nature can provide reasonable but not absolute assurance against material misstatement or loss. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. The Directors have reviewed the effectiveness of the system of internal controls, including financial, operational and compliance controls and risk management.

Throughout the year ended 30 September 2007 and to the date of this Report, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accords with the guidance in the document "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance) and will remain in place throughout the Company's life. This process is reviewed on a regular basis by the whole Board in accordance with the Turnbull guidance. The process involves reports to the full Board from the Company Secretary on compliance, in conjunction with the Investment Manager's regular reports which cover investment performance and compliance issues.

Internal controls aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. These controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and investment performance. In addition, the Investment Manager and the Custodian of the Company's assets, HSBC Bank plc, maintain their own system of internal controls. The Board has contractually delegated to external agencies, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of assets), the day to day administration and Company secretarial requirements. Each of these contracts were entered into after full and proper consideration by the Board of the quality and cost of services offered including the internal control systems in operation in so far as they relate to the affairs of the Company. The Board is responsible for setting the overall investment policy and monitors the activity of the Investment Manager at regular Board meetings. The Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal controls operated on behalf of its clients. The Investment Manager's compliance department assesses the effectiveness of the internal controls on a continuing basis.

All of the Company's management functions are delegated to third parties whose controls are reviewed by the Board. It is therefore felt that there is no need for the Company to have an internal audit function, although this is reviewed annually.

## **DIRECTORS' REMUNERATION**

Details of Directors' fees are set in the Directors' Remuneration report on pages 25 and 26. There is a formal procedure for fixing the level of Directors' fees, which are set at a level sufficient to attract and retain directors of the calibre required to direct the Company successfully. The Board as a whole fulfils the function of a Remuneration Committee. The reason for this is that the Company does not have any executive directors. The Board considers remuneration matters in accordance with the appropriate principles of the Code.

### **RELATIONS WITH SHAREHOLDERS**

The Board welcomes dialogue with all Shareholders and encourages measures to enhance Shareholder communication. Any such dialogue with Shareholders is communicated to the Board as a whole by the Chairman or appropriate Director at the regular Board meetings of the Company. The views of these shareholders are considered by the Board and taken into account in formulating policy. The Board particularly welcomes the participation of Shareholders in the AGM.

### **GOING CONCERN**

The Directors believe that it is appropriate to adopt the going concern basis in preparing the financial statements as the Company has adequate financial resources to continue in operational existence for the foreseeable future. Nevertheless, as set out in the Chairman's statement, the valuations of both the quoted and unquoted portfolios should be viewed with caution and shareholders should recognise that the values disclosed may vary significantly from prices which may ultimately be realised.

## Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the Members at the forthcoming Annual General Meeting.

### AUDITOR'S OPINION

The law requires your Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 28 and 29.

### REMUNERATION COMMITTEE

The Company has six non-executive Directors. The Board as a whole fulfils the function of a Remuneration Committee. The Board has appointed the Company Secretary, Maclay Murray & Spens LLP, to provide advice when the Directors consider the level of Directors' fees.

### 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, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective. It is intended that this policy will continue for the year ending 30 September 2008. The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

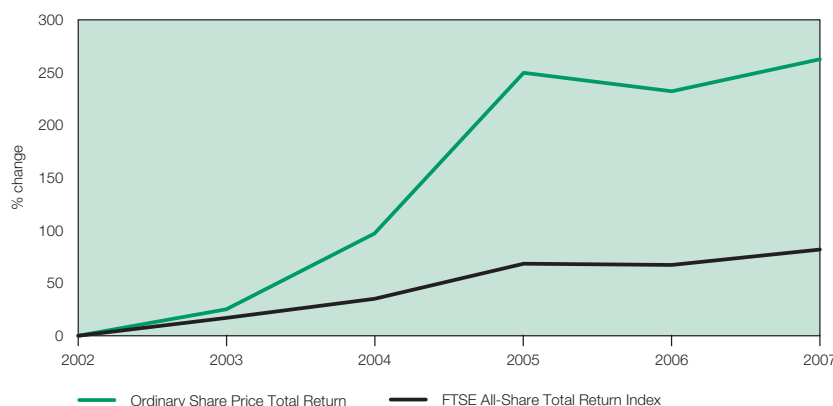
### DIRECTORS' SERVICE CONTRACTS

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after his appointment, and at least every three years after that. The terms also provide that a Director may be removed with three months notice and that compensation will not be due on leaving office. Once a Director reaches the age of 70 he shall also be subject to re-election on an annual basis. In addition all Directors who have served on the Board for more than nine years, together with all Directors who are not considered independent, will offer themselves for annual re-election.

### YOUR COMPANY'S PERFORMANCE

The graph below compares the share price total return to Ordinary shareholders, compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated.

The FTSE All-Share Index has been selected as it is considered to represent a broad equity market index against which the performance of the Company's assets may be adequately assessed.



**DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)**

The Directors who served in the year received the following emoluments in the form of fees, as detailed in note 5 to the accounts:

Name	Fees 2007 £	Fees 2006 £
D.E.H. Panter	27,000	27,000
D.J.M. Blackler	9,000	9,000
J.C. Colvile	9,000	9,000
C.W. Kingsnorth	9,000	9,000
A. Boyd	9,000	9,000
A.J.R. Collins	9,000	9,000
	<u>72,000</u>	<u>72,000</u>

Included in the Directors' fees above are £15,000 (2006: £15,000) consultancy fees payable to D.E.H. Panter.

**APPROVAL**

The Directors' Remuneration Report was approved by the Board of Directors and authorised for issue on 8 February 2008 and signed on its behalf by D.E.H. Panter.

Mr D.E.H. Panter  
Chairman  
8 February 2008

## Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the financial statements in accordance with applicable company law and United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the net return of the Company for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies which are consistently applied and supported by reasonable and prudent judgements and estimates; and
- state whether the financial statements have been prepared in accordance with applicable accounting standards and disclose particulars of any material departures from those standards and the reasons for it; and
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue in business.

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

## Report of the Independent Auditors

to the members of The Laxey Investment Trust PLC

We have audited the financial statements of The Laxey Investment Trust PLC for the year ended 30 September 2007 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 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 company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors, Manager and Advisers, Chairman's Statement, Investment Manager's Report, Investments at 30 September 2007, Valuation of Shares of Unquoted Investments, Portfolio Review, Directors, Directors' Report and Business Review, Corporate Governance, the unaudited part of the Directors' Remuneration Report and the Notice of Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2007 and of its net return for the year then ended;
- 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
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP  
Registered Auditor  
London  
8 February 2008

## Income Statement

For the year ended 30 September 2007

	Note	Revenue £	2007 Capital £	Total £	Revenue £	2006 Capital £	Total £
Gains on investments at fair value	8	–	802,547	802,547	–	287,040	287,040
Income from investments	3	284,630	13,865	298,495	358,049	–	358,049
Realised exchange gains on capital items		–	3,838	3,838	–	–	–
Interest receivable and other income	3	33,419	–	33,419	5,870	–	5,870
		<u>318,049</u>	<u>820,250</u>	<u>1,138,299</u>	<u>363,919</u>	<u>287,040</u>	<u>650,959</u>
Investment management fee	4	(49,972)	(49,972)	(99,944)	(48,154)	(48,155)	(96,309)
Other administrative expenses	5	(307,389)	–	(307,389)	(233,339)	–	(233,339)
<b>Return on ordinary activities before finance costs and taxation</b>		(39,312)	770,278	730,966	82,426	238,885	321,311
Interest payable and similar charges		(30,398)	(30,399)	(60,797)	(51)	–	(51)
<b>Return on ordinary activities before taxation</b>		(69,710)	739,879	670,169	82,375	238,885	321,260
Taxation	6	(19,579)	–	(19,579)	(28,723)	–	(28,723)
<b>Return on ordinary activities after taxation</b>		<u>(89,289)</u>	<u>739,879</u>	<u>650,590</u>	<u>53,652</u>	<u>238,885</u>	<u>292,537</u>
<b>Return per Ordinary share</b>	7	<u>(0.85)</u>	<u>7.01</u>	<u>6.16</u>	<u>0.51</u>	<u>2.26</u>	<u>2.77</u>

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

A separate statement of total recognised gains and losses has not been prepared as all such gains and losses are included in the income statement.

The notes on pages 34 to 44 form part of these financial statements.

## Balance Sheet

At 30 September 2007

	Note	2007 £	2006 £
<b>Fixed asset investments</b>			
Investments at fair value through profit or loss	8	<u>11,475,490</u>	<u>9,979,820</u>
<b>Current assets</b>			
Debtors	10	2,998,472	21,571
Cash at bank	15	<u>8,953</u>	<u>368,509</u>
		<u>3,007,425</u>	<u>390,080</u>
<b>Creditors: amounts falling due within one year</b>			
Creditors	11	284,801	60,042
Overdraft facility	12	<u>3,237,666</u>	<u>–</u>
		<u>3,522,467</u>	<u>60,042</u>
<b>Net current (liabilities)/assets</b>		<u>(515,042)</u>	<u>330,038</u>
<b>Net assets</b>		<u><u>10,960,448</u></u>	<u><u>10,309,858</u></u>
<b>Capital and reserves</b>			
Called-up share capital	13	2,639,429	2,639,429
Share premium account		5,662,800	5,662,800
Capital reserve			
– realised		4,411,452	1,110,644
– unrealised		(1,332,741)	1,228,188
Revenue reserve		<u>(420,492)</u>	<u>(331,203)</u>
<b>Shareholders' funds</b>		<u><u>10,960,448</u></u>	<u><u>10,309,858</u></u>
<b>Net asset value per Ordinary share:</b>	2	103.81p	97.65p

The financial statements on pages 30 to 44 were approved by the Board of Directors and authorised for issue on 8 February 2008 and were signed on its behalf by:

Mr D.E.H. Panter  
*Chairman*

The notes on pages 34 to 44 form part of these financial statements.

## Reconciliation of Movements in Shareholders' Funds

	Share Capital £	Share Premium £	Capital Reserve Realised £	Capital Reserve Unrealised £	Revenue Reserve £	Total £
<b>Year ended 30 September 2007</b>						
At 1 October 2006	2,639,429	5,662,800	1,110,644	1,228,188	(331,203)	10,309,858
Net return after taxation for the year	<u>—</u>	<u>—</u>	<u>3,300,808</u>	<u>(2,560,929)</u>	<u>(89,289)</u>	<u>650,590</u>
At 30 September 2007	<u><u>2,639,429</u></u>	<u><u>5,662,800</u></u>	<u><u>4,411,452</u></u>	<u><u>(1,332,741)</u></u>	<u><u>(420,492)</u></u>	<u><u>10,960,448</u></u>
<b>Year ended 30 September 2006</b>						
At 1 October 2005	2,639,429	5,662,800	967,513	1,132,434	(384,855)	10,017,321
Net return after taxation for the year	<u>—</u>	<u>—</u>	<u>143,131</u>	<u>95,754</u>	<u>53,652</u>	<u>292,537</u>
At 30 September 2006	<u><u>2,639,429</u></u>	<u><u>5,662,800</u></u>	<u><u>1,110,644</u></u>	<u><u>1,228,188</u></u>	<u><u>(331,203)</u></u>	<u><u>10,309,858</u></u>

The notes on pages 34 to 44 form part of these financial statements.

## Cash Flow Statement

For the year ended 30 September 2007

	Note	2007 £	2006 £
Net cash (outflow)/inflow from operating activities	14	<u>(83,293)</u>	<u>80,177</u>
Servicing of finance		<u>(42,038)</u>	<u>(51)</u>
Income taxes paid		<u>(19,579)</u>	<u>(28,723)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of fixed asset investments		(10,587,024)	(1,634,766)
Proceeds from sale of fixed asset investments		<u>7,130,874</u>	<u>1,887,734</u>
Net cash (outflow)/inflow from capital expenditure and financial investment		<u>(3,456,150)</u>	<u>252,968</u>
Effect of foreign exchange rate changes		<u>3,838</u>	<u>–</u>
Net cash (outflow)/inflow		<u>(3,597,222)</u>	<u>304,371</u>
(Decrease)/increase in cash	15	<u>(3,597,222)</u>	<u>304,371</u>

The notes on pages 34 to 44 form part of these financial statements.

# Notes to the Financial Statements

## 1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been consistently applied throughout the year, is set out below:

### a) Basis of accounting

The financial statements are prepared in accordance with United Kingdom applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies', issued in 2003 and revised in December 2005.

### b) Valuation of investments

All investments are classified as 'fair value through profit or loss'. Investments are initially recognised at cost being the fair value of consideration given.

After initial recognition investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the income statement and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sale proceeds and cost.

The entity manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy.

Unquoted Plantation Management Companies have been fair valued by an external valuer at the year end (pages 8 to 13). These valuations have been adopted by the Directors.

Other unquoted investments are valued by the Directors, at fair value based on latest dealing prices, stockbroker valuations or other information, as appropriate. This valuation incorporates all factors that market participants would consider in setting a price.

Quoted investments are valued at closing bid market prices or last traded price where bid prices are not regularly and readily available.

Contracts for difference are synthetic equities and the unrealised gain or loss is disclosed with reference to the investments' underlying bid prices.

The Company is taking advantage of FRS9 which enables it to treat holdings over 20% of a company's share capital as a normal investment and not as an associate.

### c) Foreign currency

Transactions denominated in foreign currencies are recorded at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

**d) Income**

Dividends receivable on investments are included in the income statement on an ex-dividend basis. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established.

Fixed returns on debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the debt security. Bank deposit interest is accounted for on an accruals basis.

**e) Expenses**

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the income statement except as follows:

- management fee and interest payable has been allocated 50% to capital and 50% to revenue which represents the Directors' expectation of the split of long term returns between capital and revenue
- expenses which are incidental to the acquisition or disposal of an investment are treated as capital and separately identified and disclosed (see note 8).

**f) Taxation**

The taxation charge is based on taxable income for the year. Withholding tax deducted from income received is treated as part of the taxation charge. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events result in an obligation to pay more, or right to pay less tax in the future have occurred at the balance sheet date.

This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

**g) Capital reserves**

Capital Reserve – Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- expenses, together with related taxation effect, in accordance with the above policies

Capital Reserve – Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end
- unrealised exchange differences of a capital nature

**2. NET ASSET VALUE PER SHARE**

The net asset value per Ordinary share is based on £10,960,448 (2006: £10,309,858) and on 10,557,717 (2006: 10,557,717) Ordinary shares being the number of shares in issue at the year end.

### 3. INCOME

	2007 £	2006 £
<b>Income from investments</b>		
UK net dividend income	–	1,000
Unfranked investment income	57,144	71,475
Overseas dividends	241,351	285,574
	<u>298,495</u>	<u>358,049</u>
<b>Other income</b>		
Deposit interest	33,419	5,870
	<u>331,914</u>	<u>363,919</u>
<b>Total income</b>		
	<u>331,914</u>	<u>363,919</u>
<b>Total income comprises:</b>		
Dividends	241,351	286,574
Interest	90,563	77,345
	<u>331,914</u>	<u>363,919</u>
	<u>331,914</u>	<u>363,919</u>
<b>Income from investments</b>		
Listed UK	57,144	72,475
Listed and unlisted overseas	241,351	285,574
	<u>298,495</u>	<u>358,049</u>
	<u>298,495</u>	<u>358,049</u>

### 4. INVESTMENT MANAGEMENT FEE

	2007 £	2006 £
Revenue	49,972	48,154
Capital	49,972	48,155
	<u>99,944</u>	<u>96,309</u>
<b>Total</b>	<u>99,944</u>	<u>96,309</u>

Details of the Investment Management agreement are given on page 18.

### 5. OTHER ADMINISTRATIVE EXPENSES

	2007 £	2006 £
Secretarial services	9,000	10,000
Directors' fees	72,000	72,000
Auditors' remuneration for:		
– audit	16,033	14,524
– other services	40,000	–
Other	170,356	136,815
	<u>307,389</u>	<u>233,339</u>
<b>Total</b>	<u>307,389</u>	<u>233,339</u>

Included in the Directors' fees above are £15,000 (2006: £15,000) consultancy fees payable to D.E.H. Panter.

## 6. TAXATION

	2007 Total £	2006 Total £
Foreign tax suffered	<u>19,579</u>	<u>28,723</u>

The tax assessed for the period is higher than the standard rate of corporation tax of 30% (2006: 30%). The differences are explained below:

	2007 £	2006 £
Return on ordinary activities before taxation	<u>(69,710)</u>	<u>82,375</u>
Corporation tax at 30%	(20,913)	24,713
Effects of:		
UK dividends not taxable	–	(300)
Allowable expenses capitalised	(24,112)	(14,446)
Excess expenses of current period	45,025	(9,967)
Overseas tax not recoverable	<u>19,579</u>	<u>28,723</u>
Current tax charge	<u>19,579</u>	<u>28,723</u>

Investment trusts are exempt from corporation tax on capital gains provided the company obtains agreement from HM Revenue & Customs that Section 842 tests have been met.

After claiming relief against accrued income taxable on receipt the Company has unrelieved excess expenses of £805,563 (2006: £655,482). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

The Company has a deferred tax asset of £90,465 in respect of eligible unrelieved foreign tax.

## 7. RETURN PER ORDINARY SHARE

2007			2006		
Revenue	Capital	Total	Revenue	Capital	Total
p	p	p	p	p	p
<u>(0.85)</u>	<u>7.01</u>	<u>6.16</u>	<u>0.51</u>	<u>2.26</u>	<u>2.77</u>

Revenue return per Ordinary share is based on the net loss on ordinary activities after taxation of £89,289 (2006: gain of £53,652) and on 10,557,717 (2006: 10,557,717) Ordinary shares, being the weighted average number of Ordinary shares in issue throughout the year.

Capital return per Ordinary share is based on the net capital gains for the year of £739,879 (2006: £238,885) and on 10,557,717 (2006: 10,557,717) Ordinary shares, being the weighted average number of Ordinary shares in issue throughout the year.

Total return per Ordinary share is based on the net profit on ordinary activities after taxation of £650,590 (2006: £292,537) and on 10,557,717 (2006: 10,557,717) Ordinary shares, being the weighted average number of Ordinary shares in issue throughout the year.

## 8. FIXED ASSET INVESTMENTS

			2007	2006	
			£	£	
UK listed and incorporated			1,871,635	1,328,721	
Listed overseas			6,652,087	7,015,199	
Total listed investments			8,523,722	8,343,920	
Unlisted investments			2,951,768	1,635,900	
			<u>11,475,490</u>	<u>9,979,820</u>	
	Listed in UK	Listed Overseas £	Unlisted £	2007 Total £	2006 Total £
Opening book cost	1,336,946	4,566,995	2,847,691	8,751,632	8,813,314
Opening unrealised (depreciation)/appreciation	(8,225)	2,448,204	(1,211,791)	1,228,188	1,132,434
Opening valuation	1,328,721	7,015,199	1,635,900	9,979,820	9,945,748
Movements in the year:					
Purchase at cost	4,455,986	5,443,826	900,586	10,800,398	1,634,766
Sales					
– proceeds	(3,861,711)	(6,245,564)	–	(10,107,275)	(1,887,734)
– realised gains on sales	(9,476)	3,372,952	–	3,363,476	191,286
Increase in unrealised (depreciation)/appreciation	(41,885)	(2,934,326)	415,282	(2,560,929)	95,754
Closing valuation	1,871,635	6,652,087	2,951,768	11,475,490	9,979,820
Closing book cost	1,921,745	7,138,209	3,748,277	12,808,231	8,751,632
Closing unrealised (depreciation)/appreciation	(50,110)	(486,122)	(796,509)	(1,332,741)	1,228,188
	<u>1,871,635</u>	<u>6,652,087</u>	<u>2,951,768</u>	<u>11,475,490</u>	<u>9,979,820</u>
Realised (losses)/gains on sales	(9,476)	3,372,952	–	3,363,476	191,286
(Decrease)/increase in unrealised (depreciation)/appreciation	(41,885)	(2,934,326)	415,282	(2,560,929)	95,754
(Losses)/gains on investments	<u>(51,361)</u>	<u>438,626</u>	<u>415,282</u>	<u>802,547</u>	<u>287,040</u>

Unlisted investments in Plantation Management Companies have been valued by an independent valuer and the Board has adopted this valuation for these investments. Valuations of unlisted investments have been made taking into consideration the value of the plantations and management fees received from the plantations. Other unlisted investments have been valued at Director's valuation.

During the year the Company incurred transaction costs of £24,798 (2006: £10,660) and £68,373 (2006: £5,737) on purchases and sales of investments respectively. These amounts are included in gains on investments at fair value as disclosed in the income statement.

## 9. SIGNIFICANT INTERESTS

Details of investments in which the Company has an investment of 20% or more of the nominal value of the allotted shares of any class, or the assets, are as follows

Name of Undertaking	Proportion owned at 30 September 2007	Adjusted aggregate Capital and reserves*	Profit/(loss) after tax
Forbes Plantations (Pvt) Limited	20%	Rs 443.3m	Rs (0.7m)
Ceytea Plantation Management Limited	23%	Rs 443.5m	Rs 11.4m

The above investments are all in ordinary shares, the country of incorporation and operation is Sri Lanka.

\* These values are unaudited and are explained in more detail in the Valuation of Shares of Unquoted Plantation Management Companies on pages 8 to 13 of this report.

## 10. DEBTORS

	2007 £	2006 £
Amounts due from brokers	2,976,401	–
Dividends receivable	4,591	–
Prepayments and accrued income	17,480	21,571
	<u>2,998,472</u>	<u>21,571</u>

## 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £	2006 £
Amounts due to brokers	198,374	–
Interest payable	18,759	–
Other creditors	67,668	60,042
	<u>284,801</u>	<u>60,042</u>

## 12. BANKS OVERDRAFT

	2007 £	2006 £
Bank overdraft	3,237,666	–

To facilitate investment in companies as opportunities arise the Company has agreed an overdraft facility with Credit Suisse. Under this facility the Company may borrow up to 70% of its eligible securities in available currencies. Interest is payable at a rate of 1 week LIBOR plus a margin of 0.65%. The overdraft is secured against investments held with Credit Suisse.

## 13. CALLED-UP SHARE CAPITAL

	2007 £	2006 £
<b>Authorised</b>		
18,000,000 Ordinary shares of 25p each	<u>4,500,000</u>	<u>4,500,000</u>
<b>Allotted, called-up and fully paid</b>		
10,557,717 Ordinary shares of 25p each	<u>2,639,429</u>	<u>2,639,429</u>

#### 14. RECONCILIATION OF NET RETURN TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2007 £	2006 £
Return on ordinary activities before finance cost and taxation	730,966	321,311
Net capital return before finance costs	(770,278)	(238,885)
Investment management fee charged to Capital	(49,972)	(48,155)
Reinvested dividends	(15,000)	–
(Increase)/decrease in debtors	(500)	47,156
Increase/(decrease) in creditors	7,626	(1,250)
Capital dividend received	13,865	–
	<u>          </u>	<u>          </u>
Net cash (outflow)/inflow from operating activities	<u>(83,293)</u>	<u>80,177</u>

#### 15. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2007 £	2006 £
(Decrease)/increase in cash in the year	(3,597,222)	304,371
Change in net funds	(3,597,222)	304,371
Net funds at beginning of the year	368,509	64,138
	<u>          </u>	<u>          </u>
Net debt at end of year	<u>(3,228,713)</u>	<u>368,509</u>

#### Analysis of changes in net funds

	At 30 September 2006 £	Cash flows £	At 30 September 2007 £
Cash at bank	368,509	(359,556)	8,953
Debt due within one year	–	(3,237,666)	(3,237,666)
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>368,509</u>	<u>(3,597,222)</u>	<u>(3,228,713)</u>

#### 16. CONTINGENT LIABILITIES

There were no contingent liabilities at the year end (2006: nil).

#### 17. CONTINGENT ASSETS

The Directors are aware that HM Revenue & Custom (“HMRC”) has stood down from its appeal against the AIC/Claverhouse judgement and therefore VAT will not be chargeable on investment management fees payable by investment trusts such as LIT. The immediate effect of this is that the future invoices from the Investment Manager will not bear VAT. However, there may be a consultation process by HMRC on changes to the relevant tax law and therefore the back claim of VAT paid to investment managers may be subject to a number of practical issues. The LIT Board, at the current time, is not recognising the potential back claim in its annual result nor its published NAV. The amount reclaimable is not likely to exceed £28,000.

## 18. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

### Objectives, policies and strategies

The Company seeks to provide Shareholders with a combination of capital growth and regular dividend income by making investments with the aim of profiting through the reduction of the discount at which these investments trade to their underlying value, where the Board and the Investment Manager consider there is scope for value enhancement. Investments primarily include closed-end funds, property companies and cash-rich entities.

The Company will seek to enhance returns through the selective use of gearing and uses derivative products and instruments for the purposes of efficient portfolio management.

The Company's financial instruments comprise securities and other investments, contracts for difference, cash balances, debtors and creditors that arise from the Company's day-to-day operations. The Company finances its operations through its issued share capital, overdraft facility and existing reserves.

The principal risks the Company faces in its investment management activities are:

- foreign currency risk;
- market price risk;
- liquidity risk;
- interest rate risk; and
- credit risk.

The Investment Manager's policies for managing these risks are summarised below and have been applied throughout the year.

### Foreign currency risk

The Company invests in the ordinary shares of overseas companies and therefore foreign currency risk is inherent in a portfolio in which a significant proportion of its securities are not denominated in sterling. It is not the Company's policy to hedge against movements in Sterling against overseas currencies where these arise.

### Market price risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Investment Manager on a daily basis.

### Liquidity risk

There is a degree of liquidity risk inherent in the portfolio as £2,951,768 (2006: £1,635,900) is in unquoted companies.

Some of the Company's assets and cash are held as collateral by Credit Suisse (Prime Broker) and as such are not held in safe custody. In the event of the liquidation or bankruptcy of the Prime Broker these assets would not necessarily be returned to the Company.

### Interest rate risk

#### Cash flow interest rate risk exposure

The Investment Manager is permitted to borrow up to 70% of the Company's eligible securities and uses an overdraft facility for this purpose, at variable rates.

## 18. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The Company's bank accounts earn interest at variable rates which are subject to fluctuations in interest rates.

### Non-interest rate risk exposure

The Company's portfolio and current assets are not subject directly to interest rate risk.

Details of the risk profile of the Company are shown in the following tables.

### Credit risk

The political situation in Sri Lanka as detailed in the Chairman's Statement and Investment Manager's Report means that a degree of credit risk is inherent in the Sri Lankan investments.

The interest rate risk profile of the Company's financial assets at 30 September 2007 was:

	Total £	No interest rate exposure £	Cash flow interest rate risk exposure £
<b>Sterling</b>			
Ordinary shares	2,405,833	2,405,833	–
Contracts for difference	174	174	–
Cash	8,953	–	8,953
Debtors*	<u>2,992,021</u>	<u>2,992,021</u>	–
	<u>5,406,981</u>	<u>5,398,028</u>	<u>8,953</u>
<b>Sri Lankan Rupees</b>			
Ordinary shares	<u>3,094,288</u>	<u>3,094,288</u>	–
	<u>3,094,288</u>	<u>3,094,288</u>	–
<b>Euros</b>			
Ordinary shares	<u>1,564,527</u>	<u>1,564,527</u>	–
	<u>1,564,527</u>	<u>1,564,527</u>	–
<b>Swiss Francs</b>			
Ordinary shares	<u>1,321,849</u>	<u>1,321,849</u>	–
	<u>1,321,849</u>	<u>1,321,849</u>	–
<b>US Dollars</b>			
Ordinary shares	<u>920,927</u>	<u>920,927</u>	–
	<u>920,927</u>	<u>920,927</u>	–
<b>Malaysian Ringgits</b>			
Ordinary shares	<u>65,012</u>	<u>65,012</u>	–
	<u>65,012</u>	<u>65,012</u>	–

## 18. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Total	No interest rate exposure	Cash flow interest rate risk exposure
	£	£	£
<b>Korean Won</b>			
Ordinary shares	<u>1,894,135</u>	<u>1,894,135</u>	—
	<u>1,894,135</u>	<u>1,894,135</u>	—
<b>Japanese Yen</b>			
Ordinary shares	<u>193,786</u>	<u>193,786</u>	—
	<u>193,786</u>	<u>193,786</u>	—
<b>Singapore Dollars</b>			
Ordinary shares	<u>14,959</u>	<u>14,959</u>	—
	<u>14,959</u>	<u>14,959</u>	—
<b>Total</b>	<u>14,476,464</u>	<u>14,467,511</u>	<u>8,953</u>

\* Debtors exclude prepayments which under FRS25 are not classified as financial.

The interest rate risk profile of the Company's financial assets at 30 September 2006 was:

	Total	No interest rate exposure	Cash flow interest rate risk exposure	Fair value interest rate risk exposure	Effective average interest rate
	£	£	£	£	%
<b>Sterling</b>					
Treasury stock	1,328,721	—	—	1,328,721	4.50
Cash	368,509	—	368,509	—	
Debtors*	<u>9,858</u>	<u>9,858</u>	—	—	
	<u>1,707,088</u>	<u>9,858</u>	<u>368,509</u>	<u>1,328,721</u>	
<b>Sri Lankan Rupees</b>					
Ordinary shares	<u>8,651,099</u>	<u>8,651,099</u>	—	—	
	<u>8,651,099</u>	<u>8,651,099</u>	—	—	
<b>Total</b>	<u>10,358,187</u>	<u>8,660,957</u>	<u>368,509</u>	<u>1,328,721</u>	

\* Debtors exclude prepayments which under FRS25 are not classified as financial assets.

### 18. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The interest rate risk profile of the Company's financial liabilities at 30 September 2007 was:

	Total £	No interest rate exposure £	Cash flow interest rate risk exposure £
<b>Sterling</b>			
Overdraft	3,237,666	–	3,237,666
Creditors	<u>279,697</u>	<u>279,697</u>	<u>–</u>
	<u>3,517,363</u>	<u>279,697</u>	<u>3,237,666</u>
<b>US Dollars</b>			
Creditors	<u>5,104</u>	<u>5,104</u>	<u>–</u>
	<u>5,104</u>	<u>5,104</u>	<u>–</u>
<b>Total</b>	<u>3,522,467</u>	<u>284,801</u>	<u>3,237,666</u>

The interest rate risk profile of the Company's financial liabilities at 30 September 2006 was:

	Total £	No interest rate exposure £	Cash flow interest rate risk exposure £
<b>Sterling</b>			
Creditors	<u>60,042</u>	<u>60,042</u>	<u>–</u>
	<u>60,042</u>	<u>60,042</u>	<u>–</u>

All financial assets and liabilities of the Company are held at their fair value.

### 19. RELATED PARTY TRANSACTIONS

Laxey Partners (UK) Limited, the Investment Manager, of which Colin Kingsnorth is a director, is a related party.

The total investment management charge payable to Laxey Partners (UK) Limited in the Income Statement for the year was £99,944 (2006: £96,309) (see note 4) of which £26,279 was outstanding at 30 September 2007 (2006: £8,251).

## Notice of Meeting

Notice is hereby given that the Tenth Annual General Meeting of the members of the above named Company will be held at the offices of Laxey Partners (UK) Limited at Princes House, 38 Jermyn Street, London SW1 6DN on 18 March 2008 at 12 noon to consider and, if thought fit, pass the following resolutions of which 1 to 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:

### ORDINARY RESOLUTIONS

1. To receive and adopt the Directors' report and financial statements for the year ended 30 September 2007, together with the independent auditors' report thereon.
2. To receive the Directors' Remuneration Report for the year ended 30 September 2007.
3. To reappoint Ernst & Young LLP as auditors and to authorise the Directors to agree their remuneration.
4. To re-elect Mr C.W. Kingsnorth as a Director.
5. To re-elect Mr D.E.H. Panter aged 73 as a Director.
6. To re-elect Mr D.J.M. Blackler aged 78 as a Director.
7. To re-elect Mr A. Boyd aged 73 as a Director.
8. That the Directors are hereby generally and unconditionally authorised for the purpose of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £879,809.75 comprising 3,519,239 Ordinary shares of 25p each, representing one third of the Company's issued share capital, provided that this authority shall expire (unless previously renewed varied or revoked by the Company in general meeting) on the earlier of the date of the Annual General Meeting of the Company in 2009 or 31 March 2009 (the "Section 80 period") save that the Company may prior to expiry of the Section 80 period make an offer of agreement which would or might require relevant securities to be allotted after the Section 80 period and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

### SPECIAL RESOLUTIONS

9. That the Directors are hereby empowered to allot equity securities for cash (within the meaning of Section 94 (2) to section 93 (A) of the Companies Act 1985 ("the Act") pursuant to Section 95 of the Act subject to their being duly authorised under Section 80 of the Act, as if Sub-Section 89 (1) of the Act did not apply to any such allotment and at any time prior to the expiry of the power hereby conferred to make an offer or agreement which would or might require equity securities as aforesaid to be allotted after the expiry of such power provided that such power shall expire on the earlier of the date of the Annual General Meeting of the Company to be held in 2009 or 31 March 2009 only in respect of equity securities as aforesaid up to an aggregate amount of £131,971.46 representing 5 per cent of the present issued share capital.
10. That the Articles of Association be amended by the insertion of the following new Articles 99.8, 99.9 and 99.10:
  - 99.8 Subject to the provisions of the Acts and as contemplated by section 175 of the Companies Act 2006, the Directors may authorise in such manner and on such terms as they think fit, any matter in which a Director and/or such connected persons of the Director has, or can have, a direct or indirect interest which conflicts, or could reasonably be regarded to conflict, with the interests of the Company. Where such authorisation is given the duty of the Director in question to avoid conflicts of interest shall not be infringed in relation to that matter. Neither the Director in question nor any other interested Director shall vote on or if he does vote, his vote shall not be counted as part of the quorum in relation to any resolution of the Directors concerning such authorisation. Where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company and that conflict or potential conflict has been authorised by the Company or by the Directors in accordance with this Article 99.8, subject to the terms on which any authorisation has been given:

*Notice of Meeting (continued)*

- 99.8.1 the Director in question need not disclose to or use for the benefit of the Company any information relating to that matter which he obtains or has obtained otherwise than as a Director and in respect of which he owes a duty of confidentiality to a person or persons other than the Company;
- 99.8.2 the Director in question need not consider board papers of the Company, nor participate in discussions of the Directors, relating to that matter;
- 99.8.3 any Director may act in any way authorised by any guidance for dealing with conflicts of interest issued by the Directors from time to time.
- 99.9 Where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, the duties which the Directors owe to the Company shall not be infringed by anything done (or omitted) by the Directors, or any of them, in accordance with Articles 99.8 and 99.9.
- 99.10 For the purposes of Articles 99.8 and 99.9, a conflict of interest, includes a conflict of interest and duty and a conflict of duties.

8 February 2008  
One London Wall  
London EC2Y 5AB

BY ORDER OF THE BOARD  
Maclay Murray & Spens LLP  
Company Secretary

Notes:

1. A member entitled to attend, vote and speak is entitled to appoint a proxy or proxies to attend, vote and speak instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed.
2. Instruments of proxy and the power of attorney or other authority, if any, under which they are signed or are notarially certified copy of that power or authority should be sent to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to arrive not less than forty eight hours before the time fixed for the meeting.
3. Copies of all letters of appointment of Directors of the Company are available for inspection during normal business hours at the Company's registered office on any weekday except public holidays, and at the place of the meeting for a period of fifteen minutes prior to the annual general meeting and during the meeting.
4. As at 8 February 2008, the Company's issued share capital comprised 10,557,717 ordinary shares of 25 pence each. Each ordinary share carries the right to one vote at general meetings of the Company.
5. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between them and the member by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in paragraph 1 above does not apply to Nominated Persons. The rights described in this paragraph can only be exercised by members of the Company.

## Form of Proxy The Laxey Investment Trust PLC

Please complete in block capitals

I/We .....

of .....

being (a) Shareholder(s) of the above named Company hereby appoint the Chairman of the meeting or

.....  
as my/our proxy to attend, vote and speak for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 18 March 2008 and at any adjournment thereof.

Please indicate here with an 'X' if the proxy form is one of multiple instructions being given (see note 4).

I/We direct my/our proxy to vote on the resolutions as set out in the Notice convening the Annual General Meeting as follows:-

### RESOLUTIONS

	For	Against	Vote Withheld*
1. Directors' and Independent Auditors reports, Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Directors' remuneration report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Reappointment of Auditors and authorisation of remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Re-election of Mr C.W. Kingsnorth as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Re-election of Mr D.E.H. Panter as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Re-election of Mr D.J.M. Blackler as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Re-election of Mr A. Boyd as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To grant Section 80 authority pursuant to the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To disapply Section 89 (1) pursuant to the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. That the Articles of Association be amended	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

\* See Note 3

Signed ..... this ..... day of ..... 2008

To be valid, the form of proxy or any additional forms of proxy must be lodged with the registrars of The Laxey Investment Trust PLC: Capita Registrars plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than forty-eight hours before the time fixed for the meeting.

Notes:

- (1) In any case of joint holders, the signature of any one holder will be sufficient. In the case of a corporation, the proxy should be executed under its common seal or under the hand of an officer/attorney, duly authorised in writing on its behalf. Alternatively, a corporation to which Section 36A of the Companies Act 1985 applies may execute this form by a director and the company secretary or by two directors of the company. Each of the officers signing the form should state under his signature the office which he holds.
- (2) Please indicate how you wish your vote to be cast by placing an X in the appropriate box. Unless otherwise indicated, the proxy will exercise his discretion both as to how to vote or abstain as he/she thinks fit.
- (3) The vote withheld option is provided to enable you to abstain on any particular resolution. It should be noted that a vote withheld is not a vote in law and will not be counted as a vote For or Against a resolution. If no voting indication is given, your proxy will vote or abstain from voting at his discretion.
- (4) You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint any more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you should photocopy the proxy form. Please indicate in the box next to the proxy holder's name, the number of shares in relation to which you authorise them to act as your proxy. Please also indicate by marking the box above if the proxy instruction is one of multiple instructions being given. All proxy forms and additional proxy forms must be signed and should be returned to Capita Registrars plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 12 noon on 14 March 2008.

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Affix  
Stamp  
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Capita Registrars  
Proxy Department  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

1st Fold

3rd Fold and tuck in



