REGISTERED NUMBER: 101625

WITAN INVESTMENT TRUST PLC

REPORT & ACCOUNTS 2005

Witanwisdom

"An ounce of performance is worth pounds of promise."

Mae West

Contents

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 tax on the capital gains arising on their investments. Income, net of expenses and tax, is distributed substantially to shareholders. Shareholders elect the directors.

Objective

To be the first choice for wealth creation through equity investment.

Philosophy

- Seek returns for our investors across global stockmarkets.
- Embrace new investment techniques when appropriate.
- Present ourselves to investors in a clear, no-nonsense way.

Method

- To maintain at least 80% exposure to equity markets.
- To offer an independent multi-manager approach, accessing the best available talent within the global marketplace.
- To use alternative asset classes and investment techniques to improve performance.
- To grow the dividend in line with inflation.
- To buy back shares to improve net asset value and reduce the discount.
- To be ready to use borrowing in attractive markets while retaining the ability to convert to cash when prospects are poor.
- To promote and seek demand for Witan shares.
- To exercise strict controls on costs and keep expenses competitive.*

*The total expense ratio was 0.47% for 2005 (2004: 0.60%) (defined here as the total of the management fees and other administrative expenses as a percentage of the average of shareholders' funds at the beginning and end of the year).

Directors

H M Henderson*◆
(Age 53) Appointed a director in 1988, Harry Henderson became Chairman in March 2003. He was formerly a partner of Cazenove & Co. and subsequently a senior executive at Cazenove Group plc, retiring in 2002. Mr Henderson is Chairman of Witan Investment Services Limited. He is also a director of Cadogan Settled Estates Limited.

J Horsburgh
(Age 50) Jim Horsburgh was appointed a director and Chief Executive Officer with effect from 2 February 2004. He is responsible for the overall management of Witan. He has over 25 years' experience of investment management. He was formerly with Schroder Investment Management Limited where he was UK Managing Director. Mr Horsburgh is a director of Witan Investment Services Limited.

C G Clarke FCA●
(Age 61) Christopher Clarke joined the Board in 1992 and was Managing Director from 1 January 1993 to 30 June 2000. He has over 30 years' experience of investment management and was a senior executive of Henderson Global Investors, retiring fully in March 2003. He is Chairman of Rensburg Sheppards plc and a Trustee of the Commonwealth War Graves Endowment Fund. Mr Clarke will retire from the Board at the conclusion of the Annual General Meeting on 24 April 2006.

R W C Colvill*●
(Age 65) Robert Colvill was appointed a director in 1994 and became Chairman of the Audit Committee in 2002. He is also Deputy Treasurer of the RNLI. After 25 years' fund management experience in the City, he joined Marks and Spencer to set up their Financial Services division, later becoming finance director of Marks and Spencer plc and Chairman of Marks & Spencer Financial Services and its unit trust subsidiary. He was also Chairman for 9 years of the Money Advice Trust, a charitable company.

A W Jones*◆ MA, FREng, FRAeS, FIEE, CIM
(Age 66) Alan Jones was appointed a director in 1996 and became Chairman of the Remuneration Committee on its formation in December 2003. He was formerly Chief Executive of BICC plc. He is Chairman of Alert Communications Limited and The Manchester Airport Group plc and is a director of Agustawestland NV. He is a former member of The Financial Reporting Council.

R H McGrath*
(Age 59) Rory McGrath was appointed a director in 1996. He was formerly Chief Executive of H. Young Holdings plc, a marketing company. Mr McGrath is a director of Witan Investment Services Limited.

C S McVeigh III*◆
(Age 63) Charlie McVeigh was appointed a director in 1998. He is Co-Chairman of Citigroup European Investment Bank and a director of Savills plc. Mr McVeigh will retire from the Board at the conclusion of the Annual General Meeting on 24 April 2006.

R A Bruce*● MA, MBA
(Age 56) Andrew Bruce was appointed a director in 2002. He is Group Credit Risk Director at Barclays PLC where he has responsibility for asset quality and credit risk across the Barclays Group. He is also a non-executive director of Clearstream International.

J C Platt* MA, MSI
(Age 49) Jane Platt was appointed a director on 13 December 2005. She has international management experience and a track record of building profitable businesses in financial services related sectors, including both institutional and retail asset management. Most recently she was Chief Operating Officer at Reuters. Ms Platt is also a director of Edinburgh UK Tracker Trust plc.

A Watson* BSc (Econ), ASIP, Barrister-at-Law
(Age 60) Tony Watson was appointed a director on 1 February 2006. He retired in January 2006 after an executive career of 38 years in the investment management industry. Most recently he was Chief Executive of Hermes Pensions Management Limited. Mr Watson was formerly Managing Director of AMP Asset Management plc. He is a non-executive director of Hammerson plc and will become a non-executive director of Vodafone Group Plc in May 2006.

*Independent non-executive directors.

●Members of the Audit Committee which is chaired by Mr Colvill.

◆Members of the Remuneration Committee which is chaired by Mr Jones.

Highlights

Financial Highlights

	31 December 2005	Restated (see note 22) 31 December 2004	% change
Share price	**414.0p**	331.5p	+24.9
Net asset value per ordinary share	**469.5p**	390.2p	+20.3
Net asset value per ordinary share (valuing the prior charges at market value)†	**458.9p**	384.4p	+19.4
Discount	**11.8%**	15.0%	
Discount (valuing the prior charges at market value)	**9.8%**	13.8%	
Earnings per ordinary share	**8.96p**	8.63p	+3.8
Dividends per ordinary share	**8.80p**	8.60p	+2.3
Gearing*	**4.4%**	5.1%	

†See note 18 on page 43.

*Defined here as the total market value of the investments less shareholders' funds as a percentage of shareholders' funds.

Performance

Total returns to 31 December 2005	1 year % return	3 years % return	5 years % return
Share price[2]	27.9	72.9	(1.0)
Net asset value per ordinary share[3]	22.8	62.1	(1.0)
FTSE All-Share Index[2]	22.0	66.4	11.6
FTSE World (ex UK) Index[2]	24.8	62.4	1.5
Capital returns to 31 December 2005			
Share price	24.9	58.3	(13.4)
Net asset value per ordinary share	20.3	51.0[3]	(11.2)[3]
FTSE All-Share Index[2]	18.1	50.3	(4.6)
FTSE World (ex UK) Index[2]	22.3	52.8	(7.6)
Benchmark[1]	20.2	see note 1 below	see note 1 below

[1]The benchmark comprises the FTSE All-Share Index and the FTSE World (ex UK) Index in the proportion 50:50 (capital change only). The benchmark in this proportion has applied only since 1 September 2004.
Sources: [2]Datastream [3]AITC

Historical Record

Year end	Net asset value per ordinary share in pence[b]	Share price discount %[b]	Market price per ordinary share in pence	Net revenue after taxation in £'000	Earnings per ordinary share in pence	Dividends per ordinary share in pence
31 December 1995	290.8	8.9	265.0	25,438	6.76	6.45
31 December 1996	314.5	15.3	266.5	26,764	7.11	6.65
31 December 1997	374.0	14.6	319.5	30,458	8.09	7.00
31 December 1998	423.9	13.4	367.0	30,317	8.06	7.40
31 December 1999	560.7	14.8	477.5	28,272	7.54	7.60
31 December 2000	521.5	8.3	478.0	32,541[c]	8.95[c]	7.75
31 December 2001	429.3	8.9	391.0	29,634	8.40	7.95
31 December 2002	307.6	15.0	261.5	31,445	8.92[d]	8.10
31 December 2003	358.2	15.4	303.0	31,362	8.98	8.30
31 December 2004	390.2[a]	15.0	331.5	29,330[a]	8.63[a]	8.60
31 December 2005	**469.5[a]**	**11.8**	**414.0**	**28,002[a]**	**8.96[a]**	**8.80**

(a) The figure for 2005 has been calculated in accordance with International Financial Reporting Standards ("IFRS") and the figure for 2004 has been restated in accordance with IFRS (see note 23 on page 45). The figures for the earlier years have not been restated.

(b) The net asset value per ordinary share is calculated by deducting from the total assets less current liabilities of the Group the fixed borrowings at their par (not their market) values. The share price discount shown reflects this calculation.

(c) With effect from 1 January 2001, 75% of finance costs and management fees have been charged to capital. The 2000 figures were restated to reflect this change of accounting policy.

(d) With effect from 1 January 2002, tax relief has been allocated as described in note 1(f) on page 32.

Chairman's Statement

"Always take the long-term view and train and race smart, with a bit of caution." Bill Rodgers

Harry Henderson

Highlights of the Year

- Total shareholder return of 27.9%
- NAV performance in line with the benchmark
- The Board of F&C Pacific appoints Witan Investment Services
- Discount management policy enhances NAV
- New Board appointments
- Total expense ratio of 0.47% (2004: 0.60%)

Shareholder Returns

Witan's share price rose by 24.9% over the year, giving a total return to shareholders including dividends of 27.9% (source: AITC). This strong performance was achieved as a result of universally strong equity markets and our discount management policy.

The surprise this year has been the scale and breadth of the return from global equity markets (UK +22% and World (ex UK) +24.8%, sterling adjusted) while at the same time volatility has continued at historically very low levels. In other words, high returns have come with seemingly low levels of risk. This has been the case in almost all equity markets, even in the traditionally more volatile emerging economies. We are taught that these conditions cannot continue for long: either returns will be lower or volatility will rise. Your Board believes this is the wrong time to be taking on more risk and is firmly of the belief that the diversity of holdings and of managers will help if conditions become more adverse.

In my statement last year I said "the Board will continue to employ share buy-backs with a new aim of permanently reducing the level of the discount to well below 10% (with debt at fair value) over the medium term". The discount at the year end was 9.8% compared to 13.8% twelve months prior. To achieve this level of discount reduction the Board has purchased 44 million shares (13% of the share capital), enhancing the NAV by £15.9 million or by about 1.2% per share. The discount management policy has been a positive contributor both to the share price and to Net Asset Value (NAV) performance.

NAV Performance

In September 2004 your Board took the decision to reduce the UK proportion of the portfolio and increase the Trust's exposure to overseas markets. I am pleased to report that this has been a positive contributor to the investment performance of the Trust. On the other hand your Board expected that equity returns were likely to be in high single figure percentages, not in the high twenties. I am pleased to report that the NAV has risen in line with our long-term benchmark, as this measure of performance was going to be a difficult one for us to match in very strong market conditions. Jim Horsburgh comments fully on individual manager performance. The positive effects of gearing, share buy-backs and asset allocation made up the shortfall against the benchmark that resulted from the underlying investment performance.

Dividends

Your Board has declared a second interim dividend of 5.00 pence per ordinary share to make a total distribution for the year of 8.80 pence (2004: 8.60 pence). This represents an increase of 2.3%, which is in line with the RPI and in accordance with our stated dividend policy.

Witan Investment Services

In the Interim Report I highlighted the decision of the board of F&C Pacific Investment Trust PLC to appoint Witan as executive manager of its new multi-manager structure, together with a change of the name to Witan Pacific Investment Trust PLC. This relationship, combined with your Board's decision to take full responsibility for the marketing of the Witan brand, has required us to set up and authorise with the FSA a new wholly-owned subsidiary, Witan Investment Services Limited ("WIS").
This new subsidiary will actively seek new clients. Those investment trust boards wishing to review their current arrangements can use WIS to access, for the first time, suppliers of services from outside the industry. In this way Witan Investment Services intends to generate additional income for Witan itself.

Board Changes

In reviewing the changes your Board has made over the last two years, I was struck by this quote from a headhunter writing in a paper about boards. He is talking about the difficulties of recruiting and bringing the correct sort of imagination to the table and points out the relevance of being taught Latin and Greek: "What our ancestors show us, in their eccentric way, is a profound truth about human thinking. By focusing the mind on difficult but useless and seemingly irrelevant things, you free it from premature engagement. Conversely by focusing on manifestly relevant facts and proven expertise, you often fix it forever in yesterday's problems and yesterday's world."

We say goodbye to Christopher Clarke and Charlie McVeigh. Christopher retires after thirteen years on the Board, the first seven of which were spent as managing director, a particularly good period for Witan. With these two retirements we lose a great deal of experience. Both Christopher and Charlie have helped Witan in an imaginative and constructive way and we shall miss their wise counsel.

We welcome Tony Watson and Jane Platt to the Board. They both bring strong experience of investment management and also of business management. I am confident that they will keep us moving forward.

New Accounting Standards

These accounts are the first full year audited accounts produced under the new accounting standards ("International Financial Reporting Standards" or "IFRS"). In the Interim Report we highlighted the main points of difference between the old treatments and the treatments under the new format. It may be helpful if we reiterate the main ones:

Investments held at fair value through profit or loss

Quoted investments in the Witan portfolio were shown previously at mid-market prices, and described as fixed assets in the balance sheet. The new IFRS treatment requires us to use "bid" or selling prices and the descriptions "investments designated as held at fair value through profit or loss" and "non current assets". The differences between the old and the new treatments are reconciled in notes 22 and 23 on pages 44 to 46. The accounts also now refer to investments being "recognised" or "derecognised", the important date – as before – being the date on which investments are bought or sold.

Dividends

In previous years the proposed final dividend was accrued in our full year accounts, although it had not been approved by shareholders until the Annual General Meeting. IFRS now prevents us from accounting for an interim dividend until it has been paid or for a final dividend until it has been approved by the shareholders in general meeting. Accordingly, the final dividend payable in respect of the year ended 31 December 2004 has been added back to the assets at that date and shown as paid, in the new Statement of Changes in Equity, in 2005. The second interim dividend, which we are paying this year in place of a final dividend, is not accounted for in 2005 but will be shown as paid in the accounts for 2006.

Preference shares

Until now, the relatively small amount of our preference share capital has been shown as part of the non-equity interests of the Company within "shareholders' funds". IFRS now requires us to treat the Witan preference shares as debt rather than equity.

Annual General Meeting

Our AGM will be held this year at Merchant Taylors' Hall, on Monday 24 April 2006 at 2.30pm. Formal notice of the meeting is set out on pages 50 and 51 and further details are given on the enclosed invitation card. With my fellow directors, I look forward to the opportunity to meet you then.

Conclusion

In conclusion, 2005 was a vintage year for stock markets and in particular for the Witan shareholder. Following the changes of the last eighteen months, your Board views the future with confidence. It now has in place the structure, approach and flexibility to take advantage of ever-changing global investment markets.

Harry Henderson
9 March 2006

Chief Executive Officer's Review

Jim Horsburgh

Overview

Your Chairman has already indicated that 2005 was another exciting year for Witan. It was also a vintage year for the investment markets. The UK equity market as measured by the FTSE All-Share Index gave a total return of 22% (including dividends) and the other world equity markets (as measured by the FTSE World (ex UK) Index) returned 24.8% (including dividends) in sterling terms. In comparison the return on UK cash was 4.7% and UK Gilts was 7.9%. Clearly 2005 was a great time to be invested in equities.

Over the last three years UK and World equity markets have returned 18.5% per annum and 17.6% per annum respectively. Whilst this most definitely represents a better than par performance, it also reflects the recovery in markets following the collapse of the dotcom inspired boom. The economic backdrop for this market performance was not universally favourable. In the last eighteen months US interest rates have risen from 1% to 4.5%. US inflation hit a peak of 4.7% in September 2005, as a result of the upsurge in energy prices. The gold price rose by around 15% to $518, normally a sign of some turmoil in investment markets, but this time accompanied by near all-time low levels of volatility. Closer to home UK growth disappointed as tax increases and a slowing housing market began to have an effect. There was, of course, good news as well, most notably strong US growth and the recovery in corporate profitability, which, coupled with excess liquidity in the world's economies, was the main reason for the rise in markets.

Overall Witan's net asset value rose by 20.3% which was in line with our long term benchmark and benefited from a number of your Board's decisions: on asset allocation, particularly our overweight allocation to Japan and the rest of Asia; on gearing; and from the impact of share buy-backs (as explained in the Chairman's Statement). In aggregate, therefore, the managers underperformed as can be seen from the table on page 11. This is probably explicable, in a year of strong performing markets and low volatility, as most of our managers invest, taking a long term view on individual companies that they believe will show superior performance (the Brandes and Southeastern approach) or because these companies are expected to grow faster than the market as a whole (the Henderson Smaller Companies team and MFS approach). In doing so our managers are not trying to beat their markets in each and every year but they do expect to outperform over longer time periods. Their long-term historic track records provide some evidence that they have the necessary skills to achieve this.

Over the year the Board held fourteen formal review meetings with the fund managers. At these meetings the managers were asked to: explain their choice of investments, which enabled the Board to check that these were within Witan guidelines and in accordance with the manager's own investment philosophies; provide a detailed analysis of their performance to date and the reasons behind it; confirm that no important members of staff had left; and re-affirm their investment strategy and philosophy. Whilst there were many issues taken up during the meetings, at this stage the Board retains full confidence in the managers.

The geographical breakdown of the portfolio is laid out on page 12. This reflects the strategic asset allocation of the Board and also the stock selection of our two global managers who seek to find the most attractive stocks they can irrespective of geography. Page 12 also shows the breakdown of the portfolio by industrial sector and page 13 lists the twenty largest holdings in the portfolio as a whole. This list is interesting because, not only does it include the largest UK companies which one would expect given that the UK represents almost half of our invested portfolio, but also such companies as Cemex, the Mexican cement and concrete manufacturer, Philips, the European electronics company, Olympus, the Japanese manufacturer of optical products both for the consumer and the healthcare markets, Nipponkoa, a Japanese insurance company, and Dell, the US computer manufacturer. This list underlines the global nature of Witan's portfolio.

What now follows is a more detailed review of the portfolio by strategic segment.

UK

The UK equity portfolio is managed in two parts: the UK mainstream portfolio is managed by the Henderson UK Enhanced Index team and provides Witan with a relatively low-risk exposure to the UK's largest companies; the UK smaller companies portfolio is actively managed by the Henderson Smaller Companies team. This combination gives Witan a strategically overweight position in smaller companies, an area that tends to outperform in the long term.

The UK mainstream portfolio outperformed its benchmark in 2005 (see table on page 11). The Henderson team view was that investors were paying too much for income and had shunned growth companies which had, as a result, become attractively priced. Their strategy therefore was to bias the portfolio towards companies that were expected to deliver strong earnings. Overweight positions in Man Group, the hedge fund manager, Isoft, which provides software to the healthcare industry, Punch Taverns and Enterprise Inns, which all reported strong earnings growth throughout the year, contributed to this outperformance. As did an investment in Hilton Group which, as well as announcing positive results, also announced the sale of its hotels back to Hilton International. Investments in economically sensitive and cyclical stocks also added value with BAE Systems, Cobham, Meggitt and Corus outperforming. The most negative impact was the holding in Marconi which fell dramatically after the company failed to win any part of a large contract from their largest customer BT.

An increase in corporate activity also benefited the portfolio which had overweight positions in Wembley, which completed its break-up in July, and Skandia, which was subject to a bid from Old Mutual, where the portfolio was underweight. Investments in Initial Public Offerings (IPOs) such as Party Gaming, IG Group, Kazakhmys, New Star Asset Management and Gondola Holdings also added value.

Small companies in the UK continued to be strong performers. The Hoare Govett Smaller Companies Index (ex investment companies) returned 27.8% following a very strong performance in 2003 and 2004. However, performance of the Witan portfolio at 21.3% was disappointing after the outperformance in the previous two years and reflected some specific situations. In particular, Games Workshop fell after issuing a profit warning on the back of a fall in sales. This position has been sold in the expectation that recovery was uncertain and likely to be protracted. In addition a number of the top ten positions in the portfolio including WS Atkins, a consulting engineer, Domino Printing Sciences, an ink jet equipment manufacturer, and Interserve, a diversified construction company, produced lacklustre share price performance after outperforming in 2004. Henderson are confident that these holdings are all set for a much better 2006.

On the plus side Savills, a property agency and consultancy business, and WSP, a consulting engineer, performed very strongly on continual earnings upgrades. The portfolio also benefited from a number of take-overs including Domnick Hunter, a filtration company, Scottish Radio Holdings, a media company, and Westbury, a housebuilder.

The portfolio once again had success in the year with corporate placings and new issues. This area was buoyant with AIM being favoured for new companies joining the London market. The portfolio invested in a number of new issues including Carluccios, the restaurant chain, Shed Productions, an independent TV production firm, IBS Opensystems, a software provider for Local Government, and Hansteen, a Continental European property investor.

Henderson believes that even after three years of strong gains the outlook for UK smaller companies is still favourable. *"Returns should be less spectacular than the recent past as a sluggish UK economy and high commodity prices depress corporate earnings growth. However valuations are still reasonable, global economies are robust and ongoing high levels of corporate activity support prospects for positive total returns."*

Global

We have two global managers, Southeastern who at the end of 2005 managed £215 million for Witan and MFS who managed £146 million. They have very different approaches to managing these portfolios as can be seen from the manager descriptions on page 11. Southeastern might be loosely described as a "value" manager, although they will invest in growth companies provided the price can be justified by their exacting criteria and they understand the business. MFS is classified as a "growth" manager but will only invest in growth at the right price. There are, however, similarities. Both are stockpickers, paying little, if any, attention to index weightings or geography and as a result both will see their performance deviate from indices for long periods of time. Both take a long term view; and found little attraction in oil and commodity companies in 2005, two areas that outperformed strongly. They both hold Dell Computers and Walt Disney. On the oil sector, MFS noted that *"the future investment required to replace current oil reserves will be significantly higher in the future than in the past, leading to the potential for depressed returns"*.

Whilst Southeastern's short-term 2005 performance fell below Witan's benchmark, by their own benchmark *"to exceed inflation by at least 10%"* they achieved their goal. Of course, they will only get paid a performance fee if they exceed the target that the Witan Board has set them, namely to beat the FTSE World Index, but in the long term they and your Board believe that by achieving their objectives they will comfortably achieve Witan's.

Cemex was the Southeastern portfolio's best performer. It is the third largest cement company in the world and Southeastern purchased the company at the end of 2004 when its stock fell following the acquisition of RMC in the UK. Although Southeastern are normally wary of acquisitions, the purchase of RMC produced phenomenal results. The stock price now somewhat reflects these results, but the best news is that over the year Southeastern's estimate of Cemex's value has risen by over a third.

The portfolio also benefited from Japan's return to favour. Three of the top five contributors to performance were Japanese companies. At the non-life insurance companies the impact was two-fold. Not only did the stock appreciate, but the value of their large investment portfolios grew with the market's gains. Perhaps not surprisingly, given their approach, the new international ideas that Southeastern are finding are mostly in other countries now that most investors think they must own something in Japan!

Southeastern's performance was hindered primarily by General Motors and their media related holdings. General Motors (GM) is probably the most controversial holding in the Witan portfolio and Southeastern comment as follows: *"No name is as controversial or garners as many questions as our GM investment. Disappointing results and ongoing challenges in the North American car and truck business have received much media attention and taken pessimism about the company to historic levels. The North American challenges are real, and our appraisal accounts for them. We assess almost no value to the worldwide car and truck business which includes some very profitable overseas operations as well as the North American business. We continue to attribute the bulk of GM's worth to its finance company (GMAC). GM is moving forward to improve the cost structure of the auto business and get value recognised by pursuing the sale of a majority interest in GMAC. We believe that management, the board and other significant investors are focussed on improving the issues faced in North America."*

Within the media sector, although each company Southeastern owns – Comcast, DirecTV, Discovery Holding, Liberty Media and Walt Disney – has its own set of unique drivers and competitive advantages, the industry as a whole fell out of favour. Wall Street appears uncomfortable with the uncertainty that a changing competitive landscape is creating. The next five years will bring change, but increasing cash flows at the best companies are driving their underlying values upwards. So these media related investments have a much larger margin of safety (inherent value less price) than a year ago, and are among the most discounted names in the portfolio.

Overall, Southeastern remain very confident that their portfolios can grow at above average rates over the next five years.

MFS also underperformed the FTSE World Index in 2005. Apart from their under-allocation to resources, this was caused by stock selection within the information technology sector where holdings in Symantec, Dell and Oracle underperformed, and the cyclical services sector where Kingfisher, Walt Disney and News Corp lagged the market. Elsewhere, holdings in European industrial companies Atlas Copco and Schneider were strong performers as market demand and improved cost management combined to drive profits for both companies to higher levels than market forecasts.

MFS is also optimistic for 2006. *"2005 was a strong year of absolute returns for most financial assets, including stocks. Our process and approach remain unchanged as we enter 2006: we remain stock pickers, despite the focus of many investors and commentators on short term moves in currencies, commodity prices and economic data. We seek to add value through long-term, fundamental research into individual companies, rather than attempting to make broad sector or regional calls. As the year begins we continue to see a pick-up in corporate activity including mergers and acquisitions, higher capital spending and share buy-backs which should offer compelling opportunities for investors. We have recently found that the investment climate is becoming more favourable to investment opportunities in higher growth stocks with large market capitalisations. As these are areas where the portfolio tends to focus over time, we hope this will translate into competitive returns for our investors."*

North America

The Witan North American equity portfolio is managed in a low risk manner by Henderson's Enhanced Index team. In 2005 they beat its benchmark by a small margin and since inception of this strategy for Witan are 0.8% ahead of its benchmark. Positive returns were achieved from being overweight in Ultra Petroleum and Williams and underweight in Andarko and Dominion within the energy sector. In addition positions in Arch Coal and Peabody Energy outperformed as a result of an increased interest in coal as an alternative to oil. The portfolio also benefited from bids for Ivax Corporation, the pharmaceutical company, and Guidant, which designs and develops cardiovascular medical devices. Positive returns were also derived from investments in IPOs such as Diamond Food, Builders First Source, US Airways (which emerged from bankruptcy), I Robot and Premium Standard Farms and secondary placings in Google and AMR, the parent company of American Airlines whose performance improved as a result of a reduction of capacity in the airline industry.

Returns in this portfolio in 2005 were held back by the low levels of volatility in the US equity market. Despite a pick-up in volatility in July, strong corporate results, robust employment data and rising economic indicators led to an overall decrease in risk aversion and volatility languished at levels not seen for a decade. Even Hurricanes Katrina and Rita had little impact. Nevertheless, the managers retain their view that a return to more normal levels will ensue.

Henderson comments: *"We are optimistic for our prospects to continue to perform well in 2006, with the lower risk profile that is a hallmark of our multi-manager approach. As opportunities to generate alpha continually appear, migrate and disappear across our investable universe, we are confident we have the right team, strategy and infrastructure to exploit them successfully."*

Europe

The Witan European portfolio is managed in a very concentrated manner by the European Research team at Wellington Management Company. During 2005 it was Wellington's view that the European equity markets were very attractive as expectations were very low whilst non-energy cyclicals and growth stocks offered good value. Although the market did rise strongly, Wellington's stock selection underperformed over the year. This was primarily due to stock selection within the Healthcare and Telecoms sectors and their underweight position in the Energy sector. Elan was the major detractor when it fell sharply after the company withdrew its main product, the multiple sclerosis drug, Tysalin, from the market. Wellington had most success during the year in the Financials sector and growth stocks within the Consumer Staples sector where holdings such as Pernod Ricard and Numico, a company which specialises in baby foods, outperformed both the sector and market. In addition the banks, Capitalia and UBS, and the insurance companies, AXA and Zurich, added value over the year.

Chief Executive Officer's Review

continued

This portfolio's performance improved markedly in the final quarter and Wellington is confident that this can continue. *"We have had a positive end to a disappointing year, but we fully believe that the relative recovery will continue in 2006 as the market comes to recognise more fully the earnings potential of your portfolio holdings."*

Japan

Witan's Japanese portfolio is managed by Brandes, a bottom-up, value-orientated equity manager who believes that buying businesses at a discount to their true value will produce superior long-term returns. Brandes underperformed in 2005 but because of their investment style this is not a matter of concern for them. *"While we monitor short-term events in Japanese equity markets, our investment philosophy focuses on company-by-company analysis with a long-term perspective. In all market environments we search for and hold what we believe to be fundamentally sound companies trading at significant discounts to our estimates of their fair values. We believe that this strategy will provide patient investors with favourable results."*

Within the portfolio advances for holdings in the commercial banking and pharmaceutical industries made the most substantial contribution to returns. Top performers included Sumitomo Mitsui Financial Group Bank and Eisai, a pharmaceutical company. Investments in the media and insurance industries also outperformed.

Asia Pacific (excluding Japan)

Witan's Asia Pacific portfolio is managed by APS. Although this portfolio underperformed throughout 2005, like Wellington's, there was a very sharp turnaround in performance in the fourth quarter. Aided by a massive inflow of liquidity into Asia, stockmarkets around the region performed very well. Sectors which make up a huge part of the index such as property and financials outperformed at the expense of manufacturing stocks and smaller companies, areas where APS is overweight. APS point out that *"In a liquidity driven market as such, active managers like ourselves had a hard time justifying our decisions to hold on to stocks that are persistently out of favour notwithstanding their very cheap valuations and improving fundamentals. Our performance turned around quite dramatically in the fourth quarter. What is more significant is that this turnaround in performance was not the result of a massive change in our portfolio. In fact we made a conscious decision to stick to our present portfolio instead of going for a massive facelift, after painstakingly reviewing every stock within the portfolio"*

"It is interesting to note as well that quite a few of our stocks went up between 20% to 60% from the bottom in the last few months without any change in fundamentals or newsflows – just like the way they declined without much reason in the first three quarters of 2005. Amongst these stocks are Kingboard Copperfoil, Xinyi Glass, Meiloon Industrial, Handsome, a manufacturer of women's clothing, and Chaoda Modern Agriculture. This is in line with our investment philosophy – we believe that stocks can be mispriced by the market from time to time but eventually fundamentals will prevail. We also believe that the markets will gradually price the other stocks in the portfolio correctly over time."

Outlook

Whilst it is unlikely that equity markets can continue to rise at the rate seen in the last three years, relative to other assets equities still appear to offer reasonable value. At some point, however, we should expect to see greater volatility in markets. This is not necessarily bad news as along with this volatility will come opportunities for our managers to acquire stock cheaply.

The Board remains confident in the ability of our chosen managers to outperform but is not complacent – monitoring and questioning managers and their performance and looking for new opportunities compatible with the desired performance and risk profile of Witan Investment Trust plc. It is committed to enhancing long-term shareholder value, as can be evidenced by its actions of the last two and a half years. The Board is therefore actively seeking further opportunities to add value to the Trust in the coming months and years.

Jim Horsburgh
9 March 2006

The Investment Managers

Investment Manager	Equity Mandate	Benchmark (Total Return)	Investment Style
Henderson Global Investors	UK mainstream equities	FTSE 350 (ex investment companies)	Enhanced Index
Henderson Global Investors	UK smaller companies	Hoare Govett Smaller Companies *(ex investment companies)*	Growth at an Attractive Price
Southeastern Asset Management	Global	FTSE All-World	Quality Businesses at a Discounted Valuation
MFS International	Global	FTSE All-World	Growth at an Attractive Price
Wellington Management Company	Continental Europe	FTSE World Europe (ex UK)	Fundamental Research
Henderson Global Investors	USA	FTSE World North America	Enhanced Index
Brandes Investment Partners	Japan	FTSE Japan	Value
APS Asset Management	Far East	FTSE All-World Asia Pacific (ex Japan)	Fundamental Research

Performance

for the period 1 January 2005 to 31 December 2005 and from inception to 31 December 2005

Investment Manager	Value of Funds under Management £m at 31.12.05	% of Witan's Assets under Management at 31.12.05*	Performance in the period 01.01.05 to 31.12.05	Benchmark Performance 01.01.05 to 31.12.05	Performance in the period 30.09.04 to 31.12.05 (annualised)	Benchmark Performance 30.09.04 to 31.12.05 (annualised)
Henderson Global Investors (UK)	566.7	39.1	+22.3	+21.8	+23.7	+23.2
Henderson Global Investors (UK smaller)	74.6	5.2	+21.3	+27.8	+27.7	+30.7
Southeastern Asset Management	214.6	14.8	+17.0	+24.9	+19.0	+25.1
MFS International	145.6	10.0	+21.3	+24.9	+23.2	+25.1
Wellington Management Company	146.1	10.1	+19.4	+25.4	+24.0	+30.3
Henderson Global Investors (USA)	145.1	10.0	+20.5	+20.2	+19.5	+18.7
Brandes Investment Partners	77.9	5.4	+30.9	+39.7	+32.7	+37.5
APS Asset Management	78.9	5.4	+31.7	+35.5	+33.3	+36.5

*excluding cash balances and unquoted investments held centrally by Witan.
Source: The WM Company

"In recruiting these managers we were looking for firms that had a strong investment philosophy..., that had a clear, rigorous and disciplined investment process... and for firms that had a long-term record of outperformance."

extract from the CEO's Review 2004

Classification of Investments

at 31 December 2005

		United Kingdom %	North America %	Continental Europe %	Japan %	Far East %	South America %	**Total 2005 %**	Total 2004 %
Resources	Mining	2.3	0.1	–	–	0.9	–	3.3	2.8
	Oil & Gas	5.3	1.2	2.7	–	–	–	9.2	7.4
		7.6	1.3	2.7	–	0.9	–	12.5	10.2
Basic Industries	Chemicals	0.3	0.3	0.8	0.2	0.4	–	2.0	2.7
	Construction & Building Materials	1.5	0.1	0.4	0.1	0.1	1.5	3.7	4.0
	Forestry & Paper	–	–	–	–	–	–	–	0.1
	Steel & Other Metals	0.1	0.1	–	0.2	–	–	0.4	0.2
		1.9	0.5	1.2	0.5	0.5	1.5	6.1	7.0
General Industrials	Aerospace & Defence	0.9	0.2	–	–	–	–	1.1	0.9
	Diversified Industries	–	0.4	–	–	0.1	–	0.5	0.4
	Electronic and Electrical Equipment	0.4	0.1	–	1.2	0.5	–	2.2	3.4
	Engineering & Machinery	0.4	0.1	0.2	0.1	0.2	–	1.0	1.2
		1.7	0.8	0.2	1.3	0.8	–	4.8	5.9
Cyclical Consumer Goods	Automobiles	–	0.7	0.3	0.3	0.3	–	1.6	1.5
	Household Goods & Textiles	0.1	0.1	–	0.1	–	–	0.3	1.8
		0.1	0.8	0.3	0.4	0.3	–	1.9	3.3
Non-Cyclical Consumer Goods	Beverages	0.8	0.2	0.1	–	–	–	1.1	1.9
	Food Producers & Processors	0.8	0.2	0.6	–	0.2	–	1.8	1.9
	Health	0.3	1.6	0.1	1.2	–	–	3.2	1.0
	Personal Care & House Products	3.6	0.2	1.9	0.1	0.3	–	6.1	0.8
	Pharmaceuticals	–	0.7	1.1	1.0	–	–	2.8	7.1
	Tobacco	1.0	0.1	–	0.2	0.1	–	1.4	1.4
		6.5	3.0	3.8	2.5	0.6	–	16.4	14.1
Cyclical Services	General Retailers	1.4	1.6	0.1	–	0.1	–	3.2	3.7
	Leisure & Hotels	1.6	1.1	–	–	0.1	–	2.8	1.8
	Media & Entertainment	1.9	3.5	0.5	0.5	–	–	6.4	7.6
	Support Services	1.8	0.2	–	–	–	–	2.0	2.0
	Transport	0.8	0.2	0.5	–	0.3	–	1.8	1.7
		7.5	6.6	1.1	0.5	0.5	–	16.2	16.8
Non-Cyclical Services	Food & Drug Retailers	1.7	0.1	0.3	–	–	–	2.1	1.4
	Telecommunication Services	2.9	0.9	–	1.2	0.2	–	5.2	6.9
		4.6	1.0	0.3	1.2	0.2	–	7.3	8.3
Utilities	Electricity	0.6	0.2	0.1	–	–	–	0.9	0.9
	Other	0.9	0.1	0.4	–	–	–	1.4	1.3
		1.5	0.3	0.5	–	–	–	2.3	2.2
Information Technology	Information Technology Hardware	0.1	1.4	1.2	0.2	0.9	–	3.8	2.8
	Software & Computer Services	0.6	1.8	0.4	–	0.5	–	3.3	2.0
		0.7	3.2	1.6	0.2	1.4	–	7.1	4.8
Financials	Banks	7.0	1.0	1.6	1.0	0.3	–	10.9	12.9
	Insurance	0.3	2.9	1.9	2.0	0.1	–	7.2	6.3
	Investment Companies	0.9	–	–	–	–	–	0.9	1.8
	Life Assurance	1.2	0.2	–	–	0.4	–	1.8	1.7
	Real Estate	1.2	0.1	–	–	–	–	1.3	1.4
	Speciality & Other Finance	1.0	1.0	1.0	0.3	–	–	3.3	3.3
		11.6	5.2	4.5	3.3	0.8	–	25.4	27.4
Totals 2005		43.7	22.7	16.2	9.9	6.0	1.5	**100.0**	
Totals 2004		48.8	20.3	15.2	9.6	5.3	0.8		100.0

Notes:

1. Unquoted investments, options and futures are not included in this classification.
2. There were no fixed interest holdings or convertible holdings (2004: none).

Changes in Investments

	United Kingdom £'000	North America £'000	Continental Europe £'000	Japan £'000	Far East £'000	South America £'000	Total £'000
Investments at 31 December 2004[(1)(2)]	677,531	288,553	205,145	133,928	73,334	11,834	**1,390,325**
Net (sales)/purchases	(142,601)	(1,662)	(5,980)	(27,059)	5,286	(257)	**(172,273)**
Net capital gains over the year[(3)]	102,861	38,656	33,980	35,432	6,723	9,862	**227,514**
Investments at 31 December 2005[(2)]	**637,791**	**325,547**	**233,145**	**142,301**	**85,343**	**21,439**	**1,445,566**

(1)as restated (see note 22 on page 44).
(2)including unquoted investments but excluding futures.
(3)comprising both realised and unrealised gains.

Twenty Largest Investments

The 20 largest investments at 31 December 2005 were as follows:

		Market value of holding £ million	**% of portfolio**	**Country**	**Description**
1	BP	47.1	3.2	UK	*oil & gas*
2	Royal Dutch Shell	41.6	2.8	UK	*oil & gas*
3	HSBC	35.3	2.4	UK	*banking*
4	GlaxoSmithKline	31.6	2.2	UK	*pharmaceuticals*
5	Vodafone	27.3	1.9	UK	*telecommunications*
6	Cemex	21.4	1.5	USA	*construction & building materials*
7	Royal Bank of Scotland	19.9	1.4	UK	*banking*
8	Philips Electronics	18.5	1.3	Netherlands	*electronic & electrical equipment*
9	AstraZeneca	16.7	1.2	UK	*pharmaceuticals*
10	Olympus Optical	16.6	1.1	Japan	*electronic & electrical equipment*
11	Walt Disney	14.3	1.0	USA	*media and entertainment*
12	Dell	14.1	1.0	USA	*information technology hardware*
13	NipponKoa Insurance	13.8	1.0	Japan	*insurance*
14	Everest Re	13.7	0.9	USA	*insurance*
15	KDDI	13.0	0.9	Japan	*telecommunications*
16	Barclays	12.8	0.9	UK	*banking*
17	HBOS	12.5	0.9	UK	*banking*
18	Henderson Strata	12.5	0.9	UK	*investment trust*
19	Hasbro	12.3	0.8	USA	*leisure & hotels*
20	Tesco	11.8	0.8	UK	*food & drug retailers*

These investments total £406.8 million and represent 28.1% of the total investment portfolio at 31 December 2005.

Directors' Report

The directors present the audited accounts of the Group and their report for the year ended 31 December 2005.

Activities and Business Review

A review of the business is given in the Chairman's Statement on pages 4 to 5 and in the Chief Executive Officer's Review on pages 6 to 10.

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. HM Revenue & Customs approval of the Company's status as an investment trust has been received in respect of the year ended 31 December 2004, although approval for that year may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Company will continue each year to seek approval as an investment trust under section 842 of the Taxes Act.

Subsidiary Company

During the year the Company established a subsidiary company, Witan Investment Services Limited, to provide marketing services to the Company and to provide executive management and marketing services to third party clients. Witan Investment Services Limited has applied for authorisation by the Financial Services Authority to provide marketing services.

Investment in Investment Companies

It is the stated investment policy of the Company to invest no more than 15% of its gross assets in other UK listed investment companies. At 31 December 2005 the Company had one investment in a UK listed investment company, valued at £12.5 million (equivalent to 0.9% of the Company's investments).

PEPs and ISAs

The Company intends to continue as a fully qualifying investment trust company under the Personal Equity Plan regulations and the Individual Savings Account regulations.

Assets

At 31 December 2005 the total net assets of the Group were £1,384.9 million (2004 as restated: £1,322.6 million). The net asset value per ordinary share was 469.5p (2004 as restated: 390.2p).

The figures for 2004 have been restated because the financial statements for the year ended 31 December 2005 have been prepared, for the first time, in accordance with the new International Financial Reporting Standards ("IFRS").

Revenue and Dividend

The profit for the year was £250.3 million, of which £28.0 million is attributable to revenue (2004 as restated: £119.2 million, of which £29.3 million was attributable to revenue). The profit for the year attributable to revenue has been applied as follows:

	£'000
Distributed as dividends:	
First interim of 3.80p per ordinary share (paid on 9 September 2005)	11,654
Second interim of 5.00p per ordinary share (payable on 3 April 2006)	14,050
Retained earnings	2,298
	28,002

The directors have declared a second interim dividend instead of a final dividend in order to ensure that, as in previous years, the distribution is made to the shareholders before 5 April. The Company announced in October 2004 its continued intention to grow the dividend in line with inflation year on year.

Substantial Shareholdings

As at 8 March 2006, the following had notified the Company of interests in the Company's ordinary share capital:

	%
AXA Investment Managers UK Limited	12.02
Barclays PLC	3.95
Legal & General Investment Management Limited	3.62

The above percentages are calculated by applying the shareholdings as notified to the Company to the issued ordinary share capital as at 9 March 2006.

Directors

The directors of the Company are shown on page 2.

All the directors held office throughout the year under review, with the exception of Ms Platt, who was appointed a director on 13 December 2005, and Mr Watson, who was appointed a director after the year end on 1 February 2006.

At the forthcoming Annual General Meeting, Mr McGrath, Mr Bruce and Mr Horsburgh will retire by rotation in accordance with the Company's Articles of Association and, being eligible, they offer themselves for re-election. Mr Henderson, Mr Colvill and Mr Jones will also stand for re-election, having served as directors for more than nine years. Ms Platt and Mr Watson will both stand for election in accordance with the Articles of Association. Mr Clarke and Mr McVeigh have both decided to stand down from the Board at the conclusion of the Annual General Meeting on 24 April 2006.

The directors have reviewed their independence in the context of the Combined Code, as revised in July 2003, and by reference to the AITC's Code of Corporate Governance. Mr Clarke was for many years a senior executive of Henderson Global Investors, retiring in March 2003; he is not considered to be independent because Henderson Global Investors was until 31 August 2004 the Company's Manager (and remains one of the Company's investment managers). The other directors are wholly independent of Henderson Global Investors (and of the other investment managers) and are of the opinion that each of them is independent in character and judgement and that there are no relationships or circumstances that are likely to affect their judgement.

Mr Henderson was formerly a partner of Cazenove & Co., the firm which for many years acted as the Company's stockbroker. However, he did not have responsibility for or involvement with Cazenove's role with the Company, being for many years responsible for aspects of Cazenove's fund management division. Mr Henderson is a member of the family from which Henderson Global Investors takes its name but he has never been employed by Henderson Global Investors and, since its acquisition by AMP Limited in 1998, has had no interest in its shares. Mr Henderson, Mr Colvill, Mr Jones and Mr McGrath have served on the Board for more than nine years. Accordingly, all four of them will stand for election by the shareholders each year. The Board is firmly of the view, however, that length of service does not of itself impair a director's ability to act independently; rather, their longer perspective adds value to the deliberations of a well-balanced investment trust company board. The Board considers Mr Henderson, Mr Colvill, Mr Jones and Mr McGrath to be independent. Their roles and contributions will, however, be reviewed rigorously each year.

Throughout the year the membership of the Audit Committee comprised Mr Colvill (Chairman), Mr Bruce and Mr Clarke. Throughout the year the membership of the Remuneration Committee comprised Mr Jones (Chairman), Mr Henderson and Mr McVeigh. There have been no changes to the membership of the committees since the year end but new appointments will be made during the year when Mr Clarke and Mr McVeigh stand down from the Board. Mr McGrath is the non-executive director who leads on marketing matters but the Board has decided not to establish a permanent committee to cover this area of the business.

Mr McVeigh is a director of Citigroup European Investment Bank which includes one of the firms of brokers through which the Company buys, sells and underwrites investments. Mr Henderson was formerly a senior executive at Cazenove and a partner in its predecessor firm. As one of a number of institutional investors, the Company purchased in 2001 a holding of shares in Cazenove Group plc ("Cazenove") (see note 10 (v) on page 38). 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. With the exception of Mr Horsburgh, no director has a service contract with the Company.

The number of formal meetings during the year of the Board and its Committees, and the attendance of the individual directors at those meetings, is shown in the table that follows.

Number of meetings	Board	Audit Committee	Remuneration Committee
	12	4	2
H M Henderson	12	*4	2
J Horsburgh	11	*3	-
C G Clarke	12	4	-
R W C Colvill	11	4	-
A W Jones	10	-	2
R H McGrath	12	-	-
C S McVeigh III	11	-	2
R A Bruce	11	4	-
J C Platt	1	-	-

One Board meeting was held after Ms Platt's appointment as a director.

*Not a member of the committee but in attendance by invitation.

All the then directors attended the Annual General Meeting.

Directors' Report

continued

Directors' Interests

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

	31 December 2005	
Ordinary shares:	Beneficial	Non-Beneficial
H M Henderson	722,732	586,532
J Horsburgh	80,000	-
C G Clarke	200,000	-
R W C Colvill	21,595	35,364
A W Jones	97,536	-
R H McGrath	27,688	476
C S McVeigh III	3,000	17,125
R A Bruce	3,037	145
J C Platt	-	-
	1,155,588	639,642

	1 January 2005	
Ordinary shares:	Beneficial	Non-Beneficial
H M Henderson	622,732	620,532
J Horsburgh	60,000	-
C G Clarke	182,848	-
R W C Colvill	5,156	18,743
A W Jones	97,536	-
R H McGrath	27,688	263
C S McVeigh III	3,000	14,246
R A Bruce	2,963	-
J C Platt*	-	-
	1,001,923	653,784

*on appointment on 13 December 2005.

Mr McGrath's non-beneficial interests increased to 522 shares as a result of regular investment through the Jump share plan and Mr Bruce's non-beneficial interests increased similarly to 156 shares. No other changes in the interests of the directors have been notified since the year end. No director had an interest in the secured bonds, debenture stock or preference shares of the Company.

Directors' Indemnityj

Directors' and officers' liability insurance cover is in place in respect of the directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of costs, losses or liabilities which they may incur in the discharge of their duties or the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company.

Directors' Fees

A report on the directors' remuneration is set out on pages 19 to 20.

Corporate Governance

A corporate governance statement is set out on pages 21 to 24.

Financial Instruments and the Management of Risk

By its nature as an investment trust, the Company is exposed to market price risk, foreign currency risk, interest rate risk, liquidity risk and credit risk. The Company's policies for managing these risks are outlined in full in note 14 to the accounts on pages 40 and 41.

Investment Managers

Until 31 August 2004, investment management, UK custodial, accounting, administrative and company secretarial services were provided to the Company by Henderson Global Investors (Holdings) plc and its subsidiaries ("Henderson Global Investors") and by BNP Paribas Fund Services UK Limited (formerly Cogent Investment Operations Limited).

In 2004 the Board reviewed the Company's asset allocation policy and agreed to appoint investment managers for eight different investment mandates. Henderson Global Investors was appointed to three of the investment mandates and five new investment management companies were appointed in respect of the other five investment mandates. Investment management agreements were negotiated and signed in respect of each of the eight investment mandates and the revised arrangements came into effect on 1 September 2004. Each of the investment managers is entitled to a base management fee, calculated according to the value of the assets under management, and/or a performance fee, calculated according to investment performance, over a rolling three year period, relative to the benchmark applicable to the relevant investment mandate. Each of the performance fees is subject to a cap and each management agreement can be terminated on one month's notice. The base management fee rates range from nil to 0.86 per cent per annum and the performance fees range from nil to 30 per cent per annum of the relevant outperformance. All the fees are payable quarterly in arrears. The performance fees are payable on a pro rata basis, after a minimum initial period of one year, and after three years are calculated on a rolling three year basis. Fees are subject to VAT as applicable. The average aggregate base management fee, calculated on a size-weighted basis according to the value of the funds under management, was 0.16 per cent as at 31 December 2005 (and 0.16 per cent as at 31 December 2004). The maximum performance fees payable, if each of the eight investment mandates performs to at least the extent that the relevant cap applies, would result in total fees of 0.97 per cent being paid (based on the value of the funds under management at 31 December 2005).

The Company has contracted separately with other parties for the various supporting services that it requires, some of which were provided previously under the management agreement with Henderson Global Investors. The main contracts are with BNP Paribas Securities Services SA for global custody, with BNP Paribas Fund Services UK Limited for investment administration and accounting, and with Henderson Global Investors for company secretarial and marketing services. During the year Henderson Global Investors also provided office accommodation.

In November 2005 the Company took a lease on office premises at 14 Queen Anne's Gate, London SW1A 9AA. The Company's registered office remains as 4 Broadgate, London EC2M 2DA.

It is the opinion of the directors that the continuing appointment of the various investment managers is in the interests of the Company's shareholders as a whole and that the terms of engagement negotiated with them are competitive and appropriate to the investment mandates. The Board, assisted by its advisers, carried out a rigorous and extensive selection process in 2004 (as a result of which the directors consider the investment managers appointed to each mandate to be among the best available in the world).

The investment managers may use certain services which are paid for, or provided by, various brokers. In return they may place business, including transactions relating to the Company, with these brokers.

Share Buy-Backs

The Company's Articles of Association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital profits.

At the Annual General Meeting in March 2005 a special resolution was passed giving the Company authority, until the conclusion of the Annual General Meeting in 2006, to make market purchases for cancellation of the Company's ordinary shares up to a maximum of 47,466,086 shares (being 14.99% of the issued ordinary share capital as at 31 March 2005). As at 31 December 2005 the Company had valid authority, outstanding until the conclusion of the Annual General Meeting in 2006, to make market purchases for cancellation of 25,802,558 shares. During the year ended 31 December 2005 the Company purchased for cancellation a total of 43,956,634 of its own ordinary shares, representing 12.97% of the ordinary shares in issue at 31 December 2004. These purchases, which cost £159,510,000 excluding stamp duty, were funded from the realised capital reserves. A further 14,573,049 shares have been bought back between the year end and the date of this report.

The Board considers that the Company should continue to have authority to make market purchases of its own ordinary shares for cancellation. Accordingly, a special resolution will be proposed at the forthcoming Annual General Meeting to authorise the Company to make market purchases for cancellation of up to 14.99% of the ordinary shares in issue at the date of the Annual General Meeting (equivalent to 42,034,223 ordinary shares if there is no change in the issued ordinary share capital between the date of this report and the Annual General Meeting). Under the Listing Rules of the UK Listing Authority this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority.

The directors believe that buying back the Company's own shares in the market, at appropriate times and prices, is in the best interests of shareholders generally. The Company will make purchases, within guidelines set from time to time by the Board and if or when market conditions are suitable, with the aim of maximising the benefit to the remaining shareholders. The Company announced in December 2004 its intention to buy back shares proactively in order to maintain an appropriate level of discount, with the aim, over three years, of moving the level of the discount to below 10% (as calculated by valuing the

Directors' Report
continued

Company's debt on a fair value basis). The directors will not use this authority unless to do so would result in an increase in the net asset value per ordinary share. Shares will not be bought at a price that is less than 25p (the nominal value) or more than 5% above the average middle market price of the shares over the preceding five business days. The directors intend to seek a fresh authority at the Annual General Meeting in 2007.

New Zealand Listing

On 8 March 2006 the Company's shares were listed on the New Zealand Stock Exchange, in the category of Overseas Listed Issuer.

Payment of Suppliers

It is the Company's payment policy for the financial year to 31 December 2006 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 2005 the Company had no trade creditors (2004: none).

Auditors

Resolutions to re-appoint Deloitte & Touche LLP as the Company's auditors, and to authorise the directors to determine their remuneration, will be proposed at the forthcoming Annual General Meeting.

Donations

No donations were made to political parties during the year. Donations to charities totalling £32,362 were made during the year from the Company's marketing budget.

By order of the Board
G S Rice
For and on behalf of
Henderson Secretarial Services Limited,
Secretary
9 March 2006

Directors' Remuneration Report

Introduction

The Directors' Remuneration Report ("the Report") is prepared in accordance with Schedule 7A of the Companies Act 1985 ("the Act") in respect of the year ended 31 December 2005. An ordinary resolution to approve the Report will be put to the Annual General Meeting on 24 April 2006. The Act requires the auditors to report to the Company's members on certain parts of the Report and to state whether in their opinion those parts of the Report have been properly prepared in accordance with the Act. Therefore the Report has been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Consideration by the Directors of Matters relating to Directors' Remuneration

The Board as a whole sets the directors' remuneration but it has appointed its Remuneration Committee to consider matters relating thereto. Throughout the year the members of the Remuneration Committee were Mr A W Jones (Chairman), Mr H M Henderson and Mr C S McVeigh. The Remuneration Committee has not been provided with advice or services by any person in respect of its consideration of the non-executive directors' remuneration (although the directors expect from time to time to review the fees paid to the boards of directors of other investment trust companies).

Statement of the Company's Policy on Directors' Remuneration

Non-executive directors

All the directors are non-executive, with the exception of the Chief Executive Officer. New directors are appointed for an initial term ending three years from the date of their first annual general meeting after appointment and with the expectation that they will serve two three-year terms. The continuation of directors' appointments is contingent on satisfactory performance evaluation and re-election at annual general meetings. Directors' appointments are reviewed formally every three years by the Board as a whole. None of the directors has a contract of service and a director may resign by notice in writing to the Board at any time; there are no set notice periods. The Company's policy is for the directors to be remunerated in the form of fees, payable quarterly in arrears, to the director personally or to a third party specified by him. There are no long term incentive schemes or pension arrangements and the fees are not specifically related to the directors' performance, either individually or collectively.

The Company's policy is that the fees payable to the directors should reflect the time committed by the directors to the Company's affairs and the responsibilities borne by them and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board and the Chairman of the Audit Committee to be paid higher fees than the other directors in recognition of their more onerous roles.

The Company's Articles of Association limit the fees payable to the directors to £250,000 per annum in aggregate. In the year under review directors' fees were paid at the following annual rates: the Chairman £25,000 until 31 March 2005 and £45,000 from 1 April 2005; the Chairman of the Audit Committee £20,000 until 31 March 2005 and £26,000 from 1 April 2005; the other directors £17,500 until 31 March 2005 and £23,000 from 1 April 2005. The policy is to review these rates from time to time, although such review will not necessarily result in any change to the rates.

Since the year-end the Board has agreed, on the recommendation of the Remuneration Committee, that the fees payable to the non-executive directors will remain for the coming year at the rates applicable since 1 April 2005, as above, with the exception that from 1 January 2006 the fees payable to Mr McGrath will be at the rate of £26,000 per annum, in recognition of the additional role that he plays on behalf of the Board in monitoring the Group's marketing activities.

Directors' and officers' liability insurance cover is held by the Company in respect of all the directors.

Executive director

Mr J Horsburgh was appointed Chief Executive Officer ("CEO"), and became an executive director of the Company, with effect from 2 February 2004.

The Company's policy on the remuneration of the CEO is to pay a basic salary appropriate to the position, together with bonus arrangements that link his remuneration to the performance achieved

Directors' Remuneration Report

continued

in the different aspects of his role. The CEO's service agreement dated 16 January 2004, as revised by a side letter dated 3 June 2005, provides for a salary of £200,000 per annum, pension contributions equivalent to 10% of salary to a pension scheme of his choosing and private health insurance cover. Since the year end his salary has been increased to £215,000 per annum, with effect from 1 January 2006. The bonus arrangements provide, at the ultimate discretion of the Company, a bonus of up to 50% of salary in respect of each calendar year. Bonus payments will be made over two years, subject normally to continued employment with the Company. During the year the terms of the bonus arrangements were amended, with effect from 1 January 2005. The performance over the year of the Company's net asset value per share relative to its benchmark determines 60% of his bonus payments. Outperformance of the benchmark by 2% or more will generate a bonus of the full 60%; no bonus is payable if performance is in line with or below that of the benchmark; relative performance of between nil and 2% will generate a pro rata award. The benchmark is a composite of 50% the FTSE All-Share Index and 50% the FTSE World (excluding the UK) Index, both on a capital return basis. The remaining 40% is awarded, at the Board's discretion, on the basis of his overall performance as CEO of the Company. The appointment may be terminated by either party subject to not less than twelve months' written notice. The CEO is not entitled to fees for his service as a director. He is entitled to take unpaid leave, subject to the approval of the Chairman (and he did so in 2005).

Performance Graph

The Act requires the performance of the Company's share price to be compared to a single broad equity market index. The FTSE All-Share Index is selected for the graph because it is the prime index of the UK market, on which the Company's shares are listed (although the Company's benchmark is a composite of two indices (see page 3)).

AUDITED INFORMATION

Amount of each Director's emoluments

Non-executive directors

The fees payable in respect of each of the directors who served during the year, and during 2004, were as follows:

	2005 £	2004 £
H M Henderson	**40,000**	25,000
C G Clarke	**21,625**	17,500
R W C Colvill	**24,500**	20,000
A W Jones	**21,625**	17,500
R H McGrath	**21,625**	17,500
C S McVeigh III	**21,625**	17,500
R A Bruce	**21,625**	17,500
J C Platt (i)	**1,197**	-
TOTAL	**173,822**	132,500

Notes:

(i) Ms Platt was appointed a director on 13 December 2005.

Executive director

The remuneration payable to the Chief Executive Officer in respect of the year is as follows:

	2005 £	2004 £
Basic salary	**189,238**	183,333
Performance related bonus	**32,000**	64,167
Pension contributions	**20,000**	18,333
Benefits in kind (health and life insurance)	***1,969***	*2,363*
TOTAL	**243,207**	268,196

By order of the Board

G S Rice

For and on behalf of

Henderson Secretarial Services Limited,

Secretary

9 March 2006

Corporate Governance

Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code on Corporate Governance ("the Code").

Throughout the year under review the Code in force was the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003. In addition, the AITC Code of Corporate Governance, issued by the Association of Investment Trust Companies in July 2003, applies to the Company ("the AITC Code").

Application of the Principles of the Code

The Company is committed to high standards of corporate governance and the Board attaches importance to the matters set out in the Code and applies its principles. However, as an investment trust company, most of the Company's day to day responsibilities are delegated to third parties and all but one of the directors are non-executive.

The Board

The Board is collectively responsible for the success of the Company. Its role is to provide leadership within a framework of prudent and effective controls that enable risk to be assessed and managed.

The Board sets the Company's strategic aims (subject to the Company's memorandum and articles of association, and to such approval of the shareholders in general meeting as may be required from time to time) and ensures that the necessary resources are in place to enable the Company's objectives to be met.

The Board currently consists of ten directors, the majority of whom are independent of Henderson Global Investors Limited (which was the Company's Manager until 2004 and remains one of the Company's investment managers) and all of whom are independent of the Company's five new investment managers. With the sole exception of the Chief Executive Officer, the directors are all non-executive. Their biographical details, set out on page 2, demonstrate a breadth of investment, industrial, commercial and professional experience with an international perspective.

The Board meets at least ten times a year and deals with the most important aspects of the Company's affairs, including the setting of parameters for and the monitoring of investment strategy, the review of investment performance and the extent to which borrowings may be used. The Chief Executive Officer is responsible to the Board for the overall management of the Company. His duties include leading on investment strategy and asset allocation, on the selection and monitoring of the investment managers and their terms of reference, on the use of derivatives and for all other aspects of the Company's affairs, including shareholder relations, marketing, investment trust industry matters, administration and the remaining unquoted investments. The Chief Executive Officer reports to each meeting of the Board. His report includes confirmation from each of the investment managers that they have carried out their duties in accordance with the terms of their investment mandates and confirmation that the Board's investment limits and restrictions have been adhered to, including those which govern the Company's tax status as an investment trust. The investment managers take decisions as to the purchase and sale of individual investments and are responsible for effecting those decisions on the best available terms. The Chairman is responsible for ensuring that the directors are provided, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant, whether from the Chief Executive Officer or otherwise.

Representatives of the investment managers attend Board meetings on a regular basis, enabling the directors to monitor the management of the Company's assets, to seek clarification on specific issues or to probe further on any points of concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense. 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. When a director is appointed he or she is offered a tailored introductory programme. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the

Board as they arise. Directors are encouraged to attend suitable training courses on an ongoing basis at the Company's expense.

Directors are appointed for specified terms, subject to re-election and to the provisions of the Companies Act. In accordance with the Company's articles of association, new directors stand for election at the first annual general meeting following their appointment. The Board has agreed that every director will stand for re-election at intervals of not more than three years. The Board's report on the independence of the directors is set out on pages 14 and 15.

The Board's tenure and succession policy seeks to ensure that the Board is well-balanced and refreshed regularly by the appointment of new directors with the skills and experience necessary, in particular, to replace those lost by directors' retirements. Directors must be able to demonstrate their commitment to the Company, including in terms of time. The Board seeks to encompass relevant past and current experience of various areas, the most important skill-sets being investment management, finance, marketing, financial services, risk management, custody and settlement, and investment banking.

The Board's procedure in 2005 for evaluating the performance of the Board, its Committees and the individual directors was by means of individual meetings of the Chairman with each of the directors. A meeting of the directors was then held, without the Chairman present, to evaluate his performance. The evaluation process is designed to show whether individual directors continue to contribute effectively to the Board and to clarify the strengths and weaknesses of the Board's composition and processes. The Chairman has taken the lead in acting on the results of the evaluation process, mindful of the requirement to refresh the composition of the Board from time to time without reducing the stability, sense of purpose and effectiveness of the Board that was highlighted by the evaluation process.

The Chairman of the Company is an independent director. A senior non-executive director has not been identified as the Board considers that, by design, the directors have different qualities and areas of expertise on which they may lead when issues arise. In addition the Board has appointed separate chairmen to lead its two permanent committees. Accordingly, any concerns can be conveyed to the director most qualified to address the subject.

Board Committees

The Board has established Audit and Remuneration Committees. The Remuneration Committee has responsibility for the duties of the former Nominations Committee. The duties of the former Management Engagement Committee are now the responsibility of the Chief Executive Officer. The membership of the Audit Committee and the Remuneration Committee is set out on pages 2 and 15.

Audit Committee

The Committee comprises three non-executive directors appointed by the Board; the Board also appoints the Chairman. The Committee held four meetings during the year, at three of which representatives of the auditors were present. Its programme is to meet at least three times a year: in advance of the publication of both the annual and the interim results and on at least one other occasion with an agenda that is focused on its broader responsibilities.

The role of the Audit Committee is to assist the directors in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Company's auditors.

The Committee is responsible for monitoring the integrity of the Company's financial statements, including consideration of the Company's accounting policies and significant reporting judgements. It reviews the Company's internal financial controls and risk management systems. It reviews the scope and effectiveness of the audit process and monitors the auditors' independence and objectivity. It makes recommendations in relation to the appointment of the external auditors, including their remuneration and the provision by them of any non-audit services. The Committee has established a procedure to ensure that the engagement of the auditors to provide non-audit services cannot exceed a specified proportion of the annual audit fees without due consideration being given by the Committee to the proposed appointment. The Committee also reviews major contracts undertaken by the Company, the Board's investment restrictions and the values attributed to the unquoted investments. It reviews the Company's policy on matters of corporate social responsibility and the exercise of voting rights. It ensures that the Company maintains appropriate compliance with the requirements of regulators; and it reviews the reporting of investment performance.

Remuneration Committee

The Committee comprises three non-executive directors appointed by the Board; the Board also appoints the Chairman. The Committee held two meetings during the year. Its programme is to meet at least once a year, in advance of the year end, and on other occasions as necessary.

The role of the Remuneration Committee is to determine and review the Company's remuneration policy, to establish the incentive arrangements for and to evaluate the performance of the Chief Executive Officer, to assess the effectiveness of the Board and to consider the remuneration of the non-executive directors. It is also responsible for reviewing the composition of the Board and for proposing nominations for appointment to it. Each director is invited to submit nominations and external advisers may be used to identify or assess potential candidates. The nominations list is considered by the Board as a whole, although the Chairman would not expect to be involved in the selection of his successor.

Two Board appointments were made during the year. The directors reviewed the skills and experience required of potential new directors. The Remuneration Committee, assisted by a specialist firm of search consultants, Trust Associates Limited, prepared a short list of candidates and made a recommendation to the Board. The Board accepted the recommendations and its two invitations to join the Board were both accepted.

Directors' Remuneration

The directors' remuneration is detailed in the Directors' Remuneration Report on pages 19 and 20.

Relations with Shareholders

The Board seeks to develop an understanding of the views of the major shareholders by receiving reports from the Chief Executive Officer and from the Witan Marketing Director on meetings that they have with shareholders, investors and analysts and from the Company's stockbrokers on contact it has with shareholders and investors. The Chairman, and other members of the Board if requested, expect to be available to talk to major shareholders.

The Board considers that the annual general meeting should provide an effective forum for individual investors to communicate with the directors. The annual general meeting is chaired by the Chairman of the Board. The Chairmen of the Audit Committee and the Remuneration Committee also expect to be present and able to answer questions from shareholders as appropriate. Details of the proxy votes received in respect of each resolution are made available to shareholders. The Chief Executive Officer makes a presentation to the meeting. The Company has adopted a nominee share code which is set out on page 52.

Accountability and Audit

The directors' statement of responsibilities in respect of the accounts is set out on page 25.

The report of the independent auditors is set out on page 26.

The Board has delegated contractually to external agents, including the six investment managers, the management of the investment portfolio, global custody (which includes the safeguarding of the assets), the investment administration, management and financial accounting, company secretarial and certain other administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from the investment managers and ad hoc reports and information are supplied to the Board from its other contractors as required.

Internal Control

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accords with the Turnbull guidance, is subject to regular review by the Audit Committee and was fully in place during the year under review and up to the date of this annual report. The Board remains responsible for the Company's system of internal control and has conducted its annual review of the effectiveness of the system, covering all the controls, including financial, operational and compliance controls and risk management systems. This review took into account points raised during the year in the regular appraisal of specific areas of risk. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year the Board undertook a full review of the Company's business risks and these are analysed and recorded in a risk map. The Board receives each quarter from its main contractors formal reports which detail the steps taken to monitor the areas of risk and which report the details of any known internal control failures. The Board receives each year from its UK based investment managers and its investment administrator reports on their internal controls ("FRAG 21" type reports), each of which includes a report from the relevant company's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and of its key suppliers.

The Company established during the year a formal policy for staff to raise in confidence any concerns about possible improprieties, whether in matters of financial reporting or otherwise, for appropriate independent investigation. Its staff comprises only five people (including the Chief Executive Officer), who are well known to and have frequent and informal contact with the members of the Board.

The Company does not have an internal audit function. It delegates to third parties the management of its investments and most of its other operations and employs only a very small staff. The investment managers and certain other key contractors are subject to external regulation and most have compliance and internal audit functions of their own. The Company's investments are held on its behalf by a global custodian. A specialist firm of investment accountants and administrators is responsible for investment administration, for maintaining accounting records and for preparing financial accounts, management accounts and other management information. The investment performance of the investment managers, both individually and collectively, is measured for Witan by a company that is independent of all the investment managers. The corporate company secretary is a company with long experience in servicing investment trusts. The appointment of these and other professional contractors provides a clear separation of duties and a structure of internal controls that is balanced and robust. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the directors will review at least annually whether a function equivalent to an internal audit is needed.

Going Concern

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

Exercise of Voting Powers

The Board has approved a corporate governance voting policy with all of its investment managers which, in the view of the Board, balances current best practice with the underlying investment management philosophies of the investment managers.

Statement of Compliance

The directors consider that the Company has complied during the year ended 31 December 2005 with all the relevant provisions set out in the Code, with the exceptions that (a) the Board has not appointed a senior independent director (Code Provision A.3.3), (b) one member of the Audit Committee, Mr Clarke, was not an independent director (Code Provision C.3.1) and (c) the Company did not at the beginning of the year have formal arrangements for its staff to raise in confidence concerns about possible improprieties in respect of financial reporting or other matters (Code Provision C.3.4). The directors consider that the Company has complied throughout the year ended 31 December 2005 with the AITC Code.

Statement of Directors' Responsibilities

in respect of the Accounts

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

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

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

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Note to those who access this document by electronic means

The annual report for the year ended 31 December 2005 has been approved by the Board of Witan Investment Trust plc and circulated to the Company's shareholders in hard copy format. It is also made available in electronic format for the convenience of readers. However, the Board cannot accept responsibility for guaranteeing the integrity of the document in electronic format. Printed copies are available from the Company's Registered Office in London.

Readers should note that legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Independent Auditors' Report

to the members of Witan Investment Trust plc

We have audited the group and individual company financial statements (the "financial statements") of Witan Investment Trust plc and subsidiaries ("Witan") for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated and individual company statements of changes in shareholders' equity and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you 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 regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report including the unaudited part of the directors' remuneration report and 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the individual company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the individual company affairs as at 31 December 2005.
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

DELOITTE & TOUCHE LLP Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
9 March 2006

Note to those who access this document by electronic means
An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Witan Investment Trust plc
Consolidated Income Statement
for the year ended 31 December 2005

Notes		Year ended 31 December 2005 Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 December 2004 Restated (see note 22) Revenue return £'000	Capital return £'000	Total £'000
2	Investment income	**33,463**	**–**	**33,463**	34,373	–	34,373
3	Other income	**5,579**	**–**	**5,579**	3,018	–	3,018
10	Gains on investments held at fair value through profit or loss	**–**	**229,694**	**229,694**	–	100,865	100,865
	Total income	**39,042**	**229,694**	**268,736**	37,391	100,865	138,256
	Expenses						
4	Management fees	**(531)**	**(1,649)**	**(2,180)**	(933)	(3,523)	(4,456)
5	Other expenses	**(4,208)**	**–**	**(4,208)**	(3,199)	–	(3,199)
	Profit before finance costs and taxation	**34,303**	**228,045**	**262,348**	33,259	97,342	130,601
6	Finance costs	**(2,613)**	**(7,644)**	**(10,257)**	(2,617)	(7,619)	(10,236)
	Profit before taxation	**31,690**	**220,401**	**252,091**	30,642	89,723	120,365
7	Taxation	**(3,688)**	**1,920**	**(1,768)**	(1,312)	154	(1,158)
	Profit for the year	**28,002**	**222,321**	**250,323**	29,330	89,877	119,207
9	Earnings per ordinary share	**8.96p**	**71.16p**	**80.12p**	8.63p	26.46p	35.09p

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

All income is attributable to the equity holders of Witan Investment Trust plc, the parent company. There are no minority interests.

The notes on pages 31 to 46 form part of these accounts.

Witan Investment Trust plc

Consolidated and Company Statements of Changes in Equity

for the year ended 31 December 2005

Notes		Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other capital reserves £'000	Retained earnings £'000	Total £'000
		Group Year ended 31 December 2005					
	At 31 December 2004	84,736	16,237	9,090	1,170,296	42,280	1,322,639
	Profit for the year	–	–	–	222,321	28,002	250,323
8	Ordinary dividends paid	–	–	–	–	(27,738)	(27,738)
15, 16	Buy-backs of ordinary shares	(10,989)	–	10,989	(160,307)	–	(160,307)
	At 31 December 2005	73,747	16,237	20,079	1,232,310	42,544	1,384,917

Notes		Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other capital reserves £'000	Retained earnings £'000	Total £'000
		Company Year ended 31 December 2005					
	At 31 December 2004	84,736	16,237	9,090	1,170,296	42,280	1,322,639
	Profit for the year	–	–	–	222,239	28,084	250,323
8	Ordinary dividends paid	–	–	–	–	(27,738)	(27,738)
15, 16	Buy-backs of ordinary shares	(10,989)	–	10,989	(160,307)	–	(160,307)
	At 31 December 2005	73,747	16,237	20,079	1,232,228	42,626	1,384,917

Notes		Ordinary share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other capital reserves £'000	Retained earnings £'000	Total £'000
		Group and Company Year ended 31 December 2004 Restated (see notes 22 and 23)					
	At 31 December 2003	85,880	16,237	7,946	1,094,385	41,131	1,245,579
	Profit for the year	–	–	–	89,877	29,330	119,207
8	Ordinary dividends paid	–	–	–	–	(28,181)	(28,181)
15	Buy-backs of ordinary shares	(1,144)	–	1,144	(13,966)	–	(13,966)
	At 31 December 2004	84,736	16,237	9,090	1,170,296	42,280	1,322,639

The notes on pages 31 to 46 form part of these accounts.

Witan Investment Trust plc
Consolidated and Company Balance Sheets

as at 31 December 2005

Notes		Group 31 December 2005 £'000	Company 31 December 2005 £'000	Group and Company 31 December 2004 Restated (see note 22) £'000
	Non current assets			
10	Investments held at fair value through profit or loss	**1,445,566**	**1,446,384**	1,390,325
	Current assets			
11	Other receivables	**4,653**	**4,783**	11,969
	Cash and cash equivalents	**86,319**	**85,302**	79,568
		90,972	**90,085**	91,537
	Total assets	**1,536,538**	**1,536,469**	1,481,862
	Current liabilities			
12	Other payables	**4,873**	**4,804**	12,384
	Total assets less current liabilities	**1,531,665**	**1,531,665**	1,469,478
	Non current liabilities			
13	8½ per cent. Debenture Stock 2016	**45,779**	**45,779**	45,949
13	6.125 per cent. Secured Bonds due 2025	**98,414**	**98,414**	98,335
13, 17	3.4 per cent. cumulative preference shares of £1	**2,055**	**2,055**	2,055
13, 17	2.7 per cent. cumulative preference shares of £1	**500**	**500**	500
		146,748	**146,748**	146,839
	Net assets	**1,384,917**	**1,384,917**	1,322,639
	Equity attributable to equity holders			
15	Ordinary share capital	**73,747**	**73,747**	84,736
16	Share premium	**16,237**	**16,237**	16,237
16	Capital redemption reserve	**20,079**	**20,079**	9,090
16	Other capital reserves	**1,232,310**	**1,232,228**	1,170,296
16	Retained earnings	**42,544**	**42,626**	42,280
	Total equity	**1,384,917**	**1,384,917**	1,322,639
18	**Net asset value per ordinary share**	**469.5p**	**469.5p**	390.2p

The financial statements were approved by the directors on 9 March 2006 and were signed on their behalf by

H M Henderson

J Horsburgh

The notes on pages 31 to 46 form part of these accounts.

Witan Investment Trust plc
Consolidated and Company Cash Flow Statements

for the year ended 31 December 2005

	Group Year ended 31 December 2005 £'000	Company Year ended 31 December 2005 £'000	Group and Company Year ended 31 December 2004 Restated (see note 22) £'000
Operating activities			
Profit before taxation	252,091	252,091	120,365
Interest paid	10,131	10,131	10,144
Gains on investments held at fair value through profit or loss	(229,694)	(229,612)	(100,865)
Net sales of investments held at fair value through profit or loss	173,175	173,175	47,190
(Increase)/decrease in other receivables	(480)	(610)	988
Increase in other payables	142	73	557
Loss on debenture buy-back	51	51	14
Increase in unrealised gain on derivatives	14	14	36
Cash inflow from futures contracts	1,315	1,315	129
Cash inflow from forward exchange contracts	–	–	3,330
Scrip dividends included in investment income	(509)	(509)	(46)
Net cash inflow from operating activities before interest and taxation	206,236	206,119	81,842
Interest paid	(10,131)	(10,131)	(10,144)
Amortisation of debt issue costs	79	79	79
Tax on overseas income	(2,032)	(2,032)	(1,142)
Net cash inflow from operating activities	194,152	194,035	70,635
Financial investment			
Investment in subsidiary	–	(900)	–
Financing activities			
Equity dividend paid	(27,738)	(27,738)	(28,180)
Buy-backs of ordinary shares	(160,307)	(160,307)	(13,966)
Repurchase of debt	(221)	(221)	(64)
Net cash outflow from financing	(188,266)	(188,266)	(42,210)
Increase in cash and cash equivalents	5,886	4,869	28,425
Cash and cash equivalents at the start of the year	79,568	79,568	56,435
Effect of foreign exchange rate changes	865	865	(5,292)
Cash and cash equivalents at the end of the year	86,319	85,302	79,568

The notes on pages 31 to 46 form part of these accounts.

Notes to the Accounts

1 **Accounting policies**

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC") that remain in effect, to the extent that they have been adopted by the European Union.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in notes 22 and 23.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Trust Companies ("the AITC") in January 2003 (revised in December 2005) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company (its subsidiary) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Presentation of Income Statement

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AITC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 842 of the Income and Corporation Taxes Act 1988.

(d) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received. The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares. Interest receivable from cash and short term deposits is accrued to the end of the period. Stock lending fees and underwriting commission are recognised as earned. Where the Group has elected to receive its dividends in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Income Statement.

(e) Expenses

All expenses and interest payable are accounted for on an accruals basis. Expenses are presented as capital where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fees and finance costs are allocated 25% to revenue and 75% to capital to reflect the Board's expectations of long term investment returns. Any performance fees payable are allocated wholly to capital, reflecting the fact that, although they are calculated on a total return basis, they are expected to be attributable largely, if not wholly, to capital performance.

Transaction costs incurred on the acquisition or disposal of investments are expensed and included in the costs of acquisition or deducted from the proceeds of sale as appropriate.

(f) Taxation

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

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

Notes to the Accounts
continued

1 **Accounting policies** (continued)

(f) Taxation (continued)

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trusts which have approval as such under section 842 of the Income and Corporation Taxes Act 1988 are not liable for taxation on capital gains.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

All the Group's investments are defined by IFRS as investments held at fair value through profit or loss.

All investments are designated upon initial recognition as held at fair value through profit or loss, and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Investments in unit trusts or OEICs are valued at the closing price, the bid price or the single price as appropriate, released by the relevant investment manager. Fair values for unquoted investments, or for investments for which there is only an inactive market, are established by using various valuation techniques. These may include recent arm's length market transactions, the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised. Where no reliable fair value can be estimated for such instruments, they are carried at cost, subject to any provision for impairment.

(h) Cash and cash equivalents

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

(i) Dividends payable

Interim dividends are recognised in the period in which they are paid. Final dividends are not recognised until approval by the shareholders in general meeting.

(j) Non current liabilities

All debentures and secured bonds are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. The costs of arranging any interest-bearing loans are capitalised and amortised over the life of the loan.

(k) Foreign currency translation

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction.

Foreign currency monetary assets and liabilities that are fair valued and are denominated in foreign currencies are re-translated into sterling at the rate ruling on the balance sheet date. Foreign exchange differences arising on translation are recognised in the Income Statement.

1 **Accounting policies** (continued)

(l) Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in market prices, foreign currency exchange rates and interest rates. Derivative transactions which the Company may enter into comprise forward exchange contracts (the purpose of which is to manage currency risks arising from the Company's investing activities), quoted options on shares held within the portfolio, or on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings) and futures contracts on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings). The Company may also write options on shares represented in the portfolio where such options are priced attractively relative to the portfolio managers' longer term expectations for the relevant share prices. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies as approved by the Board, which has set written principles for the use of financial derivatives.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Income Statement.

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
2 Investment income		
Franked:		
UK dividends from listed investments	19,149	24,821
Special dividends from listed investments	5	129
UK dividends from unquoted investments	340	238
	19,494	25,188
Unfranked:		
Overseas dividends from listed investments	13,376	9,139
Scrip dividends from listed investments	509	46
UK interest from unquoted investments	1	–
Special dividends from listed investments	83	–
	13,969	9,185
Total investment income	33,463	34,373
Analysis of investment income by geographical segment:		
United Kingdom	19,495	25,237
North America	4,430	4,242
Continental Europe	4,968	2,445
Japan	1,564	885
Far East	2,607	1,564
South America	399	–
Total income from fixed asset investments	33,463	34,373

Notes to the Accounts

continued

3	Other income	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
	Deposit interest	**4,909**	2,802
	Stock lending income	**426**	171
	Underwriting commission	**49**	34
	Other income	**195**	11
		5,579	3,018

At 31 December 2005 the total value of securities on loan by the Company for stock lending purposes was £69,270,000 (2004: £nil). The maximum aggregate value of securities on loan at any time during the year ended 31 December 2005 was £98,147,000 (2004: £204,653,000). Collateral, revalued on a daily basis at a level equivalent to at least 105% of the market value of the securities lent, was provided against all loans. Collateral in respect of UK securities is usually in the form of Crest DBVs (Delivery by Values); the content of Crest DBVs is subject to a concentration limit of 10%.

4	Management fees	Year ended 31 December 2005			Year ended 31 December 2004		
		Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
	Management fees	**479**	**1,437**	**1,916**	867	2,604	3,471
	Performance fees	**–**	**35**	**35**	–	667	667
	Irrecoverable VAT thereon	**52**	**177**	**229**	66	252	318
		531	**1,649**	**2,180**	933	3,523	4,456

A summary of the terms of the management agreements is given on pages 16 and 17 in the Directors' Report.

5	Other expenses	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
	Auditors' remuneration for audit services	**54**	43
	Auditors' remuneration for non audit-related services	**44**	4
	Directors' fees (see the Directors' Remuneration Report on pages 19 and 20)	**174**	133
	Other expenses payable to the former management company*	**266**	184
	Bank charges and overseas safe custody fees	**381**	219
	Marketing expenses	**1,563**	1,402
	Irrecoverable VAT	**296**	114
	Employee costs (see also the Directors' Remuneration Report):		
	Salaries and bonuses	**381**	391
	Employers' national insurance contributions	**48**	39
	Pension contributions	**34**	28
	Other expenses	**967**	642
		4,208	3,199

*Other expenses payable to the former management company, Henderson Global Investors Limited, relate to share plan and other marketing services and, since September 2004, company secretarial, office accommodation and other administration services.

The average number of employees during the year was 3.2 (2004: 2.5).

6 Finance costs

	Year ended 31 December 2005			Year ended 31 December 2004 Restated (see note 22)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest payable on overdrafts repayable within one year	6	18	24	6	19	25
Interest payable on secured bonds and debenture stock repayable in more than 5 years	2,524	7,575	10,099	2,528	7,586	10,114
Premium on repurchase of debenture stock	–	51	51	–	14	14
Preference share dividends	83	–	83	83	–	83
	2,613	7,644	10,257	2,617	7,619	10,236

7 Taxation

	Year ended 31 December 2005			Year ended 31 December 2004		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(a) Analysis of the charge for the year						
UK corporation tax at 30% (2004: 30%)	1,520	–	1,520	642	–	642
Double taxation relief	(1,520)	–	(1,520)	(642)	–	(642)
	–	–	–	–	–	–
Prior year adjustment	–	–	–	(8)	–	(8)
Foreign tax suffered	2,059	–	2,059	1,255	–	1,255
Foreign tax recoverable	(291)	–	(291)	(89)	–	(89)
Tax relief to capital	1,920	(1,920)	–	154	(154)	–
Total current tax for the year (see note 7(b))	3,688	(1,920)	1,768	1,312	(154)	1,158

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

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

	2005 £'000	2004 £'000
Profit before taxation	252,091	120,365
Corporation tax at 30% (2004: 30%)	75,627	36,110
Effects of:		
Non-taxable UK dividends	(5,999)	(7,570)
Withholding tax written off	1,768	1,166
Double taxation relief	(1,520)	(642)
Non-taxable gains on investments held at fair value through profit or loss	(68,908)	(30,259)
Unused loan relationship deficits for the period	889	2,201
Premium on repurchase of debt	15	4
Disallowed expenses	47	35
Adjustments for tax credits on overseas income	(26)	(11)
Income taxable in different periods	(175)	107
Preference dividends not deductible in determining taxable profit	25	25
Losses on subsidiary	25	–
Prior year adjustments	–	(8)
	(73,859)	(34,952)
Current tax charge for the year	1,768	1,158

7 **Taxation** (continued)

(c) Deferred tax

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

No provision has been made for deferred tax on income outstanding at the end of the year as this will be covered by unrelieved business charges and eligible unrelieved foreign tax (2004: £nil).

(d) Factors that may effect future tax charges

The Company has not recognised a deferred tax asset of £11,249,000 (2004: £11,217,000) arising as a result of having unrelieved loan relationship deficits and eligible unrelieved foreign tax.

It is unlikely that the Company will obtain relief for these in the future so no deferred tax asset has been recognised.

8 **Dividends**

	Year ended 31 December 2005 £'000	Restated Year ended 31 December 2004 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2004 of 4.90p (2003: 4.60p) per ordinary share	**16,123**	15,619
Interim dividend for the year ended 31 December 2005 of 3.80p (2004: 3.70p) per ordinary share	**11,654**	12,562
Write-back of unclaimed dividends relating to prior years	**(39)**	–
	27,738	28,181
Proposed second interim dividend for the year ended 31 December 2005 of 5.00p (2004: final dividend of 4.90p) per ordinary share	**14,050**	16,608

The final dividend accrued in respect of the year ended 31 December 2004, at 4.90p per share, amounted to £16,608,000 (31 December 2003: 4.60p per share, amounting to £15,802,000). The buy-backs of the Company's shares, after 31 December 2004 (2004: 31 December 2003), but before the record date of the final dividend, resulted in a write-back of dividends accrued in respect of the year but not in the event payable. The figure for the dividends paid is net of this write-back.

The proposed second interim dividend has not been included as a liability in these financial statements.

Set out below is the total dividend to be paid in respect of the year. This is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered.

	Year ended 31 December 2005 £'000	Restated Year ended 31 December 2004 £'000
Interim dividend for the year ended 31 December 2005 of 3.80p (2004: 3.70p) per ordinary share	**11,654**	12,562
Proposed second interim dividend for the year ended 31 December 2005 of 5.00p (2004: final dividend of 4.90p) per ordinary share	**14,050**	16,608
	25,704	29,170

9 **Earnings per ordinary share**

The earnings per ordinary share figure is based on the net profit for the year of £250,323,000 (year ended 31 December 2004: £119,207,000, as restated in note 22) and on 312,435,597 ordinary shares (year ended 31 December 2004: 339,685,587), being the weighted average number of ordinary shares in issue during the year.

The earnings per ordinary share figure detailed above can be further analysed between revenue and capital, as below.

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 Restated (see note 22) £'000
Net revenue profit	**28,002**	29,330
Net capital profit	**222,321**	89,877
Net total profit	**250,323**	119,207
Weighted average number of ordinary shares in issue during the year	**312,435,597**	339,685,587
	Pence	Pence
Revenue earnings per ordinary share	**8.96**	8.63
Capital earnings per ordinary share	**71.16**	26.46
Total earnings per ordinary share	**80.12**	35.09

10 **Investments held at fair value through profit or loss**

(i) Analysis of investments held at fair value through profit or loss

	Group 2005 £'000	**Company 2005 £'000**	Group and Company Restated (see note 22) 2004 £'000
Listed in the United Kingdom	**626,830**	**626,830**	665,974
Listed abroad	**807,775**	**807,775**	712,708
Investment in subsidiary undertaking	**–**	**818**	–
Unquoted at directors' valuation	**10,961**	**10,961**	11,643
	1,445,566	**1,446,384**	1,390,325

(ii) Group changes in investments held at fair value through profit or loss

	Valuation 31 December 2004 Restated (see note 22) £'000	Purchases £'000	Sales £'000	Net appreciation £'000	**Valuation 31 December 2005 £'000**	**Cost 31 December 2005 £'000**
United Kingdom	677,531	180,047	(322,648)	102,861	**637,791**	**458,313**
North America	288,553	118,090	(119,752)	38,656	**325,547**	**295,826**
Continental Europe	205,145	118,434	(124,414)	33,980	**233,145**	**193,384**
Japan	133,928	33,615	(60,674)	35,432	**142,301**	**117,222**
Far East	73,334	65,349	(60,063)	6,723	**85,343**	**66,112**
South America	11,834	842	(1,099)	9,862	**21,439**	**10,692**
	1,390,325	516,377	(688,650)	227,514	**1,445,566**	**1,141,549**

Included in the above figures are purchase costs of £2,452,000 (2004: £2,913,000) and sales costs of £2,447,000 (2004: £1,065,000). These comprise mainly stamp duty and commission.

Notes to the Accounts

continued

10 **Investments held at fair value through profit or loss** (continued)

(iii) Gains on investments held at fair value though profit or loss

	31 December 2005 £'000	Restated (see note 22) 31 December 2004 £'000
Realised gains on sale of investments	**104,500**	109,813
Movement in unrealised appreciation	**124,329**	(5,122)
Net movement on foreign exchange	**865**	(3,826)
	229,694	100,865

(iv) Substantial share interests

At 31 December 2005 the Company held 20% or more of any class of share of the following company:

Name of company	Class of share	% held
Henderson Strata Investments plc	Ordinary	22.37

Henderson Strata Investments plc is registered and operates in England and Wales.

In addition to the above, the Company has interests of 3% or more of any class of capital in 1 (2004: 2) investee companies. At 31 December 2005 this investment did not represent more than 1% of the Company's investments and therefore is 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.

(v) Unquoted investments

The value of the unquoted investments as at 31 December 2005 was £10,961,000 (2004: £11,643,000) and the portfolio comprised the following four holdings:

Valuation £'000	Investments	Investment type
3,934	Cazenove New Europe Access Fund	investment fund
3,660	Cazenove Group Limited	see note 10 (vi) below
2,890	Wadworth and Company Limited	brewing
477	Henderson Unquoted Growth Equities Fund	investment fund
10,961		

(vi) Cazenove Group Limited

Cazenove Group Limited (formerly Cazenove Group plc) ("Cazenove") was established by the partners of Cazenove & Co. to incorporate the business of that firm, to raise additional capital and to seek a stock market quotation in due course. It has now combined its investment banking business with that of JP Morgan to form JP Morgan Cazenove. It retains its asset management business which, since the year end, has been transferred to a separate entity, Cazenove Capital Holdings Limited.

11 Other receivables	Group 2005 £'000	Company 2005 £'000	Group and Company 2004 Restated (see note 22) £'000
Sales for future settlement	1,078	1,078	9,124
Unrealised gain on derivatives designated as fair value through profit or loss	22	22	36
Taxation recoverable	521	521	257
Intercompany account	–	239	–
Prepayments and accrued income	2,885	2,885	2,493
Other debtors	147	38	59
	4,653	4,783	11,969

Credit risk

The Group's principal financial assets are bank balances, cash and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

12 Other payables	Group 2005 £'000	Company 2005 £'000	Group and Company 2004 Restated (see note 22) £'000
Purchases for future settlement	1,359	1,359	9,012
Preference dividends	38	38	38
Accruals	3,476	3,407	3,334
	4,873	4,804	12,384

13 Non current liabilities	Group 2005 £'000	Company 2005 £'000	Group and Company 2004 Restated (see note 22) £'000
Financial instruments redeemable other than in instalments are as follows			
8½ per cent. Debenture Stock 2016	45,779	45,779	45,949
6.125 per cent. Secured Bonds due 2025	98,414	98,414	98,335
500,000 2.7 per cent. cumulative preference shares of £1 (see note 17)	500	500	500
2,055,000 3.4 per cent. cumulative preference shares of £1 (see note 17)	2,055	2,055	2,055
	146,748	146,748	146,839

On 15 December 2000 the Company issued £100,000,000 (nominal) 6.125 per cent. Secured Bonds due 2025, net of discount and issue costs totalling approximately £2,000,000. The discount and the issue costs will be written back over the life of the Secured Bonds. The nominal value of the Secured Bonds is redeemable on 15 December 2025.

The nominal value of the Debenture Stock is redeemable on 1 October 2016. During the year the Company made a market purchase for cancellation of £170,000 (2004: £50,950) of the Debenture Stock at a premium to the nominal value.

The Debenture Stock and the Secured Bonds are secured by floating charges over all the undertaking and assets of the Company. The security of the charges applies *pari passu* to both issues.

14 Financial instruments

(i) Management of risk

The Group's financial instruments comprise:

- equity shares, bonds, cash, index futures and other derivatives that are held in accordance with the Group's investment objective as set out on page 1;
- debenture stock, secured bonds, preference shares, term loans and bank overdrafts, the main purpose of which is to raise finance for the Group's operations; and
- cash and short-term debtors and creditors that arise directly from the Group's operations.

Derivative transactions which the Group may enter into comprise forward exchange contracts (the purpose of which is to manage currency risks arising from the Group's investing activities), quoted options on shares held within the portfolio, or on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings) and futures contracts on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in capital values of the holdings). The Group may also write options on shares represented in the portfolio where such options are priced attractively relative to the portfolio managers' longer term expectations for the relevant share prices.

The main risks arising from the Group's financial instruments are due to fluctuations in market prices, foreign exchange rates and interest rates. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained constant throughout the year under review.

Market price risk

Market price risk arises mainly from uncertainty about the future prices of financial instruments used in the Group's operations. It represents the potential loss the Group might suffer through holding market positions in the face of price movements and movements in exchange rates. It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular country or sector. The allocation of assets to international markets and stock selection are other factors which act to reduce market price risk. The portfolio managers actively monitor market prices throughout the year and report to the Board, which meets regularly in order to consider investment strategy.

Foreign currency risk

The Group's total return and net assets can be significantly affected by fluctuations in foreign currency exchange rates because a portion of the Group's assets and revenue are denominated in currencies other than sterling. The international spread of investments acts to reduce this risk. Borrowings in foreign currencies are limited to levels appropriate to the asset exposure to those currencies.

Interest rate risk

The Group finances its operations through its debenture stock, secured bonds, preference shares and term loans as well as bank overdrafts and any retained revenues arising from operations. The Group borrows, in sterling or in foreign currencies, at both fixed and floating rates of interest. The Board imposes borrowing limits to ensure that gearing levels are appropriate to market conditions and reviews these limits on a regular basis.

Liquidity risk

The Group's assets mainly comprise readily realisable securities which can be sold to meet commitments if necessary. The maturity of the Group's existing borrowings is set out in paragraph (iii) on page 41. Short term flexibility is achieved through the use of loan and overdraft facilities.

Credit risk

The Group places funds with authorised deposit takers from time to time and is therefore potentially at risk from the failure of any such institution. The Group expects to place any deposits on a short term basis only.

The Group lends securities from its portfolio, within limits set by the Board. It receives collateral of a value greater than the value of the securities lent, usually, in respect of UK securities, in the form of Crest DBVs. This collateral is subject to concentration limits, to a margin of a set percentage and to regular revaluation.

14 Financial instruments (continued)

(ii) Interest rate risk profile of financial assets and financial liabilities

Financial assets

The majority of the Group's financial assets are equity shares and other investments which neither pay interest nor have a stated maturity date.

Financial liabilities

The interest rate profile of the Group's financial liabilities at 31 December 2005 was:

	Group and Company			Group and Company		
	2005 Fixed rate financial liabilities £'000	2005 Weighted average interest rate %	2005 Period for which interest rate is fixed years	2004 Fixed rate financial liabilities £'000	2004 Weighted average interest rate %	2004 Period for which interest rate is fixed years
Sterling – preference shares	2,555	3.2	–	2,555	3.2	–
Sterling – debenture stock	45,779	8.5	10.75	45,949	8.5	11.75
Sterling – secured bonds	98,414	6.228	19.96	98,335	6.228	20.96
	146,748			146,839		

(iii) Maturity profile of the Group's financial liabilities

All of the Group's financial liabilities at 31 December 2005 (as discussed in (ii) above) mature in more than five years.

(iv) Currency exposure

A portion of the financial assets and financial liabilities of the Company is denominated in currencies other than sterling with the effect that the net assets and total return can be significantly affected by currency movements.

	Group and Company			Group and Company		
Currency	Overseas investments 2005 £'000	Net monetary assets 2005 £'000	Total currency exposure 2005 £'000	Overseas investments 2004 £'000	Net monetary assets 2004 £'000	Total currency exposure 2004 £'000
US dollar	329,930	7,715	337,645	293,900	25,538	319,438
Euro	176,407	1,821	178,228	159,342	1,170	160,512
Yen	142,301	2,946	145,247	134,251	1,695	135,946
Other non-sterling	158,928	1,492	160,420	128,278	938	129,216
Total	807,566	13,974	821,540	715,771	29,341	745,112

(v) Fair values of financial assets and financial liabilities

All of the financial assets of the Group are held at fair value.

Set out below is a comparison by category of the book values and fair values of the Company's financial liabilities at 31 December 2005:

	Book value 2005 £'000	Fair value 2005 £'000	Book value 2004 £'000	Fair value 2004 £'000
Preference shares	2,555	1,531	2,555	1,431
Debenture stock	45,779	59,780	45,949	57,607
Secured bonds	98,414	116,630	98,335	107,530

The fair values of the debenture stock, secured bonds and preference shares have been calculated by reference to prices available from the markets on which the instruments are traded.

15	Called up share capital	Group and Company 2005 £'000	Group and Company 2004 £'000
	294,988,151 ordinary shares of 25p (2004: 338,944,785)	**73,747**	84,736
	Allotted, called up and fully paid	**73,747**	84,736
	94,791,849 unissued ordinary shares of 25p (2004: 50,835,215)	**23,698**	12,709
	Authorised	**97,445**	97,445

During the year 43,956,634 ordinary shares were bought back for cancellation at a cost of £160,307,000 (2004: 4,573,301 at a cost of £13,966,000).

16 Share premium and reserves

	Share premium £'000	Capital redemption reserve £'000	Other capital reserve – realised £'000	Other capital reserve – unrealised £'000	Retained earnings £'000
Group					
At 1 January 2005 as restated (see note 22)	16,237	9,090	990,586	179,710	42,280
Net movement on listed securities	–	–	104,453	124,112	–
Net movement on unquoted securities	–	–	47	217	–
Loss on repayment of debt	–	–	(51)	–	–
Net movement on foreign exchange	–	–	865	–	–
Expenses and interest payable charged to capital net of tax relief	–	–	(7,322)	–	–
Buy-backs of ordinary shares	–	10,989	(160,307)	–	–
Profit for the year	–	–	–	–	28,002
Ordinary dividends paid	–	–	–	–	(27,738)
At 31 December 2005	**16,237**	**20,079**	**928,271**	**304,039**	**42,544**
Company					
At 1 January 2005 as restated (see note 22)	16,237	9,090	990,586	179,710	42,280
Net movement on listed securities	–	–	104,453	124,030	–
Net movement on unquoted securities	–	–	47	217	–
Loss on repayment of debt	–	–	(51)	–	–
Net movement on foreign exchange	–	–	865	–	–
Expenses and interest payable charged to capital net of tax relief	–	–	(7,322)	–	–
Buy-backs of ordinary shares	–	10,989	(160,307)	–	–
Profit for the year	–	–	–	–	28,084
Ordinary dividends paid	–	–	–	–	(27,738)
At 31 December 2005	**16,237**	**20,079**	**928,271**	**303,957**	**42,626**

Company revenue account

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own income statement. The amount of Company revenue before appropriations dealt with in the accounts of the Group is £28,084,000 (2004: £29,330,000).

17 Preference shares

Included in non current liabilities is £2,555,000 in respect of issued preference shares as follows:

	Group and Company 2005 £'000	Group and Company 2004 £'000
500,000 2.7 per cent. cumulative preference shares of £1	**500**	500
2,055,000 3.4 per cent. cumulative preference shares of £1	**2,055**	2,055
	2,555	2,555

17 Preference shares (continued)

The 3.4 per cent. and 2.7 per cent. cumulative preference shares constitute a single class and confer the right, in priority to any other class of shares:

(i) to receive a fixed cumulative preferential dividend at the respective rates (exclusive of tax credit thereon) of 3.4 per cent. and 2.7 per cent. per annum, such dividend being payable half-yearly on 15 January and 15 July in each year, in respect of the 3.4 per cent. cumulative preference shares, and on 1 February and 1 August in each year, in respect of the 2.7 per cent. cumulative preference shares; and

(ii) to receive repayment of capital at par in a winding up of the Company (but do not confer any further right to participate in profits or assets).

The preference shareholders are entitled to receive notices of general meetings of the Company but are not entitled to attend or vote thereat (except on a resolution for the voluntary liquidation of the Company or for any alteration to the objects of the Company as set out in its Memorandum of Association).

In the event of a poll at a general meeting of the Company, every member of the Company who is present in person or by proxy and who is entitled to vote thereat, whether an ordinary shareholder or, in the circumstances outlined above, a preference shareholder, has one vote for every £1 nominal value of shares registered in their name. Accordingly, on a poll each ordinary shareholder has one vote for every four shares held.

18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £1,384,917,000 (2004: £1,322,639,000 as restated, see note 22) and on the 294,988,151 ordinary shares in issue at 31 December 2005 (2004: 338,944,785).

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

		£'000
Total net assets at 1 January 2005 (as restated)		1,322,639
Total profit for the year		250,323
Dividends appropriated in the year:		
Ordinary shares (see note 8)	(27,738)	
		(27,738)
Buy-backs of ordinary shares		(160,307)
Net assets attributable to the ordinary shares at 31 December 2005		1,384,917

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Company the preference shares, the debenture stock and the secured bonds at their market (or fair) values rather than at their par (or book) values. Details of the alternative values are set out in note 14 (v). The net asset value per ordinary share at 31 December 2005 calculated on this basis was 458.9p (2004: 384.4p as restated).

19 Note to the cashflow statement

Purchase and sales of investments are considered to be operating activities of the Company, given its purpose, rather than investing activities. However, the cash flows associated with these activities are presented below.

	Group and Company 2005 £'000	Group and Company 2004 £'000
Proceeds on disposal of fair value through profit or loss investments	**696,696**	1,112,712
Purchases of fair value through profit or loss investments	**(523,521)**	(1,065,472)
	173,175	47,240

20 Capital commitments and contingent liabilities

At 31 December 2005 there were capital commitments in respect of securities not fully paid up of £2,629,329 (2004: £4,682,658) and underwriting liabilities of £nil (2004: £nil). The Company has taken a five year lease on offices premises at 14 Queen Anne's Gate, London SW1 which expires in 2010. The Company has the right to terminate the lease after three years.

Notes to the Accounts

continued

21	Operating lease arrangements	2005 £'000	2004 £'000
	Minimum lease payments under operating leases recognised in income for the year	10	–

At the balance sheet date, the Group had outstanding commitments for the future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005 £'000	2004 £'000
Within one year	58	–
In the second to fifth years inclusive	225	–
After five years	–	–
	283	–

The operating lease payments represent rentals payable by the Group for its office property.
The lease was negotiated for a term of five years and rentals are fixed for an average of five years.

22 **(a) Restatement of balances as at and for the year ended 31 December 2004 on transition to IFRS**

At 1 January 2005 the Company adopted International Financial Reporting Standards. In accordance with IFRS 1 (First Time Adoption of International Financial Reporting Standards) the following is a reconciliation of the results as at and for the year ended 31 December 2004 and equity as at 31 December 2004, previously reported under the applicable UK Generally Accepted Accounting Standards ("UK GAAP") and the SORP, to the restated IFRS results and position.

	Notes	Previously reported 31 December 2004 £'000	Effect of transition to IFRS £'000	Restated 31 December 2004 £'000
Investments	1	1,395,468	(5,143)	1,390,325
Current assets	1	91,501	36	91,537
Creditors: amounts falling due within one year	1, 2	(33,210)	20,826	(12,384)
Total assets less current liabilities		1,453,759		1,469,478
Creditors: amounts falling due after more than one year	4	(144,284)	(2,555)	(146,839)
		1,309,475		1,322,639
Capital and reserves				
Called up share capital:				
Preference shares	4	2,555	(2,555)	–
Ordinary shares		84,736	–	84,736
Share premium		16,237	–	16,237
Capital redemption reserve		9,090	–	9,090
Capital reserve – realised	3	990,586	(990,586)	–
Capital reserve – unrealised/revaluation reserve	3	180,599	(180,599)	–
Other capital reserves		–	1,170,296	1,170,296
Revenue reserve/Retained earnings	1, 2, 3	25,672	16,608	42,280
		1,309,475		1,322,639

Notes to the reconciliation

1. Investments (excluding derivatives) are designated as held at fair value through profit or loss under IFRS and are carried at bid prices which total their fair value of £1,390,325,000. Previously, under UK GAAP, they were carried at mid prices. The aggregate differences, being a revaluation downwards of £889,000, also decrease retained earnings. Derivatives have been designated as fair value through profit or loss. The unrealised gain of £36,000 has been re-analysed under net current assets. Previously the gross derivatives position was analysed as an asset of £4,254,000 within investments and a current liability of £4,218,000.
2. No provision has been made for the final dividend on the ordinary shares for the year ended 31 December 2004 of £16,608,000. Under IFRS, the final dividend is not recognised until approved by the shareholders.

   The treatment of the current liability of £4,218,000 in respect of the derivatives position is explained in note 1 above.
3. Under IFRS, there is no differentiation between capital and revenue gains/losses. The previous headings of Capital reserve – realised and Capital reserve – unrealised are now included under the heading Other capital reserves.
4. Under IFRS the Company's preference shares are classified as debt.

22 **(b) Reconciliation of the Statement of Total Return to the Income Statement for the year ended 31 December 2004**

Under IFRS the Income Statement is the equivalent of the Statement of Total Return reported previously.

	Notes	2004 £'000	EPS impact in pence
Total transfer to reserves per the Statement of Total Return		90,502	–
Add back dividends paid and proposed	1	28,987	–
Investments held at fair value changed from mid to bid basis at 31 December 2003	2	607	0.18
Investments held at fair value changed from mid to bid basis at 31 December 2004	2	(889)	(0.26)
Net profit per the Income Statement		119,207	(0.08)

Notes to the reconciliation

1. Ordinary dividends declared and paid during the period are dealt with through the Statement of Changes in Equity. Preference dividends are categorised as finance costs and as such are dealt with through the Income Statement.
2. The portfolio valuations at 31 December 2003 and 31 December 2004 are required to be valued at fair value under IFRS. These values differ from the previous valuations by £607,000 and £889,000 respectively.

(c) Reconciliation of the Cash Flow Statement for the year ended 31 December 2004

	Notes	Previously reported cash flows 2004 £'000	Effect of transition to IFRS £'000	Adjusted cash flows 2004 £'000
Net cash inflow from operating activities	1	29,976	40,659	70,635
Returns on investments and servicing of finance	1	(10,145)	10,145	–
Taxation	1	105	(105)	–
Net cash inflow from financial investment		50,699	(50,699)	–
Equity dividends paid	2	(28,180)	28,180	–
Cash placed on/withdrawn from deposit	3	40,000	(40,000)	–
Net cash inflow before financing		82,455	(11,820)	70,635
Financing	2	(14,030)	(28,180)	(42,210)
Increase in cash and cash equivalents		68,425	(40,000)	28,425

Notes to the reconciliation

1. Bank, debenture and secured bond interest, preference dividends and taxation have now been analysed within operating activities.
2. Ordinary dividends paid are now analysed within financing.
3. Term deposits are now classified within cash and cash equivalents.

23 **Restatement of opening balances as at 31 December 2003**

At 1 January 2005 the Company adopted International Financial Reporting Standards.

In accordance with IFRS 1 (First-time Adoption of International Financial Reporting Standards) the following is a reconciliation of the balance sheet as at 31 December 2003, previously reported under the applicable UK Accounting Standards and with the SORP, to the restated IFRS position.

	Notes	Previously reported 31 December 2003 £'000	Effect of transition to IFRS £'000	Restated 31 December 2003 £'000
Investments	1	1,332,707	(607)	1,332,100
Current assets		63,237	–	63,237
Creditors: amounts falling due within one year	2	(18,750)	15,802	(2,948)
Total assets less current liabilities		1,377,194		1,392,389
Creditors: amounts falling due after more than one year	4	(144,255)	(2,555)	(146,810)
		1,232,939		1,245,579

Notes to the Accounts
continued

23 Restatement of opening balances as at 31 December 2003 (continued)

	Notes	Previously reported 31 December 2003 £'000	Effect of transition to IFRS £'000	Restated 31 December 2003 £'000
Capital and reserves				
Called up share capital:				
Preference shares	4	2,555	(2,555)	–
Ordinary shares		85,880	–	85,880
Share premium		16,237	–	16,237
Capital redemption reserve		7,946	–	7,946
Capital reserve – realised	3	907,689	(907,689)	–
Capital reserve – unrealised/revaluation reserve	3	187,303	(187,303)	–
Other capital reserves		–	1,094,385	1,094,385
Revenue reserve/Retained earnings	1, 2, 3	25,329	15,802	41,131
		1,232,939		1,245,579

Notes to the reconciliation

1. Investments are designated as held at fair value through profit or loss under IFRS and are carried at bid prices which total their fair value of £1,332,100,000. They were carried at mid prices previously under UK GAAP. The aggregate differences, being a revaluation downwards of £607,000, also decrease retained earnings.
2. No provision has been made for the final dividend on the ordinary shares for the year ended 31 December 2003 of £15,802,000. Under IFRS this is not recognised until approved by the shareholders.
3. Under IFRS, there is no differentiation between capital and revenue gains/losses. The previous headings of Capital reserve – realised and Capital reserve – unrealised are now included under the heading Retained earnings.
4. Under IFRS the Company's preference shares are classified as debt.

24 Subsidiary undertaking

The Company has an investment in the issued ordinary share capital of its wholly owned subsidiary undertaking, Witan Investment Services Limited, which was incorporated on 28 October 2004, is registered in England and Wales and operates in the United Kingdom.

No trading activity was undertaken by Witan Investment Services Limited during the year ended 31 December 2004. As a result, the audited accounts of the Company as at 31 December 2004 and in respect of the year ended 31 December 2004 equate to the accounts of the Group.

25 Segment Reporting

Geographical segments

Geographical segments are considered to be the primary reporting segment. An analysis of investment income by geographical segment is set out in note 2 on page 33. Analyses of expenses by geographical segment and of profit by geographical segment have not been given as it is not possible to prepare such information in a meaningful way. An analysis of the investments by geographical segment is set out in note 10 on page 37. Analyses of the remaining assets and liabilities by geographical region have not been given as either it is not possible to prepare such information in a meaningful way or the results are not considered to be significant.

Business segments

Business segments are considered to be the secondary reporting segment. The Group has two business segments: (i) its activity as an investment trust, which is the business of the parent company, Witan Investment Trust plc, and recorded in the accounts of that company; and (ii) the provision of executive management services, which is the business of the subsidiary company, Witan Investment Services Limited, and recorded in the accounts of that company.

	Year ended 31 December 2005		Year ended 31 December 2004	
	Investment trust £'000	**Executive management services £'000**	Investment trust £'000	Executive management services £'000
Revenue from external customers	**38,847**	**195**	37,391	–
Carrying amount of assets	**1,384,917**	**818**	1,322,639	–
Cost of fixed assets	–	–	–	–

Shareholder Analysis

	2005 %	2004 %
Private individuals	74	66
Insurance companies	16	16
Pension funds	5	10
Collective investment funds	3	3
Other	2	5
TOTAL	100	100

Source: Cazenove

Explanation of Share Buy-Backs

The impact of the Company buying-in its own shares at a discount

Shareholders have in the past questioned the benefit of buying-in shares for cancellation.

Below is a hypothetical example of how buying-in shares can improve the share price of an investment trust. Typically, this happens in two ways: first, the buy-back, because it takes place at a discount, increases the NAV (net asset value) per share which, all other things being equal, leads to a rise in the share price; and, secondly, because a seller has been removed the discount often narrows, again leading to a rise in the share price.

Take an investment trust (ABC) whose shares are priced at 320p but which has a NAV per share of 400p. There are 100 shares in the company.

NAV per share of ABC Investment Trust = 400p
Price per share of ABC Investment Trust = 320p
Discount of ABC Investment Trust = 20%

Value of ABC Investment Trust assets 100 x 400p = £400
Market value of ABC Investment Trust 100 x 320p = £320

If the company then buys back 15 shares at 320p the following happens:

Value of buy-back 15 x 320p = £48

As these shares are cancelled the value of the Company's total assets falls.

Value of Assets £400 – £48 = £352

But there are now only 85 shares in issue so the NAV per share is
£352 ÷ 85 = 414p, a rise of 14p (3.5%)

If the discount remains at 20% then the share price will rise to 80% x 414p = 331p, an increase of 11p (3.4%). In practice *because a large seller has been removed, the discount may well* fall. Therefore, the share price may rise even more, benefiting all the remaining shareholders who will retain exactly the same number of shares.

Marketing Review

James Budden

Witan's marketing objectives are to promote awareness of the Trust and stimulate demand for its shares. 2005 was Witan's first full year as a multi-managed fund. During the year the main aim of Witan's marketing strategy was to communicate this change and its benefits to both shareholders and potential purchasers of Witan shares. Witan employed a mix of activity in order to reach this aim including advertising, direct mail, public relations, e-commerce and sponsorship. Through these means Witan sought to tailor its investment proposition to its core target markets in order to inform and encourage demand. These markets break into three segments namely the private investor, the Investment IFA and the discretionary portfolio manager.

Throughout 2005 Witan promoted its range of product plans to the private investor. The message to the market was one of solid risk adjusted wealth creation ahead of global stockmarket returns. The volume of plan purchases remained steady, with sales of Jump remaining particularly buoyant despite the launch of the government's Child Trust Fund. However PEP disposals were significant as this product continues to mature.

Witan set out at the beginning of the year to position itself as a viable and credible alternative to multi-managed unit trusts in the eyes of the investment IFA. Here Witan has made significant progress, stressing its blend of managers normally inaccessible to the retail market and its advantage in terms of total expense ratio to the investor. The multi-managed sector of funds becomes ever more popular to IFAs as it seeks to fill the void being vacated by with profits products.

Within the circle of discretionary portfolio managers, Witan's offering was one of differentiation. Last year Witan planned to prove to this influential market that it should no longer be compared to its peers as it had placed a clear emphasis on risk adjusted returns. On the other hand many of its past peers had sought to increase risk in order to maximise performance. This was a difficult argument to maintain while markets rose continuously. However, Witan remains confident that over the long term its steady investment approach will win professional support.

Marketing Strategy 2006

Marketing is an on-going process and as such Witan's strategy for 2006 remains more of the same. However the process will continue to improve and evolve.

Witan will grow awareness of its proposition through use of cartoons in popular and cerebral magazines and its sponsorship of the RHS Wisley and Tommy's, the baby charity. 2006 will see the end of Witan's current relationship as principal sponsor of Britain's top female skier, Chemmy Alcott. It has been a most successful sponsorship in terms of Witan's brand exposure and it is hoped that Witan will be in a position to extend the arrangement into the future.

During 2006 Witan in the form of Witan Investment Services will assume responsibility for managing its own product plans from Henderson Global Investors. All investors will be notified of this development during the course of the year. The necessity to create its own savings platform has afforded Witan Investment Services the opportunity to offer its expertise to third party investment trusts. As a result Witan Pacific Investment Trust will become available to investors through the range of Witan product plans. A new website will be launched to facilitate this concept offering on-line dealing and valuations.

Additionally Witan's marketing activity will cover the following areas during 2006.

- Advertising the share price and net asset value in national newspapers and journals.
- Membership of the Association of Investment Trust Companies and support of its marketing initiatives.
- Listing Witan Investment Trust plc on the New Zealand Stock Exchange.
- Launch of Witan Select Pension in conjunction with Alliance Trust Services.

During 2006 the Board will use key performance indicators to measure the success of Witan's marketing strategy. Whilst the application of the marketing mix will be creative and innovative, emphasis will be placed on ensuring cost effective responses across all activities. The marketing budget is fixed annually and expenditure is kept under close review. The budget for 2006 is expected to be similar to that for 2005.

Marketing Rationale

It is the cumulative effect of the marketing process that adds value for shareholders. Such activity stimulates demand for Witan shares. This in turn guarantees a level of liquidity which boosts the share price and allows shareholders to purchase and sell shares at a price reflecting the performance and rating of Witan. The presence of liquidity for investment trust shares is increasingly important in a fickle marketplace where demand can drop, discounts slip and price spreads widen.

Witanwisdom

There are a variety of ways to invest in Witan. Naturally, Witan's shares can be traded easily on the stock market. However, bearing in mind the benefits of income reinvestment, regular savings and tax free wrappers, one of Witan's investment plans may be the answer.

- **Witan Share Plan** is a straightforward savings scheme with minimum lump sum investment from £500 and regular savings from £50 per month.
- **Witan ISA** enables investors to save tax free up to a limit of £7,000 per annum. The minimum lump sum investments is £2,000 with regular savings from £50 per month.
- **Witan Transfer PEP** allows investors to transfer all or any number of their existing PEP holdings into Witan. The investments retain their tax free status during and after transfer.
- **Witan Select Pension** provides the opportunity to invest in a wide range of investment trusts, company shares, unit trust and bond funds within a pension wrapper administered by Alliance Trust Savings.
- **Jump** gives parents, grandparents or other adults the chance to save effectively for children over the long term. Minimum lump sum investment is set at £100 and regular contributions can be made from as little as £25 a month or quarter.

Call free on 0800 832 832 for product information and guidance.

Visit **www.witan.com** or **www.jumpsavings.com** for all the latest news and views and the opportunity to access plan application forms.

Please remember that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Tax assumptions may change if the law changes and the value of tax relief will depend upon your individual circumstances.

Henderson Global Investors is the name under which Henderson Global Investors Limited, Henderson Investment Funds Limited, Henderson Fund Management plc, Henderson Investment Management Limited and Henderson Administration Limited (all authorised and regulated by the Financial Services Authority) provide investment products and services.

4 Broadgate, London EC2M 2DA.
Telephone 020 7818 1818.

Notice of Annual General Meeting

Notice is hereby given that the ninety-eighth Annual General Meeting of Witan Investment Trust plc will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB on Monday 24 April 2006 at 2.30 pm for the following purposes:

Ordinary Business

1 To receive the directors' report and the audited accounts for the year ended 31 December 2005.

2 To approve the directors' remuneration report for the year ended 31 December 2005.

3 To re-elect Mr R H McGrath as a director of the Company.

4 To re-elect Mr R A Bruce as a director of the Company.

5 To re-elect Mr J Horsburgh as a director of the Company.

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

7 To re-elect Mr R W C Colvill as a director of the Company.

8 To re-elect Mr A W Jones as a director of the Company.

9 To elect Ms J C Platt as a director of the Company.

10 To elect Mr A Watson as a director of the Company.

11 To re-appoint Deloitte & Touche LLP as auditors to the Company.

12 To authorise the directors to determine the remuneration of the auditors.

Special Business

To consider and, if thought fit, pass the following resolution as a special resolution:

13 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 42,034,223 (representing approximately 14.99% of the Ordinary Shares in issue at 9 March 2006, the date of this Notice of Annual General Meeting);

(b) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 25p;

(c) the maximum price 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 Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased, or such other amount as may be specified by the UK Listing Authority from time to time;

(d) the authority hereby conferred will expire at the conclusion of the Annual General Meeting of the Company in 2007 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.

By order of the Board
G S Rice
For and on behalf of
Henderson Secretarial Services Limited,
Secretary
9 March 2006

Registered Office
4 Broadgate
London EC2M 2DA
Telephone: 020 7638 5757

Registered as an investment company in England and Wales
No. 101625

Notes

1 Only those ordinary shareholders registered in the register of members of the Company at close of business on 22 April 2006 shall be entitled to attend and vote at the Annual General Meeting ("the meeting") in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after close of business on 22 April 2006 will be disregarded in determining the rights of any person to attend or vote at the 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 or her behalf. Such proxy need not be a member of the Company.

Every ordinary shareholder who is present in person at a general meeting of the Company, and every person (not being himself or herself a member entitled to vote) who is present as proxy for a member entitled to vote, shall have one vote on a show of hands. On a poll, every ordinary shareholder who is present in person or by proxy shall have one vote for every £1 nominal value of shares held by him or her. Accordingly, on a poll each ordinary shareholder has one vote for every four shares held.

3 A form of proxy is enclosed. To be valid the form of proxy must be completed and deposited at the office of the Company's Registrar not less than 48 hours before the time appointed for holding the meeting. The return of the form of proxy duly completed will not preclude a member from attending and voting in person at the meeting.

To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the Company's agent (ID number 3RA50) not later than 48 hours before the time appointed for holding the meeting (i.e. by 2.30 pm on Saturday 22 April 2006). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the Company's agent is able to retrieve the message. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35 (5) (a) of the Uncertificated Securities Regulations 2001.

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

5 The register of directors' interests, kept by the Company in accordance with the requirements of the Companies Act 1985, and the Chief Executive Officer's service agreement will be available for inspection at the meeting.

6 By attending the meeting, members and their proxies and representatives are understood by the Company to have confirmed their agreement to receive any communications (including communications relating to the Company's securities) made at the meeting.

Annual General Meeting Venue

Location of Merchant Taylors' Hall

Merchant Taylors' Hall is located at 30 Threadneedle Street in the City of London. It is a few minutes' walk from Liverpool Street Station and from Bank Underground Station.

The Annual General Meeting will be held on Monday 24 April 2006 at 2.30 pm.

Shareholder Information

Points of Contact
If you have any questions or need more information concerning Witan, you may contact us in the following ways:

Freephone:
Henderson Investor Services on **0800 832 832**

Website:
www.witan.com

Post:
For Share Plan/Jump queries:
The Share Plan Administrators
Lloyds TSB Registrars Scotland
PO Box 28448
FREEPOST (KE 5906)
Edinburgh
EH4 1ZQ

For PEP/ISA queries:
Henderson Investment Management Limited
Block C
Western House
Lynch Wood Business Park
Peterborough
PE2 6BP

Points of Reference
You can follow the progress of your savings through the newspapers. Witan's share price appears daily in the national press stock exchange listings under 'Investment Trusts' or 'Investment Companies'.

The London Stock Exchange Daily Official List (SEDOL) code is 0974406.

If you invest through the Witan Share Plan, ISA or PEPs you will be sent a valuation of your Plan every April and October, together with a newsletter containing a comprehensive market review and general articles of interest.

Every March you will receive the annual report for Witan, together with an invitation to attend the Company's Annual General Meeting. An interim report is despatched every September.

For details on the ways to invest and save in Witan, please see Witanwisdom on page 49 of this document.

Dividend
A second interim dividend of 5.0p per share has been declared, payable on 3 April 2006. The record date for the dividend was 3 March 2006 and the ex-dividend date for the dividend was 1 March 2006 (see pages 4, 5 and 14).

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

Capital Gains Tax
The calculation of the tax on chargeable gains will depend on your personal circumstances. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.

Disability Act
Copies of this annual report and other documents issued by Witan Investment Trust plc are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact our Registrar, Computershare Investor Services PLC, which has installed telephones to allow speech and hearing impaired people who have their own telephone to contact them directly, without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by The Royal National Institute for Deaf People), you should dial **18001** followed by the number you wish to dial.

For investors who hold shares through the Witan Share Plan, PEP or ISA a textphone telephone service is available on **020 7850 5406**. This service is available during normal business hours.

Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone: 0870 702 0010

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

Solicitors
Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Stockbroker
JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA

Witan is principal sponsor to Chemmy Alcott (above). Miss Alcott continues to shine in world class competition and recently was placed 11th in the Downhill at the Turin Olympics.