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Company Summary

The Company	The Company is an investment trust and its shares are listed on the London Stock Exchange. The Company is a member of the Association of Investment Trust Companies and is a constituent of the Global Growth & Income sector.
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Total assets at 30 September 2001 were £635.5 million.

Objective	The investment objective of the Company is to achieve a total return in excess of a composite index, weighted as to 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index, by investing in an international portfolio of equities and equity-related securities. Within this overall objective, the Company aims to maintain a progressive dividend policy which will be dependent upon, <i>inter alia</i> , the rate of revenue growth within the investment portfolio, and the level of dividend cover.
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Management	The Board has appointed Friends Ivory & Sime plc as investment managers. The notice period is six months and further details of the management contract are provided in the Notes to the Accounts.
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Capital Structure	The Company has a capital structure comprising Ordinary Shares. The Company has 6.625 per cent Bonds 2008 and 6.25 per cent Bonds 2031 in issue.
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How to Invest	Friends Ivory & Sime operates a number of ZeroCharge™ investment plans which facilitate investment in the shares of the Company. Details are contained on page 45.
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Isa/Pep Status	The Company's shares are eligible for Isas and Pep transfers and can continue to be held in existing Peps.
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Website	The Company's internet address is www.british-assets.co.uk
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Financial Highlights

- Net asset value total return outperforms the benchmark index by 4.0 percentage points.
- Best performing investment trust in the Global Growth & Income Sector, in terms of share price total return and net asset value total return, for the one, three and five year periods to 30 September 2001.
- Total dividends increased by 11.7 per cent.
- Holding in Investors Capital Trust realised at a small discount, securing an uplift in the Company's net asset value.
- Capital structure simplified on 30 September 2001.

British Assets Trust Net Asset Value Total Return v Composite Index and Money on Deposit since the reorganisation of the Company in December 1994

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Performance Summary

	30 September 2001	30 September 2000	
Total Return			
Net asset value*†	(18.7)%	20.8%	
Composite index‡	(22.7)%	13.1%	
FTSE All-Share Index†	(20.8)%	9.6%	
FTSE World (ex UK) Index†	(28.5)%	23.7%	
			% change
Capital Values			
Net asset value (basic)	139.4p	178.3p	(21.8)
Ordinary Share price	118.5p	158.5p	(25.2)
Revenue and Dividends			
Earnings per Ordinary Share	7.12p	5.85p	21.7
Dividends per Ordinary Share #	5.826p	5.216p	11.7
Retail Prices Index	174.6	171.7	1.7
Dividend Yield**	4.5%	3.3%	
Discount (difference between share price and net asset value)	15.0%	11.1%	
Gearing (100 = nil geared position) ‡			
Actual gearing	116	110	
Potential gearing	129	116	
Total expense ratio (as percentage of shareholders' funds)			
Management, marketing and other expenses	0.56%	0.47%	
Performance fee	0.24%	0.07%	
	2001 High	2001 Low	
Year's Highs/Lows			
Net asset value	183.4p	126.1p	
Ordinary Share price	159.8p	111.5p	
Discount	15.0%	5.9%	

* Net asset value total return is calculated as the total return attributable to an Ordinary Share and the total return attributable to a Growth Share in proportion to the respective number of shares of each class in issue, adjusted for the buy-in of warrants.

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

‡ Actual Gearing: (Total Assets – cash and fixed interest) ÷ Equity Shareholders' Funds

Potential Gearing: Total Assets ÷ Equity Shareholders' Funds.

¶ Composite index of 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index.

Includes special dividend of 0.5p per share in respect of the year ended 30 September 2001.

** Excludes special dividend of 0.5p per share in respect of the year ended 30 September 2001.

Sources: Friends Ivory & Sime and Datastream.

Chairman's Statement

W R E Thomson
Chairman

In difficult market conditions the Company continued to outperform its benchmark index

In a difficult year for stockmarkets around the world your Company succeeded in outperforming its benchmark index of 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index. Although net asset value total return, with net dividends reinvested, was -18.7 per cent, this was 4.0 percentage points ahead of the Company's benchmark index which returned -22.7 per cent for the year. During the latter part of the year stockmarkets were very volatile. In September alone the benchmark index fell 9.7 per cent following the tragic terrorist attacks in the United States of America on 11 September and continuing concerns about global economic conditions. Furthermore, in line with the investment trust sector as a whole, the discount on the Ordinary Shares subsequently widened to end the year at a level of 15.0 per cent having previously been as low as 5.9 per cent.

The Board has declared a fourth interim dividend of 1.414p per Ordinary Share resulting in an 11.7 per cent increase in total dividends for the year, including the special dividend which is explained in more detail under Earnings and Dividends. Excluding the special dividend, the increase in total dividends was 2.1 per cent, providing real growth in income for ordinary shareholders.

Shareholders may recall that, following the capital reorganisation of the Company in December 1994, the Company's investment objective was changed to place more emphasis on achieving a total return in excess of the benchmark index. Within this overall objective, the

Company sought to reduce the yield on its investment portfolio relative to that of the UK stockmarket as a whole and to increase the dividends per Ordinary Share in real terms. The Company also sought to decrease its holding in Investors Capital Trust (ICT). I am pleased to report that over the period since the reorganisation the Company has met all of those objectives, as explained below:

- Between 31 December 1994 and 30 September 2001 the Company's net asset value total return, with net dividends reinvested, exceeded the return of the benchmark index by 5.5 percentage points.
- At 30 September 2001 the yield relative of the Company's investment portfolio compared to the UK stockmarket as a whole was 98 per cent compared to 118 per cent at the time of the reorganisation.
- The basic ordinary dividend has been increased over the seven year period by 21.6 per cent compared with a rise of 20.4 per cent in the Retail Prices Index, representing real growth in dividends over this period.
- All of the remaining holding in ICT was realised during the year at a small discount, securing an uplift in the Company's net asset value.

During the year the exposure to North America was increased from 11.0 per cent to 17.5 per cent of the Company's total assets, funded from an overweight position in Continental Europe and the sale of a UK treasury stock.

Investors Capital Trust

The investment in ICT had been the Company's largest holding, representing 31.9 per cent of its total investments as at 30 September 2000 and 32.7 per cent of its total investments as at 31 March 2001. ICT's board announced proposals on 25 May 2001 that enabled the Company to realise its holding in ICT at a small discount, securing an uplift in the net asset value. The Company received an *in specie* transfer of its share of ICT's investment portfolio on 26 June 2001.

The investment performance of the Company's UK portfolio is now determined solely by returns from direct equity holdings rather than being partly dependent on changes in the discount to net asset value of the shares of ICT.

Capital Structure

In accordance with its Articles of Association the Company's capital structure simplified on 30 September 2001. The Growth Shares in issue on that date converted automatically into Ordinary Shares on a one for one basis and the Company's remaining Warrants were exercised into Ordinary Shares during the exercise period between 1 July 2001 and 30 September 2001, at a subscription price of 101p.

As stated in previous Annual Reports, the Ordinary Shares arising from the conversion of the Growth Shares will not rank for any dividends for the year ended 30 September 2001. Similarly, the Ordinary Shares arising from the exercise of the Warrants will also not rank for any dividends for the year. The first dividend to be received by shareholders whose shares arise from the conversion of Growth Shares or the exercise of Warrants will, therefore, be the first interim dividend for the year ended 30 September 2002, which is expected to be paid in April 2002.

Following the conversion of Growth Shares and exercise of Warrants the only shares in issue as at 30 September 2001 were Ordinary Shares.

Earnings and Dividends

The Company's earnings were 7.12p per Ordinary Share in respect of the year ended 30 September 2001. The Board has declared a fourth interim dividend of 1.414p per Ordinary Share payable on 7 January 2002 to ordinary shareholders on the register on 29 June 2001. This brings total dividends for the financial year, including the special dividend of 0.5p per Ordinary Share paid on 8 October 2001, to 5.826p per Ordinary Share, an increase of 11.7 per cent compared to the dividends paid for the year ended 30 September 2000. The total dividend, excluding the special dividend, was 5.326p per Ordinary Share, an increase of 2.1 per cent compared with an increase in the Retail Prices Index of 1.7 per cent. The ordinary dividend, excluding the special dividend, has been increased over the past seven years by 21.6 per cent compared with an increase of 20.4 per cent in the Retail Prices Index, representing real growth in dividends over this period.

Shareholders should note that the special dividend was paid to pass on to them some of the benefit of an early dividend payment received from ICT at the time of its reorganisation and fund raising. In normal circumstances this dividend would have been paid in the subsequent year.

Future Dividend Policy

Following the reorganisation of ICT the Board announced on 21 June 2001 that, for future years, greater emphasis would be placed on maximising the total return of the Company, and whilst the Board would seek to maintain a progressive dividend policy, from the current base of 5.326p per Ordinary Share, future dividends would be dependent upon, *inter alia*, the rate of revenue growth within the investment portfolio, and the level of dividend cover.

As a result of the current uncertain economic conditions and the payment of the special dividend, it is unlikely that there will be an increase in dividend payments per share for the year ended 30 September 2002.

Revenue Reserves

Another significant transfer has been made to revenue reserves which, at 30 September 2001, represented dividend cover of 143 per cent excluding the special dividend.

DIVIDEND COVER
(Revenue reserves divided by annual dividend)
% cover

Shareholders are reminded that, following the conversion of Growth Shares to Ordinary Shares as described above, dividends paid over the next few years are not likely to be covered by earnings due to the larger number of Ordinary Shares in issue. The Board has increased the level of dividend cover since the reorganisation in 1994 to give a reasonable cushion against this event. However, going forward, by placing emphasis on maximising the total return of the Company, and with flexibility in terms of dividend growth, the Board is of the opinion that total returns to shareholders over the longer term will be higher.

Chairman's Statement

Continued

Marketing

During the year our retail initiatives have continued to create demand for shares through the Company's ZeroCharge™ Individual Savings Accounts (Isas) and Investment Plans. Despite the difficult market conditions that prevailed during the year, it is encouraging that demand created through the plans increased by 84 per cent compared to the previous year. The Board will continue to place emphasis on marketing the Company's shares to IFA clients and direct to private investors.

Share Buy-Backs

During the year the Company bought back 3,796,212 Ordinary Shares, 6,446,096 Growth Shares and 3,821,491 Warrants for a total consideration of £17.3 million. These buy-backs enhanced the fully diluted net asset value by approximately 0.7p per share.

The Board is now seeking to renew its authority from shareholders to buy back up to 14.99 per cent of Ordinary Shares in issue as the existing authority, to the extent not utilised, will expire at this year's AGM. Further details are set out in the Report of the Directors.

Gearing

In light of what the Board believes to be attractive borrowing conditions, the Company issued a 30 year £60 million Secured Bond during September 2001. The proceeds of the issue were used partly to repay the balance of the remaining units of the Equities Index Unsecured Loan Stock and the remainder of the proceeds, although uninvested at the year end, is intended for long term investment in equities in accordance with the Company's investment objective.

This new borrowing, together with the existing £60 million 2008 Bonds and the Yen loan, resulted in the Company's level of gearing increasing to 29 per cent as at 30 September 2001, although the level of liquidity at the year end was £63.1 million which reduced the effective level of gearing to 16 per cent. The Board believes that there are good long term prospects for equities which will exceed the cost of financing the borrowings, thereby providing the opportunity for attractive returns for shareholders.

Investment Manager

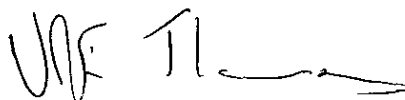
At the end of the year John Stubbs retired as the Company's Investment Manager. The Board is indebted to the significant contribution he has made to the management of the Company's investment portfolio, since his appointment in June 1995, and its very good overall performance during this period. The Board is delighted to welcome Julie Dent, who is Director of Global Equities of Friends Ivory & Sime, as the Company's new Investment Manager.

Management Fee

Following the simplification of the Company's capital structure and the realisation of the holding in ICT as described above, the Board has agreed to change the basis of calculating the investment management fee payable to Friends Ivory & Sime so that the quarterly fee, which has previously been calculated by reference to the value of equity shareholders' funds is calculated, with effect from 1 October 2001, by reference to the value of the Company's total assets less current liabilities. The Board considers it appropriate to remunerate the Managers in this way, which is normal practice for investment trusts, so that their fees are related directly to the assets which they have responsibility for managing. It is not proposed to change the rate of fee payable to Friends Ivory & Sime.

Outlook

Markets are likely to remain unsettled in the short term given the uncertainties surrounding the current United States led military campaign against terrorist groups. Although global growth continues to moderate, individual stockmarkets appear to offer reasonable value at current levels. Aggressive monetary easing by the world's leading central banks and further fiscal support should allow stockmarkets to recover in 2002 as investors anticipate a recovery in growth and an improving outlook for corporate profits.



W R E Thomson
Chairman
16 November 2001

Investment Managers and Investment Process

Julie Dent Investment Manager

Julie Dent joined Friends Ivory & Sime in 1986 and was appointed Investment Manager of British Assets Trust on 1 October 2001. She is Director of Global Equities of Friends Ivory & Sime and has over 15 years' experience in managing international equities.

John Stubbs Investment Manager

John Stubbs joined Friends Ivory & Sime in April 1995. He has over 30 years' investment experience and retired as an Executive Director of Friends Ivory & Sime on 3 September 2001 and Investment Manager of British Assets Trust on 30 September 2001.

Gordon Humphries Company Secretary

Gordon Humphries, a chartered accountant, joined Friends Ivory & Sime in 1988 and was appointed Company Secretary of British Assets Trust in April 1995. He is Director Investment Trust Business Development of Friends Ivory & Sime and has over 18 years experience in the financial services sector.

Friends Ivory & Sime Investment Managers

Friends Ivory & Sime is a global investment management business and its shares are listed on the London Stock Exchange.

With some £35 billion of assets under management as at 30 June 2001, Friends Ivory & Sime is committed to providing its clients with superior investment returns and outstanding service.

Its commitment to the investment trust sector is underlined by the fact that today it provides services to seventeen investment companies.

Investment Process

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

In managing the portfolio emphasis is placed on both top-down asset allocation, with reference to the Company's investment objective, coupled with bottom-up stock selection in the regional sub-portfolios. The majority of the Company's investment portfolio is invested in securities listed on the London Stock Exchange.

Manager's Review

Introduction

In the year to 30 September 2001, the Company's net asset value fell by 18.7 per cent (total return with net dividends reinvested), compared to a fall of 22.7 per cent for its composite benchmark index (75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index). Global stockmarkets fell sharply over the year, reflecting a precipitous collapse in corporate earnings expectations as the pace of global growth slowed. The UK performed relatively well, declining by 20.8 per cent compared to falls in sterling terms of 27.3 per cent in North America, 28.0 per cent in Europe (ex UK), 36.4 per cent in Japan and 28.0 per cent in Pacific (ex Japan).

Investment Returns

The following table provides a breakdown of the estimated contributions to the total return:

Attribution of Return	Percentage points
Market/benchmark return	(22.7)
Asset allocation	(0.3)
Gearing	(2.8)
Currency (Yen loan)	0.4
Stock Selection – UK equities	6.5
– Overseas equities	(0.8)
Narrowing of the ICT discount	1.3
Share buy-back programme	0.4
Expenses	(0.7)
British Assets Trust total return	(18.7)

Asset Allocation

The asset allocation of the Company by region is shown in the table below.

Asset Class	Portfolio Weighting* 30.09.00 %	Portfolio Weighting* 30.09.01 %	Benchmark Weighting 30.09.01 %
UK Equities – Investors Capital Trust	31.6	–	–
– Other UK Equities	39.0	63.7	–
Total UK Equities	70.6	63.7	75.0
Overseas Equities – North America	11.0	17.5	16.5
– Continental Europe	8.7	5.8	5.0
– Japan	2.8	2.0	2.5
– Far East (ex Japan)	1.4	1.1	1.0
Total Overseas Equities	23.9	26.4	25.0
Total Equities	94.5	90.1	100.0
Bonds	4.5	–	–
Cash	1.0	9.9	–
Total	100.0	100.0	100.0

*Total assets less current liabilities

We began the year overweight in Continental Europe and underweight in North America. Over the year we added to our exposure in North America, taking us to an overweight position versus the benchmark by the year end. Sales from our Continental European portfolio and the sale of our UK treasury stock funded this. Following the issue of the 30 year £60 million Secured Bonds during September 2001 and the repayment of the remaining units of Equities Index Unsecured Loan Stock, the Company ended the year with 9.9 per cent cash. This is expected to be invested in the new financial year.

On 30 September 2001, following the issue of the 2031 £60 million Secured Bonds together with the existing 2008 £60 million Secured Bonds and 2003 Yen loan the Company had gearing of 116 per cent and potential gearing of 129 per cent.

The table below shows the equity weightings by sector in the benchmark and the portfolio as at 30 September 2001.

Sector	Benchmark %	Total Equities %	UK Equities %	Overseas Equities %
Resources	14.0	13.7	11.1	2.6
Basic Industries	2.9	1.3	1.2	0.1
General Industrials	3.8	4.1	1.9	2.2
Cyclical Consumer Goods	0.9	0.3	0.2	0.1
Non-Cyclical Consumer Goods	20.7	21.7	15.5	6.2
Cyclical Services	12.4	10.8	7.0	3.8
Non-Cyclical Services	11.6	10.7	7.3	3.4
Utilities	4.1	6.5	5.9	0.6
Information Technology	4.1	4.0	0.2	3.8
Financials	25.5	26.9	20.5	6.4
Total	100.0	100.0	70.8	29.2

The overall portfolio remained relatively defensively positioned throughout the year, reflecting the poor outlook for economic and corporate profit growth. The largest divergence is in the Utilities sector, where a number of stocks are held because of their high and secure yield. Elsewhere we remained underweight in Cyclical Services, Non-Cyclical Services, Resources and Basic Industries. We maintained modest overweight positions in the Financial and Non-Cyclical Consumer Goods Sectors.

Manager's Review

Continued

Sub-Portfolio Reports

UK – Major Holdings

Company	Description	Market Value £m	% Total Investments
GlaxoSmithKline	Pharmaceuticals	40.7	7.1
BP Amoco	Integrated Oil	33.3	5.8
Shell Transport & Trading	Integrated Oil	23.0	4.0
Vodafone Group	Telecommunications	22.3	3.9
AstraZeneca	Pharmaceuticals	15.8	2.8
HSBC Holdings	Banking	15.5	2.7
Barclays	Banking	14.9	2.6
Lloyds TSB Group	Banking	13.9	2.4
British Telecom	Telecommunications	9.8	1.7
CGNU	Life Assurance	9.1	1.6

The UK portfolio outperformed the FTSE All-Share Index by 8.5 percentage points over the year.

The UK equity market, as measured by the FTSE All-Share Index, fell 20.8 per cent on a total return basis over the year. The continued fall in Telecoms, Media and Technology sectors (TMT) played a significant part in the market weakness over the year. As a group, these sectors fell 57 per cent compared to the market excluding "TMT", which fell by a modest 6 per cent. The telecommunications sector came under severe pressure as concerns grew over the funding of third generation mobile telephone licence costs and the ability of these companies to generate adequate investment returns to justify the enormous costs involved. The subsequent reduction in capital expenditure by the network operators impacted the whole telecommunications equipment supply chain. The highly rated Technology and Media sectors also performed poorly as the combination of high levels of operational gearing and a slowing global economy took their toll. The UK equity portfolio benefited from being significantly underweight in these sectors and generally biased towards companies with strong balance sheets and inherently good cash flow generation.

The fall in the equity market reflects a significant deterioration in the global economy. It seems likely that the recent themes will continue for the remainder of 2001 – falling interest rates, downgrades to corporate earnings, dividend cuts and little evidence of economic recovery. However, the bad news has, to some extent, already been discounted by the market suggesting a more optimistic prognosis for next year.

Overseas

North America – Major Holdings

Company	Description	Market Value £m	% Total Investments
General Electric America	Electronic & Electrical Equipment	7.9	1.4
Pfizer	Health	7.0	1.2
Exxon Mobil	Oil & Gas	6.5	1.2
American International Group	Insurance	6.3	1.1
Wal-Mart Stores	General Retailers	5.8	1.0

The North America portfolio underperformed the FTSE North America Index by 4.9 percentage points over the year.

The North American market fell sharply over the year with the FTSE North America Index down 27.3 per cent in sterling terms. As economic growth dramatically slowed towards the end of 2000, the focus within the market switched away from the possibility of rising inflation to the real risk of recession. Given the deteriorating economic outlook, earnings estimates have been revised significantly downwards throughout the year. Indeed, earnings for the S&P 500 Index companies are now expected to fall 14 per cent in 2001. In particular, the Information Technology sector is expected to experience a 60 per cent fall in operating earnings from 2000 to 2001. The performance of the portfolio was hampered by its commitment to growth stocks, which have underperformed relative to value stocks.

Further, the portfolio's commitment to large companies has adversely affected its performance, as mid to small capitalisation companies have generally outperformed larger capitalisation companies.

Given the current uncertain backdrop, the portfolio remains relatively defensively positioned. However, we will be gradually increasing the portfolio's exposure to companies that will benefit from an expected economic recovery in mid-2002.

Manager's Review

Continued

Continental Europe – Major Holdings

Company	Description	Market Value £m	% Total Investments
Aventis	Pharmaceuticals	2.7	0.5
UBS	Speciality & Other Finance	2.1	0.4
Nestle	Food Producer & Processor	2.1	0.4
Sanofi-Synthelabo	Pharmaceuticals	2.0	0.3
ING Groep	Insurance	2.0	0.3

The Europe (ex UK) portfolio slightly underperformed the FTSE Europe (ex UK) Index by 0.3 percentage points.

The European equity markets experienced a steady decline through the year with the FTSE Europe (ex UK) Index down 28.0 per cent in sterling terms. The driver of this downward momentum through the year was earnings disappointments due to the increasingly tough economic environment. These disappointments were particularly severe within the Telecoms, Media and Technology sectors. The European technology sector fell sharply as telecom operators cut back their expenditure on telecom equipment. The pharmaceuticals sector outperformed strongly as it was one of the few areas to see rising earnings expectations in stark contrast to the market as a whole. The electronics sector performed poorly as demand for microchips and industrial process equipment declined. Food producers benefited from their economic insensitivity and outperformed the market significantly.

European companies continue their restructuring which in some cases has been accelerated by the difficult economic conditions. In response to the tough economic conditions the European Central Bank cut interest rates from 4.5 per cent to 3.75 per cent. However, the cuts all occurred towards the end of the year which appeared somewhat belated.

The portfolio maintains a growth bias focussing on companies with strong competitive positions, where business momentum is positive.

Japan – Major Holdings

Company	Description	Market Value £m	% Total Investments
Mitsubishi Tokyo Financial	Banks	0.7	0.1
NTT Domoco	Telecommunications	0.7	0.1
Keyence	Electronics & Electrical Equipment	0.6	0.1
Kao	Personal Care	0.6	0.1
Takeda Chemical Industries	Pharmaceuticals	0.6	0.1

The Japan portfolio underperformed the FTSE Japan Index by 1.3 percentage points over the year.

The FTSE Japan Index suffered a significant decline of 36.4 per cent over the year. The market has been unremittingly weak over the last twelve months. The sole exception to this was a sharp six week rally from mid-March 2001, as investors hoped that the election of a new, potentially reformist, Prime Minister in Junichiro Koizumi would herald the start of long awaited structural change in Japan. Typically, cyclical, value based sectors, such as mining, and some domestic defensive areas, such as electric utilities, were the best performing sectors over the year. TMT sectors have been the worst performing areas of the market as technology earnings have collapsed, though there have been brief periods of investor interest. The banking sector has laboured under the spectre of mounting bad debts and consequently has under performed the market.

The market has tracked downwards for two major reasons. Firstly, Japan is a geared global cyclical such that the synchronised slowdown of the USA and other global economies has led to a series of earnings downgrades, especially in the export dominated sectors, such as technology. The second issue is that domestic Japan remains mired in recession, with scant evidence to show that the government is prepared to tackle the structural issues of deflation and non-performing loans in the banking sector, and this has dented investor confidence.

Major structural problems remain a drag on growth in Japan, but we remain committed to the growth bias of the portfolio, in the belief that medium to long term corporate profit growth will prove to be more consistent in these areas of the equity market.

Manager's Review

Continued

Far East (ex Japan) – Major Holdings

Company	Description	Market Value £m	% Total Investments
Samsung Electronic	Electronics & Electrical Equipment	0.9	0.2
China Mobile	Telecommunications	0.6	0.1
Hong Kong & China Gas	Gas Distribution	0.6	0.1
Taiwan Semiconductor	Information Technology	0.6	0.1
Hutchison Whampoa	Speciality & Other Finance	0.4	0.1

The Far East (ex Japan) portfolio underperformed the MSCI All Countries Far East Free (ex Japan) Index by 0.9 percentage points over the year.

It's been a very difficult year for the Asian markets. The MSCI All Countries Far East Free (ex Japan) Index fell by 34.0 per cent over the year. Collapsing exports, low visibility regarding sales & earnings growth and a higher risk premium because of increasing political worries world wide are some factors which all have negatively affected the Asian markets over the year. The markets with highest technology export ratios, like Taiwan and Singapore were the worst performing. Hong Kong was also weak. The smaller South East Asia markets, namely Thailand, Malaysia and Philippines did better, reflecting more stable currencies in these markets and low foreign investor ownership.

A delayed recovery in the global economy will make things more problematic for Asia. Corporate profits are unlikely to recover until the second half of 2002. On a more positive note we have high global and local liquidity, weaker oil prices, more stable local currencies and historically low valuations. The Asian markets are well positioned to perform strongly again when we see a turnaround in the global economy.

Buy-Backs

During the course of the year the Company bought back 3,796,212 Ordinary Shares (1.2 per cent of those in issue as at 30 September 2000), 6,446,096 Growth Shares (12.1 per cent of those in issue as at 30 September 2000), 3,821,491 Warrants (53.2 per cent of those in issue as at 30 September 2000) and the remaining Equities Index Unsecured Loan Stock units. The Company's remaining Warrants were exercised into Ordinary Shares during the exercise period between 1 July 2001 and 30 September 2001. On 30 September 2001 the remaining Growth Shares automatically converted into Ordinary Shares. It is estimated that share buy-backs added approximately 0.7 pence to the fully diluted net asset value per share for the year.

Overall Outlook

The terrorist attacks in the United States of America on 11 September 2001 came at a fragile moment for the World's leading economies. Japan was already in recession and the US was teetering on the brink. Markets are likely to remain unsettled in the short term given the uncertainties surrounding the current United States led military campaign against Afghanistan and the possibility that the campaign against terrorists could escalate further. However, aggressive monetary easing by the world's leading central banks and the suggestion of further fiscal support should allow stockmarkets to recover in 2002 as investors anticipate a recovery in growth and an improving outlook for corporate profits.

Global stockmarkets appear to offer reasonable value. The prospects for returns going forward will depend crucially on the ability of companies to cut costs to generate higher margins. With this in mind, the United States of America is expected to be an important part of the Company's portfolio in the year ahead, reflecting the greater efforts being made in cost cutting than elsewhere. The United Kingdom is expected to follow America's lead and offers relatively stable economic and corporate profit growth prospects.

Julie Dent



Investment Manager

Friends Ivory & Sime plc

16 November 2001

Investment Portfolio

Company	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 2000-2001*	Country of Incorporation
GlaxoSmithKline A global manufacturer and marketer of ethical pharmaceutical products.	40,704	7.1	5.1	(26.6)†	UK
BP Amoco BP Amoco is one of the world's largest integrated oil and gas companies.	33,293	5.8	5.7	16.2	UK
Shell Transport & Trading The company holds a 40 per cent stake in one of the world's largest integrated oil and gas companies.	23,040	4.0	4.3	3.9	UK
Vodafone Group Vodafone is the largest global provider of mobile telecommunication services.	22,303	3.9	1.4	5.0	UK
AstraZeneca The company is involved in the research, manufacture and sale of pharmaceuticals and agrochemicals.	15,825	2.8	2.3	0.0	UK
HSBC Holdings HSBC provides a comprehensive range of banking and related financial services on a global basis.	15,549	2.7	6.7	33.1	UK
Barclays Barclays provides banking and other financial services to both retail and business markets.	14,875	2.6	3.2	16.2	UK
Lloyds TSB Group The group provides retail and commercial banking services through its branch network and offices in the UK and overseas.	13,850	2.4	4.4	13.3	UK
British Telecom British Telecom is the dominant supplier of telecommunication services and equipment in the UK.	9,797	1.7	1.6	(60.3)	UK
CGNU CGNU was formed through the merger of CGU and Norwich Union. The company provides a comprehensive range of general and life assurance products.	9,101	1.6	2.7	0.0	UK
Ten largest investments	198,337	34.6	37.4		

† Dividends not comparable to previous year due to merger.

Company	Nature of Business	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 2000-2001*	Country of Incorporation
Abbey National	Banks	8,741	1.5	2.7	12.3	UK
General Electric America	Electronic & Electrical Equipment	7,938	1.4	0.9	17.1	USA
Royal Bank of Scotland Group	Banks	7,932	1.4	1.2	15.8	UK
Prudential	Life Assurance	7,674	1.3	1.8	6.4	UK
Diageo	Beverages	7,517	1.3	1.5	73.6	UK
Pfizer	Health	6,991	1.2	0.5	20.0	USA
Exxon Mobil	Oil & Gas	6,537	1.2	1.0	2.3	USA
HBOS	Banks	6,379	1.1	1.5	10.7	UK
American International Group	Insurance	6,324	1.1	0.1	11.7	USA
Kelda Group	Water	6,000	1.1	2.6	2.7	UK
Twenty largest investments		270,370	47.2	51.2		
Wal-Mart Stores	General Retailers	5,794	1.0	0.2	17.4	USA
Citigroup	Banks	5,430	1.0	0.6	19.6	USA
Anglo American	Mining	5,410	1.0	2.0	13.1	UK
Microsoft	Software & Computer Services	5,183	0.9	0.0	0.0	USA
Powergen	Electricity	5,170	0.9	1.7	25.9	UK
Tesco	Food & Drug Retailer	5,024	0.9	0.7	11.9	UK
SBC Communications	Telecommunications	4,955	0.9	0.7	35.8	USA
Standard Life Euro Private Equity Trust	Investment Company	4,825	0.8	0.0	0.0	UK
Real Estate Opportunities	Real Estate	4,672	0.8	0.2	0.0	UK
British American Tobacco	Tobacco	4,654	0.8	1.5	10.4	UK
Thirty largest investments		321,487	56.2	58.8		
Boots	General Retailers	4,611	0.8	1.3	4.4	UK
Cadbury Schweppes	Food Producers & Processors	4,591	0.8	0.7	4.9	UK
Next	General Retailers	4,577	0.8	0.8	14.3	UK
Merck	Pharmaceuticals	4,572	0.8	0.6	13.2	USA
AOL Time Warner	Leisure Entertainment & Hotels	4,561	0.8	0.0	0.0	USA
National Express Group	Transport	4,498	0.8	0.8	13.5	UK
Freddie Mac	Speciality & Other Finance	4,370	0.7	0.3	16.7	USA
Standard Chartered	Banks	4,163	0.7	1.1	13.8	UK
United Utilities	Water	4,028	0.7	1.9	2.0	UK
International Business Machines	Information Technology Hardware	3,967	0.7	0.2	8.0	USA
Forty largest investments		365,425	63.8	66.5		
Colgate Palmolive	Personal Care	3,937	0.7	0.3	3.6	USA
Smith Industries	Aerospace & Defence	3,853	0.7	1.0	9.4	UK
American Home Products	Pharmaceuticals	3,823	0.7	0.4	0.0	USA
Northern Rock	Banks	3,634	0.7	0.7	13.4	UK
Scottish & Southern Energy	Electricity	3,581	0.6	1.1	9.1	UK
Amvescap	Speciality & Other Finance	3,573	0.6	0.3	10.5	UK
Provident Financial	Speciality & Other Finance	3,573	0.6	1.0	9.1	UK
Unilever	Food Producers & Processors	3,571	0.6	0.6	4.6	UK
Verizon Communications	Telecommunications	3,469	0.6	0.6	0.0	USA
Dominion Resources	Electricity	3,343	0.6	0.9	0.0	USA
Fifty largest investments		401,782	70.2	73.4		
Other investments (159)		170,663	29.8	26.6		
Total investments		572,445	100.0	100.0		

* British Assets Trust's financial years to 30 September 2000 and 2001.

Classification of Investments

	United Kingdom £'000	North America £'000	Continental Europe £'000	Japan £'000	Far East (ex Japan) £'000	2001 Total £'000
Sector Weighting						
Resources	66,568	8,861	3,133	—	116	78,678
Basic Industries	7,140	—	—	448	—	7,588
General Industrials	10,169	7,938	1,785	1,617	2,214	23,723
Cyclical Consumer Goods	930	—	—	839	—	1,769
Non-Cyclical Consumer Goods	88,865	24,923	8,920	1,260	—	123,968
Cyclical Services	40,691	13,293	5,901	1,552	155	61,592
Non-Cyclical Services	42,013	11,441	4,623	1,544	1,151	60,772
Utilities	30,924	5,054	—	332	1,004	37,314
Information Technology	1,294	17,804	2,049	1,967	58	23,172
Financials	116,341	21,880	10,358	2,869	2,202	153,650
Total	404,935	111,194	36,769	12,428	6,900	572,226
Unquoted	219	—	—	—	—	219
Total Investments	405,154	111,194	36,769	12,428	6,900	572,445
% of Total Investments	70.8	19.4	6.4	2.2	1.2	100.0

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

* The Benchmark Index represents a weighting of 75 per cent in the FTSE All-Share Index and 25 per cent in the FTSE World (ex UK) Index.

Capital Structure

The Company's capital structure comprises Ordinary Shares. The Company also has 6.625 per cent Bonds 2008 and 6.25 per cent Bonds 2031 in issue.

Ordinary Shares

At 30 September 2001 there were 353,362,282 Ordinary Shares of 25p each in issue (2000: 307,021,212).

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.

Capital Entitlement

After meeting the liabilities of the Company the surplus assets shall be paid to the holders of Ordinary Shares 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.

Long Term Record

Ten Year Record

At 30 September	Total Assets £'000	Equity Shareholders' Funds £'000	Net Asset Value per Ordinary Share	Ordinary Share Price	Discount (basic)	Earnings per Ordinary Share	Dividends per Ordinary Share
1992	539,636	345,026	89.8p	79.5p	11.5%	4.02p	4.190p
1993	641,260	423,744	110.4p	105.5p	4.4%	4.28p	4.280p
1994	597,696†	379,557†	98.8p†	94.0p	4.9%†	4.10p	4.380p
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
1998	606,396	514,921	134.1p	113.8p	15.2%	5.82p	4.985p
1999	669,003	578,057	153.5p	135.3p	11.9%	5.93p	5.045p
2000	746,863	642,232	178.3p	158.5p	11.1%	5.85p	5.216p
2001	635,514	492,418	139.4p	118.5p	15.0%	7.12p	5.826p#

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

¶ Figures stated prior to deduction of Yen loan.

#Includes special dividend of 0.5p per Ordinary Share.

Board of Directors

William Thomson
Chairman

age 61, was appointed a Director in 1974 and is chairman of E. G. Thomson (Shipping) Ltd. He is deputy chairman of John Menzies plc and a director of several companies including Fidelity Japanese Values plc and Dobbies Garden Centres plc.

James MacLeod

age 60, was appointed in 1998 and was a partner of Ernst & Young (and its predecessor firms) for 25 years until his retirement in 1998. His other directorships include Collective Assets Trust plc, Martin Currie High Income Trust plc and Invesco Geared Opportunities Trust plc.

Dr Christopher Masters

age 54, was appointed in 1990 and is executive chairman of Aggreko plc. Headquartered in Scotland but with operations in some 50 countries around the globe, Aggreko is a world leader in the supply of temporary power, temperature control and oil free compressed air. He is also chairman of the Scottish Higher Education Funding Council and a non-executive director of Scottish Chamber Orchestra Ltd.

Sir Malcolm Rifkind

age 55, was appointed in 1998 and was formerly Foreign Secretary and Secretary of State for Defence. He is a director of Aberdeen Asset Management plc, Ramco Energy plc and Foreign & Colonial Emerging Markets Investment Trust plc.

James West

age 54, was appointed in 1995 and was formerly managing director of Lazard Brothers and Co Ltd and chief executive of Lazard Asset Management Ltd. He is Chairman of Gartmore Fledgling Trust plc, Aberdeen Convertible Income Trust plc, Jupiter Financial & Income Trust plc and Intrinsic Value plc. He is a director of Aberdeen New Dawn Investment Trust plc, Candover Investments plc and 3i UK Select Trust plc.

Report of the Directors

Results and Dividends

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 2001.

	£'000
Revenue available for dividends	21,660
Dividends on Ordinary Shares:	
First quarterly interim dividend of 1.304p per share paid on 6 April 2001	(3,964)
Second quarterly interim dividend of 1.304p per share paid on 6 July 2001	(3,964)
Third quarterly interim dividend of 1.304p per share paid on 8 October 2001	(3,964)
Special dividend of 0.5p per share paid on 8 October 2001	(1,520)
Fourth quarterly interim dividend of 1.414p per share payable on 7 January 2002 to ordinary shareholders on the register at close of business on 29 June 2001	(4,298)
Over provision for year ended 30 September 2000	44
Transferred to revenue reserve	3,994

Principal Activity and Status

The Company is registered as a Public Limited Company in terms of the Companies Act 1985 and as an Investment Company as defined by Section 266 of the Companies Act 1985.

The Company carries on business as an investment trust. It has been approved by the Inland Revenue as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 September 1999. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year. However, under Corporation Tax Self Assessment, which applies to accounting periods ended after 30 June 1999, the Inland Revenue ceased to be obliged to give written approval. Instead the Inland Revenue had twelve months after the return filing deadline in which to give notice that they intended to enquire into the return but, if no such notice was given then approval was assumed to have been obtained.

Recently, however, the Inland Revenue have stated that they will provide written approval of investment trust status on an annual basis if requested. It is the Company's intention to seek such written approval each year.

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 £8,500 (2000 – £8,500).

Capital Structure

In accordance with the Company's Articles of Association its capital structure simplified on 30 September 2001. The 46,770,630 Growth Shares in issue on that date converted automatically into Ordinary Shares on a one for one basis. The Ordinary Shares arising on the conversion of Growth Shares rank *pari passu* in all respects with the Ordinary Shares then in issue, except that

Report of the Directors

Continued

the Ordinary Shares arising on conversion are not entitled to receive payment of the third, special and fourth interim dividends in respect of the year ended 30 September 2001.

In addition, 3,366,652 Warrants were exercised into Ordinary Shares during the exercise period between 1 July 2001 and 30 September 2001 at a subscription price of 101p. The Ordinary Shares arising on the exercise of the Warrants are also not entitled to receive payment of the third, special and fourth interim dividends in respect of the year ended 30 September 2001.

Following the conversion of Growth Shares and exercise of Warrants, as described above, the only shares in issue as at 30 September 2001 were 353,362,282 Ordinary Shares and there were no Warrants remaining in issue as at that date.

Directors

Dr C Masters and Sir Malcolm Rifkind retire from the Board by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

The Directors who held office at the year end and their interests in the shares of the Company at 30 September 2001 were:

		Ordinary Shares	Ordinary Shares	Growth Shares	Warrants
		2001	2000	2000	2000
W R E Thomson	Beneficial	9,600	6,720	1,280	1,600
J S MacLeod	Beneficial	10,000	10,000	—	—
	Non-Beneficial	9,500	—	—	—
Dr C Masters	Beneficial	14,880	8,159	5,030	—
Sir Malcolm Rifkind	Beneficial	4,000	—	4,000	—
J G West	Beneficial	12,000	12,000	—	—

There has been no change in the holdings of the Directors between 30 September 2001 and 16 November 2001 other than as a result of monthly investment and the quarterly reinvestment of dividends through the Company's ZeroChargeTM investment plan.

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

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 the Company at 16 November 2001:

	Number of Ordinary Shares Held	Percentage Held
Friends Provident Group*	56,003,040	15.8
AXA Investment Managers	45,219,540	12.8

*Includes retail products.

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.

Following the simplification of the Company's capital structure as described above and the realisation of the holding in Investors Capital Trust, the Board has agreed to change the basis of calculating the investment management fee payable to Friends Ivory & Sime plc so that the quarterly fee, which has previously been calculated by reference to the value of equity shareholders' funds is calculated, with effect from 1 October 2001, by reference to the value of the Company's total assets less current liabilities. The Board considers it appropriate to remunerate the Managers in this way so that their fees are related directly to the assets which they have responsibility for managing. It is not proposed to change the rate of fee payable to Friends Ivory & Sime plc which is disclosed 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. The Board receives full information on the Company's assets, liabilities and other relevant information in advance of Board Meetings. 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 comply with the Combined Code on Corporate Governance ('the Code'), except as disclosed in the following paragraph.

In view of its non-executive nature and the requirement of the Articles of Association that all Directors retire by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term or for a senior independent director to be appointed as recommended by the Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election at the completion of each three years' service. Full details of the duties of new Directors are provided at the time of appointment.

Committees comprising the full Board carry out the functions of a Nomination and Management Remuneration Committee and, save for Mr J S MacLeod, an Audit Committee. The Audit Committee reviews the Annual Report and Accounts and the terms of appointment of the auditors together with their remuneration. 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 plc, 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.

The Managers, in the absence of explicit instructions from the Board, are empowered to exercise discretion in the use of the Company's voting rights.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

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.

Report of the Directors

Continued

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. The process is based principally on the Managers' existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Managers and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is continually updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action, which has, or is, being taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of FRAG 21 and similar reports issued by the Managers and other service providers.

Such review procedures have been in place throughout the full financial year and the Board is satisfied with their effectiveness. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to the benchmark index and to comparable investment trusts at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Managers adhere to the agreed investment policy and approved investment guidelines and, if necessary, approve changes to such policy and guidelines.

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

Directors' Authority to Issue Shares

The Directors are seeking authority to allot shares. Resolution 5 will, if approved, authorise the Directors to allot new shares up to an aggregate nominal amount of £8,834,057, being 10 per cent of the total issued shares as at 16 November 2001. Resolution 6 will, if approved, authorise the Directors to allot new shares up to an aggregate nominal amount of £4,417,028, being 5 per cent of the total issued shares as at 16 November 2001, for cash without first offering such shares to existing shareholders pro rata to their existing holdings. These authorities will continue in effect until the conclusion of the Annual General Meeting in 2002. The Directors would only issue new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would result in a dilution of net asset value per share.

Directors' Authority to Buy Back Shares

During the year the Company purchased for cancellation 3,796,212 Ordinary Shares for a total consideration of £5.9 million representing £949,000 nominal value and 1.2 per cent of the number of Ordinary Shares in issue at the previous year end, and 6,446,096 Growth Shares for a total

consideration of £9.7 million representing £1,611,000 nominal value and 12.1 per cent of the number of Growth Shares in issue at the previous year end.

The current authority of the Company to make market purchases of up to 14.99 per cent of the issued Ordinary Shares, which was granted by shareholders at the Extraordinary General Meeting on 23 February 2001, expires at the end of the Annual General Meeting and Resolution 7, as set out in the notice of the Annual General Meeting, seeks renewal of such authority until the Annual General Meeting in 2002. The price paid for shares will not be less than the nominal value of 25p per share nor more than 5 per cent above the average of the market values of those shares for the five business days before the shares are purchased. This power will only be exercised if, in the opinion of the Directors, a repurchase would be in the best interests of the shareholders as a whole. Any shares repurchased under this authority will be cancelled.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Annual General Meeting of the Company provides a forum both formal and informal for shareholders to meet and discuss issues with the Directors and Managers of the Company.

Auditors

On 28 June 2001, Ernst & Young, the Company's auditors, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming Annual General Meeting.

Individual Savings Accounts and Personal Equity Plans

The Company's shares are qualifying investments as defined by the Inland Revenue regulations for Individual Savings Accounts and Personal Equity Plans. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

Dividend Reinvestment Plan (DRIP)

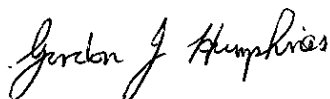
Shareholders will find enclosed with their Annual Report a circular and mandate form for a DRIP. Shareholders who participate in the DRIP will, in future, have their dividends automatically reinvested in Ordinary Shares and therefore increase their shareholdings in the Company. The costs of administering the DRIP, other than stamp duty costs, will be borne by the Company.

Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions.

By Order of the Board

G J Humphries
Secretary



One Charlotte Square
Edinburgh EH2 4DZ
16 November 2001

Statement of Total Return

(Incorporating the Revenue Account*) For the year ended 30 September 2001

	Notes	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000	2000 Revenue £'000	2000 Capital £'000	2000 Total £'000
(Losses)/gains on investments	10	–	(142,407)	(142,407)	–	96,643	96,643
Warrants purchased for cancellation	14, 15	–	(1,774)	(1,774)	–	(4,251)	(4,251)
Exchange differences	15	–	2,453	2,453	–	(2,407)	(2,407)
Equities Index Unsecured Loan Stock	15	–	4,766	4,766	–	(1,902)	(1,902)
Income	2	26,753	–	26,753	23,499	–	23,499
Investment management fee	3	(832)	(2,587)	(3,419)	(851)	(1,702)	(2,553)
Other expenses	4	(1,095)	–	(1,095)	(929)	–	(929)
Net return before finance costs and taxation		24,826	(139,549)	(114,723)	21,719	86,381	108,100
Finance costs	6	(2,269)	(2,784)	(5,053)	(2,262)	(2,546)	(4,808)
Return on ordinary activities before taxation		22,557	(142,333)	(119,776)	19,457	83,835	103,292
Tax on ordinary activities	7	(897)	655	(242)	(1,249)	881	(368)
Return attributable to equity shareholders		21,660	(141,678)	(120,018)	18,208	84,716	102,924
Dividends in respect of equity shares	8	(17,666)	–	(17,666)	(16,035)	–	(16,035)
Transfer to/(from) reserves	15	3,994	(141,678)	(137,684)	2,173	84,716	86,889
Return per Ordinary Share:							
Basic	9	7.12p	(40.16p)	(33.04p)	5.85p	23.12p	28.97p
Diluted (FRS 14)	9	7.08p	(39.93p)	(32.85p)	5.78p	22.90p	28.68p
Return per Growth Share:							
Basic	9	–	–	–	–	23.12p	23.12p
Diluted (FRS 14)	9	–	–	–	–	22.90p	22.90p

* The revenue column of this statement is the profit and loss account of the Company.

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

No operations were acquired or discontinued in the year.

The accompanying notes are an integral part of this statement.

Balance Sheet

As at 30 September 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Investments	10	<u>572,445</u>	<u>739,558</u>
Current assets			
Debtors	11	<u>7,665</u>	<u>3,191</u>
Cash at bank and on deposit		<u>68,765</u>	<u>18,971</u>
		<u>76,430</u>	<u>22,162</u>
Creditors: amounts falling due within one year	12	<u>(13,361)</u>	<u>(14,857)</u>
Net current assets		<u>63,069</u>	<u>7,305</u>
Total assets less current liabilities		<u>635,514</u>	<u>746,863</u>
Creditors: amounts falling due after more than one year	13	<u>(143,096)</u>	<u>(104,631)</u>
Net assets		<u>492,418</u>	<u>642,232</u>
Capital and reserves			
Called-up share capital	14	<u>88,341</u>	<u>90,059</u>
Share premium account	15	<u>6,188</u>	<u>3,630</u>
Other reserves:			
Capital reserve – realised	15	<u>378,085</u>	<u>252,875</u>
Capital reserve – unrealised	15	<u>(11,742)</u>	<u>270,676</u>
Capital redemption reserve	15	<u>8,501</u>	<u>5,941</u>
Revenue reserve	15	<u>23,045</u>	<u>19,051</u>
Total shareholders' funds	19	<u>492,418</u>	<u>642,232</u>
Equity shareholders' funds		<u>492,418</u>	<u>642,232</u>
Net asset value per share:			
– Basic	16	<u>139.4p</u>	<u>178.3p</u>
– Fully diluted	16	<u>–</u>	<u>176.8p</u>
– Diluted (FRS 14)	16	<u>–</u>	<u>177.0p</u>

The accounts on pages 26 to 41 were approved by the Board of Directors on 16 November 2001 and signed on its behalf by:



W R E Thomson, Director

The accompanying notes are an integral part of this statement.

Cash Flow Statement

For the year ended 30 September 2001

	Notes	2001 £'000	2000 £'000
Operating activities			
Investment income received		24,483	22,868
Deposit interest received		716	904
Investment management fees paid		(3,201)	(2,339)
Other cash payments		(745)	(771)
Net cash inflow from operating activities	17	21,253	20,662
Servicing of finance			
Interest paid on Equities Index Unsecured Loan Stock		(497)	(530)
Interest on Yen loan		(315)	(201)
Interest on 6.625 per cent Bonds 2008		(3,975)	(1,987)
Bank overdraft interest		(78)	—
Net cash outflow from servicing of finance		(4,865)	(2,718)
Taxation			
Tax recovered		65	506
Capital expenditure and financial investment			
Purchases of investments		(175,568)	(210,420)
Disposals of investments		196,169	238,787
Net cash inflow from capital expenditure and financial investment		20,601	28,367
Equity dividends paid		(16,170)	(15,918)
Net cash inflow before financing		20,884	30,899
Financing			
Issue of Ordinary Shares from exercise of Warrants		751	—
Ordinary shares purchased for cancellation		(6,025)	(16,195)
Growth shares purchased for cancellation		(9,662)	(6,385)
Equities Index Unsecured Loan Stock purchased for cancellation		(13,737)	(14,881)
Warrants purchased for cancellation		(1,774)	(4,251)
¥4.25 billion loan drawdown		—	23,901
6.25 per cent Bonds 2031 issued		59,231	—
Net cash inflow/(outflow) from financing		28,784	(17,811)
Increase in cash	18	49,668	13,088
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year		49,668	13,088
6.25 per cent Bonds 2031 issued		(59,231)	—
¥4.25 billion loan drawdown		—	(23,901)
Equities Index Unsecured Loan Stock purchased for cancellation		13,737	14,881
Currency gains		126	293
Net debt at 1 October 2000		(85,660)	(85,356)
Movement in net debt resulting from cash flows		(81,360)	(80,995)
Decrease/(increase) in Equities Index Unsecured Loan Stock liability		4,766	(1,902)
Decrease/(increase) in Yen loan liability		2,327	(2,700)
Increase in 6.625 per cent Bonds 2008 liability		(63)	(63)
Increase in 6.25 per cent Bonds 2031 liability		(1)	—
Net debt at 30 September 2001	18	(74,331)	(85,660)

The accompanying notes are an integral part of this statement.

Notes to the Accounts

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 for 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(c) below.

c) 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 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 Equities Index Unsecured Loan Stock, share capital and warrant repurchases 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 Equities Index Unsecured Loan Stock
- unrealised exchange differences in relation to the value of the Yen loan

d) 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.

e) 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.

Notes to the Accounts

Continued

f) 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.

g) 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 a transaction is included as an exchange gain or loss in capital reserves.

Rates of Exchange at 30 September

	2001	2000
US Dollar	1.4697	1.4785
Japanese Yen	175.0854	159.7667
Euro	1.6138	1.6755

2. Income

	2001 £'000	2000 £'000
Income from investments		
Franked investment income	22,036	16,523
UK unfranked investment income	2,118	3,059
Overseas dividends	1,883	2,982
Scrip dividends	—	31
	26,037	22,595
Other income		
Deposit interest	716	904
Total income	26,753	23,499
Total income comprises:		
Dividends	23,919	19,536
Fixed interest securities	2,118	3,059
Deposit interest	716	904
	26,753	23,499
Income from investments:		
Listed UK	24,154	19,582
Listed overseas	1,883	3,013
	26,037	22,595

3. Investment management fee

	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000	2000 Revenue £'000	2000 Capital £'000	2000 Total £'000
Investment management fee						
– basic	832	1,249	2,081	851	1,276	2,127
– outperformance	—	1,338	1,338	—	426	426
	832	2,587	3,419	851	1,702	2,553

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 six months' notice of termination. During the year Friends Ivory & Sime plc received 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. Friends Ivory & Sime plc also received a performance-related fee calculated by reference to (i) the performance of the Company against the benchmark index (ii) the extent to which the Company had 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, payable in arrears. The performance-related fee is payable at a rate of up to a maximum of 0.075 per cent per quarter.

Basic investment management fees have been allocated 40 per cent to revenue and 60 per cent to capital.

The outperformance fees are charged 100 per cent to capital.

Notes to the Accounts

Continued

4. Other expenses

	2001 £'000	2000 £'000
Directors' fees (Note 5)	77	74
Auditors' remuneration for:		
– audit	18	17
– other services to the Company	26	9
AITC "its" marketing	115	216
Other	859	613
	1,095	929

5. Directors' fees

The remuneration of the Chairman, the highest paid Director, was £21,312 (2000: £20,560). The other Directors each received £13,875 (2000: £13,375).

6. Finance costs

	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000	2000 Revenue £'000	2000 Capital £'000	2000 Total £'000
Repayable within 5 years, not by instalments:						
– Yen loan	126	188	314	82	123	205
– Equities Index Unsecured Loan Stock	413	–	413	–	–	–
Repayable wholly or partly in more than 5 years:						
– 6.625 per cent Bonds 2008	1,615	2,423	4,038	1,615	2,423	4,038
– 6.25 per cent Bonds 2031	84	126	210	–	–	–
– Equities Index Unsecured Loan Stock	–	–	–	565	–	565
Bank overdraft interest	31	47	78	–	–	–
	2,269	2,784	5,053	2,262	2,546	4,808

Finance costs in relation to the 6.625 per cent Bonds 2008, the 6.25 per cent Bonds 2031, the Yen loan and the bank overdraft have been allocated 40 per cent to revenue and 60 per cent to capital. Interest on the Equities Index Unsecured Loan Stock has been allocated 100 per cent to revenue.

7. Tax on ordinary activities

	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000	2000 Revenue £'000	2000 Capital £'000	2000 Total £'000
Corporation tax	897	(897)	–	1,249	(1,249)	–
Overseas taxation	242	–	242	368	–	368
	1,139	(897)	242	1,617	(1,249)	368
Relief for overseas taxation	(242)	242	–	(368)	368	–
	897	(655)	242	1,249	(881)	368

The Company has £4,351,000 unutilised management expenses at 30 September 2001 (2000: £1,478,000).

8. Dividends

	2001 £'000	2000 £'000
Dividends on equity shares:		
– ordinary-first quarterly paid 1.304p (2000: 1.26125p) per Ordinary Share	3,964	3,898
– ordinary-second quarterly paid 1.304p (2000: 1.26125p) per Ordinary Share	3,964	3,882
– ordinary-third quarterly paid 1.304p (2000: 1.26125p) per Ordinary Share	3,964	3,874
– ordinary-special paid 0.5p (2000: n/a) per Ordinary Share	1,520	–
– ordinary-fourth quarterly payable 1.414p (2000: final 1.43225p) per Ordinary Share	4,298	4,397
	17,710	16,051
Overprovision of dividend in prior year (see below)	(44)	(16)
	17,666	16,035

Between 12 October 2000 and 21 November 2000, 3,046,212 Ordinary Shares were bought back for cancellation by the Company. As these dates were prior to the ex-dividend date for the final dividend in respect of the year ended 30 September 2000, there was no dividend on these shares.

On 17 November 1999 and 29 November 1999, 950,000 Ordinary Shares and 350,000 Ordinary Shares, respectively, were bought back for cancellation by the Company. As both these dates were prior to the ex-dividend date for the final dividend in respect of the year ended 30 September 1999, there was no dividend on these shares.

Notes to the Accounts

Continued

9. Returns per share

	2001 Revenue	2001 Capital	2001 Total	2000 Revenue	2000 Capital	2000 Total
Ordinary (Basic)	7.12p	(40.16p)	(33.04p)	5.85p	23.12p	28.97p
Ordinary (Diluted – FRS 14)	7.08p	(39.93p)	(32.85p)	5.78p	22.90p	28.68p
Growth (Basic)	–	–	–	–	23.12p	23.12p
Growth (Diluted – FRS 14)	–	–	–	–	22.90p	22.90p

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

	2001 Revenue £'000	2001 Capital £'000	2000 Revenue £'000	2000 Capital £'000
Ordinary (Basic; Diluted – FRS 14)	21,660	(141,678)	18,208	84,716
Growth (Basic; Diluted – FRS 14)	–	–	–	84,716

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

	2001	2000
Basic calculation:		
Weighted average number of shares in issue during the year		
Revenue return (Ordinary)	304,083,555	311,287,948
Capital return (Ordinary and Growth)	352,777,202	366,372,631

	2001 Revenue	2001 Capital	2000 Revenue	2000 Capital
Diluted calculation:				
(in terms of Financial Reporting Standard 14)				
Weighted average number of Warrants in issue during the year	6,203,445	6,203,445	11,158,975	11,158,975
Less number of shares that would have been issued at fair value using an average price of 149.29p (2000: 148.69p) during the year	(4,196,805)	(4,196,805)	(7,579,908)	(7,579,908)
Notional shares that would have been issued for no consideration	2,006,640	2,006,640	3,579,067	3,579,067
Add weighted number of shares in issue during the year	304,083,555	352,777,202	311,287,948	366,372,631
Number of shares used to determine diluted return per share	306,090,195	354,783,842	314,867,015	369,951,698

10. Investments

	2001 £'000		2000 £'000	
Investments listed on a recognised investment exchange	572,226		739,339	
Unlisted investments	219		219	
	572,445		739,558	

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	300,085	150,707	3,389	454,181
Opening unrealised appreciation/(depreciation)	260,685	27,862	(3,170)	285,377
Opening valuation	560,770	178,569	219	739,558
Movements in the year:				
Purchases at cost	229,218	162,872	—	392,090
Sales—proceeds	(311,460)	(104,805)	(531)	(416,796)
—realised gains/(losses) on sales	163,871	(8,931)	(601)	154,339
(Decrease)/increase in unrealised appreciation	(237,464)	(60,414)	1,132	(296,746)
Closing valuation	404,935	167,291	219	572,445
Closing book cost	381,714	199,843	2,257	583,814
Closing unrealised appreciation/(depreciation)	23,221	(32,552)	(2,038)	(11,369)
Closing valuation	404,935	167,291	219	572,445

	2001 £'000	2000 £'000
Equity shares	567,781	691,713
Convertible securities	4,664	2,950
Fixed income securities	—	33,333
Other investments	—	11,562
	572,445	739,558

	2001 £'000	2000 £'000
Realised gains on sales	154,339	59,508
(Decrease)/increase in unrealised appreciation	(296,746)	37,135
(Losses)/gains on investments	(142,407)	96,643

Notes to the Accounts

Continued

11. Debtors

	2001 £'000	2000 £'000
Amounts due from brokers	1,626	917
Taxation recoverable	120	86
Prepayments and accrued income	3,269	2,188
Other debtors	2,650	—
	7,665	3,191

12. Creditors: amounts falling due within one year

	2001 £'000	2000 £'000
Amounts due to brokers	199	3,752
Third quarterly interim dividend	3,964	3,874
Special dividend	1,520	—
Fourth quarterly interim dividend	4,298	—
Final dividend	—	4,397
Interest on 6.625 per cent Bonds 2008	1,988	1,988
Interest on 6.25 per cent Bonds 2031	208	—
Interest on Equities Index Unsecured Loan Stock	—	124
Fees due to the Managers	432	214
Other creditors	752	508
	13,361	14,857

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

	2001 £'000	2000 £'000
Equities Index Unsecured Loan Stock 2005	—	18,503
6.625 per cent Bonds 2008	59,590	59,527
6.25 per cent Bonds 2031	59,232	—
Yen loan 2003	24,274	26,601
	143,096	104,631

During the year the Company bought in for cancellation 164,700 units of Equities Index Unsecured Loan Stock for a total consideration of £446,000. On 25 September 2001 the remaining balance of 5,943,203 units was redeemed by the Company at a total cost of £13,291,000.

The Company has in issue £60 million nominal 6.625 per cent Bonds 2008 issued at 99.391 per cent and £60 million nominal 6.25 per cent Bonds 2031 issued at 99.343 per cent. The Bonds have been treated in accordance with FRS 4, which requires any discount or issue costs to be amortised over the life of the Bonds.

The Bonds and Yen loan are secured by floating charges over all the assets of the Company.

14. Share capital

	2001 Shares	2000 Shares	2001 £'000	2000 £'000
Ordinary and Growth				
Authorised at 30 September				
Ordinary Shares of 25p each	460,800,000	399,360,000	115,200	99,840
Growth Shares of 25p each	–	61,440,000	–	15,360
			115,200	115,200
Allotted, called-up and fully paid at 30 September				
Ordinary Shares of 25p each	353,362,282	307,021,212	88,341	76,755
Growth Shares of 25p each	–	53,216,726	–	13,304
			88,341	90,059

During the year the Company bought in for cancellation 3,796,212 Ordinary Shares of 25p each for a total consideration of £5,868,000 representing £949,000 nominal value and 1.18 per cent of the original number of Ordinary Shares in issue following the reorganisation in December 1994. As at 30 September 2001 there were 353,362,282 Ordinary Shares of 25p each in issue.

During the year the Company bought in 6,446,096 Growth Shares of 25p each for a total consideration of £9,662,000 representing £1,611,000 nominal value and 10.49 per cent of the original number of Growth Shares in issue. On 30 September 2001 the remaining balance of 46,770,630 Growth Shares were converted into Ordinary Shares on a one for one basis.

During the year the Company bought in for cancellation 3,821,491 Warrants for a total consideration of £1,774,000. A total of 3,366,652 Warrants were exercised into Ordinary Shares at 101p each during the warrant exercise period from 1 July 2001 to 30 September 2001. As at 30 September 2001 there were no Warrants outstanding.

15. Reserves

	Share premium account £'000	Capital reserve— realised £'000	Capital reserve— unrealised £'000	Capital redemption reserve £'000	Revenue reserve £'000
Opening balance	3,630	252,875	270,676	5,941	19,051
Exchange differences	–	126	2,327	–	–
Equities Index Unsecured Loan Stock units purchased for cancellation	–	(12,001)	12,001	–	–
Net gain on realisation of investments	–	154,339	–	–	–
Decrease in unrealised appreciation on investments	–	–	(296,746)	–	–
Net depreciation of Equities Index Unsecured Loan Stock 2005	–	4,766	–	–	–
Warrants purchased for cancellation	–	(1,774)	–	–	–
Ordinary Shares purchased for cancellation	–	(5,868)	–	949	–
Growth Shares purchased for cancellation	–	(9,662)	–	1,611	–
Investment management fee charged to capital	–	(2,587)	–	–	–
Finance costs charged to capital	–	(2,784)	–	–	–
Taxation credited to capital	–	655	–	–	–
Warrants exercised	2,558	–	–	–	–
Retained net revenue for the year	–	–	–	–	3,994
Closing balance	6,188	378,085	(11,742)	8,501	23,045

Notes to the Accounts

Continued

16. Net asset value per share

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

	Net asset value per share attributable		Net asset values attributable	
	2001 pence	2000 pence	2001 £'000	2000 £'000
Ordinary and Growth Shares (basic)	139.4	178.3	492,418	642,232
Ordinary and Growth Shares (fully diluted)	—	176.8	—	649,492
Ordinary and Growth Shares (FRS 14)	—	177.0	—	642,232

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

	Ordinary Shares (basic) £'000
Total net assets attributable at beginning of year	642,232
Total recognised losses for the year	(120,018)
Dividends appropriated in the year	(17,666)
Ordinary Shares bought back for cancellation	(5,868)
Growth Shares bought back for cancellation	(9,662)
Warrants exercised	3,400
Total net assets attributable at end of year	492,418

Basic net asset value per Ordinary Share is calculated on equity shareholders' funds of £492,418,000 (2000: £642,232,000) divided by the number of Ordinary Shares in issue of 353,362,282 (2000: Ordinary and Growth Shares in issue of 360,237,938) to give 139.4p (2000: 178.3p).

The fully diluted net asset value per Ordinary and Growth Share in respect of the year ended 30 September 2000 is calculated on the same basis as the basic net asset value per share and in addition assumes that all the Warrants that were in issue at 30 September 2000 were exercised at £1.01. This increases equity shareholders' funds to £649,492,000 and is divided by the notional number of shares in issue of 367,426,081 to give 176.8p.

The diluted net asset value per Ordinary and Growth Share in respect of the year ended 30 September 2000, calculated in accordance with Financial Reporting Standard 14, is 177.0p. This is based on equity shareholders' funds of £642,232,000 and on 362,845,624 shares, being the number of Ordinary and Growth Shares in issue at 30 September 2000 plus the notional number of shares that would have been issued for no consideration using a 30 September 2000 year end ordinary share price of 158.50p.

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

	2001 £'000	2000 £'000
Net revenue before finance costs and taxation	24,826	21,719
Stock dividends	—	(31)
(Increase)/decrease in accrued income	(1,115)	886
Increase in other creditors	464	335
Investment management fee charged to capital	(2,587)	(1,702)
Tax on investment income	(335)	(545)
Net cash inflow from operating activities	21,253	20,662

18. Analysis of changes in net debt

	At 1 October 2000 £'000	Cash flow £'000	Other movements £'000	Currency movements £'000	At 30 September 2001 £'000
Cash at bank and on deposit	18,971	49,668	—	126	68,765
Equities Index Unsecured Loan Stock	(18,503)	13,737	4,766	—	—
6.625 per cent Bonds 2008	(59,527)	—	(63)	—	(59,590)
6.25 per cent Bonds 2031	—	(59,231)	(1)	—	(59,232)
Yen loan	(26,601)	—	—	2,327	(24,274)
	(85,660)	4,174	4,702	2,453	(74,331)

19. Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Opening shareholders' funds	642,232	578,057
Total recognised (losses)/gains before dividends	(120,018)	102,924
Dividends in respect of equity shares	(17,666)	(16,035)
Ordinary Shares bought back for cancellation	(5,868)	(16,341)
Growth Shares bought back for cancellation	(9,662)	(6,373)
Warrants exercised	3,400	—
Closing shareholders' funds	492,418	642,232

20. Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and borrowings. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings to achieve improved performance in rising markets. The downside risk of borrowings can be reduced by raising the level of cash balances or fixed interest investments held.

Fixed asset investments held (see note 10) are valued at middle market prices which equate to their fair values. The market value of the Company's Bonds are disclosed in note 22. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS 13, other than for currency disclosures.

Notes to the Accounts

Continued

21. Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out on pages 16 and 17. Derivatives may be used from time to time to hedge specific currency risk or gain an exposure to a specific market.

As at the year end the Company has no exposure by means of derivatives and did not have any exposure during the course of the year.

22. Interest rate and liquidity risk

Floating rate

When the Company retains cash balances the majority of the cash is held in floating rate deposit accounts.

The benchmark rate which determines the interest payments received on cash balances is the bank base rate for the relevant currency for each deposit.

At 30 September 2001, the Company held the following floating rate liabilities:

	2001 £'000	2000 £'000
Equities Index Unsecured Loan Stock 2005	—	18,503

The interest and capital liabilities of the Equities Index Unsecured Loan Stock moved in accordance with movements in the income and capital returns of the FTSE All-Share Index. This exposure was able to be reduced by investing in fixed assets expected to perform in line with the FTSE All-Share Index.

Fixed rate

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

At 30 September 2001:

	2001 £'000	2001 Interest rate	2001 Period until maturity	2000 £'000	2000 Interest rate	2000 Period until maturity
Fixed interest investments:						
UK Treasury 10.00 per cent	—	—	—	33,333	10.00%	2.94 years
Real Estate Opportunities 7.50 per cent CULS	4,664	7.50%	10.66 years	—	—	—
Jemyn Investments 7.25 per cent CULS	—	—	—	2,950	7.25%	7.92 years
Fixed interest liabilities:						
Yen loan 1.26 per cent	24,274	1.26%	1.41 years	26,601	1.26%	2.41 years
6.625 per cent Bonds 2008	59,590	6.625%	6.50 years	59,527	6.625%	7.50 years
6.25 per cent Bonds 2031	59,232	6.25%	29.95 years	—	—	—

As the Bonds are fixed rate, the Company is exposed to changes in market value in the event that the debt is repaid before maturity. This exposure may be reduced by raising the level of fixed interest investments held.

In respect of liquidity risk, the Company's assets comprise primarily realisable securities. Short term flexibility is achieved by retaining cash and where necessary through the use of overdraft facilities.

The market value of the Bonds at 30 September 2001 was £121.2 million (2000 Bonds and Equities Index Unsecured Loan Stock: £78.4 million).

23. Foreign currency risk

The Company invests in overseas securities and holds foreign currency cash balances which give rise to currency risks. It is not the Company's policy to hedge this risk on a continuing basis but it may do so from time to time.

Foreign currency exposure at 30 September 2001:

	2001 Investments £'000	2001 Cash £'000	2000 Investments £'000	2000 Cash £'000
US Dollar	112,222	587	83,813	77
Euro	31,972	—	59,430	—
Swiss Franc	4,797	—	5,454	—
Yen	12,428	23	21,102	42
Hong Kong Dollar	2,856	2	5,325	—
South Korean Won	1,896	—	1,691	—
Singapore Dollar	670	—	1,501	—
Malaysian Dollar	395	—	184	80
Thailand Bhat	55	—	69	—
Total	167,291	612	178,569	199

The Company also has an exposure to Japan by means of a Fixed Rate Yen loan position as detailed in note 22. As at 30 September 2001 the value of the loan was £24,274,000 (2000: £26,601,000).

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 shareholders of British Assets Trust plc

We have audited the accounts on pages 26 to 41 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 29 and 30.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described above, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on pages 23 and 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Audit 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the 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 2001 and of its revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Edinburgh
16 November 2001

Shareholder Information

Profile of the Company's Ownership

% of Ordinary Shares held at 30 September 2001

Friends Ivory & Sime Retail Products 6.3%

Individuals and Private Client Stockbrokers 45.5%

Institutions 48.2%

Total Number of Shareholders*

Ordinary Shares	23,689
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*Held directly on the Share Register and through Friends Ivory & Sime Retail Products.

Annual General Meeting

The Annual General Meeting of British Assets Trust plc will be held at The Sheraton Grand Hotel, 1 Festival Square, Edinburgh on Thursday 20 December 2001 at 12 noon.

Dividends

Ordinary dividends are paid quarterly in April, July, October and January each year. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Lloyds TSB Registrars Scotland, 117 Dundas Street, 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.

Similarly, shareholders who wish to use their dividends to purchase further shares in the Company by participating in the Dividend Reinvestment Plan can complete a mandate form which may be obtained from Lloyds TSB Registrars Scotland at the same address.

Capital Gains Tax

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

Ordinary Shares	23½p
3.15% Preference Stock	29½p
'A' 3.50% Preference Stock	32½p

The undernoted values are to assist shareholders with regard to capital gains tax, following the capital reorganisation in December 1994:

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

Shareholder Information

Continued

Share Prices

The Company's Ordinary Shares 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 Lloyds TSB Registrars 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 Investment Services on 0845 600 6166

Illustrative Financial Calendar 2001/02

20 December 2001	Annual General Meeting
7 January 2002	Fourth interim dividend paid
April 2002	First interim dividend paid
May 2002	Announcement of Interim Results Posting of Interim Report
July 2002	Second interim dividend paid
October 2002	Third interim dividend paid
November 2002	Announcement of Annual Results Posting of Annual Report

Investment Services to Shareholders

ZeroCharge™ investment plans and Isas

Friends Ivory & Sime has a number of cost-effective plans which will allow you to invest in the shares of British Assets Trust without incurring any initial, annual or exit plan charges. All the running costs of the plans are borne by British Assets Trust itself. Cost-effective, tax-efficient and flexible, the ZeroCharge™ investment plans include:

- An Individual Savings Account, for both lump sums and regular savings;
- Pep Transfer Plans where you can transfer your existing Pep investments without affecting their tax status; and
- An Investment Plan, for both lump sums and regular savings.

For more information on any of these plans, please call our Investment Services team on 0845 600 6166 (7 days a week, 24 hours a day) or visit our website www.itszerocharge.co.uk.

Ivory & Sime TrustLink Products

Friends Ivory & Sime also has a range of products available through Ivory & Sime TrustLink which are designed to enable investors to build shareholdings in British Assets Trust. All these products offer a free lifetime guarantee.

Please contact your independent financial adviser for further information on any TrustLink products.

This page has been approved by Friends Ivory & Sime plc which is a member of the Friends Provident Group and is regulated by IMRO. British Assets Trust plc is managed by Friends Ivory & Sime plc. Past performance is not necessarily a guide to future performance. Stockmarkets and currency movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount they originally invested. Where investments are made in emerging markets, unquoted securities or smaller companies, their potential volatility may increase the risk to the value of, and the income from, the investment. All sources Friends Ivory & Sime unless otherwise stated.

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Fourth Annual General Meeting of British Assets Trust Public Limited Company will be held at The Sheraton Grand Hotel, 1 Festival Square, Edinburgh, on Thursday 20 December 2001 at 12 noon for the following purposes:

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

1. That the Report and Accounts for the year ended 30 September 2001 be received.
2. That Dr C Masters, who retires by rotation, be re-elected as a Director.
3. That Sir Malcolm Rifkind, who retires by rotation, be re-elected as a Director.
4. That Ernst & Young LLP be re-appointed as Auditors and the Directors be authorised to determine their remuneration.
5. That the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the 'Act') to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £8,834,057 in substitution for any existing authority under Section 80(2) of the Act but without prejudice to any exercise of any such authority prior to the date hereof such authority to expire on the date of the next Annual General Meeting of the Company after the passing of this resolution but so that such authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

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

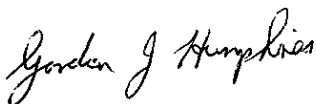
6. That the Directors be and are hereby authorised to allot equity securities (within the meaning of Section 94 of the Companies Act 1985 (the 'Act')) pursuant to the authority conferred by resolution number 5 proposed at the Annual General Meeting of the Company convened for 20 December 2001, as if Section 89 of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue in favour of the holders of equity securities in the Company ('Shares') where the equity securities respectively attributable to the interest of all such shareholders are proportionate (as nearly as may be) to the respective number of Shares held (or deemed or notionally held) by them but subject to such exclusions or other arrangements as the Directors may think fit in relation to fractional entitlements or to deal with problems under the laws, or requirements of, any recognised body or Stock Exchange in any territory; and
 - (b) the allotment (other than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £4,417,028 (5 per cent of the equity share capital in issue on 16 November 2001);

and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may, before such expiry, make any offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

7. That the Company be authorised, in accordance with Section 166 of the Companies Act 1985 (the 'Act'), to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 25p each ('Ordinary Shares'), provided that:
- (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99 per cent of the issued Ordinary Shares on the date on which the resolution is passed;
 - (b) the minimum price which may be paid for an Ordinary Share shall be 25p;
 - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be 105 per cent of the average of the middle market quotations (as derived from the Daily Official List) for the Ordinary Shares for the five business days immediately preceding the date of purchase; and
 - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 December 2002 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2002, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares under such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By Order of the Board

G J Humphries
Secretary



One Charlotte Square
Edinburgh EH2 4DZ
16 November 2001

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 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 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 to attend and vote at the meeting.

No Director has a contract of service with the Company.

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Corporate Information

Directors

William R E Thomson, (Chairman)
James S MacLeod
Dr Christopher Masters
Sir Malcolm Rifkind, KCMG, QC
James G West

Company Secretary

Gordon J Humphries, CA

Assistant Company Secretary

Gordon R Hay Smith, CA

Registered Office

One Charlotte Square
Edinburgh EH2 4DZ
Tel No. 0131-465 1000
Facsimile No. 0131-225 2375

Investment Managers

Friends Ivory & Sime plc
One Charlotte Square
Edinburgh EH2 4DZ

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Brokers

UBS Warburg
One Finsbury Avenue
London EC2M 2PP

Solicitors

Dickson Minto WS
11 Walker Street
Edinburgh EH3 7NE

Bankers

JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

Registrars and Transfer Office

Lloyds TSB Registrars Scotland
117 Dundas Street
Edinburgh EH3 5ED

Registrar's Shareholder Helpline

Tel No. 0870 601 5366

Registrar's Broker Helpline

Tel No. 0906 559 6025

For further information contact Friends Ivory & Sime
Investment Services on 0845 600 6166