HANSA TRUST PLC

ANNUAL REPORT

Year Ended 31 March 2006

Hansa Trust PLC

CONTENTS

KEY INFORMATION

INVESTMENT POLICY AND BENCHMARK

To achieve growth of shareholder value, Hansa Trust PLC invests in a portfolio of special situations, where individual holdings or specific sectors may constitute a significant proportion of the portfolio or that of the equity of the companies concerned. This investment approach may produce returns which are not replicated by movements in any market index. Performance is measured against an absolute benchmark derived from the three-year average rolling rate of return of a five year UK government bond, plus two percent with interest being re-invested semi-annually. Investments are intended to add value over the medium to longer term through a non-market correlated, conviction based investment style.

STATISTICS	31 March 2006	Restated – Note 23 31 March 2005	% change
Shareholders Funds	**£196.4m**	£140.0m	40.3
Dividends (see Note 7)	**9.75p**	9.25p	5.4
Net Asset Value per			
‘A’ non-voting Ordinary share	**818.2p**	583.5p	40.2
Ordinary share	**818.2p**	583.5p	40.2
Performance Benchmark	**6.6%**	6.7%	
Share Price			
‘A’ non-voting Ordinary shares	**818.0p**	546.5p	49.7
Ordinary shares	**847.5p**	566.0p	49.7
FTSE All-Share Index	**3,048**	2,458	24.0
FTSE All-Share Index – Total Return	**4,071**	3,168	28.5
Discount / (Premium)			
‘A’ non-voting Ordinary shares	**0.0%**	6.3%	
Ordinary shares	**(3.6%)**	3.0%	

CAPITAL STRUCTURE

The Company has 8,000,000 Ordinary shares of 5p and 16,000,000 ‘A’ non-voting Ordinary shares of 5p each in issue. The Ordinary shareholders are entitled to one vote per Ordinary share held. The ‘A’ non-voting Ordinary shares do not entitle the holders to vote or receive notice of meetings but in all other respects they have the same rights as the Company’s Ordinary shares.

STATUS AND ACTIVITIES

During the year under review the Company has operated as an investment company, under Section 266 of the Companies Act 1985 and in compliance with Section 842 of the Income and Corporation Taxes Act 1988. The Company has received approval as an investment trust for the year ended 31 March 2005. The Directors are of the opinion that the Company has subsequently directed its affairs so as to enable it to continue to obtain Inland Revenue approval as such.

There has been no significant change in the activities of the Company and its subsidiary (the ‘Group’) during the year and the Directors anticipate that the Group will continue to operate in the same manner during the current year.

COMPANY REGISTRATION AND NUMBER

The Company is registered in England and its number is 126107.

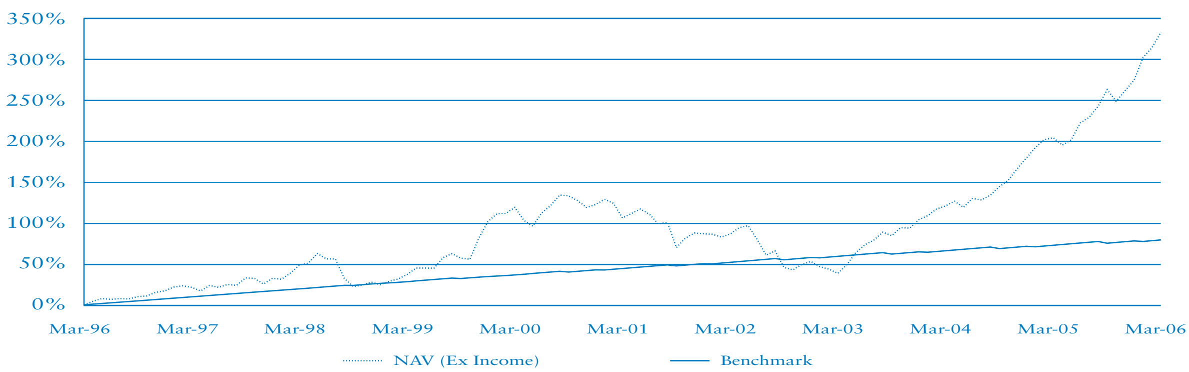
10 YEAR PERFORMANCE STATISTICS

TEN YEAR RECORD

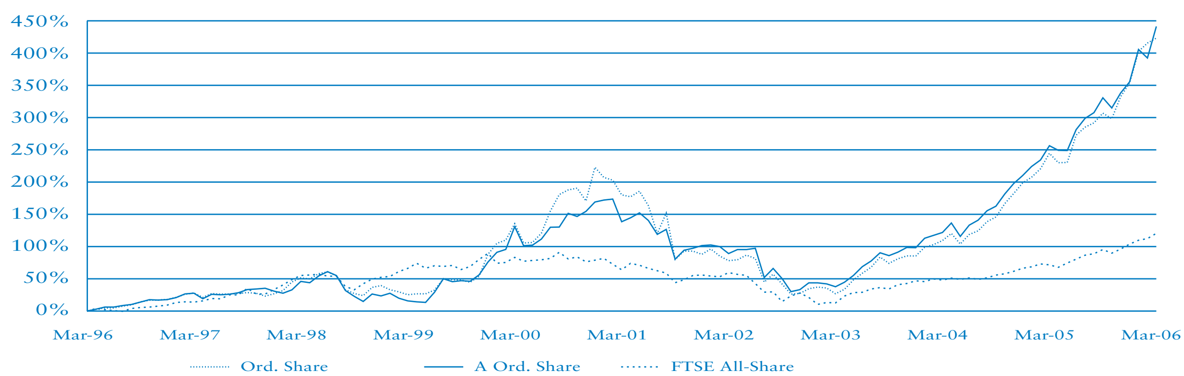
Year ended	Shareholders Funds	Net Asset Value per share 'A' Ordinary	Net Asset Value per share Ordinary	Share Price 'A' Ordinary	Share Price Ordinary	FTSE All-Share Index	Discount/(Premium) 'A' Ordinary	Discount/(Premium) Ordinary
2006	£196.38m	818.2p	818.2p	818.0p	847.5p	3,048	0.0%	(3.6%)
2005#	£140.05m	583.5p	583.5p	546.5p	566.0p	2,458	6.3%	3.0%
2004	£102.44m	426.8p	426.8p	346.5p	350.0p	2,197	18.8%	18.0%
2003	£64.90m	270.4p	270.4p	218.0p	215.0p	1,736	19.4%	20.5%
2002	£89.16m	371.5p	371.5p	305.0p	307.5p	2,557	17.9%	17.2%
2001	£99.32m	413.9p	413.9p	390.0p	490.0p	2,711	5.8%	(18.4%)
2000	£106.79m	445.0p	445.0p	382.5p	416.5p	3,111	14.0%	6.4%
1999	£67.96m	281.9p	281.9p	195.0p	225.0p	2,894	30.8%	20.2%
1998	£74.79m	310.4p	310.4p	250.5p	276.5p	2,781	19.3%	10.9%
1997	£62.01m	257.1p	257.1p	223.0p	237.5p	2,099	13.3%	7.6%
1996	£52.00m	215.4p	215.4p	178.0p	189.0p	1,843	17.4%	12.3%

Restated to comply with IFRS, which was adopted in 2006, all prior information has not been restated.

TEN YEAR SHAREHOLDERS' TOTAL RETURN RECORD



	1 year	3 years	5 years	10 years
Net Asset Value – income re-invested	42.42%	213.00%	110.20%	333.27%
Performance Benchmark	6.56%	20.14%	35.05%	79.32%



	1 year	3 years	5 years	10 years
Ordinary share – income re-invested	51.87%	313.10%	86.90%	424.46%
'A' non-voting Ordinary share income re-invested	51.94%	293.66%	127.13%	442.60%
FTSE All-Share – Total Return	28.53%	96.01%	34.53%	120.86%

Past performance is not a guide to future performance. Source: Internal unaudited management information.

CHAIRMAN'S STATEMENT

RESULTS FOR THE YEAR:

NAV: **+40.2% to 818.2p per Ordinary and 'A' non-voting Ordinary share**
Dividend: **+5.4% to 9.75p per Ordinary and 'A' non-voting Ordinary share**

It is most pleasing to be able to report to you that the Company enjoyed another excellent year. The net asset value per share, the City jargon for which is the "NAV", rose by 40.2% or 234.7p per share, a return which more than fulfils our objective of making money for you, the shareholders. As you know we have a benchmark which reflects that objective – the return on a 5 year government bond + 2% – and it returned 6.6%. The nature of such a low risk absolute return benchmark is that it tends to provide low but steady returns over the years; the nature of equities is that the returns earned from them are much more volatile – so that some years our NAV returns will exceed those of the benchmark handsomely – as they did last year – and some years they will fall well short. Over longer time periods however, we expect there will be much less divergence.

While making you money is what we are in business for, there are certain other objectives for which we strive. Obviously making more money than a risk free investment is the most important (hence our absolute benchmark); however we are also conscious of the need to do better than both our competition and the market as a whole over the longer term. Last year we did produce higher NAV returns than other investment trust companies in our peer group and than the stock market as a whole – the FTSE All-share index rose by 24.0%.

The returns from the portfolio were once again led by our holding in Ocean Wilsons, which added 72.1p per share to the NAV. There were other important contributors, shown in the table below and only 15 of the 86 holdings held during the year failed to contribute to the portfolio returns. Of the different sectors we are invested in, our exposure to natural resources, which includes oil and gas, made the biggest difference, adding 77.8p per share. It was a good all round performance from our Manager – Hansa Capital Partners LLP – and on behalf of shareholders I would like to extend our gratitude and congratulations to William Salomon, John Alexander and their colleagues for these results.

DIVIDEND:

+5.4% to 9.75p per Ordinary and 'A' non-voting Ordinary share.

After last year's considerable rise in our own net income available for dividends – it rose by 54.8% to £2.3 million – we have managed to achieve another increase, albeit a smaller one: net income has risen by 12.2% to £2.6 million. The Board of Directors is recommending to shareholders a final dividend of 6.25p per Ordinary and 'A' Ordinary share, which, if approved at the Annual General Meeting, will be paid on 3 August 2006. It makes the total for the year 9.75p per share, a rise of 5.4%.

The return figures above do not take into account the extra returns earned from dividends paid to shareholders. Adding back the proposed dividend would result in a total NAV return for the year of 46.8%, whilst that of the stock market was 31.5%.

LONGER TERM PERFORMANCE:

3 Years:	**NAV total return:**	**+213.0%**	**Benchmark: +20.1%**	**FTSE All-Share Index +96.0%**
5 Years:	**NAV total return:**	**+110.2%**	**Benchmark: +35.1%**	**FTSE All-Share Index +34.5%**

Given the volatile nature of equities the Board of Directors regards the five year returns earned for shareholders as the most important against which to make judgements about the Manager's performance. As the numbers above show, the returns have been quite excellent and as the table below shows, they have been earned substantially from our holding in Ocean Wilsons and also from a range of other investments, including – highlighted below – our commitment to natural resources.

CHAIRMAN'S STATEMENT

(continued)

	1 Year	3 years	5 Years
Total increase in NAV	**235p**	**398p**	**542p**
Top 5 Contributors			
Ocean Wilsons	72p	170p	165p
Cairn Energy	20p	44p	44p
Glenmorangie	–	28p	31p
Resolution	25p	28p	28p
Hunting	16p	27p	22p
Victoria Oil and Gas	9p	–	–
Natural Resources	+78p	+135p	+119p

It would be quite wrong to be carried away by the success that the numbers illustrate. First of all there have been – of course – some investment failures; there are in any portfolio, even ones producing high returns. Investments in, for instance, Goshawk Insurance, Ramco Energy, Felix Resources and Trafficmaster detracted from the returns that were earned. Secondly the last three years have been very good for equity investors, the post technology bubble bear market having bottomed in the first quarter of 2003. As I say later, we do not expect such market returns to be earned in the next three years.

Shareholders will not be surprised to learn that the Board's annual assessment of the Manager found no difficulty in concluding that it was very much in Shareholders' interest that it remains in situ.

SHARE PRICE PERFORMANCE:

Ordinary shares:	**+49.7% to 847.5p**	**Premium to NAV: 3.6%**
'A' non-voting Ordinary shares:	**+49.7% to 818.0p**	**Premium to NAV: 0.0%**

A year ago I mentioned that we had taken a number of steps to help reduce the discount at which both classes of shares had sold, including better communication with investors and helping our largest 'A' non-voting Ordinary shareholder dispose of part of its holding, thereby increasing the liquidity in the 'A' Shares. It helped to reduce the discount in the year. However the single best way to achieve a good rating for a company's shares is to produce good returns for its shareholders. The continued good performance of Hansa Trust has, I believe, brought it to the attention of a lot of investors, some of whom have subsequently become shareholders. I would like to welcome them to our shareholder base.

By the end of this past year the discount had turned into a premium with the result that actual returns shareholders experienced were even greater than those earned from the portfolio. The Ordinary shares rose by 49.7% to 847.5p and the 'A' non-voting Ordinary shares by 49.7% to 818.0p. The table below shows how the total return for shareholders came about:

Attribution of return	**Ordinary shares**		**'A' non-voting Ordinary shares**	
Change in NAV	+234.7p	+41.5%	+234.7p	+43.0%
Change in Discount	+46.6p	+8.2%	+36.6p	+6.7%
Dividends	+9.5p	+1.7%	+9.5p	+1.7%
Total Shareholders' Return	**+290.8p**	**+51.4%**	**+280.8p**	**+51.4%**

Once again I would caution shareholders not to expect similar returns in the future for all the reasons given above and would add to these reasons the fact that investment trust premia and discounts are volatile and a narrowing of a premium or widening of a discount would detract from future shareholders' returns.

CHAIRMAN'S STATEMENT

(continued)

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

As many shareholders will be aware, most of quoted corporate Britain has to use a new set of accounting standards drawn up by the International Accounting Standards Board. In an effort to ensure common accounting standards around the world – a laudable goal – it has produced a set of standards that not only ensure common standards from one country to the next but also common standards from one industry to the next. The one-size-fits-all approach to standards means that – for instance – mining, life assurance and biotechnology companies must adopt the same standards. That surely is nonsensical.

In respect of investment trust companies, which includes your Company, there are two changes of significance to go along with a myriad of other new standards, reflected in the large increase in notes to the accounts: (i) the final dividend cannot be included as a liability in the balance sheet, thereby increasing the NAV we report to you; (ii) the price of the underlying shares in the portfolio is now taken as the bid price (the price market makers will offer to a seller of shares), decreasing the reported NAV. The table below illustrates the effect of these two changes on last years NAV:

	2005
NAV using old standards	578.4p
Effect of excluding final dividend	5.7p
Effect of valuing portfolio at bid prices	(0.6p)
NAV using new standards	583.5p

STRATEGIC AND UNQUOTED INVESTMENTS (27.2% of NAV):
Ocean Wilsons (22.5%), Cathedral Capital (2.8%), DV3 (1.9%)

As I mentioned last year and as William Salomon mentions on those occasions when he is talking to shareholders and investors, we try to provide something special for shareholders which they could not otherwise easily achieve for themselves. There are, believe it or not, more funds and investment companies in the world than there are quoted operating companies. Funds have become a bit of a commodity business. To continue to quote from last year's statement, we invest in the belief that good returns come from patient investing, from seeking investments that offer something special and from identifying areas of the market that others, for some reason, are ignoring.

Finding investments is not easy – they don't grow on trees and we don't make them very often. When we do, they are sometimes unquoted and they will usually take time to produce the good returns we expect of them; they require patient investing. Furthermore I believe our involvement with them adds to the prospects of the companies concerned. Your Board of Directors meets with the management of these companies every year.

The largest strategic investment we have is in Ocean Wilsons, in which we have £44.3 million invested. It has been a long standing and highly successful investment. The company's main business involves the provision of port services in Brazil. Over the last five years its turnover has grown from circa $128 million to a recently reported $285 million; its pre-tax profits from circa $8 million to $50 million and its dividend from 8.9c to 20c per share. We believe that the outlook for Brazil – and particularly its exports, to which the company is singularly exposed – is excellent and that, although there are all sorts of financial variables which result in some volatility in its reported numbers, the company should continue to do very well. Importantly we believe the company to have very good management.

Our other two investments are Cathedral Capital, an unquoted Lloyds underwriter, which has done well and which we believe will continue to do well. It too has, we believe, good management and we have already recorded some – albeit unrealised – profit from our investment. DV3 is a property company who is advised by Jamie Ritblat; although we have not yet taken any appreciation into our valuation, DV3 has made some profitable investments. John comments on both these companies in his excellent report, which I encourage you to read.

CHAIRMAN'S STATEMENT

(continued)

THE BUSINESS REVIEW: Risks and key performance indicators

As a consequence of the Modernisation Directive from the European Union, companies listed on the London Stock Exchange are required to produce a Business Review within the Annual Report. In the simplest of terms it is required to provide a fair review of the business and a description of its principle risks and uncertainties, an analysis of its development and performance and those key performance indicators that give guidance as to its performance.

At our annual strategic board meeting – when we consider longer-term issues concerning the prospects for the Company – we discussed the requirements of the Business Review, including what risks the long-term shareholders of Hansa Trust PLC assumed and what were the relevant measurement yardsticks against which we judged the returns we earned for shareholders (the key performance indicators – or "KPIs" as they are known).

The details of the risks and KPIs that we deduced were appropriate to the Company are outlined in the Directors' Report on pages 13 to 14. We looked at risks from the point of view of the long-term shareholder, the principal one being that over the long-term (which we determined was five years) he/she did not make a return from his/her investment in the Company. The key performance indicator, against which we compare shareholders' share price and dividend returns, is our benchmark, which is in essence a proxy for the return from a risk free, five year investment. Other KPIs include the NAV returns against those of the benchmark, against our peer group average returns and against the market (the FTSE All-Share Index) and the total expense ratio as a proportion of the returns that shareholders have received. The numbers are computed on a one, three, five and ten year basis – five years being the better time period over which to judge the progress of the Company.

We also had a long discussion on the risks that shareholders assume in their investment in the Company. We divided them into those external risks over which we have no control or influence, but which can be mitigated through sensible portfolio diversification and those internal risks over which we have a measure of control; we divided these into the risks of portfolio and balance sheet mismanagement and of administrative mismanagement. Part of our governance involves a review every board meeting and a major annual review of these risks (complying with Turnbull). Again the risks are outlined in the Directors Report. It should be noted that we do not regard net asset value volatility or variations between our holdings and those of an equity index as risks that a long-term shareholder assumes in the pursuit of long term returns.

I should point out that our investment in Ocean Wilsons is large both in absolute terms (£44.3m) and as a proportion of shareholders' equity (22.5%). Shareholders should recognise that if anything of a severe and untoward nature were to happen to this company, it could result in a significant reduction in the NAV and share price. However it is an investment that the Board pays close attention to and it should be pointed out that the risks associated with it are very different from those of the other companies represented in the portfolio. The company itself has recently undertaken a thorough review of its business and prospects and determined that its future holds a lot of promise – a view with which we concur. As a consequence the Board believes that the risk involved in the investment is worthwhile.

OUTLOOK: Short-term cautious; long-term bullish.

Despite the ups and downs of the stock markets – in this and other countries – the economies of the world continue to grow to a greater or lesser extent, driven by those of the United States and China. However the base of global economic growth is broadening out with the economies of Japan and India both contributing and even Germany's economy is showing some sign of life. Despite the concerns and actions of the anti-globalisationists, the global economy continues towards becoming one place for the production of goods and services. Large multinational companies can now fulfil their roles as producers, carrying out the various functions of production wherever in the world it makes most sense to do so. Eastern Asia with its excellent work and savings ethics, its high standards of education and its competitiveness is setting the standards for the rest of the world; the rest of us are following with varying degrees of enthusiasm and success. Providing that this globalisation is not threatened by protectionism – a very real and dangerous threat and one that we recognise as a risk for our shareholders – it offers the prospect of excellent growth of company profits and dividends around the world. It is the long-term bullish case.

CHAIRMAN'S STATEMENT

(continued)

The shorter-term however is, as always, a lot more difficult to assess. The last three years have been good years for economies, for companies – corporate balance sheets world wide are strong – and for investors. The world has been swimming in a sea of easy money and nearly all classes of investment have done well. Nothing so highlights the level of economic prosperity as the huge rise in the prices of all sorts of commodities, most importantly of oil and natural gas. However it brings with it the prospect of re-emerging inflation. Indeed, fuelled by easy money and massive debt creation, there has been considerable asset price inflation – houses, property generally, stocks and shares, art and perhaps significantly gold – and there must be concern that this has to feed into general consumer price inflation. As I write this statement the noises coming from most central banks around the world suggest that interest rates must rise yet further and your Board thinks they may well do so. Indeed in recent weeks, stockmarkets have been nervous about this very prospect, resulting in considerable falls in share process around the world. These central banks have a very tricky task – that of heading off rising inflation on the one hand and not precipitating a severe recession on the other. It will not be easy and it is one reason for injecting a note of caution into the short-term outlook.

However, in anything other than the shorter-term, our own prospects are largely in our own hands. If we continue to invest in well managed companies with good growth prospects whose shares sell at reasonable values, we should be able to produce good returns in the next five years. William and John have done it before and we have every confidence they will again. You can follow the progress of the Company from the monthly published fact sheets which are available on our website www.hansagrp.com.

ANNUAL GENERAL MEETING

The AGM will be held at 11.30am on 3 August 2006 at the Washington Hotel, Curzon Street, London (Green Park tube station). We do urge all shareholders who are able to attend to join us for the occasion. It is the one opportunity that you have collectively to meet the Board and Management, ask questions that concern you and make any comments and criticisms you may have. Furthermore, you have the benefit of doing it in front of your fellow shareholders – so that they can hear what you have to say and in turn you have the chance to listen to what they have to say. Most important of all we have the chance to listen and learn from you. ***Please come and join us.***

Alex Hammond-Chambers
Chairman
7 July 2006

REPORT OF THE DIRECTORS

for the year ended 31 March 2006

The Directors present their Report and Financial Statements for the year ended 31 March 2006.

THE BOARD'S OBJECTIVES

The Board's primary objective is to achieve growth of shareholders value over the medium to long term.

THE BOARD

Your Board consists of the following persons each of whom brings certain individual and complementary skills and experience to the Board's workings, as summarised below.

Alex Hammond-Chambers *(Chairman)*

Alex's career has been involved with portfolio management and investment trusts, from which he brings – inter alia – experience and understanding of investment policies, strategies, stock selection and risk management. Born in 1942, he joined the Board in 2002. He worked for Ivory & Sime for 27 years, retiring as Chairman in 1991. He is chairman of four investment trust companies and a director of two other, as well as a number of other investment companies. He has served as a Chairman of the Association of Investment Trust Companies.

Jamie Borwick

Jamie's business life has been involved with the auto industry particularly and manufacturing generally, as well as involvement with the property sector. He brings his experience of industry and property to the Board's stewardship. Born in 1955, he joined the Board in 1984. He is Chairman, of Modec Vehicles, which makes battery powered vans, and route2mobility Limited which finances wheelchair and scooters as part of the Motability Scheme. He is also a partner of Federated Investments Limited, an investor in property in the UK and Florida.

William Salomon

William's career in investment banking and management has involved working on and understanding corporate strategies. His own skills and experience are important to the Board in developing and monitoring investment in special investment themes and in strategic investments. Born in 1957, he joined the Board in 1999. He is the senior partner of Hansa Capital Partners LLP, Chairman of New India Investment Trust PLC, deputy chairman of Ocean Wilsons Holdings Limited and a non-executive director of Cathedral Capital PLC.

Geoffrey Wood

Geoffrey has great knowledge of economics generally and monetary and fiscal policy issues specifically. His skills and experience are important to the Board, particularly in understanding the effect of such policy issues on the markets. Born in 1945, he joined the Board in 1997. He is professor of Economics at Cass Business School, in the City of London, and a visiting Professorial Fellow at the Centre for Commercial Law at Queen Mary and Westfield College of London University. He has been visiting professor at the University of South Carolina and at the National Bureau for Economic Research at Harvard. In addition he is and has been an adviser to a number of Central Banks and City of London financial firms.

THE BOARD'S RESPONSBILITIES

The Board is charged by the shareholders with the responsibility for looking after the affairs of the Company. It involves the 'STEWARDSHIP' of the Company's assets and liabilities and *'THE PURSUIT OF GROWTH OF SHAREHOLDER VALUE'*. These responsibilities are discharged in many ways and are detailed below.

REPORT OF THE DIRECTORS

(continued)

STEWARDSHIP

In discharging its responsibilities of Stewardship the Board is governed by the Companies Acts and the Financial Services Authority UKLA Listing Rules.

Under UK Company Law the Directors are responsible for ensuring that:

- Proper accounting records are kept, which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 1985.
- The assets of the Company are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
- The Directors' Report and other information included in the Annual Report is prepared in accordance with company law in the UK. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.
- The Company has effective internal control systems, which are designed to ensure that proper accounting records are maintained, that the financial information on which the business decisions are made and which are issued for publication is reliable. Such a system of internal control can provide only reasonable but not absolute assurance against material mis-statement or loss.
- The Group Financial Statements for each financial year are prepared in accordance with IFRS as adopted by the EU and have elected to prepare Company financial statements on the same basis. The Company and Group Financial Statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Company and the Group and the performance of the Group for that period. In preparing these financial statements the Directors are required to:
  - select suitable accounting policies and apply them consistently;
  - make judgements and estimates that are reasonable and prudent;
  - state whether they have been prepared in accordance with IFRS as adopted by the EU;
  - prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

Under the Financial Services Authority, UKLA Listing Rules – Combined Code the Board is responsible for:

- Disclosing how it has applied the principles and complied with the provisions of the Combined Code or where not to explain the reasons for divergence.
- Reviewing the effectiveness of the Company's system of internal controls.

Compliance with the provisions of the Combined Code.

The Combined Code requires the Directors to review the effectiveness of the Company's system of internal controls. The Directors, through the procedures outlined below, have kept the system of internal controls under review for the period of the report and will keep the procedures under review up to the date of approval of the Annual Report and Accounts. The Board has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as areas for the extended review.

The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. It receives regular reports on all aspects of internal control (including financial operational and compliance controls, risk management and relationships with external service providers), and believes that an appropriate framework is in place to meet the requirement of the Combined Code

On 3 February 2006, the Financial Reporting Council confirmed that Member companies of the Association of Investment Trust Companies ("AITC") who follow the AITC's Corporate Governance Guide for Investment Companies ("AITC Guide") will be meeting their obligations in relation to the Combine Code and paragraph 9.8.6

of the Listing Rules. The Board confirms that it follows the AITC Guide which excludes particular areas which the AITC Guide identifies as being irrelevant in a non self-managed investment company: namely the role of the Chief Executive, Executive Directors Remuneration, and the need for an internal audit function.

The Board confirms with the exception of the composition of the Audit Committee as detailed on page 15, it has in all respects followed the AITC Guide in meeting its obligations under the Financial Services Authority, UKLA Listing Rules and the Combined Code.

The AITC Guide has 21 principles, the vast majority of which the Board of the Company has been following for many years. However, modern corporate governance requires that the Board not only govern their companies sensibly and responsibly, but that they are seen to do so. Hence there is a requirement to follow a check list of principles, which in our case is drawn from the AITC Guide, they include:

The Board

- **The Chairman should be independent.**

  Mr Alex Hammond-Chambers is considered by the Board to be independent.

- **A majority of the Board should be independent of the Manager.**

  With the exception of Mr William Salomon who is employed by the Manager all of the other board members are considered to be independent. Both Geoffrey Wood and Jamie Borwick, who have served as Directors of the Company for more than nine years, are considered independent by virtue of their personal characteristics, their experience and their financial independence.

- **Directors should be elected for a fixed term of no more than three years. Nomination for re-election should not be assumed but be based on disclosed procedures.**

  All Directors resign at each Annual General Meeting and where appropriate offer themselves for re-election.

- **There should be full disclosure of information about the Board**

  A biography of each member of the Board can be found on page 8.

- **The Board should have a policy on tenure which is disclosed in the Annual Report.**

  The Board has determined that neither age nor length of service necessarily compromise independence, rather that experience and knowledge gained in service normally strengthen independent performance. All Directors have contracts for services, details of which are contained in the Directors Remuneration Report on page 30.

- **The Board should aim to have a balance of skills and experience, ages and length of service.**

  The Board at its regular board and annual strategic meetings reviews its requirements to direct the affairs of the Company. Where and when appropriate individuals are identified who would strengthen the Board and put forward as candidates for board membership.

- **The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.**

  The Board undertakes a formal far reaching evaluation every three years. The other years the Board, at its strategy meeting, carries out an evaluation of the independence of each Director, the progress of the actions resulting from the previous reviews and of any new ideas for improving the returns to shareholders through improving the effectiveness of the Board. The Chairman is evaluated by Mr William Salomon on behalf of the Board.

- **Directors Remuneration should reflect their duties and responsibilities and the value of their time spent.**

  The level of Directors' fees is reviewed on a regular basis relative to other comparable companies and in the light of the Directors' duties and responsibilities and the value of the time committed to the interests of the Company.

- **The independent directors should take a lead in the appointment of new directors and the process should be disclosed in the Annual Report.**

  The identification and appointment of a new board member is a matter for the whole board. The Chairman would take the lead in all of the processes leading to the appointment of a new director.

- **Directors should be offered relevant training and induction.**

  When a new director is appointed, he or she attends an induction seminar held by the Company Secretary and the Chairman. Directors are also provided on a regular basis with industry, regulatory and investment updates. Directors regularly participate in industry seminars and training courses where appropriate.

Board meetings and the relationship with the Manager:

- **Boards and Managers should operate in a supportive, co-operative and open environment.**

  The Board and Manager operate in an environment of mutual trust and respect both at the formal board meetings and during the year when ad-hoc communications are instigated by either party.

- **The primary focus at regular Board Meetings should be the review of the investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.**

  At the regular Board meetings, discussions are held and reports and papers are reviewed all of which cover the above mentioned aspects.

- **Boards should give sufficient attention to overall strategy.**

  The Board holds an annual strategy meeting with the Manager to discuss the Company's future investment and corporate strategies.

- **The Board should regularly reviews both the performance of and contractual arrangements with, the Manager.**

  The Board formally reviews the performance of the Manager each quarter, at which Board meeting the Manager presents a written report. At the annual review of the Manager all aspects of its service to the Board are reviewed, including and particularly the long term returns to shareholders and the terms and conditions of its contract.

- **The Board should agree policies with the Manager covering key operational issues.**

  Within the agreement between the Manager and the Company, service levels are defined. In addition the Board determines certain investment restrictions and guidelines for the Manager, on which it reports on a monthly basis.

- **Boards should monitor the level of share price discount or premium (if any) and, if desirable, take action to reduce it.**

  The Board continually monitors the levels of discount and premium and comments on it at its regular meetings.

- **The Board should monitor and evaluate the other service providers.**

  The Board, through its Audit Committee receives independent reports from the auditors of the main services providers; these reports are called FRAG 21/94 reports (soon to be AAF 01/06).

Shareholder Communications

- **The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders.**

  The Board reviews the shareholder profile at its regular meetings. The Company, through the Manager, has regular contact with its institutional shareholders. The Board supports the principle that the Annual General Meeting should be used to communicate with all shareholders and promotes its website to them.

- **The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.**

  The Board is responsible for all major corporate issues and as such would have a direct involvement in both the issue and the contents of its communications.

- **The Board should ensure that shareholders are provided with sufficient information for them to understand the risk: reward balance to which they are exposed by holding the shares.**

  The Board through the issuance of the Annual Report, Interim Report and Monthly Fact sheet aims to ensure that both shareholders and prospective shareholders are made fully aware of the investment aims and benchmark of the Company, the types of investments the Company is likely to enter into, the disposition of those investments in the portfolio, the gearing available to the Company and the period on which its performance should be judged.

THE PURSUIT OF GROWTH OF SHAREHOLDER VALUE

In pursuit of shareholder value, the Board:

- Contract out the administration and management of the Company.

  The Board in contracting out the administration and management of the Company seeks to engage organisations which can provide the relevant levels of experience and expertise at an acceptable cost.

- Monitor third party suppliers, performance and costs.

  The Board at its regular meetings reviews reports prepared by both the Manager and the Administrator which enables it to monitor the performance and costs of the third party suppliers to the Company.

- Monitor investment performance and risks.

  The Board reviews reports prepared by the Manager at its regular meetings which enable it to monitor the investment performance and risks.

- Determine investment strategy, guidelines and restrictions.

  The Board determines the investment strategy in conjunction with the Manager. The strategy is monitored at the regular meetings and refinements made to it as required, with formal review at the Board's Annual Strategy Meeting.

  The Board issues formal investment guidelines and restrictions and compliance with these are reported by the Manager's Compliance Officer on a regular basis.

- Determine gearing levels and capital preservation through the use of hedging instruments.

  The Board, acting on advice from the Manager, determines the maximum level of borrowings that the Company will undertake at the time of borrowing. The Company has entered into a short-term loan facility with the Allied Irish Bank; currently the maximum level of the facility is £20,000,000. The Board has approved the utilisation of hedging instruments in order to protect the portfolio from extreme market declines.

- Management of the share discount policy.

  The Board regularly monitors the level of discount and whilst it has the option to re-purchase shares, it considers that the best means of attaining a good rating for the shares is to concentrate on increasing shareholder returns.

- Determine the level and timing of dividends payable to shareholders.

  The Board's policy is to distribute to shareholders the majority of the Company's income by way of a modest interim dividend, normally paid in December each year and a final dividend paid as soon as is practically possible following the approval by shareholders at the Company's Annual General Meeting

REPORT OF THE DIRECTORS

(continued)

BUSINESS REVIEW, RISKS AND KEY PERFORMANCE INDICATORS

Business Review

The Business Review of the Company is contained within the Chairman's Statement on page 6.

Risks

The Board considers that the risks the shareholders face can be divided into external and internal.

External risks to shareholders and their returns are those that can severely influence the investment environment within which the Company operates, which include economic recession, declining corporate profitability, rising inflation and interest rates and excessive stock market speculation. At its recent strategy meeting the Board highlighted a disease pandemic, protectionism, destabilisation of the Middle East, financial crises arising in the emerging markets – in particular India and/or China – monetary policy mis-management and a collapse of the US dollar as current stock market risks.

The mitigation of these risks is achieved by sensible stock and sector diversification.

Internal risks to shareholders and their returns are, portfolio (stock and sector selection and concentration), balance sheet (gearing) and/or administrative mismanagement. In particular the Board has identified the exposure to Ocean Wilsons Holdings Limited as a notably large single investment risk

The mitigation of these risks of mismanagement is effected by investment restrictions and guidelines and through reviews at Board Meetings.

The Board considers the risks to the Company's two share prices, apart from those mentioned above, include the level of discount or premium. The Board monitors the discount/premium and may take action when appropriate.

However, given the Company's stated objective of increasing shareholder value over the medium to long term, the Board does not consider short term NAV or share price volatility to be a material risk to long term shareholders.

Details of how the principal risks arising from financial instruments are managed have been summarised in Note 20 on pages 47 and 48.

Key Performance Indicators

The Board of Directors reviews certain Key Performance Indicators ("KPI") in assessing the development and performance of the business

i) Shareholder – Total Return to 2006

A comparison is made between the "Total Return" of each class of shares to that of the three-year average rolling rate of return of a five year U.K. Government bond plus two percent with interest re-invested semi-annually (the Company's Benchmark). This comparison illustrates how shareholders' returns compared with the returns of the Benchmark.

	2006 (1 year)	2003 (3 years)	2001 (5 years)	1996 (10 years)
Share Price				
Ordinary shares	**51.87%**	313.10%	86.90%	424.46%
'A' non-voting Ordinary shares	**51.94%**	293.66%	127.13%	442.60%
KPI: Company's Benchmark	**6.56%**	20.14%	35.05%	79.32%

REPORT OF THE DIRECTORS

(continued)

ii) Company Returns

These comparisons are used to determine the effectiveness of the investment strategy and of the Manager.

	2006 (1 year)	2003 (3 years)	2001 (5 years)	1996 (10 years)
Net Asset Value ("NAV")	**42.24%**	213.00%	112.20%	333.27%
Absolute comparison				
KPI: Company's Benchmark	**6.56%**	20.14%	35.05%	79.32%
Relative comparison				
KPI: FTSE All-share Index	**28.53%**	96.01%	34.53%	120.86%
KPI: Peer Group Average	**39.30%**	158.10%	68.30%	213.70%

iii) Discount/(Premium)

A comparison is made between the discounts of the Company's two classes of shares and those of the Company's Peer Group and of the AITC Average.

	2006 (1 year)	2003 (3 years)	2001 (5 years)	1996 (10 years)
Share Price				
Ordinary shares	**(3.6%)**	20.5%	(18.4%)	12.3%
'A' non-voting Ordinary shares	**0.0%**	19.4%	5.8%	17.4%
KPI: Peer Group Average	**(6.9%)**	(15.1%)	(9.0%)	(9.0%)
KPI: AITC ITC Average	**(6.6%)**	(11.1%)	(10.0%)	(10.0%)

iv) Expense ratio to 2006

A comparison is made between the level of expenses (administrative and management) of the Company and the Net Asset Returns (both annualised) in order to assess the value for money that shareholders receive.

	2006 (1 year)	2003 (3 years)	2001 (5 years)	1996 (10 years)
Total expense ratio per annum	**0.91%**	1.04%	1.10%	1.07%
KPI: NAV Total Return per annum	**40.25%**	44.65%	14.61%	14.21%

REPORT OF THE DIRECTORS

(continued)

BOARD POLICIES

The Board consists entirely of non-executive directors; it delegates the day to day implementation of its policies to third party service providers. The Board has contractually delegated to external organisations the management of the investment portfolio, the custodial services which include safeguarding of the assets, and the day to day accounting and company secretarial requirements. Each of these contracts is only entered into after proper consideration of the quality and cost of services which are reviewed and monitored either by the Board or its Committees.

The Board's Committees and the main service provider contracts are detailed below and any additional requirements which the Board is required to carry out in fulfilment of its obligations under the Companies Acts or Listing Rules.

Details of the Directors' attendance at Board, Strategy and Audit Committee meetings are in the Directors' Remuneration Report on page 30.

BOARD COMMITTEES

Audit Committee

The Directors consider that all members of the Board should be members of the Audit Committee in order for them to fulfil their responsibilities as Directors of the Company and so the Audit Committee consists of all four Directors and Mr Teideman, a former director whose own skills and experience strengthen the Committee. The Committee is chaired by Alex Hammond-Chambers. The Smith Report's guidance to the Combined Code emphasises the need for "Audit Committee arrangements to be proportionate to the task". With such a small Board, it was deemed both proportionate and practical to involve all Directors in its workings even though William Salomon is regarded as not being independent. The Company's Audit Committee meets representatives of the Investment Manager and its Compliance Officer, who report as to the proper conduct of business in accordance with the regulatory environment in which both the Company and the Investment Manager operate. The Company's Auditors also attend this Committee and report on their work procedures, the quality and effectiveness of the Company's accounting records and their findings in relation to the Company's statutory audit. The responsibilities of the Audit Committee include review of internal financial controls, accounting policies, financial statements, management contract, Auditors' appointment and remuneration and the value of the unquoted investments. The Board has issued the Committee with Terms of Reference which are available from the Company Secretary at the Registered Address of the Company.

Nomination Committee

The Board as a whole fulfils the function of a Nomination Committee. The Company's Articles of Association require newly appointed Directors to submit themselves for election by shareholders at the next Annual General Meeting after appointment and that they will be subject to re-election at intervals of no more than three years. However the Board has determined that all Directors will retire and offer themselves for re-election each year at the Annual General Meeting.

Management Engagement Committee

The Board, with the exception of Mr William Salomon, fulfils the function of a Management Committee. The level of management fees and the level of service provided are reviewed on a regular basis.

Remuneration Committee

The Board as a whole fulfils the function of a Remuneration Committee and considers that the specific appointment of such a committee is not appropriate for an investment trust company. The level of Directors' fees is reviewed on a regular basis in the light of their duties and also relative to other comparable companies.

SERVICES PROVIDERS

Investment Manager

Hansa Capital Partners LLP charges an investment management fee at an annual rate of 0.75 per cent of the valuation of the Company's portfolio, after deducting the investment in Ocean Wilsons Holdings Limited on which no fee is payable. Under the terms of the investment management agreement with Hansa Capital Partners LLP the investment management fee is reduced by the amount the Company is charged under its administration agreement with BNP Paribas Fund Services UK Limited. The terms of the investment management agreement permits either party to terminate the agreement by giving to the other not less than 12 months' notice or such shorter period that is mutually acceptable. The investment management fee outstanding at the year end amounted to £92,062 excluding VAT (2004: £88,593). In its annual assessment, the Board has concluded that, because of the calibre and commitment of the whole management team to the Company and of the excellent long term returns to shareholders it has produced, it is in the best interest of shareholders that the Manager remain *in situ* on the current terms and conditions.

In addition, Hansa Capital Partners LLP is entitled to charge an investment management fee to the dealing subsidiary of 15% of the pre-tax profits of that company after adjusting for a notional interest charge on capital employed; the Manager has agreed to terminate this agreement with effect from 1 April 2006.

During the year ended 31 March 2006 the Directors reviewed regularly all aspects of the performance of Hansa Capital Partners LLP as the Company's Investment Manager.

Auditors

The auditors, RSM Robson Rhodes LLP have expressed their willingness to continue to act as Auditors to the Company and a resolution to re-appoint RSM Robson Rhodes LLP as Auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Company Secretary

Secretarial services were provided by Hansa Capital Partners LLP at an annual rate of £40,000 excluding VAT (2005: £40,000).

Plan Manager

The Company offer ISA PEP MileStone and Saving Scheme Plans which are administered by Close Finsbury Asset Management Limited.

Administrator

The Company have appointed BNP Paribas Services UK Limited as its Administrators.

BOARD STATEMENTS AND DISCLOSURES

In accordance with the Company Acts and Financial Services Authority UKLA Listing Rules the Board to makes various statements and disclosures to shareholders, they are:

APPOINTMENT OF THE INVESTMENT MANAGER

During the year ended 31 March 2006 the Directors have regularly reviewed the performance of Hansa Capital Partners LLP as the Company's Investment Manager. The Directors believe that the returns to shareholders since its appointment have been most satisfactory and therefore have concluded that it would be in the best interests of shareholders for the Company to continue the appointment of the Investment Manager on the current terms of appointment.

SIGNIFICANT CHANGES IN THE ACTIVITIES OF THE COMPANY

There has been no significant change in the activities of the Company and its subsidiary (the 'Group') during the year and the Directors anticipate that the Group will continue to operate in the same manner during the current year.

REPORT OF THE DIRECTORS

(continued)

RESULTS AND DIVIDENDS

The results attributable to shareholders for the year and the transfer to reserves are shown on page 34. The dividends paid and proposed are as follows:

	2006 £000	2005 £000
Ordinary and 'A' non-voting Ordinary shares		
Interim paid of 3.5p (2005: 3.5p) per share	**840**	840
Final proposed of 6.25p (2005 paid: 5.75p) per share	**1,500**	1,380
Total dividends	**2,340**	2,220

The final dividend will, if approved, be paid on 11 August 2006 to Ordinary and 'A' non-voting Ordinary shareholders registered at the close of business on 23 June 2006.

DIRECTORS' TRAINING

Any new Director appointed attends an induction seminar held by the Company Secretary and the Chairman. Directors are also provided on a regular basis with industry, regulatory and investment updates. Directors regularly participate in industry seminars and training courses where appropriate.

DIRECTOR'S INTERESTS

The present members of the Board are shown on page 8, all of whom retired at the last Annual General Meeting and were duly re-elected. The Board continues to believe that it is appropriate for all members to retire annually at the AGM and therefore Mr Hammond-Chambers, Mr Borwick, Mr Salomon and Professor Wood will retire again and offer themselves for re-election at the forthcoming AGM. The interests of Directors and their families in the Company are shown below:

	Ordinary shares of 5p each		'A' non-voting Ordinary shares of 5p each		Nature of interest
	2006	2005	2006	2005	
R A Hammond-Chambers	**500**	7,600	**7,000**	–	Beneficial
J Borwick	**2,200**	2,200	**–**	–	Beneficial
W H Salomon	**2,134,469**	2,134,469	**98,700**	98,700	Beneficial
G E Wood	**5,000**	5,000	**–**	–	Beneficial

Mr Salomon is chairman of Hansa Capital Limited and senior partner of Hansa Capital Partners LLP. Fees payable inclusive of VAT to Hansa Capital Partners LLP amounted to £1,034,474 (Hansa Capital Limited 2005: £769,527). During the year, no rights to subscribe were granted to, or exercised by Directors, their spouses or infant children.

FIXED ASSET INVESTMENTS

The market value of the Group's investments at 31 March 2006 was £202,099,000 (2005: £142,483,000). Taking these investments at this valuation, the net assets attributable to each Ordinary and 'A' non-voting Ordinary share amounted to 818.2p at 31 March 2006 (Restated 2005: 583.5p).

PUBLICATION OF FINANCIAL STATEMENTS ON A WEBSITE

The Financial Statements are made available on the Hanseatic Group website www.hansagrp.com, as well as www.closefinsbury.com website, which is a website maintained by the Company's ISA, Savings Scheme and PEP Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of either website and accordingly, the Directors and the Auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the websites. Visitors to the websites need to be aware that the legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their jurisdiction.

REPORT OF THE DIRECTORS

(continued)

SUBSTANTIAL SHAREHOLDERS

As at 23 June 2006 the following interests in the Ordinary shares of the Company which exceeded 3 per cent of the voting issued share capital of that class are:

	No. of voting shares	% of voting shares
Nicholas B. Dill, Jr. & Codan Trust Company Limited *(note)*	4,096,350	51.20
HBOS plc	318,500	3.98

Note: Of the shares held by Nicholas B. Dill, Jr & Codan Trust Company Limited, Mr W H Salomon is interested in 2,048,175 and Mrs J A V Townsend is interested in 2,048,175, each holding representing 25.60 per cent of the voting share capital. In addition, Mr W H Salomon has further interests in the Company's shares, the total interest is detailed in the paragraph Directors Interests above.

CREDITORS' PAYMENT POLICY

While the Company does not follow a formal code, it is the Company's continuing policy to pay amounts due to creditors as and when they become due. Payments relating to investment transactions are made in accordance with the settlement practices of the relevant exchange. At 31 March 2006 outstanding trade creditors amounted to £Nil (2005: £Nil).

GOING CONCERN

The Directors, having made relevant enquiries, are satisfied that it is appropriate to prepare financial statements on a going concern basis as the net assets of the Group consist of securities, the majority of which are traded on recognised stock exchanges.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the year the Company purchased and maintained liability insurance for its Directors and Officers as permitted by Section 310(3) of the Companies Act 1985.

STATUS AND ACTIVITIES

During the year under review the Company has operated as an investment company, under Section 266 of the Companies Act 1985 and in compliance with Section 842 of the Income and Corporation Taxes Act 1988. The Company has received approval as an investment trust for the year ended 31 March 2005. The Directors are of the opinion that the Company has subsequently directed its affairs so as to enable it to continue to obtain Inland Revenue approval as such. There has been no significant change in the activities of the Company and its subsidiary (the 'Group') during the year and the Directors anticipate that the Group will continue to operate in the same manner during the current year.

AUDIT INFORMATION

The Directors confirm that so far as they are aware having made such enquiries and having taken such steps as they consider they reasonably ought, they have provided the Auditors with all the information necessary for them to be able to prepare their report. In doing so each Director has made himself aware of any information relevant to the audit and established that the Company's Auditors are aware of that information. The Directors are not aware there is any information relevant to the audit of which the Company's Auditors are unaware.

ANNUAL GENERAL MEETING

A special resolution relating to the following item will be proposed at the forthcoming Annual General Meeting:

(a) Authority to Re-purchase 'A' non-voting Ordinary shares

A resolution will be proposed at the forthcoming Annual General Meeting seeking shareholder approval for the renewal of the authority for the Company to re-purchase its own 'A' non-voting Ordinary shares. The Board believes

REPORT OF THE DIRECTORS

(continued)

that the ability of the Company to re-purchase its own 'A' non-voting Ordinary shares in the market will potentially benefit all equity shareholders of the Company. The re-purchase of 'A' non-voting Ordinary shares at a discount to the underlying net asset value ('NAV') will enhance NAV per share of the remaining equity shares and it may also enable the Company to address more effectively any imbalance between supply and demand for the Company's 'A' non-voting Ordinary shares.

The Company's Articles are drafted in such a way that the Company may from time to time purchase and cancel its own shares. However, company law requires that shareholders' approval to re-purchase shares be sought. At the Annual General Meeting the Company will therefore seek the authority to purchase up to 2,398,400 'A' non-voting Ordinary shares (representing 14.99 per cent of the Company's issued 'A' non-voting Ordinary share capital, the maximum permitted under the Listing Rules of the Financial Services Authority) at a price not less than 5p per share (the nominal value of each share) and not more than 5 per cent above the average of the middle-market quotations for the five business days preceding the day of purchase. The authority being sought, the full text of which can be found in Resolution 9 in the Notice of Meeting, will last until the date of the next Annual General Meeting.

It is proposed that the Company uses its realised capital reserve to re-purchase shares in the market. The decision as to whether the Company re-purchases any shares will be at the absolute discretion of the Board. Any shares purchased will be cancelled. The Directors consider that the creation of a facility to re-purchase the Company's own 'A' non-voting Ordinary shares is in the interests of shareholders as a whole and unanimously recommend all shareholders to vote in favour by ticking the appropriate boxes on the enclosed form of proxy. The proxy form should be returned to the Company's Registrar as soon as possible but in any event so as to arrive no later than 48 hours before the time of the Annual General Meeting.

By order of the Board
Hansa Capital Partners LLP
Secretary
7 July 2006

INVESTMENT MANAGER'S REPORT

BACKGROUND

UK equities enjoyed a satisfactory year against a background of heightened M&A activity, share buyback programmes, strong corporate results and good increases in dividends. The buoyancy of the debt markets added to the pressure to do deals while the window of opportunity is open. With debt, nothing is impossible as lenders, private equity and companies consider leveraged buyouts and recapitalisations. Private equity firms are having to take on more debt if they are to win deals, while public companies are leveraging their own balance sheets for fear that someone else will do it for them.

There is a new mood of confidence among chief executives, as a reinvigorated corporate sector is competing for deals with private equity funds, which have in turn raised some £174 billion ("bn") in 2005, enough to fund leveraged buyouts of £680 bn, equal to 43% of the market capitalisation of the FTSE 100 share index. Texas Pacific Group has raised more that £8.1bn for its latest buyout fund, the biggest single pool of capital raised in global private equity. This reflects an insatiable appetite from investors, including banks, insurance companies, pension schemes, university endowments and wealthy individuals to pump capital into the asset class.

However, private equity is finding it harder to find deals in the face of growing competition from M&A hungry trade buyers. The value of deals completed so far this year is down 44% from the fourth quarter of last year as trade buyers join in the M&A frenzy. No deal is apparently too big, and what's more, investors are reacting positively to the deals that have been announced so far, buying the restructuring and synergy arguments. Companies are tending to fund their takeovers with cash, rather than using their own overly inflated share price as witnessed in the dotcom boom, enabling companies to make their balance sheets more efficient, as well as reaping the operational benefits and savings of a transaction.

Cash bids and share buyback programmes are giving institutions plenty of money to re-invest. In 2006 it is estimated that predominantly cash bids could account for 3% of the stock market whilst share buybacks could return another 2% to shareholders. In addition, corporates see demergers and focus as a further way of increasing shareholder value. The general view is that world economic growth is becoming more broadly based rather than US consumer led, with a strengthening of economies in Europe and Japan.

OVERALL PERFORMANCE

During the year under review, the capital and revenue returns per Ordinary and 'A' non-voting Ordinary shares amounted to 244 pence or 40.2%, and both share prices rose by 49.7% on a total return basis as the 'A' non-voting Ordinary shares traded at a narrower discount, and the Ordinary shares at a premium to their net asset value. This compares with a rise of 6.6% in the Company's Benchmark, and a total return on the FTSE All-Share Index of 28.5%. The two major contributors to the 244 pence per share rise were Ocean Wilsons Holdings 72.1 pence and Resolution 24.7 pence.

SECTOR WEIGHTING AND PERFORMANCE – (Time Weighted)

SECTOR	Portfolio Weighting at 31 March 2006 %	1 year performance to 31 March 2006 %
Small Cap/AIM	25.6	21.5
Strategic	22.5	66.6
Insurance	7.9	63.7
Natural Resources	24.2	22.8
Utilities	8.5	25.6
Closed Life Funds	6.8	82.6
Property	5.8	32.0
Large Cap	3.1	9.2
Funds	–	99.1
Net liabilities including bank loans	(4.4)	–

INVESTMENT MANAGER'S REPORT

(continued)

SECTOR REVIEW

SMALLER CAP/AIM	**Opening Value**	**Net New Investment**	**Closing Value**	**Average Capital Employed**	**Added Value**
Portfolio Movements	£33.4m	£10.0m	£50.3m	£31.8m	£6.8m
Portfolio Weighting			25.6%		
Portfolio Performance					21.5%
Contribution to overall total return of 244p					28.5p
Major Contributors					
Hargreaves Services					5.8p
Goal Soccer Centres					4.6p
Foseco					4.5p
Raymarine					4.5p

Our smaller company portfolio returned 21.5% (time weighted basis). **GOAL SOCCER CENTRES** rose by 94.6%, **FOSECO** by 73.5%, **HARGREAVES SERVICES** by 65.9% and **HAMWORTHY** by 41.0%.

We looked at and met the management of a large number of companies which were undertaking IPOs during the year, and made a number of interesting investments. Our investment criteria are relatively simple. We want to become co-proprietors with a high quality and proven management team, which is doing something different to what can already be purchased elsewhere in the stock market and where they are often market leaders. We like organic, top line growth and growth by selective acquisition, products and services that have pricing power and defendable margins, good cash flow and dividends. This is the area where we spend a lot of time meeting the key management teams and building up co-proprietorial relationships. It's interesting and fun, and a privilege to have the opportunity to meet these ambitious and talented entrepreneurs.

We purchased a new holding in **FOSECO** (+73.5%) on its latest IPO. Foseco was founded in 1932 and is a world leader in the supply of consumable products for use in the foundry and steel making industries. A new holding was taken in **HARGREAVES SERVICES** (+65.9%) on its IPO. This is one of the UK's leading specialist providers of transportation and support services to the energy and waste sectors. The management has a proven track record in a business which enjoys long term visibility of revenues and strong cash generation, and they did not sell any shares at IPO. We took a new holding in **RAYMARINE** (+31.4%), a recent IPO. Raymarine is a UK based and long established electronics business that is a genuine international leader in the growing leisure marine electronics market, benefiting from the demographic trend of an ageing populace and the technological progress that is creating new, affordable and useful electronic devices. Following an outsourcing agreement with Flextronics, Raymarine will cease to manufacture any products in the UK from 2007, which is expected to result in rising margins. Marine Electronics products are seen as safety critical, as customers are attracted to well established brands and a company that can service its products on a global basis.

Just before the end of our financial year we took a new holding in **PEACHTREE** (+4.5%) on its IPO. Peachtree is a US speciality finance company that purchases high quality deferred payment obligations from individual holders. Following acquisition, the assets are typically sold by Peachtree either in their entirety or through securitisation. A new holding was taken in **LEADCOM** (16.1%), a recent IPO and a profitable and fast growing international telecommunications service provider with a geographical focus on emerging markets. We are using the **AIM/IPO** market to invest in some top quality companies with leading market positions and truly global footprints.

Back here in the UK we took a 6.7% holding in **DOWLISS CORPORATE SOLUTIONS** (+43.9%) on its IPO. Dowliss operates in the fragmented UK promotional merchandise and marketing services sectors and has a proven management team. **MORSON GROUP** (+7.5%) is the UK's leading technical contract staffing company which was founded in 1969, while **WORK GROUP** (+3.4%), where we took a 5.2% stake on IPO, is a recruitment specialist that provides direct employment services to companies with the aim of reducing their reliance upon traditional head-hunters and employment agencies. We helped **MEDIA SQUARE** (-24.0%) acquire the marketing services group of Huntsworth PLC by taking a 4% stake in the enlarged company. The acquisition transforms Media Square from a group with sales of £60m to an international business with turnover of £200m, leaving the enlarged group as the fifth largest marketing communications and marketing services business based in the UK. All of these companies are profitable, cash generative, growing, and have strong management teams who in turn own sizable shareholdings.

Over the year we sold our holdings in **MORGAN SINDALL** (+138.4%), **DAIRY CREST** (+14.1%), **HOMEBUY** (+54.5%), **LA TASCA** (-53.1%) and **SHED PRODUCTIONS** (-40.6%) and took some profits in **HARGREAVES**. We also bought and sold a number of holdings profitably during the period including **HANSTEEN** (+17.0%), **OVUM** (+10.5%) and **SCOTT WILSON GROUP** (15.8%). We now detect an element of investor fatigue in the IPO arena, and investments can quickly become illiquid.

STRATEGIC	Opening Value	Net New Investment	Closing Value	Average Capital Employed	Added Value
Portfolio Movements	£28.0m	(£1.0m)	£44.3m	£27.2m	£17.3m
Portfolio Weighting			22.5%		
Portfolio Performance					66.6%
Contribution to overall total return of 244p					72.1p
Ocean Wilsons Holdings					72.1p

In September 2005 the Board of Ocean Wilsons Holdings Limited announced that it had concluded the review of its strategic options in relation to the company's Brazilian operations and had decided to continue to remain focused on its current operations and to invest in their future development. The Board believes that the strength of the Brazilian business continues to present exciting opportunities for future growth and remains committed to creating long term value for shareholders.

The acquisition of a further 33% equity interest in Tecon Rio Grande S.A., announced in August 2005 for approximately US$23.7m, is consistent with the Board's strategy and strengthens the company's position in the growing container terminal market in Brazil. To increase capacity and attend the increased demand for trans-shipment cargo, two Super Post Panamax Gantry Cranes and four Rubber Tired Gantries will commence operation in the third quarter of 2006. Work on the planned expansion of the terminal involving construction of a new berth will begin in the second quarter of 2006.

Group operating margins for the year ending December 2005 declined from 16.4% to 11.8%, principally as a result of the appreciation of the Brazilian Real against the US$ over the period, which reduces revenue and increases cost in Brazilian Real terms. In addition Brazilian Real denominated operating costs continued to be driven higher by domestic inflation and increased personnel costs. On the other hand, the appreciation of the Brazilian Real reflects Brazil's improving standing in relation to its trading partners. In effect Brazil as a country and the Real as a currency have been re-rated.

There has been a high level of corporate activity in the ports sector globally. P&O was bought for 13 times EBITDA, and PSA, the Singapore ports operator that dropped out of bidding for P&O, has taken a 20% stake in Hutchison Ports Holdings. Infrastructure assets are in favour with pension funds and other investors who are seeking both yield and protection from inflation, and the scarcity and potential growth of ports assets have become more appreciated.

INVESTMENT MANAGER'S REPORT

(continued)

INSURANCE	Opening Value	Net New Investment	Closing Value	Average Capital Employed	Added Value
Portfolio Movements	£27.0m	(£16.0m)	£15.6m	£18.1m	£4.6m
Portfolio Weighting			7.9%		
Portfolio Performance					63.7%
Contribution to overall total return of 244p					19.4p
Major Contributors					
Brit Insurance					7.9p
Cathedral Capital					4.1p
Amlin					2.4p

Our weighting in the Lloyd's Insurance vehicles was more than halved at the end of our first half of the financial year as a result of sales of investments after hurricane Katrina made landfall. We took profits in **AMLIN** (+36.4%), **BEAZLEY GROUP** (+20.2%), **CHAUCER HOLDINGS** (+21.7%), **WELLINGTON UNDERWRITING** (+24.3%) and reduced our exposure to **KILN** (+15.7%). We are left with our holdings in the unquoted **CATHEDRAL CAPITAL** (+21.9%), which we wrote up in value from 73p to 89p in June of last year, following an announcement at the company's AGM that a parcel of shares had been transacted at 89p, in the financially strong **BRIT INSURANCE** (+20.0%) and in Kiln, which is a high quality underwriting operation.

Hurricane Katrina is probably the largest ever insured natural catastrophe and is a market changing event. We concluded that the loss was going to be an extremely complex one as a result of the flooding, and that it would take a long time before precise forecasts of the ultimate loss could be made, since long-tail liabilities from mould damage or business interruption claims would take time to emerge. We did not see hurricane Katrina as a replay of 11 September 2001 when P&L losses were followed by good rate increases all around. Post 9/11 Lloyd's benefited from an overdue hardening of rates following a severe downturn in rates driven by the bull market in equities, when emphasis was given to investment returns at the expense of underwriting discipline. 9/11 was an extraordinary and unprecedented event which acted as a catalyst to premiums across the board. The Lloyd's Insurance vehicles raised more capital and got on with the business of disciplined and profitable underwriting.

Hurricane Katrina was not an unprecedented event since hurricanes do regularly happen, so it will generally be much harder to sustain increased rates in unaffected lines of business. In addition there is no shortage of new capital coming into the industry. In contrast to the unilateral rate increases seen after 9/11, this upturn is following a more normal pattern of being driven by reinsurance and retrocessional rate hardening. With the reinsurance market having suffered most from 2005 storm losses, it has been the first to respond with increased prices and lower risk appetite. This has had a positive knock-on impact on direct rates as insurance carriers adjust their pricing for higher reinsurance costs and increased risk retention. Katrina's large loss looks as though it has had the effect of elongating the earnings cycle. If rates in 2006 and 2007 remain close to the previous peak levels of 2003, then the industry will have experienced six years of attractive price conditions, compared with three or four years in a more typical cycle. While the strong rates, tight terms and conditions, and a generally benign loss experience in the 2002, 2003 and 2004 underwriting years have already delivered strong underwriting earnings, these years could hold more profit than has yet been reported through earnings, so there may be further reserve releases during 2006.

Traditionally underwriters have been valued on an asset basis, partly a reflection of the difficulties associated with valuing a potentially volatile earnings stream. The prospect of several years of more stable earnings and improved investor confidence could provide a background where earnings multiples play a more important role in the stockmarket's appraisal of value, rather that P/NTA. This scenario assumes normal catastrophe losses.

INVESTMENT MANAGER'S REPORT

(continued)

NATURAL RESOURCES	Opening Value	Net New Investment	Closing Value	Average Capital Employed	Added Value
Portfolio Movements	£23.7m	£5.1m	£47.5m	£28.0m	£18.7m
Portfolio Weighting			24.2%		
Portfolio Performance – (time weighted)					22.8%
Contribution to overall total return of 244p					77.8p
Major Contributors					
Cairn Energy					20.0p
Hunting Plc					15.9p

Our natural resources portfolio returned 22.8% (time weighted basis). **DANA PETROLEUM** rose by 84.4%, **CAIRN ENERGY** by 82.7%, **HUNTING** by 65.9% and **BHP BILLITON** by 53.9%.

Resources now have the biggest weighting in the FTSE All-Share Index, representing about a quarter of the market's value, and is continuing to be a "hot" area with some observers calling it a bubble. Crude oil and commodity prices have risen sharply over the last year, and since our year end, helping our natural resources portfolio to perform strongly. We are part of the "stronger for longer" school, but have no doubt that share prices can be highly volatile in response to short term changes in sentiment. However, it should be remembered that oil equities and mining stocks are a greater claim on future than current commodity prices and there is currently little evidence that demand for oil, copper, zinc, steel, etc has fallen as a result of higher commodity prices. The demand for energy and metals continues to soar as populations grow and economies take off in areas like China and India. We believe that this is an ongoing demand story, not a supply shock like the early 1970s. Millions of people in the developing world are enjoying the benefits of a lifestyle that requires increasing amounts of energy and metals. Not surprisingly when growing demand meets tighter supplies, the result is rising prices.

We ended our year with 15.4% of our assets in oil and gas companies, and a further 4.4% in **HUNTING** (+65.9%) whose subsidiaries are primarily involved in international oil services. Many of the world's oil and gas fields are maturing, while new energy discoveries are mainly occurring in places where resources are difficult to extract, physically, economically and even politically. Delays to flagship schemes such as BP's platform in the Gulf of Mexico or Shell's Sakhalin–2 project in Russia highlight the risks faced by companies as they try to reach more distant energy supplies in the quest to replace reserves. US oil product markets are tight, China continues to grow strongly, Russian supply growth is slowing and is in the process of being re-nationalised which does not bode well for efficient production.

Crude and product markets are being driven higher by concerns over supply vulnerability from Nigeria and Iran in particular, and awareness that the forthcoming US summer peak motoring season will severely test the refining system. The main refining challenge is to meet an ever lighter demand requirement from an increasingly heavy supply barrel. Rising geopolitical tensions will continue to support energy prices. Following reports that the US was considering military strikes against Iranian nuclear installations, Iran has announced that it has enriched uranium. Iran produces about 4mb/d, an amount Opec, which supplies 40% of the world's oil, could not make up in case of a shortfall because its spare capacity has dwindled as demand has outpaced investments in new infrastructure. Iran's threats include closing off the Hormuz Straits where 20% of the world's oil production passes through the two mile wide shipping lane. A US military resolution to the impasse in Iran is looking a distinct possibility.

It is possible to argue that the mega-cap oil and gas sector is one of the most lowly valued in the market. Even after a sharp out-performance over the last month, the sector is trading on a PE multiple of just 11.4x for 2006, a 16% discount to the overall market multiple, a figure that is itself weighed down by the high weighting of oil companies in the FTSE- All Share. The sector is actually trading at a 26% discount to the median PE for the FTSE sectors.

Why? First, investors have been chasing the next cash bid and there is a feeling that these giants are too big to be taken over. Secondly, this low rating seems to reflect an unjustified degree of pessimism over the outlook for sector earnings based on scepticism over the sustainability of high oil prices. The long term price assumption is barely above

US$40 per barrel, so the market still assumes an aggressive degree of cyclicality. Given that the supply-demand balance in the oil industry will remain very tight for the foreseeable future, the market may have to review just how cyclical oil sector earnings are. If the earnings have not peaked or the decline is modest, a re-rating might be due.

Over the year we sold **TULLOW OIL** (41.8%) and recycled the proceeds into a new holding in **BP** (+6.5%) and by adding to our holdings in **ENI** (+17%) and **DANA PETROLEUM** (+84.4%). Both BP and ENI are generating record levels of cash flow and delivering high returns to shareholders. The giant Kashagan complex offshore Kazakhstan, in which ENI's interest has increased to 18.5%, is the largest oil discovery for three decades, while ENI also enjoys a pivotal position in natural gas distribution. DANA PETROLEUM has a strong opportunity set going forwarded, and the cash flow from the North Sea to finance these ambitions. During 2006 Dana expects to invest £140m in its portfolio, £100m on North Sea development activity and the remaining £40m on international exploration and appraisal drilling. **CAIRN ENERGY** (+82.7%) is effectively re-listing in India where 85% of the company's value is. An Indian listing could put Cairn on a higher rating, given that the Indian market focuses on cash flows, or it could force a bid for the company before it comes to the Indian market. **VICTORIA OIL AND GAS** (306%) provided an updated feasibility study of the prospective recoverable resources volumes for the West Medvezthye Gas Project and we sold our holding at favourable prices.

We ended the year with two new holdings in mining stocks, giving us a mining portfolio weighting of 4.4%. Confronted by labour and equipment shortages, rising costs for existing operations, and political risk in some resources rich countries, we suspect that the global mining industry will have a great difficulty and will be much slower in responding with more supply. In the meantime the ability of mining companies to return cash to shareholders is markedly greater than in previous cycles and long term growth prospects are also more positive as China becomes a more significant proportion of demand. We also anticipate further consolidation in the mining industry, noting Teck Comino's recent bid for INCO.

BHP BILLITON (+53.9%) offers exposure to iron ore, coal, oil, copper and uranium. BHP's assets have an average life of 40 years and its recent acquisition WMC 70 years. We took a holding in **XSTRATA** (+29.5%) following the announcement of INCO's bid for fellow Canadian metal miner Falconbridge, where Xstrata recently took a 20% holding. Xstrata has high quality management and is geared to copper, and thermal and coking coal. We expect free cash generation from the miners to remain high over an extended period, reflecting structural demand and supply constraints in the sector.

UTILITIES	**Opening Value**	**Net New Investment**	**Closing Value**	**Average Capital Employed**	**Added Value**
Portfolio Movements	£9.9m	£3.9m	£16.6m	£12.3m	£2.8
Portfolio Weighting			8.5%		
Portfolio Performance – (time weighted)					25.6%
Contribution to overall total return of 244p					11.7p
Major Contributors					
Centrica Plc					2.7p
Severn Trent Plc					2.5p
National Grid Plc					2.1p

Our utility company holdings produced good sets of figures, especially from their regulated businesses, with dividend declarations that matched or beat top expectations. **CENTRICA** (+22.0%) is planning further job cuts, including a 40% reduction at its HQ to compensate for the rising cost of natural gas, and has stated that full year earnings will be in line with estimates. **SEVERN TRENT** (+22.1%) has announced that it plans to demerge BIFFA, its waste disposal business. We paid for the second stage of the **UNITED UTILITIES** (+6.2%) rights issue, converting our "A" shares into ordinaries. A £12bn return of value came from **NATIONAL GRID** (+14.6%).

European utilities companies are seeking to gain new customers ahead of a European Union 2007 deadline for national borders to energy competition to fall. Rising profits because of record gas and power prices, declining debts

INVESTMENT MANAGER'S REPORT

(continued)

and a desire to supply both electricity and natural gas are likely to trigger more mergers and acquisitions in the European utilities sector. The recent sale of Bristol Water and the upcoming sale/IPO of Thames Water, possibly at a 30% premium to Regulate Asset Base demonstrate that investor appetite for index-linked returns and infrastructure projects remains strong. Generally across the stock market companies which have large-scale investment opportunities with high returns are in short supply, and **SCOTTISH & SOUTHERN ENERGY** (10.0%) has six big investment projects in the pipeline while also potentially offering the highest three year dividend growth in the UK utilities universe.

The biggest threat to our positive stance on the regulated business would be an unexpected rise in bond yields, and it is notable that UK 10 year gilt yields have gone up 70 basis points to 4.7% since January. While the strong correlation that has until recently existed between the utility sector and bond yields would suggest some downside, we suspect restructuring moves, dividend expectations, potential share buybacks, and M&A activity will continue to provide support. Warren Buffet once wrote that "our favourite holding is one that is forever", and utilities tend to be "forever industries" with long duration assets.

CLOSED LIFE FUNDS	**Opening Value**	**Net New Investment**	**Closing Value**	**Average Capital Employed**	**Added Value**
Portfolio Movements	£7.4m	£0.1m	£13.3m	£7.3m	£6.0m
Portfolio Weighting			6.8%		
Portfolio Performance – (time weighted)					82.6%
Contribution to overall total return of 244p					25.3p
Major Contributor					
Resolution					25.3p

The unquoted Resolution Life and quoted Britannic merger of equals was completed last September, and was a valuation and liquidity event for Hansa Trust. The combined entity was renamed **RESOLUTION** (+82.6%) with a market capitalisation that leaves it knocking on the door of the FTSE 100 Index. The enlarged company holds a dominant position in the large, growing and dynamic closed life fund segment. Resolution reported its first set of results as a consolidated group and on a consistent basis at the end of April.

Embedded value, at heart, is the value of future dividends, and it is encouraging that Resolution has re-based its dividend policy, forecasting dividend growth of 13% pa to 2009 compared with Britannic's earlier forecast of 11% pa. The market was disappointed that no new specific acquisition was announced with the figures, even though there had been news previously that it had approached Standard Life for an all-share merger. On 3 May Resolution confirmed that it has entered into exclusive negotiations to acquire the entire UK and offshore life business of Abbey National PLC. In any transaction Resolution considers, the Group's previously stated commitment to a hurdle rate of a 12% internal rate of return, including synergies, will remain paramount. A successful transaction would leave Resolution as by far the dominant player in UK closed fund consolidation, as well as possibly taking the enlarged entity in to the FTSE 100.

Resolution's strategy is to triple in size, so the acquisition programme would not end here. Resolution has a highly efficient and productive back office, and it is important to understand that banks are cautious about finding buyers for their life companies. Policyholders are normally also bank customers, so reputational risk is high. In addition a merger with another open life fund could help Resolution cross-sell a range of financial services products to the millions of policyholders it has already acquired through buying closed life funds. Resolution has the opportunity to become the absolutely dominant player in the closed life fund segment, with access to capital and the ability to generate synergies such that further transactions would become more likely. In other words we are potentially looking at the creation of a really big dividend machine.

INVESTMENT MANAGER'S REPORT

(continued)

PROPERTY	Opening Value	Net New Investment	Closing Value	Average Capital Employed	Added Value
Portfolio Movements	£4.7m	£2.7m	£9.3m	£5.4m	£2.5m
Portfolio Weighting			5.8%		
Portfolio Performance – (time weighted)					32.0%
Contribution to overall total return of 244.p					10.2p
Major Contributors					
Engel East Europe					5.8p
Halladale Group					3.5p

HALLADALE GROUP (+28.5%) is an asset backed and earnings focused business, which grew its interim dividend by 40%. It has a diversified strategy of active asset management, development and co-investment fund management. Its pro-active approach to asset management is demonstrated by taking advantage of the strong investment market to accelerate their retail disposals and diversity into the office market. In the past 18 months its South East office weighting, particularly central London, has risen from 9% to 50% of gross assets under management. At the beginning of May Halladale announced its largest single acquisition, a £74m office complex in Hammersmith.

Unquoted DV3 Limited has had a busy first quarter of 2006, in which contracts were exchanged on DV3's first hotel acquisition for £15.5m and on two disposals for a total consideration of around £96.2m. Both investments had performed well, recording IRR's of 85% and 127% p.a. There were also significant milestones achieved on both the development and asset management fronts. March 2006 marks the end of the third financial year for DV3. Taking account of the current drawdown, around 55% of shareholder's commitments have now been drawn which means that the investment programme is broadly two thirds of the way through. With two years of the investment period still remaining, DV3 is well positioned to complete its investment programme successfully.

A new holding was taken in **ENGEL EAST EUROPE** (+41.0%), an international residential property developer, with some profits being taken in a strengthening market. The group is led by an experienced management team in the Central and Eastern European region, with operations in Hungary, the Czech Republic, Poland and Bulgaria, as well as Canada and Germany. We view this as a high margin and long term growth situation with good asset backing and low land and construction costs relative to developed countries.

LARGE CAP	Opening Value	Net New Investment	Closing Value	Average Capital Employed	Added Value
Portfolio Movements	£6.4m	£0.9m	£6.1m	£6.8m	£0.6m
Portfolio Weighting			3.1%		
Portfolio Performance – (time weighted)					9.2%
Contribution to overall total return of 244p					2.6p
Major Contributor					
GUS					2.3p

GUS (+15%) announced that it is going to demerge Experian and Argos Retail Group within the next 6-12 months after spinning-off Burberry, which we sold, last December. Experian deserves a premium rating as a result of strong market growth, market share gains and emerging markets opportunities. Argos, with its low cost operating model offering 17,000 products from a very small retail floor space, is far better placed than most general merchandisers to withstand the march of the supermarkets. In addition it already has a strong online business, with one of the most developed delivery networks in the UK and the most visited high street website in the UK market.

RHM (-1.5%) announced a pre-close trading statement in April, with an improved group performance achieved in H2 over H1 and a better performance in Manor Bakeries, the cakes division. Meanwhile cost savings are ahead of plans and Hovis is trading strongly. We sold our holding in **ROYAL BANK OF SCOTLAND** (4.1%).

INVESTMENT MANAGER'S REPORT

(continued)

FUNDS	Opening Value	Net New Investment	Closing Value	Average Capital Employed	Added Value
Portfolio Movements	£2.6m	£3.6m	–	£1.0m	£1.0m
Portfolio Weighting			–		
Portfolio Performance – (time weighted)					99.1%
Contribution to overall total return of 244p					4.5p
Major Contributor					
Baillie Gifford Japan Trust					4.5p

The Japanese economic recovery continues to gather pace under strengthened political leadership. **BAILLIE GIFFORD JAPAN TRUST** (+99.1%) correctly favoured operationally geared cyclical companies as well as taking on more gearing in the Trust. We completed the disposal of our holding at a premium to net asset value.

OUTLOOK

On the whole, over the last three years, earnings per share growth has at least matched the rise in share prices, so there has not really been a re-rating of equities. On valuation grounds alone, it would be hard to conclude that the UK market looks expensive. For larger companies, earnings growth estimates for 2006 and 2007 are about 10% and 7% respectively. On UBS estimates UK equities are currently trading on about 13 times forecast 2006 earnings, falling to about 12 times in 2007, which is below the long term average of about 15 times earnings. Having said this, we suspect little room exists for the kind of multiple expansion seen in the 1990s because interest rates are already at low levels. As a result we believe dividends will become a more important proportion of total returns in the future.

Meanwhile M&A activity is unlikely to be over soon, with bigger deals to come from private equity and the company sector as the ongoing arbitrage between the price of debt and the price of equity has further to run. In essence any organisation able to borrow at say base +1% or +2%, has taxed cost of capital of around 41/2% - 5%, compared with weighted cost of capital in equity–funded companies of 6-8%. These companies typically generate taxed return on capital of 61/2% - 8%, so a more efficient funding model can have a dramatic effect on free cash production. All good fun in an era of easy money, where low real and nominal interest rates have helped to push up the prices of bonds, houses and many other asset classes, as well as supporting corporate profits and stimulating financial market activity.

Investors believe that equities will do well while free cash flow yields are more than twice the level of corporate bond yields, because such conditions support M&A, share buy-backs and leveraged buy-outs. Investors are eagerly focussing on identifying the next takeover target, with FTSE 100 companies regularly featuring in the bid rumour mill as most companies have become within reach as the private equity war chest grows. By forming consortia, private equity firms are able to target larger quoted companies rather than hunting for smaller groups or neglected subsidiaries. With increased trade buyer activity more companies with strategic appeal have become targets as well. Investors have changed their attitudes. Growth and leverage have overtaken rising dividends and conservative balance sheets as the favoured characteristics of stocks.

Some caution is required. Higher US short term interest rates, together with the expectation of Eurozone interest rate rises and the removal of quantitative easing by the Bank of Japan will affect the flow of liquidity into financial markets. Some observers think bond yields will continue to rise as central banks continue to tighten. It is the first time since the 1980s that central banks in the "G3", the US, the Eurozone and Japan are all draining excess liquidity from the global financial system simultaneously. The world of easy money, carry trades and multi-asset price booms may be drawing to a close. In addition rising protectionism in the US and in Europe is a negative development.

In the meantime the M&A activity party continues, while London's five year high comes amid signs that UK retail investors are showing renewed enthusiasm for equities, with sales of open ended investment funds at their highest level since 2001. Optimism is everywhere, and private investors do not have a particularly good record when it comes to market timing.

Hansa Capital Partners LLP
7 July 2006

PORTFOLIO INFORMATION

As at 31 March 2006

Investment	Market value £000	Percentage of Investments
Ocean Wilsons Holdings Limited	44,262	21.90
Resolution Plc	13,264	6.56
Cairn Energy Plc	10,625	5.26
Hunting Plc	8,717	4.31
Brit Insurance Holdings Plc	8,649	4.28
Cathedral Capital Plc #	5,476	2.71
Dana Petroleum Plc	5,040	2.49
Eni S.p.a.	4,914	2.43
Xstrata Plc	4,658	2.31
United Utilities Plc	4,654	2.31
Top 10 Investments	**110,259**	**54.56**
Raymarine Plc.	4,313	2.13
Engel East Europe NV	4,187	2.07
GUS Plc	4,083	2.02
Bhp Billiton Plc	3,943	1.95
Ark Therapeutics Group Plc	3,659	1.81
BP Plc	3,636	1.80
Centrica Plc	3,519	1.74
NCC Group Plc	3,466	1.72
Halladale Group Plc	3,419	1.69
Hargreaves Services Plc	3,399	1.68
Top 20 Investments	**147,883**	**73.17**
Scottish & Southern Energy Plc	3,396	1.68
Melrose Resources Plc	2,984	1.48
Hamworthy Plc	2,950	1.46
Royal Dutch Shell Plc	2,689	1.33
Foseco Plc	2,603	1.29
FKI Plc	2,520	1.25
Severn Trent Plc	2,513	1.24
National Grid Transco Plc	2,512	1.24
Morson Group Plc	2,473	1.22
Media Square Plc	2,470	1.22
Top 30 Investments	**174,993**	**86.58**
Other investments (30)	27,106	13.42
Total investments	**202,099**	**100.00**
Listed	178,928	88.54
Aim	14,918	7.38
Unquoted	8,253	4.08
	202,099	**100.00**

Unquoted

DIRECTORS' REMUNERATION REPORT

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

The law requires your Company's Auditors to audit certain of the disclosures provided. The disclosures on the Director's emoluments for the year have been audited, and the Auditors' opinion is included in their report on page 32.

REMUNERATION COMMITTEE

The Company has four non-executive Directors. The Board as a whole fulfils the function of a Remuneration Committee. The Board have appointed the Company Secretary to provide relevant information when the Directors consider the level of Directors' fees.

The Board carried out a review of the level of Directors' fees during the year, and concluded that the amounts should remain unchanged for the current financial year.

POLICY ON DIRECTORS' FEES

The Board's policy is that the remuneration of non-executive Directors should reflect experience of the Board as a whole, be appropriate for the work carried out and the responsibilities undertaken. It is intended that this policy will continue.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association, and they are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

DIRECTORS' SERVICE CONTRACTS

It is the Board's policy that all the Directors have a service contract. None of the service contracts is for a fixed term. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment and at least every three years by rotation after that. The Board has decided that each Director will retire annually at the AGM and seek re-election as appropriate. The terms also provide that either party may give three months' notice and in certain circumstances a Director may be removed without notice and that compensation will not be due on leaving office.

DIRECTORS' ATTENDANCE

The Directors meet as a Board on a quarterly basis and at other times as necessary and the table below sets out the number of meetings and the attendance of them by each Director.

	Strategic	Board	Audit Committee
Number of meetings held	1	5	2
Number of meetings attended:			
A Hammond-Chambers	1	5	2
J Borwick	1	4	2
W H Salomon	1	5	2
G E Wood	1	5	2

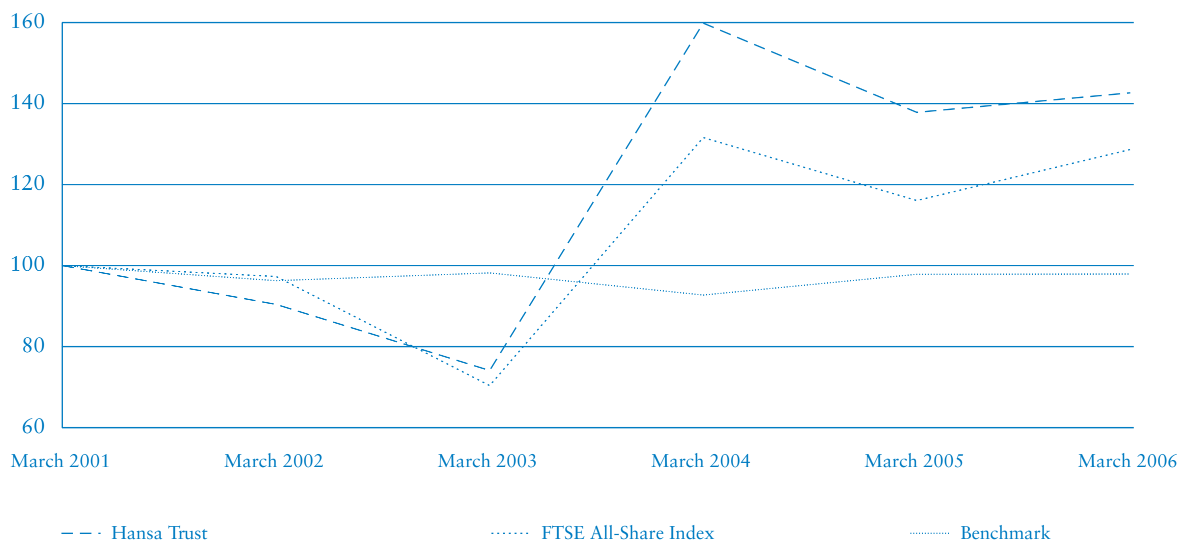
DIRECTORS' REMUNERATION REPORT

(continued)

YOUR COMPANY'S PERFORMANCE

In accordance with the Companies Act requirements and specification, the graph below shows the total return to shareholders to the total return of the Company's Performance Benchmark.

BENCHMARK COMPARISON



DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)

The Directors who served in the year received the following emoluments in the form of fees:

	2006 £000	2005 £000
A Hammond-Chambers (Chairman of the Board)	**20**	20
J Borwick	**15**	15
W H Salomon*	**13**	13
G E Wood	**14**	14
	62	62

*In addition Mr W Salomon receives director's fees from three companies in which the Company has an investment. These are Ocean Wilsons Holdings Limited, Cathedral Capital PLC and DV3 Limited.

APPROVAL

The Directors' Remuneration Report on pages 30 to 31 was approved by the Board of Directors on 14 June 2006 and signed on its behalf by Mr Alex Hammond-Chambers.

REPORT OF THE AUDITORS

Independent Auditors' Report to the Shareholders of Hansa Trust PLC

We have audited the Group and Company financial statements ("the financial statements") on pages 33 to 53 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 shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the 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 other information contained in the Annual Report, and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Managers Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We report to you whether in our opinion the information given in the Directors' Report is consistent 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 to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the Group as at 31 March 2006 and of its profit for the year then ended;
- the company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of affairs of the parent company as at 31 March 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
7 July 2006

GROUP INCOME STATEMENT

For the year ended 31 March

	Notes	Revenue 2006 £000	Capital 2006 £000	Total 2006 £000	Restated – Note 24 Revenue 2005 £000	Capital 2005 £000	Total 2005 £000
Gains on investments	*11*	–	55,973	55,973	–	36,283	36,283
Exchange (losses)/gains on currency balances		–	(12)	(12)	–	3	3
Investment income	*2*	4,261	–	4,261	3,611	–	3,611
		4,261	55,961	60,222	3,611	36,286	39,897
Investment management fee	*3*	(1,034)	–	(1,034)	(770)	–	(770)
Other expenses	*4*	(539)	–	(539)	(465)	–	(465)
		(1,573)	–	(1,573)	(1,235)	–	(1,235)
Profit before finance costs and taxation		2,688	55,961	58,649	2,376	36,286	38,662
Finance costs	*5*	(70)	–	(70)	(71)	–	(71)
Profit before taxation		2,618	55,961	58,579	2,305	36,286	38,591
Taxation	*6*	(31)	–	(31)	–	–	–
Profit for the year		2,587	55,961	58,548	2,305	36,286	38,591
Return per Ordinary and 'A' non-voting Ordinary share	*8*	10.8p	233.2p	244.0p	9.6p	151.2p	160.8p

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue and capital return columns are both prepared under guidance published by the Association of Investment Trust Companies.

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

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN EQUITY – GROUP

For the year ended 31 March

	Note	Share Capital 2006 £000	Capital redemption reserve 2006 £000	Retained earnings 2006 £000	Total 2006 £000	Share Capital 2005 £000	Capital redemption reserve 2005 £000	Retained earnings 2005 £000	Total 2005 £000
Net assets at 1 April		1,200	300	137,315	138,815	1,200	300	100,940	102,440
Restatement adjustments	23	–	–	1,232	1,232	–	–	864	864
		1,200	300	138,547	140,047	1,200	300	101.804	103,304
Profit for the year		–	–	58,548	58,548	–	–	38,591	38,591
Dividends paid	7	–	–	(2,220)	(2,220)	–	–	(1,848)	(1,848)
Net assets at 31 March		1,200	300	194,875	196,375	1,200	300	138,547	140,047

STATEMENT OF CHANGES IN EQUITY – COMPANY

For the year ended 31 March

	Note	Share Capital 2006 £000	Capital redemption reserve 2006 £000	Retained earnings 2006 £000	Total 2006 £000	Share Capital 2005 £000	Capital redemption reserve 2005 £000	Retained earnings 2005 £000	Total 2005 £000
Net assets at 1 April		1,200	300	137,315	138,815	1,200	300	100,940	102,440
Restatement adjustments	23	–	–	1,232	1,232	–	–	864	864
		1,200	300	138,547	140,047	1,200	300	101.804	103,304
Profit for the year		–	–	58,548	58,548	–	–	38,591	38,591
Dividends paid	7	–	–	(2,220)	(2,220)	–	–	(1,848)	(1,848)
Net assets at 31 March		1,200	300	194,875	196,375	1,200	300	138,547	140,047

The accompanying notes are an integral part of this statement.

BALANCE SHEET OF THE GROUP AND COMPANY

as at 31 March

	Notes	Group 2006 £000	Restated Note 24 Group 2005 £000	Company 2006 £000	Restated Note 24 Company 2005 £000
Non–current investments					
Shares in Group undertaking	*10*	–	–	643	430
Investments held at fair value through profit and loss	*11*	**202,099**	142,483	**202,099**	142,483
		202,099	142,483	**202,742**	142,913
Current assets					
Other receivables	*13*	**930**	492	**930**	492
Investments held by dealing subsidiary	*14*	–	208	–	–
Cash and cash equivalents		**241**	84	**212**	79
		1,171	784	**1,142**	571
Current liabilities					
Other payables falling due within one year	*15*	**(6,895)**	(3,220)	**(7,509)**	(3,437)
Net current liabilities		**(5,724)**	(2,436)	**(6,367)**	(2,866)
Net assets		**196,375**	140,047	**196,375**	140,047
Capital and reserves					
Called up share capital	*16*	**1,200**	1,200	**1,200**	1,200
Capital redemption reserve	*17*	**300**	300	**300**	300
Retained earnings	*18*	*194,875*	138,547	**194,875**	138,547
Total equity shareholders' funds		**196,375**	140,047	**196,375**	140,047
Net asset value per Ordinary and 'A' non-voting Ordinary share	*18*	**818.2p**	583.5p	**818.2p**	583.5p

The Financial Statements on pages 33 to 53 were approved by the Board of Directors on 14 June 2006 and were signed on its behalf by:

Alex Hammond–Chambers
Chairman

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

for the year ended 31 March

	Notes	Group 2006 £000	Restated Note 24 Group 2005 £000	Company 2006 £000	Restated Note 24 Company 2005 £000
Cash flows from operating activities					
Profit before finance costs & taxation		**58,649**	38,662	**58,649**	38,662
Adjustments for:					
Realised gains on investments	*11*	**(13,705)**	(21,002)	**(13,705)**	(21,002)
Unrealised gains on investments	*11*	**(42,268)**	(15,281)	**(42,481)**	(15,335)
Effect of foreign exchange rate changes		**12**	(3)	**12**	(3)
Interest paid		**(1)**	(1)	**(1)**	(1)
Decrease in current asset investments	*14*	**(255)**	(35)	**–**	–
Increase/(decrease) in prepayments and accrued income	*13*	**146**	(280)	**146**	(280)
Decrease/(increase) in other creditors and accruals	*15*	**110**	(41)	**507**	(72)
Taxes paid		**(31)**	–	**(31)**	–
Purchase of non-current investments		**(53,066)**	(42,303)	**(53,066)**	(42,253)
Sale of non-current investments		**49,302**	40,826	**48,839**	40,826
Net cash (outflow)/inflow from operating activities		**(1,107)**	542	**(1,131)**	542
Cash flows from financing activities					
Interest paid on bank loans		**(69)**	(70)	**(69)**	(70)
Dividends paid		**(2,220)**	(1,848)	**(2,220)**	(1,848)
Drawdown of loans		**3,565**	1,400	**3,565**	1,400
Net cash inflow/(outflow) from financing activities		**1,276**	(518)	**1,276**	(518)
Increase in cash and cash equivalents		**169**	24	**145**	24
Cash and cash equivalent at 1 April		**84**	57	**79**	52
Effect of foreign exchange rate changes		**(12)**	3	**(12)**	3
Cash and cash equivalents at 31 March		**241**	84	**212**	79

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 23. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. As permitted by Section 230 of the Companies Act 1985, an income statement for the Company has not been presented in the financial statements.

(a) Basis of preparation

The financial statements have been prepared on an historical cost basis, except for the revaluation of certain financial assets. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Trust Companies (AITC) in January 2003 (and 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 Financial Statements comprise the accounts of the Company and its subsidiary undertaking made up to 31 March 2006. In the Company's Financial Statements, the investment in its subsidiary undertaking is stated at the net asset value as shown by the most recent accounts.

(c) Presentation of income statement

In order to reflect better 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 that the Directors believe to be appropriate in assessing the Company's compliance with certain requirements set out in section 842 of the Income and Corporation Taxes Act 1988.

(d) Non- current investments

All investments have been designated upon initial recognition as fair value through profit and loss. Investments are recognised and de-recognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned. Subsequent to initial recognition, investments are measured at fair value. For listed investments, this is deemed to be bid market prices or closing prices for SETS stocks sourced from the London Stock Exchange. SETS is the London Stock Exchange electronic trading service covering most of the market including all FTSE 100 constituents and most liquid FTSE 250 constituents along with some other securities. Gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item in the income statement and are ultimately recognised in the Capital Reserves. Unquoted investments are stated at fair value as determined by the Directors.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short term deposits with an original maturity of three months or less.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

1. ACCOUNTING POLICIES *continued*

(f) Investments held as Current Assets

Listed investments are stated individually at fair value.

(g) Investment Income

Dividends receivable on equity shares are recognised on the ex-dividend date. Where no ex-dividend date is quoted, dividends are recognised when the Company's right to receive payment is established. Dividends and interest on investments in unlisted shares and securities are recognised when they become receivable. Dividends are stated net of related tax credits.

Underwriting commission is recognised as revenue insofar as it relates to shares not required to be taken up. Where a proportion of the shares underwritten is required to be taken up the same proportion of the commission received is recognised as capital, with the balance taken to the revenue account.

(h) Expenses

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

(i) Expenses which are incidental to the acquisition of an investment are expensed through Realised Capital Reserves at the time of the transaction;

(ii) Expenses which are incidental to the disposal of investments are deducted from the sale proceeds;

(iii) Expenses are charged to realised capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

(i) Taxation

The tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred taxation is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the balance sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered probable that there will be suitable profits from which the future reversal of the underlying temporary differences can be deducted. Temporary differences are differences arising between the Company's taxable profits and its results as stated in the accounts, which are capable of reversal in one or more subsequent periods.

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

NOTES TO THE FINANCIAL STATEMENTS

(continued)

1. ACCOUNTING POLICIES *continued*

(j) Foreign Currencies

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates, subsequent to the date of the transaction, is included as an exchange gain or loss in the capital or revenue column of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature respectively.

(k) Reserves

Capital reserves – Realised

The following are credited or charged to this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- transaction costs on the acquisition of investments.

Capital reserves – Unrealised

The following are credited or charged to this reserve:

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

2. INCOME

	Revenue 2006 £000	Revenue 2005 £000
Income from listed investments		
Dividends	**2,673**	2,509
Overseas dividends	**1,232**	927
	3,905	3,436
Other operating income		
Net dealing profit of the subsidiary	**255**	35
Placement and underwriting income	**28**	3
Interest receivable	**73**	137
	356	175
Total income	**4,261**	3,611
Total income comprises:		
Dividends	**3,905**	3,436
Interest	**73**	137
Other income	**283**	38
	4,261	3,611

NOTES TO THE FINANCIAL STATEMENTS

(continued)

3. INVESTMENT MANAGEMENT FEE

	Revenue 2006 £000	Revenue 2005 £000
Periodic fees	**880**	655
Irrecoverable VAT thereon	**154**	115
	1,034	770

Details of the management agreement are disclosed in the Report of the Directors on page 15.

4. OTHER EXPENSES

	Revenue 2006 £000	Revenue 2005 £000
Secretarial services	**47**	47
Directors' remuneration	**62**	62
Auditors' remuneration for audit services	**25**	12
Auditors' remuneration for non-audit services	**–**	–
Administration fees	**108**	97
Production and distribution of Annual and Interim Reports	**19**	20
Registrar's fees	**69**	62
Other	**209**	165
	539	465

5. FINANCE COSTS

	Revenue 2006 £000	Revenue 2005 £000
Interest payable	**70**	71
	70	71

6. (a) TAXATION CHARGE ON ORDINARY ACTIVITIES

	Revenue 2006 £000	Revenue 2005 £000
UK corporation tax @ 30%	**–**	–
Irrecoverable foreign tax	**31**	–
	31	–

(b) FACTORS AFFECTING TAX CHARGE FOR PERIOD

Approved investment trusts are exempt from tax on capital gains made within the Trust.

The tax charge for the period is lower than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below:

	2006 £000	2005 £000
Profit before taxation	**58,579**	38,591
Profit multiplied by standard rate of corporation tax	**17,574**	11,577
Effects of:		
Non taxable UK capital gains	(16,789)	(10,885)
Non taxable UK investment income	**(802)**	(753)
Excess administration expenses unused	**2**	46
Irrecoverable foreign tax	**31**	–
Disallowed expenses	**15**	15
Current tax charge	31	–

(c) PROVISION FOR DEFERRED TAXATION

There is no requirement to make a provision for deferred taxation in the current or prior accounting period.

(d) FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Company has not recognised a deferred tax asset of £1,249,000 (2005: £1,153,000), arising as a result of having unutilised management expenses and loan relationship deficits. In addition there are unrecognised deferred tax assets of £37,000 (2005: £101,000) relating to the subsidiary's unutilised tax losses. The expenses will only be utilised if the tax treatment of the capital gains made by the Company or the Company's investment profile changes. The subsidiary has tax losses which will only be recoverable to the extent that there are sufficient future taxable revenues.

7. DIVIDENDS PAID

	Revenue 2006 £000	Restated– Note 24 Revenue 2005 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2005: 5.75p (2005: 4.2p)	**1,380**	1,008
Interim dividend for 2006: 3.5p (2005: 3.5p)	**840**	840
	2,220	1,848

The proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

We set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered. The Company's revenue available for distribution by way of dividend for the year is £2,374,000 (2005: £2,251,000).

	Revenue 2006 £000	Restated– Note 24 Revenue 2005 £000
Interim dividend for 2006: 3.5p (2005 3.5p)	**840**	840
Proposed final dividend for 2006: 6.25p (2005: 5.75p)	**1,500**	1,380
	2,340	2,220

8. RETURN ON ORDINARY SHARES (EQUITY)

	Revenue 2006	**Capital 2006**	**Total 2006**	Revenue 2005	Capital 2005	Restated– Note 24 Total 2005
Returns per share	**10.8p**	**233.2p**	**244.0p**	9.6p	151.2p	160.8p

Returns

Revenue

Revenue return per share is based on revenue return attributable to equity shareholders of £2,587,000 (2005: £2,305,000).

Capital

Capital return per share is based on capital gain attributable to equity shareholders of £55,961,000 2005: £36,286,000).

Both revenue and capital return are based on: 8,000,000 Ordinary shares (2005: 8,000,000) and 16,000,000 'A' non-voting Ordinary shares (2005: 16,000,000), in issue throughout the year.

9. PROFIT OF THE COMPANY ATTRIBUTABLE TO SHAREHOLDERS

The profit for the year after taxation dealt with in the accounts of the Company is £58,335,000 (2005: £38,537). As permitted by Section 230 of the Companies Act 1985, no separate income statement for the Company has been included in these accounts.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

10. SHARE IN GROUP UNDERTAKING

The Company owns 100% of the Ordinary share capital and voting rights of Consolidated Investment Funds Limited, an investment dealing company, which is registered and operates in England.

	2006 £000	2005 £000
Cost at 1 April 2005	**3**	3
Unrealised appreciation at 1 April 2005	**426**	373
Valuation at 1 April 2005	**429**	376
Movements in unrealised appreciation	**214**	54
Valuation as at 31 March 2006	**643**	430
Cost at 31 March 2006	**3**	3
Unrealised appreciation	**640**	427
	643	430

11. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

			Group and Company	
	Listed £000	AIM & OFEX £000	Unquoted £000	2006 Total £000
Cost at 1 April 2005	74,688	17,526	13,069	105,283
Unrealised appreciation at 1 April 2005	35,260	1,014	926	37,200
Valuation at 1 April 2005	109,948	18,540	13,995	142,483
Movements in the year:				
Changes in listing	6,846	–	(6,846)	–
Purchases at cost	49,897	2,456	713	53,066
Sales – proceeds	(38,731)	(10,692)	–	(49,423)
– realised gains/(losses) on sales	10,207	3,526	(28)	13,705
Movement in unrealised appreciation	40,759	1,088	421	42,268
Valuation as at 31 March 2006	178,926	14,918	8,255	202,099
Cost at 31 March 2006	102,907	12,816	6,908	122,631
Unrealised appreciation at 31 March 2006	76,019	2,102	1,347	79,468
	178,926	14,918	8,255	202,099

NOTES TO THE FINANCIAL STATEMENTS

(continued)

Transaction costs

During the year expenses were incurred in acquiring and disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Income Statement. The total costs were as follows:-

	Group and Company 2006 £000	2005 £000
Purchases	**199**	253
Sales	119	**48**
	318	301

12. SIGNIFICANT HOLDINGS

The Company's holdings of 10% or more, of any class of shares in investment companies and 20% or more of any class of shares in non-investment companies are detailed below:

Non-investment company	Country of Incorporation or registration	Class of capital	% of class held	Latest available audited accounts	Aggregate Capital and Reserves $000	Profit after Tax for the year $000
Ocean Wilsons Holdings Limited	Bermuda	Ordinary	26.4	31.12.05	171,370	33,086

The above is included as part of the investment portfolio in accordance with IAS 28 - Investment in Associates.

The Company has material holdings in the following companies which represent more than 3% of any class of equity share capital:

Company	Class of capital	% of class held
Ocean Wilsons Holdings	Ordinary	26.45
Concateno	Ordinary	10.00
Cathedral Capital	Ordinary	8.40
Straight	Ordinary	8.17
Dowliss	Ordinary	6.60
Work Group	Ordinary	5.90
Halladale	Ordinary	5.32
Robotic Technology	Ordinary	5.09
Andor Technology	Ordinary	3.05
Ark Therapeutics	Ordinary	3.41
BV Group	Ordinary	4.72
Media Square	Ordinary	3.99
NCC Group	Ordinary	3.83
Ramco Energy	Ordinary	3.36
Veos	Ordinary	3.34
Cap-xx	Ordinary	3.32
Hargreaves	Ordinary	3.17
Morson	Ordinary	3.17
Engel East	Ordinary	3.13

NOTES TO THE FINANCIAL STATEMENTS

(continued)

Cathedral Capital Limited a Lloyds Underwriter is an unquoted investment. The cost of the investment is £3,999,450. The Directors' valuation is £5,476,000 which is based upon a recent transaction in the shares of the company. The latest annual audited accounts are to 31 December 2005 and show earnings per share of 14.6p, return on equity of 15.5% and shareholders equity of £80,178,000; with no dividend paid or proposed.

13. OTHER RECEIVABLES

	Group 2006 £000	Group 2005 £000	**Company 2006 £000**	Company 2005 £000
Amount due from broker	**584**	–	**584**	–
Prepayments and accrued income	**322**	492	**322**	492
Recoverable overseas tax	**24**	–	**24**	–
	930	492	**930**	492

14. INVESTMENTS HELD BY DEALING SUBSIDIARY

	Group 2006 £000	Group 2005 £000
Investments held at fair value through profit and loss		
Cost at 1 April 2005	**208**	158
	–	(35)
Valuation at 1 April 2005	**208**	123
Purchases	**–**	50
Sales – proceeds	**(463)**	–
– realised gains	**255**	–
Movement in unrealised appreciation	**–**	35
Valuation at 31 March 2006	**–**	208
Cost at 31 March 2006	**–**	208
Unrealised appreciation	**–**	–
Listed investments at aggregate market value	**–**	208

15. CURRENT LIABILITIES

	Group 2006 £000	Group 2005 £000	**Company 2006 £000**	Company 2005 £000
Bank loans and overdrafts	**6,600**	3,035	**6,600**	3,035
Due to subsidiary undertaking	**–**	–	**659**	222
Other creditors and accruals	**295**	185	**250**	180
	6,895	3,220	**7,509**	3,437

16. SHARE CAPITAL

	Group 2006 £000	Group 2005 £000
Authorised		
300,000 7.5% Cumulative preference shares of £1	**300**	300
8,000,000 Ordinary shares of 5p	**400**	400
16,000,000 'A' non-voting Ordinary shares of 5p	**800**	800
	1,500	1,500
Allotted, called up and fully paid		
8,000,000 Ordinary shares of 5p	**400**	400
16,000,000 'A' non-voting Ordinary shares of 5p	**800**	800
	1,200	1,200

The 'A' non-voting Ordinary shares do not entitle the holders to receive notices or to vote, either in person or by proxy, at any general meeting of the Company, but in all other respects rank pari passu with the Ordinary shares of the Company.

17. CAPITAL REDEMPTION RESERVE

	Group 2006 £000	Group 2005 £000
Balances at 31 March 2006 and 1 April 2005	**300**	300

18. RETAINED EARNINGS

Group	Revenue 2006 £000	Realised Capital 2006 £000	Unrealised Capital 2006 £000	Revenue 2005 £000	Realised Capital 2005 £000	Unrealised Capital 2005 £000
Opening balance at 1 April	**3,300**	**98,047**	**37,200**	2,843	77,042	21,919
Profit for the year	**2,587**	**13,693**	**42,268**	2,305	21,005	15,281
Dividend paid	**(2,220)**	**–**	**–**	(1,848)	–	–
Closing balance at 31 March	**3,667**	**111,740**	**79,468**	3,300	98,047	37,200
Company						
Opening balance at 1 April	**2,873**	**98,047**	**37,627**	2,470	77,042	22,292
Profit for the year	**2,374**	**13,693**	**42,481**	2,251	21,005	15,335
Dividend paid	**(2,220)**	**–**	**–**	(1,848)	–	–
Closing balance at 31 March	**3,027**	**111,740**	**80,108**	2,873	98,047	37,627

	2006	Restated Note 24 2005
Net asset value per Ordinary and 'A' non-voting Ordinary share	**818.2p**	583.5p

NOTES TO THE FINANCIAL STATEMENTS

(continued)

The net asset value per Ordinary and 'A' non-voting Ordinary share is based on the net assets attributable to equity shareholders of £196,375,000 (2005: £140,047,000) and on 8,000,000 Ordinary shares (2005: 8,000,000) and 16,000,000 'A' non-voting Ordinary shares (2005: 16,000,000), in issue at 31 March 2006.

19. COMMITMENTS AND CONTINGENCIES

The Company has entered into a commitment agreement with DV3 Limited, an unquoted property investment company. The commitment is for a period of four years from 30 March 2004 and amounts to £3,706.167 (2005: £4,000,000). At 31 March 2006 the amount drawn down under the agreement was £1,610,943 (2005: £2,032,000).

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Background

The Group's financial instruments comprise securities, cash balances and debtors and creditors that arise directly from its operations. For example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

The Group has little exposure to credit and cash flow risk. Fixed asset investments (other than listed investments) in the portfolio are subject to liquidity risk. The Board regularly reviews and agrees policies for managing the principal risks the Group faces in its portfolio management activities and these are detailed below:

Foreign currency risk

The Group does not normally hedge against foreign currency movements affecting the value of the investment portfolio, but takes account of this risk when making investment decisions.

Interest rate risk

Interest rate risk is managed by the utilisation of short-term bank loan and overdraft facilities, which minimises the interest rate risk to the Company.

Market price risk

By the nature of its activities, the Group's investments are exposed to market price fluctuations. Further information on the investment portfolio and investment policy is set out in the Investment Manager's Review.

Use of derivatives

It is not the Group's policy to enter into derivative contracts other than for the purpose of hedging portfolio risk.

Financial Assets

	Floating rate cash Balances 2006 £000	**Equity Investments 2006 £000**	**Total 2006 £000**	Floating rate cash Balances 2005 £000	Equity Investments 2005 £000	Total 2005 £000
Sterling	**241**	**196,239**	**196,480**	84	138,743	138,827
Euro	**–**	**4,914**	**4,914**	–	2,140	2,140
US Dollar	**–**	**2**	**2**	–	3	3
Australian Dollar	**–**	**944**	**944**	–	1,597	1,597
	241	**202,099**	**202,340**	84	142,483	142,567

NOTES TO THE FINANCIAL STATEMENTS

(continued)

The floating rate financial assets consist of bank balances that bear interest at rates based on the banks floating interest rate. During the period the average rate of interest earned on cash balances was 2.7%.

Financial Liabilities

The Group's financial liabilities at 31 March 2006 mature within one year or less. These financial liabilities consist of short-term bank loans amounting to £6,600,000 (2005: £3,035,000) that bear interest based on the prevailing LIBOR rate plus an agreed margin. The Company has a total revolving credit facility of £20m. The facility is made up of a £10m committed facility and a £10m uncommitted facility both repayable on or before 18 December 2009.

At 31 March 2006 the Group had no financial liabilities that bore an interest or currency exposure risk, other than the previously disclosed bank loan facilities.

Borrowing Facility

The Group has an undrawn loan facility with Allied Irish Bank PLC of £13,400,000 (2005: £6,965,000).

Fair values

All financial assets of the Group are shown at fair value. Financial liabilities are held at amortised costs.

21. RELATED PARTIES

Details of the relationship between the Company and Hansa Capital Partners LLP, including amounts paid during the year and owing at 31 March 2006 are disclosed in the Report of the Directors on page 15 and in Note 3 above.

22. CONTROLLING PARTIES

At 31 March 2006 Nicholas B. Dill, Jr and Codan Trust Company Limited held 51.20% of the issued Ordinary shares. Additional information is disclosed in the Report of the Directors, "Substantial Shareholders" on page 18.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

23. RESTATEMENT OF OPENING BALANCES (GROUP)

a) Reconciliation of the Balance Sheet at 31 March 2004

At 1 April 2005 the Group adopted International Financial Reporting Standards. In accordance with IFRS 1 First Time Adoption of Financial Reporting Standards the following is a reconciliation of the figures at 31 March 2004 previously reported under the applicable UK Accounting Standards and with the Statement of Recommended Practice.

	Note	Previously Reported 31 March 2004 £ 000	Effect of Transition to IFRS £ 000	Restated 31 March 2004 £ 000
Fixed Assets - investments	1	105,551	(144)	105,407
Current Assets		392	–	392
Creditors – amounts falling due within one year	2	(3,503)	1,008	(2,495)
Total assets less current liabilities		102,440	864	103,304
Capital and reserves				
Called up share capital		1,200	–	1,200
Capital redemption reserve		300	–	300
Capital reserve – realised	3	77,042	(77,042)	–
Capital reserve – unrealised/ revaluation reserve	3	22,063	(22,063)	–
Retained earnings	2/3	1,835	99,969	101,804
		102,440	864	103,304

Notes to the reconciliation

1) Investments (excluding derivatives) are classified as held-at-fair-value through profit and loss under IFRS and are carried at bid prices, which equates to their fair value of £105,407,000. They were carried at mid prices previously.

2) No provision has been made for the final dividend on Ordinary and 'A' non-voting Ordinary shares for the year ended 31 March 2004 of £1,008,000. Under IFRS this is not recognised until approved by the shareholders. This is therefore added to Retained earnings.

3) Under IFRS, there is no differentiation between capital and revenue gains/(losses). The previous headings of Capital Reserves, Realised and Capital Reserves, Unrealised are now included as Retained Earnings.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

b) Reconciliation of the Balance Sheet at 31 March 2005

At 1 April 2005 the Group adopted International Financial Reporting Standards. In accordance with IFRS 1 First Time Adoption of Financial Reporting Standards the following is a reconciliation of the figures at 31 March 2005 previously reported under the applicable UK Accounting Standards and with the Statement of Recommended Practice.

	Note	Previously Reported 31 March 2005 £ 000	Effect of Transition to IFRS £ 000	Restated 31 March 2005 £ 000
Fixed Assets - investments	1	142,631	(148)	142,483
Current Assets		784	–	784
Creditors – amounts falling due within one year	2	(4,600)	1,380	(3,220)
Total assets less current liabilities		138,815	1,232	140,047
Capital and reserves				
Called up share capital		1,200		1,200
Capital redemption reserve		300	–	300
Capital reserve – realised	3	98,047	(98,047)	–
Capital reserve – unrealised/ revaluation reserve	3	37,348	(37,348)	–
Retained earnings	2/3	1,920	136,627	138,547
		138,815	1,232	140,047

Notes to the reconciliation

1) Investments (excluding derivatives) are classified as held-at-fair-value through profit and loss under IFRS and are carried at bid prices, which equates to their fair value of £142,483,000. They were carried at mid prices previously.

2) No provision has been made for the final dividend on Ordinary and ‘A’ non-voting Ordinary shares for the year ended 31 March 2005 of £1,380,000. Under IFRS this is not recognised until approved by the shareholders. This is therefore added to Retained Earnings.

3) Under IFRS, there is no differentiation between capital and revenue gains/(losses). The previous headings of Capital Reserves, Realised and Capital Reserves, Unrealised are now included as Retained Earnings.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

c) Reconciliation of the Balance Sheet at 31 March 2004

At 1 April 2005 the Group adopted International Financial Reporting Standards. In accordance with IFRS 1 First Time Adoption of Financial Reporting Standards the following is a reconciliation of the figures at 31 March 2004 previously reported under the applicable UK Accounting Standards and with the Statement of Recommended Practice.

	Note	Previously Reported 31 March 2004 £ 000	Effect of Transition to IFRS £ 000	Restated 31 March 2004 £ 000
Fixed Assets - investments	1	105,927	(144)	105,783
Current Assets		264	–	264
Creditors – amounts falling due within one year	2	(3,751)	1,008	(2,743)
Total assets less current liabilities		102,440	864	103,304
Capital and reserves				
Called up share capital		1,200	–	1,200
Capital redemption reserve		300	–	300
Capital reserve – realised	3	77,042	(77,042)	–
Capital reserve – unrealised/ revaluation reserve	3	22,436	(22,436)	–
Retained earnings	2/3	1,462	100,342	101,804
		102,440	864	103,304

Notes to the reconciliation

1) Investments (excluding derivatives) are classified as held-at-fair-value through profit and loss under IFRS and are carried at bid prices, which equates to their fair value of £105,783,000. They were carried at mid prices previously.

2) No provision has been made for the final dividend on Ordinary and ‘A’ non-voting Ordinary shares for the year ended 31 March 2004 of £1,008,000. Under IFRS this is not recognised until approved by the shareholders. This is therefore added to Retained Earnings.

3) Under IFRS, there is no differentiation between capital and revenue gains/(losses). The previous headings of Capital Reserves, Realised and Capital Reserves, Unrealised are now included as Retained Earnings.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

d) Reconciliation of the Balance Sheet at 31 March 2005

At 1 April 2005 the Group adopted International Financial Reporting Standards. In accordance with IFRS 1 First Time Adoption of Financial Reporting Standards the following is a reconciliation of the figures at 31 March 2005 previously reported under the applicable UK Accounting Standards and with the Statement of Recommended Practice.

	Note	Previously Reported 31 March 2005 £ 000	Effect of Transition to IFRS £ 000	Restated 31 March 2005 £ 000
Fixed Assets - investments	1	143,061	(148)	142,913
Current Assets		571	–	571
Creditors – amounts falling due within one year	2	(4,817)	1,380	(3,437)
Total assets less current liabilities		138,815	1,232	140,047
Capital and reserves				
Called up share capital		1,200	–	1,200
Capital redemption reserve		300	–	300
Capital reserve – realised	3	98,047	(98,047)	–
Capital reserve – unrealised/ revaluation reserve	3	37,775	(37,775)	–
Retained earnings	2/3	1,493	137,054	138,547
		138,815	1,232	140,047

Notes to the reconciliation

1) Investments (excluding derivatives) are classified as held-at-fair-value through profit and loss under IFRS and are carried at bid prices, which equates to their fair value of £142,913,000. They were carried at mid prices previously.

2) No provision has been made for the final dividend on Ordinary and 'A' non-voting Ordinary shares for the year ended 31 March 2005 of £1,380,000. Under IFRS this is not recognised until approved by the shareholders. This is therefore added to Retained Earnings.

3) Under IFRS, there is no differentiation between capital and revenue gains/(losses). The previous headings of Capital Reserves, Realised and Capital Reserves, Unrealised are now included as Retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

e) Reconciliation of the Consolidated Statement of Total Return to the Group Income Statement for the period ended 31 March 2005

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

	Note	2005 £000	Pence per share
Total transfer to reserve per Statement of Total Return		36,375	151.56
Add back dividends paid and proposed	1	2,220	9.25
Change from mid to bid basis at 31 March 2004	2	144	0.60
Change from mid to bid basis at 31 March 2005	2	(148)	(0.62)
Net profit per Income Statement		38,591	160.79

Notes to the reconciliation

1) All dividends authorised and paid during the period are dealt with through the Statement of Changes in Equity.

2) The portfolio valuation at 31 March 2004 and 31 March 2005 require to be valued at fair value through profit and loss under IFRSs. These values differ from the previous valuations by £144,000 and £148,000 respectively.

f) Reconciliation of the Group Cash flow Statement for the year ended 31 March 2005

	Note	Previously Reported Cash flows 2005 £000	Effect of transition to IFRS £ 000	Adjusted Cash flows £ 000
Net cash inflow from operating activities		1,970		1,970
Returns on investments and servicing of finance	1	(71)	70	(1)
Taxation		–	–	–
Net cash inflow from financial investment	2	(1,427)	–	(1,427)
Equity dividends paid		(1,848)	1,848	–
Net cash inflow before financing		(1,376)	1,918	542
Financing activities	1,2	1,400	(1,918)	(518)
Increase in cash		24	–	24

Notes to the reconciliation

1) Cash flows from financing activities under IFRS includes interest paid which was previously shown under the heading of Servicing of finance

2) Dividends paid are classified as a financing cash flow because they are a cost of obtaining financial resources.

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Hansa Trust PLC will be held at The Washington Hotel, Curzon Street, London W1J 5HE on 3 August 2006 at 11.30 a.m., for the following purposes:

Ordinary Business

1 To receive and consider the audited Financial Statements and the Report of the Directors for the year ended 31 March 2006.

2 To declare a final dividend.

3 To re-appoint the Auditors and to authorise the Directors to determine the remuneration of the Auditors.

4 To re-elect Mr Alex Hammond-Chambers (a biography can be found on page 8), who retires, a Director of the Company.

5 To re-elect Mr Jamie Borwick (a biography can be found on page 8), who retires, a Director of the Company.

6 To re-elect Mr William Salomon (a biography can be found on page 8), who retires, a Director of the Company.

7 To re-elect Professor Geoffrey Wood (a biography can be found on page 8), who retires, a Director of the Company.

8 To authorise the Board to determine the remuneration of the Directors, and approve the Directors' Remuneration Report.

Special Business

To consider, and if thought fit, pass the following resolution which will be proposed as a special resolution:

Authority to Repurchase up to 14.99% of the 'A' non-voting Ordinary Shares

9. THAT the Company be unconditionally authorised to make market purchases of up to an aggregate of 2,398,400 'A' non-voting Ordinary shares of 5p of the Company at a price (exclusive of expenses) which is:

(a) not less than 5p per share; and

(b) not more than 5 per cent above the average of the middle-market quotations (as derived from the Daily Official List of the London Stock Exchange) for 'A' non-voting Ordinary shares of 5p each in the five business days immediately preceding any such purchase; AND

THAT the authority conferred by this resolution shall expire on the date of the next Annual General Meeting (except in relation to the purchase of shares, the contract for which was concluded before such date and which might be executed wholly or partly after such date).

By order of the Board
Hansa Capital Partners LLP
Secretary
7 July 2006

50 Curzon Street
London W1J 7UW

NOTICE OF THE ANNUAL GENERAL MEETING

(continued)

NOTES

1 **Attendance at Meeting**

Ordinary shareholders, proxies and authorised representatives of corporations which are Ordinary shareholders, are entitled to attend the meeting. Shareholders' names must be entered on the register by 11.30 a.m. on 1 August 2006, so that they may have the right to vote at the meeting.

2 **Appointment of Proxies**

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, upon a poll, to vote instead of him/her. A proxy need not also be a member.

3 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 11 a.m. on 1 August 2006 ('the specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

INVESTOR INFORMATION

The Company currently manages its affairs so as to be a qualifying investment trust for ISA purposes. As a result, under current UK legislation, the Ordinary and 'A' non-voting Ordinary shares qualify for investment in the stocks and shares component of an ISA up to the full annual subscription limit. The Company's Ordinary and 'A' non-voting Ordinary shares qualify for inclusion in an existing general PEP. It is the present intention that the Company will conduct its affairs so as to continue to qualify for ISA and PEP products.

CONTACT DETAILS

Please contact the Investment Manager, as below, if you have any queries concerning the Company's investments or performance.

Hansa Capital Partners LLP
50 Curzon Street
London W1J 7UW
Telephone 020 7647 5750
www.hansagrp.com

Please contact the ISA, Savings Scheme and PEP Manager, as below, if you have any queries concerning a Close Finsbury ISA, Savings Scheme, MileStones or PEP account, online facilities are available at the website address below.

Close Finsbury Asset Management Limited
Block C, Western House
Lynchwood Business Park
Peterborough PE2 6BP
Freephone 0800 169 6968
www.closefinsbury.com

Please contact the Registrars, as below, if you have a query about a certificated holding in the Company's shares.

Capita IRG plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: 0870 162 3100
Email: ssd@capitaregistrars.com
www.capitaregistrars.com

WEBSITE ADDRESS AND CONTENTS

The Company's website, www.hansagrp.com, contains information on the Company and includes the following:

Monthly Fact Sheets
Annual and Interim Reports
Stock Exchange Announcements
Details of the Investment Manager

SHARE PRICE LISTINGS

The price of your shares can be found in the Financial Times under the heading Investment Companies.

Information is also available from FT City line by dialling the following numbers:

Ordinary shares	0906 003 – 3954
or	0906 843 – 3954
'A' non-voting Ordinary shares	0906 003 – 3955
or	0906 843 – 3955

(when prompted use the last 4 digits as the code)

In addition, share price information can be found under the following:

	Code
Reuters	
Ordinary shares	HAN.L
'A' non-voting Ordinary shares	HANA.L
Bloomberg	
Ordinary shares	HAN LN
'A' non-voting Ordinary shares	HANA LN
SEAQ	
Ordinary shares	HAN
'A' non-voting Ordinary shares	HANA

USEFUL INTERNET ADDRESSES

Association of Investment Trusts	www.aitc.co.uk
London Stock Exchange	www.londonstockexchange.com
TrustNet	www.trustnet.com
Interactive	www.iii.co.uk

FINANCIAL CALENDAR

Company year end	31 March
Preliminary full year results announced	15 June
Annual Report sent to shareholders	13 July
Annual General Meeting held	3 August
Final Dividend payment	11 August
Announcement of interim results	November
Interim Report sent to shareholders	December
Interim Dividend payment	December

COMPANY INFORMATION

SECRETARY AND REGISTERED OFFICE
Hansa Capital Partners LLP
50 Curzon Street
London W1J 7UW

INVESTMENT MANAGER
Hansa Capital Partners LLP
50 Curzon Street
London W1J 7UW

AUDITORS
RSM Robson Rhodes LLP
30 Finsbury Square
London EC2P 2YU

SOLICITORS
Eversheds
Senator House
85 Queen Victoria Street
London EC4V 4JL

PLAN MANAGERS
Close Finsbury Asset Management Limited
Block C, Western House
Lynchwood Business Park
Peterborough PE2 6BP

REGISTRARS
Capita IRG plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

BANKERS
The Bank of New York
One Canada Square
London E14 5AL

STOCKBROKERS
Winterflood Investment Trusts
The Atrium Building, Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Merrill Corporation Ltd, London
06LON1830

Hansa Trust PLC
50 Curzon Street, London W1J 7UW
Tel: 020 7647 5750 Fax: 020 7647 5770