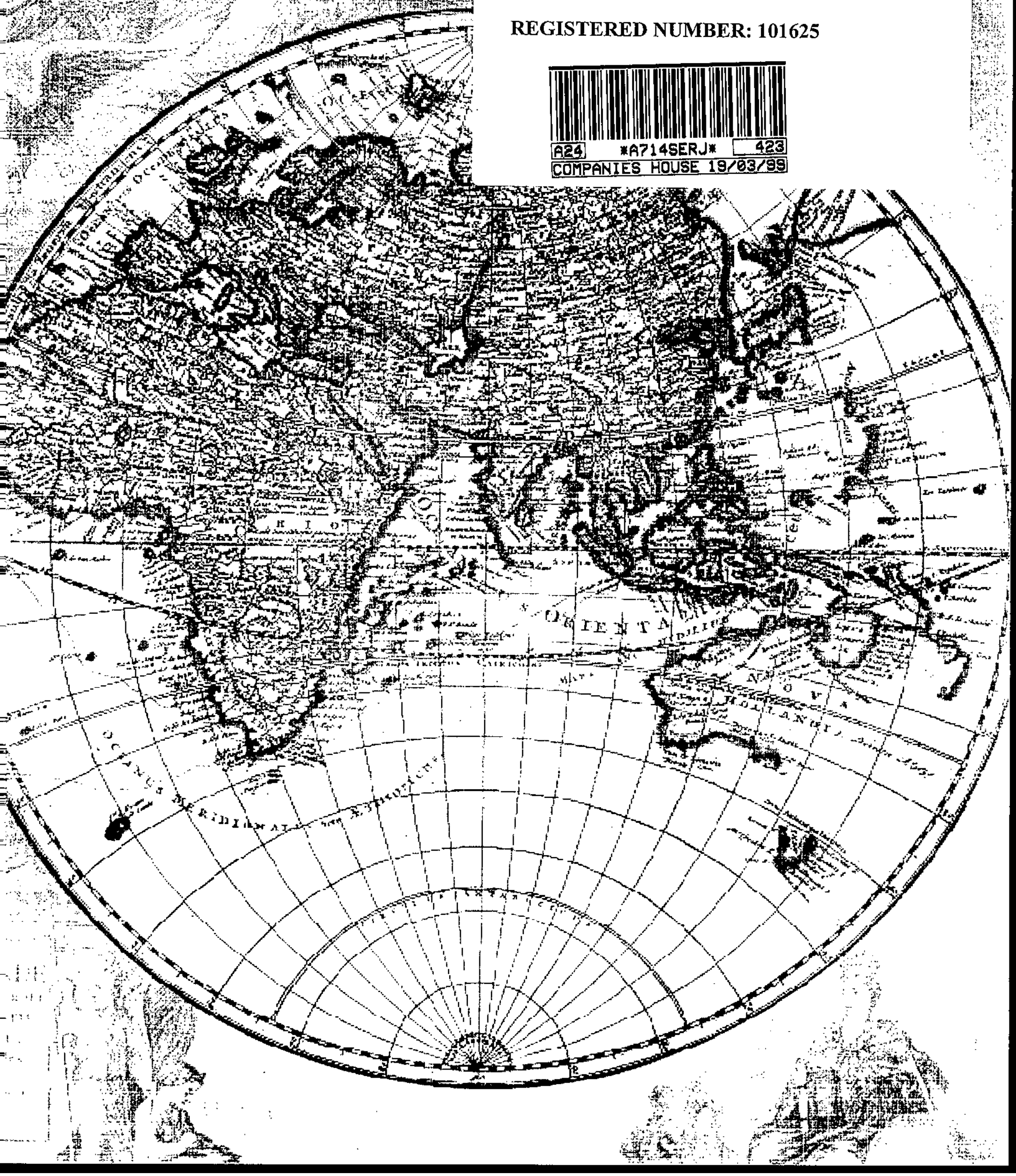
Witan Investment Company plc

Report & Accounts 1998



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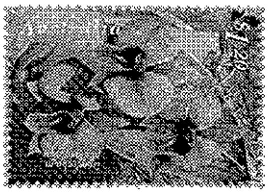
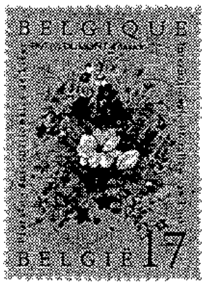




Investment trusts are public limited companies, quoted on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from capital gains tax on profits arising on their investments. Income, net of expenses and tax, is distributed substantially to shareholders. Shareholders elect the directors, a majority of whom is independent of the manager.

Front Cover: Map of the world, Academy of Sciences, Paris 1720

Witan Investment Company plc

is an international general investment trust which is invested in a prudently diversified range of well managed large multi-national companies, with some smaller companies selected for their excellent long term growth prospects.

Long history • formed in 1909, and becoming publicly quoted in 1924, the Company has always responded to the rapid changes seen worldwide in the political, economic and social climate.

Good performance record • £100 invested in 1950 would now be worth £103,461*.

Progressive dividend record • the last ten years' average annual dividend growth rate has been 9%, compared with an average annual inflation rate of around 4% during the decade.

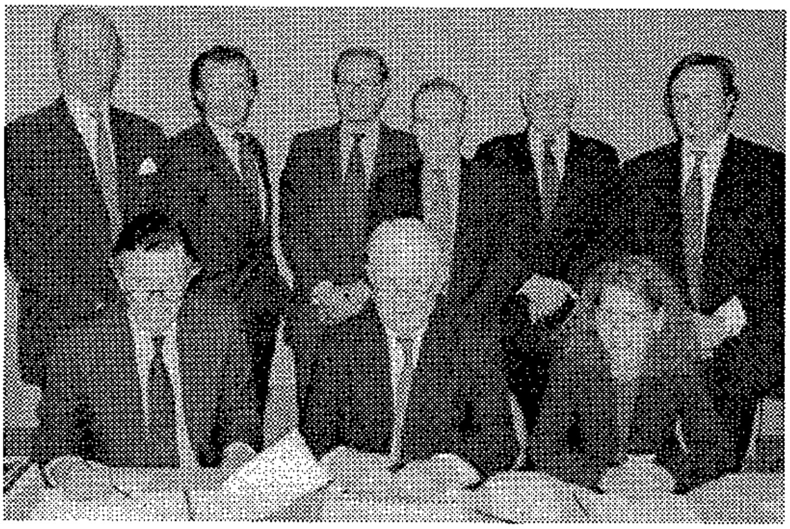
Clear performance marker • our portfolio benchmark against which performance is measured is 60% FTSE All-Share Index and 40% FT/S&P Actuaries World Index (ex UK).

Low management charge • a total expense ratio of 0.34% of average total assets for 1998.

Independent board • five out of the eight directors, all non-executive, are wholly independent of the management company.

* i.e. total return – capital growth with all net dividends reinvested

Directors



The Lord Faringdon
(Age 61) Chairman.
Former partner of Cazenove & Co.
The Lord Faringdon joined the board in 1976 and was appointed Chairman in 1980.

C G Clarke
(Age 54) Managing Director.
Director of Henderson Investors Limited and Henderson Technology Trust plc. Mr Clarke joined the board in 1992 and was appointed Managing Director in 1993.

The Lord Inchyra*
(Age 63) Chairman of Johnson Fry European Utilities Trust plc and former Director General of the British Bankers' Association. The Lord Inchyra was appointed a director in 1979.

H M Henderson
(Age 46) Partner of Cazenove & Co and a director of Updown Investment Company plc. Mr Henderson was appointed a director in 1988.

R W C Colvill*
(Age 58) Finance Director of Marks & Spencer p.l.c. Mr Colvill was appointed a director in 1994.

A W Jones*
(Age 59) Chief Executive of BICC plc. Mr Jones was appointed a director in 1996.

R H McGrath*
(Age 52) Chief Executive of H. Young Holdings plc. Mr McGrath was appointed a director in 1996.

C S McVeigh III*
(Age 56) Chairman of Salomon Smith Barney. Mr McVeigh was appointed a director in 1998.

*Independent non-executive directors and members of the audit and management engagement committees which are chaired by The Lord Inchyra.

Front row (left to right): C G Clarke, The Lord Faringdon, R E Fieldwick.
Back row (left to right): The Lord Inchyra, R H McGrath, C S McVeigh III, R W C Colvill, A W Jones, H M Henderson.

Manager

Henderson Investors Limited
an AMP Company

The directors have appointed Henderson Investors Limited, a wholly owned subsidiary of Henderson plc, to manage the investment portfolio. Henderson plc was acquired by AMP Limited, the leading Australian financial services company, in March 1998. The terms of appointment are given on pages 20 and 21.

R E Fieldwick, ACIS, is the appointed representative of the Corporate Company Secretary, Henderson Secretarial Services Limited.

Financial Highlights

Per ordinary share	31 December 1998 in pence	31 December 1997 in pence
Net asset value	**423.9**	374.0
Earnings	**8.06**	8.09
Dividend – interims and final	**7.40**	7.00

Dividends

A second interim dividend of 2.30p per share has been declared payable on 1 April 1999.

A final dividend of 1.75p per share has been recommended payable on 6 April 1999. The record date for both dividends will be 12 March 1999 and the ex-dividend date for both dividends will be 8 March 1999.

Performance

Total return per ordinary share	1 Year base 100	3 Years base 100	5 Years base 100
Net asset value(i)	115.1	154.1	173.0
Share price(i)	117.3	148.3	169.1
Peer group(i & ii)	113.4	150.4	168.1
Benchmark(iii)	117.2	156.4	183.1

(i) Source: AITC

(ii) Size weighted average net asset value total return for the International/General sector

(iii) Comprising the FTSE All-Share Index and the FT/S&P Actuaries World Index (ex UK) in the proportion 60:40 with net income reinvested

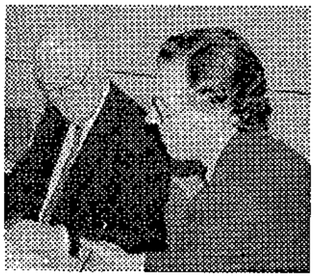
Historical Record

Year End	Net asset value per ordinary share in pence	Market price per ordinary share in pence	Net revenue after taxation in £000s	Earnings per ordinary share in pence	Dividends per ordinary share in pence
30 April 1989	168.9	136.5	11,310	3.29	3.12
31 December 1989†	191.3	158.5	12,635	3.68	3.62
31 December 1990	153.3	132.0	18,541	5.40	4.75
31 December 1991	178.8	154.0	19,461	5.67	5.30
31 December 1992	212.8	185.0	19,616	5.71	5.60
31 December 1993	271.7	245.0	22,530	6.11	5.80
31 December 1994	251.7	230.0	25,031	6.65	6.10
31 December 1995	290.8	265.0	25,438	6.76	6.45
31 December 1996	314.5	266.5	26,764	7.11	6.65
31 December 1997	374.0	319.5	30,458	8.09	7.00
31 December 1998	**423.9**	**367.0**	**30,317**	**8.06**	**7.40**

†Figures to 31 December 1989 are for an eight-month period

Chairman's Statement

"Another unpredictable year ahead."


The Lord Faringdon and C G Clarke

Performance and Shareholder Return

Our total return to shareholders for the twelve months ending 31 December 1998 just exceeded 15% – better than the FTSE All-Share Index but it falls just short of our own demanding benchmark, even after adding back expenses. However, this is not an unsatisfactory result, as investors have had the shield of international diversity in a period of unpredictable market returns as well as a clear 1.5% advantage against a UK Index Tracker Fund. Equally encouraging has been a slight narrowing of the discount between our quoted share price and our net asset value, and the increase in the total dividends for the year of 5.7%.

This rise is significantly ahead of the rate of inflation and, for this year only, what is normally the final dividend will be paid in two parts, (i.e. second interim and final) either side of Easter. This is due to changes in tax legislation which make it advantageous to shareholders for part of the dividend to be deferred to the next tax year. Details of the precise amounts and dates of payments are given on page 3.

Analysis of our Investment Performance

We monitor closely the percentage of the fund we hold in various markets and the underlying investment returns. It is clear that we along with other London managers have been far too cautious for far too long about the US; we have been right about Japan and the Far East, and about Europe, although our underperformance last year undid the good of previous years as we were underrepresented in the very large stocks. The performance of our UK list, where we have around 60% of the fund, was excellent. A detailed breakdown of Witan's asset allocation and performance compared with its benchmark over 1, 3 and 5 years to 31 December 1998 is shown on page 7.

Management Fee

The management fee for Witan came up for review with our Managers – Henderson Investors – and after a very thorough examination, some important changes have been made. The Board maintained that (1) it was no longer appropriate for a fund the size of Witan to continue to pay ad valorem fees, (2) there should be a proportion of the fee that was related to outperformance of our benchmark, and (3) the Board should take steps itself to market Witan and to differentiate it from the plethora of other savings products and 'wrappers'. Over time we believe Witan could become more widely recognised as a key building block in any well managed investment portfolio, and we will be looking for products that can capitalise on that for shareholders.

Investment Trust Industry

The investment trust industry has been the subject of more than the usual level of comment and debate during the past few months. Share price discounts have tended to widen and some trust companies have been under attack. 1998 was a year when there were plenty of opportunities for spectacular investment successes, but at least an equal number of potential disasters were on offer, and we believe that international generalist investment trusts such as Witan more than proved their worth at a time of such extreme volatility in many of the specialist areas. This is not intended to imply any complacency about the position of Witan in the savings market place, and we are continuing to work hard to increase demand for Witan's shares. Hopefully we will thereby see a further gradual reduction in the discount. Whilst strong investment performance is clearly an essential ingredient of the popularity of an investment trust, we are continually seeking out other steps that can be taken. With this in mind shareholders are being asked to vote on a resolution at the Annual General Meeting on 16 March which will give increased powers (up from 3% currently agreed) that will enable your Board to buy back up to 14.99% of the share capital for cancellation if this is deemed to be in the best interests of all shareholders.

The Euro and Regionalisation

No decision has yet been taken for this country to give up its own currency to join the euro, mainly because there is a feeling that there would be a loss of sovereignty to Brussels, whilst almost without a whimper ad hoc and divergent powers are being lost to Westminster and devolved to Scotland, Wales, London and the eight other regions of England. We believe that whatever the political or social virtues of these moves it will dampen growth in our economy; our interest rates are likely to remain higher (at present they are double those of the euro bloc), our currency will become more speculative and our goods and services will become increasingly uncompetitive as we bear the cost of the currency dealing in our trade with Europe. Inward capital investment will become more hesitant while we remain outside the euro, and new regional government will make the location of business more critical.

Catching the Investment Flow

It has become more difficult to find cheap stocks even if you have detected trends early: concept investing based on change in habits, whether it is mobile telephony or modern travel equivalents like internet, eating out, or health stocks sell on very demanding multiples; value investing is under a cloud and recovery investing can be very painful if there are any disappointments on the way. The equity risk has increased and the returns will be lower, but for the time being mergers, buy-backs and insatiable investor demand will maintain stock market values provided earnings do not collapse or interest rates rise. The cost of long term borrowing is becoming cheaper and this should give us the opportunity of restructuring our balance sheet; with greater equity gearing we may be able to compensate for the lower equity returns we expect.

Investment Prospects

It is more than usually difficult to predict what may happen in investment markets in the run-up to the millennium as in terms of valuation in the US and the UK we are in uncharted waters, but it is clear already the consumer is being increasingly difficult to get out of his shell in the UK and with the fall in interest rates worldwide there is a greater price consciousness especially among the retired who have the time to look around. We expect greater competition in all areas of the economy and corporate margins coming under even greater pressure as surplus consumer goods particularly from Far Eastern and North and South American markets look for outlets, prompting further consolidation of businesses into greater international groupings worldwide.

In Conclusion

Elsewhere in this report you will see the redemption is currently taking place of our innovative 6¼% Exchangeable Bond: it has proved itself a useful tool in disposing of our investment trust cross-holdings. Although it is a practice deprecated now by the investment community, they have been very successful investments for us over the years, and the Exchangeable has given those who owned it a good income and capital appreciation. The redemption, however, will give us some income respite in the years ahead. Also, on page 40, shareholders will see set out fully the latest rates for calculating capital gains tax incorporating the changes in the 1998 Finance Act. So much for simplifying the tax system! As the millennium approaches your Board will continue to monitor closely our manager's corporate action programme to cope with the consequences of the year 2000 date change and we will remain vigilant. We hope the new millennium will ignite the entrepreneurial spirit and provide new and exciting opportunities for investment worldwide, bringing a period of peace and prosperity with it.

Managing Director's Review

"The year ended on a cheerful note."

Christopher Clarke

Market Review

Writing a year ago, after three years of strong share prices enabled us to achieve an average annual gain of 14% in Witan's net asset value over that period, I expressed a degree of caution that 1998 would be unlikely to produce a similar return. In the event, total return was a little higher at just over 15% last year, and long term shareholders who are not close market followers may imagine that 1998 was another satisfactory but relatively quiet year.

The reality is very different. A key feature of the past twelve months was extreme volatility, particularly in the second half of the year. This volatility extended to currencies, stock markets, specific sectors within stock markets and indeed to the performance of specific shares with apparently similar characteristics within the same sector.

In brief, the year started strongly for most major markets, including those of USA, UK and the rest of Continental Europe which together represent around 90% of Witan's portfolio, with investors encouraged by the prospect of another year of satisfactory economic growth which, together with continuing low inflation, provide a favourable background for equity investment. However some of the severe difficulties of many of the Far Eastern economies that first became apparent in the previous autumn developed like a contagious disease. First it spread into most of Eastern Europe, then on to much of South America and eventually to all Emerging Markets where investors had previously perceived the opportunities for long term growth sufficiently appealing for all the inevitable risks to be justified. However it soon became clear that companies, and indeed in some cases countries, were living beyond their means and any semblance of order in these markets disappeared as investors rushed to the exit door.

What started as little more than regional disturbance soon became viewed as something much more serious and likely to affect the entire world economy. Even the strongest countries are influenced by the health of their neighbours, either directly through trade or through financial transactions. With America as usual taking the lead, there was a sharp setback in every market in the autumn, with all the gains achieved during the first half of 1998 being eliminated very quickly indeed. Fear of recession was in the air and forecasts for earnings growth from a wide range of companies were being trimmed, sometimes by analysts but in many cases by the companies themselves with profits warnings outside the normal reporting cycle becoming routine events. In the UK in particular consumer confidence moved down at least as fast as investor confidence; a quite widespread view emerged that the lengthy bull market had come to an end.

Surprisingly the storm clouds blew away and the year ended on a much more cheerful note. Fuelled by falling interest rates and high levels of liquidity, share markets on either side of the Atlantic rallied strongly and a year that started well, and then faltered, ended on a high note.

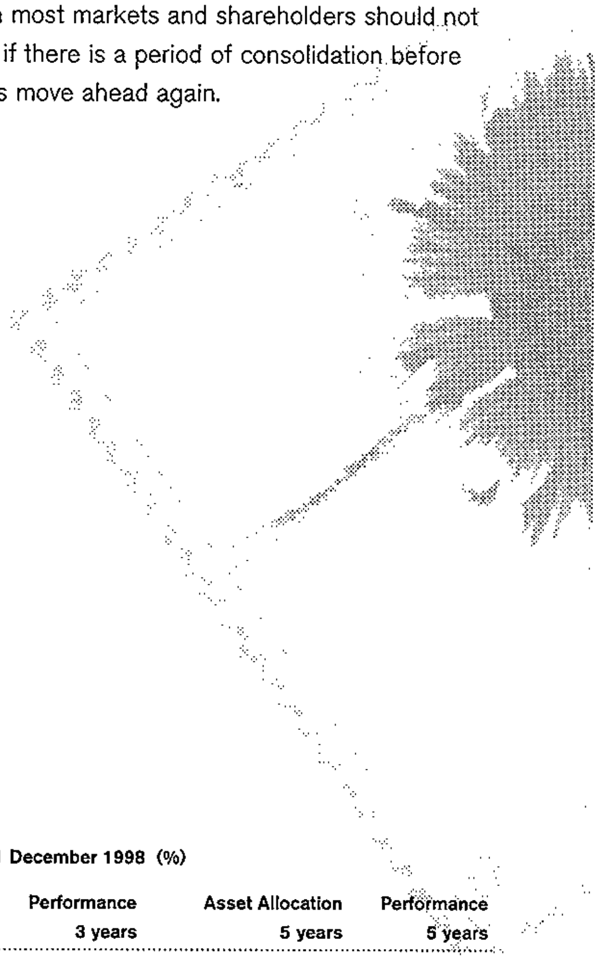
Portfolio Management

On pages 8 to 18, shareholders can read detailed reviews of all the main markets in which Witan is invested. In spite of the successful year overall, 1998 was not particularly easy for any of these geographical specialists who manage the Company's portfolio. In the UK the main indices moved ahead, but there was a marked divergence in performance from different sectors and from individual shares. In general large did better than small, whilst growth companies outperformed those with value or yield characteristics. Japan, the rest of the Pacific region and other emerging markets continued to perform poorly but fortunately our commitment to these areas in total was modest and therefore did not impact too badly on performance. Once again the American market exceeded our expectations and with hindsight we could have had a higher allocation than around 17% of the portfolio there. On the other hand we were correct in identifying Continental Europe as an area of continuing strength; you will see on page 14 that Stephen Peak, who has managed our European portfolio for several years and concentrates on investment in smaller companies and special situations, has now been joined by John Botham who is responsible for mainstream Continental Europe. A number of household name shares in Europe have been introduced into the portfolio during 1998 and have already served Witan well. Whilst on Europe, it goes without saying that the advent of the euro is being watched with great interest. Early signs are that the currency and the share markets of the countries involved are starting steadily but one swallow does not make a summer and it will be years rather than months before it is right to draw firm conclusions about economic and monetary union.

Before leaving the subject of those responsible for Witan's management I would like to pay the highest possible tribute to Johnstone Brown who has just retired as your company secretary after almost 25 years. Johnstone's in depth knowledge of every aspect of Witan's affairs was quite incredible, as was his unstinting loyalty to me and to my two predecessors with whom he worked. He will be missed but, in his place, we welcome Rachel Fieldwick who is already proving to be a very able successor.

Outlook

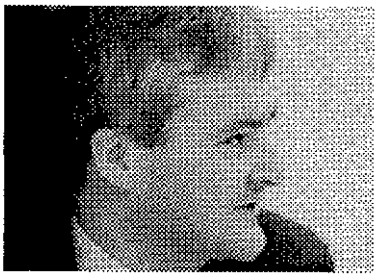
After the fourth consecutive year of strong growth in share prices in the major markets in which Witan is most represented it seems right to repeat last year's caution when it comes to looking into the crystal ball. Equities will continue to be supported by very low bond yields and interest rates are likely to fall further. Nevertheless we are entering a period of worsening economic conditions and many countries will be struggling to achieve any growth at all in 1999 even if, as we hope and expect, recession is avoided. Witan's spread of investment and quality of portfolio justifies continued confidence in the long term but by almost any historical standard share prices are now fully valued in most markets and shareholders should not be perturbed if there is a period of consolidation before stock markets move ahead again.



Witan's Asset Allocation and Performance compared to its Benchmark over 1, 3 and 5 years to 31 December 1998 (%)

	Asset Allocation 1 year	Performance 1 year	Asset Allocation 3 years	Performance 3 years	Asset Allocation 5 years	Performance 5 years
UK	+0.6	+2.9	+5.9	+3.1	+7.0	+1.7
USA	-5.4	-3.5	-3.0	-8.0	-3.3	-5.6
EUROPE	+3.5	-8.6	-0.7	-10.2	+0.6	-7.3
JAPAN	-0.2	+12.7	-5.5	+10.5	-8.4	+28.2
FAR EAST (EX JAPAN)	+0.9	+5.7	+2.4	+8.7	+4.0	+1.5

United Kingdom, mainstream portfolio review



David Thornton

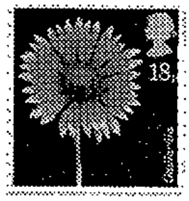
"Purchases focused on well managed mid-sized companies."

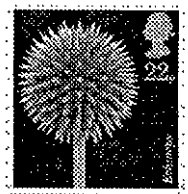
Market Review

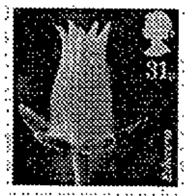
Although 1998 started strongly, the 13.8% annual return from the FTSE All-Share Index was in fact the product of a very strong end to the year. The financial crisis which originated in the Far East spread via the Russian government bond default and the near failure of the LTCM hedge fund. All world equity markets suffered against this background and the UK fell below its starting level for the year. Central banks around the world responded by easing monetary policy which included a reversal in UK interest rates. Together with the lowest gilt yields for a generation and abundant liquidity in the system, equities were able to stage an impressive recovery.

Portfolio Activity

The UK mainstream portfolio is invested in large and medium size companies. The investment process aims to add value through sector and theme selection as well as individual stock selection. The portfolio therefore seeks to reflect those top down thematic trends which our economic and stockmarket analysis suggests will drive performance. The volatility of the UK equity market in 1998, combined with an increasingly narrow leadership, has made for very challenging conditions. The fall of 25% in the index from the July peak to the October trough unsurprisingly resulted in defensive stocks such as utilities and tobaccos outperforming strongly. The portfolio has been overweight in these sectors, adding to **Gallaher**, and this helped performance during this phase. The







UK mainstream portfolio (£899m) by industry

	%
Mineral Extraction	**8**
General Manufacturing	**10**
Consumer Goods	**18**
Services	**21**
Utilities	**16**
Financials	**23**
Investment Trusts	**4**
	100

£'000s	Largest equity investments by value		% of UK mainstream portfolio
47,564	Glaxo Wellcome	*pharmaceuticals*	5.29
31,993	BP Amoco	*oil integrated*	3.56
29,429	BT	*telecommunications*	3.27
26,505	Lloyds TSB	*banking*	2.95
25,848	Shell Transport & Trading	*oil integrated*	2.87
23,309	Colt Telecommunications	*telecommunications*	2.59
19,711	Prudential	*life assurance*	2.19
19,530	National Express	*transport*	2.17
17,640	SmithKline Beecham	*pharmaceuticals*	1.96
17,171	Barclays	*banking*	1.91
17,011	Zeneca	*pharmaceuticals*	1.89
16,732	BG	*gas distribution*	1.86
16,496	Railtrack	*transport*	1.83
16,491	Bank of Scotland	*banking*	1.83
15,319	Asda	*food retailing*	1.70
15,200	HSBC	*banking*	1.69

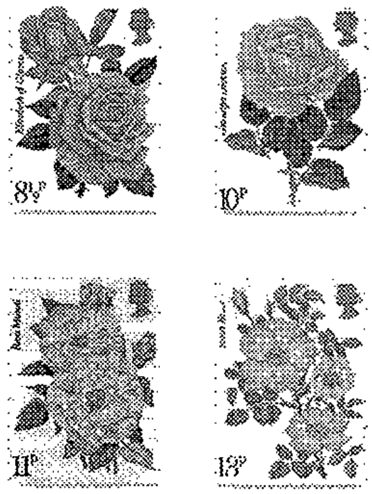
£'000s	Largest equity investments by value		% of UK mainstream portfolio
14,875	Granada	*leisure*	1.65
14,801	Abbey National	*banking*	1.65
14,375	Thames Water	*water*	1.60
13,937	Allied Zurich	*insurance*	1.55
13,770	Compass	*contract catering*	1.53
13,558	United Utilities	*water and electricity*	1.51
13,252	Cable & Wireless	*telecommunications*	1.47
12,968	Scottish Power	*electricity and water*	1.44
12,258	3i Group	*investment trust*	1.36
12,197	Kingfisher	*retailing*	1.36
11,748	CGU	*insurance*	1.31
11,131	Boots	*retailing*	1.24
10,973	WPP	*media*	1.22
10,784	Unilever	*food manufacturing*	1.20
10,394	British Aerospace	*engineering*	1.16
9,506†	HUGE	*unquoted investment fund*	1.06

†Unquoted investment

subsequent recovery in the market was led in contrast by the largest companies and those with superior profits growth prospects.

Large size has remained a key positive theme in this environment. Fewer, larger, companies are outperforming – a trend evident a year ago which has intensified towards the end of 1998. The statistics provide ample illustration: FTSE 100 returned +17.5%, the mid capitalisation index +4.2% and the small cap. index –8.1%. As a result valuations have polarised further, such that only six industrial sectors out of thirty-one in total trade at a higher price earnings ratio than the market average, when using current forecasts of 1999 profits. Indeed, telecommunications and pharmaceuticals enjoy premium valuations of almost twice the market average while many manufacturing and mid capitalised companies trade at half the market price earnings multiple.

We regard this state of affairs as ultimately unsustainable and this is reflected in the activity within the portfolio. New purchases have focused on well managed mid-sized companies with sound growth prospects which are available at relatively modest valuations. **Mersey Docks, Bunzl, Aegis, Jarvis** and **Thomson Travel** are examples of such companies. They are all service providers rather than manufacturers and hence do not have the problems of an uncompetitive exchange rate and global overcapacity to contend with.



Looking at the portfolio's exposure to manufacturing, we remain focused on quality. This is reflected in the purchases of **BBA** and **British Vita**, the latter replacing chemical companies **Courtaulds** and **Allied Colloids** which were taken over. As mentioned above, outperformance has been difficult to obtain in this area of the market despite temptingly low valuations. Whilst we do not expect a recession, economic growth forecasts have declined and 1999 will be a very sluggish year. However if GDP forecasts improve later in the year this segment of the market is capable of generating strong share price performance from its depressed valuation base. Timing is of course crucial and we will wait for evidence of improved economic conditions before investing more in this sector.

£'000s	Largest equity investments by value		% of UK mainstream portfolio
8,991	Tesco	*food retailing*	1.00
8,696*	Henderson Electric & General	*investment trust*	0.97
8,522	Ocean Group	*transport*	0.95
8,455	Dixons	*retailing*	0.94
8,245	Marks & Spencer	*retailing*	0.92
8,216	British American Tobacco	*tobacco and financial services*	0.91
7,949	Diageo	*alcoholic beverages*	0.88
7,372	Smiths Industries	*engineering*	0.82
7,285	Great Universal Stores	*retailing*	0.81
7,106	Smith & Nephew	*healthcare*	0.79
7,075	Rolls Royce	*engineering*	0.79
7,015	Caledonia Investments	*investment company*	0.78
6,990	Rio Tinto	*mining*	0.78
6,980	Scottish & Newcastle	*alcoholic beverages*	0.78
6,774	SVB (inc. warrants)	*insurance*	0.75

£'000s	Largest equity investments by value		% of UK mainstream portfolio
6,687	RMC	*building materials*	0.74
6,595*	Lowland	*investment trust*	0.73
6,520	LIMIT	*insurance*	0.72
6,423	National Grid	*electricity*	0.71
6,344	Bass	*brewing*	0.71
6,141	EMAP	*media*	0.68
6,105	Thomson Travel	*leisure*	0.68
5,968	GEC	*engineering*	0.66
5,901	Northern Rock	*banking*	0.66
5,828	Bodycote	*engineering*	0.65
5,501	Gallaher	*tobacco*	0.61
5,338	Burmah Castrol	*lubricants*	0.59
5,178	Safeway	*food retailing*	0.58
5,170	Reed International	*media*	0.57
5,157	BOC	*industrial gases*	0.57
5,063	AMLIN (inc. warrants)	*insurance*	0.56

*Investments included at exchange value (see note 13(i) on page 35)

United Kingdom, mainstream portfolio review
continued

Of the two key large cap. growth sectors the portfolio has been neutrally weighted in pharmaceuticals and underweight in telecoms. **Glaxo Wellcome** remains the portfolio's largest holding and is undoubtedly a world class company. It epitomises the stockmarket's current emphasis on size, quality and predictable growth as reflected by its prospective price earnings ratio of 40. Both it and **SmithKline Beecham** have shrugged off the failure of their proposed merger while **Zeneca's** shares have recently been boosted by the announced merger with Astra. However, it is hard to argue that these shares offer good value using conventional yardsticks.

Real and imagined takeover activity has also boosted the performance of the telecoms sector. Strong volume growth is evident in this industry, yet scarce elsewhere, and the sector has enjoyed a major re-rating accordingly. We added a holding in **Cable & Wireless Communications** and **Colt Telecom's** spectacular performance has promoted it from small capitalisation status to the FTSE 100 Index in record time.

As with the pharmaceuticals, valuations of telecommunication stocks are extremely stretched and these sectors will be sources of funds when the time is right to switch into the better value available outside the large capitalisation sector.

Prospects

Slowing economic growth and very low inflation mean that company profits will show little or no growth in both the year under review and in 1999. Combined with a prospective price earnings ratio of 21 and dividend yield of 2.8% the stockmarket intuitively appears unattractive. However, interest rates will fall further in 1999 and gilt yields of 4% warrant higher equity valuations than we have been accustomed to in the last three decades. The UK is also the least expensive major Western market. Accordingly it remains appropriate to maintain a UK equity weighting at least in line with Witan's 60% benchmark.

The key factor governing the portfolio's positioning will remain the sustainability of the narrow market leadership of large capitalisation growth stocks. At some stage it will be necessary to reduce exposure to these stocks given the stretched valuations already mentioned. In the absence of a general market decline the most likely trigger will be an improvement in the prospects for economic growth, but this is a factor which is unlikely to emerge in the near term.

£'000s	Largest equity investments by value		% of UK mainstream portfolio
5,056	BBA	*engineering*	0.56
5,023	Imperial Tobacco	*tobacco*	0.56
4,940	Next	*retailing*	0.55
4,918	Henderson High Income	*investment trust*	0.55
4,908	Royal & Sun Alliance	*insurance*	0.55
4,817	Cable & Wireless Communications	*telecommunications*	0.54
4,718	Benfield & Rea	*insurance*	0.52
4,508	Halma	*engineering*	0.50
4,470	British Land	*property*	0.50
4,267	National Power	*electricity*	0.47
4,194	Reuters	*media*	0.47
4,123	Mersey Docks & Harbour	*transport*	0.46
3,800	Wolseley	*building materials*	0.42
3,710	British Vita	*chemicals*	0.41
3,647	British Airways	*transport*	0.41
3,630	Centrica	*gas distribution*	0.40
3,453	Pantheon (inc. warrants)	*investment company*	0.38

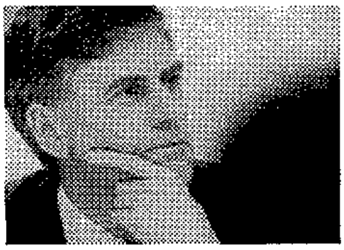
£'000s	Largest equity investments by value		% of UK mainstream portfolio
3,297	Bunzl	*support services*	0.37
3,262	Laporte	*chemicals*	0.36
3,213	Ockham	*insurance*	0.36
3,100	Blue Circle	*building materials*	0.34
3,015	EMI	*media*	0.34
2,988	Land Securities (convertible)	*property*	0.33
2,950	Enterprise Oil	*oil exploration and production*	0.33
2,733 †	Wadworth	*brewing*	0.30
2,685	Hanson	*building materials*	0.30
2,598	Aegis	*media*	0.29
2,464	Masthead	*insurance*	0.27
2,433	Johnson Matthey	*engineering*	0.27
2,359	Morgan Crucible	*engineering*	0.26
2,340	Mayflower	*engineering*	0.26
879,685			97.79

† Unquoted investment

United Kingdom, smaller companies portfolio review

Overview

Smaller company share prices began the year quietly but by March seemed gradually to be making up for their disappointing 1997 performance. This improvement proved to be shortlived however, the trigger for the change in sentiment being the unexpected rise in interest rates announced in early June. The resulting strengthening of sterling, and a growing belief that the economy was likely to weaken substantially, knocked investors' confidence and this was particularly marked in the case of smaller companies. Consequently, and in spite of some recent recovery, the small cap. indices have again lagged significantly behind the major companies over the year. It is important to be aware that the manufacturing sectors, which make up 30% of the small cap. indices, have been the worst hit, but few companies from those sectors are held in the portfolio. The majority of Witan's smaller company holdings are in the services sector, with a strong emphasis on computer related stocks.



Richard Smith

"Focus on computer service companies with exceptional growth prospects."

Activity

The main aim is to select smaller companies with exceptional growth potential which could soon become medium sized and eventually one of the components of the FTSE 100 index. This is a challenging target not easy to achieve but has been demonstrated dramatically by **Colt Telecom** which was floated in December 1996 at the equivalent price of just under 69p and at the end of 1998 stood at 896p. Witan's holding cost £3.4m, is now valued at £23.3m and is listed in the mainstream UK report on page 8. As mentioned above, stock selection has focused on computer service companies because of their exceptional growth prospects and several holdings have been added to throughout the year. These included **RM Group** which is the clear market leader in the UK in providing educational software, together with the computer systems and management of the systems for primary and secondary schools, as well as for universities. Internet access for all schools is just one area where RM is spearheading the Government initiative. Further shares were also bought in two other technology companies, namely **FI Group** and **Druid Group**. One new holding is **ITNET** which uses its specialist expertise in computers to offer a broad array of outsourcing services, its particular expertise being in business process outsourcing which is currently showing exceptional growth.

Outlook

1999 may well continue to be difficult for smaller companies in general as the economy continues to slow and the prices of goods in some areas actually fall. This makes it even more imperative to seek out companies with exceptional products or services which are able to increase sales, and at least maintain margins on these higher sales to achieve increased earnings. Such businesses will remain the focus of our stock selection policy, while any question of earnings being below expectation will result in an immediate sale of the company in question.

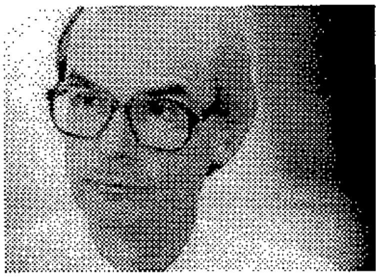
£'000s	Largest equity investments by value		% of UK smaller companies portfolio
15,954	Henderson Strata	*investment trust*	17.88
7,625	CMG	*computer systems development*	8.54
5,913	FI	*business technology services*	6.63
5,906	ITNET	*business process outsourcing*	6.62
5,128	AEA Technology	*engineering consultancy*	5.75
4,038	Electronics Boutique	*software retailer*	4.52
3,777	Trinity	*local newspapers*	4.23
3,773	Taylor Nelson Sofres	*market information*	4.23
3,335	Expro International	*oil services*	3.74
2,934	Pizza Express	*restaurants*	3.29
2,576	Parity	*computer systems*	2.89
2,563	Admiral	*computer consultancy*	2.87
2,468	BTG	*patenting and licensing*	2.77

£'000s	Largest equity investments by value		% of UK smaller companies portfolio
2,318	RM	*educational software*	2.60
2,265	GWR	*local radio*	2.54
2,123	Shire Pharmaceutical	*pharmaceuticals*	2.38
1,976	Druid	*computer software*	2.21
1,915	Alexon	*ladies clothes retailer*	2.15
1,904	South Staffordshire Water	*water supply*	2.13
1,662	Ashtead	*plant hire*	1.86
1,613	Holmes Place	*health and fitness clubs*	1.81
1,215	Tilbury Douglas	*construction and engineering*	1.36
919	Capital Radio	*broadcasting*	1.03
910	Games Workshop	*fantasy war game systems*	1.02
84,810			95.05

North America, portfolio review

Market Overview

Once again Wall Street has confounded the bears, and returns have exceeded the expectations of even the most optimistic commentators. Economic growth has remained robust whilst headline inflation has declined to 1.6%. 30 year Government Bond yields have fallen to around 5%, and this has permitted price earnings ratios to continue expanding. The large blue chip growth stocks have benefited most from these forces. The largest 30 stocks in the S&P 500 index have produced over 70% of the overall gain in the index in 1998, and have accounted for a similar percentage of the underlying growth in earnings per share. This has reinforced the "Darwinistic" nature of the market – the survival of the fittest.



Christopher Galleymore

"Once again Wall Street has confounded the bears."

Investment Activity

The portfolio has continued to focus on areas with visible earnings growth. Purchases have been concentrated on the same broad areas as last year: technology, financials and healthcare. Technology stocks added include **Microsoft, EMC Corp** the leader in data storage systems management and **Sterling Commerce** in electronic commerce. Telecommunications has benefited from the explosion of internet usage and purchases include **MCI Worldcom** the leader in data transmission for large corporations and **Tele-Communications Inc**, the largest US Cable TV company which is benefiting from the use of cable for internet access in the home, and is currently subject to a bid from AT&T.

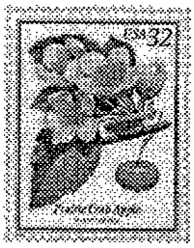
In financials, purchases have focused on the speciality areas which are experiencing above average growth and include the mortgage agency, **Freddie Mac**, which is gaining share in mortgage finance from the banks and savings and loans, and **Associates First Capital**, recently spun out from Ford Motor, which provides both consumer

US equity portfolio (£292m) by market capitalisation

	%
Over US$25bn	77
US$5-25bn	15
Under US$5bn	8
	100

£'000s	Largest equity investments by value		% of North American portfolio
12,261	General Electric Co	*electrical equipment*	3.58
11,033	Home Depot	*building supplies retailer*	3.22
9,233	McDonald's	*restaurants*	2.70
9,016	Pfizer	*pharmaceuticals*	2.63
8,902	Mobil	*oil refining and production*	2.60
8,336	Microsoft	*computer software*	2.44
8,204	Safeway	*food retailing*	2.40
8,200	Philip Morris	*tobacco and food manufacturer*	2.40
7,978	MCI Worldcom	*telecom and internet services*	2.33
7,746	Freddie Mac	*mortgage lending*	2.26
7,683	Procter & Gamble	*household products*	2.25
7,273	Emerson Electric	*electrical and electronics manufacturer*	2.13

£'000s	Largest equity investments by value		% of North American portfolio
7,248	Coca Cola	*soft drinks*	2.12
7,201	Wells Fargo	*banking*	2.10
7,080	Associates First Capital	*finance and leasing services*	2.07
6,779	Warner Lambert	*pharmaceuticals*	1.98
6,765	TCI Pacific Communications (convertible)	*cable TV systems*	1.98
6,317	Cisco Systems	*data networking products*	1.85
6,203	Gannett	*newspapers*	1.81
6,176	Texas Instruments	*semiconductors*	1.80
6,158	Becton Dickinson	*medical supplies and devices*	1.80
6,073	Household International	*consumer financial services*	1.77
6,049	Johnson & Johnson	*healthcare supplies*	1.77
5,807	American Int. Group	*insurance and financial services*	1.70

and business finance, and **American International Group** which is a global leader in providing life insurance and retirement savings products. In healthcare we added **Becton Dickinson**, the hospital supplies manufacturer where new management has revitalized growth.

Disposals focused on areas where profit margins are vulnerable to the weakness in pricing power of industrial goods. Examples include **Morton International**, the speciality chemicals company and **IMC Global**, the fertilizer manufacturer. Any signs of earnings shortfall have led to marked share price weakness and in Witan's case to the sales of shares in **Computer Associates** in computer software, **Nabisco** in foods and **Green Tree Financial** in speciality finance. The portfolio remains overweight in the core areas of healthcare, consumer staples and technology and underweight in industrial cyclicals.

A purchase of US Index linked government bonds was made in the second quarter in the belief that the real rate of return of 3.8% available on this stock represented an attractive investment opportunity both in absolute terms and certainly relative to similar stocks in the UK.

Prospects

The pressure on corporate profit margins has increased over the past year, but probably reached a peak in the September quarter of 1998 when the impact of the strike at General Motors, heavy loan loss provisions on emerging market debt at the banks and falling oil and commodity prices all coincided. In the absence of these pressures, profits growth should return to the 5 to 10% range this year, a respectable level in an era of low inflation but still well below the 15% pa growth experienced between 1992 and 1997. In this environment, continuing support from falling inflation and bond yields will be essential to fuel any further rise in valuations, and the growth stocks are likely to remain at the centre of market leadership. The continuing high level of stock repurchases will provide support for the market, as will inflows into mutual funds which have proved to be surprisingly resilient in the face of market volatility last autumn.

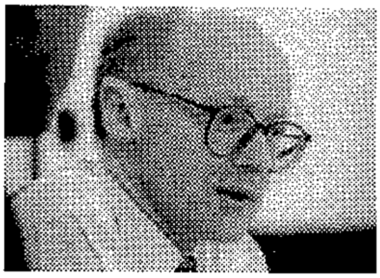
£'000s	Largest equity investments by value		% of North American portfolio
5,762	Lucent Technologies	*telecommunication equipment*	1.68
5,319	Merck	*pharmaceuticals*	1.55
5,289	Family Dollar Stores	*retailing*	1.55
5,173	Gillette	*consumer products*	1.51
5,092	Royal Bank of Canada	*banking*	1.49
4,815	FPL Group	*electric utility*	1.41
4,788	Cardinal Health	*wholesale drug distribution*	1.40
4,784	Du Pont	*chemicals and life sciences*	1.40
4,181	Schlumberger	*oil services*	1.22
4,141	Texaco	*oil refining and production*	1.21
4,118	Service Corp	*funeral and cemetery related services*	1.20
3,975	Bankamerica	*banking*	1.16

£'000s	Largest equity investments by value		% of North American portfolio
3,617	Conoco	*natural gas, oil exploration and production*	1.06
3,592	Molex	*electrical connectors*	1.05
3,576	EMC Corp	*computer storage devices*	1.05
3,530	Boeing	*aircraft manufacturer*	1.03
3,516	Sterling Commerce	*electronic commerce services*	1.03
3,448	First Data	*information processing*	1.01
3,208	Quintiles Transnational	*outsourcing for drugs*	0.94
3,050	Whitman	*soft drinks bottling/distributor*	0.89
2,855	Monsanto	*life sciences*	0.83
2,404	Fort James	*paper and tissue products*	0.70
273,954			80.06

Continental Europe, portfolio review

Market Overview

Not for the first time the past year has seen Continental Europe follow the pattern established by the North American market with a strong start, a mid-year correction and then a powerful recovery. However there was wide divergence in performance from different countries, with the local European stock exchanges producing a range of returns with a difference of over 120% between the best and the worst. Top of the pile was Finland which rose 92%, powered by the attractions of its largest company, Nokia, as it reaped the benefit of the burgeoning mobile telephone market. Belgium rose 52% as a high proportion of its larger companies were bid for. Southern Europe also produced very high gains with Italy (+81%) and Spain (+37%) featuring – these markets have had more to gain from adopting euro interest rates. The large markets were more muted with France up 27% and Germany a modest 13%. The most disappointing area was Scandinavia with Sweden up only 9% and an awful performance from Norway, which fell 29% as many of its quoted companies are influenced by oil and other commodity prices which weakened throughout the year.



Stephen Peak

"European stock exchanges produced very wide ranges of returns."

John Botham

Investment Activity

As with other leading markets, the strongest share price performance was achieved by an even narrower range of sectors and individual companies. The most notable example of this trend can be seen in the telecommunications sector where the increasing data traffic and corporate activity resulted in excellent returns from the likes of **TeleDanmark, Deutsche Telekom** and **Mannesmann**.

Any stock which was more industrially biased or not of large capitalisation did badly in comparison. As a result, investment flows tended to focus on larger companies. Examples of new positions include the French utility based concerns, **Vivendi** and **Suez Lyonnaise**, the Swiss Pharmaceutical, **Novartis** and the recently formed **DaimlerChrysler**, which itself is evidence of a changed strategic stance from European corporations. We

£'000s	Equity investments by value		% of Continental Europe portfolio
10,552	TeleDanmark (Denmark)	*telecommunications*	5.12
8,711	Telecom Italia (Italy)	*telecommunications*	4.23
8,581	Vivendi (France)	*utility/telecommunications*	4.17
8,423	Argentaria (Spain)	*banking*	4.09
8,276	Mannesmann (Germany)	*telecommunications and engineering*	4.02
7,910	Deutsche Telekom (Germany)	*telecommunications*	3.84
7,563	Novartis (Switzerland)	*pharmaceuticals*	3.67
6,907	AXA-UAP (France)	*insurance*	3.35
6,894	Benckiser (Netherlands)	*household products*	3.35
6,813	Richemont (Switzerland)	*tobacco and luxury goods*	3.31
6,790	Suez Lyonnaise (France)	*utility*	3.30

£'000s	Equity investments by value		% of Continental Europe portfolio
6,768	Bure Investment (Sweden)	*holding company*	3.29
6,699	Total (France)	*energy*	3.25
6,053	Philips Electronics (Netherlands)	*electronics*	2.94
5,936	DaimlerChrysler (Germany)	*car manufacturer*	2.88
5,714	Unicredito Italiano (Italy)	*banking*	2.77
5,529	Global TeleSystems (Belgium)	*telecommunications*	2.68
5,033	Hoechst (Germany)	*chemicals and pharmaceuticals*	2.44
5,000	Banca Populare Di Brescia (Italy)	*banking*	2.43
4,945	Bayer Hypo-Und Vereinsbank (Germany)	*banking*	2.40

Continental Europe portfolio (£208m) by country

	1998 %	1997 %
France	22	14
Germany	19	9
Switzerland	13	5
Italy	11	12
Spain	8	5
Netherlands	8	18
Sweden	6	12
Denmark	5	–
Norway	3	5
Belgium	3	6
Austria	2	11
Finland	–	3
	100	100

also reduced the industrial holdings via disposing of positions in **Union Minière** and **SKF**.

Perhaps the largest stock specific shock during the year came from **Alcatel**, the French telecommunications company. It warned in September of a slowdown in orders from major customers and the share price of the company fell 40% in a day, though it has now recovered somewhat. We continue to hold the stock as we feel the market is now over discounting the slowdown in profit growth.

We have not entirely forsaken the value end of the market. Our most significant foray was into **Richemont**, a Swiss company encompassing the tobacco business of Rothmans and the luxury goods activities of Vendome. We have also acquired a position in **Petroleum Geo-Services**, a Norwegian oil services company whose share price does not reflect its longer term prospects.

Prospects

The advent of the euro has been well anticipated and the conduct of monetary policy will be monitored closely as the European Central Bank establishes its credibility. We believe that the process of economic and political integration in Europe, of which the euro is but one part, will continue and will ultimately prove successful in bringing more economic growth to the region. The by-product of a single currency and one market is greater transparency of pricing and more competition. This, we feel, is good for European equities.

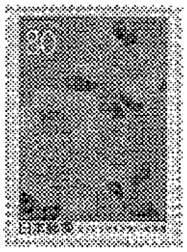
It is clear now that 1999 will see slower economic growth than was anticipated six months ago. The growth in company profits will, of course, be slower than was anticipated during the summer – we estimate around 6% growth in 1999 as opposed to the 15% we foresaw six months ago. On the face of it, all this is negative for European equities. However, the flipside is continued low (and if anything, still lower) interest rates which increase the value of future profit streams, justifying current equity valuations.

Whilst we expect upside in European markets for the current year to be in the 5-10% range, we feel the medium term structural case for European markets to be compelling. Corporate activity is likely to continue at its historically high levels as companies seek leading market positions in the euro-zone. Management is focusing increasingly in rationalising their businesses and improving capital efficiency. Finally, the European population is becoming increasingly aware of the importance of saving via equities as a means of providing for the future.

£'000s	Equity investments by value		% of Continental Europe portfolio
4,853	Ass Gen De France (France)	*insurance*	2.36
4,803	Nestlé (Switzerland)	*food manufacturer*	2.33
4,253	Alcatel (France)	*electronics*	2.06
4,144	Endesa (Spain)	*electric utility*	2.01
4,136	Centros Comerciales Continente (Spain)	*food retailing*	2.01
4,077	Schering (Germany)	*pharmaceuticals*	1.98
3,950	ENI (Italy)	*energy*	1.92
3,711	Rhône Poulenc (France)	*chemicals/pharmaceuticals*	1.80
3,650	UBS (Switzerland)	*banking*	1.77
3,491	Siemens (Germany)	*electrical/electronics*	1.69
3,306	Helvetia Patria (Switzerland)	*insurance*	1.60
3,298	Scania (Sweden)	*truck manufacturer*	1.60

£'000s	Equity investments by value		% of Continental Europe portfolio
3,151	Koninklijke Emb Ind Van Leer (Netherlands)	*packaging*	1.53
3,053	Petroleum Geo-Services (Norway)	*oil services*	1.48
3,014	Ericsson (Sweden)	*mobile telecommunications*	1.46
2,888	Etam Développement (France)	*clothing retailing*	1.40
2,815	NCL (Norway)	*cruise operator*	1.37
2,807	VA Stahl (Austria)	*steel*	1.36
1,532	Ecia (France)	*automotive parts*	0.74
206,029			100.00

Japan, portfolio review



Review

The year started well, with the equity market rising on the back of increased commitment by the government to kick start the economy and confront the problems of the banking sector. However, as the year progressed it became apparent that the packages put forward by the authorities failed to provide adequate stimulus to offset the deterioration within the economy. Conditions worsened and although interest rates were reduced further, equities slipped to new lows before recovering some ground towards the year end. The yen followed its weakening trend for much of the year but with a persistent trade surplus the currency rebounded sharply in the final quarter. Bond yields continued to fall, reflecting the deflationary environment.

Michael Wood-Martin

"Government attempts to kick start the economy fail to provide adequate stimulus."

Activity

There were a number of changes made to the portfolio during the year. The exposure to the industrial area was cut back with positions in **Mitsubishi Materials** and **Mitsui OSK** being sold. The fund increased weightings in the consumer, export and service sectors where companies offer better growth prospects. Stocks purchased included **Kirin Brewery, Canon** and **NTT DoCoMo**.

Outlook

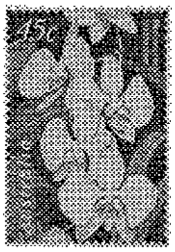
The outlook for Japan has been clouded further by the sharp rise in both bond yields and the currency in recent months. The economy is in no shape to cope with higher interest rates with domestic demand in such a depressed state. For the stockmarket the rise in the yen can only serve to erode further the already meagre levels of profits which companies are reporting. It is therefore difficult to envisage a sustainable rise in either the economy or the overall level of the stockmarket under current conditions. However, were the authorities to become more proactive and corporate Japan more adoptive of genuine restructuring measures, then the environment for equities would improve greatly. It is a process which Japan must eventually go through and it is in anticipation of it that we have recently increased Witan's Japanese exposure to a neutral, from previously underweight, position.

Japan portfolio (£67m) by sector

	1998 %	1997 %
Services	26	22
Exporters	22	16
Consumer Staple	21	17
Financial	20	27
Industrial Cyclical	5	10
Other	6	8
	100	100

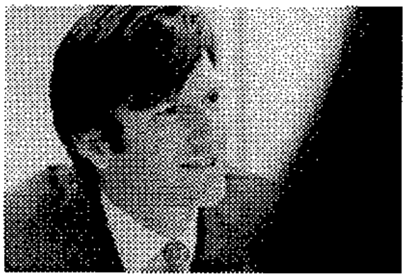
£'000s	Equity investments by value		% of Japan portfolio
7,201	Kao	*household and personal care*	10.80
6,599	Kirin Brewery	*brewer*	9.89
6,455	Toshiba	*electrical machinery*	9.68
5,495	Takefuji	*financial*	8.24
5,486	Secom	*security services*	8.23
4,309	CSK	*computer services*	6.46
4,118	Canon	*electrical machinery*	6.17
4,114	Daiwa Securities	*stockbroking*	6.17
4,088	NTT DoCoMo	*telecommunications*	6.13
3,931	Nippon Telegraph & Telephone	*telecommunications*	5.89
3,916	Hitachi	*electrical machinery*	5.87
3,725	Sanwa Intl. Finance (inc. convertible)	*finance*	5.59
3,282	Ishikawajima-Harima Heavy	*transportation equipment*	4.92
2,738	Sumitomo Realty & Development	*real estate*	4.11
1,236	Henderson Japanese Smaller Companies	*investment trust*	1.85
66,693			100.00

Far East, portfolio review



Market Overview

The 'Asian Crisis' gathered pace into 1998 with the contagion spreading throughout Asia and beyond. As conditions worsened, stockmarket falls across the Far East became precipitous and at the worst point the FT Pacific ex Japan index had declined over 60% in sterling terms from its 1993 high. In the latter part of the year conditions improved due to a combination of concerted efforts to ease global liquidity and also from belated efforts within Asia to address underlying structural issues. Consequently regional stockmarkets rallied strongly off their lows.



William Pitman

"Outlook mixed, but long term prospects positive."

Portfolio Activity

As the year progressed and the crisis deepened, the overall weighting to Far East stockmarkets was reduced further. The remaining exposure became increasingly defensive, both in terms of asset allocation and stock selection, and as such focused primarily on the relative safe havens of Australia, Hong Kong and Singapore. Latterly the fund moved to neutralise its defensive positions and through increasing the cyclicality and extent of its exposure was able to capitalise on the recent recovery in stock prices.

Prospects

The aggressive easing of monetary conditions led by the US Federal Reserve has facilitated sharp falls in regional interest rates. In addition, the simultaneous weakening of the US dollar, in which much of the region's debt is denominated, has also alleviated indebtedness. This improvement in liquidity conditions within the region as well as externally may push stockmarkets higher in the near term, although substantial risks remain in the medium term. While there is a risk of an exogenous shock, within the region there is also scope for disappointment. With levels of debt remaining considerable, any delay or dilution of the necessary restructuring will act to undermine recovery. There also remain concerns over the outlook for the Chinese economy, with any significant slowdown having substantial repercussions. While the outlook is clearly mixed, the intrinsic strengths of the region are intact and providing adjustments are made, the long term prospects for the region are positive.

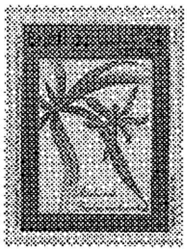
Far East portfolio (£38m) by country

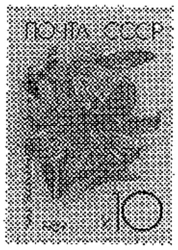
	1998	1997
	%	%
Hong Kong	**38**	33
Australia	**28**	41
Singapore	**16**	8
South Korea	**7**	–
Thailand	**5**	3
Taiwan	**4**	9
New Zealand	**1**	3
Malaysia	**1**	3
	100	100

£'000s	Largest equity investments by value		% of Far East portfolio
1,436	Taiwan Opportunities Fund (Taiwan)	*investment company*	3.78
1,265	Telstra (Australia)	*telecommunications*	3.33
1,229	Hutchison Whampoa (Hong Kong)	*conglomerate*	3.24
1,214	Lend Lease (Australia)	*financial services*	3.20
1,196	HSBC (Hong Kong)	*banking*	3.15
1,170	Cheung Kong (Hong Kong)	*property*	3.08
1,160	Daewoo Heavy (South Korea)	*industrial*	3.06
1,116	Dao Heng Bank (Hong Kong)	*banking*	2.94
1,100	Brambles (Australia)	*industrial*	2.90
1,093	Sun Hung Kai (Hong Kong)	*property*	2.88
1,080	Singapore Intl. Airlines (Singapore)	*transport*	2.85
1,045	City Developments (Singapore)	*property*	2.75

£'000s	Largest equity investments by value		% of Far East portfolio
1,031	Dev. Bank Singapore (Singapore)	*banking*	2.72
1,030	China Resources (Hong Kong)	*property*	2.71
1,030	Sembcorp (Singapore)	*conglomerate*	2.71
1,028	Hysan Development (Hong Kong)	*property*	2.71
1,027	AMP (Australia)	*insurance*	2.71
1,025	Australia & NZ Bank (Australia)	*banking*	2.70
1,020	CLP (Hong Kong)	*utility*	2.69
1,020	Overseas Chinese Banking (Singapore)	*banking*	2.69
22,315			58.80

Emerging Markets, portfolio review





Market Review

The past twelve months has been a period of great uncertainty for emerging markets. Russia's devaluation of the rouble confirmed the potential for currency contagion between Asia and the rest of the emerging world. Latin America suffered heavily from the effect of Asian contagion and from the general fall in commodity prices. Brazil was arguably hardest hit with concerns centring on the real, a currency whose peg to the US$ was abandoned in January 1999. The decline in the oil price also put pressure on certain emerging markets, most markedly Venezuela and Mexico, as well as on Russia. Towards the end of the year the Asian markets staged a strong recovery as recessionary conditions reduced import bills and allowed a sharp recovery in some of 1997's most battered currencies. Emerging European markets continued to benefit from their gradual political and economic convergence with the EU, most markedly in the case of Greece.

Monica Ball

"A period of great uncertainty."

Emerging Markets portfolio (£29m) by country

	1998 %	1997 %
Mexico	**26**	22
Greece	**21**	–
Hungary	**16**	7
Brazil	**13**	40
India	**11**	10
South Africa	**10**	6
Russia	**3**	15
	100	100

Portfolio Activity

1998 was a highly volatile year for emerging markets with Greece returning 75%. Conversely Brazil lost 44% and Russia fell some 83%. Expecting Greece to benefit from the attentions of mainstream European investors, the fund added **National Bank of Greece**. In Hungary we initiated holdings in the telecommunications sector through **Matav**. In the second and third quarters, we reduced our overall commitment to Brazil, raising weightings in Mexico correspondingly by the purchase of **Televisa** the leading broadcaster in the Spanish-speaking world. The South African position was increased in 1998, with a purchase of **Barlow** whilst Russia was reduced and is now represented only by two small holdings.

Prospects

After last year's turmoil, stockmarkets of emerging market economies are likely to remain nervous and very volatile, but overall valuation levels are now generally modest and it is likely that there will be many suitable investment opportunities during the coming year. The lowering of US interest rates is a positive influence on emerging markets, although economic uncertainties persist in many countries. In this cautious climate it is careful top down asset allocation that will be rewarded.

£'000s	Equity investments by value		% of Emerging Markets portfolio
6,296	National Bank of Greece (Greece)	*banking*	21.36
4,748	Matav (Hungary)	*telecommunications*	16.11
3,777	Telesp Participacoes (Brazil)	*telecommunications*	12.81
1,880	Desc (Mexico)	*industrial conglomerate*	6.38
1,683	Videsh Sanchar Nigam (India)	*telecommunications*	5.71
1,677	Fomento Economico (Mexico)	*beverage*	5.69
1,632	Grupo Televisa (Mexico)	*television*	5.54
1,579	Billiton (South Africa)	*mining*	5.36
1,282	Panamerican Beverages (Mexico)	*bottle manufacturer*	4.35

£'000s	Equity investments by value		% of Emerging Markets portfolio
1,213	Grupo Fin Banamex (Mexico)	*banking and financial*	4.12
929	Barlow (South Africa)	*mining*	3.15
873	Gujarat Ambuja Cements (India)	*cement*	2.96
768	Henderson Horizon (India)	*offshore fund*	2.61
558	Surgutneftegaz (Russia)	*oil exploration and production*	1.89
312	Lukoil (Russia)	*oil integrated*	1.06
243	Gencor (South Africa)	*mining*	0.82
25	Intl. UNP Holdings (Poland)	*conglomerate*	0.08
29,475			100.00

Classification of Investments

at 31 December 1998

		United Kingdom %	North America %	Continental Europe %	Japan %	Far East %	Emerging Markets %	Total 1998 %	Total 1997 %
Mineral Extraction	Extractive industries	0.5	–	–	–	0.1	0.1	**0.7**	1.4
	Oil, integrated	3.5	1.0	0.6	–	–	–	**5.1**	7.1
	Oil exploration & production	0.4	0.3	0.2	–	–	–	**0.9**	1.3
		4.4	1.3	0.8	–	0.1	0.1	**6.7**	9.8
General Manufacturers	Building & construction	0.3	–	–	–	–	0.1	**0.4**	0.2
	Building materials & merchants	1.0	–	–	–	–	0.1	**1.1**	1.4
	Chemicals	1.1	0.3	0.5	–	–	–	**1.9**	3.0
	Diversified industrials	–	–	–	0.2	0.3	0.3	**0.8**	1.5
	Electronic & electrical equipment	0.4	3.7	0.8	0.9	0.1	–	**5.9**	4.4
	Engineering	2.7	0.2	0.2	–	–	–	**3.1**	4.2
	Engineering, vehicles	0.2	–	0.6	–	–	–	**0.8**	–
	Paper, packaging & printing	0.3	0.1	0.2	–	–	–	**0.6**	1.0
		6.0	4.3	2.3	1.1	0.4	0.5	**14.6**	15.7
Consumer Goods	Breweries	2.0	0.6	–	0.4	0.1	0.3	**3.4**	2.0
	Spirits, wines & ciders	0.5	–	–	–	–	–	**0.5**	0.6
	Food producers	0.7	0.6	0.3	–	–	–	**1.6**	2.0
	Household goods	–	0.7	0.4	0.4	–	–	**1.5**	1.7
	Healthcare	0.4	1.1	–	–	–	–	**1.5**	0.7
	Pharmaceuticals	5.1	2.3	0.7	–	–	–	**8.1**	6.8
	Tobacco	1.1	0.5	–	–	–	–	**1.6**	2.6
		9.8	5.8	1.4	0.8	0.1	0.3	**18.2**	16.4
Services	Leisure & hotels	1.4	–	0.2	–	–	–	**1.6**	2.1
	Media	2.6	0.4	–	–	0.1	–	**3.1**	4.2
	Retailers, food	1.8	0.5	0.2	–	–	–	**2.5**	2.7
	Retailers, general	3.5	1.0	0.2	–	–	–	**4.7**	5.0
	Support services	2.2	0.5	0.4	0.6	–	–	**3.7**	3.7
	Transport	3.2	–	–	–	0.2	–	**3.4**	3.3
		14.7	2.4	1.0	0.6	0.3	–	**19.0**	21.0
Utilities	Electricity	1.4	0.3	0.2	–	0.1	–	**2.0**	2.7
	Gas distribution	1.2	–	–	–	0.1	–	**1.3**	1.3
	Telecommunications	4.1	0.4	2.6	0.5	0.3	0.4	**8.3**	3.5
	Water	1.8	–	0.5	–	–	–	**2.3**	2.0
		8.5	0.7	3.3	0.5	0.5	0.4	**13.9**	9.5
Financials	Banks	5.6	1.0	1.2	0.2	0.4	0.4	**8.8**	9.5
	Insurance	3.6	0.3	1.3	–	0.1	–	**5.3**	5.0
	Life assurance	1.2	–	–	–	–	–	**1.2**	1.6
	Other financial	1.0	1.3	0.9	0.6	0.1	–	**3.9**	3.7
	Property	0.3	–	–	0.2	0.3	–	**0.8**	1.0
		11.7	2.6	3.4	1.0	0.9	0.4	**20.0**	20.8
Investment Trusts		3.7	–	–	0.1	0.1	–	**3.9**	6.0
Fixed Interest	Government bonds	–	2.9	–	–	–	–	**2.9**	–
	Convertibles	0.2	0.4	–	–	–	–	**0.6**	0.6
	Preference	0.2	–	–	–	–	–	**0.2**	0.2
		0.4	3.3	–	–	–	–	**3.7**	0.8
Totals 1998		**59.2**	**20.4**	**12.2**	**4.1**	**2.4**	**1.7**	**100.0**	
Totals 1997		67.1	16.4	7.6	3.8	2.4	2.7		100.0

Directors' Report

Status

The Company is an investment company as defined in Section 266 of the Companies Act 1985 and operates as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988. Inland Revenue approval of the Company's status as an investment trust has been received in respect of the year ended 31 December 1997. The directors are of the opinion that the Company has subsequently conducted its affairs in a manner which will enable it to continue to gain such approval.

Activities and Business Review

A review of the business is given in the Chairman's Statement on pages 4 and 5 and in the portfolio reviews on pages 6 to 18. It is recommended that net revenue on ordinary activities after taxation be dealt with as follows:

Dividends	£'000
Preference	83
Interim ordinary (paid)	12,568
2nd interim ordinary (declared)	8,632
Final ordinary (proposed)	6,568
Transfer to revenue reserve	2,466
	30,317

Directors

The directors of the Company are shown on page 2. Mr McVeigh was appointed on 9 February 1998. All the other directors held office throughout the year under review. At the forthcoming Annual General Meeting, The Lord Inchyra and Mr H M Henderson will retire in accordance with the Company's Articles of Association, and offer themselves for re-election.

Mr Clarke is a director of Henderson Investors Limited. Mr Henderson is a partner of Cazenove & Co. the Company's broker and Mr McVeigh is a director of Salomon Smith Barney which are brokers through which the Company buys, sells, underwrites and lends investments. Witan, through its investment in Turnstile Investments Limited, participates in a subordinated loan made to Cazenove Finance BV, a company which is wholly owned by Cazenove & Co. (see note 11(iii) on page 35). Subject to these exceptions, no director was a party to, or had an interest in, any contract or arrangement with the Company at any time during the year or to the date of this report. No director has a service contract with the Company.

Interests of Directors

The interests of directors in the share capital of the Company are as follows:

	31 December 1998	
Ordinary shares	Beneficial	Non-Beneficial
Lord Faringdon	989,177	2,109,567
C G Clarke	155,000	–
Lord Inchyra	5,080	6,000
H M Henderson	592,922	235,070
R W C Colvill	2,958†	–
A W Jones	1,644	–
R H McGrath	7,500	–
C S McVeigh III	–†	–
	1,754,281	2,350,637

	1 January 1998	
Ordinary shares	Beneficial	Non-Beneficial
Lord Faringdon	950,493	2,136,367
C G Clarke	95,000	–
Lord Inchyra	5,080	–
H M Henderson	592,922	233,070
R W C Colvill	2,898	–
A W Jones	1,644	–
R H McGrath	7,500	–
C S McVeigh III*	–	–
	1,655,537	2,369,437

†Since the year end Mr Colvill's interest increased by 6 shares on 5 January 1999 through re-investment of income in a PEP scheme. Mr McVeigh purchased 3,000 shares on 3 February 1999. No other changes in the interests of directors have been notified. No director had an interest in the debenture stock of the Company.

*Date of appointment 9 February 1998.

At 31 December 1998, Lord Faringdon had a non-beneficial interest in 8,775 3.4% preference shares (1 January 1998: 8,775).

Substantial Shareholdings

As at 9 February 1999, the following shareholders had notified the Company of interests in the Company's ordinary share capital.

	Number of ordinary shares	%
AXA Sun Life Investment Management Limited	38,044,945	10.14
Henderson Investors Limited		
discretionary managed clients	20,587,575	5.49
Prudential Corporation plc	15,184,468	4.04

Manager and Company Secretary

Investment management, accounting, secretarial, administrative and UK custody services are provided to the Company by subsidiary companies of Henderson plc ("Henderson"). The composite fee for 1998 remained at a maximum of 0.30% per annum, and was calculated on the average net chargeable assets for the relevant quarter and the corresponding quarters in the previous two years but the fee cap of £3.7 million came into effect. Investments in other funds managed by Henderson are wholly excluded from this charge.

With effect from 1 January 1999 the management fee basis will be fixed at £3.5 million which is reviewable annually. In addition, a performance fee will be paid at the rate of £100,000 for each 0.1% by which the Company's net asset value per share outperforms the capital value of the Company's benchmark over the year. The performance fee will be capped at £0.5 million.

The notice period for termination of the contract with the investment manager is one year.

The manager uses certain services which are paid for, or provided, by various brokers. In return it places business, which may include transactions relating to the Company, with these brokers.

Corporate Governance
A corporate governance statement is given on pages 24 to 26.

Authority to make Market Purchases of the Company's own Shares
At an Extraordinary General Meeting held on 7 April 1998, a special resolution was proposed and passed, giving the directors authority, until the conclusion of the 1999 Annual General Meeting, to make market purchases of the Company's own issued ordinary shares up to a maximum of 3% (11,259,092 shares) for cancellation. This authority has not been exercised.

As referred to in the Chairman's statement, your Board is proposing that the Company should be given increased authority to purchase ordinary shares in the market for cancellation. Your Board believes that to make such purchases in the market at appropriate times and prices is a suitable method of enhancing shareholder value. The Company would, within guidelines set from time to time by the Board, make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders.

Where purchases are made at prices below the prevailing net asset value per share, this will enhance the net asset value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below net asset value, with the purchases to be funded from the realised capital profits of the Company which, at the balance sheet date, were £856 million. The rules of the London Stock Exchange limit the price which may be paid by the Company to 105% of the average middle-market quotation for an ordinary share on the 5 business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per ordinary share (being the nominal value). Additionally, your Board believes that the Company's ability to purchase its own shares should create additional demand in the market and that this increase in liquidity should assist shareholders wishing to sell their ordinary shares. Overall, this share buy-back proposal should help to reduce the discount to net asset value at which the Company's shares currently trade.

Your Board considers that it will be most advantageous to shareholders for the Company to be able to make such purchases as and when it considers the timing to be favourable and therefore does not propose to set a timetable for making any such purchases. It is not, however, expected that any purchases will be made prior to 6 April 1999, as the Company might then incur irrecoverable advance corporation tax.

Under the rules of the London Stock Exchange, the maximum number of shares which a listed company may purchase through the market pursuant to a general authority such as this is equivalent to 14.99% of its issued share capital. For this reason, the Company is limiting its authority to make such purchases to 56,257,933 ordinary shares, representing approximately 14.99% of the issued share capital at the date of this document. The authority will last until the Annual General Meeting of the Company to be held in 2000 or the expiry of 18 months from the date of the passing of this resolution, whichever is the earlier. The authority will be subject to renewal by shareholders at subsequent annual general meetings.

As the Company is currently an investment company within the meaning of the Companies Act 1985, its Articles of Association contain a prohibition on making any form of distribution of its capital profits. A purchase of its own shares by the Company as described above would

Directors' Report
continued

involve a distribution of such profits (although not by way of dividend). Your Board has therefore decided to recommend that the Company be permitted to disapply this restriction so as to enable purchases of its own shares to be made in the manner described. Accordingly, Resolution 7 to be proposed at the Annual General Meeting provides for the adoption of a new set of Articles of Association of the Company containing a new article which operates to suspend this restriction on distribution of capital profits for so long as your Board may decide to revoke the Company's investment company status or, as a result of any change in the law, where the prohibition on distributing capital profits is no longer required in order to obtain investment company status. Any such suspension will not, however, prevent the Company from re-adopting investment company status in the future.

The consequence of the Company not having investment company status at any relevant time is that it would have to take into account any realised capital losses in determining whether it could pay dividends out of its revenue profits. Given the size of the Company's existing capital and revenue reserves, however, your Board does not anticipate that there will be any adverse effect on the Company's ability to pay dividends in future.

Your Board is of the opinion that any loss of investment company status will have no material adverse consequences for shareholders. In particular, it should be appreciated that the Company's eligibility for approval as an investment trust for taxation purposes would not be affected in any way by the loss of investment company status and, accordingly, any capital gains made by the Company will continue to be exempt from taxation in respect of all periods for which such approval is granted.

Amendments to the Articles of Association
In addition to the proposed change to the Articles of Association regarding the disapplication of the restriction on distribution of capital profits, a number of other changes are also proposed and Resolution 7 to adopt new Articles of Association will be proposed at the Annual General Meeting. A summary of the principal changes to the Articles of Association is set out on page 44 of this report.

Payment of Suppliers
It is the Company's payment policy for the financial year to 31 December 1999 to obtain the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. At 31 December 1998, the Company had no trade creditors.

Donations
During the financial year no donations were made to political parties. The Company was authorised on 18 March 1997 to make political donations of up to £30,000 in aggregate until 31 December 1999.

Your directors make modest donations each year to a carefully selected list of national charities. Charitable donations, which are usually for £1,000 in value, totalled £28,250 to the following charities:

Youth
Barnardos
National Playing Fields Association
NABC – Clubs for Young People
Scout Association
Guide Association
Y.M.C.A. and Y.W.C.A.

Conservation
The National Trust
World Wide Fund for Nature
The Countryside Foundation for Education (special donation)

Aged
Friends of the Elderly
DGAA Home Life

General
Home Farm Trust
Royal National Lifeboat Institution
Samaritans
Sue Ryder Foundation (special donation)

Art and education
Ditchley Foundation
International Students Trust
National Art Collections Fund
Philharmonia Orchestra

Health and care
Alzheimer's Disease Society
British Red Cross Society
Cancer Relief MacMillan Fund
Liverpool School of Tropical Medicine
Royal Marsden Hospital Cancer Fund
Royal National Institute for the Blind
Royal National Institute for the Deaf
SCOPE
The Mental Health Foundation

Year 2000 Compliance
Henderson plc and its subsidiaries ("Henderson"), which provide investment management, UK custodial, accounting, company secretarial and administrative services to Witan Investment Company plc has instigated

a corporate action programme, under Henderson board supervision, to establish the precise scope of the risks posed to Witan Investment Company plc by the consequences of the Year 2000 date change and to address those risks. Henderson's strategy is to validate that its computer systems achieve Year 2000 conformity (as defined by the British Standards Institute in its paper DISC PD2000-1), and to require both its suppliers and the suppliers to Witan Investment Company plc to ensure that their computer systems achieve the same or an equivalent standard. Costs relating to the Year 2000 project are to be borne by Henderson.

Going Concern
The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts, as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the forseeable future.

Auditors
The registered auditors, Deloitte & Touche, have indicated their willingness to continue in office. A resolution re-appointing them and authorising the directors to determine their remuneration will be submitted at the Annual General Meeting.

Post Balance Sheet Event – early redemption of 6¾% Exchangeable bonds due 2008 ("the bonds")
On 12 January 1999 the Company gave notification of its intention to exercise its powers, under condition 7(b) of the bonds, to redeem, on 28 February 1999, all of the outstanding bonds at their principal amount together with accrued interest to the redemption date.

By order of the Board

R E Fieldwick ACIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
9 February 1999

Corporate Governance

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is appropriate for an investment trust company and which enables the Company to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code") prepared by the Committee on Corporate Governance, published in June 1998.

The Board considers that the Company has complied with the provisions contained within Section 1 of the Combined Code throughout the accounting period to 31 December 1998 except where disclosed below and this statement describes how the relevant principles of governance are applied to the Company.

The Board

The Board currently consists of eight non-executive directors, the majority of whom are independent of the Company's investment manager. Their biographies, on page 2, demonstrate a breadth of investment, industrial, commercial and professional experience, with an international perspective.

The Board meets eleven times a year and between these meetings there is regular contact with the investment manager. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The directors have access to the advice and services of the Corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

When a director is appointed he receives an induction seminar which is held by the investment manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal financial controls. Changes affecting directors' responsibilities are advised to the Board as they arise.

The Chairman of the Company is a non-executive director. A senior non-executive director has not been identified as the Board considers that all the directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

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 the assets), the registration services and the day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers reports regularly from the investment manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman attends a biannual meeting of all the Chairmen of the investment trusts managed by the investment manager, which is a forum to discuss industry matters, and he reports back to the Board.

The Board has not established a nominations committee to make recommendations on the appointment of new directors. The Board as a whole considers nominations made in accordance with an agreed procedure. In accordance with the AITC recommendation, a management engagement committee with defined terms of reference and duties has been established, which consists of all the independent non-executive directors, to review and discuss the terms of the management contract with the investment manager. An annual review of the management contract is carried out. There is also an audit committee consisting of all the independent non-executive directors with defined terms of reference and duties. This committee is responsible for review of the annual accounts and interim report, terms of appointment of the auditors together with their remuneration as well as the non-audit services provided by the auditors. It also meets with representatives of the investment manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

All non-executive directors are appointed for an initial term of three years, subject to re-election and Companies Act provisions and, in accordance with the existing Articles of Association, stand for election at the first Annual General Meeting following their appointment.

In the recent past the composition of the Board has, under the provisions of the Company's Articles relating to retirement by rotation, meant that directors have retired by rotation every three years. Whilst clarification is sought as to whether the reference in the Code to re-election at intervals of no more than three years, is to three calendar years or three Annual General Meetings, it has been decided that at this year's Annual General Meeting a change will be proposed to the Articles of Association relating to the retirement by rotation provisions which, if approved, will require at least one third of directors to retire every year. Given the size of the Board, this will have the effect of ensuring compliance with Code Provision A.6.2. This new article will be reviewed when best practice is established. The names of the directors retiring by rotation at this year's Annual General Meeting are given on page 20.

Directors' Remuneration

Under the London Stock Exchange's Listing Rule 21.20(i), where an investment trust company has no executive directors the Code principles relating to directors' remuneration do not apply.

Relations with Shareholders

The investment manager has an annual programme of meetings with institutional shareholders and reports back to the Board on these meetings.

The Board is very conscious that the Annual General Meeting is an event which private shareholders are encouraged to attend and participate in. The Annual General Meeting is attended by the Chairman of the Board and the Chairman of the Audit and Management Engagement committees. The investment manager makes a presentation to the meeting and proxy votes are relayed. The Company has adopted a nominee share code which is set out on page 42.

The Board believes that the Company's policy of reporting to shareholders as soon as possible after the Company's year end and holding the earliest possible Annual General Meeting is valuable. This feature has often been a source of congratulations from shareholders. Our rapid reporting prevents us from giving twenty working days' notice of the Annual General Meeting to shareholders as required under Code Provision C.2.4.

The Notice of Meeting sets out the business of the meeting and the special resolutions are explained more fully in the Directors' Report on pages 21 and 22. Separate resolutions are proposed for each substantive issue.

Accountability and Audit

The directors' statement of responsibilities in respect of the accounts is on page 26 and a statement of going concern is on page 23.

The report of the auditors can be found on page 27.

As permitted by the London Stock Exchange, and until guidance for directors has been published on the scope, extent, nature and review of internal controls to which Code Principle D.2 and Provision D.2.1 relate, the Company has complied with Code Provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These 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. The financial controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and

Corporate Governance
continued

investment performance. As stated above, the Board has contractually delegated to external agencies the services the Company requires. The investment manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal financial controls operated on behalf of its clients. The effectiveness of the internal financial controls is assessed by the investment manager's compliance and internal audit departments on an ongoing basis.

These systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. By the procedures set out above the directors have kept under review the effectiveness of the internal financial controls throughout the year.

Exercise of Voting Powers

The Company has approved a corporate governance voting policy which, in summary, is based on the governance recommendations of the Codes of Best Practices from Cadbury and Greenbury with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns.

Statement of Directors' Responsibilities
in respect of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the net revenue of the Company for that period. In preparing those accounts, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts on the going concern basis, unless it is inappropriate to presume 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 accounts 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 Auditors

To the members of Witan Investment Company plc

We have audited the financial statements on pages 28 to 39 which have been prepared under the accounting policies set out on page 31.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 26 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 24 to 26 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the Company's internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1998 and of its net revenue, total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE Deloitte & Touche

Chartered Accountants and
Registered Auditors
London

9 February 1999

Statement of Total Return (incorporating the revenue account)

for the year ended 31 December 1998

Notes		Year ended 31 December 1998 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 1997 Revenue £'000	Capital £'000	Total £'000
2	Total capital gains from investments	**–**	**184,782**	**184,782**	–	219,561	219,561
3	Income from fixed asset investments	**43,265**	**–**	**43,265**	44,078	–	44,078
4	Other interest receivable and similar income	**4,713**	**–**	**4,713**	5,519	–	5,519
	Gross revenue and capital gains	**47,978**	**184,782**	**232,760**	49,597	219,561	269,158
5	Management fee	**(4,044)**	**–**	**(4,044)**	(3,840)	–	(3,840)
6 & 7	Other administrative expenses	**(1,078)**	**–**	**(1,078)**	(1,159)	–	(1,159)
	Net return on ordinary activities before interest payable and taxation	**42,856**	**184,782**	**227,638**	44,598	219,561	264,159
8	Interest payable	**(6,205)**	**–**	**(6,205)**	(6,735)	–	(6,735)
	Net return on ordinary activities before taxation	**36,651**	**184,782**	**221,433**	37,863	219,561	257,424
9	Taxation on net return on ordinary activities	**(6,334)**	**–**	**(6,334)**	(7,405)	–	(7,405)
	Net return on ordinary activities after taxation	**30,317**	**184,782**	**215,099**	30,458	219,561	250,019
	Dividends – preference shares	**(83)**	**–**	**(83)**	(83)	–	(83)
	Available for ordinary shareholders	**30,234**	**184,782**	**215,016**	30,375	219,561	249,936
	Dividends – ordinary shares						
	Interim payment of 3.35p (1997: 3.05p)	**(12,568)**	**–**	**(12,568)**	(11,447)	–	(11,447)
	Second interim declared of 2.30p (1997: nil)	**(8,632)**	**–**	**(8,632)**	–	–	–
	Final proposed of 1.75p (1997: 3.95p)	**(6,568)**	**–**	**(6,568)**	(14,824)	–	(14,824)
		(27,768)	**–**	**(27,768)**	(26,271)	–	(26,271)
	Transfer to reserves	**2,466**	**184,782**	**187,248**	4,104	219,561	223,665
10	**Return per ordinary share**	**8.06p**	**49.23p**	**57.29p**	8.09p	58.51p	66.60p

The revenue columns of this statement represent the revenue accounts of the Company.

 The notes on pages 31 to 39 form part of these accounts

Balance Sheet

at 31 December 1998

Notes		1998 £'000	1997 £'000
11	**Fixed asset investments**		
	Listed in United Kingdom	**972,199**	911,109
	Listed abroad	**682,324**	453,899
	Unquoted at directors' valuation	**16,533**	14,927
		1,671,056	1,379,935
	Current assets		
12	Debtors	**5,710**	4,958
	Cash at bank and short term deposits	**48,832**	146,393
		54,542	151,351
13	**Creditors:** amounts falling due within one year	**(85,857)**	(78,870)
	Net current (liabilities)/assets	**(31,315)**	72,481
	Total assets less current liabilities	**1,639,741**	1,452,416
14	**Creditors:** amounts falling due after more than one year	**(46,000)**	(46,000)
15	Provisions for liabilities and charges	**(123)**	(46)
	Total net assets	**1,593,618**	1,406,370
	Capital and reserves		
16	Called-up share capital	**96,381**	96,381
17	Reserves – non-distributable		
	Share premium	**16,237**	16,237
	Realised reserves	**855,725**	768,088
	Unrealised reserves	**600,771**	503,626
17	Revenue reserve – distributable	**24,504**	22,038
18&19	**Shareholders' funds** (including non-equity interests of £2,555,000)	**1,593,618**	1,406,370
20	**Net asset value per ordinary share**	**423.9p**	374.0p

The accounts were approved by the directors on 9 February 1999 and were signed on their behalf by

Lord Inchyra

C G Clarke

Cash Flow Statement

for the year ended 31 December 1998

Notes		1998 £'000	1998 £'000	1997 £'000	1997 £'000
21	**Net cash inflow from operating activities**		**33,223**		35,206
	Servicing of finance				
	Debenture and exchangeable bond interest paid	**(6,275)**		(6,776)	
	Bank interest paid	**(275)**		(103)	
	Dividends paid on preference shares	**(83)**		(83)	
	Net cash outflow from servicing of finance		**(6,633)**		(6,962)
	Taxation				
	UK tax recovered	**840**		1,875	
	Overseas tax recovered	**528**		552	
	Net tax recovered		**1,368**		2,427
	Financial investment				
	Purchase of investments	**(537,220)**		(378,947)	
	Sale of investments	**438,741**		467,090	
	Cash outflow from forward exchange contracts	**(99)**		–	
	Net cash (outflow)/inflow from financial investment		**(98,578)**		88,143
	Equity dividends paid		**(27,393)**		(24,958)
	Management of liquid resources				
	Cash recalled from/(placed on) short term deposits		**88,433**		(92,059)
	Net cash (outflow)/inflow before financing		**(9,580)**		1,797
	Financing				
	Drawdown of currency loan facility	**16,390**		23,185	
	Redemptions of 6¼% exchangeable bond 2008	**(14,954)**		(9,223)	
	Net cash inflow from financing		**1,436**		13,962
22	**(Decrease)/increase in cash**		**(8,144)**		15,759

Reconciliation of net cash flow to movement in net (debt)/funds

Notes		1998 £'000	1997 £'000
	(Decrease)/increase in cash as above	**(8,144)**	15,759
	Cash (inflow)/outflow from liquid resources	**(88,433)**	92,059
	Cash inflow from debt financing	**(1,436)**	(13,962)
	Change in net (debt)/liquid funds resulting from cash flows	**(98,013)**	93,856
	Exchange movements	**(6,921)**	763
		(104,934)	94,619
	Net funds/(debt) at 1 January	**40,351**	(54,268)
22	**Net (debt)/funds at 31 December**	**(64,583)**	40,351

The notes on pages 31 to 39 form part of these accounts

Notes to the Accounts

1 **Accounting policies**

(i) Basis of accounting

The accounts are prepared on the historical cost basis of accounting, modified to include the revaluation of fixed asset investments and in accordance with applicable accounting standards and with the Statement of Recommended Practice – Financial Statements of Investment Trust Companies (the "SORP"). All of the Company's operations are of a continuing nature.

(ii) Valuation of fixed asset investments

UK listed investments are valued according to the prices issued by the London Stock Exchange, being the closing mid-market prices for all investments other than FTSE 100 constituents and FTSE 100 reserve list constituents for which the last trade prices are used. Overseas listed investments and investments which are quoted but are unlisted are valued at their closing or middle market prices as issued by various sources. Exchangeable property, as explained in note 13, is valued at the lower of the exchange value and market value. Unquoted investments are valued by the directors based on a combination of factors relating to the investee companies, such as the cost of the investment, earnings multiples and net assets, less suitable discounts to provide for any lack of saleability.

(iii) Associated undertakings

Where the Company holds investments representing more than 20% of a class of equity share capital, they are not accounted for as associated undertakings if, in the opinion of the directors, the Company does not exercise significant influence over the financial or operating policies of the investee companies.

(iv) Capital gains and losses

Realised and unrealised capital gains and losses on investments, together with exchange differences arising on the translation of foreign currency assets and liabilities, are dealt with in non-distributable reserves.

(v) Income

Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis. Income from fixed interest debt securities is recognised on a time apportionment basis and, if material, so as to reflect the effective yield on these securities. Bank deposit interest is accounted for on an accruals basis.

(vi) Expenses and interest payable

All administrative expenses, including the management fee and interest payable, are accounted for on an accruals basis and charged wholly to the revenue account. Expenses which are incidental to the purchase or sale of a fixed asset investment are included within the cost or deducted from the proceeds of the sale of the investment.

(vii) Taxation

Advance corporation tax (ACT) payable on dividends paid or provided for in the year is written off, except when recoverability is considered to be reasonably certain and foreseeable. In considering recoverability, debit balances arising in respect of ACT on dividends paid or payable at the balance sheet date are carried forward only to the extent that it is foreseen that they will be recovered against the tax liability of the current year or subsequent year.

(viii) Deferred taxation

Deferred taxation is provided for at the anticipated tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts, to the extent that it is probable that a liability or asset will crystallise in the future.

(ix) Foreign currency

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rate. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rate ruling on that date. In the case of forward exchange contracts entered into to hedge fluctuating exchange rates on foreign currency assets or liabilities, the difference between the value at the contracted forward rate and the forward rate ruling at the balance sheet date is included as a debtor or provided for as a creditor and included within non-distributable reserves.

Notes to the Accounts
continued

2 Total capital gains from investments	1998 £'000	1997 £'000
Realised gains based on historical cost	**88,876**	124,763
Less: amounts recognised as unrealised in the previous year	**(86,186)**	(81,234)
Realised gains based on carrying value at previous balance sheet date	**2,690**	43,529
Net movement in unrealised appreciation	**188,939**	175,518
Net movement on foreign exchange	**(6,847)**	514
	184,782	219,561

3 Income from fixed asset investments	1998 £'000	1997 £'000
Franked		
Dividends from listed investments	**21,639**	28,050
Special dividends from listed investments	**1,180**	2,957
Dividends from unquoted investments	**1,271**	770
	24,090	31,777
Unfranked – listed investments		
Dividends	**10,843**	9,037
Interest from convertible and fixed interest stocks	**1,397**	310
Foreign income dividends	**6,828**	2,938
	19,068	12,285
Unfranked – unquoted investments		
Interest from convertible and fixed interest stocks	**107**	16
	19,175	12,301
	43,265	44,078

4 Other interest receivable and similar income	1998 £'000	1997 £'000
Deposit interest	**4,066**	5,017
Stock lending fees and other income	**399**	296
Underwriting commission	**248**	206
	4,713	5,519

At 31 December 1998 the total value of securities on loan by the Company for stock lending purposes was £64,265,000 (1997: £40,733,000). The maximum aggregate value of securities on loan at any time during the year ended 31 December 1998 was £134,811,000 (1997: £178,904,000).

5 Management fee (all charged to revenue)	1998 £'000	1997 £'000
Management fee	**3,700**	3,523
Irrecoverable VAT thereon	**344**	317
	4,044	3,840

A summary of the terms of the Management Agreement is given in the Directors' Report on pages 20 and 21.

6 Other administrative expenses (all charged to revenue)	1998 £'000	1997 £'000
Auditors' remuneration for audit services	**24**	24
Auditors' remuneration for other services	**5**	–
Directors' fees (note 7)	**128**	102
Other expenses payable to the management company*	**29**	28
Bank charges and overseas safe custody fees	**190**	180
Marketing expenses	**203**	410
Other expenses	**446**	372
Irrecoverable VAT	**53**	43
	1,078	1,159

*Other expenses payable to the management company relate to the share plan administrative services.

7 Directors' emoluments

The directors' fees stated in note 6 are those actually paid by the Company. However, one director is employed by Henderson plc and its subsidiaries for the provision of services to Witan. Under the Companies Act 1985, it is necessary to state the proportion of the emoluments he receives from Henderson plc which relate to the management of the Company even though the Company does not pay these emoluments and is not involved in their determination. The Company has been informed that the applicable proportion of the emoluments paid by Henderson plc (including a performance related bonus) was £136,000 (1997: £134,000). This amount, together with the amounts paid directly by Witan to the other directors, all of whom are non-executive, is included in the analysis stated below:

	1998 £'000	1997 £'000
Fees (paid by the Company)	**98**	77
Salaries and other benefits (paid by Henderson plc)	**72**	90
Performance related bonus (paid by Henderson plc)	**64**	44
Total emoluments	**234**	211
Fees paid to third parties including Henderson plc	**30**	25
Pension contributions	**–**	8

The pension contributions represent those paid by Henderson plc on behalf of a director to a non-contributory defined benefit pension scheme.

The performance related bonus includes £49,000 in respect of a compulsory purchase of restricted shares in Henderson plc as a result of the takeover by AMP Limited.

The highest paid director's emoluments totalled £136,000 (1997: £134,000).

8 Interest payable	1998 £'000	1997 £'000
On debenture stocks, exchangeable bond, overdrafts and loans repayable		
Within one year	**2,295**	2,825
In more than five years	**3,910**	3,910
	6,205	6,735

Notes to the Accounts
continued

9 Taxation on net return on ordinary activities	1998 £'000	1997 £'000
Tax credits attributable to franked income	**4,704**	6,355
UK corporation tax at 31%	**1,403**	949
Double taxation relief	**(1,111)**	(949)
Foreign withholding taxes	**1,720**	1,563
Overseas taxation reclaimable	**(460)**	(467)
Underprovision in prior years	**1**	1
Transfer to/(from) deferred taxation account	**77**	(47)
	6,334	7,405

10 Return per ordinary share

Revenue return per ordinary share is based on earnings attributable to ordinary shares of £30,234,000 (1997: £30,375,000) and on the number of ordinary shares in issue throughout the year of 375,303,094 (1997: 375,303,094).

Capital return per ordinary share is based on net capital gains for the year of £184,782,000 (1997: £219,561,000) and on the number of ordinary shares in issue throughout the year, as shown above.

11 Fixed asset investments

(i) Changes in investments

	Valuation 31 Dec 1997 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 31 Dec 1998 £'000	Cost 31 Dec 1998 £'000
United Kingdom*	926,022	116,633	170,802	116,864	**988,717**	**527,672**
North America	226,074	128,773	64,211	51,551	**342,187**	**224,700**
Continental Europe	105,592	194,107	119,745	26,089	**206,043**	**169,061**
Japan	52,873	38,035	34,643	10,428	**66,693**	**69,674**
Far East	32,899	45,049	40,414	407	**37,941**	**36,394**
Emerging Markets	36,475	15,391	8,681	(13,710)	**29,475**	**39,558**
	1,379,935	537,988	438,496	191,629	**1,671,056**	**1,067,059**

*Valuations include exchange property (see note 13) valued at £24,521,000 (1997: £39,475,000).

(ii) The Company holds 20% or more of any class of shares of the following companies

Name of company	Class of shares	% held
Academy Sound and Vision Limited	Ordinary	35.4
Ehrmanns Group Plc	Ordinary	30.2
Henderson Strata Investments plc	Ordinary	20.9
Lessar Brothers Limited	Ordinary	25.7
Turnstile Investments Limited (see note (iii) below)	Ordinary	100.0
Turnstile Investments Limited	Non voting first preference	100.0
Turnstile Investments Limited	Second preference	100.0

All the above companies were registered and operate in England and Wales.

11 **Fixed asset investments** (continued)

In addition to the above, the Company has interests of 3% or more of any class of capital in 11 (1997: 11) investee companies. At 31 December 1998 none of these investments represented more than 2% of the fixed asset investments and therefore are not considered significant in the context of these accounts. Where the Company holds investments representing more than 20% of a class of equity share capital, they are not accounted for as associated undertakings if, in the opinion of the directors, the Company does not exercise significant influence over the financial or operating policies of the investee companies.

(iii) Turnstile Investments Limited

Turnstile Investments Limited participates in a subordinated loan made to Cazenove Finance BV which is wholly owned by Cazenove & Co. The loan bears a variable annual rate of interest linked to the profits of Cazenove & Co., with a minimum of 8% and a maximum of 25%, and is repayable on 30 April 2002. The ordinary shares have restricted voting rights and Witan does not exercise significant influence over Turnstile Investments Limited.

12 Debtors	1998 £'000	1997 £'000
Sales for future settlement	–	204
Taxation recoverable	707	427
Prepayments and accrued income	4,912	4,246
Other debtors	91	81
	5,710	4,958

13 Creditors: amounts falling due within one year	1998 £'000	1997 £'000
6¼% exchangeable bond 2008 (note (i))	24,521	39,475
Short term currency loan	42,894	20,567
Purchases for future settlement	–	301
Unrealised loss on forward exchange contract (note (ii))	76	249
Declared second interim dividend	8,632	–
Proposed final ordinary dividend	6,568	14,824
Preference dividends	38	38
Taxation payable	559	133
Accruals	2,569	3,283
	85,857	78,870

(i) Under the terms of the 6¼% exchangeable bond, units of the bond are exchangeable at the option of the holder at any time before 2008 into a basket of shares at the exchange prices as follows:

Entitlement per £1,000 bond (to the nearest decimal place)	Number of shares	Exchange price pence per share	Mid-market price at 31 December 1998 pence per share
Henderson Electric and General Investment Trust plc	177.8	199.5	331.0
Global Bond Fund*	960.4	39.2	57.8
Lowland Investment Company plc	90.7	296.6	325.0

During the year to 31 December 1998, £14,954,000 (1997: £9,223,000) of the 6¼% bond was exchanged at the option of the holders. The bond, which is unsecured, may be redeemed at the option of the Company after 20 October 1998 and is repayable on 1 September 2008 (see note 25).

*This exchange property replaces the holding in Henderson Greenfriar Investment Trust plc which went into members' voluntary liquidation on 17 April 1998.

Notes to the Accounts
continued

13 Creditors: amounts falling due within one year (continued)

(ii) Foreign exchange contracts

The following Hong Kong dollar forward exchange contracts were outstanding at the balance sheet date:

Date of Contract	Settlement date	Option	Amount HK$'000	Contracted rate	Forward settlement rate at 31 December 1998
11 November 1998	11 June 1999	Sell	118,723	12.9047	12.8245
4 December 1998	11 June 1999	Sell	25,884	12.9420	12.8245

14 Creditors: amounts falling due after more than one year	1998 £'000	1997 £'000
Debentures redeemable other than in instalments are as follows		
After five years: 8⅛% debenture stock 2016	**46,000**	46,000

The above debenture is secured by a floating charge over all the assets of the Company.

15 Provisions for liabilities and charges	£'000
Deferred taxation	
At 1 January 1998	46
Transfer from revenue account (note 9)	77
At 31 December 1998	**123**

Full provision is made for deferred taxation in respect of short term timing differences.

16 Called-up share capital	1998 £'000	1997 £'000
500,000 2.7% cumulative preference shares of £1	**500**	500
2,055,000 3.4% cumulative preference shares of £1	**2,055**	2,055
375,303,094 ordinary shares of 25p	**93,826**	93,826
Allotted, called-up and fully paid	**96,381**	96,381
14,476,906 unissued shares of 25p	**3,619**	3,619
Authorised	**100,000**	100,000

17 Reserves	Share premium £'000	Non-distributable Realised £'000	Non-distributable Unrealised £'000	Distributable Revenue £'000
At 1 January 1998	16,237	768,088	503,626	22,038
Transfer on disposal of assets	–	86,186	(86,186)	–
Net movement on listed investments	–	1,360	180,516	–
Net movement on unquoted investments	–	1,330	8,423	–
Net movement on foreign exchange	–	(1,239)	(5,608)	–
Net revenue retained for the year	–	–	–	2,466
At 31 December 1998	**16,237**	**855,725**	**600,771**	**24,504**

18 Non-equity interests

Shareholders' funds include £2,555,000 in respect of non-equity interests. These interests relate to the following shares

	1998 £'000	1997 £'000
500,000 2.7% cumulative preference shares of £1	**500**	500
2,055,000 3.4% cumulative preference shares of £1	**2,055**	2,055
	2,555	2,555

The 2.7% and 3.4% cumulative preference shares, which are not redeemable, constitute a single class and confer on the holders priority to holders of any other class of share in the payment of dividends and repayment of capital. The cumulative preference shareholders are not entitled to attend and vote at general meetings of the Company.

19 **Reconciliation of movement in shareholders' funds**	1998 £'000	1997 £'000
Net revenue on ordinary activities after taxation	**30,317**	30,458
Dividends	**(27,851)**	(26,354)
	2,466	4,104
Increase in other non-distributable reserves	**184,782**	219,561
Net addition to shareholders' funds	**187,248**	223,665
Shareholders' funds at 1 January	**1,406,370**	1,182,705
Shareholders' funds at 31 December	**1,593,618**	1,406,370

20 Net asset value per ordinary share

The net asset value per ordinary share is based on net assets attributable to ordinary shares of £1,591,063,000 (1997: £1,403,815,000) and on the 375,303,094 ordinary shares in issue at 31 December 1998 and 31 December 1997.

The movements during the year of the net assets attributable to the ordinary shares were as follows

		£'000
Total net assets at 1 January 1998		1,406,370
Less: Preference shares at par		(2,555)
Net assets attributable to ordinary shares at 1 January 1998		1,403,815
Total net return on ordinary activities after taxation		215,099
Dividends appropriated in the year		
Preference shares	(83)	
Ordinary shares	(27,768)	
		(27,851)
Net assets attributable to ordinary shares at 31 December 1998		1,591,063
Add: Preference shares at par		2,555
Total net assets at 31 December 1998		**1,593,618**

20 **Net asset value per ordinary share** (continued)

An alternative figure for the Company's net asset value per ordinary share, calculated in accordance with FRS 13 *Derivatives and other Financial Instruments: Disclosures*, is set out below. Under FRS 13, which becomes mandatory for accounting periods ending on or after 23 March 1999, additional disclosure is required to give the fair value attributable to the long term liabilities of the Company together with the par value as disclosed in the accounts. The table below sets out a reconciliation of the net asset value per ordinary share to an alternative net asset value per ordinary share, adjusted to include the fair value, which in this case is the closing mid-market value, of the Company's long term liabilities:

	1998	1997
Net asset value per ordinary share	**423.9p**	374.0p
Adjustments to reflect fair values:		
Preference shares	**0.1p**	0.2p
Debenture stock	**(4.3p)**	(2.1p)
Alternative net asset value per ordinary share	**419.7p**	372.1p

21 **Reconciliation of operating revenue to net cash inflow from operating activities**	**1998 £'000**	1997 £'000
Net revenue before interest payable and taxation	**42,856**	44,598
Increase in accrued income	**(564)**	(220)
Increase in other debtors	**(112)**	(366)
(Decrease)/increase in creditors	**(409)**	249
Tax on franked investment income included within income from UK companies	**(4,704)**	(6,355)
UK income tax deducted at source	**(1,055)**	(940)
Overseas withholding tax suffered	**(1,720)**	(1,563)
Scrip dividends included in investment income	**(1,069)**	(197)
Net cash inflow from operating activities	**33,223**	35,206

22 **Analysis of changes in net funds/(debt)**	31 December 1997 £'000	Cash Flow £'000	Exchange Movements £'000	**31 December 1998 £'000**
Net cash				
Cash at bank and short term deposits	146,393	(96,577)	(984)	**48,832**
Less deposits treated as liquid resources	(117,072)	88,433	(22)	**(28,661)**
	29,321	(8,144)	(1,006)	**20,171**
Liquid resources				
Deposits included in cash	117,072	(88,433)	22	**28,661**
Debt				
Debts falling due within one year	(60,042)	(1,436)	(5,937)	**(67,415)**
Debts falling due after more than five years	(46,000)	–	–	**(46,000)**
	(106,042)	(1,436)	(5,937)	**(113,415)**
Net funds/(debt)	**40,351**	**(98,013)**	**(6,921)**	**(64,583)**

Notes to the Accounts

continued

23 Capital commitments and contingent liabilities

There are capital commitments in respect of securities not fully paid up of £1,202,000 (1997: £3,978,000) and underwriting liabilities of £1,488,000 (1997: £4,190,000).

24 Related party transactions

Under an agreement dated 2 January 1996 the Company appointed wholly owned subsidiary companies of Henderson plc ("Henderson") to provide investment management, accounting, secretarial, administrative and UK custody services. Details of the fee arrangements for these services are given in the Directors' Report on pages 20 and 21. The total of the fees paid or payable under this agreement to Henderson in respect of the year ended 31 December 1998 was £3,700,000, excluding VAT (1997: £3,523,000), of which £667,000 was outstanding at 31 December 1998 (1997: £918,000).

At 1 January 1998 the Company held an investment in Henderson which was valued at £25,419,000. During the year, control of Henderson was transferred to AMP Limited following a cash offer which went unconditional on 30 March 1998. The cash sum received as a result of this offer amounted to £28,000,000. As a result, the Company had no investment in Henderson at 31 December 1998. Gross dividends receivable for the year from Henderson amounted to £788,000.

During the year the Company purchased 217,000 shares in AMP Limited at a cost of £1,481,000 and sold 82,000 shares with proceeds of £645,000. At 31 December 1998 the remaining shares were valued at £1,027,000 and represented 0.06% of the Company's investment portfolio. Gross dividends receivable for the year from AMP Limited amounted to nil.

At 31 December 1998 the Company held investments in funds managed by Henderson valued at £47,398,000 (1997: £64,376,000), including exchange property valued at £24,521,000 (1997: £39,475,000), representing 2.8% of the Company's investment portfolio (1997: 4.7%). During the year, holders of the 6¼% exchangeable bonds exercised their exchange rights to £14,954,000 (1997: £9,223,000). Dividends received during the year from these investments amounted to £1,751,000 gross (1997: £1,572,000).

25 Post balance sheet event

On 12 January 1999 the Company announced the early redemption of all of the outstanding 6¼% exchangeable bonds at their principal amount, together with accrued interest to their redemption date of 28 February 1999. Details of the 6¼% exchangeable bonds are given in note 13(i).

Capital Gains Tax

To help holders of shares in the Company to calculate their Capital Gains Tax ("CGT") position, the values for CGT purposes of the Company's shares on 31 March 1982, the start of indexation allowance for inflation, were as follows:

	31 March 1982
Ordinary shares of 25p	67.5p
2.7% Preference shares of £1	22.5p
3.4% Preference shares of £1	32.5p
Retail Prices Index (rebased to 100 January 1987)	79.4

Source: Dun & Bradstreet. These values are unadjusted for subsequent capital changes and exclude indexation allowance.

The Finance Act 1998 includes provisions, which make considerable changes to the way that chargeable gains are calculated for non-corporate shareholders in respect of disposals made on or after 6 April 1998. From that date pooling no longer applies and disposals are matched against shares previously acquired in the following order:

- same date acquisitions;
- acquisitions within the following 30 days;
- previous acquisitions on or after 6 April 1998 (using the 'last in first out' basis);
- any shares held in the pool as at 5 April 1998;
- any shares held in the pool as at 5 April 1982;
- any shares acquired before 6 April 1965; and
- any shares acquired subsequent to the disposal.

For disposals on or after 6 April 1998 indexation is still allowed but only up to April 1998. The Finance Act changes apply a taper relief to the amount of the chargeable gain on these disposals. The taper is 5% for each complete year of ownership after the first two complete years, with a maximum reduction of 40% after ten complete years.

In calculating the tapering relief, assets held before 17 March 1998 qualify for an extra year.

The way that chargeable gains are calculated for companies is currently under review by the Inland Revenue and for the time being pooling remains.

The special rules that apply to shareholders who are members of the Share Plan disposing of shares on or after 6 April 1998 are currently under review by the Inland Revenue and the rules may not continue in their present form. The present rules are set out below.

For those shareholders who have purchased shares through the Henderson Investors Investment Trust Share Plan on a monthly basis, the Inland Revenue has rules for calculating the CGT liability (if any) on the sale of such shares. In addition to the normal statutory basis for calculating the CGT liability, an optional basis allows taxpayers to aggregate the cost of the shares purchased monthly through the Share Plan during the Company's accounting year and treat them as if they were a single investment made in the seventh month of that year. In this respect you are advised to keep a separate note of purchases made through the Share Plan since other purchases will not be eligible for the optional basis. Guidance notes, prepared by the Association of Investment Trust Companies, should be read before you make a decision as to whether to opt for the optional basis and these are available free of charge from the Company Secretary at the Registered Office.

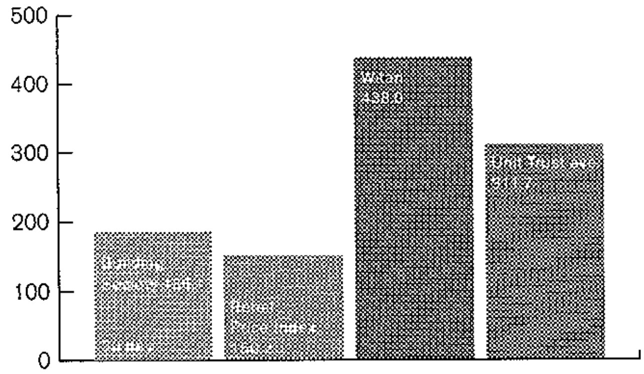
The calculation of the tax on chargeable gains will depend on personal circumstances. The above information is of a general nature and is not exhaustive. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.

Marketing Strategy

The Company has appointed a Marketing Manager with specific responsibilities for creating a plan to meet Witan's long term marketing objectives. The primary objective of Witan's marketing strategy is to enhance shareholder value by maximising and increasing the demand for the Company's shares.

A full marketing audit of the Company's activity is being undertaken and a fresh marketing approach will emerge. This will include:

- Researching both our existing shareholder base and areas for new customer development. To this end, please find enclosed with the Report and Accounts a questionnaire along with an accompanying SAE.
- Attracting new shareholders to Witan by prudent use of marketing techniques such as advertising and direct mail.
- High profile launch and promotion of the new Witan ISA available after 5 April 1999.
- Enhancing levels of service to our existing shareholders both private and institutional.
- Committing resource to proactive public relations in order to promote and broadcast Witan's strengths and benefits to the market place.
- Exploiting the potential of Witan's excellent savings proposition by emphasising the success and simplicity of the Witan Savings Plan to a wider audience.



10 yrs share price performance
£100 invested
Source AITC MIS (Dec '98)

- Developing the Internet site www.witan.co.uk. Already the Company provides investment information regarding Witan via this site. It will continue to enhance this service by improving the frequency of updates and introducing an exciting element of interaction to the site in order to encourage more awareness of Witan and further stimulate the demand for the Company's shares.

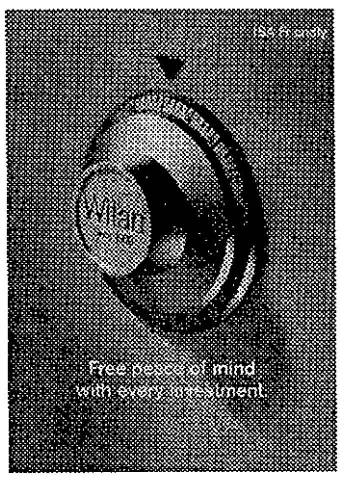
www.witan.co.uk

CLICK HERE → Witan Investment Company plc

As in previous years the Company's marketing activity will cover the following areas:

- Encouraging investment in the Company through participating in the Witan PEP scheme until 29 March 1999.
- Advertising the share price and net asset values in national papers and journals.
- Publishing the net asset value weekly.
- Sponsorship of the Royal Horticultural Society Advice Unit and the Westminster Early Spring Flower Show.
- Facilitating the involvement of nominee shareholders.
- Membership of the AITC.

The marketing budget is fixed annually but expenditure is kept under close review and utilised according to market conditions. The Company recognises that it may be necessary to increase this budget in order to achieve successfully its marketing objectives. Expenditure in 1998 amounted to £203,000.



Marketing Strategy

continued

Share Price Discount

The market price of investment trust shares can stand at a discount or premium to net asset value, according to the level of demand for the company's shares at any given time. Demand is influenced by many factors including performance, marketing and public awareness.

Nominee Share Code

Where notification has been received in advance, Witan will provide nominee operators with copies of shareholder communications for distribution to their customers. Nominee investors may attend general meetings and speak at meetings when invited by the Chairman.

Personal Equity Plans and ISA

The Company intends to continue as a fully qualifying investment trust company under the Personal Equity Plan regulations. However no further PEP Investments may be made after 5 April 1999 (subscriptions must be received by 29 March 1999). The Company will offer the Witan ISA from 6 April 1999.

Details of the Witan ISA may be found on the back page of this document, by ringing 0800 106106 or by visiting the Witan website on www.witan.co.uk

Registrar
Computershare Services PLC
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone: 0131 523 6666

Auditors
Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

Solicitors
Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Stockbroker
Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN

Notice of Annual General Meeting

Notice is hereby given that the ninety-first Annual General Meeting of Witan Investment Company plc will be held at the Old Horticultural Hall, Vincent Square, London SW1 on Tuesday, 16 March 1999 at 7.00 pm for the following purposes:

Ordinary Business

1 To receive the report of the directors and the audited accounts for the year ended 31 December 1998.

2 To declare a final dividend.

3 To re-elect The Lord Inchyra as a director of the Company.

4 To re-elect Mr H M Henderson as a director of the Company.

5 To re-appoint Deloitte & Touche as auditors to the Company at a fee to be determined by the directors.

Special Business

To consider and, if thought fit, pass the following resolutions as special resolutions

6 That the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 25p each in the capital of the Company ("Ordinary Shares"), provided that:
(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 56,257,933;
(b) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 25p;
(c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105% of the average middle market quotations for an Ordinary Share taken from the London Stock Exchange Official List for the 5 business days immediately preceding the day on which the Ordinary Share is purchased or such other amount as may be specified by the London Stock Exchange from time to time;
(d) the authority hereby conferred will expire at the conclusion of the Annual General Meeting of the Company in 2000 or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed prior to such time; and
(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

7 That the regulations contained in the current Articles of Association of the Company shall no longer apply and that in place of those regulations the new Articles of Association, a copy of which has been initialled by the Chairman for the purposes of identification, be adopted by the Company, and that the Secretary be directed immediately to register them with the Registrar of Companies.

By order of the Board
R E Fieldwick ACIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
9 February 1999

Notes

1 Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, only those shareholders registered in the Register of Members of the Company at 7.00 pm on 14 March 1999 shall be entitled to attend and vote at the Annual General Meeting.

2 An ordinary shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote on his behalf. Such proxy need not be a member of the Company.

3 The completion of the form of proxy will not preclude ordinary shareholders from attending and voting in person at the meeting.

4 This notice is sent for information only to holders of debenture stock and preference shares who are not entitled to attend or vote at the meeting.

5 The Register of Directors' Interests kept by the Company in accordance with section 325 of the Companies Act 1985 will be open for inspection at the meeting.

6 A copy of the proposed Articles of Association of the Company will be available for inspection during normal business hours on any weekday up to and including 16 March 1999 at the Company's Registered Office and at the Annual General Meeting at least 15 minutes prior to and during the meeting.

Registered Office

3 Finsbury Avenue
London EC2M 2PA
Registered in England No. 101625

Telephone

BT	0171 638 5757
Mercury	0171 410 4100
Facsimile	0171 377 5742

Summary of Changes to the Articles of Association

The new Articles of Association are based on, and substantially restate, the Company's existing Articles. This appendix highlights the principal differences between the existing Articles of Association and the proposed new Articles of Association. The number identifying each Article, unless otherwise indicated, corresponds with the numbering used in the new Articles of Association, which will be available for inspection before and during the Annual General Meeting. In addition to the changes highlighted below, a number of general amendments have been made to reflect the fact that shares in the Company may now be traded in the CREST system.

It should be noted that this appendix is intended to be a summary of the material changes and is not intended to be exhaustive.

Article 13 Calculation of the maximum price at which redeemable shares may be redeemed is now based on the average of the market price for the previous five business days rather than the previous ten business days. This reflects changes to the London Stock Exchange Listing Rules (the "Listing Rules") relating to the price at which shares may be repurchased.

Article 62 This Article has been amended in line with the changes to the Listing Rules to the effect that purchases by the Company of its own shares no longer require the prior sanction at a class meeting of holders of convertible securities.

Article 107 This Article has been amended to make it clear that in any one year at least one third of the directors will be required to retire by rotation.

Article 96.12 (existing Articles) This Article, which relates to the ability of the Company to relax the prohibition on directors voting at board meetings on matters in which they were interested, has been deleted since it is no longer permitted by the Listing Rules.

Article 168 This Article has been amended to permit the Company to make distributions of capital profits, notwithstanding the restrictions on the distribution of capital profits contained in the Articles, in circumstances where it has served notice that it no longer wishes to be an investment company pursuant to section 266 of the Companies Act. The amended Article also provides that in the event that there is any change in law such that the Company is no longer required to be prohibited from distributing capital profits in order to be eligible for investment company status then the current prohibition in the Articles will be of no further effect.
The Article has also been amended to make it clear that the Company may charge administrative, financing and management costs to capital reserves.

Article 134 (existing Articles) The provision in the existing Articles allowing the Company to make scrip dividends was considered to be unnecessary and has been removed.

Article 177 This Article has been amended to give the Company greater flexibility with regard to sending notices to shareholders. Given the size of the Company's share register, it may not prove practical to despatch notices by reference to the share register on the day of despatch. The amendment gives the Company a 21 day grace period between closing the register for these purposes and despatching the notices. This also gives the Company additional flexibility to deal with any difficulties which may arise under the CREST system.

Article 188 This amendment makes it clear that in circumstances where the Company uses its power to sell shares of untraced members, it can also exercise that power in relation to any additional shares to which that untraced member has become entitled since the time at which he was last contactable by the Company.

Article 197 This Article has been amended to make it clear that the Company's power to purchase insurance for its officers does not extend to purchasing insurance on behalf of the Company's auditors.