British Assets Trust plc

Annual Report and Accounts

2013

F&C Investments

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aic
The Association of
Investment Companies

Company Summary

The Company

The Company is an investment trust. Its shares are listed on the Official List and traded on the main market of the London Stock Exchange. The Company is a member of The Association of Investment Companies ('AIC') and is a constituent of the AIC Global Growth & Income sector.

Total assets less current liabilities at 30 September 2013 were £477.9 million.

Objective

The Company's investment objective is to achieve a total return in excess of a composite index, weighted as to 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index, by investing principally in a diversified international portfolio of equities and equity-related securities. Within this overall objective, the Company aims to deliver dividend growth which will be dependent upon, inter alia, the rate of revenue growth within the investment portfolio and the level of dividend cover.

Investment Policy

The Company's investment policy is contained within the Strategic Report on page 19.

Management

The Board has appointed F&C Investment Business Limited (referred to throughout this document as 'the Managers'), a wholly owned subsidiary of F&C Asset Management plc, as investment managers. Details of the management contract are provided in note 3 to the Accounts.

Capital Structure

The Company's capital structure consists solely of Ordinary Shares. Details are provided on page 56 and in note 13 to the Accounts.

How to Invest

The investment managers operate a number of investment plans which facilitate investment in the shares of the Company. Details are contained on page 59.

You may also invest through your stockbroker.

Website

The Company's website address is www.british-assets.co.uk

Highlights for the Year

- Net asset value total return of 15.2 per cent
- Share price total return of 15.6 per cent
- Discount at the year end of 3.9 per cent (on an ex-income NAV with debt at market value basis)
- Final dividend increase of 3.0 per cent bringing the total dividend for the year to 6.2522p per share, an increase of 2.3 per cent and representing a dividend yield of 4.7 per cent based on the year-end share price
- Changes to the portfolio management approach

Performance Summary

	30 September 2013	30 September 2012	% change
Total Return (note 1)			
Net asset value (note 2)	**15.2%**	17.3%	
Ordinary Share price	**15.6%**	10.6%	
Composite index (note 3)	**19.0%**	17.3%	
FTSE All-Share Index	**18.9%**	17.2%	
FTSE World (ex UK) Index	**19.2%**	17.8%	
Capital Values			
Net asset value per Ordinary Share	**144.5p**	131.4p	10.0%
Ordinary Share price	**132.0p**	119.8p	10.2%
Revenue and Dividends			
Revenue per Ordinary Share	**6.6p**	6.6p	–
Dividends per Ordinary Share	**6.2522p**	6.112p	2.3
Dividend Yield	**4.7%**	5.1%	
Discount – Basic (note 4)	**8.7%**	8.8%	
– Debt adjusted (note 5)	**6.3%**	5.3%	
– Debt adjusted (note 6)	**3.9%**	2.8%	
Gearing – Net of cash (note 7)	**16.7%**	16.4%	
– Equity gearing (note 8)	**3.9%**	2.9%	
Ongoing Charges (as a percentage of net asset value)	**0.70%**	0.72%	
	2013 High	**2013 Low**	
Year's Highs/Lows			
Net asset value	**152.0p**	**125.4p**	
Ordinary Share price	**140.3p**	**116.4p**	
Discount (basic)	**9.0%**	**2.0%**	

Notes
1 All total return calculations are based on dividends reinvested.
2 Net asset value total return is calculated as the total return attributable to an Ordinary Share. It assumes that dividends paid to shareholders are re-invested in the net asset value.
3 Composite index of 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index.
4 Net asset value (UK GAAP) with debt at par.
5 Net asset value (UK GAAP) adjusted to reflect market value of debt.
6 Net asset value (non-UK GAAP, ex-income NAV) adjusted to reflect market value of debt.
7 Gearing net of cash: (Investments – Shareholders' Funds) ÷ Shareholders' Funds.
8 Equity gearing: (Equity Investments – Shareholders' Funds) ÷ Shareholders' Funds.

Sources: F&C Investment Business, AIC, Datastream, and Fundamental Data.

Chairman's Statement

Lynn Ruddick Chairman

Highlights

Our net asset value total return of 15.2 per cent for the year ending 30 September 2013 was strong in absolute terms, although it fell short of the total return of 19.0 per cent from the composite benchmark (80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index) as described below and in the Managers' Review.

The Board was pleased to announce a return to dividend growth during the year for the first time since 2009. The dividend increase for the year as a whole was 2.3 per cent.

As explained in more detail below, the Board and Managers reviewed the Company's portfolio management approach during the year and some important changes are being introduced.

Market Overview

Global stockmarkets made good progress during the year, benefiting from the continued provision of liquidity by central banks. This performance has been achieved despite a number of continuing uncertainties and concerns, including long term agreement of the US budget deficit and debt ceiling, the scaling back of quantitative easing programmes, slowing economic growth in China and only limited signs of economic growth in Europe.

In the UK, the prospects for the economy as a whole have improved and there are signs of improving consumer confidence. Growth in corporate profits has, however, not been as strong as anticipated a year ago, and economic performance across the UK remains polarised, with London and the South East outperforming most other regions.

Performance

The table below provides a breakdown of the estimated contributions to the relative performance for the year.

Significant factors impacting performance included:	
Stock selection	
UK equities	-1.3
Global High Yield (ex UK) equities	-0.7
Emerging market equities	-0.2
Regional equity asset allocation	-0.9
Corporate bonds	-0.9
Gearing (net of finance costs)	2.4
Expenses	-0.7

(Note: The above returns are calculated on a total return basis with net income reinvested. They show the estimated contributions to the Company's net asset value total return relative to the benchmark index. Contributions cannot be added together as they are calculated on a monthly geometric basis).

The UK Equities portfolio which is the largest component of our assets underperformed the FTSE All-Share Index by 2.1 per cent during the year as many higher yielding sectors of the market underperformed the broader index.

The worst relative performance from the individual portfolios was in the Company's Global High Yield (ex UK) portfolio. As explained in more detail below, the Board reviewed the Company's sub-portfolio structure during the year and decided, amongst

Chairman's Statement (continued)

other things, to change its approach to international equity management.

Throughout the year the Company retained an overweight exposure to emerging market equities which underperformed developed markets due to fears of the implications of a slowing Chinese economy and the announcement by the US Federal Reserve that the quantitative easing programme would be scaled back. This had a negative impact on the contribution from equity asset allocation.

In a rising market, gearing was a positive contributor to performance albeit reduced by the offsetting exposure to corporate bonds.

Changes to the Management of the Portfolio

The Board is seeking a total shareholder return that exceeds that of our benchmark, and a secure, growing dividend.

Since the change in investment manager in 2011, the Board has been reviewing the best way to meet these objectives. During the year the Board and Managers reviewed the investment approach and, after due consideration, it was decided to make changes to that approach, albeit within previously approved shareholder guidelines.

Whilst the Company's portfolio will continue to be invested mainly in UK listed equities, the total number of holdings will be reduced. These will be managed as one portfolio rather than as several sub-portfolios as has been the case hitherto. All holdings will be selected on the basis of fundamental research, utilising the wider skills within the Managers' investment teams. This represents a change in approach for most of the Company's international equity holdings which have been selected on a systematic (or quantitative) basis since December 2008.

The Board believes that this change will result in improved long term performance for our shareholders, whilst recognising that there may be higher levels of volatility in short term returns. The Managers have already started to implement the initial changes to the portfolio.

Simplification of the portfolio enables the Managers to give suitable prominence to their individual best ideas to reflect their levels of conviction in those ideas in a simple, timely and meaningful fashion. This revised approach will be consistent across all the Company's investments. It will also allow the Managers to enact top down strategy views in a more precise and effective manner.

Earnings and Dividends

The Company's revenue earnings for the year were unchanged at 6.6p per share.

As stated in last year's Annual Report, the Board decided to allocate management fees and finance costs to revenue and capital in the ratio 35:65 with effect from 1 October 2012 (previously a ratio of 25:75). This had an effect of reducing earnings for the year by 0.2p per share. In addition, with a reduction in market volatility the Company generated less income from written option premiums. The combined effect of these items was a reduction in earnings for the year of 0.3p per share and on a like for like basis earnings per share were 5.1 per cent higher. This reflects an improvement in the dividends from the companies in the portfolio.

The Company's ongoing charges for the year were 0.70 per cent of shareholders' funds (2012: 0.72 per cent).

A first quarterly interim dividend of 1.442p per share was paid on 12 April 2013, and second and third quarterly interim dividends of 1.4853p per share were paid on 12 July and 11 October 2013. The second and third interim dividends each represented an increase of 3.0 per cent compared to the dividends paid in the previous year.

It is the Company's objective to deliver dividend growth. Our ability to achieve this will be dependent upon, inter alia, the rate of dividend growth within the investment portfolio, the level of dividend cover and the level of accumulated revenue reserves. In particular, the Board is keen to ensure that any dividend growth is sustainable. Having not increased the dividend since 2009 the Board was pleased to be able to increase the second and third interim dividends by 3.0 per cent and, following a review of the Company's year-end results and its short to medium term revenue forecast, has decided to recommend the same percentage increase in the final dividend. This will bring the total dividend for the year to 6.2522p per share, representing an overall increase of 2.3 per cent. The final dividend of 1.8396p per share will be paid on 31 January 2014 to shareholders on the register on 27 December 2013.

Gearing

At the end of the year, the Company's level of gearing, net of cash, was 16.7 per cent. This was represented by 3.9 per cent of equity gearing and 12.8 per cent in corporate bonds.

The Company's borrowings comprise £60 million 6.25 per cent Bonds which are due for redemption in 2031, and a £50 million bank facility which matures in March 2016. The bank facility was put in place in March 2013 to replace the previous £60 million facility which matured at that time. The new facility includes terms which are typical for a facility of this nature, and the principal covenants are similar to those previously in place. £25 million of the bank facility was drawn down at the end of the year.

Alternative Investment Fund Managers' Directive ('AIFMD')

The AIFMD is European legislation which creates a European-wide framework for regulating managers of alternative investment funds ('AIFs'). Closed-ended investment companies fall within the remit of these new regulations. The legislation came into force in July 2013 but there is a twelve month transitional period which means that the Company has until July 2014 to comply. The Board has reviewed the impact of the directive on the Company's operations and decided to appoint a subsidiary of F&C Asset Management plc as the Company's AIFM, at no additional cost to the Company. Under the directive, the Company is also required to appoint a depository. The Board is well advanced in considering which organisation to appoint as the depository and, although this will result in an additional cost to the Company the Board does not expect this cost to be significant.

Board Composition

As previously announced, Jim Grover was appointed as a non-executive Director on 25 June 2013. Mr Grover was until, September 2013, Group Strategy Director of Diageo plc and a member of its Executive Committee.

During the year, the Board also announced that, having served as a non-executive Director since 1998, Jim MacLeod will retire from the Board at the Annual General Meeting. On behalf of the Board, I would like to thank Jim for his service to the Company throughout this period and in particular in his role as Chairman of the Audit Committee. Following Jim's retirement, it is the Board's intention that James Long will be appointed as Chairman of the Audit Committee.

Annual General Meeting and Separate Shareholder Presentation

The Annual General Meeting will be held at City of London Club, 19 Old Broad Street, London EC2N 1DS on Monday 27 January 2014 at 12 noon. It will be followed by a presentation from the Company's investment manager, Phil Doel. This is a good opportunity for shareholders to meet the Board and Managers.

The notice of Annual General Meeting is contained on pages 60 to 62 and a Form of Proxy is enclosed separately with the Annual Report. Shareholders who are unable to attend the Meeting are encouraged to complete and return their forms so as to ensure that their votes are represented.

In addition to the Annual General Meeting, there will be a separate shareholder presentation at the offices of F&C Asset Management plc, 80 George Street, Edinburgh EH2 3BU on Tuesday 17 December 2013 at 12.30pm. This meeting will also include a presentation from Phil Doel and the opportunity to ask questions of the Board and Managers.

Chairman's Statement (continued)

The Board recognises that many of its shareholders would find it difficult to travel to either Edinburgh or London to attend an Annual General Meeting. It is hoped that this dual-meeting format provides a larger proportion of shareholders with an opportunity to meet the Board and Managers and to discuss the Company's activities and the Managers' outlook for markets.

Invitations to both meetings are included separately with the Annual Report and shareholders who would like to attend are requested to complete and return these to the Company Secretary.

Outlook

The slow and intermittent economic recovery in developed markets has continued. With slack in labour markets, inflationary pressures are muted and hence the period of low interest rates looks set to continue in the near term. For so long as these conditions continue, equities should remain an attractive asset class, assuming profit projections are broadly maintained. The outlook for dividend growth also remains solid and this should help support stock market levels, as income continues to be of great importance to investors.

Against this backdrop, and with the changes which will continue to be implemented to the management of the portfolio, the Board believes that the Company is well positioned to make good progress in the year ahead.

Lynn Ruddick
Chairman
22 November 2013

Investment Managers and Investment Process

Phil Doel
Investment Manager

Gordon Hay Smith
Company Secretary

Phil Doel Investment Manager joined F&C Asset Management plc ('F&C') in 2005 and was appointed Investment Manager of British Assets Trust plc in October 2011. He is a Director, Equities, of F&C and has over 18 years of fund management experience.

Gordon Hay Smith Company Secretary joined F&C in 2001 and was appointed Company Secretary of British Assets Trust plc in 2003. He is a chartered accountant.

Investment Managers

British Assets Trust plc is managed by F&C Investment Business Limited, a wholly owned subsidiary of F&C. F&C is a leading asset manager in both the UK and Europe with £90 billion under management on 30 September 2013. The shares of F&C are traded on the main market of the London Stock Exchange.

F&C provides investment management and other services to a range of investment trust clients.

Investment Strategy

British Assets Trust plc invests principally in a diversified international portfolio of equities and equity-related securities.

The investment strategy employed by the Managers in meeting the investment objective focuses on active stock selection. The selection of individual holdings is based on analysis of, amongst other things, market positioning, competitive advantage, financial strength and cashflows. The weighting of individual investments reflects the Managers' conviction in those holdings and their aggregate views on asset allocation, including between UK and overseas equities, corporate bonds, cash and gearing. In implementing this strategy the Managers are cognisant of the Company's requirement for an above average level of investment income.

Managers' Review

Introduction

The Company's net asset value total return for the year was 15.2 per cent. The total return from the benchmark (weighted as to 80 per cent of the FTSE All-Share Index and 20 per cent of the FTSE World (ex UK) Index) was 19.0 per cent. After a positive first half to the year, the full year relative returns were disappointing. Stock selection in the UK and Global High Yield (ex UK) portfolios, and equity asset allocation were the principal reasons for the underperformance.

The UK Equities portfolio which is the largest component of the Company's assets underperformed the FTSE All-Share Index during a year when many higher yielding sectors of the market underperformed the broader index. We also had a lower than benchmark weighting to the domestic consumer, having underestimated the strength of the domestic economy. The worst relative performance from the individual portfolios was in the Company's Global High Yield (ex UK) portfolio where we had insufficient exposure to the strong Japanese equity market and too many European higher yielding utilities.

Equity asset allocation was impacted by our overweight exposure to emerging market equities which underperformed developed markets. This was due to fears over the implications of a slowing Chinese economy and the announcement by the US Federal Reserve that the quantitative easing programme would be scaled back.

The Board increased the Company's dividend distribution for the first time since 2009, giving shareholders a yield of 4.7 per cent at the year end. This higher payment was covered by the net income generated from the investments held in the portfolio.

As part of its review of the best way for the Company to meet its objectives, which began in 2011, the Board asked the Managers to reconsider how we will manage the Company's assets in the future. The explicit intention of this process was to improve the total return performance whilst maintaining our aim of delivering a progressive dividend to shareholders. The initial implications of the changes agreed are described in the individual sections of this review.

Review of the Year

Our view last year of "cautious optimism" for equity markets in the medium term proved to be somewhat conservative as stock markets generated very healthy returns during the year. These positive returns were largely as a result of an upward revaluation of companies' future earnings, rather than underlying profit growth. This occurred despite many of the uncertainties of twelve months ago remaining through the year.

The FTSE All-Share Index generated strong returns, helped by a UK economic outlook that improved during the year, fuelled by a modest improvement in exports and a resurgent South Eastern centric recovery in the housing market. The initial impact of the Government's "Help to Buy" scheme, which helps buyers purchase newly built homes, has been positive, although whether this is a wise policy in the long run is debatable. For now it has halted the slide in construction activity and boosted consumer confidence, despite negligible growth in average wages and little increase in consumers' disposable incomes.

Global equity markets performed well despite continued disagreement on the US budget deficit and debt ceiling. This impasse increased uncertainty and lowered domestic economic growth. The tapering of the Federal Reserve's quantitative easing ('QE') programme, first signalled in May, has been delayed.

In the Eurozone, equity markets were buoyant, despite the Cypriot banking crisis and only limited structural reform. Signs of economic stabilisation, ongoing support from the European Central Bank ('ECB') and very low valuations attracted international investors.

Stockmarket Total Returns – Year to 30 September 2013	£	Local Currency
FTSE All-Share Index	18.9%	18.9%
FTSE World (ex UK) Index	19.2%	22.1%
FTSE All-World (ex UK) Index	18.2%	21.3%
MSCI Emerging Markets Index	1.0%	6.2%

Source: Datastream

Slowing global economic growth and the threatened removal of QE had a negative impact on emerging markets, particularly in those nations with significant current account deficits as they had relied on US liquidity to finance their imbalances. Of the major emerging markets, Brazil, India and Indonesia were worst affected. Chinese growth has slowed but appears more stable with government investment policies offsetting export weakness – the long awaited acceleration in consumer spending growth remains elusive.

The detailed assessment of the relative performance of the Company's investment portfolios are described in the following sections of the review.

Asset Allocation

Asset Allocation

Asset Class	Benchmark 30.09.13 %	30 September 2013 Share-holders' Funds %	Total Assets %	30 September 2012 Share-holders' Funds %	Total Assets %
UK Equities	**80.0**	**78.1**	**65.0**	**75.2**	**62.2**
International Equities					
– Developed Americas	11.0	6.7	5.6	6.3	5.2
– Developed Europe	3.5	8.3	6.9	5.3	4.4
– Other Developed	3.1	1.2	1.0	5.4	4.5
Emerging Markets Equities	2.4	9.6	8.0	10.7	8.9
Total Overseas Equities	**20.0**	**25.8**	**21.5**	**27.7**	**23.0**
Total Equities	**100.0**	**103.9**	**86.5**	**102.9**	**85.2**
Corporate Bonds	–	12.8	10.6	13.5	11.2
Net Current Assets	–	–	2.9	–	3.6
Gearing*	–	(16.7)	–	(16.4)	–
Total	**–**	**100.0**	**100.0**	**100.0**	**100.0**

*comprising equity gearing of 3.9 per cent (2012: 2.9 per cent) and 12.8 per cent in corporate bonds (2012: 13.5 per cent)

The table above represents the Company's investments categorised by the markets in which they are listed rather than the investment portfolios in which they are managed. This better reflects the revised management approach referred to in the Chairman's Statement on page 4. The 2012 figures have been restated on the same basis.

We modestly reduced allocations to emerging markets in December 2012, before the worst of the relative underperformance. For the rest of the year we made only limited changes as, despite the short term negative earnings revisions caused by slowing economic growth, we believe in the long term attractions of emerging markets. These markets have generated positive relative returns since the inception of the portfolio in 2008.

During the year we gradually reduced exposure to the corporate bond portfolio. This move away from bonds reflects the lower yields available after the significant re-rating over the last decade and beyond. This shift is not immediately apparent from the numbers above, however, as we increased weightings in the convertible bonds of two UK companies that offered very attractive capital upside potential and a high coupon. We have included these holdings in the corporate bond allocation shown above, although they are managed within the UK equity portfolio.

The decrease in International Developed Equity holdings is due to the exposures to emerging markets, previously managed within the systematically run Global High Yield (ex UK) equity portfolio, now being managed within the Emerging Markets portfolio. This is as a direct consequence of the implementation of the revised portfolio management approach referred to in the Chairman's Statement. We maintained a reasonably consistent level of equity gearing over the course of the financial year, reflecting our cautiously optimistic view on equity markets.

Managers' Review (continued)

Portfolio Reports

UK Equities – Major Holdings

Company	Sector	Market Value £m	% Total Investments
GlaxoSmithKline	Health Care	20.3	4.2
HSBC	Financials	18.0	3.7
Royal Dutch Shell	Oil & Gas	16.1	3.3
BAE Systems	Industrials	14.4	2.9
BHP Billiton	Basic Materials	13.5	2.8
National Grid	Utilities	12.9	2.6
Standard Chartered	Financials	11.8	2.4
BP	Oil & Gas	11.5	2.3
Vodafone	Telecommunications	10.5	2.2
AstraZeneca	Health Care	10.4	2.1

The UK Equities portfolio generated a total return of 16.8 per cent compared with a return of 18.9 per cent from the FTSE All-Share Index. For reference, the FTSE 350 High Yield Index generated a total return of 16.8 per cent over the period.

The UK equity market again generated strong returns during the year, despite a lacklustre earnings performance and its high exposures to weakening emerging market economies. The very healthy returns at the index level mask a stark divergence in returns between sectors.

Financials stocks, and in particular banks and life assurers, have been buoyant as profitability and capital bases have been rebuilt, despite, in the case of the banks, seemingly endless moving of the regulatory goalposts and further very substantial redress for past misconduct. Lloyds Banking Group and Resolution were strong contributors to performance during the year.

As noted above, rising UK house prices have been reflected in an improvement in reported measures of consumer confidence. Equity investors have reacted to this by significantly re-rating UK consumer facing sectors such as retailers, house-builders and leisure companies. We have had very limited exposure to these sectors which has hurt relative performance.

The most significant single individual positive contributor to relative performance, however, was our large holding in BAE Systems, despite a proposed merger with EADS being blocked by EADS' European government shareholders. The shares were afforded a re-rating as US defence spending cuts have, to date, been no worse than anticipated and export prospects to Asian and Middle Eastern markets have improved.

Resources were the worst performing major sectors in the UK. Both the oil and mining sectors suffered from over-investment and diminishing returns on that investment, despite commodity prices remaining firm. Whilst we have held modest positions in the larger companies in both sectors, which has helped our relative performance against the FTSE All-Share Index, several smaller stocks we held were severely de-rated and this dragged down returns. With this underperformance, valuations are now more modest and we have increased holdings in major mining groups BHP and Rio Tinto that are now beginning to exhibit the capital discipline needed to generate sustainable shareholder value.

We reduced our holdings in UK listed tobacco stocks as consumption continues to fall, a problem compounded by the companies' price rises to maintain profitability. The introduction and rapid take up to date of e-cigarettes also creates a competitive threat to the profit structure of the industry over the medium term.

With the direct interference of politicians in utility pricing towards the end of the period we felt compelled to sell our holdings in consumer facing UK utilities. Other important changes during the year included the consolidation of holdings from the previously separate "core" and "satellite" UK portfolios. These were combined as we started to enact the changes to the management of the portfolios described in the Chairman's Statement.

International Equities – Major Holdings

Company	Sector	Market Value £m	% Total Investments
Total	Oil & Gas	4.5	0.9
Novartis	Health Care	4.2	0.8
General Electric	Industrials	3.8	0.8
Ziggo	Consumer Services	3.4	0.7
Aegon	Financials	3.4	0.7
BNP Paribas	Financials	3.4	0.7
Las Vegas Sands	Consumer Services	3.2	0.6
Sanofi	Health Care	3.1	0.6
Continental	Consumer Goods	2.8	0.6
Japan Tobacco	Consumer Goods	2.8	0.6

The International Equity portfolio generated a total return of 13.5 per cent compared with a return of 18.2 per cent from the FTSE All-World (ex UK) Index.

For most of the year this portfolio continued to be managed using our systematic, or quantitative, investment process. While the portfolio generated a positive absolute return and the level of investment income met our expectations, the relative total return was disappointing. This was despite changes made to the strategy in terms of portfolio construction during the year and a reduction in the targeted yield premium, which have not brought about any material improvements in total returns.

The "alpha" model, by which individual companies are assessed using our systematic approach, continued to perform well, contributing positively to the active return. However, holding less in the low yielding Japanese market when it performed so strongly on Prime Minister Abe's stimulus plans, and being somewhat overweight in higher yielding European utilities and underweight in lower yielding diversified financials were all detrimental to performance.

Although the portfolio underperformed, there were stocks that contributed positively. US food retailer Safeway, which has instigated a management turnaround plan, selling off its Canadian operations and also unprofitable stores in Chicago, was particularly strong. The underweight position in Apple, which was a detractor last year, was also helpful as it materially underperformed.

As detailed in the Chairman's Statement, the Company's holdings in international equities will be selected on a fundamental basis going forward rather than the systematic basis followed hitherto. This will result in holdings in fewer companies that will be selected to compliment the UK equity holdings. This process commenced at the very end of the period and is a key component of the reduction in the number of individual holdings and increased position sizes at the year end.

Managers' Review (continued)

Emerging Markets Equities – Major Holdings

Company	Sector	Market Value £m	% Total Investments
Samsung Electronics	Technology	2.7	0.6
Industrial & Commerical Bank of China	Financials	2.3	0.5
Taiwan Semiconductor Manufacturing	Technology	1.8	0.4
AIA	Financials	1.3	0.3
Hyundai Motor	Consumer Goods	1.3	0.3
Ambev	Consumer Goods	1.2	0.2
Banco Bradesco	Financials	1.2	0.2
Mediatek	Technology	1.1	0.2
Petrochina	Oil & Gas	1.1	0.2
Sberbank	Financials	1.0	0.2

The Emerging Markets portfolio generated a total return of negative 1.1 per cent compared with a positive return of 1.0 per cent from the MSCI Emerging Markets Index.

Emerging markets underperformed developed markets during the year. This relative underperformance commenced in January and accelerated through until July. Having initially been triggered by fears over contagion from slowing Chinese growth rates, rising inflation in Asia and anti-government protests in Brazil, market weakness ensued after the Federal Reserve formally flagged the likely tapering of its quantitative easing programme in May. This resulted in the withdrawal of investment which exacerbated the already weak currencies in those major economies with large current account deficits, namely Brazil, India and Indonesia. Korea and Taiwan, which have more balanced budgets, were the relative safe havens.

The approach in the portfolio is based mainly on "bottom-up" stock selection rather than "top down" country allocations. Many of our favoured companies are in the countries with weaker current account positions. This does not suddenly make them poor businesses but there have been impacts on economic growth which, coupled with currency weakness, has not helped relative performance, particularly in the second half of the year.

Over the year as a whole the Company enjoyed very healthy returns from our preferred financial holdings, namely Asian life assurer AIA and Chinese banking group ICBC. Turkish airport operator Tav Havalimanlari has also been very strong with the growth of Istanbul as an international hub and the deferral of a threatened capacity expansion from a new airport in the city.

Less successful positions include Indian holdings in HDFC Bank and engineering group Larsen & Toubro, both of which have suffered as a result of the macroeconomic issues in India. We still hold both companies in high regard and have retained the holdings. Brazilian shopping centre group BR Malls was also a material detractor, though in this case we have sold the holding as the medium term outlook for consumer spending and interest rates (to combat inflation) are both considered detrimental to the near term share price performance.

Corporate Bonds

The corporate bond portfolio generated a total return of 7.7 per cent over the year compared with a return of 3.0 per cent from investment grade bonds as measured by the Merrill Lynch All Sterling Non-Gilts Index and 13.3 per cent from high yield bonds as measured by the Merrill Lynch European Currency High Yield Index.

The primary objective of the corporate bond portfolio has been to supplement the Company's income. This has been achieved by investing in a diversified portfolio of both investment grade and high yield bonds. We have aimed to deliver a total return over time which is comparable with the return we expect from equities and above the cost of the Company's borrowings.

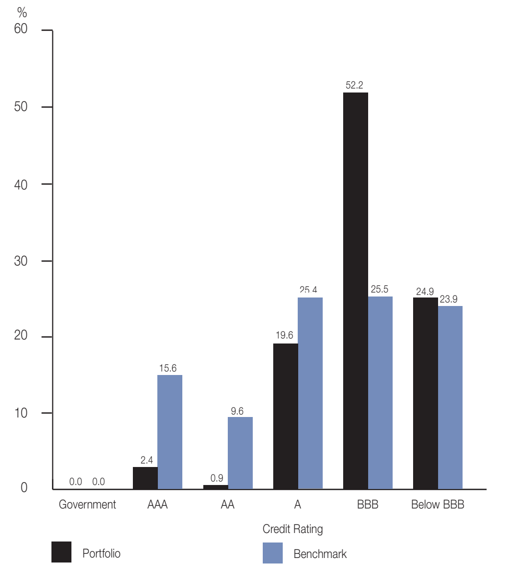
Despite rising yields on government bonds, corporate bonds have performed reasonably well. Notwithstanding a temporary setback in the second quarter of the year, caused by US sequestrations and the Cypriot banking crisis, the Company's high yield bonds outperformed its investment grade bonds which, in turn, outperformed government bonds

At the sector level, financials performed strongly as the retained capital in the banking sector continued to be replenished. For the wider corporate sector, returns were more muted as companies continued to return excess capital to shareholders through buybacks and dividends. Issuance remained high through much of the year with the most noteworthy event being the largest ever bond issuance by Verizon to finance the buyout of the minority stake in Verizon Wireless from Vodafone. This new issue was very well received and the Company, alongside many others, participated.

The relative outperformance of the corporate bond portfolio was derived from an overweight position in higher yielding bonds where spreads tightened and by being slightly shorter duration, at around 6.1 years, than the benchmark indices. These holdings have at least partially insulated the portfolio from the overall environment of higher yields.

With the strong performance of credit markets in recent years the gross redemption yields at the index level are no longer sufficient to meet the original objective of the broadly based portfolio approach described above. To this end we have commenced a process of concentrating the positions into a small number of holdings that can deliver the returns we are seeking and where we are comfortable with the specific credit risk being assumed. By the year end the number of holdings had reduced to around 200 from a peak of over 270 and this process will continue over the coming months. The primary objective remains to generate sufficient income to cover the cost of the Company's long term debt whilst delivering a total return consistent with equities over the medium term.

Distribution of Corporate Bond Portfolio



Managers' Review (continued)

Outlook

Whilst the majority of the Company's equity holdings are UK listed, they remain exposed to global economic trends. That said, UK economic growth is expected to remain at least as firm as other major developed markets in 2014 and this bodes well for the near term outlook.

The slowdown in recovery of the US housing market and the sharp rise in US mortgage rates when the Federal Reserve indicated it would start to taper its rate of asset purchases illustrates the still somewhat fragile nature of the economic recovery. This would lead us to expect an even more gradual withdrawal of support than had been anticipated. The central banks in Europe, Japan and the Bank of England, under its new governor Carney, also remain highly accommodative. These benign conditions have allowed the European economy to stabilise.

There are still very few signs of wage inflation in developed markets and hence we would anticipate that any material change in monetary policy is likely to be gradual. For so long as these conditions persist, with reasonable global economic growth, the relative attraction of and confidence in equities as an asset class are likely to remain, and stock market indices should rise further. Given the recent rerating of equities, however, we would expect progress to be slower than has been achieved in the last year.

The profitability of listed companies in the US is at cyclically high levels and the US economy is forecast to deliver sound, if unspectacular, economic growth. However, US equities are expensive, reflecting these near term prospects and hence we are seeing more attractive valuation characteristics in UK and European listed equities. Emerging market equities remain more lowly valued than they have been for many years and whilst further structural reforms are needed in some countries, the long term investment case, driven by demographic shifts and increasing consumer incomes, remains intact.

This environment of only very slowly rising short to medium term interest rates should be a reasonable background for many of the Company's financial holdings, despite the ongoing pressures on banks to rebuild balance sheets and to pay further recompense for past failings.

With these low interest costs, businesses are now recognising the need to use their very strong balance sheets whilst credit issuance remains available and lowly priced. We would expect further "restructuring" M&A akin to the Vodafone/Verizon transaction in this environment – our holdings in international pharmaceutical groups are prime candidates.

Investor appetite for equites is robust. For so long as this continues we should expect to see many more companies listing in the footsteps of the hugely popular and heavily oversubscribed Royal Mail in the UK. Governments, private equity houses, banks and strategic holders are all looking to recycle their capital. Where business models and governance structures are robust, we welcome these new investment opportunities; although we remain wary of assets leaving long periods of private equity ownership where companies could have been underinvested in the name of capital efficiency.

The outlook for dividend growth remains solid, although we should be aware that aggregate pay-out ratios have risen markedly in recent years. Investors have sought high yields when credit markets offer them so little and companies that have offered this with low volatility business models have been rerated.

Many companies have been content to accede to almost universal shareholder demands for lower debt levels, increased dividends and share buybacks, rather than investing in their businesses. The requirement to pay a dividend is an excellent discipline on a business. However, economic wealth is only created by the judicious investment of capital, either physical or intellectual, on which an above cost of capital return is generated.

As this economic cycle matures, we expect to see a change in emphasis towards dividend growth (rather than purely high initial yields). We will be looking to gradually increase investments into dividend paying companies that are also redeploying retained profits to grow their businesses rather than paying it all away to shareholders. It will be an important differentiator in the medium to long term when bond yields eventually normalise.

The combination of these factors point to remaining fully invested at this stage with a gradual shift in styles of equity holding and we will use this framework to shape the portfolio as we complete the implementation of the changes to create a simplified, focused investment portfolio to achieve our objectives of generating long term total returns above the composite benchmark and delivering a growing dividend for shareholders.

Phil Doel
Investment Manager
F&C Investment Business Limited
22 November 2013

Investment Portfolio

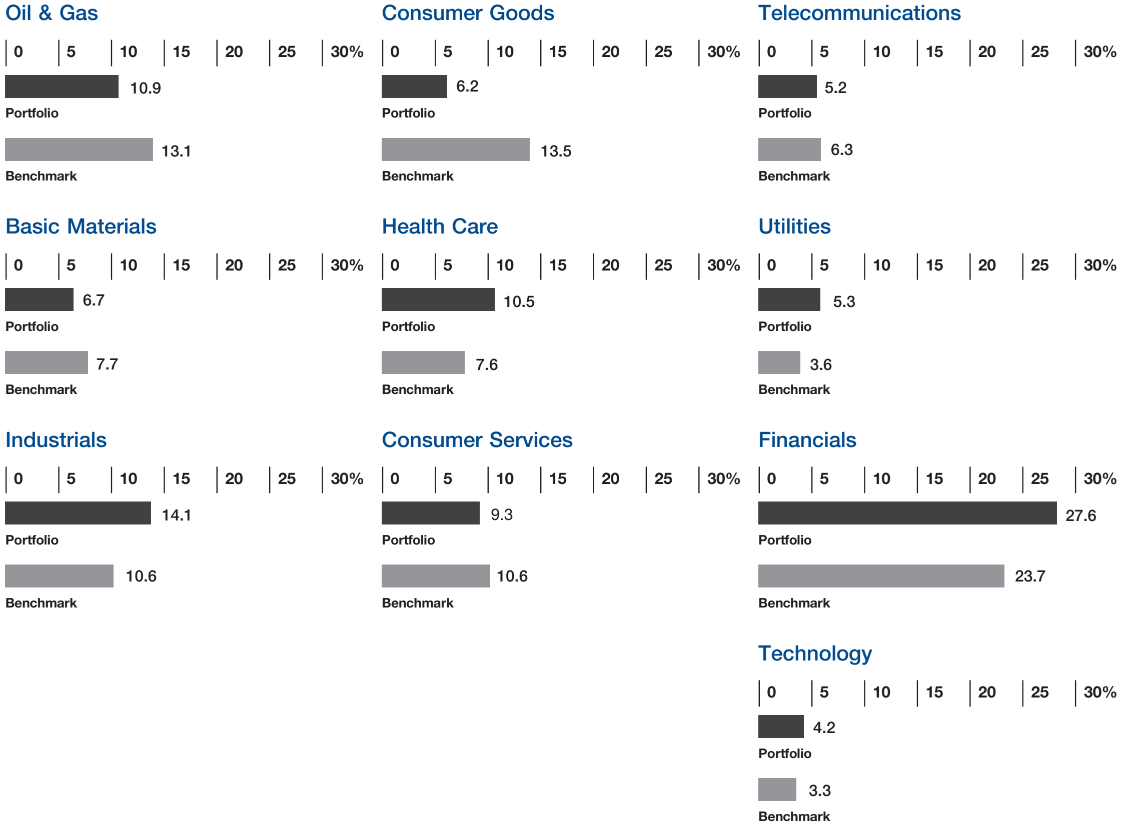
Company	Sector	Valuation £'000	% of Total Invest-ments	Country of listing	2012 Valuation £'000
GlaxoSmithKline is involved in the research, manufacture and sale of pharmaceuticals.	Health Care	20,276	4.2	UK	12,443
HSBC provides a comprehensive range of banking and related financial services on a global basis.	Financials	18,019	3.7	UK	11,338
Royal Dutch Shell is one of the world's largest integrated oil and gas companies.	Oil & Gas	16,117	3.3	UK	13,450
BAE Systems is a global defence, aerospace and security company.	Industrials	14,382	2.9	UK	7,103
BHP Billiton is one of the world's largest producers of major commodities.	Basic Materials	13,529	2.8	UK	12,339
National Grid is an international electricity and gas company.	Utilities	12,877	2.6	UK	–
Standard Chartered provides a comprehensive range of banking and related financial services on a global basis.	Financials	11,834	2.4	UK	8,745
BP is one of the world's largest integrated oil and gas companies.	Oil & Gas	11,470	2.3	UK	14,095
Vodafone is one of the world's largest global provider of mobile telecommunication services.	Telecommunications	10,528	2.2	UK	9,917
AstraZeneca is involved in the research, manufacture and sale of pharmaceuticals.	Health Care	10,362	2.1	UK	8,185
Ten largest investments		**139,394**	**28.5**		**97,615**

Company	Sector	Valuation £'000	% of Total Investments	Country of listing
Rio Tinto	Basic Materials	10,177	2.1	UK
Prudential	Financials	10,024	2.1	UK
British American Tobacco	Consumer Goods	8,372	1.7	UK
Barclays	Financials	7,981	1.6	UK
Lloyds Banking Group	Financials	7,117	1.5	UK
Resolution	Financials	7,029	1.4	UK
Inmarsat	Telecommunications	6,989	1.4	UK
Premier Farnell	Financials	6,736	1.4	UK
Melrose	Industrials	6,131	1.3	UK
Informa	Consumer Services	5,832	1.2	UK
Twenty largest investments		**215,782**	**44.2**	
UBM	Consumer Services	5,730	1.2	UK
CRH	Industrials	5,481	1.1	UK
IG Group	Financials	5,374	1.1	UK
Intermediate Capital	Financials	5,146	1.0	UK
Inchcape	Consumer Services	4,871	1.0	UK
BG Group	Oil & Gas	4,523	0.9	UK
Laird	Technology	4,495	0.9	UK
Total	Oil & Gas	4,462	0.9	France
Babcock International	Industrials	4,245	0.9	UK
BT Group	Telecommunications	4,216	0.9	UK
Thirty largest investments		**264,325**	**54.1**	
Doric Nimrod	Industrials	4,184	0.9	UK
Compass	Consumer Services	4,169	0.9	UK
iEnergizer	Technology	4,166	0.9	UK
Novartis	Health Care	4,162	0.8	Switzerland
Essar Energy Investment 4.25% 01/02/16	Utilities	4,057	0.8	UK
Direct Line Insurance	Financials	3,968	0.8	UK
Amlin	Financials	3,872	0.8	UK
General Electric	Industrials	3,759	0.8	USA
Greenko	Utilities	3,606	0.7	UK
London Metric Property	Financials	3,585	0.7	UK
Forty largest investments		**303,853**	**62.2**	
Ziggo	Consumer Services	3,425	0.7	Netherlands
British Land	Financials	3,419	0.7	UK
Aegon	Financials	3,379	0.7	Netherlands
BNP Paribas	Financials	3,377	0.7	France
Carador Income Fund	Financials	3,217	0.7	UK
Las Vegas Sands	Consumer Services	3,209	0.6	USA
Sanofi	Health Care	3,065	0.6	France
Burberry	Consumer Goods	2,909	0.6	UK
Computacenter	Technology	2,865	0.6	UK
London Mining Jersey 8% 2016	Basic Materials	2,863	0.6	UK
Fifty largest investments		**335,581**	**68.7**	
Other equity investments (128)		**106,091**	**21.7**	
Other corporate bonds (210)		**46,606**	**9.6**	
Total investments		**488,278**	**100.0**	

Classification of Investments

	United Kingdom £'000	Developed Americas £'000	Developed Europe £'000	Other Developed £'000	Emerging Markets £'000	**2013 Total £'000**
Sector Weighting – Equities						
Oil & Gas	40,394	476	4,462	–	1,992	**47,324**
Basic Materials	23,706	–	2,666	–	2,617	**28,989**
Industrials	49,804	5,196	666	–	5,814	**61,480**
Consumer Goods	13,086	1,666	2,761	3,213	6,096	**26,822**
Health Care	34,456	3,283	7,227	–	459	**45,425**
Consumer Services	22,907	10,065	3,892	561	3,045	**40,471**
Telecommunications	22,037	–	–	–	730	**22,767**
Utilities	16,483	1,611	4,019	–	840	**22,953**
Financials	96,757	782	8,986	1,058	12,465	**120,048**
Technology	7,031	5,177	–	212	6,054	**18,473**
Total Equities	326,661	28,256	34,679	5,044	40,112	**434,752**
Corporate Bond Portfolio	35,383	10,973	7,170	–	–	**53,526**
Total Investments	362,044	39,229	41,849	5,044	40,112	**488,278**
% of Total Investments	74.2	8.0	8.6	1.0	8.2	**100.0**

Equity portfolio weighting (% total equity investments) versus Benchmark Index



Strategic Report

As explained within the Report of the Directors on page 23, the Company carries on business as an investment trust. Investment trusts are collective closed-ended public limited companies.

Business Model

Board

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate and gearing strategy, corporate governance procedures and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 22. The Company has no employees.

The Board has contractually delegated the management of the investment portfolio and other services to F&C Investment Business Limited ('the Managers'). A summary of the terms of the management agreement is contained in note 3 to the accounts.

Investment Objective

The Company's investment objective is to achieve a total return in excess of a composite index, weighted as to 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index, by investing principally in a diversified international portfolio of equities and equity-related securities. Within this overall objective, the Company aims to deliver dividend growth which will be dependent upon, inter alia, the rate of revenue growth within the investment portfolio and the level of dividend cover.

Investment Policy

The Company invests worldwide in companies which the Managers believe will generate a combination of long-term growth in capital and income for shareholders.

The Company has not set maximum exposures for any geographical regions or sectors. However, the greater part of the Company's investments will normally be UK equities. The Company also invests in other countries or regions and in corporate bonds. It would normally be expected that most of the Company's investments will be equities and equity-related securities (including corporate bonds). However, the Company is not prohibited from investing in other types of securities. No individual company exposure in the portfolio may exceed 10 per cent of the Company's total assets at the time of investment. The Company will not normally invest more than one per cent of its total assets in unlisted securities at the time of investment.

No more than 10 per cent of the Company's total assets may be invested in aggregate in other listed closed-ended investment companies unless such investment companies themselves have published investment policies to invest no more than 15 per cent of their total assets in other closed-ended investment companies, in which case the limit is 15 per cent.

The Company may use derivatives, principally, but not exclusively, to enhance portfolio returns (of a capital or income nature) and efficient portfolio management, that is, to reduce, transfer or eliminate risk in its investments, including protection against currency risks, or to gain exposure to a specific market.

The Company uses gearing to enhance income and capital returns over the long term and may borrow in sterling or other currencies. The Company's Articles of Association contain a borrowing limit equal to the value of its adjusted total of capital and reserves. However, equity gearing (see definition on page 2) would not normally be expected to exceed 20 per cent of shareholders' funds.

Strategy

The investment strategy employed by the Managers in meeting the investment objective focuses on active stock selection. The selection of individual holdings is based on analysis of, amongst other things, market positioning, competitive advantage, financial strength and cashflows. The weighting of individual investments reflects the Managers' conviction in those holdings and their aggregate views on asset allocation, including between UK and overseas equities, corporate bonds, cash and gearing. In implementing this strategy the Managers are cognisant of the Company's requirement for an above average level of investment income.

Strategic Report (continued)

Investment of Assets

At each Board meeting, the Board considers compliance with the Company's investment policy and other investment restrictions during the reporting period. An analysis of the portfolio on 30 September 2013 is contained in note 9 to the accounts and in the Managers' Review on pages 8 to 15. The 50 largest investments are shown on pages 16 and 17.

Responsible Ownership

The Managers take a particular interest in corporate governance and sustainable business practices. This includes the integration of environmental, social and governance issues into its investment decisions. As stated within the Corporate Governance Statement on pages 26 and 27 all shareholdings are voted at all meetings worldwide where practicable. The Managers engage with companies on corporate governance matters to encourage good practice. This includes engagement on significant social and environmental issues where these may impact shareholder value.

The Manager's current policy is available on its website www.fcamplc.com. The Board supports the Managers on their voting policy and their stance towards environmental, social and governance issues. The Managers statement of compliance with the UK Stewardship Code is included on the website www.fandc.com/ukstewardshipcode.

Review of Performance and Outlook

The Company's performance in meeting its objectives is measured against key performance indicators as set out on the following page. Reviews of the Company's returns during the financial year, the position of the Company at the year end, and the outlook for the coming year are contained in the Chairman's Statement on pages 3 to 6 and the Managers' Review on pages 8 to 15, both of which form part of the Strategic Report.

Principal Risks and Uncertainties and Risk Management

As stated within the Corporate Governance Statement on pages 29 and 30, the Board applies the principles detailed in the internal control guidance issued by the Financial Reporting Council, and has established an ongoing process designed to meet the particular needs of the Company in managing the risks and uncertainties to which it is exposed.

The principal risks and uncertainties faced by the Company are described below and in note 18 which provides detailed explanations of the risks associated with the Company's financial instruments.

- Market – the Company's fixed assets consist almost entirely of listed securities and it is therefore exposed to movements in the prices of individual securities and the market generally.

- Investment and strategic – incorrect investment strategy, asset allocation, stock selection and the use of gearing could all lead to poor returns for shareholders.

- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties, or a qualified audit report. Loss of investment trust status could lead to the Company being subject to tax on capital gains.

- Operational – failure of the Managers' accounting systems or disruption to its business, or that of other third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.

- Financial – inadequate controls by the Managers or other third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations. Breaching bond and loan covenants or being unable to replace maturing borrowing facilities could lead to a loss of shareholders' confidence and financial loss for shareholders.

The Board seeks to mitigate and manage these risks through continual review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's investment portfolio. Investment risk is spread through holding a wide range of securities in different countries and industrial sectors. The Managers monitor investment risk and the Board receives quarterly risk reports.

Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are as follows:

- Net asset value total return per share against the benchmark index.
- Discount of share price to net asset value per share.
- Revenue earnings and dividends per share.
- Ongoing charges as a percentage of the Company's net asset value.

The Company's performance against the key performance indicators is reported within the Chairman's Statement on pages 3 to 6 and the Manager's Review on pages 8 to 15. A historical record of these indicators is contained in the Ten Year Record on page 56.

Statement Regarding Annual Report and Accounts

Following a detailed review of the Annual Report and Accounts by the Audit Committee, the Directors consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board
G R Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU
22 November 2013

Board of Directors

Lynn Ruddick †‡
Chairman
was appointed as a Director in 2004 and Chairman in December 2009. She is Chairman of Fidelity Special Values plc, a non-executive director of Blackrock Frontiers Investment Trust plc and Standard Life UK Smaller Companies Trust plc, a member of the Investment Committee of The Pearson Group Pension Plan, and Chairman of the WPA Pension Scheme and the Scottish & Newcastle Pension Scheme. She was previously a Managing Director of Merrill Lynch Investment Managers where she headed the company's investment trust business unit.

Jim Grover *†‡
was appointed on 25 June 2013. He was, until September 2013, Group Strategy Director of Diageo plc and a member of its Executive Committee.

James Long *†‡
was appointed in 2006. He was formerly Director of Risk and Compliance for AstraZeneca Europe, Corporate Finance Director of Inchcape plc and Managing Director, Asia and Emerging Markets, for the ESAB Group. He is Chairman of JPMorgan Asian Investment Trust plc.

James MacLeod *†‡
Chairman of the Audit Committee
was appointed in 1998 and was a partner of Ernst & Young (and its predecessor firms) for 25 years until his retirement in 1998. He is a non-executive director of Scottish Investment Trust plc and is a Chartered Accountant.

Ian Russell *†‡
was appointed in 2008. He was formerly Chief Executive of Scottish Power plc. He is currently non-executive Chairman of Johnston Press plc, Remploy Ltd, and the Advanced Power AG advisory board, a non-executive director of British Polythene Industries plc, The Mercantile Investment Trust plc, and HICL Infrastructure Company Limited, and an adviser to the Clyde Bergemann Power Group.

Jimmy West *†‡
Senior Independent Director
was appointed in 1995 and was formerly a Managing Director of Lazard Brothers and Co Ltd and Chief Executive of Lazard Asset Management Ltd. He is Chairman of New City High Yield Fund Ltd and a non-executive director of JPMorgan Income & Capital Trust plc, Aberdeen Smaller Companies High Income Trust plc and Threadneedle UK Select Trust plc. He is Chairman of Associated British Foods Pension Fund Ltd.

* Member of the Audit Committee
† Member of the Management Engagement Committee
‡ Member of the Nomination Committee

Report of the Directors

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 2013.

Results and Dividends

The results for the year are set out in the attached accounts.

A first interim dividend of 1.442p per Ordinary Share was paid on 12 April 2013. Second and third interim dividends, each of 1.4853p per Ordinary Share, were paid on 12 July and 11 October 2013 respectively. The Board recommends a final dividend for the year of 1.8396p per Ordinary Share payable on 31 January 2014 to shareholders on the register at close of business on 27 December 2013.

Principal Activity and Status

The Company (company number: SC3721) is a public limited company and an investment company in terms of the Companies Act 2006.

The Company carries on business as an investment trust. It has been approved by HM Revenue & Customs as an investment trust.

Capital Structure

The Company's capital structure is set out on page 56.

Directors

Biographical details of the Directors, all of whom are non-executive, can be found on page 22.

On 25 June 2013 Jim Grover was appointed as a Director. Mr Grover has extensive business experience which adds significant value to Board deliberations. In accordance with the Company's Articles of Association he will retire at the Annual General Meeting, being the first such meeting following his appointment and, being eligible, offers himself for election.

As explained in more detail in the Corporate Governance Statement on page 26, the Board has agreed that all Directors will retire annually. Accordingly, the other five Directors will retire at the Annual General Meeting. Being eligible, Lynn Ruddick, James Long, Ian Russell and Jimmy West offer themselves for re-election. James MacLeod has indicated that he will not stand for re-election and will therefore retire from the Board at the end of the Annual General Meeting.

The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on page 26, the performance of each of the Directors seeking re-election continues to be effective and demonstrates commitment to the role. The Board therefore believes that it is in the interests of shareholders that these Directors are re-elected.

No Director has a contract of service with the Company or any interest in any contract to which the Company is a party. In addition to any power of removal conferred by the Companies Acts, the Company may by special resolution remove any Director without notice.

Directors' Deeds of Indemnity

The Company has entered into deeds of indemnity in favour of each of the Directors. The deeds give each Director the benefit of an indemnity to the extent permitted by the Companies Act 2006 against liabilities incurred by any of them in the execution of their duties and the exercise of their powers. A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

Conflicts of Interest

Each Director has a statutory duty to avoid a situation where he or she has, or could have, a direct or indirect interest which conflicts, or may conflict, with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised by the Board in accordance with the Company's Articles of Association.

The Board has approved a protocol for identifying and dealing with conflicts and conducts a review of actual or possible conflicts at least annually. No conflicts or potential conflicts were identified during the year.

Report of the Directors (continued)

Substantial Interests in Share Capital

On 30 September 2013 the Company had received notification of the following voting rights (under the Financial Conduct Authority's Disclosure and Transparency Rules):

	Number of Ordinary Shares Held	Percentage Held
AXA Investment Managers SA	40,362,177	13.9
F&C Asset Management plc	13,153,254	4.5
Investec Wealth & Investment Limited	8,795,304	3.0

There have been no changes notified in respect of the above holdings, and no new holdings notified, since the end of the year.

Management

The Managers provide investment management and other services to the Company.

During the year, the Board reviewed the appropriateness of the Managers' appointment. In carrying out its review the Board considered the past investment performance of the Company and the capability and resources of the Managers to deliver satisfactory income growth and investment performance. It also considered the standard of other services provided which include company secretarial, accounting and marketing.

Following this review, the Directors are satisfied with the Managers' ability to deliver satisfactory income growth and long term investment performance and with the quality of other services provided. It is the Directors' opinion that the continuing appointment of the Managers on the terms agreed is in the interests of shareholders.

A summary of the terms of the management agreement and fees paid during the year is contained in note 3 to the accounts.

Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions.

Going Concern

In assessing the going concern basis of accounting, the Directors have had regard to the guidance issued by the Financial Reporting Council. They have considered the current cash position of the Company, the availability of the revolving advance facility, compliance with the bond and loan covenants, and forecast revenues for the current financial year. The Directors have also taken into account the Company's investment policy, which is described on page 19 and which is subject to regular Board monitoring processes, and is designed to ensure that the Company is invested in mainly liquid, listed securities. The Company retains title to all assets held by its custodian and has agreements relating to its borrowing facilities.

Note 18 to the accounts sets out the financial risk profile of the Company and indicates the effect on its assets and liabilities of falls and rises in the value of securities, market rates of interest and changes in exchange rates.

The Directors believe, in the light of the controls and review processes noted above and bearing in mind the nature of the Company's business and assets, that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, bonds, bank loan, foreign exchange currency contracts, cash balances and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 18 to the accounts.

Annual General Meeting

The notice of the Annual General Meeting to be held on 27 January 2014 is set out on pages 60 to 62.

Directors' Authority to Allot Shares

The Directors are seeking authority to allot shares. Resolution 12 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £7,235,307, being 10 per cent of the total issued shares on 22 November 2013, excluding shares held in treasury. Resolution 13 will, if passed, authorise the Directors to allot new shares for cash up to an aggregate nominal amount of £3,617,653, being 5 per cent of the total issued shares on 22 November 2013, excluding shares held in treasury, without first offering such shares to existing shareholders pro rata to their existing holdings. These authorities will continue until the earlier of the expiry of 15 months from the passing of the resolutions and the conclusion of the next Annual General Meeting. The Directors will only allot new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and will not result in a dilution of net asset value per share. The Directors consider that the authorisations proposed in resolutions 12 and 13 are necessary to retain flexibility, although they do not intend to exercise the powers conferred by these authorisations at the present time.

Directors' Authority to Buy Back Shares

During the year, the Company bought back 1,700,000 Ordinary Shares to be held in treasury.

Resolution 14, as set out in the notice of the Annual General Meeting, seeks renewal of the Company's share buy-back authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99 per cent of the issued Ordinary Shares of the Company on the date of the passing of the resolution, excluding shares held in treasury (approximately 43 million Ordinary Shares). The price paid for shares will not be less than the nominal value of 25p per share nor more than the higher of (i) 5 per cent above the average closing price on the London Stock Exchange of an Ordinary Share over the five business days before the shares are purchased and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. This power will only be exercised if, in the opinion of the Directors, a purchase will result in an increase in net asset value per share of the remaining shares and is in the interests of shareholders. Any shares purchased under this authority will be cancelled or held in treasury for future re-issue at a premium to the prevailing net asset value per share. This authority will expire on the earlier of 27 July 2015 and the conclusion of the next Annual General Meeting of the Company.

As of 22 November 2013 there were 291,112,282 Ordinary Shares in issue, including 1,700,000 Ordinary Shares held in treasury.

Disclosure of Information to the Auditor

The Directors confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

Individual Savings Accounts

The Company's shares are qualifying investments for Individual Savings Accounts. It is the intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

By order of the Board
G R Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU
22 November 2013

Corporate Governance Statement

Shareholders hold the directors of a company responsible for the stewardship of that company's affairs. Corporate governance is the process by which a board of directors discharges this responsibility. The Company's arrangements in respect of corporate governance are explained in this report.

The Company is required to comply with, or to explain its non-compliance with, the relevant provisions of the UK Corporate Governance Code issued by the Financial Reporting Council (the 'FRC') in September 2012 which can be found at www.frc.org.uk. The Association of Investment Companies issued its own Code of Corporate Governance in February 2013 (the 'AIC Code'), which can be found at www.theaic.co.uk and which has been approved by the FRC as it addresses all the principles of the UK Corporate Governance Code as well as setting out additional principles and recommendations on issues which are of specific relevance to investment trusts. The Board considers that reporting against the principles and recommendations of the AIC Code provides better information to shareholders than the UK Corporate Governance Code on its own.

Throughout the year, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code. Since the Company has no employees and all Directors are non-executive, the provisions of the UK Corporate Governance Code on the role of a chief executive and on Directors' remuneration, except in so far as they apply to non-executive Directors, are not relevant to the Company and are not reported on further.

At the end of the year the Board consisted of six independent non-executive Directors. Lynn Ruddick is the Chairman and Jimmy West is the Senior Independent Director. As explained in the Report of the Directors on page 23, Jim Grover was appointed as a Director during the year. All the Directors have been issued with letters of appointment, which are available upon request at the Company's registered office. The Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. The biographies of all the Directors are contained on page 22. During the year the performance of the Board, committees and individual Directors was evaluated through an interview-based process led by the Chairman. This process involved discussions between the Chairman and individual Directors and feedback from the Chairman to the Board and individual Directors. The performance of the Chairman was evaluated in the same way by the Senior Independent Director. The Board believes that each Director is independent in character and that there are no relationships or circumstances which are likely to affect his or her judgement. All Directors receive relevant training, collectively or individually, as necessary.

The Board subscribes to the view expressed in the AIC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that the length of a Director's tenure reduces his or her ability to act independently. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of services of any of the Company's Directors, including the Chairman, has been imposed, although the Board believes in the merits of periodic and progressive refreshment of its composition.

The basis on which the Company aims to generate value over the longer term is set out in the Strategic Report on pages 19 to 21. A management agreement between the Company and the Managers sets out the matters over which the Managers have authority and the limits beyond which Board approval must be sought. All other matters, including corporate and gearing strategy, investment and dividend policies, corporate governance procedures and risk management are reserved for the approval of the Board of Directors. The Board receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

The Managers, in the absence of explicit instructions from the Board, are empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all meetings worldwide where practicable in accordance with the Managers' own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use their influence as investors with a principled approach to corporate governance.

Much of the Board's corporate governance responsibility is discharged through the Audit, the Management Engagement and the Nomination Committees. These Committees all operate within clearly defined written terms of reference which are available upon request at the Company's registered office.

Audit Committee

The Audit Committee is chaired by James MacLeod and comprises all of the Directors except the Chairman of the Board, Lynn Ruddick. Following the retirement of James MacLeod as a Director at the forthcoming Annual General Meeting, it is the Board's intention that James Long will be appointed as Chairman of the Audit Committee. The duties of the committee include reviewing the Annual and Interim Accounts, the system of internal controls, and the terms of appointment and remuneration of the auditor, Ernst & Young LLP ('EY'), including its independence and objectivity. It is also the forum through which EY reports to the Board of Directors. The Committee meets at least twice yearly including at least one meeting with EY.

Significant Issues Considered by the Audit Committee in Relation to the Financial Statements

Matter	Action
Investment Portfolio Valuation The Company's portfolio is invested predominantly in listed securities. Although most of the securities are highly liquid and listed on recognised stock exchanges, errors in the portfolio valuation could have a material impact on the Company's net asset value per share.	The Audit Committee reviewed the Managers' annual internal control report, which is reported on by independent external accountants, and which details the systems, processes and controls around the daily pricing of equity and fixed interest securities, including the application of exchanges rate movements.
Misappropriation of Assets Misappropriation of the Company's investments or cash balances could have a material impact on its net asset value per share.	The Audit Committee reviewed the Managers' annual internal control report, as referred to above, which details the controls around the reconciliation of the Managers' records to those of the custodian. The Audit Committee also reviewed the custodian's annual internal control report, which is reported on by independent external accountants, and which provides details regarding its control environment.
Income Recognition Incomplete or inaccurate income recognition could have an adverse effect on the Company's net asset value and earnings per share and its level of dividend cover.	The Audit Committee reviewed the Managers' annual internal control report, as referred to above, which details the systems, processes and controls around the recording of investment income. It also compared the final level of income received for the year to the budget which was set at the start of the year and discussed the accounting treatment of individual special dividends with the Managers.

Corporate Governance Statement (continued)

The Audit Committee reviews the scope and results of the audit and, during the year, considered and approved EY's plan for the audit of the financial statements for the year ended 30 September 2013. At the conclusion of the audit EY did not highlight any issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. EY issued an unqualified audit report which is included on pages 53 to 55.

The Audit Committee also reviews the provision of non-audit services by the auditor. It has been agreed that all non-audit work to be carried out by the auditor must be approved in advance by the Audit Committee. In addition to statutory audit fees of £26,000 (2012: £25,000), EY received fees for non-audit services of £6,000 for the year (2012: £5,000) which related to the provision of tax compliance services and certification of a bond compliance certificate. The Audit Committee does not consider that the provision of such non-audit services is a threat to the objectivity and independence of the conduct of the audit.

As part of the review of auditor independence and effectiveness, EY has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating EY, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The appointment has not been put out to tender notwithstanding EY's tenure over many years as the Audit Committee, from direct observation and enquiry of the Managers, remains satisfied that EY continues to provide effective independent challenge in carrying out its responsibilities. Following professional guidelines, the audit partner rotates after five years. On the basis of this assessment, the Audit Committee has recommended the continuing appointment of EY to the Board. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

Management Engagement Committee

The Management Engagement Committee, chaired by Lynn Ruddick, comprises the full Board. The committee reviews the appropriateness of the Managers' continuing appointment, together with the terms and conditions thereof, on a regular basis. In addition to total return performance, the Managers are also judged in relation to management of the revenue account, quality of the fund management and administration teams, commitment to their investment trust business, strength of relationships with shareholders and the appropriateness of the management contract, including fees.

As stated in the Directors' Remuneration Report on page 31, the full Board determines the level of Directors' fees and accordingly there is no separate Remuneration Committee.

Nomination Committee

The Nomination Committee, chaired by Lynn Ruddick, comprises the full Board. The committee is convened for the purpose of considering the appointment of additional Directors as and when appropriate. Any appointments to the Board are based on merit, but in considering appointments, the Nomination Committee also takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, independence, diversity, including gender, and knowledge of the Company within the Board. The Directors have not set any measureable objectives in relation to the diversity of the Board. New Directors receive an induction from the Managers on joining the Board.

During the year, the Company employed the services of an external search consultant, Norman Broadbent Executive Search Limited, to assist with the recruitment of a new Director and Jim Grover was subsequently appointed to the Board on 25 June 2013. Norman Broadbent Executive Search Limited has no other connection with the Company.

The table below sets out the number of scheduled Board and committee meetings held during the year and the number of meetings attended by each Director.

	Board of Directors		Audit Committee		Management Engagement Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Lynn Ruddick	6	6	n/a	n/a	1	1	1	1
Jim Grover (appointed 25 June 2013)	2	2	–	–	–	–	–	–
James Long	6	6	2	2	1	1	1	1
James MacLeod	6	6	2	2	1	1	1	1
Ian Russell	6	6	2	2	1	1	1	1
Jimmy West	6	6	2	2	1	1	1	1

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

Relations with Shareholders

The Company places great importance on communication with shareholders and welcomes their views. The Managers and the Company's broker hold meetings with the Company's largest shareholders and report back to the Board on these meetings. The Chairman and other Directors are available to meet shareholders. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Managers of the Company.

The notice of the Annual General Meeting, to be held in London on 27 January 2014, is set out on pages 60 to 62. The Annual Report and Notice of Annual General Meeting are sent to shareholders at least 20 working days before the Meeting.

In addition this year, and as explained in the Chairman's Statement, a separate shareholder presentation will be held in Edinburgh on 17 December 2013.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. It has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued by the Financial Reporting Council.

The process relies principally on the Managers' existing risk-based approach to internal control whereby a risk matrix is created which identifies the key functions carried out by the Managers and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. From this, the Board has identified the Company's principal risks and controls employed to minimise these risks. The risk matrix is regularly updated and the Board is provided with reports highlighting all material changes to the risk ratings. The Board reviews the risk matrix on at least an annual basis. At each Board meeting the Board monitors the investment performance of the Company in comparison to its stated objective, the benchmark index, and against comparable investment trusts. The Board also reviews the Company's activities since the

Corporate Governance Statement (continued)

last Board meeting to ensure that the Managers adhere to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to the guidelines.

A formal annual review of the foregoing procedures is carried out by the Audit Committee. The Audit Committee has also reviewed the Managers' "Report on Policies and Procedures in Operation and Tests in accordance with AAF (01/06)" for the year ended 31 December 2012 that has been prepared for their investment trust clients. Containing a report from independent external accountants, the report sets out the Managers' control policies and procedures with respect to the management of their clients' investments. The effectiveness of these controls is monitored by the Managers' group audit committee which receives regular reports from the Managers' audit, risk and compliance department. Procedures are in place to capture and evaluate failings and weaknesses and to ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No significant failings or weaknesses in respect of the Company were identified during the year under review nor to the date of this report. The Audit Committee also considers internal control reports issued by other service providers, including the Company's custodian.

The review procedures detailed above have been in place throughout the financial year and up to the date of approval of the Annual Report, and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Managers, including their internal audit function, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

By order of the Board
G R Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU
22 November 2013

Directors' Remuneration Report

The Board consists of independent non-executive Directors. The Company has no executive Directors or employees. For these reasons, it is not considered appropriate to have a separate Remuneration Committee. The full Board determines the level of Directors' fees.

Statement by the Chairman

Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 30 September 2013, are shown below. There were no changes to the policy during the year.

Under company law, the auditor is required to audit certain disclosures provided. Where disclosures have been audited they are indicated as such. The auditor's report is contained on pages 53 to 55.

Directors' Remuneration Policy Report

The Board considers the level of Directors' fees at least annually. Its policy is that the remuneration of Directors should reflect the experience of the Board as a whole, the responsibilities of the role, the time commitment required, and be fair and comparable to that of other investment trusts that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Company properly and to reflect its specific circumstances. It is intended that this policy will continue for the three year period ending 30 September 2016.

The fees for the Directors are determined within the limits set out in the Company's Articles of Association. The present limit is an aggregate of £300,000 per annum and may not be changed without seeking shareholder approval at a general meeting. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The Board has not received any views from the Company's Shareholders in respect of the levels of Directors' remuneration.

It is the Board's policy that Directors do not have service contracts, but each new Director is provided with a letter of appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to and during the forthcoming Annual General Meeting.

The Board has agreed that all Directors will retire annually. There is no notice period and no provision for compensation upon early termination of appointment.

Director	Date of Appointment	Due date for Re-election
Lynn Ruddick	1/10/2004	AGM 2014
Jim Grover	25/6/2013	AGM 2014
James Long	1/5/2006	AGM 2014
James MacLeod	17/12/1998	N/A
Ian Russell	1/6/2008	AGM 2014
Jimmy West	22/6/1995	AGM 2014

Based on the current levels of fees, Directors' remuneration for the forthcoming financial year would be as follows:

	2014* £	2013# £
Lynn Ruddick (Chairman)	40,500	40,250
Jim Grover (appointed 25 June 2013)	23,750	6,333
James Long	26,446	23,562
James MacLeod (due to retire 27 January 2014)	9,047	27,562
Ian Russell	23,750	23,562
Jimmy West	25,750	25,562
Total	146,547	146,831

* Directors' remuneration for the year ending 30 September 2014 based on current fee levels

\# Actual Directors' remuneration for the year ended 30 September 2013

It is the current intention of the Board that the level of Directors' fees will be reviewed in January 2014. Any changes made will be in accordance with the policy stated above.

Voting at Annual General Meeting

An ordinary resolution for the approval of this Directors' Remuneration Policy Report will be put to shareholders at the forthcoming Annual General Meeting.

Directors' Remuneration Report (continued)

Directors' Annual Report on Remuneration

Directors' Emoluments for the Year (audited)

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

	2013 £	2012 £
Lynn Ruddick (Chairman)	40,250	39,250
Jim Grover (appointed 25 June 2013)	6,333	–
James Long	23,562	22,750
James MacLeod	27,562	26,750
Ian Russell	23,562	22,750
Jimmy West	25,562	24,750
Total	146,831	136,250

The table below shows the actual expenditure during the year in relation to Directors' remuneration and shareholder distributions:

	2013 £	2012 £	% Change
Aggregate Directors' Remuneration	146,831	136,250	+7.8%*
Aggregate Shareholder Distributions	17,872,000	17,782,000	+0.5%

* £6,333 of the increase in Directors' remuneration for the year is attributable to the appointment of a new Director.

Directors' Shareholdings (audited)

The Directors who served during the year held the following interests in the Company's Ordinary Shares at the year end:

		2013 Ordinary Shares	2012 Ordinary Shares
Lynn Ruddick	Beneficial	**62,490**	35,144
	Non-Beneficial	**5,088**	4,411
Jim Grover	Beneficial	**20,000**	–
James Long	Beneficial	**15,592**	14,928
James MacLeod	Beneficial	**60,000**	35,000
	Non-Beneficial	**9,500**	9,500
Ian Russell	Beneficial	**20,000**	20,000
Jimmy West	Beneficial	**38,400**	38,400

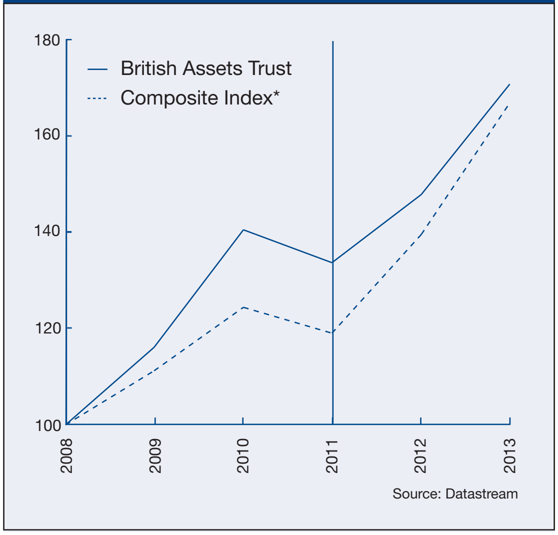
Since 30 September 2013, Lynn Ruddick and James Long have acquired beneficial interests in a further 81 shares and 167 shares respectively. Lynn Ruddick has acquired a non-beneficial interest in a further 115 shares. There have been no other changes in the interests of the Directors in the Ordinary Shares of the Company between 30 September 2013 and 22 November 2013.

No Director had an interest in the Company's 6.25 per cent Bonds 2031 during the year ended 30 September 2013 or has acquired an interest since the year end.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Managers through the investment management agreement, as referred to in the Report of the Directors on page 24. The graph below compares, for the five financial years ended 30 September 2013, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which a composite index, weighted as to 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index, is calculated. This composite index was chosen as it represents a comparable broad equity market index and is the Company's benchmark. An explanation of the performance of the Company for the year ended 30 September 2013 is given in the Chairman's Statement and Managers' Review.

Share Price Total Return and Composite Index Total Return Performance Graph



*From 1 October 2011: 80 per cent FTSE All-Share Index, 20 per cent FTSE World (ex UK) Index. Until 30 September 2011: 75 per cent FTSE All-Share Index, 25 per cent FTSE World (ex UK) Index.

Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 29 January 2013, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 September 2012. 98.4% of votes were in favour of the resolution, 0.9% were against, and 0.7% abstained.

An ordinary resolution for the approval of this Directors' Annual Report on Remuneration will be put to shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

Lynn Ruddick
Director

22 November 2013

Income Statement

for the year ended 30 September	Notes	Revenue £'000	Capital £'000	2013 Total £'000	Revenue £'000	Capital £'000	2012 Total £'000
Gains on investments	9	**–**	**41,028**	**41,028**	–	41,800	41,800
Exchange differences	14	**–**	**(154)**	**(154)**	–	544	544
Income	2	**22,382**	**–**	**22,382**	21,887	–	21,887
Management expenses	3	**(671)**	**(1,246)**	**(1,917)**	(442)	(1,325)	(1,767)
Other expenses	4	**(870)**	**–**	**(870)**	(859)	–	(859)
Net return before finance costs and taxation		**20,841**	**39,628**	**60,469**	20,586	41,019	61,605
Finance costs	5	**(1,465)**	**(2,720)**	**(4,185)**	(1,028)	(3,082)	(4,110)
Return on ordinary activities before taxation		**19,376**	**36,908**	**56,284**	19,558	37,937	57,495
Tax on ordinary activities	6	**(359)**	**–**	**(359)**	(471)	–	(471)
Return attributable to shareholders		**19,017**	**36,908**	**55,925**	19,087	37,937	57,024
Return per share	8	**6.6p**	**12.7p**	**19.3p**	6.6p	13.0p	19.6p

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 September 2013	Notes	Called-up Share Capital £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Shareholders' Funds £'000
Opening shareholders' funds		**72,778**	**15,563**	**261,772**	**32,422**	**382,535**
Share buy-backs		**–**	**–**	**(2,243)**	**–**	**(2,243)**
Dividends paid	7	**–**	**–**	**–**	**(17,872)**	**(17,872)**
Return attributable to ordinary shareholders		**–**	**–**	**36,908**	**19,017**	**55,925**
Closing shareholders' funds		**72,778**	**15,563**	**296,437**	**33,567**	**418,345**

for the year ended 30 September 2012	Notes	Called-up Share Capital £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Shareholders' Funds £'000
Opening shareholders' funds		72,778	15,563	223,835	31,117	343,293
Dividends paid	7	–	–	–	(17,782)	(17,782)
Return attributable to ordinary shareholders		–	–	37,937	19,087	57,024
Closing shareholders' funds		72,778	15,563	261,772	32,422	382,535

The total column of the Income Statement is the Profit and Loss Account of the Company. The supplementary revenue and capital columns are both prepared under guidance published by The Association of Investment Companies.

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

No operations were acquired or discontinued in the year.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above Income Statement. The accompanying notes are an integral part of the financial statements.

Balance Sheet

as at 30 September	Notes	£'000	2013 £'000	£'000	2012 £'000
Fixed assets					
Investments at fair value through profit or loss	9		**488,278**		445,115
Current assets					
Debtors	10	**23,072**		3,573	
Cash in bank and on deposit		**14,594**		14,486	
		37,666		18,059	
Creditors: amounts falling due within one year	11	**(48,072)**		(21,139)	
Net current liabilities			**(10,406)**		(3,080)
Total assets less current liabilities			**477,872**		442,035
Creditors: amounts falling due after more than one year	12		**(59,527)**		(59,500)
Net assets			**418,345**		382,535
Capital and reserves					
Called-up share capital	13, 14		**72,778**		72,778
Capital redemption reserve	14		**15,563**		15,563
Capital reserve	14		**296,437**		261,772
Revenue reserve	14		**33,567**		32,422
Shareholders' funds	15		**418,345**		382,535
Net asset value per share	15		**144.5p**		131.4p

The accounts on pages 34 to 51 were approved by the Board of Directors and authorised for issue on 22 November 2013 and signed on its behalf by:

Lynn Ruddick, Chairman

The accompanying notes are an integral part of the financial statements.

Cash Flow Statement

for the year ended 30 September	Notes	£'000	2013 £'000	£'000	2012 £'000
Operating activities					
Investment income received		**21,823**		20,126	
Deposit interest received		**29**		40	
Option premiums received		**409**		606	
Underwriting commission received		**39**		76	
Management expenses paid		**(1,917)**		(1,767)	
Other cash payments		**(897)**		(863)	
Net cash inflow from operating activities	16		**19,486**		18,218
Servicing of finance					
Interest on 6.25 per cent Bonds 2031		**(3,750)**		(3,750)	
Interest on revolving advance facility		**(422)**		(307)	
Net cash outflow from servicing of finance			**(4,172)**		(4,057)
Capital expenditure and financial investment					
Purchases of investments		**(344,520)**		(285,344)	
Sales of investments		**344,617**		295,512	
Net cash inflow from capital expenditure and financial investment			**97**		10,168
Equity dividends paid	7		**(17,872)**		(17,782)
Net cash (outflow)/inflow before financing			**(2,461)**		6,547
Financing					
Revolving advance facility drawndown/(repaid)		**5,015**		(2,917)	
Ordinary Shares purchased to be held in treasury		**(2,243)**		–	
Net cash inflow/(outflow) from financing			**2,772**		(2,917)
Increase in cash	17		**311**		3,630

Reconciliation of net cash flow to movement in net debt					
Increase in cash in the year		**311**		3,630	
Revolving advance facility (drawndown)/repaid		**(5,015)**		2,917	
Change in net debt resulting from cash flows			**(4,704)**		6,547
Currency (losses)/gains			**(187)**		465
Increase in 6.25 per cent Bonds 2031 liability			**(27)**		(26)
Movement in net debt in the period			**(4,918)**		6,986
Opening net debt			**(64,968)**		(71,954)
Closing net debt	17		**(69,886)**		(64,968)

The accompanying notes are an integral part of the financial statements.

Notes to the Accounts

1 Accounting policies

A summary of the principal accounting policies adopted is set out below.

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ('UK GAAP') and in accordance with guidelines set out in the Statement of Recommended Practice ('SORP') for investment trust companies and venture capital trusts, issued in January 2009 by the Association of Investment Companies ('AIC'), except as disclosed in the following paragraph.

Expenses which are allocated to capital are available to reduce the Company's liability to corporation tax. The SORP recommends that the benefit of that tax relief should be allocated to capital and a corresponding charge made to revenue. This is known as the 'marginal method' of allocating tax relief between capital and revenue. The Company does not adopt the marginal method for two reasons. Firstly, the Company has only one class of share and any allocation of tax relief between capital and revenue would have no impact on shareholders' funds. Secondly, the significant unutilised management expenses and interest carried forward make it unlikely that the Company will be liable to corporation tax in the foreseeable future. Had this allocation been made, the charge to revenue and corresponding credit to capital for the year ended 30 September 2013 would have been £165,000 (2012: £456,000).

The notes and financial statements are presented in pounds sterling (being the functional currency of the Company and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

(b) Investments

Investments have been categorised as 'financial assets at fair value through profit or loss' and are recognised and derecognised on the date the shares are traded. Listed investments are valued at their fair value which is represented by the bid price. Changes in fair value are included in the Income Statement as a capital item. Unquoted investments are valued by the Directors at their fair value on the basis of all information available to them at the time of valuation.

(c) Capital reserve

The following are accounted for in this reserve:

- realised and unrealised exchange differences on transactions of a capital nature;
- realised and unrealised exchange differences on forward foreign currency contracts;
- gains and losses on the realisation of investments;
- increases and decreases in the valuation of investments held at the year end;
- special dividends of a capital nature;
- expenses and finance costs charged to capital as set out in the policies below; and
- cost of purchasing Ordinary Shares for cancellation or holding in treasury.

(d) Income

Dividends are recognised as income on the date on which the related investments are marked ex-dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established.

Income from fixed interest securities is recognised on an accruals basis. Other investment income, underwriting commission and deposit interest are also recognised on an accruals basis.

Special dividends of a revenue nature are recognised through the revenue column of the Income Statement. Where the Company has elected to receive dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income.

Notes to the Accounts (continued)

1 Accounting policies (continued)

(e) Traded options

The Company may enter into option contracts. The option contracts are shown in other assets or other liabilities at their fair values. The premiums received and fair value changes in the open positions are normally recognised in the revenue column of the Income Statement. The costs of closing open option positions are recognised in the capital column of the Income Statement. Where options are written for the maintenance or enhancement of the Company's investments then the changes in fair value are recognised in the capital column of the Income Statement.

(f) Deferred taxation

Where the year in which tax deductable expenditure is incurred differs from the year in which tax relief for the expenditure is given, the amount of the tax relief is known as 'deferred tax'. Since the management expenses incurred by the Company in the year under review exceed its profits liable to UK corporation tax (see note 6(b)), the tax relief attributable to the excess expenses, which can be carried forward to future years, is a'deferred tax asset'. However, in accordance with UK GAAP, that deferred tax asset has not been recognised in these accounts since it is unlikely that, in future years, the Company will receive sufficient profits liable to UK corporation tax against which the brought forward expenses can be set-off.

(g) Expenses

Expenses are accounted for on an accruals basis. Transaction costs incurred on the purchase and sale of investments are taken to the Income Statement as a capital item. Other expenses are all allocated to revenue with the exception of management fees which have been allocated 35 per cent to revenue and 65 per cent to capital in accordance with the Board's view on the expected long-term split of returns, in the form of income and capital gains respectively, from the Company's investment portfolio.

(h) Interest-bearing borrowings

All non-current borrowings are initially recognised at cost, being fair value of the consideration received, net of arrangement costs associated with the borrowings. After initial recognition, all interest-bearing borrowings are subsequently measured at amortised cost using the effective yield basis. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

(i) Finance costs

Finance costs are accounted for on an effective yield basis. Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, have been allocated 35 per cent to revenue and 65 per cent to capital in accordance with the Board's view on the expected long-term split of returns, in the form of income and capital gains respectively, from the Company's investment portfolio.

(j) Dividends

Dividends paid are calculated on an amount per share as approved by the Board of Directors and are recognised in the financial statements when they are paid.

(k) Foreign currencies

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

1 Accounting policies (continued)

Rates of exchange at 30 September

	2013	2012
US Dollar	**1.6194**	1.6148
Euro	**1.1963**	1.2552
Japanese Yen	**158.9036**	125.6315

2 Income

	2013 £'000	2012 £'000
Investment income – listed UK:		
Dividend income	**14,590**	13,365
Other investment income	**2,243**	1,882
Investment income – listed overseas:		
Dividend income	**4,084**	4,367
Other investment income	**969**	1,363
Other income:		
Option premiums	**428**	794
Deposit interest	**29**	40
Underwriting commission	**39**	76
Total income	**22,382**	21,887
Total income comprises:		
Dividends	**18,674**	17,732
Income from fixed interest securities	**3,212**	3,245
Option premiums	**428**	794
Deposit interest	**29**	40
Underwriting commission	**39**	76
	22,382	21,887

Notes to the Accounts (continued)

3 Management expenses

	Revenue £'000	Capital £'000	2013 Total £'000	Revenue £'000	Capital £'000	2012 Total £'000
Investment management fee:	**671**	**1,246**	**1,917**	442	1,325	1,767

The Company's investment manager is F&C Investment Business Limited ('FCIB'). FCIB is entitled to a quarterly management fee, payable in advance, equal to 0.1 per cent of the value of the Company's total assets less current liabilities (excluding loans).

The contract between the Company and FCIB may be terminated at any time by either party giving six months' notice of termination. In the event of the Company terminating the contract by giving less than six months' notice, FCIB is entitled to compensation calculated as a proportion of the fees payable by the Company in respect of the previous financial year pro-rated to the date of termination.

Investment management fees have been allocated 35 per cent to revenue and 65 per cent to capital for the year ended 30 September 2013 (year ended 30 September 2012: 25 per cent to revenue and 75 per cent to capital).

4 Other expenses

	2013 £'000	2012 £'000
Directors' fees	**147**	136
Auditors' remuneration for:		
– audit	**26**	25
– taxation compliance services	**5**	4
– other audit related services	**1**	1
Marketing and savings plan administration	**175**	226
Custody fees and bank charges	**116**	118
Registrars' fees	**79**	66
Other expenses	**321**	283
	870	859

5 Finance costs

	Revenue £'000	Capital £'000	2013 Total £'000	Revenue £'000	Capital £'000	2012 Total £'000
Debt repayable within 5 years:						
– Revolving advance facility	**143**	**266**	**409**	84	250	334
Debt repayable in more than 5 years:						
– 6.25 per cent Bonds 2031	**1,322**	**2,454**	**3,776**	944	2,832	3,776
	1,465	**2,720**	**4,185**	1,028	3,082	4,110

Finance costs have been allocated 35 per cent to revenue and 65 per cent to capital in respect of the year ended 30 September 2013 (year ended 30 September 2012: 25 per cent to revenue and 75 per cent to capital).

6(a) Tax on ordinary activities

	2013 £'000	2012 £'000
Overseas taxation	**359**	471

The Company had £53,741,000 unutilised management expenses and interest at 30 September 2013 (2012: £50,477,000). No deferred tax asset has been recognised on this amount as it is unlikely that there will be taxable profits from which unutilised expenses could be deducted.

6(b) Reconciliation of tax charge

A reconciliation of the current tax charge is set out below:	2013 £'000	2012 £'000
Return on ordinary activities before taxation	**56,284**	57,495
Corporation tax at standard rate of 23.5 per cent (2012: 25.0 per cent)	**13,227**	14,373
Effects of:		
Non-taxable capital returns	**(9,642)**	(10,449)
Non-taxable UK dividend income	**(3,429)**	(3,341)
Non-taxable overseas dividend income	**(960)**	(1,091)
Movement in unutilised management expenses	**804**	508
Overseas tax suffered	**359**	471
Total current tax charge for the year	**359**	471

Notes to the Accounts (continued)

7 Dividends

	2013 £'000	2012 £'000
Amounts paid during the year:		
– third quarterly interim of 1.442p per share paid in respect of the year ended 30 September 2012 (2011: 1.442p)	**4,198**	4,198
– final of 1.786p per share paid in respect of the year ended 30 September 2012 (2011: 1.786p)	**5,199**	5,199
– first quarterly interim of 1.442p per share paid in respect of the year ended 30 September 2013 (2012: 1.442p)	**4,198**	4,198
– second quarterly interim of 1.4853p per share paid in respect of the year ended 30 September 2013 (2012: 1.442p)	**4,299**	4,198
– unclaimed dividends from previous years	**(22)**	(11)
	17,872	17,782
Amounts payable after the year end:		
– third quarterly interim of 1.4853p per share in respect of the year ended 30 September 2013 (2012: 1.442p)	**4,299**	4,198
– proposed final of 1.8396p per share in respect of the year ended 30 September 2013 (2012: 1.786p)	**5,324**	5,199
	9,623	9,397

8 Return per share

The returns per Ordinary Share represent the Company's earnings per share before the payment of dividends, as shown in the Income Statement.

	Revenue	Capital	2013 Total	Revenue	Capital	2012 Total
Ordinary	**6.6p**	**12.7p**	**19.3p**	6.6p	13.0p	19.6p

The returns per Ordinary Share are based on (i) a numerator being the returns attributable to shareholders of:

	Revenue £'000	Capital £'000	2013 Total £'000	Revenue £'000	Capital £'000	2012 Total £'000
Ordinary	**19,017**	**36,908**	**55,925**	19,087	37,937	57,024

and (ii) a denominator being a specific number of shares as follows:

	2013	2012
Weighted average number of shares in issue during the year	**290,245,981**	291,112,282

9 Investments

	2013 £'000	2012 £'000
Investments listed on a recognised investment exchange	**487,278**	445,028
Unquoted investments	**1,000**	87
Total investments	**488,278**	445,115

	Listed in UK £'000	Listed overseas £'000	Unquoted £'000	Total £'000
Opening book cost	293,497	118,395	446	412,338
Opening fair value adjustment	31,173	1,963	(359)	32,777
Opening valuation	324,670	120,358	87	445,115
Movements in the year:				
Purchases at cost	181,200	184,296	1,000	366,496
Sales – proceeds	(161,414)	(202,947)	–	(364,361)
– gains on sales	21,556	9,729	–	31,285
Increase/(decrease) in fair value adjustment	1,953	7,877	(87)	9,743
Closing valuation	**367,965**	**119,313**	**1,000**	**488,278**
Closing book cost	334,839	109,473	1,446	445,758
Closing fair value adjustment	33,126	9,840	(446)	42,520
Closing valuation	**367,965**	**119,313**	**1,000**	**488,278**

	2013 £'000	2012 £'000
Equity shares	**434,752**	393,507
Fixed income securities	**53,526**	51,608
	488,278	445,115

	2013 £'000	2012 £'000
Gains on investments sold	**31,285**	4,953
Increase in fair value adjustment	**9,743**	36,847
Gains on investments	**41,028**	41,800

The total expenses incurred on the purchase and sale of investments were £663,000 and £352,000 respectively (2012: £710,000 and £327,000).

10 Debtors

	2013 £'000	2012 £'000
Amounts due from brokers*	**20,222**	459
Prepayments and accrued income	**2,710**	3,026
Foreign currency exchange contracts	**79**	46
Other debtors	**61**	42
	23,072	3,573

* Amounts due from brokers were larger than usual at 30 September 2013 due to the implementation of the portfolio changes described in the Chairman's Statement.

Notes to the Accounts (continued)

11 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Revolving advance facility	**24,953**	19,954
Amounts due to brokers*	**22,683**	690
Interest on 6.25 per cent Bonds 2031	**207**	207
Other creditors	**229**	288
	48,072	21,139

The Company has a £50 million committed unsecured multi-currency revolving advance facility which matures in March 2016. On 30 September 2013, £25.0 million (2012: £20.0 million), in various currencies, was drawn down.

The principal covenant relating to this loan requires the Company to ensure that at all times its total borrowings (including the 6.25 per cent Bonds 2031) do not exceed 45 per cent of the Adjusted Net Asset Value (as defined by the loan agreement).

* Amounts due to brokers were larger than usual at 30 September 2013 due to the implementation of the portfolio changes described in the Chairman's Statement.

12 Creditors: amounts falling due after more than one year

	2013 £'000	2012 £'000
6.25 per cent Bonds 2031	**59,527**	59,500

The Company has in issue £60 million nominal 6.25 per cent Bonds 2031 which were issued at 99.343 per cent. The bonds have been accounted for in accordance with accounting standards, which require any discount or issue costs to be amortised over the life of the bonds. The bonds are secured by a floating charge over all the assets of the Company.

Under the covenants relating to the bonds, the Company is to ensure that, at all times, the aggregate principal amount outstanding in respect of monies borrowed by the Company does not exceed an amount equal to its share capital and reserves.

13 Share capital

	2013 Shares	2012 Shares	2013 £'000	2012 £'000
Issued, allotted and fully paid at 30 September				
Ordinary Shares of 25p each	**291,112,282**	291,112,282	**72,778**	72,778

During the year the Company bought back 1,700,000 Ordinary Shares, representing 0.58 per cent of the issued share capital (2012: Nil) to hold in treasury at a cost of £2,243,000.

Of the above shares in issue, the movements in Ordinary Shares held in treasury are:

	2013	2012
As at 1 October	**–**	–
Purchased during the year	**1,700,000**	–
As at 30 September	**1,700,000**	–

14 Reserves

	Called-up share capital £'000	Capital redemption reserve £'000	Capital reserve – investments sold £'000	Capital reserve – investments held £'000	Revenue reserve £'000
At 30 September 2012	72,778	15,563	228,949	32,823	32,422
Exchange differences	–	–	(187)	33	–
Gains on investments sold	–	–	31,285	–	–
Gains on investments still held	–	–	–	9,743	–
Share buy-backs	–	–	(2,243)	–	–
Management expenses charged to capital	–	–	(1,246)	–	–
Finance costs charged to capital	–	–	(2,720)	–	–
Dividends paid	–	–	–	–	(17,872)
Retained net revenue for the year	–	–	–	–	19,017
At 30 September 2013	**72,778**	**15,563**	**253,838**	**42,599**	**33,567**

Capital management

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Strategic Report. The Company's capital is represented by the issued share capital, Capital Redemption Reserve, Capital Reserve and Revenue Reserve.

Capital redemption reserve

The nominal value of Ordinary Shares bought back for cancellation is added to this reserve. This reserve is non-distributable.

Capital reserve

Items accounted for this reserve are shown in accounting policy 1(c).

Revenue reserve

The net profit arising in the revenue column of the Income Statement is added to this reserve. Dividends paid are deducted. This reserve is available for paying future dividends on the Company's shares.

15 Net asset value per share

The net asset value per share and the net asset value attributable to the Ordinary Shares at the year end were as follows:

	Net asset value per share		Net asset value	
	2013 pence	2012 pence	**2013 £'000**	2012 £'000
Ordinary Shares	**144.5**	131.4	**418,345**	382,535

Net asset value per Ordinary Share is calculated on shareholders' funds of £418,345,000 (2012: £382,535,000) divided by the number of Ordinary Shares in issue at the year end of 289,412,282 (2012: 291,112,282), excluding those shares bought back and held in treasury.

Notes to the Accounts (continued)

16 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	2013 £'000	2012 £'000
Total return before finance costs and taxation	**60,469**	61,605
Gains on investments	**(41,028)**	(41,800)
Exchange differences	**154**	(544)
Decrease/(increase) in accrued income and prepayments	**316**	(599)
Decrease in other creditors	**(46)**	(4)
Tax on investment income	**(379)**	(440)
Net cash inflow from operating activities	**19,486**	18,218

17 Analysis of changes in net debt

	At 30 September 2012 £'000	Cash flow £'000	Other movements £'000	Currency movements £'000	At 30 September 2013 £'000
Cash in bank and on deposit	14,486	311	–	(203)	**14,594**
6.25 per cent Bonds 2031	(59,500)	–	(27)	–	**(59,527)**
Revolving advance facility	(19,954)	(5,015)	–	16	**(24,953)**
	(64,968)	(4,704)	(27)	(187)	**(69,886)**

18 Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, foreign currency exchange contracts, cash balances, bonds, a bank loan and debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings, as shown in notes 11 and 12, the Chairman's Statement and the Managers' Review, with a view to achieving improved performance in markets. The risk of borrowings may be reduced by raising the level of cash balances held. The Company also has the ability to enter into derivative transactions in the form of financial currency contracts and futures and options, subject to Board approval, for the purpose of managing currency and market risk arising from the Company's portfolio, and enhancing income.

Fixed asset investments held (see note 9) are valued at fair value. For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Unquoted investments are valued by the Directors on the basis of all information available to them at the time of valuation. The market value of the Company's bonds is disclosed on page 49. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 35.

The main risks that the Company faces arising from its financial instruments are:

(i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;

(ii) interest rate risk, being the risk that the value of financial instruments will fluctuate or that the future cash flows of financial instruments will fluctuate because of changes in market interest rates;

18 Financial instruments (continued)

(iii) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company;

(iv) liquidity risk, being the risk that the Company may not be able to liquidate its investments quickly enough to meet its ongoing financial commitments; and

(v) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency rates.

The Company held the following categories of financial instruments as at 30 September 2013 and 2012:

	2013 £'000	2012 £'000
Financial assets		
Investment portfolio	488,278	445,115
Cash in bank and on deposit	14,594	14,486
Amounts due from brokers	20,222	459
Payments and accrued income	2,710	3,026
Other debtors	140	88
Financial liabilities		
6.25 per cent Bonds 2031	59,527	59,500
Revolving advance facility	24,953	19,954
Amounts due to brokers	22,683	690
Bond interest payable	207	207
Other creditors	229	288

Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The bond portfolio is exposed to movements in price due to fluctuation in interest rates. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out in note 9. Derivatives may be used from time to time to hedge specific market risk, to gain exposure to a specific market or to enhance income. At the year end the Company held no material exposure to derivatives other than hedged currency exposure as disclosed on page 51.

If the value of the investment portfolio had fallen by 10 per cent on 30 September 2013, the impact on the profit or loss and the net asset value would have been a reduction of £48.8 million (2012: £44.5 million). If the value of the investment portfolio had risen by 10 per cent on 30 September 2013, the impact on the profit or loss and the net asset value would have been an increase of £48.8 million (2012: £44.5 million). These calculations are based on the portfolio valuation on the respective balance sheet dates and are not representative of the year as a whole.

Notes to the Accounts (continued)

18 Financial instruments (continued)

The Company held the following categories of financial instruments at 30 September 2013 and 2012, all of which are included in the balance sheet at fair value:

Classification of financial instruments

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**2013 Total £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000	2012 Total £'000
Assets								
Investment portfolio	**487,278**	**–**	**1,000**	**488,278**	445,028	–	87	445,115
Foreign exchange currency contracts	**–**	**79**	**–**	**79**	–	46	–	46
	487,278	**79**	**1,000**	**488,357**	445,028	46	87	445,161

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data. The Company holds two unquoted investments which are categorised as level 3. A reconciliation of movements in the year is contained in note 9.

Interest rate risk

Floating rate

Interest payments are received on cash balances by reference to the bank base rates for the relevant currency for each deposit.

	2013 £'000	**2013 Average interest rate**	**2013 Period until maturity**	2012 £'000	2012 Average interest rate	2012 Period until maturity
Amount drawndown under multi-currency revolving advance facility	**24,953**	**1.66%**	**2.5 years**	19,954	0.97%	6 months

The revolving advance facility is a multi-currency facility consisting of:

	2013 £'000	2012 £'000
Sterling	**19,400**	16,025
US Dollar	**3,418**	2,863
Euro	**1,884**	793
Japanese Yen	**251**	273
	24,953	19,954

If the bank base rate had increased by 1.0 per cent, the impact on the profit or loss and net asset value would have been a decrease of £104,000 (2012: £55,000). If the bank base rate had decreased by 1.0 per cent, the impact on the profit or loss and net asset value would have been an increase of £104,000 (2012: £55,000). These calculations are based on the cash balances and the revolving advance facility on the respective balance sheet dates and are not representative of the year as a whole.

18 Financial instruments (continued)

Fixed rate

The Company holds fixed interest investments and has fixed interest liabilities.

	2013 £'000	2013 Average interest rate	2013 Average period until maturity	2012 £'000	2012 Average interest rate	2012 Average period until maturity
Fixed interest investments	**53,526**	**6.1%**	**8.34 years**	51,608	4.9%	9.50 years
Fixed interest liabilities:						
6.25 per cent Bonds 2031	**59,527**	**6.25%**	**17.95 years**	59,500	6.25%	18.95 years

The bonds are denominated in sterling. In the event that the Company decides to repay the bonds before their maturity date the terms of issue may result in a penalty for early repayment.

The fair value of the bonds, based on the middle market price at 30 September 2013 was £70.0 million (2012: £73.9 million).

Non-interest bearing investments

The Company's non-interest bearing investments are its equity investments which had a value of £434,752,000 on 30 September 2012 (2012: £393,507,000).

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 Company. The carrying amounts of financial assets best represents the maximum credit risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2013 £'000	2012 £'000
Fixed income securities	**53,526**	51,608
Cash at bank and on deposit	**14,594**	14,486
Balances due from brokers	**20,222**	459
Interest, dividends and other receivables	**2,710**	3,026
	91,052	69,579

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the diversity of counterparties used.

All the assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase Bank, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Corporate Governance Statement on pages 29 and 30. The Managers have a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis.

The credit risk on liquid funds and derivative financial instruments is controlled through the Managers' process for approving counterparties, which incorporates both a quantitative and qualitative review in order to achieve an overview of the credit worthiness of all counterparties. Bankruptcy or insolvency of such counterparties may cause the Company's ability to access cash placed on deposit to be delayed, limited or lost.

On 30 September 2013 the Company had four overnight deposits of £4.3 million, £1.5 million, £1.1 million and £0.4 million with four separate counterparties (2012: £6.4 million, £3.7 million and £2.0 million with three separate counterparties). There were no other material concentrations of credit risk to counterparties on 30 September 2013 or 30 September 2012 because other deposits were spread over a number of counterparties.

Notes to the Accounts (continued)

18 Financial instruments (continued)

Liquidity risk

The Company maintains sufficient investments in cash and readily realisable securities to pay expenses as they fall due. Short term flexibility is achieved, where necessary, through the use of overdraft facilities. The Company's liquidity risk is managed on an ongoing basis by the Managers.

Contractual maturity analysis for financial liabilities:

	Within one month £'000	Between one and three months £'000	Between three and twelve months £'000	Between one and five years £'000	After five years £'000	**Total £'000**
Current liabilities:						
Amounts due to brokers	22,683	–	–	–	–	**22,683**
Other creditors	201	–	–	–	–	**201**
Revolving advance facility	25,017	–	–	–	–	**25,017**
Long term liabilities:						
6.25 per cent Bonds 2031	–	–	3,750	15,000	108,750	**127,500**
Total liabilities	47,901	–	3,750	15,000	108,750	**175,401**

Foreign currency risk

The Company invests in overseas securities and holds foreign currency cash balances which give rise to currency risks. In the year to 30 September 2013, the Company entered into US Dollar and Euro foreign currency contracts with a view to partially hedging these currency risks.

Foreign currency exposure:

	2013 Investments £'000	**2013 Current assets/ (liabilities) £'000**	**2013 Loans £'000**	2012 Investments £'000	2012 Current assets/ (liabilities) £'000	2012 Loans £'000
Australian Dollar	**1,351**	**1,550**	**–**	7,549	65	–
Brazilian Real	**6,798**	**63**	**–**	6,808	49	–
Canadian Dollar	**545**	**3,512**	**–**	549	–	–
Chinese Yuan	**–**	**–**	**–**	1,361	–	–
Czech Koruna	**–**	**–**	**–**	604	36	–
Danish Krona	**–**	**–**	**–**	370	–	–
Euro	**36,018**	**(17,611)**	**(1,884)**	24,422	298	(793)
Hong Kong Dollar	**7,087**	**1,065**	**–**	6,794	4	–
Indian Rupee	**4,047**	**(26)**	**–**	2,978	–	–
Indonesian Rupiah	**1,425**	**–**	**–**	1,200	–	–
Israeli Sheqel	**–**	**–**	**–**	400	–	–
Japanese Yen	**3,481**	**(786)**	**(251)**	7,828	114	(273)
Malaysian Dollar	**–**	**–**	**–**	1,141	7	–
Mexican Peso	**659**	**–**	**–**	1,565	396	–
New Zealand Dollar	**–**	**18**	**–**	1,106	48	–
Norwegian Krone	**–**	**–**	**–**	950	–	–
Phillipine Peso	**–**	**3**	**–**	–	–	–
Polish Zloty	**902**	**42**	**–**	594	30	–
Russian Rouble	**–**	**–**	**–**	1,208	–	–
Singapore Dollar	**–**	**2**	**–**	3,185	–	–
South African Rand	**2,788**	**(64)**	**–**	3,088	–	–
South Korean Won	**5,841**	**–**	**–**	4,936	–	–
Swedish Krona	**–**	**881**	**–**	–	–	–
Swiss Franc	**5,884**	**(1,618)**	**–**	3,571	–	–
Taiwan Dollar	**3,049**	**8**	**–**	6,586	9	–
Thai Baht	**813**	**6**	**–**	–	–	–
Turkish Lira	**1,823**	**–**	**–**	1,969	–	—
US Dollar	**43,723**	**18,228**	**(3,418)**	29,596	276	(2,863)
Total	**126,234**	**5,273**	**(5,553)**	120,358	1,332	(3,929)

18 Financial instruments (continued)

The foreign exchange currency contracts not yet realised were as follows:

	2013 Hedged amount £'000	2013 Unrealised gain £'000	2012 Hedged amount £'000	2012 Unrealised gain £'000
US Dollar for sterling	7,342	35	1,601	4
Euro for sterling	4,058	44	6,268	42
	11,400	79	7,869	46

If the value of sterling had weakened by 10 per cent against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been an increase of £14.0 million (2012: £13.1 million). If the value of sterling had strengthened by 10 per cent against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been a reduction of £11.5 million (2012: £10.7 million). These calculations are based on the portfolio valuation and cash and loan balances on the respective balance sheet dates and are not representative of the year as a whole. They do not take account of any impact on corporate profits of investee companies as a result of these currency movements.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Directors' Remuneration Report and a Corporate Governance Statement.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, net return and cash flows of the Company; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board
Lynn Ruddick
Chairman

22 November 2013

Independent Auditor's Report

Independent Auditor's Report to the Members of British Assets Trust plc

We have audited the financial statements of British Assets Trust plc for the year ended 30 September 2013 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 52, the Directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent, based on the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2013 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our Assessment of Risks of Material Misstatement

We identified the following risks of material misstatement that had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team:

- the valuation of the investments; and
- management fees are not calculated correctly in accordance with the investment management agreement.

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, in evaluating the effect of misstatements on our audit and on the financial statements and in forming our audit opinion.

We determined materiality for the Company to be £4.18 million which is 1 per cent of shareholders' funds. This provided a basis for determining the nature, timing and extent of risk assessment procedures,

Independent Auditor's Report (continued)

identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75 per cent of materiality, namely £3.14 million. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level. Given the importance of the distinction between revenue and capital for the Company we have also applied a separate performance materiality of £0.97 million for the Income Statement, being 5 per cent of the return on ordinary activities before taxation.

We have agreed with the Audit Committee to report all audit differences in excess of £0.21 million, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.

An Overview of the Scope of Our Audit

Our response to the risks identified above was as follows:

- we agreed the year end prices for Level 1 and 2 investments to an independent source;
- we considered the appropriateness of the valuation techniques applied to Level 3 investments by challenging the valuation methodology and validating inputs to the valuations; and
- we independently recalculated management fee calculations for the year with reference to contractual arrangements and agreed the calculation inputs to source data.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 24, in relation to going concern; and

- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and

- certain elements of the report to shareholders by the Board on Directors' remuneration.

Julian Young (Senior Statutory Auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
London

22 November 2013

Capital Structure

The Company's capital structure consists solely of Ordinary Shares.

Ordinary Shares

At 30 September 2013 there were 291,112,282 Ordinary Shares of 25p each in issue, including 1,700,000 held in treasury, (2012: 291,112,282 Ordinary Shares with none held in treasury).

The Ordinary Shares are designed to provide income and capital growth and their value will be dependent on, inter alia, the underlying income and capital growth of the Company's investment portfolio.

Capital Entitlement

In the event of a winding up, after meeting the liabilities of the Company, the surplus assets would be paid to the holders of Ordinary Shares and distributed among such holders pro-rata.

Voting Entitlement

Each Ordinary Shareholder is entitled to one vote on a show of hands, and on a poll to one vote for every Ordinary Share held.

Unless the Board otherwise decides, no member is entitled in respect of any share held by him to vote (either personally or by proxy or by a corporate representative) at any general meeting of the Company if he is a person with a 0.25 per cent interest (as defined in the Articles of Association) and he has been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

Income Entitlement

The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of interim and final dividends to the holders of the Ordinary Shares.

Subject to the provisions of the Companies Acts, the Board may from time to time declare dividends in accordance with the respective rights of the members. Subject to the provisions of the Companies Acts, the Board may pay such interim dividends as appear to the Board to be justified by the financial position of the Company. The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25 per cent interest (as defined in the Articles of Association) if such a person has been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

Ten Year Record

At 30 September	Net Asset Value Total Return	Benchmark Index Total Return	Net Asset Value per Ordinary Share	Ordinary Share Price	Discount (basic)	Revenue per Ordinary Share	Dividends per Ordinary Share	Ongoing Charges
2003	17.0%	17.5%	104.9p	98.8p	5.9%	4.1p	5.326p	0.72%
2004	14.2%	13.6%	114.3p	101.0p	11.6%	4.0p	5.326p	0.94%*
2005	27.8%	24.6%	142.5p†	126.5p	11.2%†	4.8p	5.326p	1.05%†*
2006	10.9%	13.2%	152.5p	132.5p	13.1%	6.3p	5.486p	0.62%
2007	9.7%	12.5%	161.4p	140.8p	12.8%	5.7p	5.706p	0.63%
2008	(26.8)%	(20.3)%	114.0p	100.8p	11.6%	6.2p	5.934p	0.61%
2009	13.8%	11.1%	121.9p	109.2p	10.4%	5.8p	6.112p	0.89%*
2010	12.2%	11.7%	129.8p	125.5p	3.3%	5.0p	6.112p	0.72%*
2011	(5.1)%	(4.3)%	117.9p	114.0p	3.3%	5.7p	6.112p	0.59%
2012	17.3%	17.3%	131.4p	119.8p	8.8%	6.6p	6.112p	0.72%
2013	**15.2%**	**19.0%**	**144.5p**	**132.0p**	**8.7%**	**6.6p**	**6.2522p**	**0.70%**

*Includes performance fee.
†Restated for changes in accounting standards.

Shareholder Information

Annual General Meeting

The Annual General Meeting will be held at City of London Club, 19 Old Broad Street, London EC2N 1DS on Monday, 27 January 2014 at 12 noon.

Dividends

Ordinary dividends are paid quarterly in April, July, October and January each year. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA on request. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly to shareholders' bank accounts, dividend tax vouchers are sent to shareholders' registered addresses.

Dividend Reinvestment Plan

Shareholders who wish to use their dividends to purchase further shares in the Company by participating in the Company's Dividend Reinvestment Plan can complete a mandate form which may be obtained from Equiniti Limited at the above address.

Share Prices

The Company's Ordinary Shares are listed on the London Stock Exchange under 'Investment Companies'. Prices are given daily in the *Financial Times, The Scotsman, The Times and The Daily Telegraph*.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Equiniti Limited at the above address under the signature of the registered holder.

Profile of the Company's Ownership
% of Ordinary Shares held at 30 September 2013

Shareholder Information (continued)

Financial Calendar 2013/14	
17 December 2013	Shareholder Presentation (Edinburgh)
27 January 2014	Annual General Meeting (London)
31 January 2014	Final dividend paid
January 2014	Publication of Interim Management Statement
April 2014	First interim dividend paid
May 2014	Announcement of Interim Results
	Posting of Interim Report
July 2014	Second interim dividend paid
	Publication of Interim Management Statement
October 2014	Third interim dividend paid
November 2014	Announcement of Annual Results
	Posting of Annual Report

Warning to Shareholders – Beware of Share Fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you receive unsolicited investment advice or requests:

– Check the Financial Services Register from www.fca.org.uk to see if the person or firm contacting you is authorised by the FCA

– Call the Financial Conduct Authority ('FCA') on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date

– Search the list of unauthorised firms to avoid at www.fca.org.uk/scams

– Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme

– Think about getting independent financial and professional advice

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at www.fca.org.uk/scams where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

How to Invest

One of the most convenient ways to invest in British Assets Trust plc is through one of the savings plans run by F&C Management Limited ('F&C').

F&C Private Investor Plan ('PIP')

A flexible way to invest with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250. You can choose whether your dividends are paid out to you or automatically reinvested to buy more shares.

F&C Investment Trust ISA

Use your ISA allowance to make an annual tax-efficient investment of up to £11,520 for the 2013/14 tax year with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250 and transfer any existing ISAs to us whilst maintaining all the tax benefits. You can choose whether your dividends are paid out to you or automatically reinvested to buy more shares.

F&C Child Trust Fund ('CTF')

CTFs are closed to new investors; however, if your child has a CTF with another provider, it is easy to transfer it to F&C. Additional contributions can be made from as little as £25 per month or £100 lump sum – up to a maximum of £3,720 for the 2013/14 tax year.

F&C Children's Investment Plan ('CIP')

A flexible way to save for a child. With no maximum contributions, the plan can easily be written under trust to help reduce inheritance tax liability or kept in your name if you may need access to the funds before the child is 18. Investments can be made from a £250 lump sum or £25 a month. You can also make additional lump sum top-ups at any time from £100.

F&C Junior ISA ('JISA')

This is a tax-efficient savings plan for children who did not qualify for a CTF. It allows you to invest up to £3,720 for the 2013/14 tax year with all the tax benefits of the CTF. You can invest from £30 a month, or £500 lump sum, or a combination of both.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested. Tax rates and reliefs depend on the circumstances of the individual. The CTF and JISA accounts are opened in the child's name. Money, including dividends, cannot be withdrawn until the child turns 18.

Annual management charges and certain transaction costs apply according to the type of plan.

Annual Account Charge

ISA: £60+VAT

JISA: £25+VAT

PIP: £40+VAT

CIP/CTF: £25+VAT

You can pay the annual charge from your account, or by direct debit (in addition to any annual subscription limits)

Dealing Charge per Holding

ISA: 0.2 per cent

PIP/CIP/JISA: postal instructions £12, online instruction £8. The dealing charge applies when shares are bought or sold but the fixed rate charge does not apply to the reinvestment of dividends or the investment of regular monthly savings.

There is no dealing charge on a CTF but a switching charge of £25 applies if more than two switches are carried out in one year.

Government stamp duty of 0.5 per cent also applies on purchases (where applicable).

There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan. For full details of charges, please read the Key Features and Terms and Conditions of the plan before investing.

How to Invest

You can invest in all our savings plans online at https://www.manageyouraccount.co.uk/fandc/app/login

New Customers:

Contact our Investor Services Team

Call: **0800 136 420**
(8:30am – 5:30pm, weekdays, calls may be recorded)

Email: **info@fandc.com**

Investing online: **www.fandc.com**

Existing Plan Holders:

Contact our Investor Services Team:

Call: **0845 600 3030**
(*9:00am – 5:00pm, weekdays, calls may be recorded)

Email: **investor.enquiries@fandc.com**

By post: F&C Plan Administration Centre
PO Box 11114
Chelmsford, CM99 2DG

If you have trouble reading small print, please let us know. We can provide literature in alternative formats, for example large print or on audiotape. Please call 0845 600 3030*.

The above has been approved by F&C Management Limited which is a member of the F&C Asset Management Group and is authorised and regulated in the UK by the Financial Conduct Authority.

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Sixteenth Annual General Meeting of British Assets Trust Public Limited Company will be held at City of London Club, 19 Old Broad Street, London EC2N 1DS on Monday, 27 January 2014 at 12 noon for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following as Ordinary Resolutions:

1. That the Annual Report and Accounts for the year ended 30 September 2013 be received.
2. That the Directors' Remuneration Policy Report for the three year period ending 30 September 2016 be approved.
3. That the Directors' Annual Report on Remuneration for the year ended 30 September 2013 be approved.
4. That a final dividend of 1.8396 pence per Ordinary Share be declared.
5. That Jim Grover, who retires at the first Annual General Meeting following his appointment, be elected as a Director
6. That Ian Russell, who retires annually, be re¬elected as a Director.
7. That James Long, who retires annually, be re-elected as a Director.
8. That Jimmy West, who retires annually, be re-elected as a Director.
9. That Lynn Ruddick, who retires annually, be re¬elected as a Director.
10. That Ernst & Young LLP be re-appointed as Auditor.
11. That the Directors be authorised to determine the Auditor's remuneration.
12. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any securities into shares in the Company ("Securities") provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £7,235,307, such authority to expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, pass the following as Special Resolutions:

13. That, subject to the passing of resolution number 12 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into ordinary shares held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by resolution number 12 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:
    (a) expires at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
    (b) shall be limited to the allotment of equity securities up to an aggregate nominal value £3,617,653 being approximately 5 per cent of the nominal value of the issued share capital of the Company, as at 22 November 2013, excluding treasury shares.

14. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 25 pence each in the capital of the Company ("ordinary shares") (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:

    (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 43,382,901 (or if less, 14.99 per cent of the number of ordinary shares in issue (excluding treasury shares) immediately prior to the passing of this resolution);

    (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 25 pence;

    (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:

        (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and

        (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and

    (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's next annual general meeting or on 27 July 2015 whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the Board
G R Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU

22 November 2013

Notes

1. A member entitled to attend, speak and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him provided that, if more than one proxy is appointed, each proxy is appointed to exercise rights attached to different shares. A proxy need not be a member of the Company.

2. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

3. A form of proxy is enclosed for use at the above meeting. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. To be effective, the form of proxy, duly executed, must be lodged at the address shown on the form of proxy (i) by 12 noon on 23 January 2014 or, (ii) in respect of an adjourned meeting, no later than 48 hours (excluding non-working days) before the holding of that adjourned meeting (or, in the case of a poll taken subsequent to the date of the meeting or an adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll).

4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those holders of Ordinary Shares entered on the Register of Members of the Company as at 6.00 pm on 23 January 2014 or, in the event that the meeting is adjourned, on the Register of Members as at 6.00 pm two days (excluding non-working days) before any adjourned meeting, shall be entitled to attend, speak or vote at the meeting in respect of the number of Ordinary Shares registered in their names at that time. Changes to the entries on the Register of Members after 6.00 pm on 23 January 2014 or, in the event that the meeting is adjourned, on the Register of Members as at 6.00 pm two days (excluding non-working days) before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.

5. Any person holding 3 per cent or more of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

6. Members of the Company may require the Company to publish, on its website (without payment), a statement (which is also passed to the Company's auditor) setting out any matter relating to the audit of the Company's accounts, including the auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from members representing at least 5 per cent of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to 80 George Street, Edinburgh EH2 3BU.

Notice of Annual General Meeting (continued)

7. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from www.british-assets.co.uk.

8. Under section 338 of the Companies Act 2006, a member or members meeting the qualification criteria set out at note 10 below may, subject to certain conditions, require the Company to circulate to members notice of a resolution which may properly be moved and is intended to be moved at the meeting.

   The conditions are that: (i) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); (ii) the resolution must not be defamatory of any person, frivolous or vexatious; and (iii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than six weeks before the date of the meeting.

9. Under section 338A of the Companies Act 2006, a member or members meeting the qualification criteria set out at note 10 below, may, subject to certain conditions, require the Company to include in the business to be dealt with at the meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The conditions are that: (i) the matter of business must not be defamatory of any person, frivolous or vexatious; and (ii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported; (c) must be accompanied by a statement setting out the grounds for the request; (d) must be authenticated by the person or persons making it; and (e) must be received by the Company not later than six weeks before the date of the meeting.

10. In order to be able to exercise the members' right to require: (i) circulation of a resolution to be proposed at the meeting (see note 8); or a matter of business to be dealt with at the meeting (see note 9), the relevant request must be made by: (a) a member or members having a right to vote at the meeting and holding at least 5 per cent of the total voting rights of the Company; or (b) at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital.

11. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting and put by a member attending the meeting unless:

    (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

    (b) the answer has already been given on a website in the form of an answer to a question; or

    (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

12. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

13. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee by other means.

14. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

15. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

16. No Director has a contract of service with the Company. The Directors' letters of appointment will be available for 15 minutes prior to, and during, the Annual General Meeting.

17. As at 5.00 pm on 22 November 2013 (being the latest applicable date prior to the publication of this notice), the Company's issued share capital comprised 291,112,282 Ordinary Shares of 25p each, including 1,700,000 Ordinary Shares held in treasury. Every Member holding Ordinary Shares shall have one vote for every Ordinary Share held by them and therefore the total number of voting rights in the Company at 5.00 pm on 22 November 2013 was 289,412,282.

18. Members who have general queries about the Annual General Meeting should not use any electronic address to communicate with the Company but should call the Company's registrars on 0871 384 2462. Calls to this number cost 8p per minute plus network extras. Lines open 8.30 am to 5.30 pm, Monday to Friday. The Company's registrars' overseas helpline number is + 44 121 415 7047.

Corporate Information

Directors
Lynn C Ruddick, (Chairman)*
Jim N D Grover
James M Long, TD
James S MacLeod‡
Ian S M Russell
Jimmy G West†

Company Secretary
Gordon R Hay Smith, CA

Investment Managers
F&C Investment Business Limited
80 George Street
Edinburgh EH2 3BU

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF

*Chairman of the Management Engagement Committee and the Nomination Committee
‡Chairman of the Audit Committee
†Senior Independent Director

Brokers
Cenkos Securities Limited
6.7.8 Tokenhouse Yard
London EC2R 7AS

Solicitors
Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

Bankers
JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

Company Number
SC 3721

Registered Office
80 George Street
Edinburgh EH2 3BU
Tel: 0207 628 8000

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Registrars' Shareholder Helpline: 0871 384 2462 *
Registrars' Broker Helpline: 0906 559 6025 †

* Calls to this number cost 8p per minute plus network extras.
† Calls to this number cost £1 per minute plus network extras.