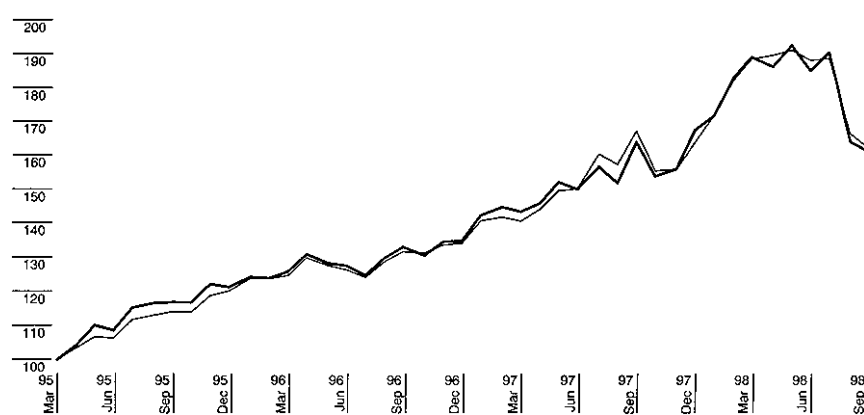


- Investment performance has beaten the FTSE All-Share and FT/S&P Actuaries World (ex UK) indices.
- Total dividends increased by 3.3% and revenue reserves further strengthened.
- 77.7% of original warrant issue and 91.9% of original Equities Index Unsecured Loan Stock units now bought-in.
- £60 million nominal 6.625% Bonds issued.
- Share buy-back facility proposed.

Total Return: British Assets Trust Net Asset Value v Composite Index



31.03.95 (ICT first valued at market value)=100

Sources: Datastream and Friends Ivory & Sims

■ BAT NAV (TR) (i), (ii)

■ Composite Index (iii)

(i) net dividends re-invested

(ii) adjusted for warrant buy-ins

(iii) composite index of 75 per cent FTSE All-Share Index and 25 per cent FT/S&P Actuaries World (ex UK) Index

Summary

	30 Sep 1998	30 Sep 1997	% change
Ordinary Shares – Revenue and Dividends			
Earnings per Ordinary Share	5.82p	5.36p	8.6
Dividends per Ordinary Share	4.985p	4.825p	3.3
Retail Price Index	164.4	159.3	3.2
Expenses Ratio as % of Total Assets:			
– Management Fees	0.3%	0.3%	
– Other	0.1%	0.1%	
Revenue reserves per Ordinary Share	4.33p	3.49p	
Revenue reserves as % of annual dividend	86.8%	72.4%	
Total Return			
Net Asset Value†	(1.8)%	23.2%	
Composite Index*	(3.2)%	27.0%	
FTSE All-Share Index†	(2.1)%	29.8%	
FT/S&P Actuaries World (ex UK) Index	(7.3)%	18.2%	
Gearing			
– Actual	102	105	
– Potential	118	111	

† 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 Composite Index represents a weighting of 75% in the FTSE All-Share Index and 25% in the FT/S&P Actuaries World (ex UK) Index.

Potential Gearing: Total assets ÷ Equity shareholders' funds.

Actual Gearing: (Total assets – cash and fixed interest) ÷ Equity share



Outperformance in Centenary Year

British Assets Trust was incorporated on 5 January 1898 and I am pleased to report that in this the Company's centenary year it has outperformed both the FTSE All-Share and FT/S&P Actuaries World (ex UK) indices during what has proved to be a volatile period for world stockmarkets. There has also been a further narrowing of the discount to net asset value for both the ordinary shares and the growth shares. The investment trust industry will face many challenges in the coming months and years, and rather than look back over its first hundred years I feel that it is important that I focus on what action your Board has taken and is seeking to take with your support to further enhance shareholder value.

Investment Returns | Over the year ended 30 September 1998, the Company's net asset value total return was -1.8 per cent compared with total returns of -2.1 per cent and -7.3 per cent for the FTSE All-Share Index and the FT/S&P Actuaries World (ex UK) Index respectively. A composite index, with a weighting of 75 per cent in the FTSE All-Share Index and 25 per cent in the FT/S&P Actuaries World (ex UK) Index, which more accurately reflects the long term composition of the Company's assets exposure, gave a total return of -3.2 per cent. Since the year end the Company has continued to outperform with a net asset value total return for October 1998 of 8.5 per cent.

Performance Benchmark | Your Board has for some time been considering which benchmark would be most appropriate for assessing the performance of the Company over the long term. Since the Reorganisation in December 1994, the Company has been using the FTSE All-Share Index, which is a pure UK equity index and does not, therefore, reflect the broader international nature of the portfolio. Accordingly the Board has decided to adopt a composite index of 75 per cent FTSE All-Share Index and 25 per cent FT/S&P Actuaries World (ex UK) Index as the Company's benchmark. This composite index will more accurately reflect the distribution of the Company's assets.

Earnings and Dividend | The Company's earnings per ordinary share were 5.82p (5.36p) in respect of the year ended 30 September 1998. In view of the significant number of portfolio companies paying Foreign Income Dividends (FIDs) the Board has decided to pass on the cumulative FIDs received to ordinary shareholders to reduce the Company's

"The purpose of these buy backs has been to enhance shareholder value . . . the total cost of securities bought back for cancellation has been £272.6 million."

William Thomson
Chairman



effective rate of tax by minimising irrecoverable Advance Corporation Tax. The Board has therefore declared a FID of 1.36625p per ordinary share which will be paid on 6 January 1999 to ordinary shareholders on the share register at 4 December 1998. This brings the total dividends for the financial year to 4.985p (4.825p), an increase of 3.3 per cent. This increase is in line with the Company's objective to provide an income stream which grows in real terms.

For the year to 30 September 1999, each of the first three interim dividends will be paid at the rate of 1.24625p per ordinary share, being 25 per cent of the total dividends payable in respect of the year ended 30 September 1998. 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.

Revenue Reserves | I am pleased to confirm 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 Reorganisation, the transfer to revenue reserves has been ahead of that projected at the time of the Reorganisation.

Investors Capital Trust | Investors Capital Trust (ICT), which is also managed by Friends Ivory & Sime, is the Company's largest holding, representing some 29 per cent of total assets. The underlying performance of ICT continues to be more than satisfactory. In the year to 30 September 1998, ICT returned a net asset value total return of -0.4 per cent, ahead of both of its own benchmark, the FTSE 350 Index, and the FTSE All-Share Index which returned -1.5 per cent and -2.1 per cent respectively. This is the third year in succession that ICT has beaten both of these indices. However, the widening of the discount on the shares of ICT, in line with the general widening of investment trust discounts, has, so far as your Company is concerned, impacted performance as the holding in ICT is valued at its price in the market rather than at its underlying asset value. Since the year end, the discount of the ICT package has narrowed from 17.8 per cent to 10.5 per cent.

Gearing | In March 1998, the Company issued a £60 million 10-year bond with a coupon of 6.625 per cent. The issue was made at this time to take advantage of the attractive interest rates available. Over the longer term equities are expected to outperform

bonds and the bond issue should result in an enhancement of the total return for shareholders. The bond proceeds were utilised to repay the bank overdraft of £12 million which reduced the Company's cost of debt and some £17 million was invested in European equities. The remainder of the proceeds of the issue was invested in a long dated gilt and will be invested in equities when the Managers believe that equity valuations are more attractive.

The loan of one billion yen was repaid on 31 March 1998, the repayment being financed by the sale of the Company's Japan portfolio. Currently the Company has no exposure to Japan.

Enhancement of Shareholder Value |

Warrants | Your Board has authorised the Managers to buy in the Company's warrants provided that doing so enhances the fully diluted net asset value. Over the year 9.42 million warrants have been purchased bringing the total bought in to 77.7 per cent of the original issue.

Equities Index Unsecured Loan Stock (EIULS) | During the year your Company bought in 10.3 million units of EIULS bringing the cumulative total of redemptions to 91.9 per cent of the original issue.

The purpose of these buy backs has been to enhance shareholder value and simplify the capital structure and since the Reorganisation in December 1994 the total cost of securities bought back for cancellation has been £272.6 million.

Share Buy-Back Proposal | You will find enclosed with your annual report a circular that sets out proposals from the Board to establish a mechanism to enable the Company to purchase its own ordinary and growth shares. The principal aim of such purchases would be to increase the fully diluted net asset value per share. Furthermore, if the Company has authority to buy back shares, it will be better positioned to address any imbalance between the supply of and demand for shares that may be reflected in the difference between the published net asset value and the market prices of the ordinary shares and the growth shares and thereby reduce the number of shares available in the market. The Board believes that the proposals are in the best interests of the Company, ordinary and growth shareholders, and warrant holders. Further details are set out in the circular.

Retail Demand | During the year, Ivory & Sime merged its fund management operation with the asset management arm of Friends Provident Life Office (FPLO). It is the retail distribution that FPLO can provide which your Board considers to be one of the most significant benefits of the merger. The retail market is vital to the future of the investment trust industry. Since the merger your Board has been reassessing its strategy in this area.

As a result the Company's holding in Ivory & Sime TrustLink has been sold to FPLO at a small premium to the carrying value, albeit at less than the original cost. A marketing agreement has been entered into with FPLO which initially runs for two years, and your Board, which is committed to developing the retail market for the Company's shares, will be actively monitoring progress.

Allocation of Management Fees and Finance Costs | 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 1998, had a yield relative of 95.0 per cent. The Company has benefited from having switched away from higher yielding stocks and during the year just ended the Board decided to change the percentage allocation of management fees and finance costs to reflect the expected split of total returns between capital and revenue. With effect from 1 October 1997, management fees and finance costs have been allocated 60 per cent to capital and 40 per cent to revenue.

Board | Sir Robin Duthie and Sir Charles Fraser having attained the age of 70 retire at the Annual General Meeting. I would like to express on behalf of the Board our thanks for their wise counsel and very significant contribution during the periods of their directorships. I would like to welcome Sir Malcolm Rifkind to the Board following his appointment on 2 April 1998 and the Board is already benefiting from his broad experience of business and international affairs. Professor James McLeod will be appointed to the Board after the conclusion of the Company's AGM. He has been a tax partner at Ernst & Young for over 25 years until his recent retirement and he has an extensive knowledge of the investment trust industry.

Outlook/Prospects | Stock selection has generally been positive with the direct UK and North American portfolios outperforming their local indices while the European portfolio slightly underperformed. The Company benefited from the Managers' decision to move

completely out of the Pacific (ex Japan) region in August and September last year and from Japan in March 1998. The widening of the discount on the shares of ICT, in line with the general widening of investment trust discounts, has not been helpful to performance. However your Board continues to believe that ICT represents excellent value as a proxy for the UK market and consequently has no intention of selling the holding at its current discount.

The enhancement of shareholder value continues to remain very much at the forefront of your Board's deliberations and our policy of buying back warrants and EIULS will continue.

The outlook for world stock markets is more uncertain than it has been for several years. The problems of south east Asia have spread, leading to a crisis of confidence. The key question is whether governments can prevent the world slipping into recession. Against this background we have adopted a cautious stance. Nevertheless, the Board remain convinced about the attractiveness of equities in the longer term.



W R E Thomson
Chairman
17 November 1998



Investment Managers

John Stubbs
(Investment Manager)

John Stubbs joined Friends Ivory & Sime in April 1995 and is both an Executive Director of Friends Ivory & Sime and Head of Research. He has over 30 years' investment experience.

Tom Maxwell
(Investment Manager)

Tom Maxwell joined Friends Ivory & Sime in 1989 and is a Director of Ivory & Sime Investment Management with responsibility for UK equity portfolios. He has over 28 years' investment experience.

Gordon Humphries
(Company Secretary)

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

Friends 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. 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 seventeen investment companies.

Ivory & Sime merged on 17 February 1998 with Friends Provident Asset Management. Friends Ivory & Sime is listed on the London Stock Exchange and, with offices in London, Edinburgh, New York and Hong Kong, together with representation in Tokyo, is well-positioned as a global investment management business.

With some £22 billion of assets under management, Friends Ivory & Sime is committed to providing its 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.



John Stubbs
Investment Manager
Since August 1995

Manager's Review

The Company has greatly benefited from the cautious strategy pursued over the past year. Investment has been very much focused on the major markets, particularly the UK and Continental Europe.

In the year to 30 September 1998, the total return for your Company was -1.8 per cent, while the total return on the FTSE All-Share Index was -2.1 per cent, and in sterling terms the total return on the FT/S&P-Actuaries World (ex UK) Index was -7.3 per cent. There was a marked divergence in performance between the overseas markets. Only Europe (ex UK) and North America, at 4.3 per cent and 2.4 per cent respectively, gave positive returns. Japan and Pacific (ex Japan) returned -36.9 per cent and -48.1 per cent respectively.

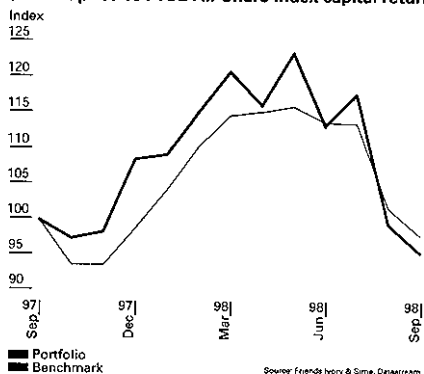
Asset Allocation | We have managed the portfolio of total assets assuming that the appropriate neutral weightings, taking account of the Company's investment objective and capital structure, are as shown in the table below. Also shown in the same table is the distribution of assets as at 30 September 1998 and as at the end of the preceding year.

We started the period overweight in the UK and Continental Europe and Emerging Markets, underweight in North America and Pacific (ex Japan), and broadly neutral in Japan. Over the course of the year we have grown increasingly cautious. We sold out completely from Japan, Pacific (ex Japan) and Emerging Markets, reduced the exposure to the UK and North America, and increased the exposure to Continental Europe, finishing the year with some 13 per cent of the total assets in bonds or cash.

Asset class	Asset Weighting as at 30.09.97	Neutral Weighting as at 30.09.97	Asset Weighting as at 30.09.98	Neutral Weighting as at 30.09.98
UK Equities				
Investors Capital Trust	31.8		29.1	
Other UK Equities	45.1		44.2	
Total UK Equities	76.9	70.0	73.3	70.0
Overseas Equities				
Continental Europe	5.4	4.8	8.6	5.9
North America	6.1	14.1	5.2	15.4
Japan	4.2	4.3	0.0	2.7
Pacific (ex Japan)	1.0	1.3	0.0	0.7
Emerging Markets	1.8	0.5	0.0	0.3
Total Overseas Equities	18.5	25.0	13.8	25.0
Total Equities	95.4	95.0	87.1	95.0
Bonds	4.2	5.0	9.8	5.0
Cash	0.4	—	3.1	—
Total	100.0	100.0	100.0	100.0

Investors Capital Trust

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



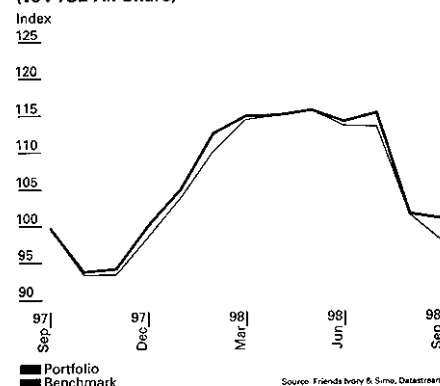
Investors Capital Trust | Investors Capital Trust (ICT) represents some 29.1 per cent of the assets of British Assets Trust. Although ICT outperformed its benchmark, the FTSE 350 Index, the discount on the package, which comprises one Growth Share, one Income Annuity Share and one fifth of one Warrant, widened from 15.0 per cent to 17.8 per cent over the year. However, since the year end the discount has narrowed significantly.

Other UK – Major Holdings

Company	Description	Market Value £m	% Total Investments
Lloyds TSB Group	Retail Banking	19.0	3.2
Logica	Support Services	16.2	2.8
Zeneca Group	Pharmaceuticals	14.1	2.4
Railtrack	Railways Network	13.6	2.3
Shell Transport & Trading	Integrated Oil	12.4	2.1

The portion of the portfolio invested directly in the UK market has again performed well. During the year it beat its benchmark index, the FTSE All-Share, by 3.2 per cent. The main driver for performance has remained an above average exposure to financials, pharmaceuticals and oils, which have again been at the forefront of the market's performance.

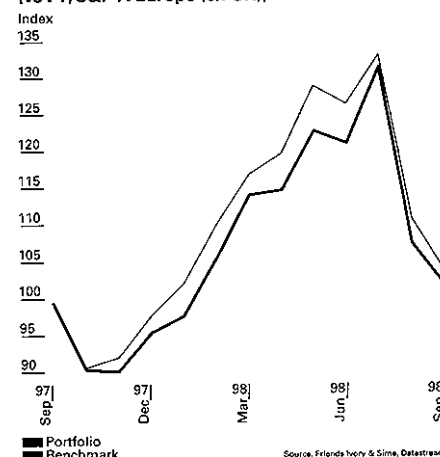
With regard to future strategy, we do not envisage any material shift in sector allocation, still preferring to focus on companies generating strong cash flows. The yield relative of the portfolio remains below that of the market.

Other UK Equities
(vs FTSE All-Share)

Continental Europe Portfolio – Major Holdings

Company	Description	Market Value £m	% Total Investments
Vivendi	Utilities	3.5	0.6
Assicuraz Generali	Insurance	3.4	0.6
Suez Lyonnaise des Eaux	Utilities	3.0	0.5
Nokia (AB) Oy	Electronics	2.9	0.5
Mannesmann	Machinery Engineering Services	2.6	0.5

European stock markets performed strongly for most of the year, largely driven by factors related to the move towards a single currency. Europe was also being perceived as a relatively safe haven from the turmoil in the Far East. The relative calm, however, was upset by the dramatic collapse of the Russian economy and the increasingly gloomy outlook elsewhere, and there was a major setback to the markets in August and September.

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

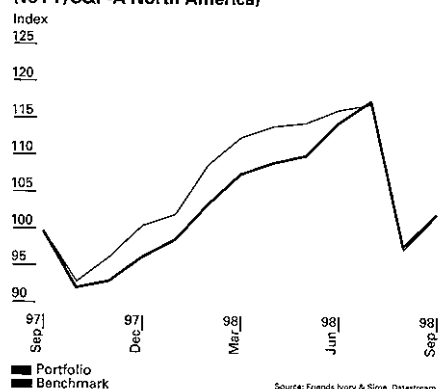
The portfolio has slightly underperformed the FT/S&P-Actuaries Europe (ex UK) Index over the period, although performance has benefited from the overweight exposure to France as against Germany, and from the relatively high weighting in the southern European markets as opposed to those in Scandinavia.

In the short term we expect to continue to favour the southern markets of Spain, Italy and Portugal. Interest rates in these countries have further to fall before they reach the levels prevailing in France and Germany.

North America – Major Holdings

Company	Description	Market Value £m	% Total Investments
Cisco Systems	Technology	3.0	0.5
Lucent Technologies	Technology	2.4	0.4
Kroger	Consumer	2.4	0.4
CVS	Consumer	2.3	0.4
Pfizer	Raw Materials	1.9	0.3

North America (vs FT/S&P-A North America)



The US market has performed relatively well over the year. Domestically economic factors such as modest inflation, solid GDP growth and low interest rates have all been favourable. However, there is now an expectation that the USA will not be able to fully insulate itself from the problems elsewhere. In particular corporate earnings growth is expected to weaken or even go negative in 1999.

The emphasis in the portfolio has been on quality. We are inclined to retain this stance, believing that it is too early to be looking to invest in the value/cyclical recovery stocks.

Japan Portfolio | With the deterioration of the economic situation in the Pacific region and the apparent inability or unwillingness of the Japanese authorities to resolve their domestic economic problems, we took the decision to sell out of the Japanese market at the end of March. Until that point we had been overweight in large international export companies and leading domestic companies in the technology, transport equipment, communications and pharmaceuticals sectors, and underweight in basic materials, energy, land, transportation and financials.

Looking ahead, until the economic picture is clearer we shall continue to avoid this market.

Pacific (ex Japan) | We maintained our negative view of the region. The only holdings in the area during the period were two Australian stocks, but we sold these when it became apparent that the economic situation elsewhere in the region was having a serious impact on the Australian economy.

The outlook remains uncertain, and we are not inclined to rebuild exposure for the time being.

Emerging Markets | Emerging Markets outside the Pacific region finally succumbed to the general malaise and in line with our increasingly cautious stance we have sold out of all holdings in these areas.

Latin American markets particularly suffered a downgrading as US investors withdrew from the region, while the markets of Central and Eastern Europe could not escape the fallout from the economic disaster in Russia.

John Stubbs
Friends Ivory & Sime plc
17 November 1998

Investment Portfolio

Company	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 1997-1998*	Country of Incorporation
Investors Capital Trust The company is an investment trust owned 39.96% by the Company as at 30 September 1998. It invests in UK equities and equity-related securities aiming to provide a total return in excess of the FTSE 350 Index.	176,537	30.0	42.6	9.6	UK
Lloyds TSB Group The company provides retail commercial and investment banking services through its branch network and offices in the UK and overseas.	19,045	3.2	2.7	30.1	UK
Logica Leading international computer consultancy and systems development company	16,163	2.8	0.4	26.2	UK
Zeneca Group The company is involved in the research, manufacture and sale of pharmaceuticals, agrochemicals and speciality chemicals.	14,144	2.4	1.3	8.3	UK
Railtrack The company's principal activities involve the maintenance and renewal of the rail infrastructure in the UK.	13,568	2.3	1.0	8.6	UK
Shell Transport & Trading The company holds a 40 per cent stake in one of the world's largest integrated oil and gas companies.	12,408	2.1	1.0	5.6	UK
Glaxo Wellcome A global manufacturer and marketer of ethical pharmaceutical products.	12,159	2.1	1.0	2.9	UK
British Telecom BT is the dominant supplier of telecommunications services and equipment in the UK	11,102	1.9	1.3	(4.3)†	UK
British Petroleum The company explores for, produces, refines and retails petroleum products and manufactures chemicals.	10,068	1.7	1.3	9.5	UK
Provident Financial Provident Financial is a personal financial services group focused on personal credit and insurance.	9,408	1.6	1.2	18.2†	UK
Ten largest investments	294,602	50.1	53.8		

Company	Nature of business	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 1997-1998*	Country of Incorporation
Boots	Retail	7,192	1.2	0.8	8.8†	UK
Yorkshire Water	Regional Water	6,732	1.1	1.2	12.5	UK
Jermyn Investment Properties	Property	5,953	1.0	0.9	9.1	UK
Hays	Supported Services	5,723	1.0	0.3	15.1	UK
National Express Group	Transport	5,694	1.0	0.4	17.4	UK
EMAP	Magazine Publishing	5,474	0.9	0.4	15.4	UK
Prudential Corporation	Life Assurance	5,418	0.9	0.5	10.0	UK
CGU	Insurance	5,395	0.9	1.0	7.7	UK
Abbey National	Banking	5,070	0.9	0.8	16.8	UK
Smithkline Beecham	Pharmaceuticals	4,400	0.8	0.1	11.2	UK
Twenty Largest Investments		351,653	59.8	60.2		
United Utilities	Multi Utility	4,042	0.7	0.9	13.3	UK
Barclays	International Banking	4,027	0.7	0.8	16.4	UK
Powergen	Electricity Generator	3,850	0.7	0.6	15.1	UK
CRH	Building Materials	3,705	0.6	0.3	15.9	Eire
Vivendi	Utilities	3,537	0.6	0.3	25.0	France
United Assurance Group	Insurance	3,519	0.6	0.7	8.1	UK
Assicuraz Generali	Insurance	3,442	0.6	0.1	9.9	Italy
Bass	Brewing & Hotels	3,399	0.6	0.7	10.5	UK
Standard Chartered	International Banking	3,370	0.6	0.8	25.8	UK
National Power	Electricity Generator	3,216	0.5	0.8	8.0	UK
Thirty Largest Investments		387,760	66.0	66.2		
HSBC Holdings	Banking	3,086	0.5	0.7	13.5	UK
Cisco Systems	Technology	3,028	0.5	0.0	n/a	USA
Suez Lyonnaise Des Eaux	Utilities	3,005	0.5	0.3	25.0	France
General Electric	Electronics	2,924	0.5	0.4	(13.1)	UK
BOC Group	Industrial Gases	2,920	0.5	0.6	6.6	UK
Nokia (AB) OY	Electronics	2,897	0.5	0.1	93.7	Finland
Marks & Spencer	Retail	2,893	0.5	0.5	10.0	UK
Tomkins	Diversified Industrial	2,815	0.5	0.5	15.0	UK
Diageo	Brewing	2,800	0.5	0.2	10.8	UK
Mannesmann	Machinery Engineering Services	2,640	0.5	0.1	54.0	Germany
Forty Largest Investments		416,768	71.0	69.6		
London International Group	Healthcare Products	2,582	0.5	0.2	14.3	UK
Zurich Versicherun	Insurance	2,510	0.4	0.1	66.7	Switzerland
Cable & Wireless	Telecommunications Services	2,468	0.4	0.3	10.4	UK
Volkswagen	Automobiles	2,464	0.4	0.1	32.6	Germany
Ahold	Retailer	2,460	0.4	0.1	44.4	Netherlands
Tele Danmark AS	Telecommunications	2,454	0.4	0.3	5.9	Denmark
British Borneo Oil & Gas	Oil and Gas Exploration	2,449	0.4	0.2	34.1	UK
Lucent Technologies	Technology	2,445	0.4	0.1	3.3	USA
Casino	Retail	2,441	0.4	0.2	69.3	France
Reed International	International Publishing	2,381	0.4	0.4	6.7	UK
Fifty Largest Investments		441,422	75.1	71.6		
Other Investments (55)		87,212	14.8	10.9		
UK Treasury Stocks		59,268	10.1	17.5		
Total Investments		587,902	100.0	100.0		

* British Assets Trust's financial years to 30 September 1997 and 1998.

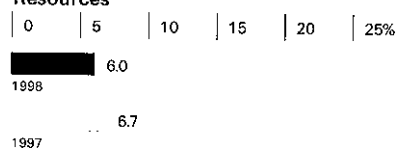
† Excludes special dividend.

Classification of Investments

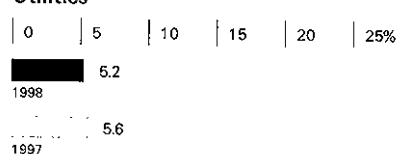
	United Kingdom £'000	North America £'000	Continental Europe £'000	1998 Total £'000
Resources	25,041	3,035	3,831	31,907
General Industrials	20,202	4,834	7,452	32,488
Consumer Goods	38,837	9,773	11,904	60,514
Services	87,609	5,473	6,542	99,624
Utilities	17,840	3,324	6,296	27,460
Financials	73,537	5,070	15,970	94,577
Investors Capital Trust	176,537	—	—	176,537
Other Investment Trusts	5,308	—	—	5,308
Total Equity	444,911	31,509	51,995	528,415
Fixed Interest	59,268	—	—	59,268
Unquoted	219	—	—	219
Total Investments	504,398	31,509	51,995	587,902
% of Total Investments	85.8	5.4	8.8	100.0

Equity portfolio weighting (% total equity investments) 1998 versus 1997

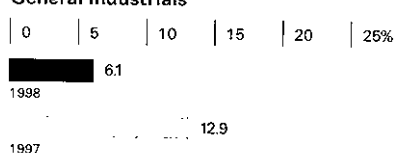
Resources



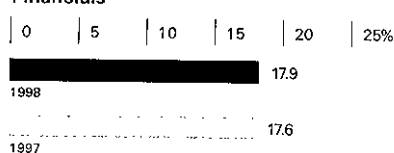
Utilities



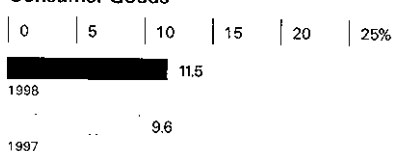
General Industrials



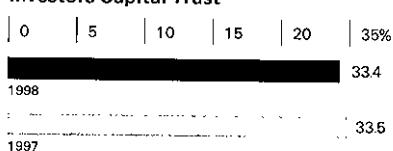
Financials



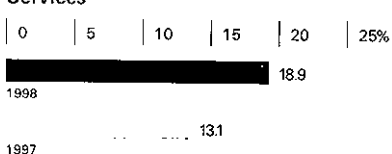
Consumer Goods



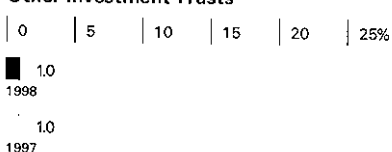
Investors Capital Trust



Services



Other Investment Trusts



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
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	4.55p
1996	693,909‡	463,824	120.8p	97.5p	19.3%	5.74p	4.65p
1997	607,465‡	543,717	141.6p	119.5p	15.6%	5.36p	4.82p
1998	606,396	514,921	134.1p	113.8p	15.2%	5.82p	4.98p

† 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: Friends Ivory & Sime, Datastream, BT Alex. Brown

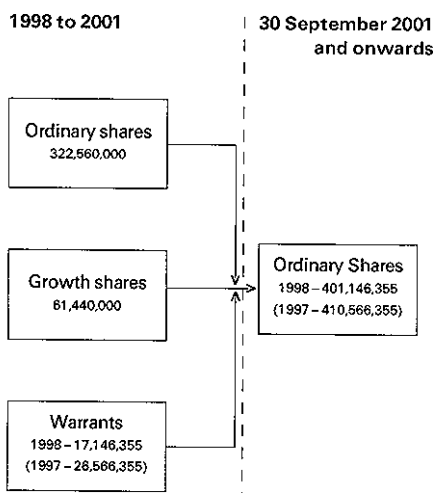
Performance Summary

	1998	1997	% change
Equity Shares – Capital Values			
Net asset value per Ordinary or Growth Share			
(basic)	134.1p	141.6p	(5.3)
(fully diluted)	132.7p	139.0p	(4.5)
Ordinary Share price (mid market)	113.75p	119.5p	(4.8)
Discount on Ordinary Shares (basic)	15.2%	15.6%	
Growth Share price (mid market)	103.5p	97.25p	6.4
Discount on Growth Shares (basic)	22.8%	31.3%	
Package price†	118.4p	121.5p	(2.6)
Package discount to net asset value (basic)	11.7%	14.2%	
Warrants			
Price (mid market)	31.5p	27.75p	13.5
Equities Index Unsecured Loan Stock			
Capital value	234.5p	245.5p	(4.5)
Price (mid market)	227.5p	242.0p	(6.0)

† 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: Friends Ivory & Sime, Datastream, BT Alex. Brown

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 and 6.625 per cent Bonds in issue.



76,800,000 Warrants were issued in December 1994, 59,653,645 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 were issued in December 1994 and will be in existence until 30 September 2001 when the Growth Shares will automatically convert into Ordinary Shares. The Warrants were also issued in December 1994 and 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 1998 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 1998 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 1998 there were 17,146,355 Warrants in issue (1997: 26,566,355).

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:

Warrantholders 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:

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

Preference Stock | At 30 September 1998 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.

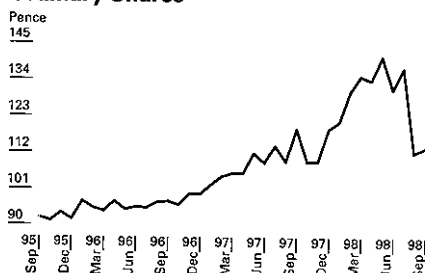
Capital entitlement:

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

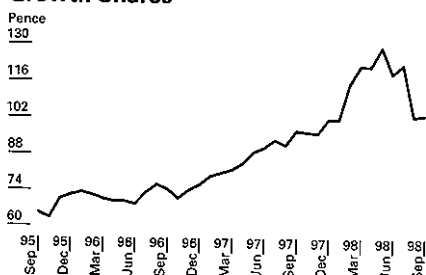
1. £1,300,000 of 3.15 per cent Preference Stock together with any arrears of dividend plus a bonus of 5 per cent on the amount of such stock;
2. £3,950,000 of "A" 3.50 per cent Preference Stock together with any arrears of dividend.

Capital Structure As at 30 September 1998

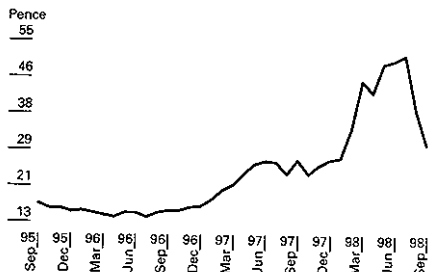
Ordinary Shares



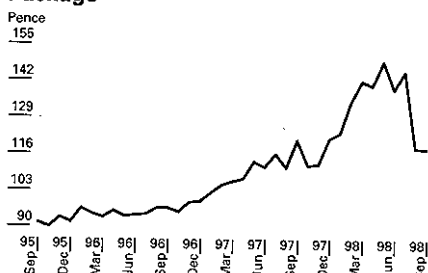
Growth Shares



Warrants



Package



Source: Datastream and Friends Ivory & Sime

Price performance

The charts above show price performance (mid market) in pence during the last three years.

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 1998 there were 11,439,892 units of Loan Stock in issue (1997: 21,739,658).

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 1998 amounted to £83.5875 per 1,000 units, equivalent to a yield of 3.56 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 1998 amounted to £2,344.82 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.

	1998	1997
Ordinary Share Price	113.75p	119.5p
Growth Share Price	103.5p	97.25p
Warrant Price	31.5p	27.75p
Package Price	118.4p	121.5p

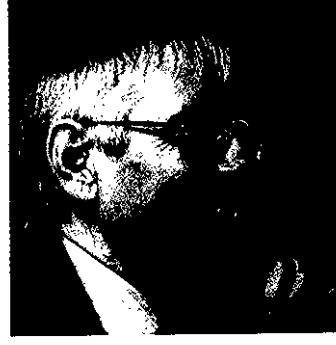
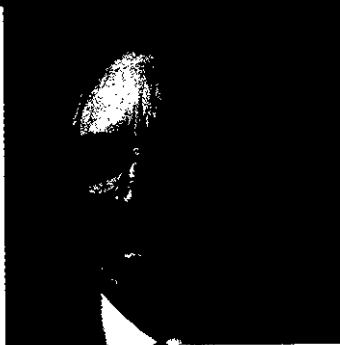
figures as at 30 September

Board of Directors
at 30 September 1998

William Thomson
(Chairman)
(age 58) 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 Garden Centres.

Sir Robin Duthie
(age 70) 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 and British Polythene Industries.

Sir Charles Fraser
(age 70) is Chairman of Fidelity European Values and is a director of British Empire Securities & General Trust. He has recently retired from the boards of Scottish Media Group and Stakis.



Sir Malcolm Rifkind
(age 52) was formerly Foreign Secretary and Secretary of State for Defence. He is a director of Ramco Energy and Foreign & Colonial Emerging Markets.

James West
(age 51) was a Managing Director of Lazard Brothers and Co Ltd and Chief Executive of Lazard Asset Management Ltd. He is Chairman of Gartmore Fledgling Index Trust and a director of Aberdeen New Dawn Investment Trust and Candover Investments.

Dr Chris Masters
(age 51) 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. He is also Chairman of the Scottish Higher Education Funding Council and a director of Scottish Widows' Fund and Life Assurance Society.

Results and Dividends

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 1998.

	£'000
Revenue available for dividends	18,950
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 1.20625p per share paid on 6 April 1998	(3,891)
Second quarterly interim dividend of 1.20625p per share paid on 7 July 1998	(3,891)
Third quarterly interim dividend of 1.20625p per share paid on 7 October 1998	(3,891)
Fourth quarterly interim dividend:	
Foreign Income Dividend (FID) of 1.36625p per share payable on 6 January 1999 to Ordinary Shareholders on the register at close of business on 4 December 1998	(4,407)
Transferred to revenue reserve	2,690

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 1997. 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 £9,500 (1997 – £8,000).

Directors

Sir Charles Fraser and Sir Robin Duthie having attained the age of 70 will retire at the Annual General Meeting and will not offer themselves for re-election.

Dr C Masters retires from the Board by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

Sir Malcolm Rifkind retires at the first Annual General Meeting following his appointment to the Board and, being eligible, offers himself for re-appointment.

The Directors who held office during the year and their beneficial interests in the shares and securities of the Company at 30 September 1998 were:

	Ordinary Shares		Growth Shares		Warrants		Loan Stock	
	98	97	98	97	98	97	98	97
W R E Thomson	6,720	6,720	1,280	1,280	1,600	1,600	—	—
Sir Robin Duthie	100,080	100,080	1,920	1,920	2,400	2,400	50,000	50,000
Sir Charles Fraser	24,800	24,800	—	—	—	—	—	—
Dr C Masters	4,127	2,457	5,030	—	—	—	—	—
Sir Malcolm Rifkind*	—	—	—	—	—	—	—	—
J G West	12,000	12,000	—	—	—	—	—	—

*Appointed 2 April 1998.

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 1998 and 17 November 1998 other than as a result of the quarterly reinvestment of dividends through the Ivory & Sime TrustLink Savings Scheme.

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

Mr W R E Thomson was a director of Ivory & Sime TrustLink in which the Company had an investment.

As any further increase in Directors' remuneration would result in the current maximum permitted under the Articles of Association being exceeded, a resolution to increase the maximum aggregate sum to which the Directors would be entitled as remuneration to £120,000 (currently £75,000) will be proposed at the Annual General Meeting.

This amendment is proposed to allow for a progressive increase in total Directors' remuneration over time.

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 17 November 1998:

	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			7,300,000	11.9
The Equitable Life Assurance Society			6,378,373	10.4
Scottish Life Assurance			4,420,327	7.2
Hermes Investment Management			3,886,266	6.3
Threadneedle Investment Managers			3,727,041	6.1
Co-operative Insurance Society			2,758,284	4.5
Prudential Corporation			2,347,156	3.8

Management and Management Fees

Details of the contract between the Company and Friends 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, Friends 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 Boards 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 Friends 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 39.

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.

Year 2000 Computer Compliance

The Company's accounting records are maintained on computer by Friends Ivory & Sime plc. As the Year 2000 issue could potentially affect all the Company's accounting and other computer held records, the Directors have sought assurances from Friends Ivory & Sime that its systems will be Year 2000 compliant. Friends Ivory & Sime is planning to have all of its business critical in-house electronic systems Year 2000 compliant by 31 December 1998. The ability of external service providers to cope with Year 2000 is also being assessed by Friends Ivory & Sime. The Company will not bear any of the costs associated with ensuring that the computer systems used are Year 2000 compliant.

Proposed Share Buy-Back Facility

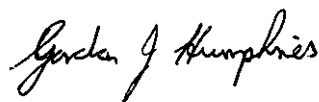
It is proposed to seek Shareholders' approval at separate Extraordinary General Meetings to permit the Company to purchase its own shares. A circular detailing the proposals from the Board is included with the Annual Report.

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
17 November 1998

Statement of Total Return

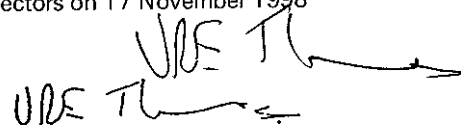
(Incorporating the Revenue Account*) for the Year ended 30 September 1998

	Notes	1998 Revenue £'000	1998 Capital £'000	1998 Total £'000	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000
Gains/(losses) on investments	10	–	(29,655)	(29,655)	–	104,364	104,364
Warrants purchased for cancellation	14,15	–	(3,405)	(3,405)	–	(7,239)	(7,239)
Realised/unrealised exchange differences	15	–	333	333	–	1,564	1,564
Net movement in Loan Stock liability	15	–	3,197	3,197	–	(19,877)	(19,877)
Income	2,15	26,836	31	26,867	26,479	–	26,479
Investment management fee	3	(760)	(1,259)	(2,019)	(934)	(572)	(1,506)
Other expenses	4	(431)	–	(431)	(527)	–	(527)
Net return before finance costs and taxation		25,645	(30,758)	(5,113)	25,018	78,240	103,258
Finance costs	6	(2,004)	(1,578)	(3,582)	(3,021)	(333)	(3,354)
Return on ordinary activities before tax		23,641	(32,336)	(8,695)	21,997	77,907	99,904
Tax on ordinary activities	7	(4,691)	850	(3,841)	(4,533)	266	(4,267)
Return on ordinary activities after tax for the financial year	16	18,950	(31,486)	(12,536)	17,464	78,173	95,637
Dividends in respect of non-equity shares	8	(180)	–	(180)	(180)	–	(180)
Return attributable to equity shareholders		18,770	(31,486)	(12,716)	17,284	78,173	95,457
Dividends in respect of equity shares	8	(16,080)	–	(16,080)	(15,564)	–	(15,564)
Transfer to/(from) reserves	15	2,690	(31,486)	(28,796)	1,720	78,173	79,893
Return per ordinary 25p share:							
Basic (p)	9	5.82	(8.20)	(2.38)	5.36	20.36	25.72
Return per growth 25p share:							
Basic (p)	9	–	(8.20)	(8.20)	–	20.36	20.36

* 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.

	Notes	1998 £'000	1997 £'000
Fixed assets			
Investments	10	587,902	604,820
Current assets			
Debtors	11	8,554	6,428
Cash at bank and on deposit		21,012	6,042
		29,566	12,470
Creditors: amounts falling due within one year	12	(11,072)	(14,952)
Net current assets/(liabilities)		18,494	(2,482)
Total assets less current liabilities		606,396	602,338
Creditors: amounts falling due after more than one year	13	(86,225)	(53,371)
Net assets		520,171	548,967
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	180,438	192,696
Capital reserve – unrealised	15	220,896	240,124
Revenue reserve	15	13,957	11,267
Total shareholders' funds		520,171	548,967
Equity shareholders' funds	16	514,921	543,717
Non-equity shareholders' funds		5,250	5,250
Net asset value per share:	16		
Ordinary			
– Basic (p)		134.1	141.6
– Fully diluted (p)		132.7	139.0

The financial statements on pages 26 to 37 were approved by the board of directors on 17 November 1998 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 1998

	Notes	1998 £'000	1997 £'000
Operating activities			
Investment income received		20,350	22,633
Deposit interest received		860	336
Underwriting commission received		11	65
Investment management fees paid		(2,019)	(1,506)
Other cash payments		(418)	(583)
Net cash inflow from operating activities	18	18,784	20,945
Servicing of finance			
Interest paid on equities index unsecured loan stock		(882)	(3,591)
Interest on Yen loan		(15)	(185)
Interest on 6.625 per cent bonds		(2,263)	—
Bank overdraft interest		(315)	(692)
Non equity dividends paid		(180)	(180)
Net cash outflow from servicing of finance		(3,655)	(4,648)
Taxation			
Tax recovered/(paid)		2,126	(917)
Capital expenditure and financial investment			
Purchase of investments		(127,400)	(106,646)
Disposals of investments		113,137	281,744
Net cash (outflow)/inflow from capital expenditure and financial investment		(14,263)	175,098
Equity dividends paid		(15,838)	(15,177)
Net cash (outflow)/inflow before financing		(12,846)	175,301
Financing			
6.625 per cent bonds issued 6 March 1998		59,365	—
¥5.4 billion loan repaid 3 December 1996		—	(28,741)
¥1.0 billion loan repaid 31 March 1998		(4,577)	—
Equities index unsecured loan stock purchased for cancellation		(23,350)	(154,585)
Warrants purchased for cancellation		(3,405)	(7,559)
Net cash inflow/(outflow) from financing		28,033	(190,885)
Increase/(Decrease) in cash		15,187	(15,584)
Reconciliation of net cash flow to movement in net debt			
Increase/(Decrease) in cash in the year		15,187	(15,584)
¥5.4 billion loan repaid 3 December 1996		—	28,741
6.625 per cent bonds issued 6 March 1998		(59,365)	—
¥1.0 billion loan repaid 31 March 1998		4,577	—
Equities index unsecured loan stock purchased for cancellation		23,350	154,585
Currency gains		333	948
Net debt at 1 October 1997		(52,456)	(201,885)
Net debt resulting from cash flows		(68,374)	(33,195)
Decrease/(Increase) in equities index unsecured loan stock liability		3,197	(19,877)
Decrease in Yen Loan		—	616
Increase in 6.625 per cent bonds liability		(36)	—
Net debt at 30 September 1998	20	(65,213)	(52,456)

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.'

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 on transactions of a capital nature
- 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 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 between revenue and capital.

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 between revenue and capital 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

	1998	1997
US Dollar	1.6994	1.6154
Japanese Yen	231.3224	195.0273
Deutschemark	2.8403	2.8531

2. Income

	1998 £'000	1997 £'000
Income from investments		
Franked investment income	17,950	20,456
UK unfranked investment income	3,665	2,677
Overseas dividends	1,978	2,237
Foreign income dividends	2,123	624
Stock dividends	249	84
	25,965	26,078
Other income		
Deposit interest	860	336
Underwriting commission	11	65
	871	401
Total income	26,836	26,479
Total income comprises:		
Dividends	22,300	23,251
Interest	3,665	2,827
Other income	871	401
	26,836	26,479
Income from investments		
Listed UK	23,937	23,817
Listed overseas	2,028	2,138
Unlisted	—	123
	25,965	26,078

3. Investment management fee

	1998 Revenue £'000	1998 Capital £'000	1998 Total £'000	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000
Investment management fee						
– basic	760	1,140	1,900	934	572	1,506
– outperformance	–	119	119	–	–	–
	760	1,259	2,019	934	572	1,506

The Company's investment manager is Friends Ivory & Sime plc. The contract between the Company and Friends Ivory & Sime plc may be terminated at any date by either party giving twelve months' notice of termination. Friends 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 less the value of Investors Capital Trust income annuity shares. 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 Trust 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.

Investment management fees have been allocated 40 per cent to revenue and 60 per cent to capital in respect of the year ended 30 September 1998. In respect of the year ended 30 September 1997 the allocation was 62 per cent to revenue and 38 per cent to capital.

The change in allocation represents the expected split of total returns between capital and revenue in view of the progressive switch away from higher yielding stocks.

4. Other Expenses

	1998 £'000	1997 £'000
Directors' fees (Note 5)	74	63
Auditors' remuneration for:		
– audit	16	15
– other services to the company	21	9
Other	320	440
	431	527

5. Directors' fees

The remuneration of the Chairman, the highest paid Director, was £18,500 (1997: £17,000) and that of four of the other Directors was £12,400 (1997: £11,500) and the other director was £6,200 (1997: Nil).

6. Finance costs

	1998 Revenue £'000	1998 Capital £'000	1998 Total £'000	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000
On Bond, Loan Stock and Yen Loan:						
Repayable within 5 years, not by instalments	6	9	15	115	70	185
Repayable wholly or partly in more than 5 years:						
– 6.625% Bond	919	1,380	2,299	–	–	–
– Equities Index Unsecured Loan Stock	953	–	953	2,477	–	2,477
Bank overdraft interest	126	189	315	429	263	692
	2,004	1,578	3,582	3,021	333	3,354

With the exception of the Loan Stock finance costs have been allocated 40 per cent to revenue and 60 per cent to capital in respect of the year ended 30 September 1998. In respect of the year ended 30 September 1997 the allocation was 62 per cent to revenue and 38 per cent to capital. Interest on the Loan Stock has been allocated 100 per cent to revenue.

7. Tax on ordinary activities

	1998 Revenue £'000	1998 Capital £'000	1998 Total £'000	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000
Tax attributable to franked investment income	3,590	–	3,590	4,091	–	4,091
Section 242 relief	–	–	–	13	(102)	(89)
Corporation Tax	1,101	(1,101)	–	429	(429)	–
Overseas taxation	251	–	251	265	–	265
	4,942	(1,101)	3,841	4,798	(531)	4,267
Relief for overseas taxation	(251)	251	–	(265)	265	–
	4,691	(850)	3,841	4,533	(266)	4,267

8. Dividends

	1998 £'000	1997 £'000
Dividends on equity shares:		
– ordinary-first quarterly paid 1.20625p (1997: 1.16375p) per Ordinary Share	3,891	3,754
– ordinary-second quarterly paid 1.20625p (1997: 1.16375p) per Ordinary Share	3,891	3,754
– ordinary-third quarterly paid 1.20625p (1997: 1.16375p) per Ordinary Share	3,891	3,754
– ordinary-fourth quarterly: FID of 1.36625p (1997: conventional dividend of 1.33375p) per Ordinary Share	4,407	4,302
	16,080	15,564
Dividends on non-equity shares:		
– 3.15 per cent Preference Stock	41	41
– "A" 3.50 per cent Preference Stock	139	139
	180	180

9. Return per Share

	1998 Revenue £'000	1998 Capital £'000	1998 Total £'000	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000
Ordinary (Basic)	5.82	(8.20)	(2.38)	5.36	20.36	25.72
Growth (Basic)	–	(8.20)	(8.20)	–	20.36	20.36

Basic revenue return per Ordinary Share is based on the net revenue on ordinary activities after taxation and deduction of preference dividends of £18,770,000 (1997: £17,284,000), and on 322,560,000 (1997: same) Ordinary Shares.

Basic capital return per Ordinary Share and Growth Share is based on net capital loss for the financial year of £31,486,000 (1997: capital gain £78,173,000), and on 384,000,000 (1997: same) Ordinary Shares and Growth Shares.

10. Investments

	1998 £'000	1997 £'000
Investments listed on a recognised investment exchange	587,683	603,074
Unlisted investments	219	1,746
	587,902	604,820

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	230,442	94,511	10,133	335,086
Opening unrealised appreciation/(depreciation)	261,394	16,727	(8,387)	269,734
Opening valuation	491,836	111,238	1,746	604,820
Movements in the year:				
Purchases at cost	55,339	73,322	–	128,661
Sales – proceeds	(26,181)	(88,223)	(1,520)	(115,924)
– realised gains/(losses) on sales	10,925	(3,147)	(3,240)	4,538
Transfers	–	852	(852)	–
(Decrease)/Increase in unrealised appreciation	(27,739)	(10,539)	4,085	(34,193)
Closing valuation	504,180	83,503	219	587,902
Closing book cost	270,525	77,315	4,521	352,361
Closing unrealised appreciation/(depreciation)	233,655	6,188	(4,302)	235,541
Closing valuation	504,180	83,503	219	587,902

	1998 £'000	1997 £'000
Equity shares	517,787	573,135
Convertible securities	3,009	–
Fixed income securities	59,268	25,530
Other investments	7,838	6,155
	587,902	604,820

	1998 £'000	1997 £'000
Realised gains/(losses) on sales	4,538	34,823
(Decrease)/Increase in unrealised appreciation	(34,193)	69,541
Gains/(Losses) on investments	(29,655)	104,364

11. Debtors

	1998 £'000	1997 £'000
Amounts due from brokers	4,197	1,410
Tax recoverable	736	2,035
Prepayments and accrued income	3,621	2,983
	8,554	6,428

12. Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Amounts due to brokers	1,946	965
Dividend on preference Stocks	90	90
Third quarterly interim dividend	3,891	3,754
Fourth quarterly interim dividend	4,407	4,302
Taxation	–	60
Interest on Loan Stock	268	417
Other creditors	470	237
Yen borrowings	–	5,127
	11,072	14,952

On 31 March 1998, the Company repaid the ¥1,000 million loan.

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

	1998 £'000	1997 £'000
Equities Index Unsecured Loan Stock 2005	26,824	53,371
6.625 per cent bonds 2008	59,401	–
	86,225	53,371

During the year the Company bought in for cancellation 10,299,766 units of Loan Stock for a total consideration of £23,350,000. As at 30 September 1998 there were 11,439,892 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 20.

During the year the Company issued £60 million nominal 6.625 per cent Bonds 2008 at 99.391 per cent. The Bonds have been treated in accordance with FRS4, which requires 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.

14. Share capital

	Shares	1998 £'000	1997 £'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 9,420,000 Warrants for a total consideration of £3,405,000. As at 30 September 1998 there were 17,146,355 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	192,696	240,124	11,267
Exchange differences		949	(616)	
Equities Index Unsecured Loan Stock units purchased for cancellation		(12,384)	12,384	
Net gain on realisation of investments		4,538		
Decrease in unrealised appreciation on investments			(34,193)	
Enhanced Stock Dividends		31		
Net depreciation of Equities Index Unsecured Loan Stock 2005			3,197	
Warrants purchased for cancellation		(3,405)		
Management fees charged to capital		(1,259)		
Finance costs charged to capital		(1,578)		
Taxation credited to capital		850		
Retained net revenue for the year				2,690
	3,630	180,438	220,896	13,957

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 and Growth 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	
	1998 p	1997 p	1998 £'000	1997 £'000
Ordinary and Growth Shares (basic)	134.1	141.6	514,921	543,717
Ordinary and Growth Shares (fully diluted)	132.7	139.0	532,239	570,549

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	543,717
Total recognised gains/(losses) for the year	(12,536)
Dividends appropriated in the year	(16,260)
Total net assets attributable at end of year	514,921

Basic net asset value per Ordinary and Growth Share is calculated on equity shareholders' funds of £514,921,000 divided by the number of Ordinary and Growth Shares in issue of 384,000,000 to give 134.1p.

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 £532,239,000 and is divided by the notional number of shares in issue of 401,146,355 to give 132.7p.

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 30.9.98 £'000
Investors Capital Trust plc (accounts to 30.9.98)	Investment Trust	Growth Income Annuity Preference	61,851 62 1,839	455,933	14,696	39.96 61.59	176,537

Mr W R E Thomson is a director of Investors Capital Trust.

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

	1998 £'000	1997 £'000
Net revenue before finance costs and taxation	25,645	25,018
Stock dividends	(249)	(84)
Decrease/(Increase) in accrued income	(638)	1,304
(Decrease)/Increase in other creditors	13	(56)
Investment management fee charged to capital	(1,259)	(572)
Tax on investment income	(4,728)	(4,665)
Net cash inflow from operating activities	18,784	20,945

19. Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Opening shareholders' funds	548,967	469,074
Total recognised gains and (losses) before dividends	(12,536)	95,637
Dividends in respect of equity and non-equity shares	(16,260)	(15,744)
Closing shareholders' funds	520,171	548,967

20. Analysis of Changes in net debt

	At 1 October 1997 £'000	Cash Flow £'000	Other Movements £'000	Currency Movements	At 30 September 1998 £'000
Cash at bank and in hand	6,042	15,187	—	(217)	21,012
Equities Index Unsecured Loan Stock	(53,371)	23,350	3,197	—	(26,824)
Yen borrowings	(5,127)	4,577	—	550	—
Bond 6.625 per cent	—	(59,365)	(36)	—	(59,401)
	(52,456)	(16,251)	3,161	333	(65,213)

21. Contingencies, guarantees and financial commitments

	1998 £'000	1997 £'000
Contingencies, guarantees and financial commitments of the company, which have not been accrued, are as follows:		
Placing commitments	—	255
Underwriting commitments	—	—
Commitments on partly paid shares	—	—
	—	255

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 26 to 37 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 29 and 30.

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.

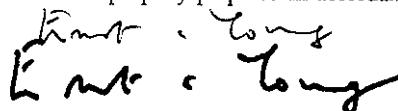
Basis of Opinion

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 1998 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
Registered Auditor
Edinburgh
17 November 1998

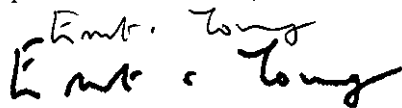
In addition to our audit of the accounts we have reviewed the Directors' statements on pages 24 and 25 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing 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 pages 24 and 25, 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 pages 24 and 25 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

A handwritten signature in black ink, appearing to read 'Ernst & Young', is written over the printed name.

ERNST & YOUNG
Edinburgh
17 November 1998

Shareholder Information

% of Ordinary Shares held at 30 September 1998 (1997)

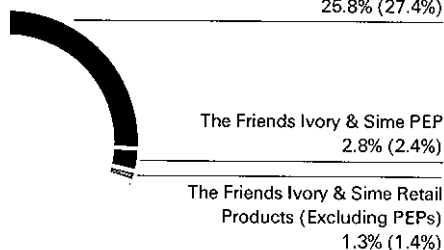
Other Institutions
7.1% (8.6%)

Nominees
63.0% (60.2%)

Private Shareholders
25.8% (27.4%)

The Friends Ivory & Sime PEP
2.8% (2.4%)

The Friends Ivory & Sime Retail
Products (Excluding PEPs)
1.3% (1.4%)



Total Number of Shareholders

	1998	1997
Ordinary Shares	20,380	20,090
Growth Shares	4,151	2,897

Annual General Meeting

The Annual General Meeting of British Assets Trust PLC will be held at One Charlotte Square, Edinburgh on 17 December 1998.

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 Friends Ivory & Sime Customer Services on 0131-220 4239.



ASSOCIATION OF
INVESTMENT TRUST
COMPANIES

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

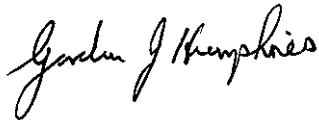
Notice is hereby given that the One hundred and First Annual General Meeting of British Assets Trust Public Limited Company will be held at One Charlotte Square, Edinburgh, on 17 December 1998 at 12 noon for the following purposes:

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

1. That the Report and Accounts for the year to 30 September 1998 be approved.
2. That Dr C Masters, who retires by rotation, be re-elected as a Director.
3. That Sir Malcolm Rifkind, who retires at the first Annual General Meeting following his appointment to the Board, be re-appointed as a Director.
4. That Ernst & Young be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.
5. That under Article 92 of the Company's Articles of Association the maximum aggregate sum available for Directors' remuneration for their services shall be £120,000 per annum.

By Order of the Board

G J HUMPHRIES
Secretary



One Charlotte Square
Edinburgh EH2 4DZ
17 November 1998

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.

To have the right to attend and vote at this meeting a holder of Ordinary Shares or Growth Shares must first have their name entered in the Register of Members not later than 48 hours prior to the meeting. Changes or entries to the Register after that time shall be disregarded in determining the rights of any holder of Ordinary Shares or Growth Shares to attend and vote at the meeting.

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

No Director has a contract of service with the Company.

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 advisor or from our Customer Services team at:

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

Financial Calendar 1998/99

17 December 1998	Annual General Meeting
6 January 1999	Fourth interim dividend paid
April 1999	First interim dividend paid
May 1999	Announcement of Interim Results Posting of Interim Report
July 1999	Second interim dividend paid
October 1999	Third interim dividend paid
November 1999	Announcement of Annual Results Posting of Annual Report

I/We _____
(BLOCK LETTERS PLEASE)

of _____
being a member of **British Assets Trust PLC**, hereby appoint the Chairman of the meeting, or*

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held at One Charlotte Square, Edinburgh EH2 4DZ on 17 December 1998 at 12 noon, on the following Resolutions to be submitted to the meeting and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain.

Resolutions – Ordinary and Growth Shareholders	For	Against
1. To receive the Report and Accounts for the year to 30 September 1998.		
2. To re-elect Dr C Masters as a Director.		
3. To re-appoint Sir Malcolm Rifkind as a Director.		
4. To re-appoint Ernst & Young as Auditors and to authorise the Directors to determine their remuneration.		
5. To increase the maximum aggregate sum available for Directors' remuneration to £120,000 per annum.		

Signature _____

Dated this _____ Day of _____ 1998

Notes

*You may, if you wish, in the space provided insert the name(s) of the person(s) of your choice to attend and vote at the meeting on your behalf.

In the case of a corporation, the proxy must be either under its common seal or under the hand of an officer.

In order to have effect, the proxy must be deposited at the Company's Registrars, Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh at least 48 hours before the time of the meeting.

In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the Register will be counted.

Any alterations made in this proxy should be initialled.

Completion of a proxy shall not prevent a shareholder from attending at the Annual General Meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No EH 142

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Bank of Scotland
Registrar Department
Apex House
9 Haddington Place
Edinburgh EH7 0LA

FIRST FOLD

THIRD FOLD AND TUCK IN