

British Assets Trust plc

Annual Report 2003

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The Company

The Company is an investment trust and its shares are listed on the Official List and traded 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.

Total assets at 30 September 2003 were £489.8 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, *inter alia*, the rate of revenue growth within the investment portfolio, and the level of dividend cover.

Management

The Board has appointed ISIS Asset Management 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.

Capital Structure

The Company has a capital structure consisting of Ordinary Shares.

The Company has 6.625 per cent Bonds 2008 and 6.25 per cent Bonds 2031 in issue.

How to Invest

ISIS Asset Management operates a number of ZeroChargeTM investment plans which facilitate investment in the shares of the Company. Details are contained on page 46.

Isa/Pep Status

The Company's shares are eligible for Isas and Pep transfers and can continue to be held in existing Peps.

Website

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

A Member of the Association
of Investment Trust Companies

Financial Highlights

- Net asset value total return of 17.0 per cent compared to a return of 17.5 per cent from the benchmark index
- Dividend yield of 5.4 per cent
- Discount of 5.9 per cent

British Assets Trust Net Asset Value Total Return v Composite Index

Source: ISIS Asset Management and Datastream

Performance Summary

British Assets Trust plc

	30 September 2003	30 September 2002	
Total Return			
Net asset value*†	17.0%	(29.3)%	
Ordinary Share price†	15.7%	(21.2)%	
Composite index†¶	17.5%	(21.5)%	
FTSE All-Share Index†	16.7%	(20.8)%	
FTSE World (ex UK) Index†	20.0%	(23.4)%	
			% change
Capital Values			
Net asset value	104.9p	94.6p	10.9%
Ordinary Share price	98.8p	90.3p	9.4%
Revenue and Dividends			
Earnings per Ordinary Share	4.08p	4.04p	1.0%
Dividends per Ordinary Share	5.326p	5.326p	—
Dividend Yield			
	5.4%	5.9%	
Discount (difference between share price and net asset value)			
	5.9%	4.6%	
Gearing (100 = nil geared position) ‡			
Gearing net of cash	130	137	
Total expense ratio (as percentage of shareholders' funds)			
Management, marketing and other expenses	0.72%	0.75%	
Performance fee	—	0.19%	
	2003 High	2003 Low	
Year's Highs/Lows			
Net asset value	112.5p	80.4p	
Ordinary Share price	105.5p	75.8p	
Discount	2.4%	10.1%	

* Net asset value total return is calculated as the total return attributable to an Ordinary Share.

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

‡ Gearing net of cash: (Total Assets – cash) ÷ Equity Shareholders' Funds.

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

Sources: ISIS Asset Management and Datastream.

Chairman's Statement

W R E Thomson
Chairman

Global stockmarkets recovered slightly in the last quarter of 2002 but fell back at the start of 2003. In January, UK equities recorded their worst performance since 1974, largely due to forced selling by life companies, as they moved to avoid breaching solvency requirements. Concern over the Iraqi conflict also contributed to global stockmarket weakness early in the year and, in March, the FTSE All-Share Index reached its lowest level since May 1995. However, between that low point and the end of the Company's year, the index rose by more than 27 per cent as investors became increasingly confident about the recovery in global demand.

Global stockmarkets were volatile but ended the year higher

After two successive years of decreases in the Company's net asset value, it is pleasing to report an increase for the year ended 30 September 2003. The Company's net asset value total return, with net dividends reinvested, was 17.0 per cent. This compares with a total return of 17.5 per cent from the benchmark index of 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index.

Gearing boosted returns in rising markets but this was offset to a large extent by stock selection, particularly in North America and also in the UK, where quality businesses with good dividend prospects of the type the Company owns generally underperformed as cyclical recovery stocks led the market higher. Regional asset allocation was positive, in particular the Company's overweight position in the Pacific (ex Japan) region. Corporate bonds provided useful income in volatile markets.

The Company's share price total return was 15.7 per cent and the discount of share price to net asset value at the end of the year was 5.9 per cent. The discount, which is lower than that of most global investment trusts, reflects the ongoing support for the Company's investment approach and the attractive dividend yield which, as at 30 September 2003, was 5.4 per cent.

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

Attribution of Return	Percentage points
Market/benchmark return	17.5
Stock selection	
UK equities	-1.2
Overseas equities	-0.9
Regional asset allocation	0.3
Corporate bonds	-0.3
Gearing	2.3
Expenses	-0.7
British Assets Trust total return	17.0

Activity

As explained in more detail below, the Company repaid its Yen loan during the year. This was funded from cash and the sale of corporate bonds. It also increased its exposure to the Pacific (ex Japan) region which is viewed as a potential major beneficiary of any recovery in global demand at a time when domestic demand in many of its economies is increasingly self sustaining. The impact of the SARS virus has waned and valuations across the region's markets are attractive relative to the World's major stockmarkets. The Company's exposure to North America was reduced during the year on the grounds of valuation.

Gearing

At the end of the year the Company's gearing, net of cash, was 29.7 per cent. This is represented by 20.6 per cent of equities and 9.1 per cent of corporate bonds.

Gearing was reduced during the year by the repayment of the Company's Yen loan which had a sterling value of £22.4 million at the time of repayment. The loan had been drawn down under a three year committed revolving credit facility which expired in 2003. The nominal value of the Company's remaining borrowings totals £120 million and comprises two £60 million Bonds, one maturing in 2008 and one in 2031. As shown in the table above, gearing contributed positively to the return for the year. The Board continues to believe that there are good long term prospects for equities which will exceed the cost of financing the borrowings, thereby providing the opportunity for positive returns for shareholders over the life of the Bonds.

Earnings and Dividends

The Company's earnings were 4.08p per Ordinary Share in respect of the year ended 30 September 2003.

At 30 September 2002 the level of dividend cover provided by the Revenue Reserve was 98 per cent. At the Annual General Meeting held on 19 December 2002, shareholders approved the cancellation of the Company's Share Premium Account and Capital Redemption Reserve. Court approval for the cancellation of these reserves was subsequently received and a new special reserve of £14.7 million was created. This is available to the Company for the purpose of paying dividends and buying back shares. As a result, the level of dividend cover provided by the Company's distributable reserves at 30 September 2003 was 153 per cent.

When the Company's capital structure was simplified in 2001, the Board set out as its objectives, the achievement of a total return in excess of the benchmark index and the maintenance of a progressive dividend policy which is dependent upon,

inter alia, the rate of revenue growth within the investment portfolio, and the level of dividend cover.

It is clear that one of the attractions of the Company is its above average dividend yield when compared to similar investment trusts. However, this has to be balanced with the prime objective of maximising total return, that is capital growth plus the dividend yield.

Over the last two years, which have been beset by considerable stockmarket turbulence in addition to low economic growth, the dividend income from companies in which we are invested and from the market in general, has fallen short of original expectations. This has taken the form of, on average, low dividend increases, unchanged dividends and, in some material cases, cut dividends, as companies have attempted to repair their balance sheets. Furthermore, a number of major companies now pay a dividend denominated in US dollars which, with the weakness of the dollar, has reduced the amount received in sterling.

It is not the expectation of the Board that the level of dividend payable by the Company will have to be cut, but, on a prudent basis, we believe the time at which we can increase the dividend will have to be deferred, at least in the short term.

We have run forecasts based on what we believe are conservative assumptions and have taken into account the size of the Company's distributable reserves which are available to fund the part of the annual dividend cost not covered by earnings, our belief that the worst is now behind us in terms of dividend cuts, and our ability to buy in shares for cancellation, which reduces the capital base on which dividends are payable. In light of this we are as confident as we reasonably can be that, short of a major downturn in world economies, we can maintain the current dividend level in the short term and resume increasing this in the medium term.

The Board therefore recommends a final dividend of 1.414p per Ordinary Share payable on 9 January 2004

Chairman's Statement

Continued

to shareholders on the register on 12 December 2003. This brings the total dividend for the year to 5.326p per Ordinary Share, unchanged from the previous year.

We will naturally keep shareholders abreast of the situation as events unfold.

Marketing

During the year the Board continued to place importance on retail initiatives to create demand for the Company's shares through the ZeroCharge™ Individual Savings Accounts (Isas) and Investment Plans. Marketing conditions were very difficult during the year as investors remained cautious. However, the Board is encouraged by the continuing demand for the Company's shares, and will continue to place emphasis on marketing through the ZeroCharge™ products, to private client stockbrokers and directly to private investors and their intermediaries.

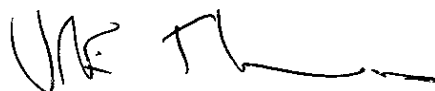
Share Buy-Backs

The Company did not buy back any shares during the year. However, the Board remains of the view that it is

important to have a share buy-back facility in place. It is therefore 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 Annual General Meeting. Further details are set out in the Report of the Directors.

Outlook

Whilst the sustainability of the current recovery in global demand is still uncertain, for now economic and corporate earnings news is likely to remain positive. This should bode well for the Company's equity investments.



W R E Thomson

Chairman

14 November 2003

Investment Managers and Investment Process

British Assets Trust plc

Julie Dent

Investment Manager

Julie Dent joined ISIS Asset Management in 1986 and was appointed Investment Manager of British Assets Trust on 1 October 2001. She is Director, Global Equities of ISIS Asset Management and has over 17 years' experience in managing international equities.

Gordon Hay Smith

Company Secretary

Gordon Hay Smith, a chartered accountant, joined ISIS Asset Management in 2001 and was appointed Company Secretary of British Assets Trust in January 2003.

Investment Managers

ISIS Asset Management is a global investment management business and its shares are listed on the Official List and traded on the London Stock Exchange.

With some £62 billion of assets under management as at 30 September 2003, ISIS Asset Management 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 nineteen 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 regional asset allocation, with reference to the Company's investment objective, coupled with active stock selection in the regional sub-portfolios. The majority of the Company's investment portfolio is invested in securities traded on the London Stock Exchange.

Manager's Review

Introduction

In the year to 30 September 2003, the Company's net asset value (total return, net dividends reinvested) rose by 17.0 per cent, compared to an increase of 17.5 per cent for its composite benchmark index (75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index). The Company's share price total return was 15.7 per cent. Gearing boosted returns over the year but it was a difficult time for stock selection as cyclical recovery stocks, rather than quality growth businesses with decent dividends, led the stockmarket recovery.

After two years of negative returns, global stockmarkets recovered in the year to 30 September 2003. However it was a volatile period as investor sentiment fluctuated wildly. The early part of the year was particularly difficult as uncertainty ahead of the Iraq war and little by way of positive news on global demand took their toll. Global stockmarkets fared better in the second half of the year as the quick end to the Iraq conflict coupled with improving economic and corporate newsflow boosted investor confidence.

We believe that the global economy is on the road to recovery and reflation, but it is a decidedly different road than that usually travelled during economic upswings over the past forty years. With sluggish underlying demand growth the order of the day, activist policy intervention increases the risk that the economic cycle becomes shorter and sharper.

We expect a strong second half of 2003 for the US consumer thanks to the latest tax cuts, but the sustainability of any acceleration in consumer spending growth still depends upon demand for credit and the prospects for labour income growth. Neither

of these gives us reason for optimism that a strong second half for 2003 will be sustained through 2004. Indeed, we remain relatively downbeat on the US consumer on a medium-term time frame for two main reasons. First, the already stretched nature of household debt ratios, limiting further credit expansion; and second, the general lack of pent-up demand, which sees spending on durable consumer goods already considerably above the long-run trend. Both of these restraints place the consumer sector in quite the opposite position to that which is normally seen at the start of an upswing. A similar backdrop is unfolding in the UK. The uplift provided to UK household finances by declining interest rates, a booming housing market and a tight labour market is now fading – this should deliver a much more cautious consumer over the coming two years.

In Euroland and Japan, such 'excesses' generally do not exist – there are different problems. Euroland consumers should benefit from ongoing disinflation and a stronger currency, providing an uplift to real wage growth. In Japan, domestic credit has been contracting for the past six years – and we see no particular reason why this should change in the near term. In that regard, the Japanese cycle should continue to reflect global trends.

During the year we reduced our exposure to North America and added to our investments in the Pacific (ex Japan) region, reflecting the improving growth prospects and more attractive valuations for the latter region.

At 30 September 2003 the Company had gearing net of cash of 29.7 per cent (including 9.1 per cent invested in corporate bonds) and potential gearing of 32.1 per cent.

Asset Allocation

The asset allocation of the Company by asset class and region is shown in the table below:

Asset Class	30 September 2002			30 September 2003	
	Benchmark 30.09.03 %	Net Share- holders Funds %	Total Assets* %	Net Share- holders Funds %	Total Assets %
UK Equities	75.0	91.4	64.2	86.4	65.4
Overseas Equities					
– North America	15.9	20.3	14.4	16.4	12.4
– Europe (ex UK)	4.8	7.3	5.1	8.7	6.6
– Japan	2.5	3.2	2.3	3.2	2.4
– Pacific (ex Japan)	1.8	3.2	2.2	5.9	4.5
Total Overseas Equities	25.0	34.0	24.0	34.2	25.9
Total Equities	100.0	125.4	88.2	120.6	91.3
Corporate Bonds	–	10.4	7.3	9.1	6.9
Convertible Securities	–	1.0	0.7	–	–
Liquidity	–	–	3.8	–	1.8
Actual Gearing	–	(36.8)	–	(29.7)	–
Total	100.0	100.0	100.0	100.0	100.0
Potential Gearing	–	(42.2)	–	(32.1)	–

*Prior to deduction of Yen loan

The table below shows the equity weightings by sector in the benchmark and the portfolio as at 30 September 2003:

FTSE Sector	Benchmark %	Total Equities %	UK Equities %	Overseas Equities %
Resources	13.3	12.2	10.1	2.1
Basic Industries	3.8	3.2	1.8	1.4
General Industrials	3.9	6.6	2.8	3.8
Cyclical Consumer Goods	1.2	1.0	0.2	0.8
Non-Cyclical Consumer Goods	18.7	16.9	13.0	3.9
Cyclical Services	14.0	15.7	12.3	3.4
Non-Cyclical Services	10.0	9.8	7.9	1.9
Utilities	3.6	4.7	4.3	0.4
Information Technology	4.0	3.8	0.3	3.5
Financials	27.5	26.1	18.9	7.2
Total	100.0	100.0	71.6	28.4

During the year we continued to shift in favour of cyclical sectors and away from defensive areas. The net result of this was that we ended the year overweight in general industrials and cyclical services.

Manager's Review

Continued

Sub-Portfolio Reports

UK – Major Holdings

Company	Description	Market Value £m	% Total Investments
GlaxoSmithKline	Pharmaceuticals	23.7	4.9
BP	Integrated Oil	22.6	4.7
HSBC Holdings	Banks	22.1	4.6
Vodafone Group	Telecommunications	21.7	4.5
Shell Transport & Trading	Integrated Oil	14.9	3.1
Royal Bank of Scotland Group	Banks	12.5	2.6
AstraZeneca	Pharmaceuticals	10.0	2.1
Barclays	Banks	8.6	1.8
Lloyds TSB Group	Banks	8.0	1.7
HBOS	Banks	7.4	1.5

The UK portfolio underperformed the FTSE All-Share Index by 2.0 percentage points over the year.

The UK equity market as measured by the FTSE All-Share Index advanced 16.7 per cent. Small and medium sized companies outperformed large companies by a significant amount, with the FTSE 100 Index registering a gain of just 14.0 per cent compared with 31.7 per cent for the FTSE Mid 250 and 36.4 per cent for the FTSE SmallCap (ex Investment Companies) Index. Technology and telecommunication stocks led the rally. Mining, construction and engineering sectors also performed well. Defensive sectors, which remain important in terms of their dividend contribution to the Company, underperformed.

The UK equity portfolio provides roughly two-thirds of the Company's income. Dividends in the UK have

been under pressure in the past three years as companies have suffered from weak global demand. Falling stockmarkets have inflicted pain, particularly in the financial sector, which accounts for 32.7 per cent of all dividends paid in the UK. As distressed businesses have been forced to restructure and repay debt we have seen some particularly painful dividend cuts from the likes of British Telecom, Abbey National and Aviva.

After a difficult couple of years the worst should now be behind us in terms of dividend cuts. However, it would be unwise to be too optimistic about the prospects for dividend growth next year. Dividend cover is improving but companies will wish to see further improvements as they continue to concentrate on rebuilding balance sheets. As such, we would expect dividend growth to lag earnings growth next year.

Overseas

North America – Major Holdings

Company	Description	Market Value £m	% Total Investments
Citigroup	Banks	2.9	0.6
Microsoft	Information Technology	2.2	0.5
General Electric	Electricals	2.1	0.4
American Express	Speciality & Other Finance	2.0	0.4
Exxon Mobil	Integrated Oil	1.8	0.4

The North America portfolio underperformed the FTSE North America Index by 7.0 percentage points over the year.

The North American markets had a good year with the FTSE North American Index 18.4 per cent higher in sterling terms. Dollar weakness eroded returns for sterling based investors with the Index some 25.1 per cent higher in dollar terms. Small and medium-sized stocks led the rally as investors' appetite for risk returned. At a sector level, those sectors most geared to an economic recovery enjoyed the largest gains. Technology, and e-commerce stocks in particular, rose strongly with the Nasdaq Composite Index increasing 44.3 per cent in sterling terms.

The economic and corporate newsflow has seen a steady improvement throughout the year. This together

with further interest rate cuts from the Federal Reserve and tax cuts from the Bush administration have boosted investor confidence, allowing stockmarkets to recover.

GDP growth is set to be stronger than expected in the second half of 2003. Consumer spending has remained strong, boosted by the cash flow from record refinancing of home mortgages and by the reduction in income tax rates in July. Given the low level of inflation, there is not likely to be any pressure for the Federal Reserve to tighten interest rates in the foreseeable future.

The dollar has depreciated steadily during the year, most notably against the Euro. With the US Presidential election due in 2004, the Bush administration is now actively embracing a weak dollar policy in order to boost economic and employment growth.

Manager's Review

Continued

Europe (ex UK) – Major Holdings

Company	Description	Market Value £m	% Total Investments
Royal Dutch Petroleum	Oil & Gas	1.5	0.3
Novartis	Pharmaceuticals	1.4	0.3
Total Fina	Oil & Gas	1.3	0.3
Credit Suisse	Banks	1.1	0.2
Siemens	Electronic & Electrical Equipment	1.0	0.2

The Europe (ex UK) portfolio outperformed the FTSE Europe (ex UK) Index by 3.6 percentage points over the year. The emphasis on medium sized companies was positive.

The European markets delivered strong returns over the twelve months to 30 September 2003. The FTSE Europe (ex UK) Index advanced by 26.6 per cent in sterling terms reflecting both the improving outlook for global demand and the sharp appreciation in the Euro which benefited sterling based investors.

The Euroland region has seen little or no growth this year. However, there are a number of tangible reasons to become more cheerful. Firstly, German fiscal policy is about to get more supportive for the medium-term outlook. From January next year, fiscal easing of more than Euro 20 billion should provide a considerable boost to activity, mostly through a reduction in income tax rates. Second, the stimulus provided by European Central Bank interest rate cuts should benefit economic activity more meaningfully

from 2004. In the past, the lag between changes in interest rates and their impact on economic results has been about one year. Over the past year, European Central Bank interest rates have been cut from 3.25 per cent to their current level of 2.0 per cent. Third, the benefit to the consumer from Euroland disinflation should be considerable. In the past, personal consumption has risen in periods following inflation declines.

In addition to these beneficial cyclical elements, there have been further structural developments that augur well for the region. First, a reduction in union power in Germany is reflected in the increasing trend towards employers negotiating with the unions on a company-by-company basis. In France we have seen an improved rating in opinion polls for the Prime Minister after the government successfully resisted strike action and carried through pension reform. In Italy, the top rate of corporation tax is set to fall from 36 per cent to 33 per cent.

Japan – Major Holdings

Company	Description	Market Value £m	% Total Investments
NTT Domoco	Communications	0.7	0.1
Toyota Motor	Automobiles & Parts	0.5	0.1
Mitsubishi Tokyo Finance	Banks	0.5	0.1
Lawson	Retail	0.4	0.1
Bridgestone	Rubber Products	0.4	0.1

The Japan portfolio underperformed the FTSE Japan Index by 4.0 percentage points over the year.

The FTSE Japan Index registered a 13.5 per cent rise in sterling terms over the year. Growth prospects are *once again improving in Japan on the back of a more supportive external picture.*

Private sector domestic demand is recovering and there is some evidence that whilst prices are still falling, deflation has bottomed out. Any real change in the deflation mindset should boost confidence and encourage investment and consumption. Corporate profitability is improving thanks to restructuring efforts. Free cash flow stands at record levels and companies are executing share buybacks at a record pace.

Export growth should accelerate over the coming year, with some favourable pass-through to the domestic economy, but confirmation that meaningful structural changes are happening is necessary for self-sustaining domestic demand growth in the medium-term. *The absence of domestic reform, the need of the banking sector to recognise and address its long-running bad debt problems, the very high personal sector savings rate and low rate of credit have all contributed to Japan's economic decline over the past decade. The government is trying to address these problems but the pace of change remains painfully slow.*

Manager's Review

Continued

Pacific (ex Japan) – Major Holdings

Company	Description	Market Value £m	% Total Investments
Samsung Electric	Electronics & Electrical Equipment	1.7	0.4
Dah Sing Financial	Banks	1.0	0.2
Siam Cement	Construction & Building Materials	1.0	0.2
Cheung Kong Holdings	Real Estate	1.0	0.2
Formosa Growth Fund	Investment Company	0.9	0.2

The Pacific (ex Japan) portfolio underperformed the MSCI All Countries Pacific Free (ex Japan) Index by 5.8 percentage points over the year.

It is five years since the Asian financial crisis. At the time Asia paid for the capital outflows by devaluing currencies and suffering a collapse in domestic demand. In subsequent years it has needed lower debt, lower investment, higher capacity utilisation, enhanced profitability and bank recapitalisations.

Asian policy makers have continued to follow an export-led model, partly out of habit and partly out of conviction that growth can only come from exporting. However, Asia does not have to follow this path. Asian central banks could abandon their mercantilist policies and adopt a policy of domestic demand led growth.

Asian consumers have excess savings and huge pent-up potential to consume.

As the era of the US consumer as the key driver of global demand draws to a close, the potential for spending within Asia will grow in importance. Positive demographic trends, a high savings rate, rising incomes per capita and last but not least, a cultural change in attitude to spending as a younger generation prove far less conservative than their frugal parents, all point towards this. Importantly, this time around, China, not America is driving the rebound in exports across Asia. We have seen rising demand from China both as a manufacturing and processing centre and as an important end user. As urban wealth increases in China there will be a growing market for consumer goods and a boom in mainland tourists visiting the rest of the region.

Corporate Bonds

Corporate bonds comfortably outperformed their conventional gilt counterparts, as the Merrill Lynch All Sterling Non-Gilts Index registered a gain of 6.1 per cent. Corporate bond spreads continued to tighten, as the easing of global tensions post the war in Iraq and a more positive tone to equity markets on the back of some better than expected company announcements led to investors regaining their appetite for risk. As a result, market performance was predominantly driven by the lower-rated corporate bonds.

High yield bonds also benefited from investors' increased appetite for risk, and the Merrill Lynch European High Yield Index (in sterling terms) was able to register a gain of 42.0 per cent over the period.

Initial gains in investment grade corporate bonds were driven largely by the strength in government bond markets, which rallied as ongoing geopolitical tensions, equity market turmoil and disappointing global economic data meant that investors were seen to favour more 'safe-haven' assets. In addition, the market was supported by strong institutional demand, as pension and life assurance companies switched out of sharply declining equity markets.

The outlook for corporate bond markets looks relatively benign. An environment of low interest rates has enabled many companies to get rid of their short-term debt obligations and replace them with longer-dated debt. This has helped relieve the liquidity pressure on companies with large debt burdens. In addition, the less volatile but positive growth environment has reduced the risk of insolvencies.

Overall Outlook

Whilst further progress in financial markets in the year ahead will require confirmation that the upswing in global demand can continue, we believe that near term, the positive newsflow will persist. As such we intend to run with our pretty much fully invested position to gain the maximum benefit from our gearing.

In terms of regional asset allocation we continue to shift the focus towards the Pacific region. We have already made a substantial shift into the Asian markets and we are watching developments closely in Japan. We still need further evidence that Japan is emerging from its post-bubble problems. Two key questions remain – will deflation end and will the bank bad debt problems finally be resolved? Japan could prove to be an interesting market for investment in the year ahead.

Elsewhere, we remain comfortable with our investments in Europe. Valuations are reasonable, economic newsflow is improving, the Euro is well supported and the stockmarkets of the region generally perform well when cyclical demand is improving. The UK stockmarket, whilst reasonably valued continues to disappoint. Rising interest rates and the possibility of further tax increases ahead lead us to the view that we can remain underweight.

Julie Dent

Investment Manager
ISIS Asset Management plc

14 November 2003

Investment Portfolio

Company	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 2002–2003*	Country of Incorporation
GlaxoSmithKline A global manufacturer and marketer of pharmaceutical products.	23,694	4.9	4.7	2.6	UK
BP BP is one of the world's largest integrated oil and gas companies.	22,603	4.7	5.3	(0.6)	UK
HSBC Holdings HSBC provides a comprehensive range of banking and related financial services on a global basis.	22,115	4.6	5.9	14.1	UK
Vodafone Group Vodafone is the largest global provider of mobile telecommunication services.	21,695	4.5	1.9	15.0	UK
Shell Transport & Trading The company holds a 40 per cent stake in one of the world's largest integrated oil and gas companies.	14,923	3.1	3.8	3.3	UK
Royal Bank of Scotland Group Royal Bank of Scotland provides a range of banking, insurance and other financial services.	12,531	2.6	2.3	14.9	UK
AstraZeneca The company is involved in the research, manufacture and sale of pharmaceuticals and agrochemicals.	10,019	2.1	1.1	3.6	UK
Barclays Barclays provides banking and other financial services to both retail and business markets.	8,609	1.8	2.2	10.6	UK
Lloyds TSB Group The group provides retail and commercial banking services through its branch network and offices in the UK and overseas.	8,015	1.7	4.1	0.0	UK
HBOS HBOS has a leading share of the UK mortgage market. The group also provides a wide range of banking and insurance services.	7,424	1.5	2.1	4.9	UK
Ten largest equity investments	151,628	31.5	33.4		

* British Assets Trust's financial years to 30 September 2002 and 2003.

Company	Nature of Business	Valuation £'000	% of Total Investments	% of Portfolio Income	Country of Incorporation
Diageo	Beverages	6,753	1.4	1.7	UK
BT Group	Telecommunications	6,458	1.3	1.5	UK
Tesco	Food & Drug Retailer	5,656	1.2	0.9	UK
Aviva	Life Assurance	5,062	1.1	1.6	UK
British American Tobacco	Tobacco	5,007	1.0	1.7	UK
Unilever	Food Producers & Processors	4,898	1.0	1.0	UK
Anglo American	Mining	4,158	0.9	0.7	UK
Standard Life European Private Equity Trust	Investment Company	4,100	0.9	0.4	UK
Boots	General Retailers	4,001	0.8	1.1	UK
Prudential	Life Assurance	3,806	0.8	1.2	UK
Twenty largest equity investments		201,527	41.9	45.2	
National Grid Transco	Electricity	3,726	0.8	1.0	UK
Kelda Group	Water	3,528	0.7	1.4	UK
Scottish & Southern	Electricity	3,360	0.7	1.2	UK
Standard Chartered	Banks	3,300	0.7	0.7	UK
BAA	Transport	3,195	0.7	0.8	UK
National Express Group	Transport	3,178	0.7	0.8	UK
Smiths Group	Aerospace & Defence	3,052	0.6	0.7	UK
GUS	General Retailers	3,011	0.6	0.7	UK
Marks & Spencer	General Retailers	2,913	0.6	0.7	UK
Citigroup	Banks	2,911	0.6	0.4	USA
Thirty largest equity investments		233,701	48.6	53.6	
Reckitt Benckiser	Personal Care & Household Products	2,699	0.6	0.4	UK
BOC Group	Chemicals	2,697	0.5	0.8	UK
Rexam	Support Services	2,660	0.5	0.7	UK
Enterprise Inns	Support Services	2,470	0.5	0.2	UK
Bunzl	Support Services	2,416	0.5	0.4	UK
United Utilities	Water	2,392	0.5	1.5	UK
Wolseley	Construction & Building Materials	2,311	0.5	0.7	UK
Centrica	Utilities	2,293	0.5	0.3	UK
Exel	Transport	2,262	0.5	0.5	UK
Pearson	Media & Entertainment	2,247	0.5	0.7	UK
Forty largest equity investments		258,148	53.7	59.8	
William Hill	Leisure & Hotels	2,232	0.5	0.4	UK
Microsoft	Information Technology	2,204	0.5	0.1	USA
Rio Tinto	Mining	2,139	0.5	0.4	UK
BPB	Construction & Building Materials	2,128	0.5	0.6	UK
BAE Systems	Aerospace & Defence	2,126	0.4	0.7	UK
Shaftsbury	Real Estate	2,060	0.4	0.2	UK
General Electric	Electricals	2,055	0.4	0.3	USA
American Express	Speciality & Other Finance	2,042	0.4	0.1	USA
Abbey National	Banks	2,039	0.4	0.4	UK
BBA Group	Transport	2,025	0.4	0.5	UK
Fifty largest equity investments		279,198	58.1	63.5	
Other equity investments (180)		167,983	34.9	20.7	
Corporate bonds (163)		33,677	7.0	15.8	
Total investments		480,858	100.0	100.0	

Classification of Investments

	United Kingdom £'000	North America £'000	Europe (ex UK) £'000	Japan £'000	Pacific (ex Japan) £'000	2003 Total £'000
Sector Weighting						
Resources	45,045	4,518	3,447	—	1,404	54,414
Basic Industries	8,139	1,554	1,388	1,230	1,920	14,231
General Industrials	12,538	6,676	2,632	2,952	4,609	29,407
Cyclical Consumer Goods	814	1,016	921	1,567	364	4,682
Non-Cyclical Consumer Goods	57,980	12,020	4,092	797	512	75,401
Cyclical Services	55,230	10,638	1,069	1,061	2,298	70,296
Non-Cyclical Services	35,173	2,093	3,307	1,119	2,397	44,089
Utilities	19,347	—	701	468	431	20,947
Information Technology	1,318	10,360	3,902	630	751	16,961
Financials	84,794	12,018	10,858	1,867	7,216	116,753
Total	320,378	60,893	32,317	11,691	21,902	447,181
Corporate Bond Portfolio	14,154	3,452	16,071	—	—	33,677
Total Investments	334,532	64,345	48,388	11,691	21,902	480,858
% of Total Investments	69.5	13.4	10.1	2.4	4.6	100.0

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

The Company's capital structure consists of 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 2003 there were 353,362,282 Ordinary Shares of 25p each in issue (2002: same).

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 are distributed by way of interim or final dividends among the holders of the Ordinary Shares.

Capital Entitlement

On a winding up, after meeting the liabilities of the Company the surplus assets will 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
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	5.326p#
2002	475,398¶	334,309	94.6p	90.3p	4.6%	4.04p	5.326p
2003	489,802	370,823	104.9p	98.8p	5.9%	4.08p	5.326p

† 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.

#Excludes special dividend of 0.5p per Ordinary Share.

Board of Directors

William Thomson

Chairman

age 63, was appointed a Director in 1974 and Chairman in 1995. He is also chairman of E. G. Thomson (Holdings) Ltd and John Menzies plc and is a director of Fidelity Japanese Values plc and Dobbies Garden Centres plc.

James MacLeod

age 62, was appointed in 1998 and was a partner of Ernst & Young (and its predecessor firms) for 25 years until his retirement in 1998. He is chairman of Collective Assets Trust plc and Martin Currie High Income Trust plc and is a director of Invesco Geared Opportunities Trust plc. He is a Chartered Accountant and Chairman of the Audit Committee.

Dr Christopher Masters

age 56, was appointed in 1990 and was, until April 2002, executive chairman of Aggreko plc. He is currently chairman of Babtie Group Ltd, Voxar Ltd, the Festival City Theatres Trust and the Scottish Higher Education Funding Council. He is also a non-executive director of John Wood Group plc and The Alliance Trust plc.

Sir Malcolm Rifkind

age 57, was appointed in 1998 and was formerly Foreign Secretary and Secretary of State for Defence. He is also a director of Aberdeen Asset Management plc, Ramco Energy plc and F & C Emerging Markets Investment Trust plc.

James West

age 56, 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 Trust plc and Intrinsic Value plc. He is also a director of Aberdeen New Dawn Investment Trust plc, Candover Investments plc, Shires Smaller Companies plc and UK Select Trust plc.

Report of the Directors

British Assets Trust plc

Results and Dividends

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 2003.

	£'000
Revenue available for dividends	14,407
Dividends on Ordinary Shares:	
First quarterly interim dividend of 1.304p per share paid on 11 April 2003	(4,608)
Second quarterly interim dividend of 1.304p per share paid on 11 July 2003	(4,608)
Third quarterly interim dividend of 1.304p per share paid on 10 October 2003	(4,608)
Proposed final dividend of 1.414p per share payable on 9 January 2004 to ordinary shareholders on the register at close of business on 12 December 2003	(4,997)
Transferred from revenue reserve	(4,414)

Principal Activity and Status

The Company is registered as a Public Limited Company in terms of the Companies Act 1985 and is 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 2002. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

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

Charitable Donations

During the year the Company made donations to various local charities totalling £8,500 (2002 – £8,500).

Directors

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

The Directors who held office during the year and their interests in the shares of the Company as at 30 September 2003 were:

		Ordinary Shares	Ordinary Shares
		2003	2002
W R E Thomson	Beneficial	9,600	9,600
J S MacLeod	Beneficial	10,000	10,000
	Non-Beneficial	9,500	9,500
Dr C Masters	Beneficial	17,087	16,174
Sir Malcolm Rifkind	Beneficial	4,000	4,000
J G West	Beneficial	12,000	12,000

Report of the Directors

Continued

There has been no change in the holdings of the Directors between 30 September 2003 and 14 November 2003 other than as a result of the quarterly reinvestment of dividends.

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

Substantial Interests in Share Capital

At 14 November 2003 the following holdings representing more than 3 per cent of the Company's issued share capital had been reported:

	Number of Ordinary Shares Held	Percentage Held
AXA Investment Managers	42,359,698	12.0
Friends Provident Group*	38,068,781	10.8
Legal & General Group	12,731,350	3.6

*Includes discretionary retail products.

Management and Management Fees

ISIS Asset Management plc provides management and secretarial services to the Company. A summary of the contract between the Company and ISIS Asset Management plc in respect of management services provided is given in Note 3 to the accounts.

Since the end of the year, the Management Engagement and Remuneration Committee has reviewed the appropriateness of the Managers' appointment. In carrying out its review the Committee considered the past investment performance of the Company and the capability and resources of the Managers to deliver satisfactory investment performance. It also considered the length of the notice period of the investment management contract and the fees payable to the Managers, together with the standard of other services provided which include company secretarial, accounting and marketing.

Following this review, it is the Directors' opinion that the continuing appointment of the Managers on the terms agreed is in the interests of shareholders as a whole.

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. The Company complies with the Combined Code on Corporate Governance ('the Code'), issued by the Hampel Committee on Corporate Governance in 1998, except as disclosed in the following paragraph. Since all the Directors are non-executive, the Company is not required to comply with the principles of the Code in respect of Directors' remuneration.

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 Engagement and Remuneration Committee and, save for Mr W R E Thomson, an Audit Committee. The Audit Committee reviews the Annual Report and Accounts and the terms of appointment of the auditors together with their remuneration. It also provides a forum through which the auditors may report to the Board of Directors. It meets twice yearly. The Management Engagement and Remuneration Committee reviews the appropriateness of the Managers' appointment together with the terms and conditions thereof on a regular basis. A management agreement between the Company and its Managers, ISIS Asset Management 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. All shareholdings are voted at all meetings worldwide where practicable, in accordance with the Managers' own corporate governance policy.

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.

The Board has considered the provisions of the new Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the new Code') which is effective for reporting years beginning on or after 1 November 2003. It is the Board's intention to apply the provisions of the new Code, as far as practicable, during the year ended 30 September 2004 to enable it to make a disclosure statement in relation to the new Code in the Company's 2004 Annual Report.

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 regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, 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 financial year and up to the date of approval of the Annual Report 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.

Report of the Directors

Continued

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 Allot Shares

The Directors are seeking authority to allot shares. Resolution 6 will, if passed, 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 14 November 2003. Resolution 7 will, if passed, 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 14 November 2003, 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 2004. The Directors will only allot new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would result in a dilution of net asset value per share.

Directors' Authority to Buy Back Shares

The Company did not purchase any shares for cancellation during the year.

The current authority of the Company to make market purchases of up to 14.99 per cent of the issued Ordinary Shares expires at the end of the Annual General Meeting and Resolution 8, as set out in the notice of the Annual General Meeting, seeks renewal of such authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99 per cent of the issued Ordinary Shares of the Company as at the date of the passing of the resolution (approximately 53 million Ordinary Shares). 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 middle 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 purchase would *result in an increase in net asset value per share and be in the interests of the shareholders as a whole*. Any shares purchased 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

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

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.

Investment Policy

Whilst the Company may from time to time hold shares in other listed investment companies (including investment trusts), it is a stated investment policy of the Company that it will not invest more than 15 per cent of its gross assets in other listed investment companies (including investment trusts).

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 R Hay Smith
Secretary

A handwritten signature in black ink, appearing to read 'G R Hay Smith', written over a horizontal line.

80 George Street
Edinburgh EH2 3BU
14 November 2003

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to this financial year. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 42 and 43.

The Board consists solely of independent non-executive Directors and considers, at least annually, the level of the Directors' fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

The Management Engagement and Remuneration Committee comprises W R E Thomson, J S MacLeod, Dr C Masters, Sir Malcolm Rifkind and J G West. As the Company has no executive directors the Committee meets, at least annually, to determine the remuneration and terms of appointment of the Managers.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment trusts that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the *Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs.* It is intended that this policy will continue for the year ending 30 September 2004 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £120,000 in aggregate per annum and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' Service Contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

Director	Date of Appointment	Due date for Re-election
W R E Thomson	1/7/1974	AGM 2003
J S MacLeod	17/12/1998	AGM 2005
Dr C Masters	22/2/1990	AGM 2004
Sir Malcolm Rifkind	2/4/1998	AGM 2004
J G West	22/6/1995	AGM 2005

The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first annual general meeting after their appointment. Directors are obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Managers through the investment management agreement, as referred to in the Report of the Directors on page 22. The graph below compares, for the five financial years ended 30 September 2003, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which a composite index, weighted as to 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index, is calculated. This composite index was chosen as it represents a comparable broad equity market index. An explanation of the performance of the Company for the year ended 30 September 2003 is given in the Chairman's Statement and Manager's Review.

Share Price Total Return and Composite Index Total Return Performance Graph

Directors' Emoluments for the Year (audited)

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

	2003 £	2002 £
W R E Thomson	22,813	22,062
J S MacLeod	14,875	14,375
Dr C Masters	14,875	14,375
Sir Malcolm Rifkind	14,875	14,375
J G West	14,875	14,375
Total	82,313	79,562

On behalf of the Board



W R E Thomson

Director

14 November 2003

Statement of Total Return

(Incorporating the Revenue Account*) For the year ended 30 September 2003

	Notes	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Gains/(losses) on investments	9	–	48,491	48,491	–	(147,328)	(147,328)
Exchange differences	14	–	(377)	(377)	–	1,825	1,825
Income	2	17,943	–	17,943	18,408	–	18,408
Investment management fee	3	(413)	(1,240)	(1,653)	(563)	(2,456)	(3,019)
Other expenses	4	(870)	–	(870)	(832)	–	(832)
Net return before finance costs and taxation		16,660	46,874	63,534	17,013	(147,959)	(130,946)
Finance costs	5	(1,983)	(5,946)	(7,929)	(2,026)	(6,077)	(8,103)
Return on ordinary activities before taxation		14,677	40,928	55,605	14,987	(154,036)	(139,049)
Tax on ordinary activities	6	(270)	–	(270)	(710)	441	(269)
Return attributable to equity shareholders		14,407	40,928	55,335	14,277	(153,595)	(139,318)
Dividends in respect of equity shares	7	(18,821)	–	(18,821)	(18,791)	–	(18,791)
Transfer (from)/to reserves	14	(4,414)	40,928	36,514	(4,514)	(153,595)	(158,109)
Return per Ordinary Share	8	4.08p	11.58p	15.66p	4.04p	(43.47)p	(39.43)p

* 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 2003

British Assets Trust plc

	Notes	2003 £'000	2002 £'000
Fixed assets			
<i>Investments</i>	9	480,858	457,471
Current assets			
Debtors	10	5,660	5,865
Cash at bank and on deposit		15,388	23,333
		21,048	29,198
Creditors: amounts falling due within one year	11	(12,104)	(33,470)
Net current assets/(liabilities)		8,944	(4,272)
Total assets less current liabilities		489,802	453,199
Creditors: amounts falling due after more than one year	12	(118,979)	(118,890)
Net assets		370,823	334,309
Capital and reserves			
Called-up share capital	13	88,341	88,341
Share premium account	14	—	6,188
Special reserve	14	476	—
Other reserves:			
Capital reserve – realised	14	287,017	339,189
Capital reserve – unrealised	14	(33,341)	(126,441)
Capital redemption reserve	14	—	8,501
Revenue reserve	14	28,330	18,531
Equity shareholders' funds	15	370,823	334,309
Net asset value per share	16	104.9p	94.6p

The accounts on pages 28 to 41 were approved by the Board of Directors on 14 November 2003 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 2003

	Notes	2003 £'000	2002 £'000
Operating activities			
Investment income received		17,475	16,190
Deposit interest received		702	1,197
Option premium received		33	—
Underwriting commission received		4	—
Investment management fees paid		(1,653)	(3,451)
Other cash payments		(954)	(982)
Net cash inflow from operating activities	17	15,607	12,954
Servicing of finance			
Interest on Yen loan		(120)	(287)
Interest on 6.625 per cent Bonds 2008		(3,975)	(5,963)
Interest on 6.25 per cent Bonds 2031		(3,750)	(3,750)
Net cash outflow from servicing of finance		(7,845)	(10,000)
Taxation			
Tax recovered		58	111
Capital expenditure and financial investment			
Purchases of investments		(150,533)	(216,094)
Disposals of investments		176,809	183,690
Net cash inflow/(outflow) from capital expenditure and financial investment		26,276	(32,404)
Equity dividends paid		(18,821)	(18,968)
Net cash inflow/(outflow) before financing		15,275	(48,307)
Financing			
Issue of Ordinary Shares from exercise of Warrants		—	2,650
Yen loan repaid		(22,429)	—
Costs in relation to issue of 6.25 per cent Bonds 2031		—	(21)
Net cash (outflow)/inflow from financing		(22,429)	2,629
Decrease in cash	18	(7,154)	(45,678)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the year		(7,154)	(45,678)
Yen loan repaid		22,429	—
Costs in relation to issue of 6.25 per cent Bonds 2031		—	21
Movement in net debt resulting from cash flows		15,275	(45,657)
Currency (losses)/gains		(1,021)	246
Decrease in Yen loan liability		—	2,075
Increase in 6.625 per cent Bonds 2008 liability		(63)	(63)
Increase in 6.25 per cent Bonds 2031 liability		(26)	(26)
Net debt at 1 October 2002		(117,756)	(74,331)
Net debt at 30 September 2003	18	(103,591)	(117,756)

The accompanying notes are an integral part of this statement.

1. Accounting policies

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

a) Basis of Accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of fixed asset investments. *The accounts are prepared in accordance with applicable Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' issued by the Association of Investment Trust Companies in January 2003, except as disclosed in the following paragraph.*

The Company allocates tax relief for expenses charged to capital on the basis of the Company's actual rate of tax, and does not adopt the marginal method as recommended by the Statement of Recommended Practice. This is considered appropriate because the Company has only one class of share and any allocation of tax relief between revenue and capital would have no impact on shareholders. *In any event, in the year ended 30 September 2003, there would have been no allocation between revenue and capital had the marginal method been adopted because of the significant unutilised revenue management expenses and interest carried forward that make it unlikely that the Company will be liable to corporation tax in the foreseeable future.*

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 gains or losses on the disposal of investments are taken to capital reserve – realised, and unrealised gains and losses 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
- cost of purchasing Ordinary Shares 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
- unrealised exchange differences in relation to forward foreign currency contracts.

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 recognised when the Company's right to receive payment is established.

Income from fixed interest securities, other investment income and deposit interest, is recognised 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) Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

Notes to the Accounts

Continued

f) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated between revenue and capital in accordance with the Board's expected long-term split of returns, in the form of income and capital gains respectively, from the Company's investment portfolio.

g) Finance Costs

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

h) Foreign Currencies

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

Rates of Exchange at 30 September

	2003	2002
US Dollar	1.6614	1.5726
Euro	1.4267	1.5913
Japanese Yen	185.6033	191.4480

2. Income

	2003 £'000	2002 £'000
Income from investments		
Franked investment income	12,282	12,619
Unfranked investment income	1,164	1,226
Overseas dividends	2,254	2,078
Overseas interest	1,504	1,288
	17,204	17,211
Other income		
Deposit interest	702	1,197
Option premium	33	—
Underwriting commission	4	—
	739	1,197
Total income	17,943	18,408
Total income comprises:		
Dividends	14,536	14,697
Fixed interest securities	2,668	2,514
Deposit interest	702	1,197
Other income	37	—
	17,943	18,408
Income from investments:		
Listed UK	13,446	13,845
Listed overseas	3,758	3,366
	17,204	17,211

3. Investment management fee

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Investment management fee:						
– basic	413	1,240	1,653	563	1,690	2,253
– performance	—	—	—	—	766	766
	413	1,240	1,653	563	2,456	3,019

The Company's investment manager is ISIS Asset Management plc. ISIS Asset Management plc receives a basic quarterly fee, payable in advance, equal to 0.075 per cent of the value of Company's total assets less current liabilities. The contract also provides for a performance-related fee calculated by reference to (i) the performance of the Company against the benchmark index over the 12 month period ended on the relevant quarterly valuation date (ii) 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.

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

Basic investment management fees have been allocated 25 per cent to revenue and 75 per cent to capital.

Performance fees are charged 100 per cent to capital.

Notes to the Accounts

Continued

4. Other expenses

	2003 £'000	2002 £'000
Directors' fees	82	80
Auditors' remuneration for:		
– audit	19	18
– other services to the Company	8	8
Other	761	726
	870	832

The auditors did not receive any additional fees to those shown above during the year ended 30 September 2003. However, during the year ended 30 September 2002 they received fees of £10,000 in connection with the issue of the £60 million 6.25 per cent Bonds 2031, which were deducted from the Bonds liability in accordance with FRS 4.

5. Finance costs

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Repayable within 5 years, not by instalments						
– Yen loan	29	86	115	72	217	289
– 6.625 per cent Bonds 2008	1,010	3,028	4,038	–	–	–
Repayable wholly or partly in more than 5 years:						
– 6.625 per cent Bonds 2008	–	–	–	1,010	3,028	4,038
– 6.25 per cent Bonds 2031	944	2,832	3,776	944	2,832	3,776
	1,983	5,946	7,929	2,026	6,077	8,103

Finance costs have been allocated 25 per cent to revenue and 75 per cent to capital.

6 a). Tax on ordinary activities

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Corporation tax	–	–	–	710	(710)	–
Relief for overseas taxation	–	–	–	(269)	269	–
	–	–	–	441	(441)	–
Overseas taxation	270	–	270	269	–	269
	270	–	270	710	(441)	269

The Company has £18,555,000 unutilised management expenses and interest at 30 September 2003 (2002: £13,775,000). No deferred tax asset has been recognised on this amount as it is unlikely there will be suitable taxable profits from which the future reversal of the deferred tax asset could be deducted.

6 b). Reconciliation of tax charge

A reconciliation of the current tax charge is set out below:

	2003 £'000	2002 £'000
Return on ordinary activities before taxation	14,677	14,987
Corporation tax at standard rate of 30 per cent	4,403	4,496
Effects of:		
Non-taxable dividend income	(3,685)	(3,786)
Brought forward revenue expenses	(448)	–
Current year tax charge	270	710

7. Dividends

	2003 £'000	2002 £'000
Dividends on Ordinary Shares:		
– first quarterly interim paid 1.304p (2002: 1.304p) per share	4,608	4,608
– second quarterly interim paid 1.304p (2002: 1.304p) per share	4,608	4,608
– third quarterly interim paid 1.304p (2002: 1.304p) per share	4,608	4,608
– final proposed 1.414p (2002: 1.414p) per share	4,997	4,997
	18,821	18,821
Overprovision in respect of prior years	–	(30)
	18,821	18,791

8. Returns per share

	2003 Revenue	2003 Capital	2003 Total	2002 Revenue	2002 Capital	2002 Total
Ordinary	4.08p	11.58p	15.66p	4.04p	(43.47)p	(39.43)p

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

	2003 Revenue £'000	2003 Capital £'000	2002 Revenue £'000	2002 Capital £'000
Ordinary	14,407	40,928	14,277	(153,595)

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

	2003	2002
Weighted average number of shares in issue during the year	353,362,282	353,362,282

Notes to the Accounts

Continued

9. Investments

	2003 £'000		2002 £'000	
Investments listed on a recognised investment exchange	480,858		457,471	
Unlisted investments	–		–	
	480,858		457,471	

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	399,260	185,232	626	585,118
Opening unrealised depreciation	(76,653)	(50,368)	(626)	(127,647)
Opening valuation	322,607	134,864	–	457,471
Movements in the year:				
Purchases at cost	57,187	94,766	–	151,953
Sales – proceeds	(75,738)	(101,319)	–	(177,057)
– realised losses on sales	(18,168)	(27,501)	–	(45,669)
Decrease in unrealised depreciation	48,644	45,516	–	94,160
Closing valuation	334,532	146,326	–	480,858
Closing book cost	362,541	151,178	626	514,345
Closing unrealised depreciation	(28,009)	(4,852)	(626)	(33,487)
Closing valuation	334,532	146,326	–	480,858

	2003 £'000	2002 £'000
Equity shares	447,181	419,174
Fixed income securities	33,677	34,826
Convertible securities	–	3,471
	480,858	457,471

Realised losses on sales	(45,669)	(31,050)
Decrease/(increase) in unrealised depreciation	94,160	(116,278)
Gains/(losses) on investments	48,491	(147,328)

10. Debtors

	2003 £'000	2002 £'000
Amounts due from brokers	2,082	1,834
Taxation recoverable	80	106
Prepayments and accrued income	3,353	3,925
Other debtors	145	–
	5,660	5,865

11. Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Amounts due to brokers	1,777	357
Third quarterly interim dividend	4,608	4,608
Final dividend	4,997	4,997
Interest on 6.25 per cent Bonds 2031	208	208
Yen loan	–	22,199
Other creditors	514	1,101
	12,104	33,470

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

	2003 £'000	2002 £'000
6.625 per cent Bonds 2008	59,716	59,653
6.25 per cent Bonds 2031	59,263	59,237
	118,979	118,890

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 are secured by floating charges over all the assets of the Company.

Notes to the Accounts

Continued

13. Share capital

	2003 Shares	2002 Shares	2003 £'000	2002 £'000
Authorised at 30 September				
Ordinary Shares of 25p each	460,800,000	460,800,000	115,200	115,200
Allotted, called-up and fully paid at 30 September				
Ordinary Shares of 25p each	353,362,282	353,362,282	88,341	88,341

14. Reserves

	Share premium account £'000	Special reserve £'000	Capital reserve— realised £'000	Capital reserve— unrealised £'000	Capital redemption reserve £'000	Revenue reserve £'000
Opening balance	6,188	—	339,189	(126,441)	8,501	18,531
Exchange differences	—	—	683	(1,060)	—	—
Net loss on realisation of investments	—	—	(45,669)	—	—	—
Decrease in unrealised depreciation on investments	—	—	—	94,160	—	—
Investment management fee charged to capital	—	—	(1,240)	—	—	—
Finance costs charged to capital	—	—	(5,946)	—	—	—
Cancellation of share premium account	(6,188)	6,188	—	—	—	—
Cancellation of capital redemption reserve	—	8,501	—	—	(8,501)	—
Transfer	—	(14,213)	—	—	—	14,213
Retained net deficit for the year	—	—	—	—	—	(4,414)
Closing balance	—	476	287,017	(33,341)	—	28,330

At the Annual General Meeting held on 19 December 2002, shareholders approved the cancellation of the Company's Share Premium Account and Capital Redemption Reserve. Court approval for the cancellation of these reserves was received on 25 June 2003 and a new Special Reserve was created, which is available to the Company for the purpose of paying dividends and buying back shares. An amount of £14,213,000, representing the value of dividends paid and proposed by the Company since Court approval was received, has been transferred from the Special Reserve to the Revenue Reserve.

15. Reconciliation of movements in shareholders' funds

	2003 £'000	2002 £'000
Opening shareholders' funds	334,309	492,418
Total recognised gains/(losses) before dividends	55,335	(139,318)
Dividends in respect of equity shares	(18,821)	(18,791)
Closing shareholders' funds	370,823	334,309

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	
	2003 pence	2002 pence	2003 £'000	2002 £'000
Ordinary Shares	104.9	94.6	370,823	334,309

Net asset value per Ordinary Share is calculated on equity shareholders' funds of £370,823,000 (2002: £334,309,000) divided by the number of Ordinary Shares in issue of 353,362,282 (2002: same) to give 104.9p (2002: 94.6p).

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

	2003 £'000	2002 £'000
Net revenue before finance costs and taxation	16,660	17,013
Decrease/(increase) in accrued income	567	(693)
Decrease in other creditors	(84)	(151)
Investment management fee charged to capital	(1,240)	(2,888)
Tax on investment income	(296)	(327)
Net cash inflow from operating activities	15,607	12,954

18. Analysis of changes in net debt

	At 30 September 2002 £'000	Cash flow £'000	Other movements £'000	Currency movements £'000	At 30 September 2003 £'000
Cash at bank and on deposit	23,333	(7,154)	—	(791)	15,388
6.625 per cent Bonds 2008	(59,653)	—	(63)	—	(59,716)
6.25 per cent Bonds 2031	(59,237)	—	(26)	—	(59,263)
Yen loan	(22,199)	22,429	—	(230)	—
	(117,756)	15,275	(89)	(1,021)	(103,591)

Notes to the Accounts

Continued

19. 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 risk of borrowings can be reduced by raising the level of cash balances or fixed interest investments held.

Fixed asset investments held (see note 9) are valued at middle market prices which equate to their fair values. The market value of the Company's Bonds is disclosed in note 21. 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.

20. 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. Investment and portfolio performance are discussed in more detail in the Manager's Review. 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 had no exposure to derivatives other than hedged currency exposure as disclosed in note 22. During the course of the year it entered into one equity traded option generating option premium of £33,000.

21. Interest rate and liquidity risk

Floating rate

When the Company retains cash balances they are 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.

Fixed rate

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

At 30 September 2003:

	2003 £'000	2003 Average interest rate	2003 Average period until maturity	2002 £'000	2002 Average interest rate	2002 Average period until maturity
Fixed interest investments:						
Fixed interest portfolio	33,677	7.10%	9.5 years	38,297	8.15%	5.4 years
Fixed interest liabilities:						
Yen loan 1.26 per cent	—	—	—	22,199	1.26%	0.41 years
6.625 per cent Bonds 2008	59,716	6.625%	4.50 years	59,653	6.625%	5.50 years
6.25 per cent Bonds 2031	59,263	6.25%	27.95 years	59,237	6.25%	28.95 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 value of fixed interest investments held.

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

The fair value of the Bonds, as derived from middle market prices, at 30 September 2003 was £121.4 million (2002: £125.2 million).

22. Foreign currency risk

The Company invests in overseas securities and holds foreign currency cash balances which give rise to currency risks. In the year to 30 September 2003, the Company entered into US Dollar, Euro and Yen foreign currency contracts with a view to hedging these currency risks.

Foreign currency exposure at 30 September 2003:

	2003 Investments £'000	2003 Cash £'000	2002 Investments £'000	2002 Cash £'000
US Dollar	72,136	815	76,356	1,199
Euro	30,790	(456)	22,878	95
Swiss Franc	5,323	—	5,203	—
Norwegian Kroner	634	—	—	—
Canadian Dollar	873	—	—	—
Yen	11,692	60	10,894	30
Australian Dollar	2,424	31	873	9
Hong Kong Dollar	5,609	9	3,012	12
Singapore Dollar	2,755	—	908	—
Malaysian Dollar	1,413	—	1,141	—
Thailand Bhat	970	—	—	—
Indonesian Rupiah	718	—	360	—
Total	135,337	459	121,625	1,345

As at 30 September 2002 the Company also has an exposure to Japan by means of a fixed rate Yen loan as detailed in note 21.

As at 30 September 2002 the value of the loan was £22,199,000. The loan was repaid during the year ended 30 September 2003.

As noted above the Company hedged currency exposure in US Dollars, Euros and Yen by way of foreign exchange currency contracts. As at 30 September 2003 the foreign exchange currency contracts not yet realised were as follows:

	2003 Hedged amount £'000	2003 Unrealised gain/(loss) £'000	2002 Hedged amount £'000	2002 Unrealised gain/(loss) £'000
US Dollar for Sterling	4,715	200	4,037	19
Euro for Sterling	6,879	(55)	4,299	28
Yen for Sterling	—	—	8,000	(543)
	11,594	145	16,336	(496)

Total realised losses in the year from foreign exchange currency contracts were £330,000 (2002 gains: £726,000).

Directors' Responsibility Statement and Independent Auditors' Report

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 at the end of the financial period and of the revenue for that period.

They are also responsible for ensuring that adequate accounting records are maintained, that the assets of the Company are safeguarded, and that reasonable steps are taken to prevent and detect 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.

Independent Auditors' Report to the Members of British Assets Trust plc

We have audited the Company's accounts for the year ended 30 September 2003 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement, and related notes 1 to 22. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards as set out in the Directors' Responsibility Statement in relation to the accounts. Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you, if, in our opinion, the Report of the Directors 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 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 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 the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Company Summary, Financial Highlights, Performance Summary, Chairman's Statement, Manager's Review, Investment Portfolio, Classification of Investments, Capital Structure, Board of Directors, Report of the Directors, the unaudited part of the Directors' Remuneration Report, Shareholder Information, Investment Services for Shareholders, Notice of Annual General Meeting and Corporate Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

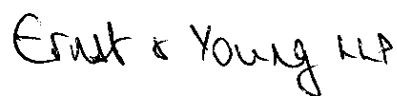
Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 30 September 2003 and of its net revenue for the year then ended and the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP

Registered Auditor
Edinburgh

14 November 2003

Shareholder Information

Profile of the Company's Ownership

Total Number of Shareholders*

Ordinary Shares	22,955
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*Held directly on the Share Register and through ISIS Asset Management Retail Products.

Annual General Meeting

The Annual General Meeting of British Assets Trust plc will be held at 80 George Street, Edinburgh on Monday 15 December 2003 at 12.30 pm.

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, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WG 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.

Dividend Reinvestment Plan (DRIP)

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, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WG on request.

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*, *The Daily Telegraph* 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 ISIS Asset Management Investment Services on 0845 600 6166.

Capital Gains Tax

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

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

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

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

Financial Calendar 2003/04

15 December 2003	Annual General Meeting
9 January 2004	Final dividend paid
April 2004	First interim dividend paid
May 2004	Announcement of Interim Results Posting of Interim Report
July 2004	Second interim dividend paid
October 2004	Third interim dividend paid
November 2004	Announcement of Annual Results Posting of Annual Report

Investment Services for Shareholders

British Assets Trust has arranged for a range of products to be made available for investors who wish to invest in it with or without financial advice. These products are offered by ISIS Asset Management plc ('ISIS').

Plans Suitable for Direct Investment

ISIS offers a number of cost-effective plans suitable for direct investment including:

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

The minimum investment amounts are £1,500 for a lump sum, or £50 a month by Direct Debit.

For more information on any of these plans, please call our Investment Services team on 0845 600 6166 or visit www.zerocharge.co.uk

Plans Available Through Advisers

ISIS also has a range of 'Select Service' products available through advisers, which offer a free lifetime guarantee on the investor's death.

These plans include:

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

You can also invest in the 'Managed Portfolio Service' which offers two portfolios of trusts selected from across the industry, one for growth and one for income. Investment Plan, Isa and Pep Transfer options are available.

Please contact your financial adviser for further information on any of these products.

The above has been approved by ISIS Asset Management plc which is Authorised and regulated by the Financial Services Authority. 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.

Notice of Annual General Meeting

British Assets Trust plc

Notice is hereby given that the One Hundred and Sixth Annual General Meeting of British Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh on Monday 15 December 2003 at 12.30 pm 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 2003 be received.
2. That a final dividend of 1.414 pence per Ordinary Share be declared.
3. That Mr W R E Thomson, who retires by rotation, be re-elected as a Director.
4. That the Directors' Remuneration Report for the year ended 30 September 2003 be approved.
5. That Ernst & Young LLP be re-appointed as Auditors and the Directors be authorised to determine their remuneration.
6. 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 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:

7. 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 6 proposed at the Annual General Meeting of the Company convened for 15 December 2003, 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 14 November 2003);

Notice of Annual General Meeting

Continued

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.

8. That the Company be generally and unconditionally 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 this 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 2004 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2004, 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 R Hay Smith
Secretary



80 George Street
Edinburgh EH2 3BU
14 November 2003

Notes

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy is enclosed for use at the above meeting. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. To be effective, the form of proxy, duly executed, must be lodged at the address shown on the form of proxy not later than 48 hours before the time of the meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those holders of Ordinary Shares entered on the Register of Members of the Company as at 6.00 pm on 13 December 2003 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00 pm on 13 December 2003 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
4. The existing Articles of Association will be available for inspection at the Annual General Meeting.
5. No Director has a contract of service with the Company.

Directors

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

Company Secretary

Gordon R Hay Smith, CA

Registered Office

80 George Street
Edinburgh EH2 3BU
Tel No. 0131-465 1000
Fascimile No. 0131-225 2375

Investment Managers

ISIS Asset Management plc
80 George Street
Edinburgh EH2 3BU

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Brokers

UBS
One Finsbury Avenue
London EC2M 2PP

Solicitors

Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

Bankers

JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

Registrars and Transfer Office

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WG

Registrar's Shareholder Helpline

Tel No. 0870 601 5366

Registrar's Broker Helpline

Tel No. 0870 600 0158

*Chairman of the Audit Committee

For further information contact ISIS Asset Management
Investment Services on 0845 600 6166