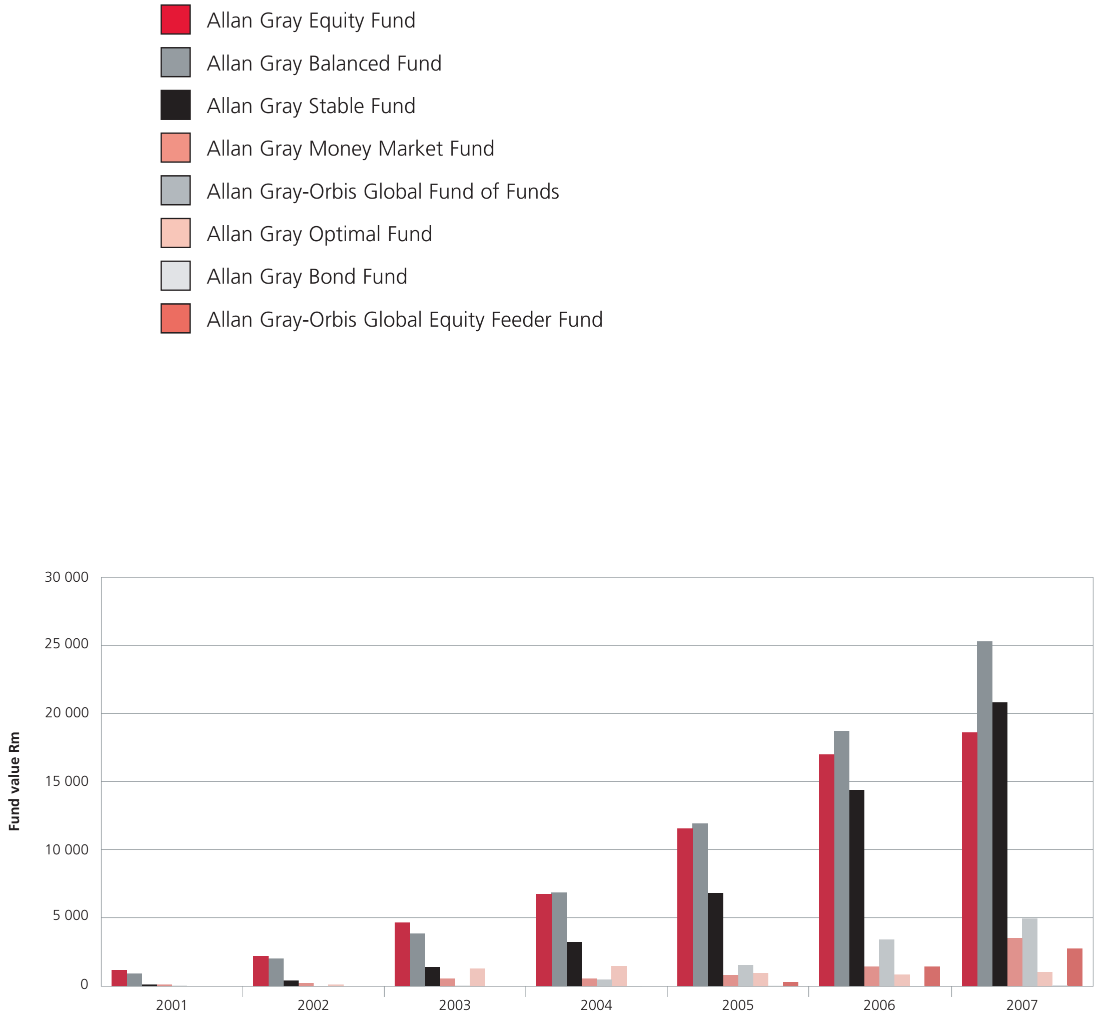
2007

ANNUAL REPORT
ALLAN GRAY UNIT TRUST
MANAGEMENT LIMITED

LONG TERM INVESTMENT MANAGEMENT

Growth in Allan Gray Unit Trusts

as at 31 December 2007



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Chairman's Report – Market Commentary 2007

The fourth quarter was dominated by high price volatility. The FTSE/JSE All Share Index (ALSI) produced a negative return of 3.2% for the quarter and ended the calendar year 8% off its October peak.

The ALSI nevertheless returned 19.2% for the year, well ahead of the All Bond Index (ALBI) at 4.2%, cash at 9.3% and indeed our own expectations! Expressed in US dollars, the return was 23% which was comfortably ahead of the FTSE World Index at 11.3%. With headlines highlighting the continued new highs in the ALSI, many investors were left confused, with large numbers of shares (typically domestically focused financial and industrial businesses) undergoing meaningful price corrections. This is typical of a very narrow market where a significant portion of the overall return is driven by a handful of shares. It differentiated 2007 from the earlier years of the bull market where the advance in the index had broad participation.

Emerging markets continued to outperform their developed counterparts, driven partly by a weak US dollar and a search for growth as developed economies slowed down. South African asset prices continued to be a net beneficiary of this trend. We believe that these valuations make emerging markets vulnerable to a correction.

The turmoil in global credit markets in the latter half of the year has led to a general repricing of risk with investors demanding a higher return (lower price) to hold riskier assets. Whilst this has already impacted certain market sectors such as US and European financials, we believe it has further to run, given the high level of leverage which characterises the current world economic system.

We continue to remain concerned about future returns (US dollar returns in particular) from local equities for many of the reasons expressed in this very commentary last year. And, whilst we believe that the returns from the shares held in our funds to be more attractive than that offered by local cash on a four-year view, the margin of expected outperformance is small relative to the past number of years and, of course, there is no guarantee that the outperformance will occur in an orderly fashion.

Profitability for South African and most global companies remains at very high levels. This requires us to be particularly vigilant about not taking low, or indeed high price earnings (PE) ratios at face value and to interrogate thoroughly the assumptions underlying our estimates of the sustainable level of earnings on which we base our valuations.

Foreign investors have purchased an estimated net R134.5 billion worth of local equities over the past two years, which has assisted South Africa in funding its large current account deficit that has developed despite high commodity prices. Should these flows turn negative or simply remain at current levels, the Rand could come under pressure. We believe that, given current relative valuations, it remains attractive for local investors prudently to increase the foreign exposure in their portfolios.

We expect the next four years to be a considerably more challenging period for investors. This is reflected in the positioning of our asset allocation funds and in the characteristics of the individual shares within our allocation to equities. Whilst not always enjoyable, such difficult periods often provide long-term investors such as ourselves with exceptional opportunities to create wealth for our clients.

Chairman's Report – Overview of Funds

INTRODUCTION

In 2005 the FTSE/JSE All Share Index returned 47.3%, in 2006 it returned 41.2% and in 2007 it returned 19.2%. Against this backdrop, and the narrow market mentioned in the market commentary of this report, we expect to experience more volatility and a more challenging market environment going forward.

In spite of these phenomenal (albeit reducing) returns, net flows into our funds have remained stable with R12.4 billion in 2007 following the R12.3 billion received in 2006. When combined with rising market values, assets under management have increased from R57.8 billion in 2006 to R77.3 billion in 2007.

The number of unitholders entrusting us with their investments continue to increase: from 26 442 in 2005, 33 262 in 2006 to 41 150 by the end of 2007.

Specific information on each of our funds follow in order of fund inception. All rankings are calculated by S&P Micropal.

1. ALLAN GRAY EQUITY FUND

Fund characteristics

The Equity Fund is for investors who have decided to invest in the South African stockmarket through the Allan Gray Limited equity selection process. Our mandate is to invest across the broad range of shares on the JSE, selecting the most attractive shares, without assuming greater risk than the FTSE/JSE All Share Index.

To achieve this objective, the Equity Fund is nearly fully invested in shares at all times. As a result, returns are likely to be volatile, both up and down, especially over the short-term. However, history shows that long-term returns from equity investments are superior to those derived from interest-earning or property assets.

Long-term investment objective

To earn a higher total rate of return than the average return of the South African equity market as represented by the FTSE/JSE All Share Index, including income, without assuming greater risk.

Performance to 31 December 2007*

	Since inception 1 October 1998 Unannualised (%)	Since inception October 1998 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Allan Gray Equity Fund	1 868.3	38.0	14.8
Benchmark**	643.5	24.2	19.2
Sector Median	541.3	22.23	16.2
Outperformance of benchmark	**1 224.8**	**13.8**	**-4.4**

* Fund performance shown net of all fees and expenses as per the TER disclosure.
** FTSE/JSE All Share Index including income (Source: INET). Benchmark performance calculated by Allan Gray as at 31 December 2007.

Total expense ratio**

Total expense ratio		Included in TER			
		Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	3.57%	0.21%	1.64%	1.71%	0.01%
Class B units	4.82%	0.21%	1.64%	2.96%	0.01%

** A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. It is expressed as a percentage of the average value of the portfolio, calculated for the year to the end of September 2007. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, UST, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units and Class B units.

Comment

Relative to its peers, the Equity Fund ranked 37th out of 58 funds in 2007. More importantly, since inception on 1 October 1998 the Fund has measurably outperformed the index and is placed 1st out of 19 funds. The margin of outperformance since inception should be regarded as exceptional.

After an extended period of strong equity returns by the market it is not unusual for disparity within the market to increase with parts of the market becoming overvalued. As investors who have been with us for a long period will know, in terms of our investment philosophy which we

Chairman's Report – Overview of Funds

have consistently applied over the last 34 years, we are willing to accept short-term underperfomance by being different from the benchmark and by not buying shares that are trading above their underlying intrinsic value even if they could rise further in the short-term. This philosophy reduces the risk of capital loss and enables the Equity Fund to take advantage of the opportunities for long-term outperformance that arise during times like these. While overall market levels imply much lower future return prospects and the current level of returns from equities is clearly volatile and there is a greater likelihood of negative returns as the market inevitably adjusts, we remain confident of our ability to outperform the benchmark index and through our proprietary fundamental research continue to find investments that should generate attractive long-term returns for our investors without assuming greater risk than the market.

At the risk of repeating ourselves, investors should approach share investment with caution in 2008.

2. ALLAN GRAY BALANCED FUND

Fund characteristics

The Balanced Fund invests in a portfolio that can include shares, interest-bearing securities, listed property and international assets. As such the Balanced Fund is suitable for investors who wish to delegate both investment instrument selection and asset allocation decisions to Allan Gray Limited. This allocation adheres to the Prudential Investment Guidelines, as laid down in the Pension Funds Act.

Over time the selection of investment instruments within these broad categories is anticipated to resemble our managed retirement portfolios and, in the case of shares, the Allan Gray Equity Fund.

Given the spread of investments, we expect returns to be less volatile than those of the Equity Fund, but somewhat lower over the long-term.

Long-term investment objective

To earn a higher rate of return than the market value-weighted average of its sector, excluding the Allan Gray Balanced Fund, without assuming greater risk.

Because of recent changes to the way the Association of Collective Investments (ACI) classifies unit trusts, the Balanced Fund has been moved to a new ACI classification category. Please be assured that there has been no change to the Balanced Fund's objectives or the way that the Fund is managed. The only noticeable change is to the benchmark. Benchmarks provide investors with a yardstick against which they can evaluate a fund's performance. It is important therefore to ensure that the benchmark selected for a particular fund is relevant and appropriate and is as consistent as possible, regardless of ACI classification category changes. With effect from 1 January 2008 the benchmark for the Fund is based on the average of all funds in both the Prudential Medium Equity category and the Prudential Variable Equity category (excluding the Allan Gray Balanced Fund).

Performance to 31 December 2007*

	Since inception 1 October 1998 Unannualised (%)	Since inception October 1998 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Allan Gray Balanced Fund	569.5	25.9	13.2
Benchmark**	281.7	17.6	12.6
Outperformance	**287.8**	**8.3**	**0.6**

* Fund performance shown net of all fees and expenses as per the TER disclosure.
** The market value-weighted average of the Domestic Asset Allocation Prudential Medium Equity sector excluding the Allan Gray Balanced Fund (Source: Micropal). Benchmark performance calculated by Allan Gray as at 31 December 2007.

Total expense ratio**

	Total expense ratio	Included in TER			
		Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	2.09%	0.22%	0.59%	1.25%	0.03%
Class B units	3.33%	0.22%	0.59%	2.49%	0.03%

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Comment

The Balanced Fund outperformed its benchmark in 2007 and was placed 12th out of 44 funds. Its performance since inception on 1 October 1999 has been exceptional and the Balanced Fund is ranked 1st out of 14 funds. We continue to caution investors not to extrapolate returns of this magnitude into the future. There are a number of risks to future returns from South African assets. These include the current high profitability of South African and most global companies, the low risk premium that global investors attach to emerging market investments, and our view that the Rand has been unsustainably strong. The Balanced Fund is invested with these risks in mind, and we remain confident of the Balanced Fund's potential to outperform its benchmark over the long run. Over shorter term periods the Balanced Fund's performance relative to its benchmark may be quite volatile. This is because of the wide difference between the Fund's portfolio and the portfolios of its peers. Our longstanding clients will know by now that we do not shy away from different and contrarian investment portfolios. This potential short-term volatility has historically been handsomely rewarded by the compounding of superior returns over the long run.

3. ALLAN GRAY STABLE FUND

Fund characteristics

With the risk-averse and yield-conscious investor in mind, the Allan Gray Stable Fund was introduced in July 2000 to complement the Allan Gray Equity Fund and Allan Gray Balanced Fund. The Stable Fund should appeal to those individuals who seek greater capital security together with a higher income return. The Stable Fund comprises a portfolio of bonds, cash and shares, with the basis for share selection being the provision of a high income yield with low probability of negative performance.

As for the Balanced Fund, the asset allocation of the Stable Fund is subject to the Prudential Investment Guidelines (which limits equity exposure to 75%), as laid down in the Pension Funds Act. In terms of the Fund's investment mandate, the maximum equity exposure is limited to 40%. However, unless the stockmarket offers exceptional value, the Fund's share exposure is likely to be lower. Through our proprietary analysis, shares in sound companies with good prospects are periodically uncovered which generate dividend yields that approach bank deposit returns – especially on an after-tax basis. Such shares are selected not only for their high level of tax-free income but also because they tend to behave quite differently from the rest of the stockmarket. The higher dividend yield of these shares underpins their value and therefore reduces price volatility. They therefore provide an element of capital stability together with a better yield.

This Fund thus offers an attractive income stream with a low risk of permanent capital loss.

Long-term investment objectives

The Fund aims to provide a return that exceeds the return on call deposits plus 2%; on an after-tax basis at a tax rate of 25%. It also seeks to provide a high level of capital stability and to minimise the risk of loss over any two-year period.

Performance to 31 December 2007*

	Since inception 1 July 2000 Unannualised (%)	Since inception 1 July 2000 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Allan Gray Stable Fund	192.5	15.4	9.9
Benchmark**	74.7	7.7	7.9
Outperformance	**117.8**	**7.7**	**2.0**

* Fund and benchmark performance adjusted for income tax at a rate of 25%. Fund performance shown net of all fees and expenses as per the TER disclosure.

** Return of call deposits (for amounts in excess of R5 million) with FirstRand Bank Limited plus 2%; on an after-tax basis at a tax rate of 25% (Source: FirstRand Bank). Benchmark performance calculated by Allan Gray as at 31 December 2007.

Total expense ratio**

Total expense ratio	Included in TER			
	Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units 1.94%	0.12%	0.55%	1.24%	0.03%
Class B units 3.20%	0.12%	0.54%	2.49%	0.03%

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Comment

In 2007 the Stable Fund achieved its goal of outperforming the after-tax return on bank deposits plus 2%. In its category it was placed 6th out of 24 funds. We note that, when making comparisons, funds in this sector could have widely diverse risk and reward profiles, primarily due to differences in share exposure.

Since inception on 1 July 2000, the level of outperformance of the Fund is seen as exceptional. The equity portion of the Fund has benefited from sharply rising equity markets and the impact of a weaker Rand on the foreign component of the Fund.

The Fund maintains a very low net share exposure given its objectives and the very high level of equity markets. This means that should the equity market rise in the short-term, the Fund will only benefit to a limited extent. The Fund's aims are currently best served by a low net share exposure, a meaningful exposure to hedged equities, a large weighting in a conservative offshore portfolio and substantial cash holdings. The Fund is positioned to take advantage of opportunities to increase share exposure when market circumstances once again provide attractive share investment opportunities. The hedged equity portion of the Fund provides an interest-like return plus or minus the extent to which the Fund's shares out- or underperforms the FTSE/JSE All Share Index. We believe that in the current environment this asset class is particularly attractive and is consistent with the Fund's objectives.

4. ALLAN GRAY MONEY MARKET FUND

Fund characteristics

The Fund was launched on 1 July 2001 in order to accommodate the highly risk-averse saver and more importantly for those investors seeking a short-term parking place for their money.

Long-term investment objective

The Fund aims to provide a return that exceeds the simple average of the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund. It also aims to provide a high degree of capital stability with minimal risk of loss.

Performance to 31 December 2007*

	Since inception 1 July 2001 Unannualised (%)	Since inception 1 July 2001 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Allan Gray Money Market Fund	76.8	9.2	9.6
Benchmark**	77.1	9.2	9.4
Outperformance	**-0.3**	**0**	**0.2**

* Fund performance shown net of all fees and expenses as per the TER disclosure.
** Simple average of the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund (Source: Micropal). Benchmark performance calculated by Allan Gray as at 31 December 2007.

Total expense ratio**

Total expense ratio	Included in TER			
	Trading costs	Performance component	Fee at benchmark	Other expenses
0.30%	0.00%	0.00%	0.29%	0.01%

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Comment

In this category the difference in performance between funds is typically minimal. The Fund outperformed its benchmark in 2007 by a small margin, but still achieved 2nd position out of 19 funds. Since inception on 1 July 2001 it is ranked 6th out of 14 funds. Risk factors to take into consideration are our current high interest rate and the stability of interest rates in the future.

5. ALLAN GRAY OPTIMAL FUND

Fund characteristics

The objective of the Portfolio is to provide investors with long-term absolute (i.e. positive) returns higher than that available in the money market sector, but with less risk of loss than a share portfolio. In order to achieve this objective, the Optimal Fund invests in a portfolio of shares and reduces the stockmarket exposure inherent in these

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shares by hedging (i.e. using equity derivative instruments). The Optimal Fund may be appropriate for the investor who wishes to avoid the volatility generally associated with stock and bond markets, but still wants exposure to specialist stockpicking skills and seeks a positive rate of return which is higher than that of cash. This unique portfolio is designed to carry a low risk of capital loss.

The Fund's return should not be correlated with equity markets, being dependent instead on the ability of the Fund's equity portfolio to outperform its underlying equity benchmark (FTSE/JSE All Share Index).

Long-term investment objective

The Fund aims to exceed the return on call deposits with FirstRand Bank Limited (for amounts in excess of R5 million).

Performance to 31 December 2007*	Since inception 1 October 2002 Unannualised (%)	Since inception 1 October 2002 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Allan Gray Optimal Fund	64.0	9.9	9.5
Benchmark**	47.3	7.7	8.5
Outperformance	**16.7**	**2.2**	**1**

* Fund performance shown net of all fees and expenses as per the TER disclosure.
** The return on call deposits with FirstRand Bank Limited (for amounts in excess of R5 million) (Source: FirstRand Bank). Benchmark performance calculated by Allan Gray as at 31 December 2007.

Total expense ratio**		Included in TER			
	Total expense ratio	Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	1.78%	0.17%	0.45%	1.14%	0.02%
Class B units	3.03%	0.17%	0.45%	2.39%	0.02%

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Comment

The portfolios in this sector are not ranked because they are so different from each other. This makes direct comparison inappropriate. The Fund beat its benchmark in 2007 and since inception performance has been rewarding.

The overall South African stockmarket returned 19.2% for 2007, a return considerably higher than we would have initially expected. Given the current high absolute level of the market especially together with the high level of earnings and also considering the current volatile conditions apparent in global stockmarkets, we believe there is considerable risk of capital loss from the market as a whole for 2008. In this environment, we therefore believe that the Fund's potential to deliver long-term absolute returns, uncorrelated with overall equity markets, is particularly compelling.

6. ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS

Fund characteristics

The Global Fund of Funds was launched in 2004 to cater for South African Rand investors wishing to gain exposure to international investments. It is a Rand-denominated balanced offshore portfolio investing in selected Orbis Funds. Orbis isAllan Gray's global asset management partner. The Fund will always hold at least 85% of its assets offshore. Given the spread of investments, we expect that returns will be less volatile than those of the Allan Gray-Orbis Global Equity Feeder Fund, but somewhat lower over the long-term.

Long-term investment objective

To earn a higher rate of return than the benchmark of 60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index, at no greater than average risk of loss in its sector.

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Performance to 31 December 2007 in US dollars*	Since inception 3 February 2004 Unannualised (%)	Since inception 3 February 2004 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Fund return in US dollars	46.9	10.3	12.1
Benchmark** return in US dollars	48.9	10.8	11.3
Outperformance	**-2.0**	**-0.5**	**0.8**

Performance to 31 December 2007 in Rands*	Since inception 3 February 2004 Unannualised (%)	Since inception 3 February 2004 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Fund return in Rands	42.2	9.4	9.3
Benchmark** return in Rands	44.4	9.9	8.5
Outperformance	**-2.2**	**-0.5**	**0.8**

* Fund performance shown net of all fees and expenses as per the TER disclosure.
** 60% of the FTSE World Index and 40% of the JP Morgan Government Global Bond Index (Source: Bloomberg). Benchmark performance calculated by Allan Gray as at 31 December 2007.

Total expense ratio**	Included in TER			
Total expense ratio	Trading costs	Performance component	Fee at benchmark	Other expenses
2.07%	0.26%	0.38%	1.25%	0.18%

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Comment

The Allan Gray-Orbis Global Fund of Funds changed from an equity-only fund to an asset allocation fund on 3 February 2004. Historical performance commentary is restricted to this date. The Fund invests in a balanced portfolio of Orbis equity and absolute return funds.

Performance relative to the benchmark since 3 February 2004 has been good, attaining 3rd out of 11 funds in its category. The Fund remains overweight in Asian and in particular Japanese equities. The Fund's overweight exposure to Japan and the Yen which had contributed to short-term underperformance of its benchmark earlier in the year were a positive contributor to relative performance in recent months. Given our cautious outlook on global equities the portfolio now has a conservative 48% in equities with the balance in absolute return funds.

7. ALLAN GRAY BOND FUND

Fund characteristics

The Bond Fund invests in a combination of South African interest-bearing securities including public, parastatal, corporate and inflation-linked bonds, fixed deposits, money market instruments and cash.

The Fund was launched to cater for investors seeking longer term security of income and capital. This allocation adheres to the Prudential Investment Guidelines, as laid down in the Pension Funds Act.

Long-term investment objective

The objective of the Fund is to provide investors with a return superior to the All Bond Index, at no greater risk, over an interest-rate cycle. The Fund seeks to preserve at least the nominal value of investors' capital.

Performance to 31 December 2007*	Since inception 1 October 2004 Unannualised (%)	Since inception 1 October 2004 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Allan Gray Bond Fund	31.3	8.7	5.4
Benchmark**	31.3	8.7	4.3
Outperformance	**0**	**0**	**1.1**

* Fund performance shown net of all fees and expenses as per the TER disclosure.
** All Bond Index (Source: INET). Benchmark performance calculated by Allan Gray as at 31 December 2007.

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Total expense ratio**				
	Included in TER			
Total expense ratio	Trading costs	Performance component	Fee at benchmark	Other expenses
0.61%	0.00%	0.18%	0.29%	0.14%

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Comment

In this category, the performance difference between funds tend to be limited. Since inception the Fund has achieved the same return as its benchmark and is ranked 8th out of 17 funds. In 2007 it beat the benchmark by 1.1% and was ranked 2nd out of 17 funds.

8. ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND

Fund characteristics

The Fund was launched on 1 April 2005 and invests directly into the Orbis Global Equity Fund. It caters for Rand investors wishing to invest in an Orbis selection of international shares. The Fund provides access to investments that might not be available locally and, more importantly, which are typically independent of any change in the value of the Rand. Returns are likely to be volatile, both up and down.

Long-term investment objective

The objective of the Fund is to earn higher returns than world stockmarkets as measured by the FTSE World Index at no greater than average risk of loss in its sector.

Performance to 31 December 2007 in US dollars*			
	Since inception 1 April 2005 Unannualised (%)	Since inception 1 April 2005 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Fund return in US dollars	58.9	18.3	12.2
Benchmark** return in US dollars	51.8	16.3	11.4
Outperformance	**7.1**	**2.0**	**0.8**

Performance to 31 December 2007 in Rands*			
	Since inception 1 April 2005 Unannualised (%)	Since inception 1 April 2005 Annualised (%)	1-year performance 31 December 2007 Annualised (%)
Fund return in Rands	74.0	22.3	9.4
Benchmark** return in Rands	66.1	20.2	8.6
Outperformance	**7.9**	**2.1**	**0.8**

* Fund performance shown net of all fees and expenses as per the TER disclosure.
** FTSE World Index (Source: Bloomberg). Benchmark performance calculated by Allan Gray as at 31 December 2007.

Total expense ratio**				
	Included in TER			
Total expense ratio	Trading costs	Performance component	Fee at benchmark	Other expenses
2.71%	0.29%	0.91%	1.44%	0.07%

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Comment

Since inception on 1 April 2005, the Allan Gray-Orbis Global Equity Feeder Fund has outperformed the benchmark and was positioned 6th out of 22 funds in its category. It was ranked 3rd out of 21 funds for the year to end of December 2007. The Fund continues to have exposure to selected large capitalisation high quality companies in the United States where we believe that markets are uncharacteristically too pessimistic on their growth prospects. The Fund remains overweight Asia and in particular Japan, where it continues to find attractive investment opportunities.

Corporate Governance Report

The directors endorse the Code of Corporate Practices and Conduct (the 'Code') as set out in the King II Report issued in March 2003. By supporting the Code, the directors recognise the need to conduct the affairs of the company with openness, integrity and accountability.

Where appropriate, the principles advocated by the Code are dealt with at group level by the Company's ultimate holding company, Allan Gray Group Limited ('Allan Gray'). As a subsidiary of Allan Gray, the Company is subject to their corporate governance measures.

BOARD OF DIRECTORS

The board of directors' role is to direct, control and monitor the business affairs of the company while at the same time protecting the interests of all investors. The board is responsible for risk management.

In fulfilling this responsibility, the board, amongst other functions:

- provides strategic direction and in so doing reviews, evaluates and gives guidance on strategies, policies and business plans;
- reviews management reports and monitors ongoing performance against plans, budgets and targets;
- monitors development of the process to identify key risk areas and key performance indicators;
- monitors compliance with sound business practice and management of those non-financial aspects which are relevant to its business; and
- ensures that there is open and timeous communication with the shareholders.

The board of directors consist of four executive directors and two non-executive directors. The roles of chairman and chief operating officer are separate.

All directors have access to the advice and services of the company secretary.

EXECUTIVE AND AUDIT COMMITTEES

The board of directors meets at least twice a year and is assisted by an executive committee, as well as Allan Gray's audit committee. The executive committee meets bi-monthly and continually reviews the effectiveness of the company's systems of internal control. The audit committee, chaired by a non-executive Allan Gray director, meets at least four times per annum.

These board committees are responsible for ensuring compliance with relevant laws and regulations as well as the Code.

STAFF TRAINING AND EMPLOYMENT EQUITY

The company is dedicated to providing exceptionally good training and development for all employees. The company will continue to contribute to the broader Southern African community in a meaningful way. In particular, the company recognises that positive action is needed by the business community to address the skills shortage in Southern Africa.

The company promotes equal opportunity in the workplace and is committed to eliminate unfair discrimination in any employment policy or practice.

The company recognises that additional corrective steps need to be taken in order that those who have been historically disadvantaged by unfair discrimination are able to derive full benefit from an equitable employment environment.

CODE OF ETHICS

Allan Gray subscribes to certain main themes of the CFA Institute's Code of Ethics and Standards of Professional Conduct. The themes have been incorporated into existing policies. Adherence to these policies by all Allan Gray employees is monitored by the compliance department.

Allan Gray directors and employees are required to maintain the highest ethical standards.

Trustee Report on the Allan Gray Unit Trust Scheme

As trustees to the Allan Gray Unit Trust Scheme ('the Scheme'), we are required in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) ('the Act') to report to unitholders on the administration of the Scheme during each annual accounting period.

We therefore confirm that for the period 1 January 2007 to 31 December 2007 the Scheme has been administered:

(i) in accordance with the limitations imposed on the investment and borrowing powers of the manager by the Act; and
(ii) in accordance with the provisions of the Act and the relevant deeds.

There were no material instances of compliance contraventions, and no losses incurred by any funds as a result thereof, during the year.

Nelia de Beer
Trustee Manager: Unit Trusts
FNB Custody Services
First National Bank, a division of FirstRand Bank Limited

Johannesburg
17 January 2008

Approval of the Annual Financial Statements

The directors of Allan Gray Unit Trust Management Limited are responsible for the preparation of the annual financial statements and related financial information included in this report.

The annual financial statements for the year ended 31 December 2007 set out on pages 14 to 44 have been approved by the board of directors of Allan Gray Unit Trust Management Limited and are signed on its behalf by:

ED Loxton
Chairman

Cape Town
19 March 2008

GW Fury
Director

Cape Town
19 March 2008

Independent Auditor's Report to the Unitholders of

Allan Gray Equity Fund
Allan Gray Balanced Fund
Allan Gray Stable Fund
Allan Gray Money Market Fund
Allan Gray-Orbis Global Fund of Funds
Allan Gray Optimal Fund
Allan Gray Bond Fund
Allan Gray-Orbis Global Equity Feeder Fund
(the 'Allan Gray Unit Trust Funds')

Report on the financial statements

We have audited the annual financial statements of the Allan Gray Unit Trust Funds, which comprise the chairman's report, the balance sheet as at 31 December 2007, the income statement, the statement of changes in net assets attributable to unitholders and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 2 to 44.

Directors' responsibility for the financial statements

The directors of Allan Gray Unit Trust Management Limited are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Trust deed. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Allan Gray Unit Trust Funds as of 31 December 2007, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Trust deed.

Ernst + Young

Ernst & Young Inc.
Registered Auditor

Cape Town
19 March 2008

Income Statements

for the year ended 31 December 2007

	NOTES	EQUITY FUND		BALANCED FUND		STABLE FUND	
		2007 R	2006 R	2007 R	2006 R	2007 R	2006 R
REVENUE	1.1	503 426 939	442 470 507	804 565 906	571 715 645	1 087 173 206	517 474 683
Dividends		494 003 668	430 761 111	420 008 652	268 647 386	167 707 439	83 321 032
Interest – Local		9 423 271	11 709 396	384 420 824	302 973 205	919 319 945	434 067 524
Interest – Foreign		–	–	136 430	95 054	145 822	86 127
OPERATING EXPENSES		599 858 612	467 615 358	361 052 120	249 224 278	333 867 618	194 157 864
Audit fee		63 156	80 005	73 360	98 139	64 705	86 121
Bank charges		83 807	5 288	179 528	25 922	108 775	17 079
Levies		–	481 816	–	558 460	–	441 641
Trustee fee		1 626 746	1 595 079	1 985 145	1 776 693	1 594 183	1 240 218
Management fee		598 084 903	465 453 170	358 814 087	246 765 064	332 099 955	192 372 805
(LOSS)/PROFIT before income adjustments		(96 431 673)	(25 144 851)	443 513 786	322 491 367	753 305 588	323 316 819
Income adjustments on creation and cancellation of units	1.1	1 711 971	1 030 152	16 075 938	18 266 764	23 658 587	23 728 679
(LOSS)/PROFIT before undistributable income items		(94 719 702)	(24 114 699)	459 589 724	340 758 131	776 964 175	347 045 498
Shortfalls of unitholders' income funded by net assets attributable to unitholders	3	94 719 702	24 114 699	–	–	–	–
Investments transaction costs on investments at fair value through profit and loss		–	–	(128 018)	(22 908)	(187 995)	(19 476)
Realised gains/(losses) on disposal of available-for-sale investments	1.2	3 966 267 765	1 605 758 618	3 307 740 909	1 001 023 219	1 017 663 710	224 723 175
Realised losses on investments at fair value through profit or loss	1.2	–	–	(85 853 584)	(70 558 049)	(119 817 641)	(60 762 698)
Foreign exchange (loss)/gain on monetary assets	1.5	–	–	(664)	479	494 360	(494 450)
PROFIT for the year		3 966 267 765	1 605 758 618	3 681 348 367	1 271 200 872	1 675 116 609	510 492 049
Distribution to unitholders		–	–	(459 589 724)	(340 758 131)	(776 964 175)	(347 045 498)
UNDISTRIBUTED PROFIT/(LOSS) for the year		3 966 267 765	1 605 758 618	3 221 758 643	930 442 741	898 152 434	163 446 551

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
R	R	R	R	R	R	R	R	R	R
218 368 638	83 890 207	4 246 143	2 747 723	31 658 725	33 343 926	4 299 438	3 020 328	1 933 394	1 386 386
–	–	169 014	–	20 700 115	24 491 811	–	–	–	–
218 368 638	83 890 207	3 647 255	2 624 083	10 958 610	8 852 115	4 299 438	3 020 328	1 816 479	1 243 837
–	–	429 874	123 640	–	–	–	–	116 915	142 549
6 697 777	3 439 923	385 669	363 580	15 032 165	15 745 718	353 143	244 803	253 030	150 877
53 779	66 507	25 959	45 937	63 362	87 343	46 022	64 103	25 050	43 257
36 710	3 630	19 627	28 853	47 801	3 640	8 791	1 068	10 169	20 489
–	70 618	–	1 744	–	36 356	–	3 217	–	871
183 329	175 800	340 083	287 046	100 488	167 580	14 053	29 857	217 811	86 260
6 423 959	3 123 368	–	–	14 820 514	15 450 799	284 277	146 558	–	–
211 670 861	80 450 284	3 860 474	2 384 143	16 626 560	17 598 208	3 946 295	2 775 525	1 680 364	1 235 509
–	–	491 922	422 428	577 993	(1 181 273)	305 368	3 547	173 232	592 890
211 670 861	80 450 284	4 352 396	2 806 571	17 204 553	16 416 935	4 251 663	2 779 072	1 853 596	1 828 399
–	–	–	–	(55 294)	(61 420)	–	–	–	–
–	–	345 665 742	42 499 640	176 197 988	289 391 796	(324 740)	(1 150 829)	17 275 676	–
–	–	–	–	(75 612 953)	(228 360 628)	–	–	–	–
–	–	(841 817)	–	–	–	–	–	37 116	(37 116)
211 670 861	80 450 284	349 176 321	45 306 211	117 734 294	77 386 683	3 926 923	1 628 243	19 166 388	1 791 283
(211 670 861)	(80 450 284)	(4 352 396)	(2 806 571)	(17 204 553)	(16 416 935)	(4 251 663)	(2 779 072)	(1 853 596)	(1 828 399)
–	–	344 823 925	42 499 640	100 529 741	60 969 748	(324 740)	(1 150 829)	17 312 792	(37 116)

Balance Sheets

as at 31 December 2007

	NOTES	EQUITY FUND		BALANCED FUND		STABLE FUND	
		2007 R	2006 R	2007 R	2006 R	2007 R	2006 R
ASSETS							
Investments	1.2	18 666 181 650	17 055 257 744	25 311 676 233	18 967 738 504	20 867 357 831	14 541 236 484
Available-for-sale investments		18 591 181 650	16 940 257 744	21 487 710 568	17 499 301 961	10 643 718 437	7 501 195 564
Money market investments classified as loans and receivables		–	–	3 292 843 776	1 411 471 054	9 759 931 752	6 746 947 641
Cash and cash equivalents held for investment purposes		75 000 000	115 000 000	531 121 889	56 965 489	463 707 642	293 093 279
Accounts receivable*		24 495 173	28 367 983	94 914 431	113 801 558	48 465 859	48 430 284
Cash and cash equivalents		16 203 967	36 131 401	8 741 929	26 545 012	14 156 343	23 787 922
TOTAL ASSETS		18 706 880 790	17 119 757 128	25 415 332 593	19 108 085 074	20 929 980 033	14 613 454 690
LIABILITIES							
Current liabilities							
Accounts payable*		44 896 592	88 101 224	80 228 748	143 150 761	70 417 669	95 810 729
Distribution payable to investors		–	–	279 892 504	193 652 302	215 260 822	110 282 995
TOTAL LIABILITIES, excluding net assets attributable to unitholders		44 896 592	88 101 224	360 121 252	336 803 063	285 678 491	206 093 724
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	1.9	18 661 984 198	17 031 655 904	25 055 211 341	18 771 282 011	20 644 301 542	14 407 360 966

* Accounts receivable and accounts payable are interest free and are settled within 30 days.

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
R	R	R	R	R	R	R	R	R	R
3 565 798 815	1 457 381 248	4 957 229 499	3 402 171 884	1 025 964 418	851 156 744	74 812 925	35 248 208	2 730 363 697	1 443 065 212
–	–	4 957 229 499	3 402 171 884	903 859 600	785 936 680	56 247 004	32 224 715	2 730 363 697	1 443 065 212
3 352 798 815	1 386 381 248	–	–	–	–	18 565 921	3 023 493	–	–
213 000 000	71 000 000	–	–	122 104 818	65 220 064				
13 868 145	382 132	3 820 554	225 288	14 133 465	16 209 347	30 586	4 653	515 416	116 547
7 175 724	18 428 061	20 198 088	30 608 649	14 768 954	12 044 847	549 317	683 352	23 772 062	15 311 796
3 586 842 684	1 476 191 441	4 981 248 141	3 433 005 821	1 054 866 837	879 410 938	75 392 828	35 936 213	2 754 651 175	1 458 493 555
14 886 601	12 411 105	39 942	23 177	9 775 845	6 169 239	1 065 406	49 649	28 387	22 367
30 532 064	10 067 688	4 352 396	2 806 579	11 441 333	9 843 954	1 600 675	692 184	1 853 596	1 827 969
45 418 665	22 478 793	4 392 338	2 829 756	21 217 178	16 013 193	2 666 081	741 833	1 881 983	1 850 336
3 541 424 019	1 453 712 648	4 976 855 803	3 430 176 065	1 033 649 659	863 397 745	72 726 747	35 194 380	2 752 769 192	1 456 643 219

Statements of Changes in Net Assets Attributable to Unitholders

for the year ended 31 December 2007

	NOTES	EQUITY FUND		BALANCED FUND		STABLE FUND	
		2007 R	2006 R	2007 R	2006 R	2007 R	2006 R
OPENING BALANCE		17 031 655 904	11 562 799 906	18 771 282 011	11 965 272 475	14 407 360 966	6 839 549 151
Shortfalls of unitholder income funded by net assets attributable to unitholders	3	(94 719 702)	(24 114 699)	–	–		
Undistributed profit/(loss) for the year		3 966 267 765	1 605 758 618	3 221 758 643	930 442 741	898 152 434	163 446 551
Net fair value adjustment on available-for-sale investments		(1 423 948 105)	3 403 650 019	(1 023 858 502)	2 724 847 729	154 794 172	1 333 025 573
Unrealised fair value adjustment on available-for-sale investments		2 542 319 660	5 009 408 637	2 283 882 407	3 725 870 948	1 172 457 882	1 557 748 748
Realised (losses)/gains on available-for-sale investments		(3 966 267 765)	(1 605 758 618)	(3 307 740 909)	(1 001 023 219)	(1 017 663 710)	(224 723 175)
Value of net (cancellations)/creations during the year		(817 271 664)	483 562 060	4 086 029 189	3 150 719 066	5 183 993 970	6 071 339 691
CLOSING BALANCE		18 661 984 198	17 031 655 904	25 055 211 341	18 771 282 011	20 644 301 542	14 407 360 966
Represented by the following:							
Unrealised fair value adjustments to available-for-sale investments		6 431 815 121	7 855 763 226	5 107 886 522	6 151 104 456	2 250 757 405	2 097 129 253
Book value of available-for-sale investments		12 230 169 077	9 175 892 678	19 947 324 819	12 620 177 555	18 393 544 137	12 310 231 713
		18 661 984 198	17 031 655 904	25 055 211 341	18 771 282 011	20 644 301 542	14 407 360 966

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
R	R	R	R	R	R	R	R	R	R
1 453 712 648	817 701 556	3 430 176 065	1 549 032 836	863 397 745	982 804 629	35 194 380	23 842 160	1 456 643 219	319 268 598
–	–	344 823 925	42 499 640	100 529 741	60 969 748	(324 740)	(1 150 829)	17 312 792	(37 116)
–	–	(31 262 239)	418 740 824	(30 295 084)	(7 772 869)	(753 083)	(295 982)	127 896 031	187 593 425
–	–	(31 262 239)	418 740 824	145 902 904	281 618 927	(1 077 823)	(1 446 811)	145 171 707	187 593 425
–	–	–	–	(176 197 988)	(289 391 796)	324 740	1 150 829	(17 275 676)	–
2 087 711 371	636 011 092	1 233 118 052	1 419 902 765	100 017 257	(172 603 763)	38 610 190	12 799 031	1 150 917 150	949 818 312
3 541 424 019	1 453 712 648	4 976 855 803	3 430 176 065	1 033 649 659	863 397 745	72 726 747	35 194 380	2 752 769 192	1 456 643 219
–	–	534 723 473	565 985 712	322 432 549	352 727 633	(1 335 653)	(33 610)	330 158 442	202 262 411
3 541 424 019	1 453 712 648	4 442 132 330	2 864 190 353	711 217 110	510 670 112	74 062 400	35 227 990	2 422 610 750	1 254 380 808
3 541 424 019	1 453 712 648	4 976 855 803	3 430 176 065	1 033 649 659	863 397 745	72 726 747	35 194 380	2 752 769 192	1 456 643 219

Cash Flow Statements

for the year ended 31 December 2007

	NOTES	EQUITY FUND		BALANCED FUND		STABLE FUND	
		2007 R	2006 R	2007 R	2006 R	2007 R	2006 R
CASH FLOWS FROM OPERATING ACTIVITIES							
Interest received		9 647 002	12 203 874	375 068 616	301 498 503	768 197 634	380 410 222
Dividends received		485 067 628	425 861 571	409 497 815	263 212 819	167 282 556	82 740 914
Distributions paid		–	–	(373 349 522)	(268 366 388)	(671 986 348)	(290 012 467)
Cash (used)/generated by operations before working capital changes	4	(598 146 641)	(466 585 206)	(344 976 846)	(230 957 035)	(309 714 671)	(170 923 635)
Working capital changes	4	(30 619 515)	(54 884 878)	(31 042 715)	39 794 975	(23 187 005)	40 431 842
NET CASH (OUTFLOW)/INFLOW from operating activities		(134 051 526)	(83 404 639)	35 197 348	105 182 874	(69 407 834)	42 646 876
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of investments		(8 561 582 403)	(6 039 395 006)	(29 982 550 498)	(18 377 136 629)	(53 906 090 125)	(33 495 384 068)
Proceeds on disposal of investments		9 492 978 159	5 578 071 793	25 843 520 214	15 098 530 159	48 782 366 770	27 386 784 173
NET CASH INFLOW/(OUTFLOW) from investing activities		931 395 756	(461 323 213)	(4 139 030 284)	(3 278 606 470)	(5 123 723 355)	(6 108 599 895)
CASH FLOWS FROM FINANCING ACTIVITIES							
Net (payments)/proceeds from creation and cancellation of units		(817 271 664)	483 562 060	4 086 029 189	3 181 576 198	5 183 993 970	6 074 716 191
NET CASH (OUTFLOW)/INFLOW from financing activities		(817 271 664)	483 562 060	4 086 029 189	3 181 576 198	5 183 993 970	6 074 716 191
NET (DECREASE)/INCREASE in cash and cash equivalents		(19 927 434)	(61 165 792)	(17 803 747)	8 152 602	(9 137 219)	8 763 172
CASH AND CASH EQUIVALENTS at the beginning of the year		36 131 401	97 297 193	26 545 012	18 392 889	23 787 922	14 530 300
Foreign exchange loss/(gain) on monetary assets		–	–	664	(479)	(494 360)	494 450
CASH AND CASH EQUIVALENTS at the end of the year		16 203 967	36 131 401	8 741 929	26 545 012	14 156 343	23 787 922

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
R	R	R	R	R	R	R	R	R	R
179 460 514	73 136 613	4 091 454	2 760 412	10 357 170	8 934 843	3 734 569	3 339 975	1 956 677	1 328 380
–	–	169 014	–	20 582 002	24 575 632				
(191 206 485)	(75 454 891)	(2 806 570)	(1 367 449)	(15 607 174)	(14 258 000)	(3 343 172)	(2 518 191)	(1 827 969)	(303 050)
(6 697 777)	(3 439 923)	(735 564)	58 848	(14 454 172)	(16 926 991)	(47 775)	(241 256)	(42 682)	404 897
(11 073 395)	12 147 591	(3 592 835)	10 611	6 402 037	8 252 504	990 168	15 127	(416 132)	12 969
(29 517 143)	6 389 390	(2 874 501)	1 462 422	7 279 863	10 577 988	1 333 790	595 655	(330 106)	1 443 196
(14 277 319 012)	(6 698 572 029)	(4 172 782 700)	(2 719 106 337)	(2 480 964 463)	(2 120 914 267)	(93 706 995)	(67 189 239)	(2 273 476 696)	(1 914 269 195)
12 207 872 447	6 073 672 876	2 810 642 444	1 536 925 266	2 376 391 450	2 284 153 087	53 628 980	53 513 579	1 475 015 857	952 142 548
(2 069 446 565)	(624 899 153)	(1 362 140 256)	(1 182 181 071)	(104 573 013)	163 238 820	(40 078 015)	(13 675 660)	(798 460 839)	(962 126 647)
2 087 711 371	636 011 092	1 353 762 379	1 134 449 504	100 017 257	(172 603 763)	38 610 190	12 799 031	807 288 327	949 818 312
2 087 711 371	636 011 092	1 353 762 379	1 134 449 504	100 017 257	(172 603 763)	38 610 190	12 799 031	807 288 327	949 818 312
(11 252 337)	17 501 329	(11 252 378)	(46 269 145)	2 724 107	1 213 045	(134 035)	(280 974)	8 497 382	(10 865 139)
18 428 061	926 732	30 608 649	76 877 794	12 044 847	10 831 802	683 352	964 326	15 311 796	26 139 819
–	–	841 817	–	–	–	–	–	(37 116)	37 116
7 175 724	18 428 061	20 198 088	30 608 649	14 768 954	12 044 847	549 317	683 352	23 772 062	15 311 796

Notes to the Annual Financial Statements

for the year ended 31 December 2007

1. ACCOUNTING POLICIES

Statement of compliance

The current year financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and Interpretations of those standards, as adopted by the International Accounting Standards Board (the 'IASB') and applicable legislation.

Adoption of new and revised standards

In the current financial year, the following amendments to published accounting standards were adopted (this list contains only those standards relevant to the Allan Gray suite of unit trust funds ('the Funds'):

Statement		Effective date	Impact on the Financial Statements
IFRIC 9	Reassessment of Embedded Derivatives	1 Jun 2006	No material impact
IFRS 7	Financial Instruments: Disclosures	1 Jan 2007	Additional financial instrument and financial risk disclosures
IAS 1 Amendments	Capital Disclosures	1 Jan 2007	No material impact

The following new or revised IFRS statements have been issued with effective dates applicable to future annual financial statements of the Funds. This list contains only those standards relevant to the Funds:

Statement		Effective date: Years beginning on/after	Expected Impact
IAS 23	Borrowing Costs	1 Jan 2009	No material impact

Basis of preparation

The financial statements have been prepared in accordance with the going concern principle on a historical cost basis, except for financial instruments that have been measured at either fair value or amortised cost.

The accounting policies were consistently applied in the current and prior year.

1.1 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Funds and revenue can be reliably measured.

Dividends

Dividend income comprises dividends accrued on investments for which the last date to register falls within the accounting period.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

1. ACCOUNTING POLICIES (Continued)

1.1 Revenue recognition (continued)

Interest

Interest income is accrued for on a daily basis using the effective interest rate method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its carrying value. Distributions from property trusts are recognised as interest revenue and are accrued on the last date to register.

Income adjustment on creation/cancellation of units

This is the income portion of the price received or paid when units are created or cancelled. The income portion of the price received by the Fund on creation of units is, in effect, a payment by unitholders for entitlement to a distribution of income that was earned by the fund before they joined. The income portion of the price paid to unitholders when units are cancelled is in effect compensation for the income distribution they will forfeit when exiting the fund before the distribution date.

The income adjustment on creation or cancellation of units is recognised when units on which it arises are either purchased or sold.

1.2 Financial instruments

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, distributions payable to unitholders, available-for-sale investments, loans and receivables and investments at fair value through profit and loss.

A 'regular way' contract is one that requires the delivery of an asset within the time frame established, generally by regulation or convention within the marketplace concerned. Regular way purchases and sales of financial assets are recognised using trade date accounting. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The trade date is the date that an entity commits itself to purchase or sell an asset.

Financial assets and liabilities are initially measured investments at fair value, plus, in the case of *investments not at fair value through profit or loss*, directly attributable transaction costs. Financial assets and liabilities are recognised when the Fund becomes a party to the contractual provisions of the instruments. The Fund determines the classification of its financial assets on initial recognition. Details on how fair value is determined may be found in note 8.2.

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in value. Balances held for the purposes of meeting short-term cash commitments rather than for investment or other purposes are current assets and disclosed separately on the face of the balance sheet. Margin deposits are aggregated with cash balances held for investment purposes and are disclosed as cash and cash equivalents held for investment purposes on the face of the balance sheet. Margin deposits are not readily available for use by the Funds as they are held as collateral to cover losses that the Funds may incur from their derivative positions. Details on margin deposits may be found in note 8.3.

Subsequent to initial recognition cash and cash equivalents, accounts receivable, accounts payable and distributions payable to unitholders are measured at amortised cost using the effective interest rate method.

Investments in shares, unit trusts and bonds are classified as *available-for-sale investments* and are subsequently measured at fair value. Fair value of *available-for-sale investments* is determined as the quoted price at the balance sheet date. Trading costs are capitalised to the cost of the investment upon initial recognition. Any gains or losses arising on subsequent measurement of *available-for-sale investments* are recognised directly in net assets attributable to unitholders and presented in the statement of changes in net assets attributable to unitholders. Unrealised gains and losses previously charged to net assets attributable to unitholders are released to operating income on derecognition of these investments or when investments are determined to be impaired.

Gains and losses arising from changes in fair value are recognised directly in net assets attributable to unitholders, with the exception of foreign exchange gains and losses which are recognised directly in profit or loss.

Money market instruments are classified as *loans and receivables* and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in income when *loans and receivables* are derecognised or impaired, as well as through the amortisation process.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

1. ACCOUNTING POLICIES (Continued)

1.2 Financial instruments (continued)

Derivatives are used for hedging purposes in accordance with the Collective Investment Schemes Control Act, No. 45 of 2002 ('CISCA'). Derivatives are not designated as effective hedging instruments in terms of IAS 39 and are classified as *investments at fair value through profit or loss*. Subsequent to initial recognition, *financial assets at fair value through profit or loss* are marked to market on a daily basis with changes in fair value taken through the income statement as realised gains and losses.

The Funds assess at each balance sheet date whether a financial asset or group of financial assets is impaired. Where there is objective evidence that an impairment loss has been incurred and can be reliably measured, the amount of the loss is recognised through profit and loss.

A financial asset is derecognised upon the expiry of the rights to receive cash flows from the asset, or upon the transfer of a fund's right to receive cash flows from the asset. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, the Funds currently have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.3 Realised gains and losses on investments

Realised gains and losses on investments are calculated as the difference between sales proceeds and original purchase price on a weighted average basis.

1.4 Functional and presentation currency

Items included in the financial statements of each fund are measured using the currency of the primary economic environment in which the fund operates (functional currency). The Funds' functional and presentation currency is South African Rands and all amounts are stated in South African Rands.

1.5 Foreign currency transactions

Foreign currency items are recorded at the exchange rate ruling on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date or when settled. Gains and losses arising from the translation of these monetary assets and liabilities are credited and debited respectively to the income statement.

Non-monetary assets (classified as *available-for-sale investments* above) are also translated at rates of exchange ruling at the balance sheet date. Unrealised gains and losses arising from the translation of these assets are, however, credited and debited respectively to a revaluation reserve and presented in the statement of changes in net assets attributable to unitholders as part of unrealised gains and losses on *available-for-sale investments*. Realised foreign exchange gains and losses are aggregated with realised gains and losses on disposal of *available-for-sale investments* in the income statement.

1.6 Management fee

The management fee is the fee paid by each fund to Allan Gray Unit Trust Management Limited (the 'Manager') for the management of the Funds and the administration of unitholder transactions. Management fees are either performance-based or fixed and are calculated and accrued based on the daily market value of the portfolios.

1.7 Expenses

Any interest expense is recognised on an accrual basis using the effective interest rate method.

All other expenses are recognised in the income statement on an accrual basis.

1.8 Distributions paid

Distributions paid represent profits paid to unitholders at each distribution date. Distributable profits are determined by deducting operating expenses incurred from the revenue earned by the fund since the last distribution.

Where fund operating expenses exceed revenue earned during the distribution period, the shortfall is funded by reducing the undistributable portion of the Funds' net assets attributable to unitholders.

1.9 Net assets attributable to unitholders

The value of net assets attributable to unitholders is what is commonly known as the capital value of the fund. This terminology used in the financial statements was necessitated by the adoption of IFRS. This reclassification, however, has no impact on the value that the unitholder is entitled to on liquidation of units. This financial liability (as defined by IAS 32) is carried at fair value, being the redemption amount representing the unitholders' right to a residual interest in the Funds' assets.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

2. DISTRIBUTIONS PAID

A single unit trust, with one underlying portfolio may offer more than one 'class' of units to investors. Each class represents a similar interest in the unit trust's portfolio, but has different fees.

	2007	2006
Distributions paid are calculated to the fourth decimal place.		
Allan Gray Balanced Fund		
30 June		
Class A		
Cents per unit	40.9650	42.3482
Total distribution paid – R	175 346 497	141 719 907
Class B		
Cents per unit	10.5475	18.7989
Total distribution paid – R	4 350 724	5 377 953
31 December		
Class A		
Cents per unit	59.4877	49.2701
Total distribution paid – R	267 788 397	185 779 918
Class B		
Cents per unit	27.5872	23.4000
Total distribution paid – R	12 104 107	7 880 350
Allan Gray Stable Fund		
31 March		
Class A		
Cents per unit	18.9619	12.5425
Total distribution paid – R	137 483 982	50 704 089
Class B		
Cents per unit	12.6965	7.1702
Total distribution paid – R	16 756 680	3 828 693
30 June		
Class A		
Cents per unit	19.4118	13.7606
Total distribution paid – R	155 133 599	68 249 830
Class B		
Cents per unit	12.9457	8.1665
Total distribution paid – R	19 655 288	5 915 843
30 September		
Class A		
Cents per unit	23.7797	17.3123
Total distribution paid – R	203 456 066	97 324 562
Class B		
Cents per unit	17.3336	11.5742
Total distribution paid – R	29 217 737	10 623 724

Notes to the Annual Financial Statements

for the year ended 31 December 2007

2. DISTRIBUTIONS PAID (Continued)

	2007	2006
Allan Gray Stable Fund (Continued)		
31 December		
Class A		
Cents per unit	22.8800	15.9539
Total distribution paid – R	189 890 236	99 447 445
Class B		
Cents per unit	16.1637	9.9482
Total distribution paid – R	25 370 587	10 951 313
Allan Gray-Orbis Global Fund of Funds		
31 December		
Class A		
Cents per unit	1.0564	0.9049
Total distribution paid – R	4 352 396	2 806 570
Allan Gray Optimal Fund		
30 June		
Class A		
Cents per unit	8.9396	10.5774
Total distribution paid – R	5 740 077	6 419 060
Class B		
Cents per unit	0.4080	2.6583
Total distribution paid – R	23 141	152 626
31 December		
Class A		
Cents per unit	16.7415	15.9793
Total distribution paid – R	10 960 909	9 427 849
Class B		
Cents per unit	7.7815	7.7687
Total distribution paid – R	480 424	417 399
Allan Gray Bond Fund		
31 March		
Class A		
Cents per unit	20.7116	18.8031
Total distribution paid – R	695 547	650 856
30 June		
Class A		
Cents per unit	20.7923	18.4130
Total distribution paid – R	707 140	765 375
30 September		
Class A		
Cents per unit	20.3724	20.0986
Total distribution paid – R	1 248 299	676 114
31 December		
Class A		
Cents per unit	22.5301	20.7126
Total distribution paid – R	1 600 675	686 725

Notes to the Annual Financial Statements

for the year ended 31 December 2007

2. DISTRIBUTIONS PAID (Continued)

	2007	2006
Allan Gray-Orbis Global Equity Feeder Fund		
31 December		
Class A		
Cents per unit	**1.1684**	1.9919
Total distribution paid – R	**1 853 596**	1 828 399

Allan Gray Money Market Fund

The Money Market Fund distributes on a daily basis. This distributions are paid over to unitholders on a monthly basis. These daily distribution details have not been disclosed in this note because of the frequency thereof.

Allan Gray Equity Fund

The Equity Fund did not make a distribution during the year or the previous year.

To the extent that fund operating expenses and other permissible deductions in any Fund exceed the income generated in any period, no income distribution is made.

Investments applied to the funding of distribution payable to unitholders

In the event of a cash shortfall to fund distributions, the Funds have access to liquid assets classified as cash and cash equivalents held for investment purposes to honour its obligations to unitholders. The following Funds were in this position at balance sheet date:

2007	BALANCED FUND	STABLE FUND	MONEY MARKET FUND	BOND FUND
Distribution payable to unitholders	279 892 504	215 260 822	30 532 064	1 600 675
Distribution to be reinvested	(255 914 621)	(195 050 525)	(29 389 544)	(1 588 982)
Distribution expected to be paid in cash	23 977 883	20 210 297	1 142 520	11 693
Less: Current account cash balance	(8 741 929)	(14 156 343)	(7 175 724)	(549 317)
Cash and cash equivalents held for investment purposes ringfenced in the event of a cash shortfall at distribution date	15 235 954	6 053 954	n/a	n/a
2006				
Distribution payable to unitholders	193 652 302	110 282 995	10 067 688	692 184
Distribution to be reinvested	(173 648 782)	(99 219 971)	(9 345 139)	(655 737)
Distribution expected to be paid in cash	20 003 520	11 063 024	722 549	36 447
Less: Current account cash balance	(26 545 012)	(23 787 922)	(18 428 061)	(683 352)
Cash and cash equivalents held for investment purposes ringfenced in the event of a cash shortfall at distribution date	n/a	n/a	n/a	n/a

Notes to the Annual Financial Statements

for the year ended 31 December 2007

3. SHORTFALLS OF DISTRIBUTABLE PROFITS

The following amounts have been transferred from the net assets attributable to unitholders to fund shortfalls in distributable profits in terms of section 51.2 of the Trust Deed.

	EQUITY FUND	
	2007 R	2006 R
Allan Gray Equity Fund A & B Class (Jun)	86 272 823	12 185 758
Allan Gray Equity Fund A & B Class (Dec)	8 446 879	11 928 941
Total shortfalls for the year	94 719 702	24 114 699

4. NOTES TO THE CASH FLOW STATEMENTS

	EQUITY FUND		BALANCED FUND		STABLE FUND	
	2007 R	2006 R	2007 R	2006 R	2007 R	2006 R
CASH GENERATED BY OPERATIONS						
Profit for the year	3 966 267 765	1 605 758 618	3 681 348 367	1 271 200 872	1 675 116 609	510 492 049
Adjusted for:						
Shortfalls of unitholder income funded by net assets attributable to unitholders	(94 719 702)	(24 114 699)	–	–		
Investment transaction costs on investments at fair value through profit and loss	–	–	128 018	22 908	187 995	19 476
Interest income	(9 423 271)	(11 709 396)	(384 557 254)	(303 068 259)	(919 465 767)	(434 153 651)
Dividend income	(494 003 668)	(430 761 111)	(420 008 652)	(268 647 386)	(167 707 439)	(83 321 032)
Realised (gains)/losses on disposal of available-for-sale investments	(3 966 267 765)	(1 605 758 618)	(3 307 740 909)	(1 001 023 219)	(1 017 663 710)	(224 723 175)
Realised losses on financial assets at fair value through profit or loss	–	–	85 853 584	70 558 049	119 817 641	60 762 698
Cash (used)/generated by operations before working capital changes	(598 146 641)	(466 585 206)	(344 976 846)	(230 957 035)	(309 714 671)	(170 923 635)
WORKING CAPITAL CHANGES						
Decrease/(increase) in accounts receivable	12 585 117	26 769 160	31 879 298	(86 588 141)	2 206 055	(44 910 626)
(Decrease)/increase in accounts payable	(43 204 632)	(81 654 038)	(62 922 013)	126 383 116	(25 393 060)	85 342 468
Working capital changes	(30 619 515)	(54 884 878)	(31 042 715)	39 794 975	(23 187 005)	40 431 842

Non-cash financing and investing activities

During the 2007 financial year, participatory interest to the value of R343 628 823 was transferred from the Allan Gray-Orbis Global Fund of Funds to the Allan Gray-Orbis Global Equity Feeder Fund, and participatory interest to the value of R222 984 495 was transferred into the Allan Gray-Orbis Global Fund of Funds; all in exchange for units.

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2007 R	2006 R	2007 R	2006 R	2007 R	2006 R	2007 R	2006 R	2007 R	2006 R
211 670 861	80 450 284	349 176 321	45 306 211	117 734 294	77 386 683	3 926 923	1 628 243	19 166 388	1 791 283
–	–	–	–	55 294	61 420				
(218 368 638)	(83 890 207)	(4 077 129)	(2 747 723)	(10 958 610)	(8 852 115)	(4 299 438)	(3 020 328)	(1 933 394)	(1 386 386)
–	–	(169 014)	–	(20 700 115)	(24 491 811)				
–	–	(345 665 742)	(42 499 640)	(176 197 988)	(289 391 796)	324 740	1 150 829	(17 275 676)	–
–	–	–	–	75 612 953	228 360 628				
(6 697 777)	(3 439 923)	(735 564)	58 848	(14 454 172)	(16 926 991)	(47 775)	(241 256)	(42 682)	404 897
(13 548 891)	–	(3 609 600)	–	2 795 431	3 192 660	(25 589)	–	(422 152)	–
2 475 496	12 147 591	16 765	10 611	3 606 606	5 059 844	1 015 757	15 127	6 020	12 969
(11 073 395)	12 147 591	(3 592 835)	10 611	6 402 037	8 252 504	990 168	15 127	(416 132)	12 969

Notes to the Annual Financial Statements

for the year ended 31 December 2007

5. RECONCILIATION OF UNITS

	EQUITY FUND	BALANCED FUND	STABLE FUND
2007			
Opening balance	114 190 882	410 713 351	732 637 779
Net units (cancelled)/created during the year	(5 192 166)	83 136 490	254 163 407
Closing balance	108 998 716	493 849 841	986 801 186
2006			
Opening balance	111 147 339	332 769 752	400 241 689
Net units created during the year	3 043 543	77 943 599	332 396 090
Closing balance	114 190 882	410 713 351	732 637 779

6. REVIEW OF FLUCTUATIONS OF UNIT PRICES

	EQUITY FUND	BALANCED FUND	STABLE FUND
2007			
Class A			
Lowest	14 432.86	4 510.36	1 961.57
Highest	17 766.88	5 208.08	2 119.32
Class B			
Lowest	14 184.50	4 509.27	1 961.16
Highest	17 343.23	5 181.59	2 114.55
2006			
Class A			
Lowest	10 403.62	3 579.12	1 703.30
Highest	15 066.53	4 645.35	1 987.69
Class B			
Lowest	10 296.69	3 576.88	1 702.24
Highest	14 822.51	4 619.79	1 981.81

n/a denotes funds without B-Class units

The prices of units fluctuate in accordance with the changes in the market values of the investments included in the portfolio.

	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	BOND FUND	GLOBAL EQUITY FEEDER FUND
	1 453 712 645	**310 136 362**	**64 364 988**	**3 341 857**	**91 771 601**
	2 087 711 372	**101 889 234**	**7 280 524**	**3 762 763**	**66 882 594**
	3 541 424 017	**412 025 596**	**71 645 512**	**7 104 620**	**158 654 195**
	817 701 556	167 842 149	77 833 158	2 204 597	25 725 707
	636 011 089	142 294 213	(13 468 170)	1 137 260	66 045 894
	1 453 712 645	310 136 362	64 364 988	3 341 857	91 771 601

	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	BOND FUND	GLOBAL EQUITY FEEDER FUND
	100.00	**1 104.90**	**1 338.36**	**1 028.18**	**1 579.85**
	100.00	**1 257.57**	**1 462.64**	**1 078.05**	**1 852.28**
	n/a	**n/a**	**1 337.85**	**n/a**	**n/a**
	n/a	**n/a**	**1 454.22**	**n/a**	**n/a**
	100.00	863.39	1 262.41	1 013.29	1 167.95
	100.00	1 199.02	1 358.90	1 107.10	1 673.82
	n/a	n/a	1 262.15	n/a	n/a
	n/a	n/a	1 350.78	n/a	n/a

Notes to the Annual Financial Statements

for the year ended 31 December 2007

7. RELATED PARTY TRANSACTIONS

All transactions with related parties are conducted at arm's length. Outstanding balances bear no interest, are unsecured and are settled within 14 days of invoice date.

The Manager earns a management fee for managing and administering the Funds. Management fees per fund are either performance-based or fixed. As a consequence of the performance fee orientation, management fees will typically be higher following periods where the Funds' total investment performance (income plus capital appreciation) have outperformed their respective benchmarks and lower in the case of underperformance. This ensures that the Manager's interests are aligned with those of investors.

During the year, the Funds collectively paid management fees of R1 310.6 million, including VAT, to the Manager (2006: R923.3 million). At 31 December 2007, the balance due to the Manager is detailed as follows:

	VAT inclusive	VAT inclusive
	2007	2006
	R	R
Allan Gray Equity Fund	41 628 345	45 407 067
Allan Gray Balanced Fund	31 269 633	26 371 370
Allan Gray Stable Fund	29 273 168	21 204 459
Allan Gray Optimal Fund	1 475 912	2 103 002
Allan Gray Bond Fund	49 432	8 558
Allan Gray Money Market Fund	833 668	345 025
	104 530 158	95 439 481

The directors of the Manager have acquired and hold units in the Funds. These units were valued at R28 256 641 at 31 December 2007 (2006: R15 187 238). During the year, the directors' share of distributions paid by the Funds on their attributable unit holdings amounted to R55 347 (2006: R52 565).

The Manager holds discretionary investments in the Funds. These units were valued at R26 103 126 at 31 December 2007 (2006: R23 680 791). During the year, the Manager's share of distributions paid by the Funds on their attributable unit holdings amounted to R256 130 (2006: R1 564 177).

8. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

8.1 Financial risk management policies and objectives

The Funds maintain positions in a variety of derivative and non-derivative financial instruments as dictated by each Fund's specific investment management strategy. The Funds' investment portfolios may comprise listed equity and debt investments, investments in other funds, unlisted money market instruments and short-term cash deposits. Asset allocation is determined by the Funds' Manager who manages the distribution of the assets to achieve the Funds' investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored daily by the Manager's compliance department.

Market risk

The Funds' investing activities expose unitholders to various types of risk that are associated with the financial instruments and markets in which the Funds invest. Market risk is defined as 'the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices' and includes interest rate, foreign currency and other price risks.

The table on page 33 shows the Funds' exposure to price and interest rate risks, split into the different types of financial instruments held by the Funds at balance sheet date.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

2007 – R'000	EQUITY FUND	BALANCED FUND	STABLE FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	BOND FUND	GLOBAL EQUITY FEEDER FUND
Investments subject to price risk	18 591 182	20 370 897	10 537 072	–	4 919 071	903 860	–	2 730 364
Local equities	18 577 694	16 337 742	7 103 393	–	–	903 860	–	–
Foreign equities	13 488	3 655 767	3 056 291	–	4 919 071	–	–	2 730 364
Commodities	–	377 388	377 388	–	–	–	–	–
Subject to interest rate risk	75 000	4 940 779	10 330 286	3 565 799	38 158	122 105	74 813	–
Money market investments	75 000	3 823 971	10 223 642	3 565 799	38 158	122 105	18 566	–
Bonds	–	1 116 808	106 644	–	–	–	56 247	–
Total investments	**18 666 182**	**25 311 676**	**20 867 358**	**3 565 799**	**4 957 229**	**1 025 964**	**74 813**	**2 730 364**

2006 – R'000	EQUITY FUND	BALANCED FUND	STABLE FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	BOND FUND	GLOBAL EQUITY FEEDER FUND
Investments subject to price risk	16 940 258	15 968 707	7 415 389	–	3 402 172	785 937	–	1 433 102
Local equities	16 940 258	13 253 772	4 808 490	–	–	785 937	–	–
Foreign equities	–	2 714 935	2 126 977	–	3 402 172	–	–	1 433 102
Commodities	–	–	479 922	–	–	–	–	–
Subject to interest rate risk	115 000	2 999 032	7 125 847	1 457 381	–	65 220	35 248	9 963
Money market investments	115 000	1 468 437	7 040 041	1 457 381	–	65 220	3 023	9 963
Bonds	–	1 530 595	85 806	–	–	–	32 225	–
Total investments	**17 055 258**	**18 967 739**	**14 541 236**	**1 457 381**	**3 402 172**	**851 157**	**35 248**	**1 443 065**

Notes to the Annual Financial Statements

for the year ended 31 December 2007

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether the changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

Unitholders are exposed to changes in the market values of the individual investments underlying each Fund. The security selection and asset allocation within each of the Funds monitored daily by the Manager in terms of each individual Fund's stated investment objectives. The compliance department of the Manager monitors compliance with applicable regulations (for example Regulation 28 of the Pension Funds Act, No. 24 of 1956 ('Regulation 28') where applicable, and CISCA, as amended from time to time) and the investment mandate on a daily basis. In addition price risk may be hedged using derivative financial instruments such as futures contracts.

Exposure to price risk is mainly through listed instruments.

There has been no change to the Funds' exposure to market risk or the manner in which it manages and measures the risk. The table on page 35 illustrates the effect of reasonable possible changes in fair value of investments for price risk, assuming that all other variables remain constant. It follows that the actual results may differ from the sensitivity analysis below and the difference could be material. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

2007 – R'000	EQUITY FUND	BALANCED FUND	STABLE FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	GLOBAL EQUITY FEEDER FUND
Investments subject to price risk	18 591 182	20 370 897	10 537 072	4 919 071	903 860	2 730 364
Analysed as follows:						
Local Equities						
Net equity exposure	18 577 694	13 907 203	3 879 629	–	24 165	–
Gross equities	18 577 694	16 337 742	7 103 393	–	903 860	–
Hedged equities	–	(2 430 539)	(3 223 764)	–	(879 695)	–
+ or - 5%	928 885	695 360	193 981	–	1 208	–
+ or - 10%	1 857 769	1 390 720	387 963	–	2 416	–
+ or - 20%	3 715 539	2 781 441	775 926	–	4 833	–
Foreign Equities						
Net equity exposure	13 488	2 003 504	1 276 641	2 657 765	–	2 730 364
Gross foreign equities	13 488	3 655 767	3 056 291	4 919 071	–	2 730 364
Hedged equities	–	(1 652 262)	(1 779 649)	(2 261 306)	–	–
+ or - 5%	674	100 175	63 832	132 888	–	136 518
+ or - 10%	1 349	200 350	127 664	265 777	–	273 036
+ or - 20%	2 698	400 701	255 328	531 553	–	546 073
Commodities						
Exposure	–	377 388	377 388	–	–	–
+ or - 5%	–	18 869	18 869	–	–	–
+ or - 10%	–	37 739	37 739	–	–	–
+ or - 20%	–	75 478	75 478	–	–	–

Notes to the Annual Financial Statements

for the year ended 31 December 2007

2006 – R'000	EQUITY FUND	BALANCED FUND	STABLE FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	GLOBAL EQUITY FEEDER FUND
Investments subject to price risk	16 940 258	15 968 707	7 415 389	3 402 172	785 937	1 433 102
Analysed as follows:						
Local Equities						
Net equity exposure	16 940 258	12 305 750	3 975 138	–	33 837	–
Gross equities	16 940 258	13 253 772	4 808 490	–	785 937	–
Hedged equities	–	(948 022)	(833 352)	–	(752 100)	–
+ or - 5%	847 013	615 287	198 757	–	1 692	–
+ or - 10%	1 694 026	1 230 575	397 514	–	3 384	–
+ or - 20%	3 388 052	2 461 150	795 028	–	6 767	–
Foreign Equities						
Net equity exposure	–	1 780 931	1 148 104	2 219 342	–	1 433 102
Gross foreign equities	–	2 714 935	2 126 977	3 402 172	–	1 433 102
Hedged equities	–	(934 003)	(978 873)	(1 182 830)	–	–
+ or - 5%	–	89 047	57 405	110 967	–	71 655
+ or - 10%	–	178 093	114 810	221 934	–	143 310
+ or - 20%	–	356 186	229 621	443 868	–	286 620
Commodities						
Exposure	–	–	479 922	–	–	–
+ or - 5%	–	–	23 996	–	–	–
+ or - 10%	–	–	47 992	–	–	–
+ or - 20%	–	–	95 984	–	–	–

Interest rate risk

The value of the Funds' holding in listed interest-bearing investments varies in accordance with changes in the prevailing market interest rates. The risk of loss due to adverse interest rate movements is monitored daily by the Manager. The Funds that are exposed to interest rate risk are those that invest in bonds (the Allan Gray Balanced Fund, the Allan Gray Bond Fund and the Allan Gray Stable Fund) and money market instruments (the Allan Gray Equity Fund, the Allan Gray Balanced Fund, the Allan Gray Stable Fund, the Allan Gray Money Market Fund and the Allan Gray Optimal Fund). See note 8.4 for maturity profiles of interest-bearing investments.

Modified duration is used to estimate the change in the net assets attributable to unitholders as a result of a change in interest rates. The effect on initial margin deposits on derivative investments, income and expense accruals and the operating bank accounts are all factored into the calculation.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

The table below illustrates the effect of reasonable possible changes in prevailing interest rates, with all other variables held constant. This analysis ignores cash holdings in the underlying funds. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

R'000	2007			2006		
Sensitivity to changes in interest rates	Investment value	+ or - 0.50%	+ or - 1.00%	Investment value	+ or - 0.50%	+ or - 1.00%
Allan Gray Stable Fund	**10 330 286**	**8 684**	**17 369**	7 125 847	8 458	16 915
Allan Gray Balanced Fund	**4 940 779**	**15 461**	**30 922**	2 999 032	22 689	45 378
Allan Gray Bond Fund	**74 813**	**1 047**	**2 095**	35 248	734	1 468

The Allan Gray Money Market Fund has a modified duration of nil. This means that the value of the money market investments do not change as a result of a change in interest rates. The Allan Gray Equity Fund, the Allan Gray-Orbis Global Fund of Funds, the Allan Gray Optimal Fund and the Allan Gray-Orbis Global Equity Feeder Fund all have cash balances that attract variable interest rates. Fluctuations in prevailing interest rates would therefore have no effect on those cash balances. However, there would be changes to the interest income of the Funds and due to the temporary nature of these balances the effect of any such changes would be immaterial.

The Manager's compliance department monitors compliance with applicable regulations (for example Regulation 28 and CISCA) and the investment mandate on a daily basis.

Foreign currency risk

The Allan Gray Balanced Fund, the Allan Gray Stable Fund, the Allan Gray-Orbis Global Fund of Funds and the Allan Gray-Orbis Global Equity Feeder Fund invest in foreign mutual funds. To the extent that these funds hold cash in foreign currencies, they expose unitholders to risk in respect of changes in foreign exchange rates. The risk of loss due to adverse foreign exchange rate movements is monitored daily by the Manager. The Manager's compliance department monitors compliance with applicable regulations (for example Regulation 28 and CISCA) and the investment mandate on a daily basis.

The following funds hold cash denominated in foreign currency. The table on page 38 illustrates the effect of reasonable possible changes in exchange rates, with all other variables held constant. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

R'000	2007		2006	
	Dollar-denominated	Euro-denominated	Dollar-denominated	Euro-denominated
Allan Gray Balanced Fund	–	–	6	–
+ or - 5%	–	–	–	–
+ or - 10%	–	–	1	–
+ or - 20%	–	–	1	–
Allan Gray Stable Fund	3	–	74 671	24 837
+ or - 5%	–	–	3 734	1 242
+ or - 10%	–	–	7 467	2 484
+ or - 20%	1	–	14 934	4 967
Allan Gray-Orbis Equity Feeder Fund	–	–	9 963	–
+ or - 5%	–	–	498	–
+ or - 10%	–	–	996	–
+ or - 20%	–	–	1 993	–
Allan Gray-Orbis Global Fund of Funds	31 128	7 030	–	–
+ or - 5%	1 556	351	–	–
+ or - 10%	3 113	703	–	–
+ or - 20%	6 226	1 406	–	–

Liquidity risk

Liquidity risk is the risk that the Funds will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk management rests with the Manager which has built an appropriate liquidity risk management framework for the management of each of the Funds' short-, medium- and long-term funding and liquidity management requirements. The Funds manage their liquidity risk by investing in marketable securities listed on recognised exchanges which may be sold in an active market at any point in time.

The Funds have access to overdraft facilities with one of the major banks. CISCA allows the Funds to utilise these facilities in cases where insufficient liquidity exists in a portfolio or where assets cannot be realised to repurchase participatory interests. Borrowings may not exceed 10% of the market value of such a portfolio at the time of borrowing. The Manager's compliance department monitors compliance with the applicable regulations.

In aggregate the Funds have an overdraft facility of R400 000 000 with First National Bank. This is limited to 10% of the market value of the borrowing Fund. None of the Funds was in overdraft at 31 December 2007.

The Funds' main concentration of liquidity risk lies with the net assets attributable to unitholders and distributions payable to unitholders, as disclosed on the face of the balance sheets and note 2.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds.

The Funds expose unitholders to credit risk as a result of transacting with various institutions. Risk is mitigated by transacting on recognised exchanges where it is possible and practical. An interest rate policy committee manages credit risk by setting exposure limits for counterparties, issuers and financial instruments.

The Manager's compliance department monitors compliance with applicable regulations (for example Regulation 28 and CISCA) and the investment mandate on a daily basis. Maximum exposure to individual instruments does not exceed those set out by the regulations mentioned above.

The carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses, represents unitholders' maximum exposure to credit risk.

All financial assets disclosed in the financial statements are neither past due nor impaired.

At 31 December 2007 the Funds did not consider there to be any significant concentration of credit risk which needed to be provided for.

The table on page 40 provides an analysis of the credit quality of interest-bearing investments at balance sheet date. Fitch ratings are used to describe the credit quality. Ratings are presented in ascending order of credit risk.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

2007	EQUITY FUND	BALANCED FUND	STABLE FUND	MONEY MARKET FUND	OPTIMAL FUND	BOND FUND
National long-term credit ratings						
AAA	–	15%	–	–	–	52%
AA+	–	3%	–	–	–	2%
AA	–	1%	–	–	–	4%
AA-	–	1%	–	–	–	7%
A+	–	2%	–	–	–	5%
A	–	1%	–	–	–	3%
A-	–	–	1%	–	–	2%
National short-term credit ratings						
F1+	100%	74%	95%	95%	100%	25%
F1	–	2%	3%	4%	–	–
F2	–	1%	1%	1%	–	–
	100%	**100%**	**100%**	**100%**	**100%**	**100%**
2006						
National long-term credit ratings						
AAA	–	40%	1%	–	–	67%
AA+	–	5%	–	–	–	2%
AA	–	1%	–	–	–	3%
AA-	–	1%	–	–	–	5%
A+	–	2%	–	–	–	10%
A	–	2%	–	–	–	5%
National short-term credit ratings						
F1+	100%	46%	97%	99%	100%	8%
F1	–	1%	2%	1%	–	–
F2	–	2%	–	–	–	–
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

8.2 Fair value

The fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. Loans and receivables are held for periods not exceeding a year and these are usually held for the instruments' entire life, meaning that the fair value of these instruments closely approximates the carrying amount.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

The directors are of the opinion that the fair value of all remaining financial instruments approximates the carrying amount in the balance sheet as these balances are due within 30 days.

8.3 Derivative instruments

Derivatives are used for hedging purposes in accordance with CISCA. Derivatives are not designated as effective hedging instruments in terms of IAS 39 and are classified as investments at fair value through profit or loss.

Investments in derivatives are regulated by the Financial Services Board. Submissions were made to the Financial Services Board at the end of each quarter during the period under review in terms of chapter 2 of Notice 2071 of CISCA.

The fair value of derivative instruments are calculated using quoted prices.

In terms of the South Africa Futures Exchange ('SAFEX') requirements, margin deposits are pledged as collateral for derivatives held. Margin deposits are included in cash and cash equivalents for investment purposes.

Short exposure is the value of the Funds' commitment to sell a derivative instrument at contract maturity. Short exposures and margin deposits at 31 December 2007 were:

	Margin deposit	Short exposure	Margin deposit	Short exposure
	2007 R	2007 R	2006 R	2006 R
Allan Gray Stable Fund	**278 707 642**	**3 223 763 820**	50 093 279	833 352 080
Allan Gray Balanced Fund	**210 121 889**	**2 430 539 090**	56 965 489	948 020 960
Allan Gray Optimal Fund	**76 104 818**	**879 695 060**	45 220 064	752 099 680

Notes to the Annual Financial Statements

for the year ended 31 December 2007

8.4 Interest-bearing instruments

Allan Gray Balanced Fund

Maturities	Bonds R	Money Market Instruments R	Money at call R	Total R
Less than 1 year	251 712 565	3 292 843 776	531 121 889	4 075 678 230
1 to 3 years	540 454 904	–	–	540 454 904
3 to 7 years	218 772 250	–	–	218 772 250
More than 7 years	105 868 100	–	–	105 868 100
	1 116 807 819	3 292 843 776	531 121 889	4 940 773 484
Non-interest-bearing investments				20 370 902 749
Total investments per the balance sheet				25 311 676 233

Accounts payable and accounts receivable are not interest-bearing.

Coupon rates on bonds are fixed and range between 7.50% and 16.00%. Yields on money market instruments are fixed and range between 11.00% and 11.73% and money at call earns variable interest at rates ranging between 10.75% and 10.80%.

Allan Gray Bond Fund

Maturities	Bonds R	Money Market Instruments R	Money at call R	Total R
Less than 1 year	4 200 924	–	18 565 921	22 766 845
1 to 3 years	16 350 605	–	–	16 350 605
3 to 7 years	22 553 515	–	–	22 553 515
More than 7 years	13 141 960	–	–	13 141 960
	56 247 004	–	18 565 921	74 812 925
Total investments per the balance sheet				74 812 925

Accounts payable and accounts receivable are not interest-bearing.

Coupon rates on bonds are fixed and range between 8.38% and 16.00%. Yields on money market instruments are fixed and range between 10.65% and 11.78%.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

Allan Gray Money Market Fund

Maturities	Bonds R	Money Market instruments R	Money at call R	Total R
Less than 1 year	–	3 352 798 815	213 000 000	3 565 798 815
	–	3 352 798 815	213 000 000	3 565 798 815
Total investments per the balance sheet				3 565 798 815

Accounts payable and accounts receivable are not interest-bearing.

Yields on money market instruments are fixed and range between 11.00% and 11.57% and money at call earns an interest rate of 10.80%.

Notes to the Annual Financial Statements

for the year ended 31 December 2007

Allan Gray Stable Fund

Maturities	Bonds R	Money Market instruments R	Money at call R	Total R
Less than 1 year	95 836 749	9 759 931 752	463 707 642	10 319 476 143
1 to 3 years	10 807 333	–	–	10 807 333
	106 644 082	9 759 931 752	463 707 642	10 330 283 476
Non-interest-bearing investments				10 537 074 355
Total investments per the balance sheet				20 867 357 831

Accounts payable and accounts receivable are not interest-bearing.

Coupon rates on bonds are fixed and range between 10.00% and 12.50%. Yields on money market investments are fixed and range between 11.00% and 11.55% and money at call attracts variable interest at rates ranging between 10.75% and 10.80%.

Other funds

The Allan Gray Equity Fund had money at call amounting to R75 000 000 at 31 December 2007, earning variable interest at rates ranging between 10.75% and 10.80%.

The Allan Gray Optimal Fund had R122 104 818 at call at 31 December 2007, earning variable interest at rates ranging between 10.75% and 10.80%.

Approval of the Annual Financial Statements

The directors of the company are responsible for the preparation of the annual financial statements and related financial information included in this report.

The annual financial statements for the year ended 31 December 2007 set out on pages 47 to 61 have been approved by the board of directors and are signed on its behalf by:

ED Loxton
Chairman

Cape Town
19 March 2008

GW Fury
Director and Public Officer

Cape Town
19 March 2008

Certification by the Company Secretary

I hereby confirm, in terms of the Companies Act, 1973, that for the year ended 31 December 2007 the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

AV Rust
Company Secretary

Cape Town
19 March 2008

Independent Auditor's Report to the Members of Allan Gray Unit Trust Management Limited

Report on the financial statements

We have audited the annual financial statements of Allan Gray Unit Trust Management Limited, which comprise the directors' report, the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 47 to 61.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2007, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst + Young

Ernst & Young Inc.
Registered Auditor

Cape Town
19 March 2008

Report of the Directors

for the year ended 31 December 2007

The directors of Allan Gray Unit Trust Management Limited (the 'Company') have pleasure in presenting their report for the year ended 31 December 2007.

Nature of the Company's business

The principal business of the Company is to manage Funds ('the Funds') registered under the Allan Gray Unit Trust Scheme ('the Scheme') in accordance with the Collective Investment Schemes Control Act No. 45 of 2002 ('CISCA').

Name of Fund	Fund Launch Date
Allan Gray Equity Fund	1 October 1998
Allan Gray Balanced Fund	1 October 1999
Allan Gray Stable Fund	1 July 2000
Allan Gray Money Market Fund	1 July 2001
Allan Gray Optimal Fund	1 October 2002
Allan Gray Bond Fund	1 October 2004
Allan Gray-Orbis Global Fund of Funds	*3 February 2004
Allan Gray-Orbis Global Equity Feeder Fund	1 April 2005

* *This fund was previously called the Allan Gray Global Equity Fund of Funds, and was founded on 1 December 2001 with its investment mandate being to exceed the Morgan Stanley Capital International Index at no greater than average risk. With this mandate, the fund was included in the Foreign Equity General sector.*

The fund was relaunched on 3 February 2004 as the Allan Gray-Orbis Global Fund of Funds with its new investment mandate being to provide superior long-term returns (against a benchmark of 60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index) while exposing investors to risks similar to the Balanced Fund but less than the average foreign fund. The change in mandate resulted in the fund's classification changing to the Foreign Asset Allocation Flexible sector.

Share capital

The Allan Gray group of companies was restructured in the prior year resulting in a new holding company being created between Allan Gray Unit Trust Management Limited and its previous holding company, Allan Gray Limited. The restructuring resulted in Allan Gray South Africa Limited becoming Allan Gray Unit Trust Management Limited's new holding company and Allan Gray Limited remaining the ultimate holding company.

Subsequently, Allan Gray South Africa Limited changed its name to Allan Gray Limited and the company formerly known as Allan Gray Limited changed its name to Allan Gray Group Limited.

The issued shareholding at 31 December 2007 was as follows:

	% holding	Ordinary shares
2007:		
Allan Gray Limited (new holding company that was previously known as Allan Gray South Africa Limited)	100	1 000 060
2006:		
Allan Gray Limited (new holding company that was previously known as Allan Gray South Africa Limited)	100	1 000 060

Results of the Company

The results of the Company are set out in the accompanying Income Statement and Cash Flow Statement for the year ended 31 December 2007 and the Balance Sheet as at 31 December 2007.

Dividends

Declaration date	Rands per share
28 February 2007	315.13
2 October 2007	282.98

In 2007 the Company declared total dividends of: R598.1 million (2006: R267.5 million).

Directors

There was no change in the board of directors during the year.

Full details of the current directors are given on the back page.

Events subsequent to the year-end

No material fact or circumstance has occurred between the accounting date and the date of this report.

The Company's investment in unit trust funds

Investment in units	2007		2006	
	Units	Fair value	Units	Fair value
Allan Gray Balanced Fund	**273 855**	**14 056 831**	273 855	12 651 240
Allan Gray-Orbis Global Fund of Funds	**996 418**	**12 046 296**	996 418	11 029 551

Income Statement

for the year ended 31 December 2007

	Notes	2007 R	2006 R
REVENUE	1.4	1 235 223 161	868 855 317
Management fees		1 149 646 822	809 922 600
Income from available-for-sale investments:			
– Dividends		130 637	103 651
– Interest		124 995	1 552 911
Interest received		22 470 453	1 297 430
Service fees	12	62 850 254	55 978 725
OTHER INCOME		405 837	2 275 928
Net foreign exchange gain		405 837	2 275 928
OPERATING EXPENSES		379 733 756	263 290 935
Linked investment service provider costs		211 246 991	128 373 215
Audit fees			
– Fees for audit		309 910	242 878
– Prior year under-provision		–	89 824
– Other services		38 704	56 534
Related party payments	12	156 287 476	122 128 509
Other operating expenses		11 850 675	12 300 438
Interest paid		–	99 537
DONATIONS PAID	12	42 724 173	30 365 680
PROFIT before taxation		813 171 069	577 474 630
Taxation expense	2	264 016 408	200 738 827
PROFIT for the year		549 154 661	376 735 803

Balance Sheet

as at 31 December 2007

	Notes	2007 R	2006 R
ASSETS			
Non-current Assets			
Available-for-sale investments	3	26 103 126	23 680 791
Current Assets		248 843 468	267 484 958
Trade and other receivables	4	144 044 931	130 833 378
Cash and cash equivalents	5	103 118 464	136 651 580
Taxation receivable		1 680 073	–
TOTAL ASSETS		274 946 594	291 165 749
EQUITY AND LIABILITIES			
Share capital	6	1 000 060	1 000 060
Share premium	6	2 000 000	2 000 000
Revaluation reserve		9 544 228	7 473 132
Retained earnings		200 983 535	249 981 309
Total Equity		213 527 823	260 454 501
Non-current Liabilities			
Deferred taxation liability	7	1 481 572	1 130 333
Current Liabilities		59 937 199	29 580 915
Trade and other payables	8	59 937 199	29 508 959
Taxation payable		–	71 956
TOTAL EQUITY AND LIABILITIES		274 946 594	291 165 749

Statement of Changes in Equity

for the year ended 31 December 2007

	Share capital R	Share premium R	Revaluation reserve R	Accumulated profit R	Total R
Balance at 31 December 2005	**1 000 060**	**2 000 000**	**3 603 536**	**140 745 506**	**147 349 102**
Fair value adjustment on available-for-sale investments	–	–	4 525 844	–	4 525 844
Deferred tax arising on fair value adjustments recognised in equity	–	–	(656 248)	–	(656 248)
Profit for the year	–	–	–	376 735 803	376 735 803
Ordinary dividends	–	–	–	(267 500 000)	(267 500 000)
Balance at 31 December 2006	**1 000 060**	**2 000 000**	**7 473 132**	**249 981 309**	**260 454 501**
Fair value adjustment on available-for-sale investments	–	–	2 422 335	–	2 422 335
Deferred tax arising on fair value adjustments recognised in equity	–	–	(351 239)	–	(351 239)
Profit for the year	–	–	–	549 154 661	549 154 661
Ordinary dividends	–	–	–	(598 152 435)	(598 152 435)
Balance at 31 December 2007	**1 000 060**	**2 000 000**	**9 544 228**	**200 983 535**	**213 527 823**

Cash Flow Statement

for the year ended 31 December 2007

	Notes	2007 R	2006 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated by operations before working capital changes	13.1	790 444 984	574 620 175
Working capital changes	13.2	17 216 687	(41 019 889)
Cash generated from operations		807 661 671	533 600 286
Interest received		22 595 448	2 850 341
Dividends received		130 637	103 651
Interest paid		–	(99 537)
Dividends paid		(598 152 435)	(267 500 000)
Taxation paid	13.3	(265 768 437)	(202 884 776)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		(33 533 116)	66 069 965
NET (DECREASE)/INCREASE in cash and cash equivalents		(33 533 116)	66 069 965
CASH AND CASH EQUIVALENTS at beginning of year		136 651 580	70 581 615
CASH AND CASH EQUIVALENTS at end of year	5	103 118 464	136 651 580

Notes to the Financial Statements

for the year ended 31 December 2007

1. ACCOUNTING POLICIES

1.1 Corporate information

Allan Gray Unit Trust Management Limited is a limited company incorporated and domiciled in South Africa. The financial statements are presented in South African Rands.

1.2 Statement of compliance

The current year financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and Interpretations of those standards, as adopted by the International Accounting Standards Board (the 'IASB') and applicable legislation.

During the current financial year, the following amendments to published accounting standards were adopted. The following list contains only those standards relevant to the Company:

Statement		Effective date	Impact on the financial statements
IFRS 7	Financial Instruments: Disclosures	1-Jan-07	Additional financial instrument and financial risk disclosures
IAS 1 Amendments	Capital Disclosures	1-Jan-07	No material impact
IFRIC 8	Scope of IFRS 2	1-May-06	No material impact
IFRIC 9	Reassessment of Embedded Derivatives	1-Jun-06	No material impact
IFRIC 10	Interim Reporting and Impairment	1-Nov-06	No material impact

The following new or revised IFRS have been issued with effective dates applicable to future annual financial statements of the Company (list contains only those standards relevant to the Company):

Statement		Effective date: Years beginning on/after	Expected impact
IFRIC 11	Group and Treasury Share Transactions	1-Mar-07	No material impact
IAS 23	Borrowing Costs	1-Jan-09	No material impact

1.3 Basis of preparation

The financial statements have been prepared in accordance with the going concern principle on a historical cost basis, except for financial instruments that have been measured at either fair value or amortised cost.

The accounting policies are consistent with those applied in the prior year. The principal accounting policies are set out below.

Notes to the Financial Statements

for the year ended 31 December 2007

1. ACCOUNTING POLICIES (Continued)

1.4 Revenue recognition

Revenue excludes any value added taxation ('VAT') and includes management fees from managing and administering the unit trust portfolios, management fees for marketing of Orbis Investment Management Limited's products, interest income, and income distributions from investments in unit trusts. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company, the revenue can be reliably measured, the stage of completion of the transaction at the balance sheet date can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. All transactions with related parties are conducted at arm's length.

Management fees accrue on a daily basis and are based on the daily market values of the Fund portfolios.

Management fees from Orbis Investment Management Limited are recognised quarterly on an accrual basis based on the average market value of assets invested in Orbis Funds through the agency of the Company.

Interest income is recognised on an accrual basis using the effective interest rate method.

Income from unit trust investments is recognised on declaration date.

1.5 Financial instruments

Financial instruments are classified as *loans and receivables, available-for-sale investments* and *financial liabilities. Loans and receivables* consist of cash and cash equivalents and trade and other receivables. *Financial liabilities* consist of trade and other payables. *Available-for-sale investments* consist of discretionary holdings in the Funds. Initially, when financial assets and financial liabilities are recognised, they are measured at fair value, plus, in the case of *investments not at fair value through profit or loss*, directly attributable transaction costs. Detail on how fair value is determined may be found in note 10. Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments. The Company determines the classification of its financial assets on initial recognition.

A financial asset is derecognised where the rights to receive cash flows from the asset have expired, or the Company has transferred its right to receive cash flows from the asset. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

A 'regular way' contract is one that requires the delivery of an asset within the time frame established, generally by regulation or convention within the marketplace concerned. The Company accounts for its purchases and sales of financial assets (including regular way transactions) using trade date accounting. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The trade date is the date that an entity commits itself to purchase or sell an asset.

Subsequent to initial recognition, trade and other receivables and trade and other payables are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when trade and other receivables and payables are derecognised or impaired, and through the amortisation process.

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in value, and are held for the purposes of meeting short-term cash commitments rather than for investment or other purposes. Subsequent to initial recognition, cash and cash equivalents are measured at amortised cost, which is the same as face value in this case.

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Subsequent to initial recognition, *available-for-sale investments* are measured at fair value, being the quoted price of of the instrument as published at balance sheet date. Any gains and losses arising on subsequent measurement of *available-for-sale investments* are recognised directly in equity by way of a revaluation reserve and presented in the statement of changes in equity.

Notes to the Financial Statements

for the year ended 31 December 2007

1. ACCOUNTING POLICIES (Continued)

1.5 Financial instruments (Continued)

Unrealised gains and losses in the revaluation reserve will be released to operating income on derecognition of these instruments or when the investment is determined to be impaired.

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. Where there is objective evidence that an impairment loss has been incurred and can be reliably measured, the amount of the loss is recognised through profit and loss.

1.6 Expenses

All expenses are recognised in the income statement on an accrual basis. Any interest expense is recognised on an accrual basis using the effective interest rate method. All transactions with related parties are conducted at arm's length.

1.7 Taxation

Current taxation assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Secondary tax on companies ('STC') is recognised as part of the current tax charge in the income statement when the related dividend is declared. To the extent that it is probable that dividends will be declared against which any unused STC credits can be utilised, a deferred tax asset is recognised for STC credits.

1.8 Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts on the balance sheet unless the deferred tax asset or liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Measurement of deferred taxation reflects the expected manner of recovery or settlement. The tax rates used to compute the amount are those that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred taxation assets that would relate to any assessed losses carried forward are recognised to the extent that it would be probable that future taxable profit will be available against which the deferred tax asset can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

1.9 Foreign currency transactions

Foreign currency income and expense amounts are translated at the rate of exchange ruling on the transaction date.

Initially, when monetary assets and liabilities denominated in foreign currencies are recognised, they are translated at the rate of exchange ruling on transaction date. Subsequent to initial recognition, they are translated at rates of exchange ruling at the balance sheet date or when settled. Gains and losses arising from this translation of monetary assets and liabilities are credited and debited respectively to the income statement.

1.10 Comparative information

Where necessary, comparative figures have been adjusted to take effect of changes in presentation in the current year. These were the significant changes during the year:

- Initial charges are not shown on the face of the income statement since these are collected and paid by the Company on behalf of independent financial advisers and do not accrue to the Company.

Notes to the Financial Statements

for the year ended 31 December 2007

2. TAXATION EXPENSE

	2007 R	2006 R
SA normal taxation		
– current year	**235 914 141**	167 331 897
– prior year	**(184 669)**	(16 995)
	235 729 472	167 314 902
STC	**28 286 936**	33 423 925
	264 016 408	200 738 827
In February 2007, the Company applied the intragroup relief provisions on dividends declared.		
Reconciliation of tax rate:	**%**	**%**
Standard tax rate	**29.00**	29.00
Adjusted for:		
Exempt income	**–**	(0.01)
Reversal of prior year income tax overprovision	**(0.02)**	–
Items not included in the income statement	**0.01**	(0.02)
STC	**3.48**	5.79
Effective tax rate	**32.47**	34.76

3. AVAILABLE-FOR-SALE INVESTMENTS

It is not the policy of the Company to maintain a trading stock of units. Units are created as and when required.

	2007		2006	
	Cost R	Fair value R	Cost R	Fair value R
Available-for-sale investments				
Allan Gray Balanced Fund – 273 855 units (2006: 273 855)	**5 721 649**	**14 056 830**	5 721 649	12 651 240
Allan Gray-Orbis Global Fund of Funds – 996 418 units (2006: 996 418)	**9 355 677**	**12 046 296**	9 355 677	11 029 551
	15 077 326	**26 103 126**	15 077 326	23 680 791

Available-for-sale investments consist entirely of investments in unit trust funds, and therefore have no fixed maturity date or coupon rate. These are discretionary investments held by the Company to optimise the long-term return of the investment and may be redeemed at any point in time.

4. TRADE AND OTHER RECEIVABLES

	2007 R	2006 R
Investment income	**426 703**	709 623
Receivables from related parties – refer note 12	**139 791 545**	129 681 119
Other receivables	**3 826 683**	442 636
	144 044 931	130 833 378

Receivables are interest-free and are settled within 30 days.

Notes to the Financial Statements

for the year ended 31 December 2007

5. CASH AND CASH EQUIVALENTS

	2007 R	2006 R
Operating cash in the current account	368 464	151 580
First National Bank call account – refer note 10	102 750 000	136 500 000
	103 118 464	136 651 580

In terms of section 105 of the CISCA investments into and out of the Funds must be processed through trust bank accounts. These bank accounts are treated as belonging to unitholders and therefore are not reflected in the balance sheet of the Company. Unitholder cash awaiting investment at 31 December 2007 amounted to R32 097 625 (2006: R48 933 519).

6. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	2007 R	2006 R
Authorised		
3 000 000 ordinary shares of R1 each	3 000 000	3 000 000
Issued		
1 000 060 ordinary shares of R1 each	1 000 060	1 000 060
Share Premium Account		
Arising on the issue of ordinary shares	2 000 000	2 000 000

7. DEFERRED TAXATION

	2007 R	2006 R
A deferred tax liability arises on revaluation of the Manager's investments in units based on capital gains since 1 October 2001. Deferred tax has been calculated using an inclusion rate of 50% and a tax rate of 29% (resulting in an effective rate of 14.5%).		
Opening balance	1 130 333	474 085
Charged directly to equity	351 239	656 248
Closing balance	1 481 572	1 130 333

8. TRADE AND OTHER PAYABLES

	2007 R	2006 R
Payables to related parties – refer note 12	35 253 127	15 911 723
Accruals and other payables	24 684 072	13 597 236
	59 937 199	29 508 959

Unitholder cash awaiting investment but not reflected in the balance sheet at 31 December 2007 amounted to R32 097 625 (2006: R48 933 519).

Payables are interest-free and are settled within 30 days.

Notes to the Financial Statements

for the year ended 31 December 2007

9. CANCELLATION OF UNITS

The Company undertakes to repurchase units in accordance with the requirements of CISCA and on terms and conditions set out in the Funds' trust deeds.

10. FINANCIAL RISK MANAGEMENT

The Company's principal financial instruments are cash and cash equivalents, trade and other receivables, trade and other payables and *available-for-sale investments*.

Trade and other receivables and trade and other payables arise directly from operations.

No sensitivity analysis has been prepared regarding sensitivity of the Company's discretionary investments in unit trust funds as the effect is not considered to be significant.

Fair value

The fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. Loans and receivables are held for periods not exceeding a year and these are usually held for the instruments' entire life, meaning that the fair value of these instruments closely approximates the carrying amount.

Price risk

Available-for-sale investments consist of discretionary holdings in the Funds. These investments are considered most appropriate for preserving and enhancing the Company's long-term capital. The investments' actual risk and return profile are monitored and reviewed from time to time to ensure that they remain in line with the Company's profile and long-term capital management framework.

At 31 December 2007 the Company did not consider there to be any significant concentration of price risk.

Credit risk

At the balance sheet date, potential credit risk consisted principally of investments in the Funds, service fees due from the Funds, management fees due from Orbis Investment Management Limited and short-term cash deposits. Maximum credit exposure for these financial instruments is the carrying value per the balance sheet since all the balances are unsecured. The Funds and Orbis Investment Management Limited are related parties (see note 12 for details). During the year, the Company deposited short-term cash surpluses with one of the major banks in the country and this institution is of high quality credit standing.

At 31 December 2007 the Company did not consider there to be any significant concentration of credit risk which needed to be provided for.

Liquidity risk

The Company actively manages its liquidity risk by continuously assessing its projected cash outflows and considering the level of liquid assets necessary in relation thereto. The Allan Gray group of companies minimised liquidity risk as it had a favourable cash position and capacity for substantial banking facilities at the balance sheet date.

The undertaking of the Company to repurchase units in accordance with the requirements of CISCA and on terms and conditions set out in the Funds' trust deeds exposes the Company to liquidity risk. This risk is mitigated by stringent cash management and capacity for substantial banking facilities at balance sheet date. The Funds in aggregate have an overdraft facility of R400 million with First National Bank. This facility is subject to regulatory limits on the borrowing of collective investments schemes in terms of CISCA. None of the Funds was in overdraft at 31 December 2007.

Currency risk

The Company is exposed to currency risk to the extent that it earns management fees (invoiced in US dollars) that are subject to fluctuating assets under management.

Monitoring of the exchange rate takes place in order to ensure that currency risk is in line with Group policy. Trade and other receivables include balances of US$3 291 235 (2006: US$4 059 318) relating to management fees and held in a local US dollar bank account.

Notes to the Financial Statements

for the year ended 31 December 2007

10. FINANCIAL RISK MANAGEMENT (Continued)

At 31 December 2007 the Company did not consider there to be any significant concentration of currency risk.

Interest-bearing instruments

Money on call earns interest at fixed rates ranging between 9.5% and 10.7%. Money on call matures within one week of 31 December 2007.

Money in the current account earned a variable interest rate of 9.5% at 31 December 2007.

11. CAPITAL MANAGEMENT

Capital adequacy requirements

CISCA requires that a manager must, on an ongoing basis, maintain in liquid form the capital for the matters and risks determined by the Registrar of Collective Investment Schemes (the 'Registrar'). Notice 2072 of 2003 prescribes the calculation of the capital required and requires that a calculation of the capital position as at the last business day of each calendar month, be submitted to the Registrar within 14 business days after the end of such calendar month.

The required capital, as defined by Notice 2072 of 2003, consists of three components: basic capital, seed capital and position risk capital.

The basic capital component is the greater of R600 000 or a sum equivalent of 13 weeks of the manager's fixed cost calculated as the previous financial year's fixed costs divided by four. At 31 December 2007 this capital requirement was R33 875 848.

The requirement that seed capital of R1 million be invested by the Manager does not apply as the prescribed amount of R1 million may be reduced by 10% for every R1 million invested by investors (independent from the Manager) in a portfolio. At 31 December 2007, the Company did not have any investments held as seed capital.

Position risk capital is a sum equivalent to a percentage (10% for a money market portfolio, 15% for an income portfolio and 25% for all other portfolios) of the amount paid by the manager for units in a portfolio administered by itself.

The Company satisfied the capital requirements and its reporting obligations under Notice 2072 of 2003. The quantum of dividends declared during the year was limited to the liquid resources of the Company as calculated in accordance with the capital adequacy requirements stipulated by Notice 2072 of 2003.

12. RELATED PARTIES

Relationships exist between the Company, its holding company Allan Gray Limited, its ultimate holding company Allan Gray Group Limited, fellow subsidiary Allan Gray Investment Services Limited, the Funds and Orbis Investment Management Limited. All transactions with related parties are conducted at arm's length and settlement terms are not more favourable than those arranged with third parties. Settlement terms are within two weeks of receipt of the invoice.

Transactions with the holding company

The Company has appointed its holding company as investment manager of the Funds and to undertake certain company administrative and marketing functions and the day to day administration of local unit trusts.

Following the Group restructuring in the prior year, Allan Gray Group Limited transferred its business to Allan Gray Limited. Allan Gray Limited therefore replaced Allan Gray Group Limited as the provider of investment management, administration and marketing services to the Company. Fees paid to Allan Gray Limited for all services rendered during the year amounted to R156.3 million (2006: R50.6 million). The balance owed by the Company to Allan Gray Limited as at 31 December 2007 is R9 million (2006: R12 million). No fees were paid to Allan Gray Group Limited for services rendered during this year (2006: R71.5 million).

Dividends paid to Allan Gray Limited amounted to R598.1 million during the year (2006: R114 million). No dividends were paid to Allan Gray Group Limited during the year (2006: R153 million).

Notes to the Financial Statements

for the year ended 31 December 2007

12. RELATED PARTIES (Continued)

Payments to Allan Gray Investment Services Limited

In May 2005, Allan Gray Investment Services Limited ('AGIS') launched a retail investment platform with the aim of giving investors direct access to a range of investment funds. This platform supports a focused range of funds, including the Funds. In October 2005, the Allan Gray endowment and retirement products were also migrated onto the platform.

The Company pays AGIS a monthly fee, based on funds invested in bulk by direct clients and those investing via the endowment and retirement products administered by the AGIS platform. Total fees paid to AGIS during the year amounted to R62.5 million (2006: R34.09 million). The balance owed by the Company to AGIS at 31 December 2007 is R26.3 million (2006: R3.97 million).

Allan Gray Orbis Foundation

The Company has, as part of the Group's initiative to social upliftment and black empowerment, made a commitment to donate 5% of its annual pre-tax income to deserving social causes. To this end the Company made a contribution of R42.7 million (2006: R30.4 million) to the Allan Gray Orbis Foundation in 2007.

Mahesh Cooper, a director of the Company, also serves as Trustee of the Allan Gray Orbis Foundation.

Allan Gray Unit Trust Funds

The Company earns a management fee for managing and administering the Funds. Management fees per fund are either performance-based or fixed. As a consequence of the performance fee orientation, management fees will typically be higher following periods where the Funds' total investment performance (income plus capital appreciation) has outperformed their respective benchmarks and lower in the case of underperformance.

The Company received total management fees of R1 149.6 million (2006: R809.9 million) from the Funds. The balance owed by the Funds to the Company at 31 December 2007 is R91.8 million (2006: R83.7 million) and is detailed as follows:

	Management fees earned for the year		VAT exclusive balances owing at 31 December	
	2007 R	2006 R	2007 R	2006 R
Allan Gray Equity Fund	**524 691 454**	408 292 254	**36 571 668**	39 830 760
Allan Gray Balanced Fund	**314 751 979**	216 460 582	**27 432 241**	23 132 739
Allan Gray Stable Fund	**291 318 881**	168 748 075	**25 681 312**	18 600 366
Allan Gray Optimal Fund	**13 000 281**	13 553 332	**1 294 489**	1 844 738
Allan Gray Bond Fund	**249 173**	128 560	**43 144**	302 654
Allan Gray Money Market Fund	**5 635 054**	2 739 796	**731 288**	7 483
	1 149 646 822	809 922 600	**91 754 142**	83 718 740

Allan Gray Life Limited

Living Annuity and Endowment policies issued by Allan Gray Life Limited invest in the Funds at arm's length.

Orbis Investment Management Limited ('Orbis')

A related party relationship exists between the Allan Gray group and Orbis by virtue of a common shareholder with significant influence. The Company earns fees in respect of the marketing of Orbis products as approved in terms of section 65 of CISCA.

Notes to the Financial Statements

for the year ended 31 December 2007

12. RELATED PARTIES (Continued)

Orbis Investment Management Limited ('Orbis') (Continued)

Fees of R62.9 million (2006: R56 million) were earned during the year from Orbis of which R46 million (2006: R16.6 million) was outstanding at 31 December 2007. Of this outstanding balance of R46 million, R22.6 million is held by Allan Gray Group Limited in a local US dollar bank account.

Directors' fees

As mentioned above, the Company has appointed its holding company as investment manager of the Funds and to undertake certain company administrative and marketing functions and the day to day administration of the Funds. This service entails having certain of the holding company's employees serving on the board of directors from time to time. Messrs E D Loxton, J C de Lange, R W Dower, G W Fury, M Cooper and I S Liddle are all employed by the holding company and they were directors of the Company during the year. Below is an analysis of aggregate amounts paid to them by the holding company for time spent on the Company's activities during the year:

	2007 R	2006 R
Payments to executive directors:		
Cash salary	1 516 558	2 398 053
Medical aid contributions	71 788	110 065
Group life and disability benefit	14 639	27 173
Retirement annuity contribution	40 577	45 036
Bonuses and performance-related payments	35 163	210 829
Share-based payment	5 487 644	–
	7 166 369	2 791 156
Payments to non-executive directors:		
Cash salary	246 045	23 300
Medical aid contributions	9 573	746
Group life and disability benefit	1 747	167
Retirement annuity contribution	12 548	630
Bonuses and performance-related payments	53	–
Share-based payment	2 493 177	–
	2 763 143	24 843
	9 929 512	2 815 999
IAS 24 disclosure		
Short-term employee benefits	9 876 387	2 770 333
Post-employment benefits	53 125	45 666
	9 929 512	2 815 999

The listing of the members of the board of directors is shown on the outside back cover.

Notes to the Financial Statements

for the year ended 31 December 2007

13. NOTES TO THE CASH FLOW STATEMENT

	2007 R	2006 R
13.1 Operating profit before working capital changes		
Profit before taxation	813 171 069	577 474 630
Adjustments for:		
Interest income	(22 595 448)	(2 850 341)
Dividend income	(130 637)	(103 651)
Interest expense	–	99 537
	790 444 984	574 620 175
13.2 Working capital changes		
Increase in trade and other receivables	(13 211 553)	(50 211 898)
Increase in trade and other payables	30 428 240	9 192 009
	17 216 687	(41 019 889)
13.3 Taxation paid		
Amount owing at the beginning of the year	71 956	2 217 905
Amount charged per the income statement	264 016 408	200 738 827
Amount receivable/(due) at the end of the year	1 680 073	(71 956)
Amount paid	265 768 437	202 884 776

Important Information for Investors

- Allan Gray Unit Trust Management Limited (the Manager) is a member of the Association of Collective Investments.
- Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. Except for the Allan Gray Money Market Fund, where a constant unit price will be maintained, the value of units may go down as well as up and past performance is not a guarantee of future results. Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Different classes of units apply to the Equity, Balanced, Stable and Optimal funds only and are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from the Company. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates.
- Permissible deductions from the total portfolio may include bank charges, trustee/custodian fees, auditor's fees, manager's annual management fee, uncertificated securities tax (UST) and brokerage fees.
- The buying price of units may include an initial adviser fee of up to a maximum of 3.42% (3% plus VAT) of the investment amount. This fee is not compulsory and is negotiated independently between the unitholder and the financial adviser.
- Units are priced using the forward pricing method. Investment, redemption and switching instructions received after 14h00 on any day shall be processed on the following day (excluding weekends and public holidays) at the value of the units on the day that the instruction is processed. Please refer to the relevant Terms and Conditions on the relevant application form. Collective Investment Schemes valuations take place at approximately 16h00 each business day.
- Units will be repurchased by the Manager at the ruling price in accordance with the requirements of the Collective Investment Schemes Control Act and on terms and conditions set forth in the relevant deed and paid to the investor.
- On the Allan Gray Equity Fund a performance-based fee is levied daily on the Class A units which varies between a minimum of 0.0% (plus VAT) per annum and a maximum of 3.42% (3.0% plus VAT) per annum of the daily value of the Fund and for the Class B units the above fees vary between 1.71% (1.5% plus VAT) and 4.67% (4.1% plus VAT). Declarations of income accruals are made biannually.
- On the Allan Gray Balanced Fund a performance-based fee is levied daily on the Class A units which varies between a minimum of 0.57% (0.5% plus VAT) per annum and a maximum of 1.71% (1.5% plus VAT) per annum of the daily value of the Fund excluding any underlying assets invested in Orbis funds. For the Class B units the above fees vary between 1.82% (1.6% plus VAT) and 2.96% (2.6% plus VAT). Declarations of income accruals are made biannually.
- On the Allan Gray Stable Fund a performance-based fee is levied daily on the Class A units, which varies between a minimum of 0.57% (0.5% plus VAT) per annum and a maximum of 1.71% (1.5% plus VAT) per annum of the daily value of the Fund excluding any underlying assets invested in Orbis funds. For the Class B units the above fees vary between 1.82% (1.6% plus VAT) and 2.96% (2.6% plus VAT). Declarations of income accruals are made quarterly.
- On the Allan Gray Bond Fund a performance-based fee is levied daily on the Class A units, which varies between a minimum of 0.285% (0.25% plus VAT) per annum and a maximum of 0.855% (0.75% plus VAT) per annum of the daily value of the Fund. Declarations of income accruals are made quarterly.
- On the Allan Gray Money Market Fund a fixed fee of 0.285% (0.25% plus VAT) per annum is levied daily on the daily value of the Fund. Declarations of income accruals are made daily and paid out monthly.
- On the Allan Gray-Orbis Global Fund of Funds no fee is levied by Allan Gray. The Allan Gray-Orbis Global Fund of Funds, being a fund of funds, only invests in other Orbis funds. The underlying Orbis funds levy their own charges, which could result in a higher fee structure for these portfolios. Declarations of income accruals are made annually.
- On the Allan Gray-Orbis Global Equity Feeder Fund no fee is levied by Allan Gray. The Allan Gray-Orbis Equity Feeder Fund, being a feeder fund, is a portfolio that, apart from assets in a liquid form, consists solely of units in a single portfolio of a Collective Investment Scheme, the Orbis Global Equity Fund. The underlying unit trust levies its own charges, which could result in a higher fee structure for the portfolio. Declarations of income accurals are made annually.
- On the Allan Gray Optimal Fund a fixed fee of 1.14% (1% plus VAT) for Class A units and 2.39% (2.10% plus VAT) for the Class B units per annum is levied daily on the daily value of the Fund. In addition, a performance fee of 20% (excluding VAT) of the daily outperformance to the benchmark is also levied. However, a high watermark principle applies in that no fees are charged in times of underperformance, until such time as the underperformance is recovered. Declarations of income accruals are made biannually.
- Institutional investors should note that, compared to retirement funds, Collective Investment Schemes operate under different tax rules. Whilst unit trusts are in practice not taxed, they do not enjoy automatic tax exemption.
- A transfer of units to another legal entity or natural person will result in a payment of Capital Gains Tax (excluding transfers from the Allan Gray Money Market Fund).
- Minimum investment amounts may be raised in the future at the discretion of the Manager.
- Statements are sent to all unitholders on a quarterly basis and in addition, advices are sent on a transaction basis (excluding debit orders).
- Collective Investment Schemes may borrow up to 10% of the market value of the portfolio where insufficient liquidity exists in a portfolio, or where assets cannot be realised to repurchase, or cancel participatory interests.
- Performance data is based on a lump sum investment calculated on a NAV to NAV basis where distributions may be reinvested for certain classes of funds.
- The FTSE/JSE Africa Index Series is calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. The FTSE/JSE Africa Index Series is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE Africa Index Series index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.
- Copies of the audited annual financial statements of the Manager and of the unit trusts managed by it, are available, free of charge, on request by any investor.

Notes

Characteristics and Objectives as at 31 December 2007

	EQUITY FUND	BALANCED FUND	STABLE FUND	OPTIMAL FUND
Portfolio Structure	A share portfolio selected for superior long-term returns.	A portfolio (which can include all asset classes) selected for superior long-term returns.	A portfolio (which can include all asset classes) chosen for its high income yielding potential.	A portfolio of carefully selected shares. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.
Benchmark	FTSE/JSE All Share Index including income.	The market value-weighted average of the domestic medium equity prudential unit trust sector excluding the Allan Gray Balanced Fund.	Return of call deposits (for amounts in excess of R5 million) with FirstRand Bank Limited plus 2% on an after-tax basis at a rate of 25%.	The return on call deposits with FirstRand Bank Limited (for amounts in excess of R5 million).
Maximum Net Equity Exposure	100%	75%	40%	15%
Portfolio Manager	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall	Delphine Govender
Return Objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns compared to bank deposits.	Superior returns compared to bank deposits.
Risk of Monetary Loss	Risk higher than the Balanced Fund but less than average general equity fund due to Allan Gray's investment style.	Risk higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	Seeks to preserve capital over any two-year period with low risk of capital loss.	Low risk and little or no correlation to stock or bond markets.
Target Market	• Investor seeking long-term wealth creation. • Investors should be comfortable with market fluctuations i.e. short-term volatility. • Typically the investment horizon is five-year plus.	• Investors seeking long-term wealth creation. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28). • Investors seeking a three-year plus investment.	• Risk-averse investors who require a high degree of capital stability. • Investors who are retired or nearing retirement. • Investors who require a regular income. • Investors who seek to preserve capital over any two-year period.	• Risk-averse investors. • Investors who wish to diversify a portfolio of shares or bonds. • Retirement schemes and multi-managers who wish to add a product with an alternative investment strategy to their overall portfolio.
Income Yield	Low income yield.	Average income yield.	High income yield.	Low income yield.
Income Distribution[1]	Biannually.	Biannually.	Quarterly.	Biannually.
Compliance with Prudential Investment Guidelines	No[2].	Yes[3].	Yes[3].	No.
Annual Fund Management Fee (excl. VAT)	Performance fee on the under/outperformance of the benchmark (adjusted for fund expenses and cash flows) over a two-year rolling period. **Minimum Fee:** 0.00% **Fee at benchmark:** 1.50% **Sharing Rate:** 10.00% **Maximum Fee:** 3.00%	Performance fee on the under/outperformance of the benchmark over a two-year rolling period.[4] **Minimum Fee:** 0.50% **Fee at benchmark:** 1.00% **Sharing Rate:** 10.00% **Maximum Fee:** 1.50%	Performance fee on the under/outperformance of the benchmark over a two-year rolling period.[4] **Minimum Fee:** 0.50% **Fee at benchmark:** 1.00% **Sharing Rate:** 10.00% **Maximum Fee:** 1.50%	Performance fee on the outperformance of the benchmark. A high watermark structure applies. **Minimum Fee:** 1.00% **Fee at benchmark:** 1.00% **Sharing Rate:** 20.00% **Maximum Fee:** uncapped
Total Expense Ratio[5] (incl. VAT)	Total Expense Ratio: 3.57% including – Performance component: 1.64% Fee at benchmark: 1.71% Trading costs: 0.21% Other expenses: 0.01%	Total Expense Ratio: 2.09% including – Performance component: 0.59% Fee at benchmark: 1.25% Trading costs: 0.22% Other expenses: 0.03%	Total Expense Ratio: 1.94% including – Performance component: 0.55% Fee at benchmark: 1.24% Trading costs: 0.12% Other expenses: 0.03%	Total Expense Ratio: 1.78% including – Performance component: 0.45% Fee at benchmark: 1.14% Trading costs: 0.17% Other expenses: 0.02%
Minimum Lump Sum Investment Requirement	R10 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R25 000 lump sum and/or R2 500 per month debit order.

1. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the funds will not make a distribution.
2. Retirement Funds: The Portfolio is managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act, except for the overall/total equity distribution limit, due to it being an equity portfolio. Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A to Regulation 28).
3. Retirement Funds: The Portfolios are managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A to Regulation 28).
4. The annual management fee is calculated on the daily value of the Fund excluding any underlying assets invested in Orbis.

BOND FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	GLOBAL EQUITY FEEDER FUND
A portfolio invested in a combination of South African interest-bearing securities including bonds, loan stock, debentures, fixed deposits, money market instruments and cash.	A portfolio invested in selected South African money market instruments providing a high income yield and a high degree of capital stability.	A Rand-denominated balanced portfolio invested in selected FSB registered Orbis funds.	A Rand-denominated portfolio feeding directly into the FSB registered Orbis Global Equity Fund.
All Bond Index category.	Simple average of the Domestic Fixed Interest Money Market category Unit Trust excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index.	FTSE World Index.
0%	0%	100%	100%
Sandy McGregor, Andrew Lapping	Andrew Lapping	Stephen Mildenhall (William Gray is the Portfolio Manager of the underlying Orbis funds).	Stephen Mildenhall (William Gray is the Portfolio Manager of the Orbis Global Equity Fund).
Superior returns compared to the All Bond Index.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
Risk is higher than the Money Market Fund, but lower than the Balanced Fund.	Low risk of capital loss and high degree of capital stability.	Risk similar to Balanced Fund but less than average foreign balanced mandate.	Risk higher than the Global Fund of Funds.
• Investors seeking returns in excess of that provided by income funds, the money market funds or cash. • Investors who are prepared to accept some risk of capital loss in exchange for the prospect of increased returns. • Investors who want to draw a regular income stream without consuming capital.	• Highly risk-averse investors. • Investors seeking a short-term 'parking place' for their funds.	• Investors who would like to invest in an offshore balanced fund. • Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.	• Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.
High income yield.	High income yield.	Low income yield.	Low income yield.
Quarterly.	Daily and pays out monthly.	Annually.	Annually.
Yes[3].	Yes[3].	No.	No.
Performance fee on the outperformance of the benchmark (adjusted for fund expenses and cash flows) over a one-year rolling period. **Minimum Fee:** 0.25% **Fee at benchmark:** 0.25% **Sharing Rate:** 25.00% **Maximum Fee:** 0.75%	**Fixed Fee:** 0.25%	No annual Management Fee. The underlying funds, however, have their own fee structure.	No annual Management Fee. The underlying funds, however, have their own fee structure.
Total Expense Ratio: 0.61% including – Performance component: 0.18% Fee at benchmark: 0.29% Trading costs: 0.00% Other expenses: 0.14%	Total Expense Ratio: 0.30% including – Performance component: 0.00% Fee at benchmark: 0.29% Trading costs: 0.00% Other expenses: 0.01%	Total Expense Ratio: 2.07% including – Performance component: 0.38% Fee at benchmark: 1.25% Trading costs: 0.26% Other expenses: 0.18%	Total Expense Ratio: 2.71% including – Performance component: 0.91% Fee at benchmark: 1.44% Trading costs: 0.29% Other expenses: 0.07%
R25 000 lump sum and/or R2 500 per month debit order.	R50 000 lump sum and/or R5 000 per month debit order.	R25 000 lump sum. R500 per month debit order.	R25 000 lump sum. R500 per month debit order.

5. A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. It is expressed as a percentage of the average value of the portfolio, calculated for the year to the end of September 2007. Included in the TER is a proportion of costs that are incurred by the performance component of the management fee, fee at benchmark, trading costs (including brokerage, VAT, UST, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units.

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Member of the Association of Collective Investments

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