

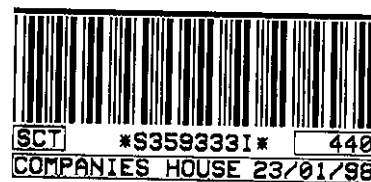
British Assets Trust plc

Annual Review and Report

Year ended 30 September 1997



Cl.



Investment Objective and Benchmark Index

The investment objective of the Company is to achieve a total return in excess of the FTSE All-Share Index by investing in an international portfolio of equities and equity-related securities.

Within this overall objective, the Company aims to provide holders of Ordinary Shares with an income stream which grows in real terms.

Capital Structure

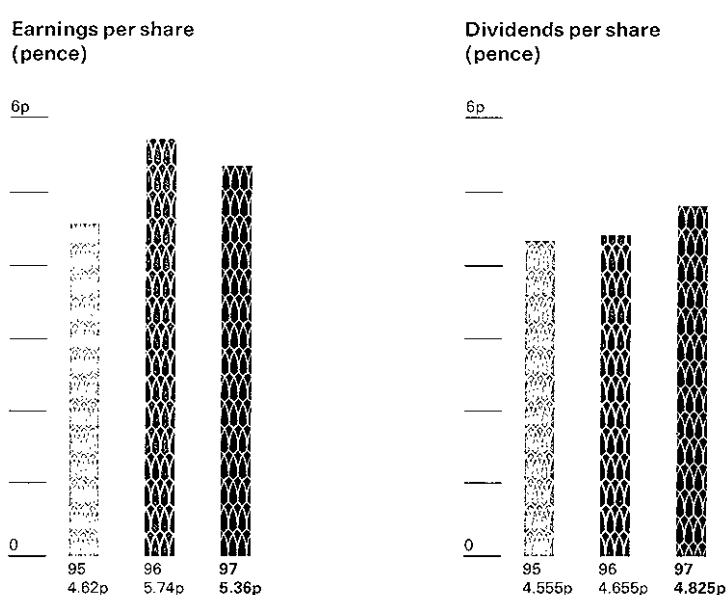
The Company has a capital structure comprising Ordinary Shares, Growth Shares, Warrants and a small amount of Preference Stock.

The Company has Equities Index Unsecured Loan Stock in issue.

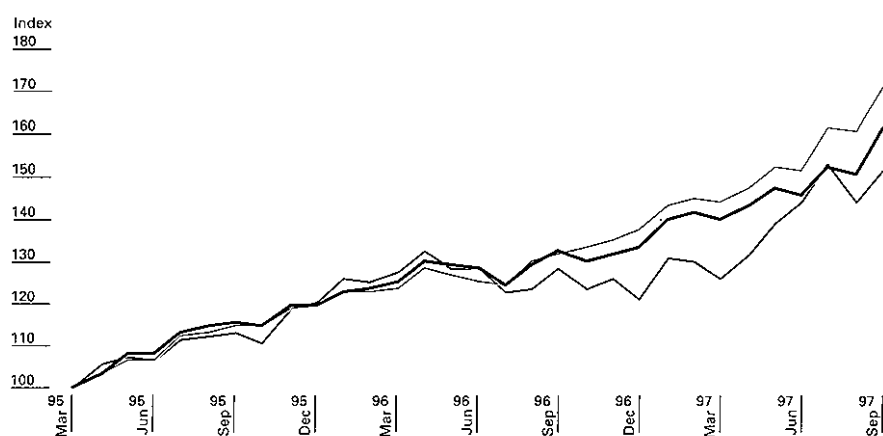
Contents

1	Financial Highlights
2	Chairman's Statement
5	Investment Managers
6	Investment Process
7	Manager's Review
12	Investment Portfolio
14	Classification of Investments
15	Performance Summary and Historic Record
16	Capital Structure
19	Board of Directors
20	Report of the Directors
24	Accounts
27	Notes to the Accounts
36	Directors' Responsibility Statement and Report of the Auditors
37	Report by the Auditors on corporate governance matters
38	Shareholder Information
39	Notice of Annual General Meeting
40	Investment Services to Shareholders
	Corporate Information

- Total dividends increased by 3.7%.
- Revenue reserves further strengthened.
- Net asset value total return of 23.2%
Ordinary Share price total return of 28.0% and Growth Share price total return of 30.1%.
- Shareholders' funds enhanced through the purchase of warrants bringing the total bought-in to 65.4% of original warrant issue.
- 84.6% of Equities Index Unsecured Loan Stock units issued now bought-in.



Total Return: British Assets Trust Net Asset Value v FTSE All-Share Index and FT/S&P Actuaries World (Ex UK)



31.03.95 (ICT first valued at market value)=100

- BAT NAV (TR) (i), (ii)
- FTSE All-Share (TR) (i)
- FT/S&P-A World (ex UK) (TR) (i)

(i) net dividends re-invested
(ii) adjusted for warrant buy-ins

Sources: Datastream and Ivory & Sims

Dividends per Ordinary Share have been increased in real terms and another significant transfer has been made to revenue reserves.

During the year ended 30 September 1997, I am pleased to report that your Company achieved a Net Asset Value (NAV) total return, that is with dividends re-invested, of 23.2 per cent. I am encouraged by the significant narrowing of the discount on both your Company's Ordinary and Growth Shares, at a time when discounts in the investment trust sector generally have been rising. This narrowing of the discount, I believe, is a reflection of the market's awareness of the improved performance of your Company and the success of the action taken to enhance shareholder value. Your Board continues to believe that both your Company's Ordinary and Growth Shares remain attractively valued.

We have continued to buy in Warrants and units of the Equities Index Unsecured Loan Stock (EIULS) to enhance shareholders' funds.

Enhancement of Shareholder Value |

Warrants | Your Board have authorised the Managers to buy in the Company's Warrants provided that doing so enhances the fully diluted NAV. Over the year 42.2 million warrants, have been purchased bringing the total to 65.4 per cent of the original issue.

Equities Index Unsecured Loan Stock | During the year your Company bought in 75 million units of the EIULS bringing the cumulative total of redemptions to 84.6 per cent of the original issue. When the EIULS was issued in 1989 to provide income gearing, the Company's portfolio yielded more than the market. Since the reconstruction at the end of 1994 the emphasis has been on improving the quality of the portfolio by reducing its yield. Consequently, the EIULS no longer serves its original purpose.

Investors Capital Trust | Investors Capital Trust (ICT), which is also managed by Ivory & Sime, is the Company's largest holding, representing some 32 per cent of its total assets. The underlying performance of ICT has been more than satisfactory. In the year to 30 September 1997, ICT returned an NAV total return of 31.6 per cent, ahead of both its own benchmark, the FTSE 350 Index, and the FTSE All-Share Index. However, in line with accounting practice, your Company values its holding in ICT at market price rather than at NAV and despite the excellent performance of ICT's

The total return in share price terms has been 28.0 per cent for ordinary shareholders and 30.1 per cent for growth shareholders.



William Thomson
Chairman

investments, the widening of the discount on the shares of ICT, in line with the general widening of investment trust discounts, has impacted capital performance.

Yield Relative | One measure of the quality of an investment portfolio is its dividend yield relative to that of an appropriate index. As I have highlighted in previous statements, the quality of the investment portfolio has been improved by reducing the yield relative in order to enhance total return. The direct UK equity portfolio, at 30 September 1997, had a yield relative against the FTSE All-Share Index of 99.2 per cent. The benefits of having switched away from the higher yielding stocks are clearly demonstrated by the graph in the Manager's Report which compares the performance of the higher and lower yielding stocks in the FTSE 350 Index over the last two and a half years.

Revenue Reserves | I am pleased to say that your Company, while meeting its target of increasing the dividend per Ordinary Share in real terms, has also been able to make another significant transfer to revenue reserves in respect of the year just ended. In each year since the reconstruction, the transfer to revenue reserves has been ahead of that projected at the time of the reconstruction.

Earnings and Dividend | The Company's earnings per Ordinary Share were 5.36p (5.74p) in respect of the year ended 30 September 1997.

The Board have declared a fourth interim dividend of 1.33375p per Ordinary Share, which brings the total dividends for the financial year to 4.825p (4.655p), an increase of 3.7 per cent, which is slightly ahead of the increase in the Retail Prices Index. The fourth interim dividend will be paid on 7 January 1998 to Ordinary Shareholders on the share register at 5 December 1997. For the year to 30 September 1998, the first three interim dividends will each be paid at the rate of 1.20625p per Ordinary Share, being 25 per cent of the total dividends payable in respect of the year ended 30 September 1997. It is intended that the fourth interim dividend will continue to be paid at a rate consistent with our objective of providing real growth in income for Ordinary Shareholders.

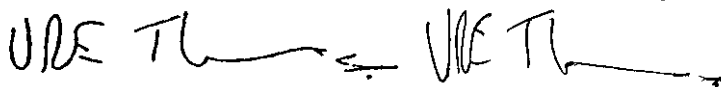
Investment Returns | During the year ended 30 September 1997, approximately 75 per cent of the portfolio was invested in the UK market and 25 per cent in overseas markets. Over this period the Company achieved an NAV total return of 23.2 per cent which compares to total returns for the FTSE All-Share Index and the FT/S&P-Actuaries World (ex UK) Index of 29.8 per cent and 18.2 per cent respectively.

The total return for shareholders in share price terms has been 28.0 per cent for those holding Ordinary Shares and 30.1 per cent for those holding Growth Shares reflecting the narrowing of discounts.

Stock selection has generally been good with the direct UK portfolio, the Japanese portfolio and Emerging Markets' portfolio outperforming local indices, while the North American portfolio performed in line. The Europe and the Pacific (ex Japan) portfolios underperformed. The overweight position in the UK and Europe helped performance while the underweight position in North America and the widening discount on the shares of ICT have not been helpful.

The enhancement of shareholder value remains very much to the forefront of your Board's deliberations. It is the intention to continue to take opportunities to buy in the Warrants, when this enhances the fully diluted NAV, and also to buy in units of the EIULS. Whilst the underlying performance of ICT has been very satisfactory, the widening of the discount has been disappointing. However, your Board believes that ICT represents excellent value, acts as a good proxy for the UK market and consequently has no intention of selling the holding at its current discount.

The proposed merger of Ivory & Sime and Friends Provident Asset Management has recently been announced and your Directors have noted the confidence expressed by Ivory & Sime and Friends Provident in the benefits which should accrue from the resulting stability of ownership and increased funds under management.

The image shows a handwritten signature in dark ink. The signature is stylized, starting with a large 'W' and 'R' followed by 'E' and 'Thomson'. There is a horizontal line extending from the end of the signature.

W R E Thomson
Chairman
13 November 1997



Investment Managers

John Stubbs (Investment Manager)

John Stubbs joined Ivory & Sime in April 1995 and is Chief Investment Officer with overall responsibility for investment management. He has over 29 years' investment experience.

Tom Maxwell (Investment Manager)

Tom Maxwell joined Ivory & Sime in 1989 and is a director of Ivory & Sime Investment Management with overall responsibility for UK equity portfolios. He has over 27 years' investment experience.

Gordon Humphries (Company Secretary)

Gordon Humphries, a chartered accountant, joined Ivory & Sime in 1988 and was appointed company secretary of British Assets Trust plc in April 1995.

Ivory & Sime Investment Managers

Ivory & Sime traces its origins back to 1895 and has been managing money on behalf of its clients for almost a century. Based in Edinburgh, it is an independent fund manager with offices in London and Hong Kong. Its first client was an investment trust and its commitment to the sector is underlined by the fact that today it manages, advises or provides secretarial services to no fewer than nineteen investment companies.

On 7 November 1997 it was announced that an agreement in principle had been reached whereby Ivory & Sime will merge with the asset management business of Friends' Provident Life Office. The enlarged group, to be named Friends Ivory & Sime, will have over £22bn of assets under management. Its objective will continue to be to provide clients with superior investment returns and outstanding service.

British Assets Trust invests in an international portfolio of equity and equity-related securities.

In managing the portfolio considerable emphasis is placed on asset allocation. However, it is expected that the majority of the Company's investment portfolio will remain invested in securities listed on the London Stock Exchange.

Investors Capital Trust, the Company's largest holding, maintained its consistent performance with a net asset value total return of 31.6 per cent.

John Stubbs
Investment Manager



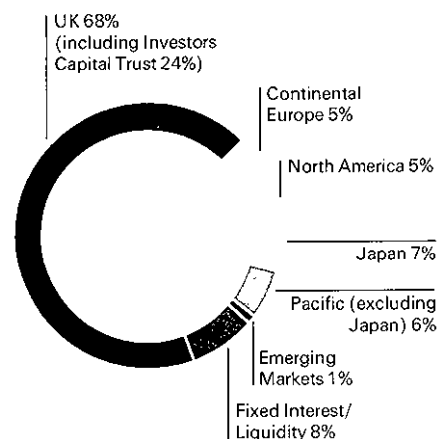
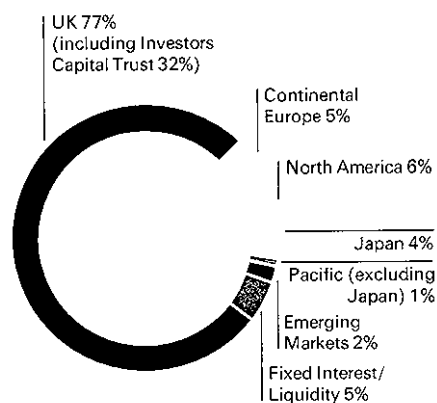
Manager's Review

Stockmarkets generally, save for those in the Far East, had another good year. The key to their strength was the benign inflationary environment and low long term interest rates.

In the year to 30 September 1997, the total return on the FTSE All-Share Index was 29.8 per cent, and in sterling terms the total return on the FT/S&P-Actuaries World (ex UK) Index was 18.2 per cent. There was a marked divergence in performance between the overseas markets. Europe (ex UK) and North America returned 30.4 per cent and 35.0 per cent respectively, while Japan and Pacific (ex Japan) returned (20.5) per cent and (6.5) per cent respectively.

Asset Allocation The charts opposite show the distribution of total assets of the Company as at 30 September 1997 and as at the end of the preceding financial year.

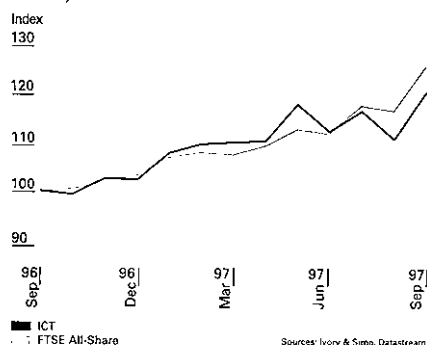
We have managed the Company assuming that the appropriate neutral weightings, taking account of the Company's objective and capital structure, are 70 per cent in UK equities (including the holding in Investors Capital Trust), 25 per cent in overseas equities and 5 per cent in bonds/cash, with the neutral weightings within the overseas portion of the portfolio directly related to the relative sizes of the various regional markets. On this basis we started the period slightly underweight in the UK, slightly overweight in Continental Europe, underweight in North America and overweight in Japan, Pacific (ex Japan) and Emerging Markets generally. During the year we increased our exposure to the UK. Any concerns that the incoming Labour administration would radically reverse the economic policies of its predecessors were rapidly dispelled, and the equity market has reacted positively to most of the decisions taken to date. In retrospect we should not have been underweight in North America and overweight in the Pacific (ex Japan). It is small comfort that this has been the stance adopted by many UK investment houses. In the USA inflationary pressures have remained subdued despite the strength of the economy and low level of unemployment. In part this will have been due to the strength of the US dollar. The downside of this is the strain which US dollar strength has put on the economies of south east Asia, whose currencies were linked to it.



Manager's Review

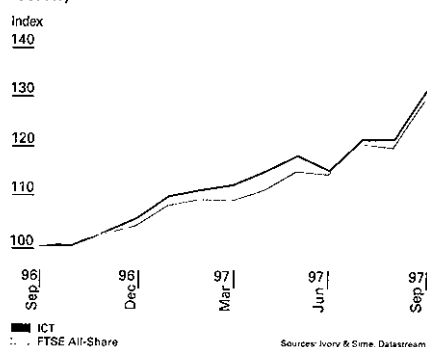
Investors Capital Trust

(market price vs FTSE All-Share Index capital return)

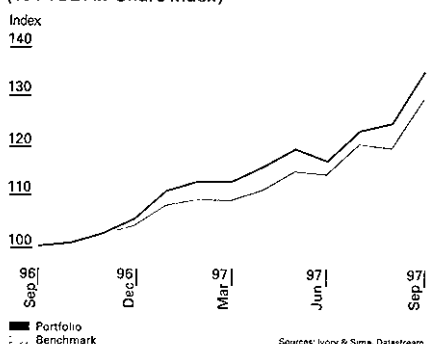


Investors Capital Trust

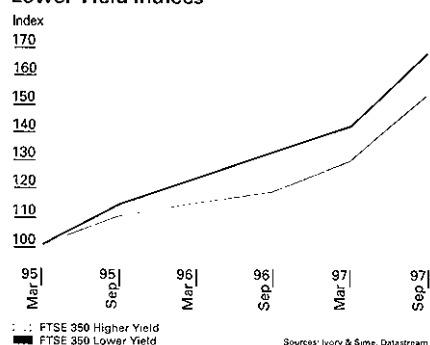
(NAV total return vs FTSE All-Share Index total return)



Other UK Equities (vs FTSE All-Share Index)



Comparison of Capital Performance of FTSE 350 Higher Yield and Lower Yield Indices



The reluctance of the authorities in that region to take the appropriate action, and a number of statements by the political leadership have worried the market and persuaded us drastically to reduce the exposure to the area. Today, Pacific (ex Japan) represents less than 0.5 per cent of total assets following the sale of our Hong Kong holdings subsequent to the year end.

United Kingdom

Investors Capital Trust Investors Capital Trust represents some 32 per cent of the total assets of British Assets Trust. Despite having continued to outperform its benchmark, the FTSE 350 Index, and the FTSE All-Share Index, the discount on the package, which comprises one Growth Share, one Income Annuity Share and one fifth of one Warrant, has widened from 12.4 per cent to 15.0 per cent over the year. The Company's disproportionately large holding in the Income Annuity Shares were particularly hit by the fiscal measures in Gordon Brown's first budget. However, these Income Annuity Shares are held to meet income requirements over the period to 2001 and it has always been the intention to hold these shares to maturity.

Other UK – Major Holdings

Company	Description	Market Value £m	% Total Investments
Lloyds TSB Group	Retail Banking	26.3	4.3
Zeneca Group	Pharmaceuticals	16.2	2.7
Shell Transport & Trading	Integrated Oil	15.8	2.6
British Petroleum	International Oil	10.3	1.7
Provident Financial	Consumer Finance	9.5	1.5

The portion of the portfolio invested directly in the UK market has performed very well during the year, outperforming its benchmark index, the FTSE All-Share, by 4.2 per cent. The main driver for performance has been an above average exposure to financials, pharmaceuticals and oils, which have again been at the forefront of the market's performance.

With regard to future strategy, we do not envisage any material shift in sector allocation, preferring interest rate sensitive sectors to currency sensitive stocks. The yield relative of the portfolio remains below that of the market at 99.2 per cent, with the benefits of the move away from higher yielding stocks since the reorganisation clearly shown in the graph alongside.

Continental Europe – Major Holdings

Company	Description	Market Value £m	% Total Investments
Deutsche Bank	Banking	2.5	0.4
Nokia	Mobile Telephones	2.4	0.4
Elf Aquitaine	Oil	2.0	0.4
Autoliv	Airbags	2.0	0.3
Schneider	Building and Construction	2.0	0.3

European stockmarkets have risen by around 40 per cent in local currency terms over the last year. The main factor has been the strength of the US dollar, which has risen by 13.5 per cent against the DM over the last 12 months. The general weakness of European currencies has largely been due to the prospect of a 'weak Euro', that is monetary union including the southern states of Spain and Italy. This has led to bond yields across Europe converging towards those of Germany, thus driving up equities.

The Europe portfolio has underperformed the FT/S&P-Actuaries Europe (ex UK) Index over the period, due to a poor April and May. In April the rise in US interest rates hurt higher yielding stocks across Europe. The portfolio also suffered from the large weighting in France, which underperformed its peers by around 10 per cent with the main damage being done in May, when the Left Wing coalition under M Jospin unexpectedly ousted the Right Wing Government. The French market fell by over 10 per cent in a week and, while it has since recovered, it has not made up all the ground it lost against the other markets.

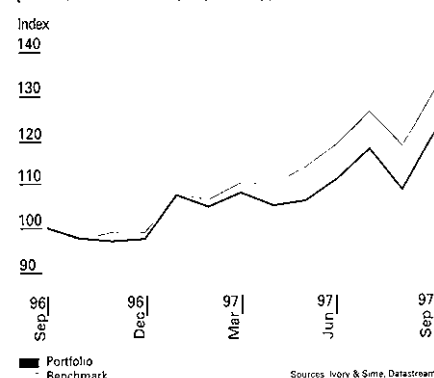
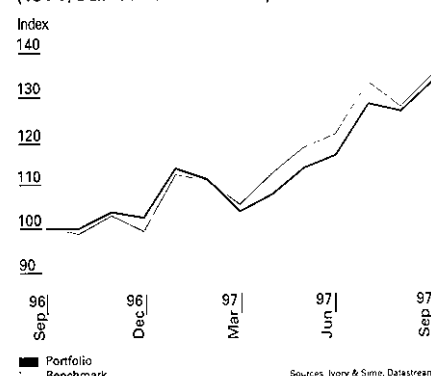
The outlook for Europe remains generally encouraging. The recent hike in interest rates by the Bundesbank should be seen as the next step towards EMU convergence, Italian and Spanish interest rates having already fallen towards the levels prevailing in the 'core' countries.

North America – Major Holdings

Company	Description	Market Value £m	% Total Investments
INMC Mortgage Holdings	Real Estate	2.3	0.4
Chase Manhattan	Banking	2.3	0.4
Lilly (Eli) & Co	Pharmaceuticals	1.9	0.3
Laidlaw	Transportation	1.9	0.3
Banc One	Banking	1.7	0.3

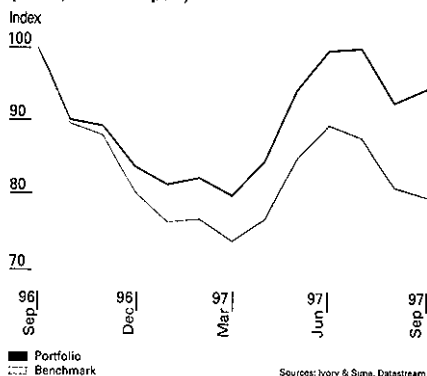
The US market has performed well over the year due to the persistence of favourable economic factors such as modest inflation, solid GDP growth and low interest rates. Corporate earnings continue to show healthy growth.

There is still no sign of inflation, although economic growth is above its long term trend and capacity constraints are evident. Nor is there any reason to expect an inflationary shock from either labour or commodity markets. The consensus expectation is for

Continental Europe
(vs FT/S&P-A Europe (ex UK))North America
(vs FT/S&P-A North America)

Manager's Review

Japan (vs FT/S&P-A Japan)



economic growth to moderate next year. Therefore, we remain optimistic on the outlook for both long and short term interest rates.

We have marginally increased the North American weighting and increased the portfolio's exposure to high quality growth stocks.

Japan – Major Holdings

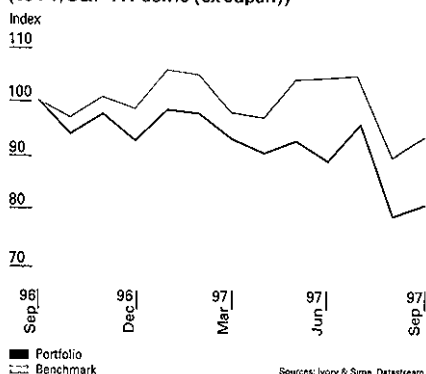
Company	Description	Market Value £m	% Total Investments
Honda Motor	Transport Equipment	1.7	0.3
Sony	Consumer Electronics	1.5	0.2
Bank of Tokyo-Mitsubishi	Banking	1.4	0.2
Keyence	Electrical Machinery	1.3	0.2
Marui	Retail	1.2	0.2

Throughout the year we have remained overweight in large international export companies and leading domestic companies in the technology, transport equipment, communications and pharmaceuticals sectors. We have remained underweight in basic materials, energy, land, transportation and financials.

The Japanese portfolio has continued to outperform the FT/S&P-Actuaries Japan Index. Our strategy of investing in large domestic and international growth companies has been relatively rewarding.

Looking ahead, as the economic backdrop begins to improve later this year and early next year, the market should start to recover. Deregulation, a greater emphasis on profitability measures and increased competition in the domestic pension fund market all point to continued buying of quality growth companies. We continue to favour large international companies, especially those in the technology sector.

Pacific (ex Japan) (vs FT/S&P-A Pacific (ex Japan))



Pacific (ex Japan)

We began the year with a 6 per cent weighting in the region, heavily focused on Thailand, but reduced this weighting substantially in the fourth quarter as economic conditions in the region deteriorated. As the year progressed we became more defensive in our intra-regional asset allocation, adding holdings in Singapore and Australia before finishing the year focused solely on Hong Kong and Australia.

The investment in Thailand was particularly disappointing, as the expected recovery in exports was too little and too late to prevent the devaluation, which occurred at the beginning of July. This was followed by currency and stock market turmoil throughout the ASEAN region, which is still continuing. The impact on performance was partially offset by particularly good stock selection in Hong Kong.

The outlook for the region depends upon the authorities making the appropriate policy responses. If they do the region may again offer interesting investment opportunities.

Emerging Markets – Major Holdings

Company	Description	Market Value £m	% Total Investments
Grupo Passadas	Hotel Operator	1.0	0.2
Cemig Cie Energy	Electrical Utility	0.9	0.2
Cemex	Cement Manufacturer	0.7	0.1
ICA	Construction Company	0.7	0.1
Aracruz	Pulp and Paper	0.6	0.1

Latin American markets have performed strongly over the year on the back of solid, non-inflationary economic growth across the major countries of the region, combined with high levels of foreign direct investment. Risk premia have also fallen, with international agencies upgrading the debt ratings of most countries.

Central and Eastern European markets have also performed well, led by Russia and Hungary whose economy is undergoing a broad based recovery following several years of painful adjustment, while Russia is benefiting from a more stable political environment, single digit inflation and indications of imminent economic growth.

Within Emerging Markets portfolio performance has benefited from asset allocation which has favoured the major Latin American countries and Hungary. Although stock selection has generally been focused on larger more liquid stocks, some smaller capitalisation companies have also made a positive contribution to performance.

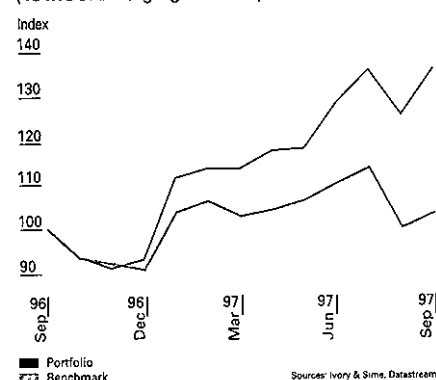
Developments since the Year End

Since the year end stock markets, particularly those in Asia and Latin America, have been very volatile. In terms of relative performance your Company will have benefited from our cautious stance which has led us to favour a high exposure to the markets of UK and Continental Europe and a low exposure to the Asian markets.

John Stubbs

Ivory & Sime plc

13 November 1997

**Emerging Markets
(vs MSCI Emerging Markets)**

Investment Portfolio

Company	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 1996-1997	Country of Incorporation
Investors Capital Trust The company is an investment trust owned 39.96% by the Company as at 30 September 1997. It invests in UK equities and equity-related securities aiming to provide a total return in excess of the FTSE 350 Index.	193,379	32.0	44.8	0.5	UK
Lloyds TSB Group The company provides retail commercial and investment banking services through its branch network and offices in the UK and overseas.	26,287	4.3	2.5	19.2	UK
Zeneca Group The company is involved in the research, manufacture and sale of pharmaceuticals, agrochemicals and speciality chemicals.	16,172	2.7	1.6	11.6	UK
Shell Transport & Trading The company holds a 40 per cent stake in one of the world's largest integrated oil and gas companies.	15,795	2.6	2.4	8.6	UK
British Petroleum The company explores for, produces, refines and retails petroleum products and manufactures chemicals.	10,291	1.7	1.3	20.0	UK
Provident Financial Provident Financial is a personal financial services group focused on personal credit and insurance.	9,464	1.5	1.4	18.3	UK
Glaxo Wellcome A global manufacturer and marketer of ethical pharmaceutical products.	8,367	1.4	1.1	13.3	UK
Standard Chartered Standard Chartered is an international bank whose focus is personal banking and consumer finance, corporate banking and treasury activities, predominantly in the Asia Pacific region.	7,670	1.3	0.8	29.2	UK
Railtrack The company's principal activities involve the maintenance and renewal of the rail infrastructure in the UK.	7,176	1.2	1.0	*	UK
Barclays Barclays is a UK-based international financial group.	7,016	1.2	0.8	19.6	UK
Ten largest investments	301,617	49.9	57.7		

Company	Nature of Business	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 1996-1997†*	Country of Incorporation
Logica	Support Services	6,626	1.1	0.4	22.4	UK
Boots	Retail	6,237	1.0	0.8	10.8‡	UK
British Borneo Petrol Syndicate	Oil and Gas Exploration	6,171	1.0	0.2	6.2	UK
HSBC Holdings	Banking	6,161	1.0	0.7	21.9	UK
Prudential Corporation	Life Assurance	6,007	1.0	0.8	10.5	UK
Yorkshire Water	Regional Water	5,863	1.0	1.6	10.7	UK
British Telecom	Telecommunications	5,733	0.9	1.5	6.2‡	UK
EMAP	Magazine Publishing	5,266	0.9	0.4	16.1	UK
General Accident	Composite Insurance	5,234	0.9	0.9	11.5	UK
Abbey National	Banking	4,773	0.8	0.8	19.0	UK
Twenty Largest Investments		359,688	59.5	65.8		
Hays	Support Services	4,563	0.8	0.3	15.7	UK
National Express Group	Transport	4,531	0.8	0.5	16.4	UK
Bass	Brewing and Hotels	4,514	0.7	0.8	9.9	UK
BOC Group	Industrial Gases	4,418	0.7	0.6	7.4	UK
Marks & Spencer	Retail	4,054	0.7	0.5	14.0	UK
CRH	Building Materials	3,864	0.6	0.3	12.1	Eire
BAT Industries	Tobacco	3,801	0.6	1.1	3.7	UK
Next	Retail	3,633	0.6	0.4	27.7	UK
Tomkins	Diversified Industrial	3,565	0.6	0.6	15.1	UK
TT Group	Industrial Conglomerate	3,482	0.6	0.4	16.4	UK
Thirty Largest Investments		400,113	66.2	71.3		
National Power	Electricity Generator	3,417	0.6	0.8	8.7‡	UK
Mercury Asset Management	Investment Management	3,394	0.6	0.6	28.6	UK
Powergen	Electricity Generator	3,368	0.6	0.6	20.0	UK
BPB	Building Materials	3,307	0.5	0.5	6.2	UK
EMI Group	Music Publishing	3,289	0.5	0.8		UK
United Utilities	Multi Utility	3,258	0.5	0.9	28.9	UK
United Assurance Group	Insurance	3,114	0.5	0.7	34.8	UK
Charter	Industrial Conglomerate	3,094	0.5	0.6	7.1	UK
TI Group	International Engineering	3,059	0.5	0.4	10.0	UK
United News & Media	Media	2,958	0.5	0.5	14.0	UK
Forty Largest Investments		432,371	71.5	77.7		
Smiths Industries	Aerospace and Electronics	2,926	0.5	0.3	12.0	UK
Hutchison Whampoa	International Trader	2,806	0.5	0.2	22.8	Hong Kong
Medeva	Pharmaceuticals	2,801	0.5	0.4	19.3	UK
London International Group	Healthcare Products	2,789	0.5	0.3	40.0	UK
General Electric	Electronics	2,662	0.4	0.5	5.1	UK
Electrocomponents	Component Distribution	2,530	0.4	0.2	16.7	UK
Deutsche Bank	Banking	2,529	0.4	0.2	0.0	Germany
Reed International	International Publishing	2,520	0.4	0.4	9.9	UK
Bunzl	Paper and Packaging	2,499	0.4	0.3	8.6	UK
Grand Metropolitan	International Drinks	2,427	0.4	0.4	6.9	UK
Fifty Largest Investments		458,860	75.9	80.9		
Other Investments (114)		120,430	19.9	8.4		
UK Treasury Stocks		25,530	4.2	10.7		
Total Investments		604,820	100.0	100.0		

†British Assets Trust's financial years to 30 September 1997 and 1996

*No historic comparison

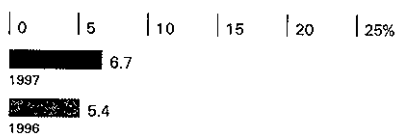
‡Excludes special dividend

Classification of Investments

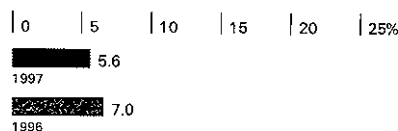
	United Kingdom £'000	North America £'000	Continental Europe £'000	Japan £'000	Far East (excl Japan) £'000	Emerging Markets £'000	1997 Total £'000
Mineral Extraction	32,702	1,066	3,700	—	—	979	38,447
General Industrials	32,876	15,273	10,014	8,169	4,836	3,534	74,702
Consumer Goods	36,356	4,383	7,091	6,773	—	808	55,411
Services	60,215	7,558	1,730	2,911	—	3,329	75,743
Utilities	23,960	—	4,571	2,068	—	1,815	32,414
Financials	82,419	7,943	5,897	5,374	—	225	101,858
Investment Trusts	4,398	—	—	—	1,192	—	5,590
Investors Capital Trust	193,379	—	—	—	—	—	193,379
Total Equity	466,305	36,223	33,003	25,295	6,028	10,690	577,544
Fixed Interest	25,530	—	—	—	—	—	25,530
Unquoted	1,233	513	—	—	—	—	1,746
Total Investments	493,068	36,736	33,003	25,295	6,028	10,690	604,820

Equity portfolio weighting (% total investments) 1997 versus 1996

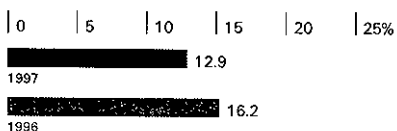
Mineral Extraction



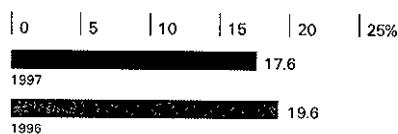
Utilities



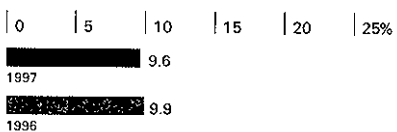
General Industrials



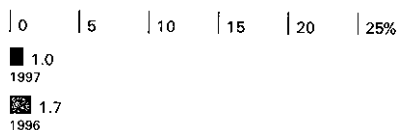
Financials



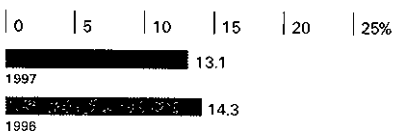
Consumer Goods



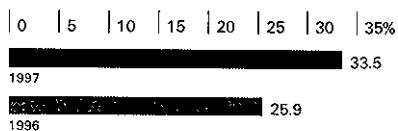
Investment Trusts



Services



Investors Capital Trust



Performance Summary

	1997	1996	
Total Return			
Net asset value†	23.2%	13.8%	-
FTSE All-Share Index†	29.8%	15.6%	-
FT/S&P-A World (ex UK) Index†	18.2%	14.5%	-
Ordinary Shares – Revenue and Dividends			% change
Earnings per Ordinary Share	5.36p	5.74p	(6.6)
Dividends per Ordinary Share	4.825p	4.655p	3.7
Retail Price Index	159.3	153.8	3.6
Revenue reserves per Ordinary Share	3.49p	2.96p	-
Revenue reserves as % of annual dividend	72.4%	63.6%	-
Equity Shares – Capital Values			
Net asset value per Ordinary or Growth Share			
(basic)	141.6p	120.8p	17.2
(fully diluted)	139.0p	117.8p	18.0
Ordinary Share price (mid market)	119.5p	97.5p	22.6
Discount on Ordinary Shares (basic)	15.6%	19.3%	-
Growth Share price (mid market)	97.25p	74.75p	30.1
Discount on Growth Shares (basic)	31.3%	38.1%	-
Package price†	121.5p	97.1p	25.1
Package discount to net asset value (basic)	14.2%	19.6%	-
Equities Index Unsecured Loan Stock			
Capital value	245.5p	194.5p	26.2
Price (mid market)	242.0p	194.5p	24.4

† All total return calculations are on a yield basis with net dividends reinvested.

* NAV total return is calculated as 84% of the total return attributable to an Ordinary Share and 16% of the return attributable to a Growth Share, adjusted for the buy in of Warrants.

‡ The package price is calculated as the sum of the market values of 21 Ordinary Shares, 4 Growth Shares and 5 Warrants, divided by 25.

Sources: Ivory & Sime, Datastream, NatWest Securities.

Ten Year Record

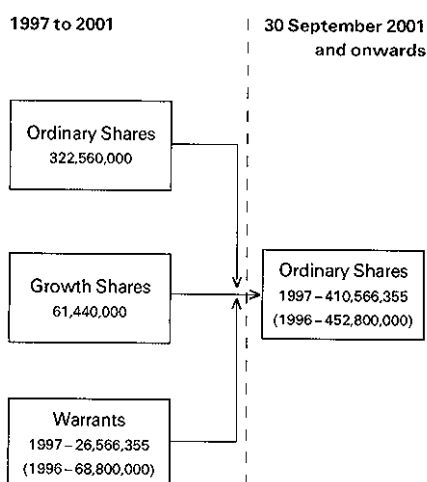
At 30 September	Total Assets £'000	Equity Shareholders' Funds £'000	Net Asset Value per Equity Share	Ordinary Share Price	Discount	Earnings per Ordinary Share	Dividend per Ordinary Share
1988	400,792	325,713	84.8p	67.0p	21.0%	3.01p	2.70p
1989	602,416	369,740	96.3p	82.3p	14.5%	3.56p	3.30p
1990	456,208	287,136	74.8p	64.0p	14.4%	4.17p	3.85p
1991	570,217	363,743	94.7p	88.5p	6.5%	4.11p	4.04p
1992	539,636	345,026	89.8p	79.5p	11.5%	4.02p	4.19p
1993	641,260	423,744	110.4p	105.5p	4.4%	4.28p	4.28p
1994	597,696‡	379,557*	98.8p*	94.0p	4.9%*	4.10p	4.38p
1995	672,502	422,977	110.2p	92.5p	16.0%	4.62p	4.555p
1996	693,909¶	463,824	120.8p	97.5p	19.3%	5.74p	4.655p
1997	607,465¶	543,717	141.6p	119.5p	15.6%	5.36p	4.825p

* Figures restated following adoption of accounting for Investors Capital Trust dividends on an accruals basis and valuing Investors Capital Trust at market price.

¶ Figure stated prior to deduction of Yen loan.

Sources: Ivory & Sime, Datastream, NatWest Securities.

The Company's capital structure comprises Ordinary Shares, Growth Shares, Warrants and a small amount of Preference Stock. The Company also has units of Equities Index Unsecured Loan Stock in issue.



76,800,000 Warrants were issued in December 1994. 50,233,645 Warrants have been purchased by the Company for cancellation. The number of ordinary shares from 30 September 2001 onwards includes the 61,440,000 ordinary shares arising on conversion of the growth shares and assumes all outstanding warrants are exercised.

The Growth Shares and Warrants were issued in December 1994 and will be in existence for a seven year period. At the end of the period in the year 2001, the Growth Shares will automatically convert into Ordinary Shares, whilst any outstanding Warrants will have been exercised in the period 1 July 2001 to 30 September 2001 or will expire. This process is illustrated in the diagram opposite.

Ordinary Shares | At 30 September 1997 there were 322,560,000 Ordinary Shares of 25p each in issue.

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

Income entitlement:

The profits of the Company (including accumulated revenue reserves) available for distribution and resolved to be distributed shall be distributed by way of interim or final dividends among the holders of the Ordinary Shares, subject to the payment of dividends to the holders of Preference Stock.

Capital entitlement:

After meeting the liabilities of the Company and the amounts due to Preference Stockholders on a winding up, the surplus assets shall be paid to the holders of Ordinary Shares, Growth Shares and, to the extent relevant, the Warrants and distributed among such holders rateably according to the amounts paid up or credited as paid up.

Voting entitlement:

Each Ordinary Shareholder is entitled to one vote on a show of hands, and on a poll to one vote for every £4 nominal of Ordinary Share capital held.

Growth Shares | At 30 September 1997 there were 61,440,000 Growth Shares of 25p each in issue.

Investment characteristics:

The Growth Shares are more suitable for those seeking capital growth and no current income. The return on the Growth Shares will be of a capital nature up to the conversion date.

Capital entitlement:

On a winding up of the Company, the capital entitlement of a Growth Share is the same as that of an Ordinary Share.

Income entitlement:

Holders of Growth Shares have no right to receive dividends out of the revenue or other profits of the Company.

Voting entitlement:

Each Growth Shareholder is entitled to one vote on a show of hands, and on a poll to one vote for every £4 nominal of Growth Share capital held.

Conversion entitlement:

Each Growth Share will be converted automatically into an Ordinary Share on 30 September 2001. Ordinary Shares arising on the conversion of Growth Shares will rank *pari passu* in all respects with the Ordinary Shares then in issue.

Warrants | *At 30 September 1997 there were 26,566,355 Warrants in issue (1996: 68,800,000).*

Investment characteristics

The Warrants provide a high degree of capital gearing to the performance of the Ordinary Shares. Warrants have the potential for higher capital appreciation but are liable to increased volatility and risk.

Subscription entitlement:

Each Warrant confers the right to subscribe for one Ordinary Share at any time during the period from 1 July 2001 to 30 September 2001 at 101 pence per share.

Income entitlement:

Warrantheolders have no entitlement to dividends.

Capital entitlement:

On a winding-up Warrants will rank *pari passu* with the Ordinary and Growth Shares in the distribution of the Company's surplus assets subject to an adjustment to reflect the non-payment of the subscription price.

Voting entitlement

Warrantheolders are not entitled to attend or vote at general meetings of the Company.

Preference Stock | *At 30 September 1997 there were two classes of Preference Stock of £1 each in issue: £1,300,000 3.15 per cent and £3,950,000 "A" 3.50 per cent.*

Income entitlement:

The Preference Stocks are entitled to dividends paid half-yearly at the rate of 3.15 per cent and 3.50 per cent, respectively, per annum.

Capital entitlement:

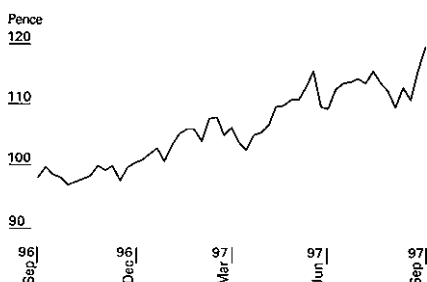
On a return of capital on a winding-up or otherwise, the surplus assets of the Company shall be applied in the following order:

1. £1,300,000 of 3.15 per cent Preference Stock together with any arrears of dividend plus a bonus of 5 per cent on the amount of such stock;
2. £3,950,000 of "A" 3.50 per cent Preference Stock together with any arrears of dividend.

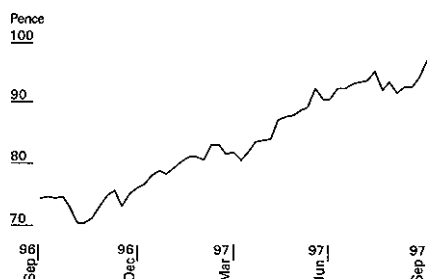
Capital Structure

As at 30 September 1997

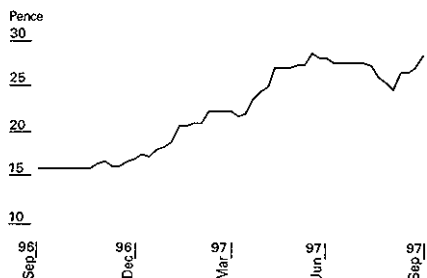
Ordinary Shares



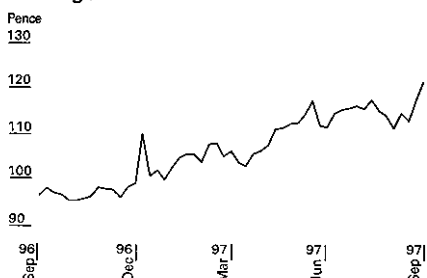
Growth Shares



Warrants



Package



Source: Datastream

Price performance

The charts above show price performance (mid market) in pence during the year.

Voting entitlement:

Holders of Preference Stock have the right to receive notice of and to attend, but not vote at, any general meeting except in certain circumstances including consideration of any matter which affects the rights of Preference Stockholders or if the dividend payable to Preference Stockholders is in arrears for at least six months.

Equities Index Unsecured Loan Stock ('Loan Stock') | At 30 September 1997

there were 21,739,658 units of Loan Stock in issue (1996: 96,698,658).

Investment characteristics:

Units of Loan Stock entitle the holders to an income return that matches that of the FTSE All-Share Index (the 'Index') and, at maturity, a capital return that also matches that of the Index. Neither return is fixed and each moves up or down with the UK stockmarket.

Income entitlement:

Holders of the Loan Stock receive interest paid quarterly. Interest is calculated by reference to the movement in the ex-dividend adjustment factor during the relevant quarter. The gross interest paid in the year to 30 September 1997 amounted to £76.955 per 1,000 units, equivalent to a yield of 3.13 per cent.

Capital entitlement:

On a return of capital, on a winding-up or otherwise, the amount due to the holders of Loan Stock, being the capital value of the Loan Stock and the accrued interest thereon, shall rank *pari passu* with amounts due to other unsecured creditors of the Company. The capital value means, in respect of one unit of Loan Stock, the higher of its nominal amount (£0.10) and the Index number at that date divided by 1,000 expressed in pounds. The Company shall redeem the whole of the Loan Stock on 31 December 2005 barring any circumstances which may lead to an earlier redemption.

The capital value of the Loan Stock as at 30 September 1997 amounted to £2,455.02 per 1,000 units.

Voting entitlement:

The holders of Loan Stock have no voting rights at general meetings of the Company.

Package | For those shareholders who elected for Growth Shares and Warrants at the time of the capital reorganisation, the package price is calculated as the sum of 21 Ordinary Shares, 4 Growth Shares and 5 Warrants, divided by 25.

	1997	1996
Ordinary Share Price	119.5p	97.5p
Growth Share Price	97.25p	74.75p
Warrant Price	27.75p	16.0p
Package Price	121.5p	97.1p

figures as at 30 September

Board of Directors
at 30 September 1997

William Thomson
(Chairman)
(age 57) is Chairman of E. G. Thomson (Shipping) Ltd. He is a director of several companies including Investors Capital Trust, Fidelity Japanese Values, John Menzies, and Dobbies.



Sir Robin Duthie
(age 69) was Chairman of the Scottish Development Agency and Britoil. He is Vice-Chairman of the Scottish Advisory Board of British Petroleum and is a director of a number of other public companies including The Royal Bank of Scotland Group, Carclo Engineering Group and British Polythene Industries.



Dr Chris Masters
(age 50) is Executive Chairman of Aggreko plc. Headquartered in Scotland but with operations in some 20 countries around the globe, Aggreko is a world leader in the supply of specialist power and temperature control rental services.



James West
(age 50) was a Managing Director of Lazard Brothers and Co Ltd and Chief Executive of Lazard Asset Management Ltd between 1990 and 1994. He is Chairman of Gartmore Fledgling Index Trust and a director of Aberdeen New Dawn Investment Trust and Candover Investments.

Sir Charles Fraser
(age 69) is Chairman of Fidelity European Values and is on the Boards of several companies including British Empire Securities & General Trust, Scottish Media Group and Stakis.

Results and Dividends

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 1997.

	£'000
Revenue available for dividends	17,464
Dividend for the year on the 3.15 per cent Preference Stock	(41)
Dividend for the year on the 'A' 3.50 per cent Preference Stock	(139)
Dividends on Ordinary Shares:	
First quarterly interim dividend of 1.16375p per share paid on 7 April 1997	(3,754)
Second quarterly interim dividend of 1.16375p per share paid on 7 July 1997	(3,754)
Third quarterly interim dividend of 1.16375p per share paid on 7 October 1997	(3,754)
Fourth quarterly interim dividend of 1.33375p per share payable on 7 January 1998 to Ordinary Shareholders on the register at close of business on 5 December 1997	(4,302)
Transferred to revenue reserve	1,720

Principal Activity and Status

The Company is registered as a Public Limited Company in terms of the Companies Act 1985.

It is an Investment Company as defined in Section 266 of the Companies Act 1985 and qualifies as an Investment Trust within the meaning of the Income and Corporation Taxes Act 1988. Inland Revenue approval for such treatment has been given up to 30 September 1995. Since that date, the affairs of the Company have been conducted in such a manner as to enable it to continue to seek such approval.

A review of the business during the year is contained in the Chairman's Statement and Manager's Review.

Charitable Donations

During the year the Company made donations to various local charities totalling £8,000 (1996 - £8,000).

Directors

Mr W R E Thomson retires from the Board by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

The Directors who held office during the year and their beneficial interests in the shares and securities of the Company at 30 September 1997 were:

	Ordinary Shares		Growth Shares		Warrants		Loan Stock	
	97	96	97	96	97	96	97	96
W R E Thomson	6,720	6,720	1,280	1,280	1,600	1,600	—	—
Sir Robin Duthie	100,080	10,080	1,920	1,920	2,400	2,400	50,000	50,000
Sir Charles Fraser	24,800	24,800	—	—	—	—	—	—
Dr C Masters	2,457	1,829	—	—	—	—	—	—
J G West	12,000	12,000	—	—	—	—	—	—

No Director had an interest in the Preference Stocks of the Company.

There have been no changes in the holdings of the Directors between 30 September 1997 and 13 November 1997 other than as a result of the quarterly reinvestment of dividends through the Ivory & Sime Savings Scheme.

Mr W R E Thomson is a director of Ivory & Sime TrustLink Limited, in which the Company has an investment.

No Director has any material interest in any contract to which the Company is a party.

No Director has a contract of service with the Company.

Substantial Interests in Share Capital

The Board has been advised that the following shareholders owned 3 per cent or more of the issued share capital of either the Ordinary Shares or Growth Shares of the Company at 13 November 1997:

	Number of Ordinary Shares Held	Percentage Held	Number of Growth Shares Held	Percentage Held
Sun Life Assurance Society	42,465,850	13.2	—	—
Merseyside Pension Fund			10,750,000	17.5
London and Manchester (Portfolio Management) Limited			7,850,000	12.8
The Equitable Life Assurance Society			6,378,373	10.4
Scottish Life Assurance			4,424,802	7.2
Hermes Investment Management			3,886,266	6.3
Threadneedle Asset Management			3,190,587	5.2
Barclays Bank PLC			2,975,317	4.8
Co-operative Assurance Society			2,758,284	4.5
Prudential Corporation			2,438,196	4.0

Management and Management Fees

Details of the contract between the Company and Ivory & Sime plc in respect of management services provided are given in Note 3 to the accounts.

Corporate Governance

The Board consists solely of non-executive Directors who are all independent of the Company's Managers. Arrangements to ensure the appropriate level of corporate governance have been put in place by the Board which it believes are appropriate to an investment trust and will enable the Company to operate within the spirit of the Cadbury Committee's Code of Best Practice ('the Code').

Committees comprising the whole Board carry out the functions of Audit, Nomination and Remuneration Committees. The Board reviews the terms and conditions of the Managers' appointment on a regular basis. A management agreement between the Company and its Managers, Ivory & Sime, sets out the matters over which the Managers have authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors. In view of its non-executive nature and the requirement of the Articles of Association that all Directors retire by rotation at the Annual General Meeting, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by the Code.

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Directors are responsible for the Company's system of internal financial control. Day to day operations are delegated, through a management agreement, to Ivory & Sime plc which has established and disseminated clearly defined policies and standards. The system of internal financial control, which includes procedures such as physical controls, segregation of duties, authorisation limits and comprehensive financial reporting to the Board, is designed to provide reasonable but not absolute assurance against material misstatement or loss. In accordance with the Cadbury Committee's recommendations the Directors have reviewed with the Managers and Auditors the effectiveness of the system of internal financial control in operation throughout the year.

The Company's auditors, Ernst & Young, have reviewed this statement in so far as it relates to the paragraphs of the Code specified for their review and their report is contained on page 37.

CREST

The Company's Ordinary Shares, Growth Shares, Warrants, Preference Stock and Equities Index Unsecured Loan Stock have been capable of transfer by means of the CREST system since 24 February 1997.

Creditor Payment Policy

The Company's payments policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms.

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

Personal Equity Plans

The affairs of the Company have been conducted in such a way as to comply with the qualifying equities rule as defined in the Personal Equity Plan Regulations 1989. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

By Order of the Board,

G J Humphries
Secretary



One Charlotte Square
Edinburgh EH2 4DZ
13 November 1997

Statement of Total Return

(Incorporating the Revenue Account*) for the Year ended 30 September 1997

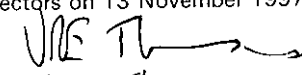
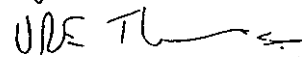
	Notes	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
Gains/(losses) on investments	10	—	104,364	104,364	—	61,484	61,484
Warrants purchased for cancellation	14,15	—	(7,239)	(7,239)	—	(763)	(763)
Realised/unrealised exchange differences	15	—	1,564	1,564	—	3,562	3,562
Loan Stock	15	—	(19,877)	(19,877)	—	(26,589)	(26,589)
Income	2	26,479	—	26,479	35,068	—	35,068
Investment management fee	3	(934)	(572)	(1,506)	(901)	(552)	(1,453)
Other expenses	4	(527)	—	(527)	(426)	—	(426)
Net return before finance costs and taxation		25,018	78,240	103,258	33,741	37,142	70,883
Interest payable	6	(3,021)	(333)	(3,354)	(10,884)	(51)	(10,935)
Return on ordinary activities before tax		21,997	77,907	99,904	22,857	37,091	59,948
Tax on ordinary activities	7	(4,533)	266	(4,267)	(4,146)	240	(3,906)
Return on ordinary activities after tax for the financial year	16	17,464	78,173	95,637	18,711	37,331	56,042
Dividends in respect of non equity shares	8	(180)	—	(180)	(180)	—	(180)
Return attributable to equity shareholders		17,284	78,173	95,457	18,531	37,331	55,862
Dividends in respect of equity shares	8	(15,564)	—	(15,564)	(15,015)	—	(15,015)
Transfer to reserves	15	1,720	78,173	79,893	3,516	37,331	40,847
Return per ordinary 25p share:							
Basic (p)	9	5.36	20.36	25.72	5.74	9.72	15.46
Return per growth 25p share:							
Basic (p)	9	—	20.36	20.36	—	9.72	9.72

* The revenue column of this statement is the profit and loss account of the company.
The accompanying notes are an integral part of this statement.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.

Balance Sheet
As at 30 September 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Investments	10	604,820	674,489
Current assets			
Debtors	11	6,428	7,472
Cash at bank and on deposit		6,042	22,950
		12,470	30,422
Creditors: amounts falling due within one year	12	(14,952)	(47,758)
Net current liabilities		(2,482)	(17,336)
Total assets less current liabilities		602,338	657,153
Creditors: amounts falling due after more than one year	13	(53,371)	(188,079)
Net assets		548,967	469,074
Capital and reserves			
Called-up share capital	14	101,250	101,250
Share premium account	15	3,630	3,630
Other reserves –			
Capital reserve – realised	15	192,696	237,588
Capital reserve – unrealised	15	240,124	117,059
Revenue reserve	15	11,267	9,547
Total shareholders' funds		548,967	469,074
Equity shareholders' funds	16	543,717	463,824
Non-equity shareholders' funds		5,250	5,250
Net asset value per share:	16		
Ordinary and Growth			
– Basic (p)		141.6	120.8
– Fully diluted (p)		139.0	117.8

The financial statements on pages 24 to 35 were approved by the board of directors on 13 November 1997 and were signed on its behalf by:



 W R E Thomson (Director)

The accompanying notes are an integral part of this balance sheet.

Cash Flow Statement
for the Year ended 30 September 1997

	Notes	1997 £'000	1996 £'000
Operating activities			
Investment income received		22,633	27,768
Deposit interest received		336	1,001
Underwriting commission received		65	257
Investment management fees paid		(1,506)	(1,453)
Other cash payments		(583)	(314)
Net cash inflow from operating activities	18	20,945	27,259
Servicing of finance			
Interest paid on equities index unsecured loan stock		(3,591)	(8,665)
Interest on Yen loan		(185)	(135)
Bank overdraft interest		(692)	—
Non equity dividends paid		(180)	(180)
Net cash outflow from servicing of finance		(4,648)	(8,980)
Taxation			
Tax paid		(917)	(517)
Capital expenditure and financial investment			
Purchase of investments		(106,646)	(386,635)
Disposals of investments		281,744	431,622
Net cash inflow from capital expenditure and financial investment		175,098	44,987
Equity dividends paid		(15,177)	(14,974)
Net cash inflow before financing		175,301	47,775
Financing			
¥6.4 billion loan drawn down 3 June 1996		—	38,759
¥5.4 billion loan repaid 3 December 1996		(28,741)	—
Equities index unsecured loan stock purchased for cancellation		(154,585)	(82,784)
Warrants purchased for cancellation		(7,559)	(443)
Net cash outflow from financing		(190,885)	(44,468)
(Decrease)/Increase in cash		(15,584)	3,307
Reconciliation of net cash flow to movement in net debt			
(Decrease)/Increase in cash in the year		(15,584)	3,307
¥6.4 billion loan drawn down 3 June 1996		—	(38,759)
¥5.4 billion loan repaid 3 December 1996		28,741	—
Equities index unsecured loan stock purchased for cancellation		154,585	82,784
Currency gains		948	1,559
Net debt at 1 October 1996		(201,885)	(226,190)
Net debt resulting from cash flows		(33,195)	(177,299)
Increase in equities index unsecured loan stock liability		(19,877)	(26,589)
Decrease in Yen loan		616	2,003
Net debt at 30 September 1997	20	(52,456)	(201,885)

The accompanying notes are an integral part of these statements.

1. Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year, is set out below.

a) Basis of Accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of fixed asset investments. The accounts are prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial statements of investment trust companies.' The Cash Flow Statement has been prepared in accordance with FRS1 (revised 1996). This introduces a number of presentation changes which have been applied to both this year's and the previous year's figures.

b) Investments

Listed investments are valued at middle market prices. Unlisted investments are valued by the Directors on the basis of all information available to them at the time of valuation. Realised surpluses or deficits on the disposal of investments are taken to capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised as explained in note 1(d) below.

c) Equities Index Unsecured Loan Stock 2005 ('Loan Stock')

The Loan Stock is valued by reference to the capital value of the FTSE All-Share Index using the year end rate.

d) Capital Reserves

Capital Reserve – Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the policies below
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature
- gains and losses from the purchase of units of the Loan Stock for cancellation

Capital Reserve – Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end
- provision is made for the change in value of the Loan Stock

e) Income

Dividends are recognised as income on the date that the related investments are marked ex-dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Income from fixed interest securities, other investment income and deposit interest are included on an accruals basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income.

f) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except where incurred in connection with the maintenance or enhancement of the value of the Company's assets and taking account of the expected long term returns as follows:

- Management fees payable have been allocated 62 per cent to revenue and 38 per cent to capital.

Notes to the Accounts

g) Finance costs

Finance costs are accounted for on an accruals 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, are allocated 62 per cent to revenue account and 38 per cent to capital reserve – realised, in line with the Board's expected long-term split of returns, in the form of income and capital gains respectively, from the investment portfolio of the Company.

h) Foreign Currencies

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at 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 the transaction is included as an exchange gain or loss in capital reserve.

Rates of Exchange at 30 September

	1997	1996
US Dollar	1.6154	1.5634
Japanese Yen	195.0273	174.1237
Deutschemark	2.8531	2.3846

2. Income

	1997 £'000	1996 £'000
Income from investments		
Franked investment income	20,456	25,816
UK unfranked investment income	2,677	3,483
Overseas income	2,321	4,091
Foreign income dividends	624	420
	26,078	33,810
Other income		
Deposit interest	336	1,001
Underwriting commission	65	257
	401	1,258
Total income	26,479	35,068
Total income comprises:		
Dividends	23,251	30,092
Interest	2,827	3,718
Other income	401	1,258
	26,479	35,068
Income from investments:		
Listed UK	23,817	29,561
Listed overseas	2,138	4,118
Unlisted	123	131
	26,078	33,810

3. Investment management fee

	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
Investment management fee	934	572	1,506	901	552	1,453

The Company's investment manager is Ivory & Sime plc. The contract between the company and Ivory & Sime plc may be terminated at any date by either party giving twelve months' notice of termination. Ivory & Sime plc receives a basic quarterly fee, payable in advance, equal to 0.075 per cent of the value of the equity shareholders' funds of the Company. A performance-related fee is calculated by reference to (i) the performance of the Company against the FTSE All-Share Index, (ii) the extent to which the Company has sold Growth Shares in Investors Capital and (iii) the value of equity shareholders' funds of the Company as at the close of business on the relevant quarterly valuation date and is payable in arrears. The performance-related fee is payable at a rate of up to a maximum of 0.075 per cent per quarter.

4. Other Expenses

	1997 £'000	1996 £'000
Directors' fees (Note 5)	63	54
Auditors' remuneration for:		
– audit	15	14
– other services to the company	9	14
Other	440	344
	527	426

5. Directors' fees

The remuneration of the Chairman, the highest paid Director, was £17,000 (1996: £14,000) and that each of the other four Directors was £11,500 (1996: £10,000).

6. Interest payable

	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
On Loan Stock and Yen loan:						
Repayable within 5 years, not by instalments	115	70	185	84	51	135
Repayable wholly or partly in more than 5 years	2,477	–	2,477	10,800	–	10,800
Bank overdraft interest	429	263	692	–	–	–
	3,021	333	3,354	10,884	51	10,935

Notes to the Accounts

7. Tax on ordinary activities

	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
Tax attributable to franked investment income	4,091	–	4,091	5,163	–	5,163
Section 242 relief	13	(102)	(89)	(1,470)	(240)	(1,710)
Corporation Tax	429	(429)	–	–	–	–
Overseas taxation	265	–	265	453	–	453
	4,798	(531)	4,267	4,146	(240)	3,906
Relief for overseas taxation	(265)	265	–	–	–	–
	4,533	(266)	4,267	4,146	(240)	3,906

Advance Corporation Tax payable on the proposed dividend will be set off against franked investment income.

8. Dividends

	1997 £'000	1996 £'000
Dividends on equity shares:		
–ordinary–first quarterly paid 1.16375p (1996: 1.13875p) per Ordinary Share	3,754	3,673
–ordinary–second quarterly paid 1.16375p (1996: 1.13875p) per Ordinary Share	3,754	3,673
–ordinary–third quarterly paid 1.16375p (1996: 1.13875p) per Ordinary Share	3,754	3,673
–ordinary–fourth quarterly proposed 1.33375p (1996: 1.23875p) per Ordinary Share	4,302	3,996
	15,564	15,015
Dividends on non-equity shares:		
–3.15 per cent preference	41	41
–“A” 3.50 per cent preference	139	139
	180	180

9. Return per Share

	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
Ordinary (Basic)	5.36	20.36	25.72	5.74	9.72	15.46
Growth (Basic)	–	20.36	20.36	–	9.72	9.72

Basic revenue return per Ordinary Share is based on the net revenue on ordinary activities after taxation and deduction of preference dividends of £17,284,000 (1996: £18,531,000), and on 322,560,000 (1996: same) Ordinary Shares.

Basic capital return per Ordinary Share and Growth Share is based on net capital gains for the financial year of £78,173,000 (1996: net capital gain £37,331,000), and on 384,000,000 (1996: same) Ordinary Shares and Growth Shares.

10. Investments

10. Investments	1997 £'000	1996 £'000
Investments listed on a recognised investment exchange	603,074	670,457
Unlisted investments	1,746	4,032
	604,820	674,489

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	315,264	149,272	9,760	474,296
Opening unrealised appreciation/(depreciation)	194,034	11,887	(5,728)	200,193
Opening valuation	509,298	161,159	4,032	674,489
Movements in the year:				
Purchases at cost	23,566	83,756	373	107,695
Sales—proceeds	(139,101)	(142,627)	—	(281,728)
—realised gains on sales	30,713	4,110	—	34,823
Increase in unrealised appreciation/(depreciation)	67,360	4,840	(2,659)	69,541
Closing valuation	491,836	111,238	1,746	604,820
Closing book cost	230,442	94,511	10,133	335,086
Closing unrealised appreciation/(depreciation)	261,394	16,727	(8,387)	269,734
Closing valuation	491,836	111,238	1,746	604,820

	1997 £'000	1996 £'000
Equity shares	573,135	631,431
Convertible securities	—	3,275
Fixed income securities	25,530	35,764
Other investments	6,155	4,019
	604,820	674,489

Realised gains on sales	34,823	94,617
Increase/(decrease) in unrealised appreciation	69,541	(33,133)
Gains on investments	104,364	61,484

Notes to the Accounts

11. Debtors

	1997 £'000	1996 £'000
Amounts due from brokers	1,410	471
Tax recoverable	2,035	1,734
Prepayments and accrued income	2,983	5,267
Other debtors	-	-
	6,428	7,472

12. Creditors: amounts falling due within one year

	1997 £'000	1996 £'000
Amounts due to brokers	965	320
Dividend on Preference Stocks	90	90
Third quarterly interim dividend	3,754	3,673
Fourth quarterly interim dividend	4,302	3,996
Taxation	60	201
Interest on Loan Stock	417	2,429
Other creditors	237	293
Yen borrowings	5,127	36,756
	14,952	47,758

On 3 December 1996, the Company repaid ¥5,400 million of the ¥6,400 million loan. The remaining ¥1,000 million has been rolled over to 30 November 1997 at a fixed rate of 0.8 per cent per annum.

13. Creditors: amounts falling due after more than one year

	1997 £'000	1996 £'000
Equities Index Unsecured Loan Stock 2005	53,371	188,079

During the year the Company bought in for cancellation 74,959,000 units of Loan Stock for a total consideration of £154,585,000. As at 30 September 1997 there were 21,739,658 units in issue.

Subject to the provisions in the Trust Deed constituting the Loan Stock, the Company shall redeem the Loan Stock on 31 December 2005 at the Capital Value which will be determined by the level of the FTSE All-Share Index at that date. Interest paid on the units of the Loan Stock is equivalent to the gross yield of the Index and is paid quarterly. For further details on the Loan Stock concerning capital, income and voting entitlements refer to page 18.

14. Share capital

	Shares	1997 £'000	1996 £'000
Ordinary, Growth and Preference			
Authorised at 30 September			
Ordinary Shares of 25p each	399,360,000	99,840	99,840
Growth Shares of 25p each	61,440,000	15,360	15,360
3.15 per cent Preference Stock		1,300	1,300
"A" 3.50 per cent Preference Stock		3,950	3,950
		120,450	120,450
Allotted, called-up and fully paid at 30 September			
Ordinary Shares of 25p each	322,560,000	80,640	80,640
Growth Shares of 25p each	61,440,000	15,360	15,360
3.15 per cent Preference Stock		1,300	1,300
"A" 3.50 per cent Preference Stock		3,950	3,950
		101,250	101,250

During the year the Company bought in for cancellation 42,233,645 Warrants for a total consideration of £7,239,000. As at 30 September 1997 there were 26,566,355 Warrants to subscribe for Ordinary Shares at 101p each during the period 1 July 2001 to 30 September 2001.

For further details of the capital, income and other entitlements of the Company's share capital refer to the section of the annual report entitled Capital Structure.

15. Reserves

	Share premium account £'000	Capital reserve— realised £'000	Capital reserve— unrealised £'000	Revenue reserve £'000
Company				
Beginning of year	3,630	237,588	117,059	9,547
Exchange differences		2,946	(1,382)	
Equities Index Unsecured Loan Stock units purchased for cancellation		(74,783)	74,783	
Appreciation of Equities Index Unsecured Loan Stock 2005			(19,877)	
Warrants purchased for cancellation		(7,239)		
Net gain on realisation of investments		34,823		
Increase in unrealised appreciation of investments			69,541	
Management fees charged to capital		(572)		
Interest charged to capital		(333)		
Tax credited to capital		164		
S 242 tax reclaim		102		
Retained net revenue for the year				1,720
	3,630	192,696	240,124	11,267

16. Net asset value per Ordinary and Growth Share

The net asset value per share and the net asset values attributable to the Ordinary Shares at the year end calculated in accordance with their entitlements in the Articles of Association were as follows:

	Net asset value per share attributable		Net asset values attributable	
	1997 p	1996 p	1997 £'000	1996 £'000
Ordinary and Growth Shares (basic)	141.6	120.8	543,717	463,824
Ordinary and Growth Shares (fully diluted)	139.0	117.8	570,549	533,312

The movements during the year of the assets attributable to the Ordinary Shares were as follows:

	Ordinary Shares (basic) £'000
Total net assets attributable at beginning of year	463,824
Total recognised gains/(losses) for the year	95,637
Dividends appropriated in the year	(15,744)
Total net assets attributable at end of year	543,717

Basic net asset value per Ordinary and Growth Share is calculated on equity shareholders' funds of £543,717,000 divided by the number of Ordinary and Growth Shares in issue of 384,000,000 to give 141.6p.

The fully-diluted net asset value per Ordinary and Growth Share is calculated on the same basis as the basic and in addition assumes that all the Warrants in issue are exercised at £1.01. This increases equity shareholders funds to £570,549,000 and is divided by the notional number of shares in issue of 410,566,355 to give 139.0p.

17. Participating interests

Name	Principal activity	Description of shares held	Issued capital £'000	Reserves £'000	Profit/(loss) for year £'000	Proportion of class held (%)	Valuation at 30.9.97 £'000
Investors Capital Trust plc (accounts to 30.9.97)	Investment Trust	Growth Income Annuity Preference	61,848 62 1,839	475,320	16,396	39.96 61.59	193,379

18. Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

	1997 £'000	1996 £'000
Net revenue before finance costs and taxation	25,018	33,741
Stock dividends	(84)	(44)
Decrease/(Increase) in accrued income	1,304	(415)
(Decrease)/Increase in other creditors	(56)	112
Investment management fee charged to capital	(572)	(552)
Tax on investment income	(4,665)	(5,583)
Net cash inflow from operating activities	20,945	27,259

19. Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Opening shareholders' funds	469,074	428,227
Total recognised gains and (losses) before dividends	95,637	56,042
Dividends in respect of equity and non-equity shares	(15,744)	(15,195)
Closing shareholders' funds	548,967	469,074

20. Analysis of Changes in Net Debt

	At 1 October 1996 £'000	Cash Flow £'000	Unrealised Appreciation £'000	Currency Movements £'000	At 30 September 1997 £'000
Cash at bank and in hand	22,950	(15,584)	—	(1,324)	6,042
Equities Index Unsecured Loan Stock	(188,079)	154,585	(19,877)	—	(53,371)
Yen borrowings	(36,756)	28,741	616	2,272	(5,127)
	(201,885)	167,742	(19,261)	948	(52,456)

21. Contingencies, guarantees and financial commitments

	1997 £'000	1996 £'000
Contingencies, guarantees and financial commitments of the company, which have not been accrued, are as follows:		
Placing commitments	255	—
Underwriting commitments	—	186
Commitments on partly paid shares	—	3,270
	255	3,456

Directors' Responsibility Statement and Report of the Auditors

Directors' Responsibility Statement

The Directors are required by law to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the revenue of the Company for that period.

They are also responsible for ensuring that adequate accounting records are maintained and that the assets of the Company are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made in the preparation of the accounts. Applicable UK accounting standards have been followed.

Report of the Auditors to the members of British Assets Trust PLC

We have audited the accounts on pages 24 to 35 which have been prepared under the historical cost convention modified to include the revaluation of fixed asset investments and on the basis of the accounting policies set out on pages 27 and 28.

Respective Responsibilities of Directors and Auditors

As described above the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

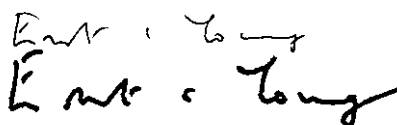
Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 30 September 1997 and of the revenue of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG
Chartered Accountants
Registered Auditor
Edinburgh
13 November 1997

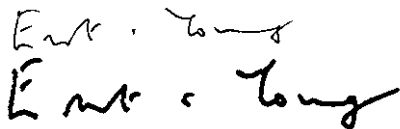
In addition to our audit of the accounts we have reviewed the Directors' statements on page 22 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the Directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control and going concern on page 22, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 22 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

The image shows two handwritten signatures in dark ink. The top signature is a cursive 'Ernst & Young' and the bottom signature is a more stylized, looped version of the same name.

ERNST & YOUNG
Chartered Accountants
Edinburgh
13 November 1997

Shareholder Information

% of Ordinary Shares held at 30 September 1997 (1996)

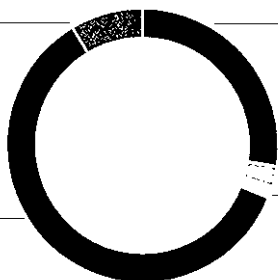
Other Institutions
8.6% (10.0%)

Nominees
60.2% (56.1%)

Private Shareholders
27.4% (29.9%)

The Ivory & Sime PEP 2.4% (2.8%)

The Ivory & Sime Retail Products
(Excluding PEPs) 1.4% (1.2%)



Total Number of Shareholders

	1997	1996
Ordinary Shares	20,090	21,031
Growth Shares	2,897	3,238

Annual General Meeting

The Annual General Meeting of British Assets Trust PLC will be held at One Charlotte Square, Edinburgh on 18 December 1997.

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 the Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh 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 directly to Shareholders' registered addresses.

Capital Gains Tax

The undernoted values as at 31 March 1982 are to assist Shareholders with regard to capital gains tax.

Ordinary Shares	23 ⁵ / ₈ p
3.15% Preference Stock	29 ¹ / ₂ p
"A" 3.50% Preference Stock	32 ¹ / ₂ p

The undernoted values are to assist Shareholders with regard to capital gains tax, following the capital reorganisation:

	First day of dealing value	Apportion- ment factor
Ordinary Shares	90.00p	0.8441
Growth Shares	62.50p	0.1103
Warrants	21.50p	0.0456

Share Prices

The Company's Ordinary Shares, Growth Shares and Warrants are listed on the London Stock Exchange under 'Investment Trusts'. Prices are given daily in the *Financial Times*, *The Scotsman*, *The Herald* and other newspapers.

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 the Bank of Scotland, Registrar Department, under the signature of the registered holder.

Daily Net Asset Value

The net asset value of the Company's shares can be obtained by contacting Ivory & Sime Customer Services on 0131-220 4239



The Company is a member of the Association of Investment Trust Companies ('AITC')

Notice is hereby given that the One hundredth Annual General Meeting of British Assets Trust Public Limited Company will be held at One Charlotte Square, Edinburgh, on 18 December 1997 at 12 noon for the following purposes:

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

1. That the Report and Accounts for the year to 30 September 1997 be approved.
2. That Mr W R E Thomson, who retires by rotation, be re-elected as a Director.
3. That Ernst & Young, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.



By Order of the Board

G J HUMPHRIES
Secretary
One Charlotte Square
Edinburgh EH2 4DZ
13 November 1997

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.

A Form of Proxy for use by Ordinary and Growth Shareholders is enclosed with this Report. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person.

Preference stockholders and Warrantholders are not entitled to vote at the meeting.

No Director has a contract of service with the Company.

Investment Services to Shareholders

Ivory & Sime TrustLink has designed the following range of products to enable investors to build shareholdings in the Company and other trusts to meet a variety of needs.

- A savings scheme, for both lump sums and regular savings
- A personal equity plan, for both lump sums and regular savings
- A managed income portfolio, providing a choice of income level up to 10 per cent a year
- Two managed portfolios of investment trusts designed for capital growth
- A mortgage repayment plan, including comprehensive protection options
- A personal pension plan, providing a flexible way of saving for retirement

Information on these products can be obtained from your independent financial adviser or from our Customer Services team at:

Ivory & Sime TrustLink Limited
One Charlotte Square
Edinburgh EH2 4DZ
Tel: 0131-220 4239

Financial Calendar 1997/98

18 December 1997	Annual General Meeting
7 January 1998	Fourth interim dividend paid
April 1998	First interim dividend paid
May 1998	Announcement of Interim Results Posting of Interim Report
July 1998	Second interim dividend paid
October 1998	Third interim dividend paid
November 1998	Announcement of Annual Results Posting of Annual Report

FORM ML13/1

A

BULK LIST OF SHAREHOLDERS OR MEMBERS

A bulk list (over 10 pages) of Shareholders or Members for the company named below has been lodged but does not appear on this annual return microfiche.

If you wish to search the list, please enquire at the Public Counter.

Company Number SC3721

Company Name BRITISH ASSETS TRUST PLC

Annual Return Date 28/12/97