

# Contents

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BRITISH ASSETSTRUST PLC

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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 less current liabilities at 30 September 2004 were £505.2 million.

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**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.

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**Management**                        The Board has appointed F&C 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.

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**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.

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**How to Invest**                        F&C Asset Management plc operates a number of investment plans which facilitate investment in the shares of the Company. Details are contained on page 46.

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

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**Website**                                The Company's internet address is [www.british-assets.co.uk](http://www.british-assets.co.uk)

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A Member of the Association  
of Investment Trust Companies

# Financial Highlights

- Net asset value total return of 14.2 per cent compared to a return of 13.6 per cent from the benchmark index
- Dividend yield of 5.3 per cent
- Discount of 11.6 per cent

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

# Performance Summary

British Assets Trust plc

|                                                                      | 30 September<br>2004 | 30 September<br>2003 |                 |
|----------------------------------------------------------------------|----------------------|----------------------|-----------------|
| <b>Total Return</b>                                                  |                      |                      |                 |
| Net asset value*†                                                    | <b>14.2%</b>         | 17.0%                |                 |
| Ordinary Share price†                                                | <b>7.8%</b>          | 15.7%                |                 |
| Composite index†¶                                                    | <b>13.6%</b>         | 17.5%                |                 |
| FTSE All-Share Index†                                                | <b>15.7%</b>         | 16.7%                |                 |
| FTSE World (ex UK) Index†                                            | <b>7.2%</b>          | 20.0%                |                 |
|                                                                      |                      |                      | <u>% change</u> |
| <b>Capital Values</b>                                                |                      |                      |                 |
| Net asset value                                                      | <b>114.3p</b>        | 104.9p               | +9.0            |
| Ordinary Share price                                                 | <b>101.0p</b>        | 98.8p                | +2.2            |
| <b>Revenue and Dividends</b>                                         |                      |                      |                 |
| Earnings per Ordinary Share                                          | <b>3.96p</b>         | 4.08p                | (2.9)           |
| Dividends per Ordinary Share                                         | <b>5.326p</b>        | 5.326p               | —               |
| <b>Dividend Yield</b>                                                | <b>5.3%</b>          | 5.4%                 |                 |
| <b>Discount</b> (difference between share price and net asset value) | <b>11.6%</b>         | 5.9%                 |                 |
| <b>Gearing ‡</b>                                                     |                      |                      |                 |
| Gearing net of cash                                                  | <b>28.3%</b>         | 29.7%                |                 |
| <b>Total Expense Ratio (as percentage of shareholders' funds)</b>    |                      |                      |                 |
| Management (excluding performance fee), marketing and other expenses | <b>0.78%</b>         | 0.72%                |                 |
| Performance fee                                                      | <b>0.16%</b>         | —                    |                 |
|                                                                      | <b>2004<br/>High</b> | <b>2004<br/>Low</b>  |                 |
| <b>Year's Highs/Lows</b>                                             |                      |                      |                 |
| Net asset value                                                      | <b>117.7p</b>        | <b>104.9p</b>        |                 |
| Ordinary Share price                                                 | <b>106.3p</b>        | <b>91.0p</b>         |                 |
| Discount                                                             | <b>5.7%</b>          | <b>16.6%</b>         |                 |

\* 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.

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

‡ Gearing: (Borrowings – cash) ÷ Equity Shareholders' Funds.

Sources: F&C Asset Management, AITC and Datastream.

# Chairman's Statement

W R E Thomson  
Chairman

In line with many other investment trusts, the Company's discount of share price to net asset value widened during the latter part of the year and was 11.6 per cent as at 30 September 2004, compared to 5.9 per cent as at the end of the previous year. The Company's discount, however, remains lower than that of most similar investment trusts, reflecting the ongoing support for the Company's investment approach and the attractive dividend yield. At 5.3 per cent at the year end, this was some 26 per cent higher than the yield available from any other investment trust within the AITC's Global Growth & Income sector.

## An improvement in corporate results and global economic conditions led to positive stockmarket returns

Global stockmarkets rose for the second year in succession. The Company's net asset value total return, with net dividends reinvested, was 14.2 per cent. This compares with a total return of 13.6 per cent from the benchmark index of 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index.

Gearing enhanced returns in rising markets and the use of the Company's share buy back powers also contributed to the returns for the year. The UK portfolio, which represents the majority of the Company's investments, delivered positive stock selection. However, overseas stock selection, principally in North America, was disappointing. This issue has been discussed with the Managers and the Board is looking for an improvement in performance from this area. Regional asset allocation was neutral. The Company's corporate bond portfolio continues to be an important contributor to the Revenue Account.

The turnaround in the world economy since the middle of 2003 has been encouraging. With the help of substantial policy stimulus, global GDP growth in 2004 is set to be the strongest since 1988, although the effect of recent monetary tightening is likely to lead to lower growth in 2005.

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           | 13.6              |
| Stock selection                   |                   |
| UK equities                       | 0.2               |
| Overseas equities                 | -0.6              |
| Regional asset allocation         | 0.0               |
| Corporate bonds                   | -0.2              |
| Gearing                           | 1.4               |
| Buy backs                         | 0.5               |
| Expenses                          | -0.7              |
| British Assets Trust total return | <u>14.2</u>       |

## Activity

During the first half of the year the Company's exposure to Europe was reduced following a period of strong outperformance, and the exposure to Japan was increased. Corporate profits in Japan continue to surprise on the upside and, although there is likely to be slower growth in the months ahead due to reduced demand from the US and China, the prospects are still bright set against the standards of the last decade. Elsewhere, the Company has maintained an overweight position in the Pacific (ex Japan) where we remain confident of the region's growth prospects. China, rather than America, is driving the rebound in exports across Asia and we have seen rising demand

from China as it becomes a significant manufacturing processing centre as well as an important end user. Corporate profits across the region are heading back to historic highs and free cash flow remains strong.

#### Gearing

At the end of the year the Company's gearing net of cash was 28.3 per cent, compared to 29.7 per cent as at 30 September 2003. The level of gearing is represented by 20.2 per cent in equities and 8.1 per cent in corporate bonds.

The nominal value of the Company's borrowings totals £120 million and comprises two £60 million Bonds, one maturing in 2008 and one in 2031.

#### Earnings and Dividends

The Company's earnings were 3.96p per Ordinary Share in respect of the year ended 30 September 2004.

At the end of the year the level of dividend cover provided by the Company's Revenue Reserve was 136 per cent which compares to 153 per cent as at 30 September 2003. Shareholders will recall that, when the Company's Growth Shares converted into Ordinary Shares in September 2001, the level of revenue reserves had been built up so that dividend levels following the conversion could be maintained despite the initial shortfall in retained earnings that would be caused by the increased number of Ordinary Shares in issue.

Throughout the year, the Board has continued to monitor carefully the Company's revenue projections and its ability to pay dividends. We remain clear about the attractions to shareholders of the above average dividend yield. However, we are also aware of the need to balance this with the prime objective of maximising total return, that is capital growth plus the dividend yield.

On the whole, dividend increases from UK companies so far in 2004 have been ahead of expectations. However, a significant proportion of dividends paid by major UK companies are denominated in US dollars

and the Company's income levels have been adversely affected by its weakness against sterling.

As stated below, the Company exercised its buy-back powers during the year and will seek to renew these powers at the Annual General Meeting. In addition to enhancing net asset value, the buying back of shares for cancellation reduces the number of shares on which dividends are payable.

The Board continues to believe that, unless there are significant reductions in dividends paid by companies in which we are invested, we will be able to maintain the current level of dividend in the short term and we would hope to be in a position to grow the dividend again in the medium term.

The Board therefore recommends a final dividend of 1.414p per Ordinary Share, payable on 7 January 2005 to shareholders on the register on 10 December 2004. Taken together with the three interim dividends already paid, this brings the total dividend for the year to 5.326p per Ordinary Share, unchanged from the previous year.

#### Marketing

As in previous years the Board has placed emphasis on generating demand for the Company's shares through the ZeroCharge<sup>TM</sup> Individual Savings Accounts (Isas) and Investment Plans, in particular during the first quarter of the calendar year when the demand for Isas is at its greatest. The Board was encouraged that demand for the Company's shares during the 2004 Isa season was more than twice that of the previous year. It will continue to place emphasis on marketing the Company's shares through the ZeroCharge<sup>TM</sup> plans, to private client stockbrokers and directly to private investors and their intermediaries.

#### Share Buy-Backs

During the year the Company bought back 15,550,000 Ordinary Shares for cancellation, equivalent to 4.4 per cent of the shares in issue at the previous year

# Chairman's Statement

Continued

end, for a total consideration of £15.7 million. These buy backs enhanced the net asset value by 0.52p per share.

The Board is of the view that it is important to have a share buy-back facility in place. It is therefore seeking to renew its authority at the Annual General Meeting. Further details are set out in the Report of the Directors.

## Management

On 2 July 2004, the Company's Managers, ISIS Asset Management plc, announced a proposed merger with F&C Group Limited to create F&C Asset Management plc, one of the UK's largest asset managers. The merger became effective on 11 October 2004.

In addition to receiving a basic management fee, F&C Asset Management plc are entitled to receive a performance related fee. During the year the Managers agreed with the Board to change the arrangement in respect of performance fees such that the performance fee, which had previously been calculated at the end of each quarter by reference to the Company's performance for the preceding 12 month period, will in future be calculated at the end of each financial year by reference to performance for the year. The rate of performance fee has not been changed and the maximum that the Managers can earn in any particular year will remain at 0.3 per cent of shareholders' funds.

This change, which does not require approval by shareholders, is considered to be a better way of remunerating the Managers for outperformance because any fees earned will be consistent with the performance reported to shareholders at the end of each financial year.

Full details of the management fee arrangements are provided in Note 3 to the accounts.

## Board Composition

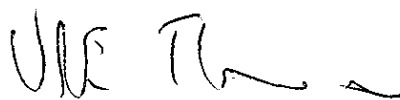
During the year the Board sought suitable candidates through the medium of search consultants and was pleased to announce the appointment of Ms Lynn Ruddick as a Director of the Company on 1 October 2004. She has significant investment experience and recently retired as a Managing Director of Merrill Lynch Investment Managers. In accordance with the Articles of Association she will seek re-appointment from shareholders at the Annual General Meeting.

## Corporate Governance

Many shareholders will be aware of new corporate governance provisions which are contained within the recently revised Combined Code and the AITC's own Code of Corporate Governance. The Board places great importance on corporate governance matters and, during the year, put in place the necessary procedures to ensure that it had implemented the requirements of the revised Combined Code by the end of the year. The Board's statement on Corporate Governance, which reports under the revised Code one year earlier than is required, is contained on pages 22 to 24.

## Outlook

Slower economic growth, rising inflation and tighter monetary policy are likely to pose a more challenging environment for investors. Stockmarkets have discounted a modest slowdown in global growth but investors are likely to remain risk averse. Whilst higher oil prices and terrorism remain risks to global growth, the Board is cautiously optimistic that global stockmarkets will make some progress during the year ahead.



**W R E Thomson**

Chairman

9 November 2004

# Investment Managers and Investment Process

British Assets Trust plc

## **Julie Dent**

Investment Manager

Julie Dent joined F&C Asset Management in 1986 and was appointed Investment Manager of British Assets Trust on 1 October 2001. She is Head of Global Equities (Edinburgh) of F&C Asset Management and has over 18 years' experience in managing international equities.

## **Gordon Hay Smith**

Company Secretary

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

## Investment Managers

F&C Asset Management plc (F&C) is the new business created on 11 October 2004 following the merger of ISIS Asset Management plc and F&C Group Limited. The combined business has around £120 billion of funds under management and is a leading asset manager in both the UK and Europe. The merger created a diversified asset management business. The shares of F&C are traded on the London Stock Exchange.

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

## 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. Most of the Company's investments are securities traded on the London Stock Exchange.

# Manager's Review

## Introduction

In the year to 30 September 2004, the Company's net asset value total return was 14.2 per cent, which compared to 13.6 per cent from 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 7.8 per cent. Gearing and share buybacks for cancellation boosted returns to shareholders over the year. Stock selection was a drag on performance with positive returns in the UK offset by poor performance in overseas markets, particularly in North America.

Global stockmarkets made reasonable gains over the period outperforming bond markets, with the UK, Europe, Pacific ex Japan and Emerging Markets all posting double-digit returns in sterling terms. Equity markets performed strongly despite an environment of rising interest rates in the UK and US, a climate of general geo-political risk and rising oil prices. The FTSE World Index was 8.4 per cent higher in sterling terms. The US market, however, lagged global indices rising only 5.2 per cent in sterling terms.

In the spring of 2003, the combined GDP growth of the three major industrialised regions, the US, Euroland and Japan, was running at just 1 per cent annualised. Stockmarkets were flagging as the US led coalition went to war in Iraq, and fears of deflation were not far from the thoughts of most investors and policymakers. A lot has changed in 18 months. The turnaround in the world economy since the middle of last year has been impressive. With the help of substantial policy stimulus, global GDP growth in 2004 is set to be the strongest since 1988.

Global demand is now slowing. British and American consumers now recognise that the free-spending times of the past couple of years, fueled by very low interest rates, are coming to an end. In the UK household sector, recent data has been particularly weak, suggesting that interest rates may already have peaked at 4.75 per cent. That said the UK economy overall remains sound: business investment is good, helping keep the level of employment high and inflation remains very subdued.

As expected, the US Federal Reserve raised interest rates by 0.25 per cent to 1.75 per cent at its September meeting and is expected to increase rates further in the months ahead. However, the mounting pressures on the US economy from an under-resourced consumer and large fiscal and current account deficits will make it difficult for the Federal Reserve to keep increasing interest rates in 2005.

With oil prices around \$50, energy prices have become the dominant issue in financial markets in recent months. Supply concerns, continued strong demand from China and India and the threat of sabotage have all served to push oil prices higher. We have also seen high levels of speculative activity. Whilst higher oil prices are damaging for global growth we would expect oil prices to fall next year, if not sooner, as demand slows.

During the year we reduced our exposure to North America and Continental Europe and added to our investments in Japan.

At 30 September 2004 the Company had gearing net of cash of 28.3 per cent (including 8.1 per cent invested in corporate bonds) and potential gearing of 30.8 per cent.

## Asset Allocation

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

| Asset Class                    | Benchmark<br>30.09.04<br>% | 30 September 2003                   |                      | 30 September 2004                   |                      |
|--------------------------------|----------------------------|-------------------------------------|----------------------|-------------------------------------|----------------------|
|                                |                            | Net Share-<br>holders<br>Funds<br>% | Total<br>Assets<br>% | Net Share-<br>holders<br>Funds<br>% | Total<br>Assets<br>% |
| <b>UK Equities</b>             | <b>75.0</b>                | <b>86.4</b>                         | <b>65.4</b>          | <b>87.5</b>                         | <b>66.9</b>          |
| Overseas Equities              |                            |                                     |                      |                                     |                      |
| – North America                | 15.5                       | 16.4                                | 12.4                 | 15.1                                | 11.6                 |
| – Europe (ex UK)               | 5.1                        | 8.7                                 | 6.6                  | 6.7                                 | 5.1                  |
| – Japan                        | 2.5                        | 3.2                                 | 2.4                  | 5.7                                 | 4.3                  |
| – Pacific (ex Japan)           | 1.9                        | 5.9                                 | 4.5                  | 5.2                                 | 4.0                  |
| <b>Total Overseas Equities</b> | <b>25.0</b>                | <b>34.2</b>                         | <b>25.9</b>          | <b>32.7</b>                         | <b>25.0</b>          |
| <b>Total Equities</b>          | <b>100.0</b>               | <b>120.6</b>                        | <b>91.3</b>          | <b>120.2</b>                        | <b>91.9</b>          |
| Corporate Bonds                | –                          | 9.1                                 | 6.9                  | 8.1                                 | 6.2                  |
| Liquidity                      | –                          | –                                   | 1.8                  | –                                   | 1.9                  |
| Actual Gearing                 | –                          | (29.7)                              | –                    | (28.3)                              | –                    |
| <b>Total</b>                   | <b>100.0</b>               | <b>100.0</b>                        | <b>100.0</b>         | <b>100.0</b>                        | <b>100.0</b>         |
| Potential Gearing              | –                          | (32.1)                              | –                    | (30.8)                              | –                    |

The table below shows the equity weightings by sector in the benchmark and the portfolio as at 30 September 2004:

| FTSE Sector                 | Benchmark<br>% | Total<br>Equities<br>% | UK<br>Equities<br>% | Overseas<br>Equities<br>% |
|-----------------------------|----------------|------------------------|---------------------|---------------------------|
| Resources                   | 15.0           | 14.1                   | 12.0                | 2.1                       |
| Basic Industries            | 4.1            | 4.0                    | 2.1                 | 1.9                       |
| General Industrials         | 4.0            | 7.1                    | 3.0                 | 4.1                       |
| Cyclical Consumer Goods     | 1.2            | 1.2                    | 0.3                 | 0.9                       |
| Non-Cyclical Consumer Goods | 16.9           | 14.7                   | 10.9                | 3.8                       |
| Cyclical Services           | 13.8           | 14.7                   | 12.0                | 2.7                       |
| Non-Cyclical Services       | 9.8            | 10.5                   | 8.6                 | 1.9                       |
| Utilities                   | 4.0            | 4.7                    | 4.2                 | 0.5                       |
| Information Technology      | 3.6            | 3.8                    | 0.4                 | 3.4                       |
| Financials                  | 27.6           | 25.2                   | 19.3                | 5.9                       |
| <b>Total</b>                | <b>100.0</b>   | <b>100.0</b>           | <b>72.8</b>         | <b>27.2</b>               |

During the year we increased our exposure to the resource and non-cyclical service sectors.

# Manager's Review

Continued

## Sub-Portfolio Reports

### UK – Major Holdings

| Company                      | Description        | Market Value £m | % Total Investments |
|------------------------------|--------------------|-----------------|---------------------|
| BP                           | Integrated Oil     | 29.2            | 5.9                 |
| HSBC Holdings                | Banks              | 24.9            | 5.0                 |
| Vodafone Group               | Telecommunications | 23.8            | 4.8                 |
| GlaxoSmithKline              | Pharmaceuticals    | 19.4            | 3.9                 |
| Shell Transport & Trading    | Integrated Oil     | 14.1            | 2.9                 |
| Royal Bank of Scotland Group | Banks              | 13.7            | 2.8                 |
| Barclays                     | Banks              | 9.9             | 2.0                 |
| AstraZeneca                  | Pharmaceuticals    | 8.6             | 1.7                 |
| HBOS                         | Banks              | 8.0             | 1.6                 |
| Lloyds TSB Group             | Banks              | 7.5             | 1.5                 |

The UK portfolio was 16.0 per cent higher over the year, outperforming the FTSE All-Share Index by 0.3 percentage points.

The UK equity market as measured by the FTSE All-Share Index advanced 15.7 per cent. Whilst medium sized companies continued to outperform, the rally in the stockmarket was more broadly based than last year with the FTSE100 Index 15.5 per cent higher compared with an 18.2 per cent return for the FTSE Mid 250 Index. Smaller companies lagged the main market with the FTSE SmallCap (ex Investment Companies) Index 9.7 per cent higher. The resource, mining, water utilities, oil and gas, real estate and leisure and hotel sectors led the market. The pharmaceutical and technology sectors had a tough year.

After a long spell out in the cold, dividends are making a comeback. The watershed for dividend payments

started in the US earlier this year when Microsoft agreed for the first time to pay \$32bn in a special dividend, followed by \$44bn in buy-backs and enhanced dividends over the next four years. UK dividends for the market as a whole are now growing above 5 per cent year on year.

The threat of further increases in UK interest rates has receded to be replaced by concerns over the impact of oil trading around \$50 a barrel for a sustained period of time. Despite the historically high price of oil the UK equity market remains supported by solid results from the corporate sector. The dollar is re-emerging as an issue for UK investors as it continues to weaken against Sterling and the Euro. The negative impact on the revenue account from a weak dollar has been countered by very supportive dividend announcements from companies held in the portfolio.

## Overseas

**North America – Major Holdings**

| Company          | Description     | Market Value £m | % Total Investments |
|------------------|-----------------|-----------------|---------------------|
| Exxon Mobil      | Oil & Gas       | 2.9             | 0.6                 |
| General Electric | Electricals     | 2.5             | 0.5                 |
| Pfizer           | Pharmaceuticals | 2.1             | 0.4                 |
| Gilead Sciences  | Biotechnology   | 2.0             | 0.4                 |
| Citigroup        | Banks           | 1.9             | 0.4                 |

The North American portfolio was 0.3 per cent lower over the year, underperforming the FTSE North America Index by 5.5 percentage points.

The North American markets had a relatively poor year with the FTSE North American Index 5.2 per cent higher in sterling terms. Dollar weakness eroded returns for sterling based investors with the Index some 14.6 per cent higher in dollars. The resource, oil and gas, construction and building materials sectors saw very strong performance. Defensive sectors, for example beverages and pharmaceuticals, were broadly unchanged over the twelve months, as was technology.

2004 has been a year of strong economic growth for the US economy. Business capital spending has been the key driver of growth. Capacity utilisation in

manufacturing has been rising, and bottlenecks have cropped up in some areas. The US corporate sector has shown impressive progress in recent years. Savage cost-cutting has pushed profits to an all time high and there has been a marked turnaround in the health of corporate balance sheets.

The US stockmarkets stagnated in the second half of the year as investors adjusted their expectations given rising interest rates, the fading benefits of tax cuts and higher energy prices. High energy prices weighed heavily on investor sentiment, challenging the outlook for corporate profitability and economic growth earnings. Meanwhile, the inability to increase prices significantly at the consumer level increased the risk of profit margins being squeezed with analysts' earnings expectations leaving little room for disappointment.

# Manager's Review

Continued

## Europe (ex UK) – Major Holdings

| Company               | Description                       | Market Value £m | % Total Investments |
|-----------------------|-----------------------------------|-----------------|---------------------|
| Novartis              | Pharmaceuticals                   | 1.1             | 0.2                 |
| UBS                   | Banks                             | 1.0             | 0.2                 |
| Royal Dutch Petroleum | Oil & Gas                         | 0.9             | 0.2                 |
| Siemens               | Electronic & Electrical Equipment | 0.9             | 0.2                 |
| BNP Paribas           | Banks                             | 0.8             | 0.2                 |

The Europe (ex UK) portfolio was 14.0 per cent higher over the year, underperforming the FTSE Europe (ex UK) Index by 1.6 percentage points.

The European markets continued to deliver good returns over the twelve months to 30 September 2004. The FTSE Europe (ex UK) Index advanced by 15.6 per cent in sterling terms. The Euro held fairly steady versus sterling during the year. Following a similar trend to other world markets, the resource and utility sectors led the way.

The growth outlook in Euroland remains uncertain. Solid evidence supporting the emergence of a

sustainable recovery has been thin on the ground. It is becoming increasingly important that the domestic sectors start to improve. Consumer spending remains lacklustre across the region as a whole, with France still a virtual oasis of domestic demand growth. Fortunately, exports have remained relatively strong.

The outlook for the region's stockmarkets remains reasonable. Valuations look attractive with strong free cash flow generation leading to increasing dividends, share buybacks and possible merger and acquisitions activity. Corporate profits are seeing strong growth, underpinned by export demand and cost cutting.

**Japan – Major Holdings**

| Company      | Description         | Market Value £m | % Total Investments |
|--------------|---------------------|-----------------|---------------------|
| Toyota Motor | Automobiles & Parts | 1.2             | 0.2                 |
| Nissan Motor | Automobiles & Parts | 1.1             | 0.2                 |
| Osaka Gas    | Utilities           | 1.0             | 0.2                 |
| JGC          | Construction        | 0.9             | 0.2                 |
| Kajima       | Construction        | 0.9             | 0.2                 |

The Japan portfolio was 4.6 per cent higher over the year, outperforming the FTSE Japan Index by 2.9 per cent percentage points.

The FTSE Japan Index registered a 1.7 per cent rise in sterling terms over the year. The oil and gas sector, in line with other world markets outperformed. The telecommunications sector was particularly weak over the 12 months.

Japan's problems are slowly but surely being resolved. Japanese companies have recognised the need to shift up the value chain. China is very important in this respect providing a low cost manufacturing base whilst Japanese companies focus on new product development. This is absolutely necessary given

Japan's ageing population and the ongoing fall in the number of workers. China is now viewed as an opportunity rather than a threat and for now the two can work together for their mutual benefit. China needs steel, capital equipment and construction machinery – exactly what the Japanese are very good at making.

Japan now feels like a 'normal' market. The risk of systemic financial failure is past, the economy has recovered, the 'lost decade' of deflation appears to be over and the savage de-rating of the equity market over the last few years means it now trades on a valuation comparable to other global stockmarkets.

# Manager's Review

Continued

## Pacific (ex Japan) – Major Holdings

| Company              | Description                        | Market Value £m | % Total Investments |
|----------------------|------------------------------------|-----------------|---------------------|
| Samsung Electric     | Electronics & Electrical Equipment | 1.3             | 0.3                 |
| BNP Billiton         | Mining                             | 1.1             | 0.2                 |
| Cheung Kong Holdings | Real Estate                        | 1.0             | 0.2                 |
| Telekomunikasi       | Telecommunications                 | 0.9             | 0.2                 |
| Keppel               | Engineering & Machinery            | 0.9             | 0.2                 |

The Pacific (ex Japan) portfolio was 9.7 per cent higher over the year, underperforming the MSCI\* All Countries Pacific Free (ex Japan) Index by 1.9 percentage points over the year.

The MSCI\* All Countries Pacific Free (ex Japan) Index was 11.6 per cent higher over the 12 months. The resource backed markets of Australia and Indonesia performed well, as did the smaller peripheral markets of Thailand and the Philippines. Taiwan was notable as the market which fell over the year, reflecting the weakness of the technology sector.

*As the era of the US consumer as the key driver of global demand fades, the potential for spending*

*within Asia will grow in importance. Demographic trends, a high savings rate and rising incomes per capita all point towards this. China, not America, is driving the rebound in exports across Asia. We have seen rising demand from China both as a manufacturing centre and as an important end user. However, the Asian economies are not immune from slower global demand and from the knock on effect of the Chinese government's commitment to reduce expenditure on fixed assets. That said, growth across the region remains good, corporate profits are heading back towards historical highs and free cashflow remains strong.*

\*Morgan Stanley Capital International.

### **Corporate Bonds**

The corporate bond portfolio was 9.2 per cent higher over the year, outperforming the 65 per cent Merrill Lynch Sterling Non-Gilts/35 per cent European Currency High Yield Composite Benchmark Index by 1.0 percentage points. The Merrill Lynch Sterling Non-Gilts Index registered a gain of 4.0 per cent and the European Currency High Yield Index was 15.9 per cent higher.

The high yield sector performed well over the year, benefiting both from the solid fundamentals as well as steady demand for yield. In terms of fundamentals, earnings results have generally been positive. The market has also benefited from a continued shortage of supply and numerous redemptions.

The gilt market is now pricing in a peak in short term interest rates close to the current level of 4.75 per cent. Within investment grade and high yield bonds, we do not anticipate that yield spreads will be able to tighten significantly further following the improvements over the year. This justifies a slightly more cautious approach. Nevertheless, levels of cash in the credit markets remain high and issuance is falling short of demand so providing technical support for the market.

### **Overall Outlook**

Slower growth, rising inflation and tighter monetary policy are likely to pose a more challenging environment for investors. Global stockmarkets have discounted a modest slowdown in global growth but investors are likely to remain cautious. On the one hand we have the negative headwinds of slower economic growth and earnings growth. On the other hand, low bond yields make equity valuations look attractive. Higher oil prices and terrorism remain risks to global growth.

Rising rates in the UK may be coming to an end but they have some way to go in the US. Less cyclical, stable growth stocks should benefit. Encouragingly we are seeing strong dividend growth especially from UK companies. Investors are increasingly demanding better dividends, consistent with our view that cash in the hand is an important part of total return.

On balance, we expect global stockmarkets to make modest progress in the year ahead. We see a mix of stable growth stocks in the UK and our well diversified income earning corporate bond portfolio, coupled with some higher risk investments in the Pacific region including Japan as working well in the current climate.

### **Julie Dent**

Investment Manager

F&C Asset Management plc

9 November 2004

# Investment Portfolio

| Company                                                                                                                                             | Valuation<br>£'000 | % of<br>Total<br>Investments | % of<br>Portfolio<br>Income | % Change<br>in Dividend<br>2003-2004* | Country<br>of<br>Incorporation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------------------|-----------------------------|---------------------------------------|--------------------------------|
| <b>BP</b><br>BP is one of the world's largest integrated oil and gas companies.                                                                     | 29,204             | 5.9                          | 5.3                         | (3.2)                                 | UK                             |
| <b>HSBC Holdings</b><br>HSBC provides a comprehensive range of banking and related financial services on a global basis.                            | 24,886             | 5.0                          | 11.3                        | 9.7                                   | UK                             |
| <b>Vodafone Group</b><br>Vodafone is the largest global provider of mobile telecommunication services.                                              | 23,848             | 4.8                          | 2.3                         | 20.0                                  | UK                             |
| <b>GlaxoSmithKline</b><br>GlaxoSmithKline is a global manufacturer and marketer of pharmaceutical products.                                         | 19,407             | 3.9                          | 4.3                         | 7.5                                   | UK                             |
| <b>Shell Transport &amp; Trading</b><br>The company holds a 40 per cent stake in one of the world's largest integrated oil and gas companies.       | 14,127             | 2.9                          | 3.5                         | 3.2                                   | UK                             |
| <b>Royal Bank of Scotland Group</b><br>Royal Bank of Scotland provides a range of banking, insurance and other financial services.                  | 13,747             | 2.8                          | 2.8                         | 15.1                                  | UK                             |
| <b>Barclays</b><br>Barclays provides banking and other financial services to both retail and business markets.                                      | 9,882              | 2.0                          | 2.5                         | 13.9                                  | UK                             |
| <b>AstraZeneca</b><br>The company is involved in the research, manufacture and sale of pharmaceuticals and agrochemicals.                           | 8,618              | 1.7                          | 2.0                         | 15.2                                  | UK                             |
| <b>HBOS</b><br>HBOS has a leading share of the UK mortgage market. The group also provides a wide range of banking and insurance services.          | 8,049              | 1.6                          | 2.1                         | 5.0                                   | UK                             |
| <b>Lloyds TSB Group</b><br>The group provides retail and commercial banking services through its branch network and offices in the UK and overseas. | 7,473              | 1.5                          | 3.7                         | 0.0                                   | UK                             |
| <b>Ten largest equity investments</b>                                                                                                               | <b>159,241</b>     | <b>32.1</b>                  | <b>39.8</b>                 |                                       |                                |

\* British Assets Trust's financial years to 30 September 2003 and 2004.

| Company                                  | Nature of Business                | Valuation<br>£'000 | % of<br>Total<br>Investments | % of<br>Portfolio<br>Income | Country<br>of<br>Incorporation |
|------------------------------------------|-----------------------------------|--------------------|------------------------------|-----------------------------|--------------------------------|
| BT Group                                 | Telecommunications                | 6,449              | 1.3                          | 1.9                         | UK                             |
| Tesco                                    | Food & Drug Retailer              | 6,082              | 1.2                          | 0.9                         | UK                             |
| Aviva                                    | Life Assurance                    | 5,935              | 1.2                          | 1.7                         | UK                             |
| Diageo                                   | Beverages                         | 5,491              | 1.1                          | 1.4                         | UK                             |
| Centrica                                 | Utilities                         | 5,409              | 1.1                          | 0.8                         | UK                             |
| Anglo American                           | Mining                            | 5,096              | 1.0                          | 1.4                         | UK                             |
| British American Tobacco                 | Tobacco                           | 5,002              | 1.0                          | 1.6                         | UK                             |
| Standard Life Euro Private Equity Trust  | Investment Company                | 4,725              | 1.0                          | 0.2                         | UK                             |
| Unilever                                 | Food Producers & Processors       | 4,497              | 0.9                          | 1.1                         | UK                             |
| Scottish & Southern Energy               | Electricity                       | 4,305              | 0.9                          | 1.3                         | UK                             |
| <b>Twenty largest equity investments</b> |                                   | <b>212,232</b>     | <b>42.8</b>                  | <b>52.1</b>                 |                                |
| Prudential                               | Life Assurance                    | 4,174              | 0.8                          | 0.9                         | UK                             |
| BAA                                      | Transport                         | 3,811              | 0.8                          | 0.9                         | UK                             |
| Standard Chartered                       | Banks                             | 3,724              | 0.8                          | 0.9                         | UK                             |
| Rio Tinto                                | Mining                            | 3,589              | 0.7                          | 0.6                         | UK                             |
| GUS                                      | General Retailers                 | 3,529              | 0.7                          | 0.7                         | UK                             |
| Rexam                                    | Support Services                  | 3,353              | 0.7                          | 0.8                         | UK                             |
| Imperial Tobacco Group                   | Tobacco                           | 3,303              | 0.7                          | 0.8                         | UK                             |
| BOC Group                                | Chemicals                         | 3,146              | 0.6                          | 0.9                         | UK                             |
| William Hill                             | Leisure & Hotels                  | 2,985              | 0.6                          | 0.5                         | UK                             |
| National Grid Transco                    | Electricity                       | 2,968              | 0.6                          | 0.8                         | UK                             |
| <b>Thirty largest equity investments</b> |                                   | <b>246,814</b>     | <b>49.8</b>                  | <b>59.9</b>                 |                                |
| Severn Trent                             | Water                             | 2,945              | 0.6                          | 1.0                         | UK                             |
| Exxon Mobil                              | Oil & Gas                         | 2,934              | 0.6                          | 0.4                         | USA                            |
| United Utilities                         | Water                             | 2,894              | 0.6                          | 1.5                         | UK                             |
| Pearson                                  | Media & Entertainment             | 2,893              | 0.6                          | 0.8                         | UK                             |
| BPB                                      | Construction & Building Materials | 2,855              | 0.6                          | 0.6                         | UK                             |
| BAE Systems                              | Aerospace & Defence               | 2,845              | 0.6                          | 0.7                         | UK                             |
| Reed Elsevier                            | Media & Entertainment             | 2,815              | 0.6                          | 0.4                         | UK                             |
| Smiths Group                             | Aerospace & Defence               | 2,777              | 0.5                          | 0.6                         | UK                             |
| Boots Group                              | General Retailers                 | 2,721              | 0.5                          | 0.8                         | UK                             |
| National Express Group                   | Transport                         | 2,574              | 0.5                          | 0.6                         | UK                             |
| <b>Forty largest equity investments</b>  |                                   | <b>275,067</b>     | <b>55.5</b>                  | <b>67.3</b>                 |                                |
| BBA Group                                | Transport                         | 2,555              | 0.5                          | 0.7                         | UK                             |
| General Electric                         | Electricals                       | 2,549              | 0.5                          | 0.4                         | USA                            |
| Spectris                                 | Electricals                       | 2,516              | 0.5                          | 0.5                         | UK                             |
| Exel                                     | Transport                         | 2,336              | 0.5                          | 0.5                         | UK                             |
| Bunzl                                    | Support Services                  | 2,206              | 0.5                          | 0.4                         | UK                             |
| Tomkins                                  | Engineering & Machinery           | 2,179              | 0.5                          | 0.6                         | UK                             |
| Weir Group                               | Engineering & Machinery           | 2,132              | 0.4                          | 0.6                         | UK                             |
| Pfizer                                   | Pharmaceuticals                   | 2,130              | 0.4                          | 0.3                         | USA                            |
| Land Securities                          | Real Estate                       | 2,082              | 0.4                          | 0.4                         | UK                             |
| Johnston Press                           | Media & Entertainment             | 2,063              | 0.4                          | 0.1                         | UK                             |
| <b>Fifty largest equity investments</b>  |                                   | <b>297,815</b>     | <b>60.1</b>                  | <b>71.8</b>                 |                                |
| <b>Other equity investments (216)</b>    |                                   | <b>166,449</b>     | <b>33.6</b>                  | <b>13.1</b>                 |                                |
| <b>Corporate bonds (111)</b>             |                                   | <b>31,368</b>      | <b>6.3</b>                   | <b>15.1</b>                 |                                |
| <b>Total investments</b>                 |                                   | <b>495,632</b>     | <b>100.0</b>                 | <b>100.0</b>                |                                |

# Classification of Investments

|                               | United<br>Kingdom<br>£'000 | North<br>America<br>£'000 | Continental<br>Europe<br>£'000 | Japan<br>£'000 | Pacific<br>(ex Japan)<br>£'000 | 2004<br>Total<br>£'000 |
|-------------------------------|----------------------------|---------------------------|--------------------------------|----------------|--------------------------------|------------------------|
| <b>Sector Weighting</b>       |                            |                           |                                |                |                                |                        |
| Resources                     | 55,556                     | 4,823                     | 2,763                          | –              | 2,506                          | <b>65,648</b>          |
| Basic Industries              | 9,969                      | 2,075                     | 1,456                          | 2,524          | 2,712                          | <b>18,736</b>          |
| General Industrials           | 13,959                     | 7,188                     | 2,559                          | 6,119          | 3,167                          | <b>32,992</b>          |
| Cyclical Consumer Goods       | 1,303                      | –                         | 1,349                          | 2,846          | –                              | <b>5,498</b>           |
| Non-Cyclical Consumer Goods   | 50,692                     | 13,470                    | 3,147                          | 857            | –                              | <b>68,166</b>          |
| Cyclical Services             | 55,780                     | 7,299                     | 1,987                          | 2,617          | 535                            | <b>68,218</b>          |
| Non-Cyclical Services         | 39,784                     | 2,890                     | 3,288                          | 1,433          | 1,493                          | <b>48,888</b>          |
| Utilities                     | 19,583                     | 1,293                     | 133                            | 990            | –                              | <b>21,999</b>          |
| Information Technology        | 1,640                      | 7,755                     | 3,704                          | 1,397          | 3,118                          | <b>17,614</b>          |
| Financials                    | 89,718                     | 11,649                    | 5,537                          | 3,097          | 6,504                          | <b>116,505</b>         |
| <b>Total</b>                  | <b>337,984</b>             | <b>58,442</b>             | <b>25,923</b>                  | <b>21,880</b>  | <b>20,035</b>                  | <b>464,264</b>         |
| Corporate Bond Portfolio      | 11,808                     | 3,037                     | 16,523                         | –              | –                              | <b>31,368</b>          |
| <b>Total Investments</b>      | <b>349,792</b>             | <b>61,479</b>             | <b>42,446</b>                  | <b>21,880</b>  | <b>20,035</b>                  | <b>495,632</b>         |
| <b>% of Total Investments</b> | <b>70.6</b>                | <b>12.4</b>               | <b>8.6</b>                     | <b>4.4</b>     | <b>4.0</b>                     | <b>100.0</b>           |

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

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

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 2004 there were 337,812,282 Ordinary Shares of 25p each in issue (2003: 353,362,282 Ordinary Shares).*

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 | Net Asset Value per Ordinary Share | Ordinary Share Price | Discount (basic) | Earnings per Ordinary Share | Dividends per Ordinary Share |
|-----------------|------------------------------------|----------------------|------------------|-----------------------------|------------------------------|
| 1994            | 98.8p†                             | 94.0p                | 4.9%†            | 4.10p                       | 4.380p                       |
| 1995            | 110.2p                             | 92.5p                | 16.0%            | 4.62p                       | 4.555p                       |
| 1996            | 120.8p                             | 97.5p                | 19.3%            | 5.74p                       | 4.655p                       |
| 1997            | 141.6p                             | 119.5p               | 15.6%            | 5.36p                       | 4.825p                       |
| 1998            | 134.1p                             | 113.8p               | 15.2%            | 5.82p                       | 4.985p                       |
| 1999            | 153.5p                             | 135.3p               | 11.9%            | 5.93p                       | 5.045p                       |
| 2000            | 178.3p                             | 158.5p               | 11.1%            | 5.85p                       | 5.216p                       |
| 2001            | 139.4p                             | 118.5p               | 15.0%            | 7.12p                       | 5.326p#                      |
| 2002            | 94.6p                              | 90.3p                | 4.6%             | 4.04p                       | 5.326p                       |
| 2003            | 104.9p                             | 98.8p                | 5.9%             | 4.08p                       | 5.326p                       |
| <b>2004</b>     | <b>114.3p</b>                      | <b>101.0p</b>        | <b>11.6%</b>     | <b>3.96p</b>                | <b>5.326p</b>                |

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

#Excludes special dividend of 0.5p per Ordinary Share.

# Board of Directors

William Thomson

Chairman

age 64, 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 63, 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 Trading First Homes plc and is a director of Invesco Geared Opportunities Trust plc and Invesco Perpetual AIM VCT plc. He is a Chartered Accountant and Chairman of the Audit Committee.

Dr Christopher Masters

age 57, was appointed in 1990 and was, until April 2002, executive chairman of Aggreko plc. He is currently chairman of SMG plc, 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 58, 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.

Lynn Ruddick

age 52, was appointed on 1 October 2004. She retired as a Managing Director of Merrill Lynch Investment Managers in May 2004 where she headed the company's investment trust business unit. She was elected to the Investment Committee of the National Association of Pension Funds in 1995 and served as chairman from 1998 to 2000.

James West

age 57, 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 and Jupiter Second Enhanced Income Trust 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. He is the Senior Independent Director.

# 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 2004.

|                                                                                                                                                         | £'000          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Revenue available for dividends                                                                                                                         | <b>13,773</b>  |
| Dividends on Ordinary Shares:                                                                                                                           |                |
| First quarterly interim dividend of 1.304p per share paid on 9 April 2004                                                                               | <b>(4,537)</b> |
| Second quarterly interim dividend of 1.304p per share paid on 9 July 2004                                                                               | <b>(4,460)</b> |
| Third quarterly interim dividend of 1.304p per share paid on 8 October 2004                                                                             | <b>(4,434)</b> |
| Proposed final dividend of 1.414p per share payable on 7 January 2005 to ordinary shareholders on the register at close of business on 10 December 2004 | <b>(4,777)</b> |
| Overprovision in respect of prior years                                                                                                                 | <b>11</b>      |
| Transferred from revenue reserve                                                                                                                        | <b>(4,424)</b> |

## 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 2003. 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 (2003 – £8,500).

## Directors

On 1 October 2004 Ms L C Ruddick, whose biographical details are shown on page 20, was appointed as a Director. She has extensive investment experience which the Board believes will contribute significantly to its deliberations. In accordance with the Company's Articles of Association she will retire at the Annual General Meeting, being the first such meeting following her appointment and, being eligible, offers herself for re-appointment.

Sir Malcolm Rifkind retires from the Board by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

As explained in more detail under Corporate Governance on pages 22 and 23, the Board has agreed that Directors who have served on the Board for more than nine years will retire annually. Accordingly, Mr W R E Thomson, Dr C Masters and Mr J G West will retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Board confirms that, following formal performance evaluations, the performance of each of the Directors seeking re-election continues to be effective and demonstrates commitment to the role, and believes that it is therefore in the interests of shareholders that these Directors are re-elected.

The Directors who held office during the year and their interests in the shares of the Company as at 30 September 2004 were:

|                     |                | Ordinary<br>Shares | Ordinary<br>Shares |
|---------------------|----------------|--------------------|--------------------|
|                     |                | 2004               | 2003               |
| W R E Thomson       | Beneficial     | <b>9,600</b>       | 9,600              |
| J S MacLeod         | Beneficial     | <b>35,000</b>      | 10,000             |
|                     | Non-Beneficial | <b>9,500</b>       | 9,500              |
| Dr C Masters        | Beneficial     | <b>17,994</b>      | 17,087             |
| Sir Malcolm Rifkind | Beneficial     | <b>4,000</b>       | 4,000              |
| J G West            | Beneficial     | <b>12,000</b>      | 12,000             |

On her appointment to the Board on 1 October 2004 Ms L C Ruddick had a beneficial interest in 11,940 Ordinary Shares.

# Report of the Directors

Continued

There have been no other changes in the holdings of the Directors between 30 September 2004 and 9 November 2004 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.

As any further increase in Directors' remuneration would result in the current maximum permitted under the Articles of Association being exceeded, a resolution to increase the maximum aggregate sum to which the Directors would be entitled as remuneration to £200,000 (currently £120,000) will be proposed at the Annual General Meeting. This amendment is proposed to allow for anticipated increases in total Directors' remuneration over a number of years.

## Substantial Interests in Share Capital

At 9 November 2004 the following holdings representing more than 3 per cent of the Company's issued share capital had been reported:

|                          | Number of<br>Ordinary Shares<br>Held | Percentage<br>Held |
|--------------------------|--------------------------------------|--------------------|
| Friends Provident Group* | <b>38,731,134</b>                    | <b>11.5</b>        |
| AXA Investment Managers  | <b>35,211,656</b>                    | <b>10.5</b>        |
| Legal & General Group    | <b>12,731,350</b>                    | <b>3.8</b>         |

\*Includes discretionary retail products.

## Management and Management Fees

F&C Asset Management plc provides management and secretarial services to the Company. A summary of the contract between the Company and F&C 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.

## Corporate Governance

Arrangements in respect of corporate governance have been made by the Board, which it believes are appropriate to an investment trust. Except as disclosed below, the Company complied throughout the year with the provisions of the Combined Code on Corporate Governance issued in 1998 ('the 1998 Code').

During the year the Company took the necessary steps such that, except as disclosed below, it now also complies with the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003, which is applicable for accounting years beginning on or after 1 November 2003 ('the revised Code'), and has taken into account the recommendations of the AITC Code of Corporate Governance ('the AITC Code') which was also issued in July 2003. The Company is therefore reporting under the revised Code one year earlier than required. Since all the Directors are non-executive, the Company is not required to comply with the provisions of the revised Code in respect of Directors' remuneration, except in so far as they relate to non-executive Directors.

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 as recommended by both the 1998 Code and revised 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, and annually after serving on the Board for more than nine years.

The Board consists solely of non-executive Directors of which Mr W R E Thomson is Chairman and Mr J G West is the Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Managers. New Directors receive an induction from the Managers on joining the Board, and all Directors receive other relevant training as necessary.

Mr W R E Thomson, Dr C Masters and Mr J G West have served on the Board for more than nine years and, as recommended by the revised Code and the AITC Code, will seek re-election annually. The Board subscribes to the view

expressed within the AITC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that a Director's tenure necessarily reduces his or her ability to act independently and, following formal performance evaluations, believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. It should be noted that, with effect from 1 April 2005, Sir Malcolm Rifkind, as a director of F&C Emerging Markets Investment Trust plc which is also managed by F&C Asset Management plc, will not be able to be considered as independent following a recent change to the Listing Rules, and will be required to seek annual re-election. This unforeseen result has been caused by the merger of ISIS Asset Management plc with F&C Group Limited and, in the opinion of the Board, does not affect Sir Malcolm Rifkind's independence in any way.

During the year the Board reviewed its composition taking into account not only the need for refreshment over time, but also the current balance of skills, experience and tenure. It subsequently employed the services of an external search consultant to assist with the recruitment of a new Director and Ms L C Ruddick, who is considered by the Board to be independent of the Company's Managers, was appointed a Director on 1 October 2004.

The Company has no executive Directors or employees. A management agreement between the Company and its Managers, F&C 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, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board currently meets seven times a year and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Managers, in the absence of explicit instructions from the Board, are empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all meetings worldwide where practicable in accordance with the Managers' own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

Throughout the year a number of committees have been in operation. The committees are the Audit Committee, the Management Engagement and Remuneration Committee, and the Nomination Committee.

The Audit Committee, chaired by Mr J S MacLeod, operates within clearly defined terms of reference and comprises all of the Directors except for Mr W R E Thomson. The duties of the Audit Committee include reviewing the Annual and Interim Accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non-audit services by the auditors. It also provides a forum through which the auditors may report to the Board of Directors and meets at least twice yearly.

The Management Engagement and Remuneration Committee, chaired by Mr W R E Thomson, comprises the full Board and reviews the appropriateness of the Managers' continuing appointment together with the terms and conditions thereof on a regular basis.

The Nomination Committee, chaired by Mr W R E Thomson, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

During the year the performance of the Board, committees and individual Directors was evaluated through an assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director.

The following table sets out the number of Board and Committee meetings held during the year ended 30 September 2004 and the number of meetings attended by each Director.

|                          | Board of Directors |          | Audit Committee |          | Management Engagement and Remuneration Committee |          | Nomination Committee |          |
|--------------------------|--------------------|----------|-----------------|----------|--------------------------------------------------|----------|----------------------|----------|
|                          | Held               | Attended | Held            | Attended | Held                                             | Attended | Held                 | Attended |
| W R E Thomson (Chairman) | 7                  | 7        | —               | —        | 1                                                | 1        | 1                    | 1        |
| J S Macleod              | 7                  | 7        | 2               | 2        | 1                                                | 1        | 1                    | 1        |
| C Masters                | 7                  | 7        | 2               | 2        | 1                                                | 1        | 1                    | 1        |
| Sir Malcolm Rifkind      | 7                  | 7        | 2               | 2        | 1                                                | 1        | 1                    | 1        |
| J G West                 | 7                  | 7        | 2               | 2        | 1                                                | 1        | 1                    | 1        |

# Report of the Directors

Continued

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

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.

## 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. At each Board meeting the Board monitors the investment performance of the Company in comparison to its stated objective, the benchmark index, and against comparable investment trusts. The Board also reviews the Company's activities since the last Board meeting to ensure that the Managers adhere to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Managers, including their internal audit function and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investments 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 11 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £8,392,807, being 10 per cent of the total issued shares as at 9 November 2004. Resolution 12 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £4,196,403, being 5 per cent of the total issued shares as at 9 November 2004, 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 2005. 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 will result in a dilution of net asset value per share.

## Directors' Authority to Buy Back Shares

During the year the Company purchased for cancellation 15,550,000 Ordinary Shares with an aggregate nominal value of £3,888,000 for a total consideration of £15,728,000 representing 4.4 per cent of the Ordinary Shares in issue at the previous year end.

The current authority of the Company to make market purchases of up to 14.99 per cent of the issued Ordinary Shares expires at the end of the Annual General Meeting and Resolution 13, 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 50 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 will result

in an increase in net asset value per share and be in the interests of the shareholders. Any shares purchased under this authority will be cancelled.

Since the year end the Company has purchased for cancellation a further 2,100,000 Ordinary Shares and there were 335,712,282 Ordinary Shares in issue as at 9 November 2004.

#### Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Managers hold meetings with the Company's largest shareholders and report back to the Board on these meetings. The Chairman and other Directors are available to meet shareholders if required. 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).

#### Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms. The Company did not have any trade creditors at the year end.

#### 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



80 George Street  
Edinburgh EH2 3BU  
9 November 2004

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. 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, L C Ruddick (with effect from her appointment to the Board on 1 October 2004) 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 2005 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, as explained in the Report of the Directors on page 22, a resolution will be proposed at the Annual General Meeting to increase this limit to £200,000. 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 2004                 |
| J S MacLeod         | 17/12/1998          | AGM 2005                 |
| Dr C Masters        | 22/2/1990           | AGM 2004                 |
| Sir Malcolm Rifkind | 2/4/1998            | AGM 2004                 |
| L C Ruddick         | 1/10/2004           | AGM 2004                 |
| J G West            | 22/6/1995           | AGM 2004                 |

The terms of Directors' appointments provide that Directors should retire and be subject to re-appointment 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. Any Director who has served on the Board for more than nine years will offer himself for re-election annually. 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 2004, 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 and is the Company's benchmark. An explanation of the performance of the Company for the year ended 30 September 2004 is given in the Chairman's Statement and Manager's Review.

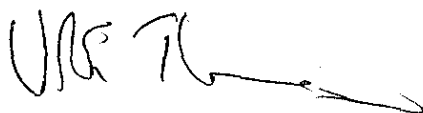
### Share Price Total Return and Composite Index Total Return Performance Graph

### Directors' Emoluments for the Year (audited)

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

|                          | 2004<br>£ | 2003<br>£ |
|--------------------------|-----------|-----------|
| W R E Thomson (Chairman) | 25,437    | 22,813    |
| J S MacLeod              | 18,750    | 14,875    |
| Dr C Masters             | 16,875    | 14,875    |
| Sir Malcolm Rifkind      | 16,875    | 14,875    |
| J G West                 | 16,875    | 14,875    |
| Total                    | 94,812    | 82,313    |

On behalf of the Board



**W R E Thomson**

Director

9 November 2004

# Statement of Total Return

(Incorporating the Revenue Account\*) For the year ended 30 September 2004

|                                                      | Notes | 2004<br>Revenue<br>£'000 | 2004<br>Capital<br>£'000 | 2004<br>Total<br>£'000 | 2003<br>Revenue<br>£'000 | 2003<br>Capital<br>£'000 | 2003<br>Total<br>£'000 |
|------------------------------------------------------|-------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Gains on investments                                 | 9     | –                        | 42,521                   | 42,521                 | –                        | 48,491                   | 48,491                 |
| Exchange differences                                 | 14    | –                        | 793                      | 793                    | –                        | (377)                    | (377)                  |
| Income                                               | 2     | 17,605                   | –                        | 17,605                 | 17,943                   | –                        | 17,943                 |
| Investment management fee                            | 3     | (444)                    | (1,946)                  | (2,390)                | (413)                    | (1,240)                  | (1,653)                |
| Other expenses                                       | 4     | (1,180)                  | –                        | (1,180)                | (870)                    | –                        | (870)                  |
| <b>Net return before finance costs and taxation</b>  |       | <b>15,981</b>            | <b>41,368</b>            | <b>57,349</b>          | <b>16,660</b>            | <b>46,874</b>            | <b>63,534</b>          |
| Finance costs                                        | 5     | (1,954)                  | (5,860)                  | (7,814)                | (1,983)                  | (5,946)                  | (7,929)                |
| <b>Return on ordinary activities before taxation</b> |       | <b>14,027</b>            | <b>35,508</b>            | <b>49,535</b>          | <b>14,677</b>            | <b>40,928</b>            | <b>55,605</b>          |
| Tax on ordinary activities                           | 6     | (254)                    | –                        | (254)                  | (270)                    | –                        | (270)                  |
| <b>Return attributable to shareholders</b>           |       | <b>13,773</b>            | <b>35,508</b>            | <b>49,281</b>          | <b>14,407</b>            | <b>40,928</b>            | <b>55,335</b>          |
| Dividends in respect of Ordinary Shares              | 7     | (18,197)                 | –                        | (18,197)               | (18,821)                 | –                        | (18,821)               |
| Transfer (from)/to reserves                          | 14    | (4,424)                  | 35,508                   | 31,084                 | (4,414)                  | 40,928                   | 36,514                 |
| <b>Return per Ordinary Share</b>                     | 8     | <b>3.96p</b>             | <b>10.22p</b>            | <b>14.18p</b>          | <b>4.08p</b>             | <b>11.58p</b>            | <b>15.66p</b>          |

\* 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 2004

British Assets Trust plc

|                                                                | Notes | 2004<br>£'000    | 2003<br>£'000 |
|----------------------------------------------------------------|-------|------------------|---------------|
| <b>Fixed assets</b>                                            |       |                  |               |
| Investments                                                    | 9     | <b>495,632</b>   | 480,858       |
| <b>Current assets</b>                                          |       |                  |               |
| Debtors                                                        | 10    | <b>5,609</b>     | 5,660         |
| Cash at bank and on deposit                                    |       | <b>15,788</b>    | 15,388        |
|                                                                |       | <b>21,397</b>    | 21,048        |
| <b>Creditors:</b> amounts falling due within one year          | 11    | <b>(11,782)</b>  | (12,104)      |
| <b>Net current assets</b>                                      |       | <b>9,615</b>     | 8,944         |
| <b>Total assets less current liabilities</b>                   |       | <b>505,247</b>   | 489,802       |
| <b>Creditors:</b> amounts falling due after more than one year | 12    | <b>(119,068)</b> | (118,979)     |
| <b>Net assets</b>                                              |       | <b>386,179</b>   | 370,823       |
| <b>Capital and reserves</b>                                    |       |                  |               |
| Called-up share capital                                        | 13    | <b>84,453</b>    | 88,341        |
| Special reserve                                                | 14    | —                | 476           |
| Other reserves:                                                |       |                  |               |
| Capital reserve – realised                                     | 14    | <b>267,622</b>   | 287,017       |
| Capital reserve – unrealised                                   | 14    | <b>5,834</b>     | (33,341)      |
| Capital redemption reserve                                     | 14    | <b>3,888</b>     | —             |
| Revenue reserve                                                | 14    | <b>24,382</b>    | 28,330        |
| <b>Equity shareholders' funds</b>                              | 15    | <b>386,179</b>   | 370,823       |
| <b>Net asset value per share</b>                               | 16    | <b>114.3p</b>    | 104.9p        |

The accounts on pages 28 to 41 were approved by the Board of Directors on 9 November 2004 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 2004

|                                                                   | Notes | 2004<br>£'000 | 2003<br>£'000 |
|-------------------------------------------------------------------|-------|---------------|---------------|
| <b>Operating activities</b>                                       |       |               |               |
| Investment income received                                        |       | 17,503        | 17,475        |
| Deposit interest received                                         |       | 527           | 702           |
| Option premium received                                           |       | —             | 33            |
| Underwriting commission received                                  |       | —             | 4             |
| Investment management fees paid                                   |       | (2,232)       | (1,653)       |
| Other cash payments                                               |       | (1,173)       | (954)         |
| Net cash inflow from operating activities                         | 17    | 14,625        | 15,607        |
| <b>Servicing of finance</b>                                       |       |               |               |
| Interest on Yen loan                                              |       | —             | (120)         |
| Interest on 6.625 per cent Bonds 2008                             |       | (3,975)       | (3,975)       |
| Interest on 6.25 per cent Bonds 2031                              |       | (3,750)       | (3,750)       |
| Net cash outflow from servicing of finance                        |       | (7,725)       | (7,845)       |
| <b>Taxation</b>                                                   |       |               |               |
| Tax recovered                                                     |       | 58            | 58            |
| <b>Capital expenditure and financial investment</b>               |       |               |               |
| Purchases of investments                                          |       | (188,006)     | (150,533)     |
| Disposals of investments                                          |       | 214,708       | 176,809       |
| Net cash inflow from capital expenditure and financial investment |       | 26,702        | 26,276        |
| <b>Equity dividends paid</b>                                      |       | (18,591)      | (18,821)      |
| Net cash inflow before financing                                  |       | 15,069        | 15,275        |
| <b>Financing</b>                                                  |       |               |               |
| Ordinary shares purchased for cancellation                        |       | (15,717)      | —             |
| Yen loan repaid                                                   |       | —             | (22,429)      |
| Net cash outflow from financing                                   |       | (15,717)      | (22,429)      |
| <b>Decrease in cash</b>                                           | 18    | (648)         | (7,154)       |
| <b>Reconciliation of net cash flow to movement in net debt</b>    |       |               |               |
| Decrease in cash in the year                                      |       | (648)         | (7,154)       |
| Yen loan repaid                                                   |       | —             | 22,429        |
| <b>Movement in net debt resulting from cash flows</b>             |       | (648)         | 15,275        |
| Currency gains/(losses)                                           |       | 1,048         | (1,021)       |
| 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 2003                                        |       | (103,591)     | (117,756)     |
| <b>Net debt at 30 September 2004</b>                              | 18    | (103,280)     | (103,591)     |

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, except as disclosed in the following paragraph.

Expenses which are allocated to capital are available to reduce the Company's liability to corporation tax. The Statement of Recommended Practice directs that the benefit of that tax relief should be allocated to capital and a corresponding charge made to revenue. This is known as the 'marginal method' of allocating tax relief between capital and revenue. The Company does not adopt the marginal method for two reasons. Firstly, the Company has only one class of share and any allocation of tax relief between capital and revenue would have no impact on shareholders. Secondly, the significant unutilised management expenses and interest carried forward make it unlikely that the Company will be liable to corporation tax in the foreseeable future.

### 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 and 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
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature
- expenses and finance costs, together with the related taxation effect, charged in accordance with the policies below
- 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.

# Notes to the Accounts

Continued

## **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. Deferred tax is recognised at the standard rate of corporation tax without discounting.

## **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

|              | <b>2004</b>     | <b>2003</b> |
|--------------|-----------------|-------------|
| US Dollar    | <b>1.8096</b>   | 1.6614      |
| Euro         | <b>1.4570</b>   | 1.4267      |
| Japanese Yen | <b>199.4396</b> | 185.6033    |

## 2. Income

|                                 | 2004<br>£'000 | 2003<br>£'000 |
|---------------------------------|---------------|---------------|
| <b>Income from investments</b>  |               |               |
| Franked investment income       | 12,505        | 12,282        |
| Unfranked investment income     | 866           | 1,164         |
| Overseas dividends              | 2,299         | 2,254         |
| Overseas interest               | 1,408         | 1,504         |
|                                 | <b>17,078</b> | <b>17,204</b> |
| <b>Other income</b>             |               |               |
| Deposit interest                | 527           | 702           |
| Option premium                  | –             | 33            |
| Underwriting commission         | –             | 4             |
|                                 | <b>527</b>    | <b>739</b>    |
| <b>Total income</b>             | <b>17,605</b> | <b>17,943</b> |
| <b>Total income comprises:</b>  |               |               |
| Dividends                       | 14,804        | 14,536        |
| Fixed interest securities       | 2,274         | 2,668         |
| Deposit interest                | 527           | 702           |
| Other income                    | –             | 37            |
|                                 | <b>17,605</b> | <b>17,943</b> |
| <b>Income from investments:</b> |               |               |
| Listed UK                       | 13,371        | 13,446        |
| Listed overseas                 | 3,707         | 3,758         |
|                                 | <b>17,078</b> | <b>17,204</b> |

## 3. Investment management fee

|                            | 2004<br>Revenue<br>£'000 | 2004<br>Capital<br>£'000 | 2004<br>Total<br>£'000 | 2003<br>Revenue<br>£'000 | 2003<br>Capital<br>£'000 | 2003<br>Total<br>£'000 |
|----------------------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Investment management fee: |                          |                          |                        |                          |                          |                        |
| – basic                    | 444                      | 1,333                    | 1,777                  | 413                      | 1,240                    | 1,653                  |
| – performance              | –                        | 613                      | 613                    | –                        | –                        | –                      |
|                            | <b>444</b>               | <b>1,946</b>             | <b>2,390</b>           | <b>413</b>               | <b>1,240</b>             | <b>1,653</b>           |

The Company's investment manager is F&C Asset Management plc. F&C 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, and (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.

With effect from 1 October 2004 the contract with F&C Asset Management plc has been changed such that the entitlement to the performance-related fee will be calculated on an annual basis by reference to the performance of the Company against the benchmark index over each 12 month period ended on 30 September. The performance-related fee will be payable at a rate of up to a maximum of 0.3 per cent per annum of the value of equity shareholders' funds.

The contract between the Company and F&C 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, F&C 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 prorated to the date of termination.

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

|                                 | 2004<br>£'000 | 2003<br>£'000 |
|---------------------------------|---------------|---------------|
| Directors' fees                 | 95            | 82            |
| Auditors' remuneration for:     |               |               |
| – audit                         | 19            | 19            |
| – other services to the Company | 7             | 8             |
| Other*                          | 1,059         | 761           |
|                                 | <b>1,180</b>  | <b>870</b>    |

\*includes marketing, registration and professional fees.

## 5. Finance costs

|                                                  | 2004<br>Revenue<br>£'000 | 2004<br>Capital<br>£'000 | 2004<br>Total<br>£'000 | 2003<br>Revenue<br>£'000 | 2003<br>Capital<br>£'000 | 2003<br>Total<br>£'000 |
|--------------------------------------------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Repayable within 5 years, not by instalments     |                          |                          |                        |                          |                          |                        |
| – Yen loan                                       | –                        | –                        | –                      | 29                       | 86                       | 115                    |
| – 6.625 per cent Bonds 2008                      | 1,010                    | 3,028                    | 4,038                  | 1,010                    | 3,028                    | 4,038                  |
| Repayable wholly or partly in more than 5 years: |                          |                          |                        |                          |                          |                        |
| – 6.25 per cent Bonds 2031                       | 944                      | 2,832                    | 3,776                  | 944                      | 2,832                    | 3,776                  |
|                                                  | <b>1,954</b>             | <b>5,860</b>             | <b>7,814</b>           | <b>1,983</b>             | <b>5,946</b>             | <b>7,929</b>           |

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

## 6 a). Tax on ordinary activities

|                   | 2004<br>£'000 | 2003<br>£'000 |
|-------------------|---------------|---------------|
| Overseas taxation | 254           | 270           |

The Company has £24,860,000 unutilised management expenses and interest at 30 September 2004 (2003: £18,555,000). No deferred tax asset has been recognised on this amount as it is unlikely there will be 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:

|                                                 | <b>2004</b><br><b>£'000</b> | 2003<br>£'000 |
|-------------------------------------------------|-----------------------------|---------------|
| Return on ordinary activities before taxation   | <b>14,027</b>               | 14,677        |
| Corporation tax at standard rate of 30 per cent | <b>4,208</b>                | 4,403         |
| Effects of:                                     |                             |               |
| Non-taxable dividend income                     | <b>(3,751)</b>              | (3,685)       |
| Brought forward revenue expenses                | <b>(203)</b>                | (448)         |
| Current year tax charge (overseas taxation)     | <b>254</b>                  | 270           |

## 7. Dividends

|                                                                 | <b>2004</b><br><b>£'000</b> | 2003<br>£'000 |
|-----------------------------------------------------------------|-----------------------------|---------------|
| Dividends on Ordinary Shares:                                   |                             |               |
| – first quarterly interim paid 1.304p (2003: 1.304p) per share  | <b>4,537</b>                | 4,608         |
| – second quarterly interim paid 1.304p (2003: 1.304p) per share | <b>4,460</b>                | 4,608         |
| – third quarterly interim paid 1.304p (2003: 1.304p) per share  | <b>4,434</b>                | 4,608         |
| – final proposed 1.414p (2003: 1.414p) per share                | <b>4,777</b>                | 4,997         |
|                                                                 | <b>18,208</b>               | 18,821        |
| Overprovision in respect of prior years                         | <b>(11)</b>                 | –             |
|                                                                 | <b>18,197</b>               | 18,821        |

## 8. Return per share

|          | <b>2004</b><br><b>Revenue</b> | <b>2004</b><br><b>Capital</b> | <b>2004</b><br><b>Total</b> | 2003<br>Revenue | 2003<br>Capital | 2003<br>Total |
|----------|-------------------------------|-------------------------------|-----------------------------|-----------------|-----------------|---------------|
| Ordinary | <b>3.96p</b>                  | <b>10.22p</b>                 | <b>14.18p</b>               | 4.08p           | 11.58p          | 15.66p        |

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

|          | <b>2004</b><br><b>Revenue</b><br><b>£'000</b> | <b>2004</b><br><b>Capital</b><br><b>£'000</b> | 2003<br>Revenue<br>£'000 | 2003<br>Capital<br>£'000 |
|----------|-----------------------------------------------|-----------------------------------------------|--------------------------|--------------------------|
| Ordinary | <b>13,773</b>                                 | <b>35,508</b>                                 | 14,407                   | 40,928                   |

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

|                                                            | <b>2004</b>        | 2003        |
|------------------------------------------------------------|--------------------|-------------|
| Weighted average number of shares in issue during the year | <b>347,578,402</b> | 353,362,282 |

# Notes to the Accounts

Continued

## 9. Investments

|                                                        | <b>2004</b>    |  | <b>2003</b>    |  |
|--------------------------------------------------------|----------------|--|----------------|--|
|                                                        | <b>£'000</b>   |  | <b>£'000</b>   |  |
| Investments listed on a recognised investment exchange | <b>495,632</b> |  | 480,858        |  |
| Unlisted investments                                   |                |  |                |  |
|                                                        | <b>495,632</b> |  | <b>480,858</b> |  |

|                                                | Listed<br>in UK<br>£'000 | Listed<br>overseas<br>£'000 | Unlisted<br>£'000 | Total<br>£'000 |
|------------------------------------------------|--------------------------|-----------------------------|-------------------|----------------|
| Opening book cost                              | 362,541                  | 151,178                     | 626               | 514,345        |
| Opening unrealised depreciation                | (28,009)                 | (4,852)                     | (626)             | (33,487)       |
| Opening valuation                              | 334,532                  | 146,326                     | —                 | 480,858        |
| Movements in the year:                         |                          |                             |                   |                |
| Purchases at cost                              | 38,167                   | 149,626                     | —                 | 187,793        |
| Sales – proceeds                               | (61,140)                 | (154,400)                   | —                 | (215,540)      |
| – realised gains/(losses) on sales             | 5,115                    | (2,024)                     | —                 | 3,091          |
| Increase in unrealised appreciation            | 33,118                   | 6,312                       | —                 | 39,430         |
| Closing valuation                              | <b>349,792</b>           | <b>145,840</b>              | <b>—</b>          | <b>495,632</b> |
| Closing book cost                              | 344,683                  | 144,380                     | 626               | 489,689        |
| Closing unrealised appreciation/(depreciation) | 5,109                    | 1,460                       | (626)             | 5,943          |
| Closing valuation                              | <b>349,792</b>           | <b>145,840</b>              | <b>—</b>          | <b>495,632</b> |

|                         | <b>2004</b>    | <b>2003</b>    |
|-------------------------|----------------|----------------|
|                         | <b>£'000</b>   | <b>£'000</b>   |
| Equity shares           | <b>464,264</b> | 447,181        |
| Fixed income securities | <b>31,368</b>  | 33,677         |
|                         | <b>495,632</b> | <b>480,858</b> |

|                                     |               |          |
|-------------------------------------|---------------|----------|
| Realised gains/(losses) on sales    | <b>3,091</b>  | (45,669) |
| Increase in unrealised appreciation | <b>39,430</b> | 94,160   |
| Gains on investments                | <b>42,521</b> | 48,491   |

## 10. Debtors

|                                | <b>2004</b><br><b>£'000</b> | <b>2003</b><br><b>£'000</b> |
|--------------------------------|-----------------------------|-----------------------------|
| Amounts due from brokers       | <b>2,914</b>                | 2,082                       |
| Taxation recoverable           | <b>34</b>                   | 80                          |
| Prepayments and accrued income | <b>2,661</b>                | 3,353                       |
| Other debtors                  | <b>–</b>                    | 145                         |
|                                | <b>5,609</b>                | <b>5,660</b>                |

## 11. Creditors: amounts falling due within one year

|                                      | <b>2004</b><br><b>£'000</b> | <b>2003</b><br><b>£'000</b> |
|--------------------------------------|-----------------------------|-----------------------------|
| Amounts due to brokers               | <b>1,564</b>                | 1,777                       |
| Third quarterly interim dividend     | <b>4,434</b>                | 4,608                       |
| Final dividend                       | <b>4,777</b>                | 4,997                       |
| Interest on 6.25 per cent Bonds 2031 | <b>208</b>                  | 208                         |
| Other creditors                      | <b>799</b>                  | 514                         |
|                                      | <b>11,782</b>               | <b>12,104</b>               |

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

|                           | <b>2004</b><br><b>£'000</b> | <b>2003</b><br><b>£'000</b> |
|---------------------------|-----------------------------|-----------------------------|
| 6.625 per cent Bonds 2008 | <b>59,779</b>               | 59,716                      |
| 6.25 per cent Bonds 2031  | <b>59,289</b>               | 59,263                      |
|                           | <b>119,068</b>              | <b>118,979</b>              |

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

|                                                           | 2004<br>Shares     | 2003<br>Shares | 2004<br>£'000  | 2003<br>£'000 |
|-----------------------------------------------------------|--------------------|----------------|----------------|---------------|
| <b>Authorised</b> at 30 September                         |                    |                |                |               |
| Ordinary Shares of 25p each                               | <b>460,800,000</b> | 460,800,000    | <b>115,200</b> | 115,200       |
| <b>Allotted, called-up and fully paid</b> at 30 September |                    |                |                |               |
| Ordinary Shares of 25p each                               | <b>337,812,282</b> | 353,362,282    | <b>84,453</b>  | 88,341        |

During the year the Company purchased for cancellation 15,550,000 Ordinary Shares of 25p each for a total consideration of £15,728,000.

## 14. Reserves

|                                                    | Special<br>reserve<br>£'000 | Capital<br>reserve—<br>realised<br>£'000 | Capital<br>reserve—<br>unrealised<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Revenue<br>reserve<br>£'000 |
|----------------------------------------------------|-----------------------------|------------------------------------------|--------------------------------------------|-------------------------------------------|-----------------------------|
| Opening balance                                    | 476                         | 287,017                                  | (33,341)                                   | —                                         | 28,330                      |
| Net gain on realisation of investments             | —                           | 3,091                                    | —                                          | —                                         | —                           |
| Increase in unrealised appreciation on investments | —                           | —                                        | 39,430                                     | —                                         | —                           |
| Exchange differences                               | —                           | 1,048                                    | (255)                                      | —                                         | —                           |
| Investment management fee charged to capital       | —                           | (1,946)                                  | —                                          | —                                         | —                           |
| Finance costs charged to capital                   | —                           | (5,860)                                  | —                                          | —                                         | —                           |
| Ordinary Shares purchased for cancellation         | —                           | (15,728)                                 | —                                          | 3,888                                     | —                           |
| Transfer                                           | (476)                       | —                                        | —                                          | —                                         | 476                         |
| Retained net deficit for the year                  | —                           | —                                        | —                                          | —                                         | (4,424)                     |
| Closing balance                                    | —                           | <b>267,622</b>                           | <b>5,834</b>                               | <b>3,888</b>                              | <b>24,382</b>               |

## 15. Reconciliation of movements in shareholders' funds

|                                            | 2004<br>£'000   | 2003<br>£'000 |
|--------------------------------------------|-----------------|---------------|
| Opening shareholders' funds                | <b>370,823</b>  | 334,309       |
| Total recognised gains before dividends    | <b>49,281</b>   | 55,335        |
| Dividends in respect of Ordinary Shares    | <b>(18,197)</b> | (18,821)      |
| Ordinary Shares purchased for cancellation | <b>(15,728)</b> | —             |
| Closing shareholders' funds                | <b>386,179</b>  | 370,823       |

## 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<br>per share attributable |               | Net asset values<br>attributable |               |
|-----------------|-------------------------------------------|---------------|----------------------------------|---------------|
|                 | <b>2004<br/>pence</b>                     | 2003<br>pence | <b>2004<br/>£'000</b>            | 2003<br>£'000 |
| Ordinary Shares | <b>114.3</b>                              | 104.9         | <b>386,179</b>                   | 370,823       |

Net asset value per Ordinary Share is calculated on equity shareholders' funds of £386,179,000 (2003: £370,823,000) divided by the number of Ordinary Shares in issue of 337,812,282 (2003: 353,362,282) to give 114.3p (2003: 104.9p).

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

|                                               | <b>2004<br/>£'000</b> | 2003<br>£'000 |
|-----------------------------------------------|-----------------------|---------------|
| Net revenue before finance costs and taxation | <b>15,981</b>         | 16,660        |
| Decrease in accrued income                    | <b>692</b>            | 567           |
| Increase/(decrease) in other creditors        | <b>165</b>            | (84)          |
| Investment management fee charged to capital  | <b>(1,946)</b>        | (1,240)       |
| Tax on investment income                      | <b>(267)</b>          | (296)         |
| Net cash inflow from operating activities     | <b>14,625</b>         | 15,607        |

## 18. Analysis of changes in net debt

|                             | At 30<br>September<br>2003<br>£'000 | Cash<br>flow<br>£'000 | Other<br>movements<br>£'000 | Currency<br>movements<br>£'000 | At 30<br>September<br>2004<br>£'000 |
|-----------------------------|-------------------------------------|-----------------------|-----------------------------|--------------------------------|-------------------------------------|
| Cash at bank and on deposit | 15,388                              | (648)                 | —                           | 1,048                          | <b>15,788</b>                       |
| 6.625 per cent Bonds 2008   | (59,716)                            | —                     | (63)                        | —                              | <b>(59,779)</b>                     |
| 6.25 per cent Bonds 2031    | (59,263)                            | —                     | (26)                        | —                              | <b>(59,289)</b>                     |
|                             | <b>(103,591)</b>                    | <b>(648)</b>          | <b>(89)</b>                 | <b>1,048</b>                   | <b>(103,280)</b>                    |

# 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.

## 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.

|                             | 2004<br>£'000 | 2004<br>Average<br>interest<br>rate | 2004<br>Average<br>period<br>until<br>maturity | 2003<br>£'000 | 2003<br>Average<br>interest<br>rate | 2003<br>Average<br>period<br>until<br>maturity |
|-----------------------------|---------------|-------------------------------------|------------------------------------------------|---------------|-------------------------------------|------------------------------------------------|
| Fixed interest investments: |               |                                     |                                                |               |                                     |                                                |
| Fixed interest portfolio    | 31,368        | 6.60%                               | 5.5 years                                      | 33,677        | 7.10%                               | 9.5 years                                      |
| Fixed interest liabilities: |               |                                     |                                                |               |                                     |                                                |
| 6.625 per cent Bonds 2008   | 59,779        | 6.625%                              | 3.50 years                                     | 59,716        | 6.625%                              | 4.50 years                                     |
| 6.25 per cent Bonds 2031    | 59,289        | 6.25%                               | 26.95 years                                    | 59,263        | 6.25%                               | 27.95 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 2004 was £120.9 million (2003: £121.4 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 2004, the Company entered into US Dollar and Euro foreign currency contracts with a view to hedging these currency risks.

Foreign currency exposure:

|                   | <b>2004<br/>Investments<br/>£'000</b> | <b>2004<br/>Cash<br/>£'000</b> | <b>2003<br/>Investments<br/>£'000</b> | <b>2003<br/>Cash<br/>£'000</b> |
|-------------------|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|
| US Dollar         | <b>64,627</b>                         | <b>1,359</b>                   | 72,136                                | 815                            |
| Euro              | <b>20,864</b>                         | <b>307</b>                     | 30,790                                | (456)                          |
| Swiss Franc       | <b>3,956</b>                          | —                              | 5,323                                 | —                              |
| Norwegian Kroner  | <b>843</b>                            | <b>(13)</b>                    | 634                                   | —                              |
| Danish Kroner     | <b>559</b>                            | —                              | —                                     | —                              |
| Swedish Kroner    | <b>1,958</b>                          | —                              | —                                     | —                              |
| Canadian Dollar   | —                                     | —                              | 873                                   | —                              |
| Yen               | <b>21,880</b>                         | <b>193</b>                     | 11,692                                | 60                             |
| Australian Dollar | <b>1,615</b>                          | —                              | 2,424                                 | 31                             |
| Hong Kong Dollar  | <b>5,986</b>                          | <b>30</b>                      | 5,609                                 | 9                              |
| Singapore Dollar  | <b>1,698</b>                          | —                              | 2,755                                 | —                              |
| Malaysian Dollar  | <b>1,347</b>                          | —                              | 1,413                                 | —                              |
| South Korea Won   | <b>1,874</b>                          | <b>(628)</b>                   | —                                     | —                              |
| Taiwan Dollar     | <b>2,659</b>                          | <b>6</b>                       | —                                     | —                              |
| Thailand Bhat     | <b>839</b>                            | —                              | 970                                   | —                              |
| Indonesian Rupiah | <b>869</b>                            | —                              | 718                                   | —                              |
| <b>Total</b>      | <b>131,574</b>                        | <b>1,254</b>                   | <b>135,337</b>                        | <b>459</b>                     |

As noted above the Company hedged currency exposure in US Dollars and Euros by way of foreign exchange currency contracts. The foreign exchange currency contracts not yet realised were as follows:

|                        | <b>2004<br/>Hedged<br/>amount<br/>£'000</b> | <b>2004<br/>Unrealised<br/>loss<br/>£'000</b> | <b>2003<br/>Hedged<br/>amount<br/>£'000</b> | <b>2003<br/>Unrealised<br/>gain/(loss)<br/>£'000</b> |
|------------------------|---------------------------------------------|-----------------------------------------------|---------------------------------------------|------------------------------------------------------|
| US Dollar for Sterling | <b>3,062</b>                                | <b>(6)</b>                                    | 4,715                                       | 200                                                  |
| Euro for Sterling      | <b>5,543</b>                                | <b>(103)</b>                                  | 6,879                                       | (55)                                                 |
|                        | <b>8,605</b>                                | <b>(109)</b>                                  | <b>11,594</b>                               | <b>145</b>                                           |

Total realised gains in the year from foreign exchange currency contracts were £1,261,000 (2003 losses: £330,000).

# Directors' Responsibility Statement and Independent Auditors' Report

## Directors' Responsibility Statement

The Directors are required by law to prepare financial statements 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 financial statements 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 financial statements. Applicable UK accounting standards have been followed.

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

We have audited the Company's financial statements for the year ended 30 September 2004 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement, and related notes 1 to 22. These financial statements 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 including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Directors' Responsibility Statement in relation to the financial statements.

Our responsibility is to audit the financial statements 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 financial statements give a true and fair view and whether the financial statements 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 financial statements, 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 financial statements. This other information comprises the Company Summary, Financial Highlights, Performance Summary, Chairman's Statement, Investment Managers and Investment Process, Manager's Review, Investment Portfolio, Classification of Investments, Capital Structure, Long Term Record, Board of Directors, Report of the Directors, the unaudited part of the Directors' Remuneration Report, Shareholder Information, Financial Calendar 2004/05, 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 financial statements. 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 financial statements 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 financial statements, 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 financial statements 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 financial statements and the part of the Directors' Remuneration Report to be audited.

#### Opinion

In our opinion :

- the financial statements give a true and fair view of the state of affairs of the Company as at 30 September 2004 and of its net revenue for the year then ended; and
- the financial statements 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*

**Ernst & Young LLP**

Registered Auditor

Edinburgh

12 November 2004

# Shareholder Information

## Total Number of Shareholders\*

|                 |        |
|-----------------|--------|
| Ordinary Shares | 21,517 |
|-----------------|--------|

\*Held directly on the Share Register and through F&C 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 Thursday 16 December 2004 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, The Causeway, Worthing, West Sussex BN99 6DA on request. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly to shareholders' bank accounts, dividend tax vouchers are sent 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 also be obtained from Lloyds TSB Registrars 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, The Causeway, Worthing, West Sussex BN99 6DA, 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 F&C 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 $\frac{5}{8}$ p |
| 3.15% Preference Stock     | 29 $\frac{1}{2}$ p |
| 'A' 3.50% Preference Stock | 32 $\frac{1}{2}$ p |

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

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

## Financial Calendar 2004/05

|                  |                                                              |
|------------------|--------------------------------------------------------------|
| 16 December 2004 | Annual General Meeting                                       |
| 7 January 2005   | Final dividend paid                                          |
| April 2005       | First interim dividend paid                                  |
| May 2005         | Announcement of Interim Results<br>Posting of Interim Report |
| July 2005        | Second interim dividend paid                                 |
| October 2005     | Third interim dividend paid                                  |
| November 2005    | Announcement of Annual Results<br>Posting of Annual Report   |

# Investment Services for Shareholders

F&C Asset Management plc ('F&C') has a range of products available for investors who wish to invest in British Assets Trust plc, with or without financial advice.

## Plans suitable for direct investment

F&C 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.
- A Children's Savings Plan offering a flexible and tax-efficient way for parents or other family members to provide for long term needs such as school fees or the cost of a university education.

The minimum investment amounts are £1,500 for a lump sum (£500 for the Children's Savings Plan), 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](http://www.zerocharge.co.uk)**

## Plans available through advisers

F&C 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 two managed portfolios of trusts selected from across the industry, one for growth, 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 F&C Asset Management plc which is Authorised and regulated by the Financial Services Authority. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.*

# Notice of Annual General Meeting

British Assets Trust plc

**Notice is hereby given that the One Hundred and Seventh Annual General Meeting of British Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh on Thursday 16 December 2004 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 2004 be received.
2. That the Directors' Remuneration Report for the year ended 30 September 2004 be approved.
3. That a final dividend of 1.414 pence per Ordinary Share be declared.
4. That Ms L C Ruddick, who retires at the first Annual General Meeting following her appointment, be re-appointed as a Director.
5. That Sir Malcolm Rifkind, who retires by rotation, be re-elected as a Director.
6. That Mr W R E Thomson, who retires annually, be re-elected as a Director.
7. That Dr C Masters, who retires annually, be re-elected as a Director.
8. That Mr J G West, who retires annually, be re-elected as a Director.
9. That the maximum aggregate sum available for Directors' remuneration for their services shall be £200,000 per annum.
10. That Ernst & Young LLP be re-appointed as Auditors and the Directors be authorised to determine their remuneration.
11. 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 £8,392,807 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:

12. 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 11 proposed at the Annual General Meeting of the Company convened for 16 December 2004, 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

# Notice of Annual General Meeting

Continued

- (b) the allotment (other than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £4,196,403 (5 per cent of the equity share capital in issue on 9 November 2004);

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.

13. 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 2005 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2005, 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  
9 November 2004

## 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 14 December 2004 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 names at that time. Changes to the entries on the Register of Members after 6.00 pm on 14 December 2004 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

Lynn C Ruddick

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

F&C 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

The Causeway

Worthing

West Sussex BN99 6DA

## Registrar's Shareholder Helpline

Tel No. 0870 601 5366

## Registrar's Broker Helpline

Tel No. 0870 600 0158

\*Chairman of the Audit Committee

†Senior Independent Director

For further information contact F&C Asset Management  
Investment Services on 0845 600 6166