

British Assets Trust plc

Annual Report 2005

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If you have sold or otherwise transferred all of your Ordinary Shares in British Assets Trust plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

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The Company

The Company is an investment trust. 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 2005 were £572.0 million.

Objective

The investment objective of the Company is to achieve a total return in excess of a composite index, weighted as to 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index, by investing in an international portfolio of equities and equity-related securities. Within this overall objective, the Company aims to maintain a progressive dividend policy which will be dependent upon, *inter alia*, the rate of revenue growth within the investment portfolio, and the level of dividend cover.

Management

The Board has appointed F&C Asset Management plc as investment managers. The notice period is six months. Further details of the management contract are provided in the Notes to the Accounts.

Capital Structure

The Company has a capital structure consisting of Ordinary Shares.

The Company has £60 million 6.625 per cent Bonds 2008 and £60 million 6.25 per cent Bonds 2031 in issue.

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.

Isa/Pep Status

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

Website

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

A Member of the Association
of Investment Trust Companies

Financial Highlights for the Year

- Net asset value total return of 27.8 per cent compared to a return of 24.6 per cent from the benchmark index
- Share price total return of 31.1 per cent reflecting narrowing of the discount to 9.7 per cent
- Dividend yield of 4.2 per cent

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

Performance Summary

British Assets Trust plc

	30 September 2005	30 September 2004	
Total Return			
Net asset value*†	27.8%	14.2%	
Ordinary Share price†	31.1%	7.8%	
Composite index†¶	24.6%	13.6%	
FTSE All-Share Index†	24.9%	15.7%	
FTSE World (ex UK) Index†	23.6%	7.2%	
			% change
Capital Values			
Net asset value	140.1p	114.3p	+22.6
Ordinary Share price	126.5p	101.0p	+25.2
Revenue and Dividends			
Earnings per Ordinary Share	4.75p	3.96p	+19.9
Dividends per Ordinary Share	5.326p	5.326p	—
Dividend Yield			
	4.2%	5.3%	
Discount (difference between share price and net asset value)			
	9.7%	11.6%	
Gearing ‡			
Gearing net of cash	22.1%	28.3%	
Total Expense Ratio (as percentage of shareholders' funds)			
Management (excluding performance fee), marketing and other expenses	0.70%	0.78%	
Performance fee	0.38%	0.16%	
	2005 High	2005 Low	
Year's Highs/Lows			
Net asset value	141.1p	113.2p	
Ordinary Share price	126.5p	100.0p	
Discount	6.3%	13.4%	

* 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 – Net Current Assets) ÷ Equity Shareholders' Funds.

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

Chairman's Statement

W R E Thomson
Chairman

2005 has been an excellent year for stock markets and dividend growth

The year to 30 September 2005 was a strong year for global stockmarkets. The Company's net asset value total return, with net dividends reinvested, was 27.8 per cent. This compares well with a total return of 24.6 per cent from the benchmark index of 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index. The share price total return for the year was 31.1 per cent, helped by the narrowing of the discount of share price to net asset value from 11.6 per cent to 9.7 per cent.

Asset allocation, gearing and share buy backs enhanced returns for shareholders during the year. Overall stock selection was positive compared to the benchmark. Good performance in Europe was offset by underperformance in the early part of the financial year in North America. However, since the appointment by F&C Asset Management plc of a new fund manager for North America at the end of 2004, we have seen an improvement in performance from this portfolio. The Board will continue to keep this area under careful review. Corporate bond returns lagged equities during the year but the portfolio still delivered a return of 10.1 per cent, well above the cost of the Company's borrowings, whilst providing an attractive yield and making an important contribution to the Revenue Account.

During the first half of the year, the FTSE All-Share Index increased in value on the back of strong dividend growth, share buy backs and bid rumours. This trend continued through the second half of the year and in particular during the final quarter. There was also good growth from overseas markets, in particular from the Pacific (ex Japan) region, where economic growth remains strong and Japan, which is benefiting from ongoing reform and improving economic conditions. The poorest performing region during the year was North America where the prospect of slower earnings growth and rising interest rates have capped returns.

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	24.6
Stock selection	
UK equities	0.2
Overseas equities	0.0
Regional asset allocation	0.6
Corporate bonds	-0.6
Gearing	3.4
Buy backs	0.5
Expenses	-0.9
British Assets Trust total return	<u>27.8</u>

Activity

During the year, the Company remained overweight in Japan and the Pacific (ex Japan) regions, and underweight in North America. In the early part of the year, the Managers raised cash out of North America reflecting concerns at that time over further weakness in the US Dollar. This cash, together with cash raised out of Europe and the Pacific (ex Japan) regions later in the year following a period of strong outperformance, was used principally to fund share buy backs.

Gearing

At the end of the year the Company's gearing level, net of cash, was 22.1 per cent, compared to 28.3 per

cent as at 30 September 2004. The level of gearing is represented by 14.6 per cent in equities and 7.5 per cent in corporate bonds.

As shown in the notes to the accounts, the Company's borrowings are made up of two £60 million Bonds, one which matures in 2008 and the other in 2031.

Earnings and Dividends

The Company's earnings were 4.75p per Ordinary Share in respect of the year ended 30 September 2005, an increase of 19.9 per cent compared to the previous year. During the year, the Company benefited from strong dividend growth from its investee companies, particularly in the UK where we were also in receipt of some special dividends. Share buy backs for cancellation, which reduce the number of shares on which the Company's own dividend is payable, have further improved the Company's earnings per share.

At the end of the year the level of dividend cover provided by the Company's Revenue Reserve was 132 per cent, which compares to 136 per cent as at 30 September 2004. Shareholders will recall from previous Annual and Interim Reports that, prior to the Company's 46,770,630 Growth Shares being converted into Ordinary Shares in September 2001, and becoming entitled to dividends, 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.

Since September 2001, the Company has bought back 31,050,000 Ordinary Shares for cancellation. Taken together with the strong growth in dividends paid by investee companies over the past two years, this has improved the Company's dividend paying ability.

The Board is aware of the attractions to shareholders of the above average dividend yield which, at 30 September 2005, was 4.2 per cent and compared to a yield of 3.0 per cent on the FTSE All-Share Index. The Board is also conscious of the Company's stated

aim to seek to achieve a progressive dividend policy. However, as I have stated in previous reports to shareholders, we need to balance this aim with the overriding objective of maximising total return, that is capital growth plus the dividend yield.

With all this in mind, the Board has continued to monitor carefully the Company's revenue projections. We would expect, subject to there being no material reductions in dividends paid by our investee companies, to be in a position to grow the dividend paid to shareholders in respect of the year ended 30 September 2007. At this stage, it is unlikely that we will increase the dividend for the year ended 30 September 2006 but if dividend growth from our investee companies is significantly ahead of expectations by the end of this financial year, we may be in a position to accelerate the date at which we can increase the dividend.

In respect of the year ended 30 September 2005, the Board recommends a final dividend of 1.414p per Ordinary Share, payable on 6 January 2006 to shareholders on the register on 9 December 2005. 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.

Share Buy-Backs

During the year the Company bought back 14,500,000 Ordinary Shares for cancellation, equivalent to 4.3 per cent of the shares in issue at the previous year end, for a total consideration of £16.3 million. These buy backs enhanced the net asset value by 0.54p per share and, as stated above, provided a benefit to the Revenue Account by reducing the number of shares on which dividends are payable.

The Company will seek to renew its share buy back authority at the forthcoming Annual General Meeting.

Board Composition

Sir Malcolm Rifkind retired as a Director on 31 May 2005, having served on the Board since 1998. On

Chairman's Statement

Continued

behalf of the Board I would like to thank Sir Malcolm for his significant contribution to Board matters over this time. As previously reported to shareholders, Ms Lynn Ruddick was appointed as a Director on 1 October 2004.

Whilst the current composition of the Board is already compliant with the recommendations of the Combined Code on Corporate Governance, it is our intention to seek to recruit an additional independent non-executive Director during the current financial year so as to continue to refresh the overall composition of the Board.

Annual General Meeting

The Annual General Meeting will be held at 12.30pm on Monday 19 December 2005 at the offices of F&C Asset Management plc, 80 George Street, Edinburgh. This is a good opportunity for shareholders to meet the Board and Managers of the Company and we would therefore encourage you to attend.

A significant majority of the Company's shares are held by private investors and it is important that their views are represented at the Annual General Meeting. It is a fact that most institutions vote at general meetings and the majority of individuals do not. This means that, for a company such as British Assets Trust, a minority of shareholders could dictate its future course. It is for this reason that the Board feels it is important for all shareholders to exercise their right to vote.

You will find the Notice of Meeting and resolutions to be proposed on pages 47 and 48. Proxy forms for shareholders who hold their shares on the main register, and voting forms for those who hold shares through the F&C Asset Management plc retail plans, are enclosed separately with the Annual Report. The Board hopes very much that shareholders will take the time to complete and submit their forms.

Outlook

After excellent returns in 2005, it is difficult to see gains of a similar scale in 2006. The backdrop for equities will become more challenging as growth slows. That said, valuations and earnings prospects are reasonable, and stock market sentiment is generally good.



W R E Thomson

Chairman

16 November 2005

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 19 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) was created on 11 October 2004 following the merger of ISIS Asset Management plc and F&C Group (Holdings) Limited. The combined business has around £130 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 2005, the Company's net asset value total return was 27.8 per cent, which compared to a return of 24.6 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 31.1 per cent. Gearing, stock selection, regional asset allocation and share buy backs all boosted returns for shareholders over the year.

It has been a good year for global stockmarkets. The best performance has come in the Pacific (ex Japan) region with the US market very much the laggard. Equity markets have moved quickly to discount the benefits of improving global demand over the summer. The corporate sector has delivered strong earnings growth, and equity markets in general remain attractively valued.

Japan, one of our preferred markets, has significantly outperformed over recent months. Clearly, political events have proved something of a catalyst for the improvement in the market, but Japan continues to score highly on our quantitative ranking models. While reform in Japan will be a long, slow process, this change is combined with attractive valuations and a better economic backdrop.

Global growth has accelerated over the summer but in our view will decelerate into next year. The principal risk to future growth is the oil price, which has continued to rise on supply concerns linked to the shutdown of production facilities in the US due to Hurricane Katrina. This has resulted in a shortage of supply in oil markets on top of what was already a tight market due to strong demand. Last year, for the first time, Asia consumed more oil than North America. China continues to drive the strongest oil market seen in 30 years but this should slow as other power sources, particularly LNG, come on stream. A shortage of refining capacity, particularly of diesel and aviation fuel, is also adding to the upward price pressure. It could take two years to address these refining shortages. So high oil prices may last for some time.

Stronger demand has led markets to anticipate higher global interest rates. The exception is the UK. The decision by the Bank of England to cut interest rates by 25 basis points to 4.5 per cent at the August policy meeting was in response to weakness in consumer spending which is likely to continue into next year.

Elsewhere in Europe growth remains sluggish, hampered by a lack of domestic demand. Hopes of more radical reform in Germany appear to be on hold until the election impasse is resolved. Core inflation remains subdued but the European Central Bank remains concerned about strong credit growth and rising house prices. In the near future growth across Europe remains remarkably diverse with Germany and France decelerating sharply, Spain maintaining strong growth and Italy and the Netherlands picking up.

Growth in China has slowed modestly over the summer but remains at a high level. For Chinese demand to weaken significantly we would have to see materially tighter financial conditions and a dramatic slowdown in world trade. The Chinese government has been tightening land supply and credit in the more developed coastal areas while investing heavily in infrastructure in the inland regions. Provinces with abundant natural resources have been the major beneficiaries of these developments.

Elsewhere in Asia the picture is more mixed. In the North, Hong Kong remains buoyant, benefiting from a surge in tourism and good financial markets. However, higher US interest rates remain a concern given the currency peg. Taiwan's growth is lacklustre, reflecting the country's dependence on technology related exports. Domestic demand in Korea is improving. The prospects in South East Asia are less favourable with government policy damaging growth prospects particularly in Thailand, Indonesia and The Philippines.

During the early part of the year we reduced our exposure to North America, whilst remaining overweight in Japan and the Pacific (ex Japan) regions. Cash was raised from our European and Pacific (ex Japan) portfolios later in the year following a period of strong outperformance. This cash was used principally to fund share buy backs.

At 30 September 2005 the Company had gearing net of cash of 22.1 per cent* (including 7.5 per cent invested in corporate bonds) and potential gearing of 26.3 per cent†.

* $(\text{Borrowings} - \text{Net Current Assets}) \div \text{Equity Shareholders' Funds}$

† $\text{Borrowings} \div \text{Equity Shareholders' Funds}$

Asset Allocation

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

Asset Class	Benchmark 30.09.05 %	30 September 2004		30 September 2005	
		Net Share- holders' Funds %	Total Assets %	Net Share- holders' Funds %	Total Assets %
UK Equities	75.0	87.5	66.9	85.2	67.5
Overseas Equities					
– North America	15.2	15.1	11.6	13.4	10.6
– Europe (ex UK)	5.2	6.7	5.1	5.9	4.6
– Japan	2.6	5.7	4.3	6.1	4.9
– Pacific (ex Japan)	2.0	5.2	4.0	4.0	3.2
Total Overseas Equities	25.0	32.7	25.0	29.4	23.3
Total Equities	100.0	120.2	91.9	114.6	90.8
Corporate Bonds	–	8.1	6.2	7.5	5.9
Liquidity	–	–	1.9	–	3.3
Actual Gearing	–	(28.3)	–	(22.1)	–
Total	100.0	100.0	100.0	100.0	100.0
Potential Gearing	–	(30.8)	–	(26.3)	–

The table below shows the equity weightings by sector in the benchmark and the portfolio as at 30 September 2005:

FTSE Sector	Benchmark %	Total Equities %	UK Equities %	Overseas Equities %
Resources	20.0	18.6	16.1	2.5
Basic Industries	3.8	2.2	0.9	1.3
General Industrials	4.1	8.3	4.9	3.4
Cyclical Consumer Goods	1.2	2.0	–	2.0
Non-Cyclical Consumer Goods	16.3	14.1	11.1	3.0
Cyclical Services	12.3	11.6	9.1	2.5
Non-Cyclical Services	9.0	10.2	8.9	1.3
Utilities	4.1	4.1	3.9	0.2
Information Technology	3.5	3.6	0.5	3.1
Financials	25.7	25.3	19.0	6.3
Total	100.0	100.0	74.4	25.6

Manager's Review

Continued

Sub-Portfolio Reports

UK – Major Holdings

Company	Description	Market Value £m	% Total Investments
BP	Integrated Oil	37.3	6.7
Royal Dutch Shell	Integrated Oil	27.4	4.9
Vodafone Group	Telecommunications	26.6	4.8
HSBC Holdings	Banks	26.0	4.7
GlaxoSmithKline	Pharmaceuticals	22.4	4.1
Royal Bank of Scotland Group	Banks	14.8	2.7
AstraZeneca	Pharmaceuticals	10.0	1.8
HBOS	Banks	9.2	1.7
Standard Life Euro Private Equity Trust	Investment Company	7.8	1.4
Barclays	Banks	7.7	1.4

The UK portfolio was 25.2 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 24.9 per cent. Medium sized companies had another year of strong performance, with the FTSE Mid 250 Index gaining 30.2 per cent. The larger companies, as represented by the FTSE 100 Index also had a good year, gaining 24.0 per cent. The resource, mining, tobacco, electric utilities and aerospace and defence sectors led the market. Domestic sectors, particularly retailers linked to weakening consumer spending, had a tough year.

Our investment in the Standard Life European Private Equity Trust, a private equity fund of funds, provided a significant boost to performance over the year with a 65 per cent gain in the share price.

Dividend growth in the UK has been exceptionally strong in the past year as companies have continued to favour returning cash to shareholders as ordinary and special dividends.

In last year's Annual Report we highlighted this trend, but it is fair to say that the scale of increases has surpassed our expectations, with FTSE All-Share

dividends currently growing by around 15 per cent year on year. With the corporate sector in good financial health, the outlook for dividend growth going forward remains favourable.

During the first half of 2005 economic data confirmed a slowdown in the overall pace of UK growth reflecting, most notably, a sharp fall in consumer spending. Against a background of rising utility and fuel bills, higher mortgage rates and a weakening housing market, UK household finances have come under considerable pressure. Consequently, consumer spending, a key component of economic activity, has suffered. There is little doubt that the tightening of monetary policy, which saw base rates rise from 3.50 per cent to 4.75 per cent between November 2003 and August 2004, has been a significant factor contributing to the economic slowdown.

Despite the fact that the UK economy has now grown below trend for four consecutive quarters the headline rate of inflation, boosted in part by rising energy costs, has almost doubled over the last year to the current level of 2.4 per cent. With inflation now standing above the Bank of England's target rate of 2.0 per cent the Monetary Policy Committee faces something of a dilemma. The future direction of interest rates looks very finely balanced.

Overseas

North America – Major Holdings

Company	Description	Market Value £m	% Total Investments
Exxon Mobil	Oil & Gas	2.7	0.5
Johnson & Johnson	Healthcare	1.9	0.3
Microsoft	Software & Computer Services	1.9	0.3
Pfizer	Pharmaceuticals	1.8	0.3
American International	Insurance	1.6	0.3

The North American portfolio was 14.8 per cent higher over the year, underperforming the FTSE North America Index by 2.7 percentage points.

The North American markets had a relatively poor year compared to the other major world stockmarkets, with the FTSE North American Index 17.5 per cent higher in sterling terms. Having been very weak mid year the US dollar regained its composure, ending the year stronger and boosting returns for sterling based investors. The oil and gas, mining, tobacco, construction, house builders and utilities companies had an excellent year, significantly outperforming the market overall. Retail, media, computer software and insurance stocks lagged the market.

The economic impact of Hurricane Katrina is still in its infancy, but it is clear that the insurance sector will be left to foot the bill for billion-dollar losses. The consensus view is that the economy will shrug off the negative consequences of the hurricane, with the outlook for 2006 to some extent underpinned by strong fiscal spending. While expensive oil is undoubtedly supportive of the resources sector, economic threats

remain in the form of weaker corporate profits and consumer spending.

2005 has been marked by rising interest rates against a backdrop of decent but slowing economic growth and the expectation of higher inflation. In September the Federal Reserve continued with its policy of tightening interest rates at a measured pace with an increase of 25 basis points to 3.75 per cent, stating that 'the upside risks to inflation appeared to have increased'. An increasing number of Federal Reserve officials have expressed concern about intensifying price pressures at a time when US consumers continue to spend at a faster pace than they are seeing incomes grow.

When Alan Greenspan retires on 31 January 2006 after 18 years at the helm of the US central bank, his successor is likely to inherit a robust economy with rising inflation. As a new Fed Chairman with limited experience, he will want to establish credibility in the market by proving he can be just as tough when it comes to rising inflation. The path for US interest rates remains upwards.

Manager's Review

Continued

Europe (ex UK) – Major Holdings

Company	Description	Market Value £m	% Total Investments
Total	Oil & Gas	1.1	0.2
Novartis	Pharmaceuticals	1.0	0.2
UBS	Banks	0.9	0.2
Nestle	Food Producers & Processors	0.9	0.2
Roche Holding	Pharmaceuticals	0.8	0.2

The Europe (ex UK) portfolio was 32.8 per cent higher over the year, outperforming the FTSE Europe (ex UK) Index by 2.9 percentage points.

The European markets continued to deliver good returns over the 12 months to 30 September 2005. The FTSE Europe (ex UK) Index advanced by 29.9 per cent in sterling terms. The stockmarkets in Norway and Austria have outperformed over the year, the former benefiting from the higher oil price, boosting the oil service related industries, and the latter in the expectation of strong growth from the Eastern European economies. Following a similar trend to other world markets, the mining and oil and gas sectors delivered outstanding returns for investors.

Growth across Continental Europe remains subdued. The recent German election resulted in a stalemate and disappointed markets at a time when investors were becoming optimistic that the German economy was at last starting to benefit from a structural improvement in competitiveness. The lack of a clear majority for any one candidate has led to protracted coalition negotiations. The 'grand coalition' agreed upon is likely to be somewhat unstable due to internal

competition and power struggles. Any structural reforms are likely to be limited.

Spain stands alone amongst the major Continental European countries as the only one with strong domestic growth. Above all, this strength has reflected the impact of low and falling interest rates in the run up to European Monetary Union. This has served to encourage household borrowing as well as boosting private sector capital spending. A soaring current account deficit, relatively high core inflation and a booming housing market all suggest that the Spanish economy is growing well beyond its means.

A further problem, common to both Germany and Spain and indeed the vast majority of countries, is the relentless rise in the price of oil. At present the European Central Bank is caught between its concerns about growth and inflation and the negative impact of higher oil prices on both. Interest rates may well go up in the first half of 2006. That said, solid earnings growth coupled with strong corporate balance sheets and increasing M&A activity suggest reasonable prospects for European equities in the year ahead.

Japan – Major Holdings

Company	Description	Market Value £m	% Total Investments
Toyota Motor	Automobiles & Parts	1.9	0.3
Juki	Engineering & Machinery	1.1	0.2
Orix	Speciality & Other Finance	1.0	0.2
Sumitomo Mitsui Financial	Banks	1.0	0.2
Mitsui Fudosan	Real Estate	1.0	0.2

The Japan portfolio was 29.1 per cent higher over the year, underperforming the FTSE Japan Index by 0.4 percentage points.

The FTSE Japan Index registered a 29.5 per cent rise in sterling terms over the year. Tobacco stocks, banks, and diversified industrial and steel companies had a good year. The media, leisure and information technology sectors were particularly weak over the 12 months.

The Japanese economy is gathering pace. This, coupled with a combination of political reform and an end to deflation, provides a very favourable backdrop for Japanese equities.

Economic activity has gathered momentum since the start of the year. Although Japan's economy is still to a large extent dependent on external demand, recent structural improvements suggest that the domestic economy is at last starting to contribute to growth. The labour market is improving and consumer spending accelerating. Real wages per worker are rising at their fastest pace in five years. This reflects both an

increase in the number of full-time workers and a significant rise in summer bonuses, up about 4.0 per cent year on year.

Economic reform looks finally to be on track. Prime Minister Koizumi's decision to dissolve parliament and seek re-election on a mandate for modernisation of the Postal Savings system is particularly encouraging. The firmest evidence of an end to deflation is coming from signs of stabilising property prices after many years of price declines. Real estate prices in central Tokyo have increased for the first time since 1990. Asset reflation has also started to spread to other regional cities, such as Nagoya and Osaka, where land prices in key locations are also improving.

Corporate profits continue to grow robustly and profit margins are expanding, as companies have kept labour costs under control. Net interest costs have virtually disappeared, reflecting declining debt levels and very low interest rates. Managements are increasingly shareholder friendly and we have seen strong dividend growth in the past 12 months.

Manager's Review

Continued

Pacific (ex Japan) – Major Holdings

Company	Description	Market Value £m	% Total Investments
Kookmin Bank	Banks	1.0	0.2
Cheung Kong Holdings	Real Estate	0.9	0.2
Samsung Electric	Electronics & Electrical Equipment	0.8	0.1
Telekomunikasi	Telecommunications	0.7	0.1
Sino Land	Real Estate	0.7	0.1

The Pacific (ex Japan) portfolio was 33.7 per cent higher, matching the FTSE All World Pacific (ex Japan, Australia, New Zealand) Index over the year.

The North Asian stockmarkets outperformed led by South Korea, with the FTSE Korea Index 62.8 per cent higher. The Indian stockmarket also had an excellent year, with the FTSE India Index gaining 61.5 per cent. Resource, mining and oil and gas stocks had another good year, as did machinery stocks and autos.

Demand from China continues to support the Asian region, although this is being offset by a deceleration in global growth. China's exports, investment and industrial output have remained strong throughout the year. However, growth in imports, corporate profits, bank loans and new construction projects has slowed significantly. Hit by the surging cost of energy and raw materials, growth in industrial profits has decelerated rapidly.

On 21 July 2005 the Chinese surprised the world's financial markets by removing the currency peg to the US dollar. Instead, the Renminbi will be managed against a basket of currencies. This has already resulted in a modest appreciation against the dollar

and we would expect further appreciation to take place. This more flexible exchange rate mechanism is good for Chinese inflation, good for monetary policy and good for trade relations. Liquidity is expected to rise creating a positive environment for Hong Kong property shares in particular but is also good news for domestic Chinese companies and exporters to China.

India has also been one of the favoured growth stories in the region, as has Korea which is seeing a rebound in domestic demand as consumer spending recovers. Hong Kong continues to benefit from strong export growth and a revival in investment spending. Taiwan, which has been suffering from sluggish demand in the technology sector, is at last seeing orders for consumer electronics improve and exports recover.

Asian equity markets remain highly dependent on world trade. However, since the Asian crisis in 1997 and 1998, companies have made significant progress in improving profitability and strengthening balance sheets. Companies have degeared aggressively, paying back debt and building up cash. All this suggests that corporate Asia is much better placed to withstand external shocks than it was 10 years ago.

Corporate Bonds

The corporate bond portfolio increased by 10.1 per cent over the year, underperforming by 0.9 per cent the composite benchmark of 65 per cent Merrill Lynch Sterling Non-Gilts Index and 35 per cent European Currency High Yield Index. The Merrill Lynch Sterling Non-Gilts Index registered a gain of 9.7 per cent and the European Currency High Yield Index was 13.4 per cent higher.

The corporate bond markets faced a volatile year with the downgrades of General Motors and Ford's debt threatening to destabilise credit markets in the early part of 2005. However, as investors started to take advantage of lower prices, the markets quickly regained their poise and corporate bonds delivered another year of strong performance.

The outlook for investment grade and high yield corporate bonds remains reasonable. However, the central banks of both the UK and US are attempting to steer a difficult course between heading off inflationary pressures and preventing growth from slowing too far. We expect that the Monetary Policy Committee will need to cut rates although the extent will depend on fiscal policy. The worst scenario for bond markets would be a change in attitude towards the inflation outlook, possibly because oil price rises eventually reignite inflation rather than acting as a drag on growth.

Overall Outlook

Both equities and bonds have performed more strongly than we would have expected at the start of the year but the fundamental drivers of performance for both have been supportive. The medium term backdrop will become more challenging for equity markets, as growth slows and earnings momentum begins to wane. Higher oil prices remain a key risk to both growth and inflation.

Japan remains our favoured market as the economy emerges from deflation and companies reap the benefit from restructuring and investment in leading edge products. The UK remains attractive for dividends at the same time as providing significant energy exposure at a time when the oil price is likely to remain high. The Asian markets remain attractive for the longer term but will need to adjust to higher US interest rates, appreciating currencies and slower growth in China. External demand is still critical for growth. That said, corporate balance sheets are in good shape, dividend yields are at record levels, banking systems are not stretched, liquidity remains plentiful and current account surpluses are the norm.

Dividend growth has been exceptionally strong in the past year as companies have increasingly favoured returning cash to shareholders. We expect this trend to continue.

Julie Dent

Investment Manager
F&C Asset Management plc

16 November 2005

Investment Portfolio

Company	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 2004–2005*	Country of Incorporation	2004 Valuation £'000
BP BP is one of the world's largest integrated oil and gas companies.	37,287	6.7	5.9	18.4	UK	29,204
Royal Dutch Shell Royal Dutch Shell is one of the world's largest integrated oil and gas companies.	27,357	4.9	5.7	6.6	UK	15,022
Vodafone Group Vodafone is the largest global provider of mobile telecommunication services.	26,598	4.8	4.4	100.3	UK	23,848
HSBC Holdings HSBC provides a comprehensive range of banking and related financial services on a global basis.	26,021	4.7	11.7	9.7	UK	24,886
GlaxoSmithKline GlaxoSmithKline is a global manufacturer and marketer of pharmaceutical products.	22,448	4.1	3.9	0.4	UK	19,407
Royal Bank of Scotland Group Royal Bank of Scotland provides a range of banking, insurance and other financial services.	14,813	2.7	3.3	15.4	UK	13,747
AstraZeneca The company is involved in the research, manufacture and sale of pharmaceuticals and agrochemicals.	10,026	1.8	2.3	23.8	UK	8,618
HBOS HBOS has a leading share of the UK mortgage market. The group also provides a wide range of banking and insurance services.	9,209	1.7	2.2	8.0	UK	8,049
Standard Life Euro Private Equity Trust An investment trust with a diversified portfolio of private equity funds investing predominantly in Europe.	7,813	1.4	0.4	118.2	UK	4,725
Barclays Barclays provides banking and other financial services to both retail and business markets.	7,703	1.4	2.0	15.0	UK	9,882
Ten largest equity investments	189,275	34.2	41.8			157,388

* British Assets Trust's financial years to 30 September 2005 and 2004.

Company	Nature of Business	Valuation £'000	% of Total Investments	% of Portfolio Income	Country of Incorporation
Lloyds TSB Group	Banks	7,444	1.4	3.2	UK
Tesco	Food & Drug Retailing	7,280	1.3	1.1	UK
Aviva	Life Assurance	6,748	1.2	1.7	UK
BT Group	Telecommunications	6,341	1.1	1.8	UK
Unilever	Food Producers & Processors	5,920	1.1	1.1	UK
Imperial Tobacco Group	Tobacco	5,738	1.0	1.1	UK
Anglo American	Mining	5,604	1.0	0.8	UK
Rio Tinto	Mining	5,598	1.0	0.7	UK
Prudential	Life Assurance	5,561	1.0	1.0	UK
O2	Telecommunications	5,277	1.0	0.4	UK
Twenty largest equity investments		250,786	45.3	54.7	
Centrica	Utilities	5,145	0.9	1.1	UK
Standard Chartered	Banks	4,802	0.9	1.4	UK
Scottish & Southern Energy	Electricity	4,798	0.9	1.2	UK
Diageo	Beverages	4,623	0.8	1.0	UK
British American Tobacco	Tobacco	4,620	0.8	1.0	UK
BAE Systems	Aerospace & Defence	4,348	0.8	0.7	UK
BAA	Transport	4,297	0.8	0.9	UK
Exel	Transport	4,190	0.8	0.6	UK
BOC Group	Chemicals	4,104	0.8	0.9	UK
Rexam	Support Services	4,074	0.7	0.8	UK
Thirty largest equity investments		295,787	53.5	64.3	
Land Securities	Real Estate	4,001	0.7	0.7	UK
Cobham	Aerospace & Defence	3,778	0.7	0.5	UK
National Grid	Electricity	3,737	0.7	1.0	UK
BBA Group	Transport	3,562	0.6	0.8	UK
BG Group	Oil & Gas	3,516	0.6	0.2	UK
Reed Elsevier	Media & Entertainment	3,414	0.6	0.5	UK
United Utilities	Water	3,413	0.6	1.4	UK
Severn Trent	Water	3,324	0.6	1.0	UK
Laird Group	Electricals	3,214	0.6	0.5	UK
Spectris	Electricals	3,130	0.6	0.5	UK
Forty largest equity investments		330,876	59.8	71.4	
IMI	Engineering & Machinery	3,075	0.6	0.7	UK
GUS	General Retailers	3,008	0.5	0.6	UK
Weir Group	Engineering & Machinery	2,898	0.5	0.6	UK
Tomkins	Engineering & Machinery	2,893	0.5	0.8	UK
BHP Billiton	Mining	2,751	0.5	0.5	UK
Exxon Mobil	Oil & Gas	2,710	0.5	0.2	USA
Enterprise Inns	Leisure & Hotels	2,677	0.5	0.3	UK
Yell Group	Media & Entertainment	2,641	0.5	0.4	UK
Sage Group	Software & Computer Services	2,330	0.4	0.2	UK
VT Group	Aerospace & Defence	2,185	0.4	0.3	UK
Fifty largest equity investments		358,044	64.7	76.0	
Other equity investments (221)		161,147	29.1	10.0	
Corporate bonds (109)		33,934	6.2	14.0	
Total Investments		553,125	100.0	100.0	

Classification of Investments

	United Kingdom £'000	North America £'000	Europe (ex UK) £'000	Japan £'000	Pacific (ex Japan) £'000	2005 Total £'000
Sector Weighting						
Resources	83,510	7,012	2,563	753	2,885	96,723
Basic Industries	4,474	2,570	690	2,046	1,811	11,591
General Industrials	25,520	6,426	1,524	6,917	2,946	43,333
Cyclical Consumer Goods	—	1,657	1,422	7,085	—	10,164
Non-Cyclical Consumer Goods	57,734	10,814	4,528	—	—	73,076
Cyclical Services	47,401	7,063	3,029	2,496	445	60,434
Non-Cyclical Services	46,130	2,965	2,209	—	1,255	52,559
Utilities	20,417	940	—	—	—	21,357
Information Technology	2,330	8,975	3,164	1,206	2,984	18,659
Financials	98,591	12,043	7,463	7,264	5,934	131,295
Total	386,107	60,465	26,592	27,767	18,260	519,191
Corporate Bond Portfolio	26,013	2,623	5,298	—	—	33,934
Total Investments	412,120	63,088	31,890	27,767	18,260	553,125
% of Total Investments	74.5	11.4	5.8	5.0	3.3	100.0

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

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

The Company's capital structure consists of Ordinary Shares. The Company also has £60 million 6.625 per cent Bonds 2008 and £60 million 6.25 per cent Bonds 2031 in issue.

Ordinary Shares

At 30 September 2005 there were 323,312,282 Ordinary Shares of 25p each in issue (2004: 337,812,282 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 revenue profits of the Company (including accumulated revenue reserves) are available for distribution 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
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
2004	114.3p	101.0p	11.6%	3.96p	5.326p
2005	140.1p	126.5p	9.7%	4.75p	5.326p

#Excludes special dividend of 0.5p per Ordinary Share.

Board of Directors

William Thomson

Chairman

age 65, was appointed a Director in 1974 and Chairman in 1995. He is also chairman of E. G. Thomson (Holdings) Ltd, John Menzies plc and Fidelity Japanese Values plc, and a director of Dobbies Garden Centres plc.

James MacLeod

Chairman of the Audit Committee

age 64, 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 a director of Scottish Investment Trust plc and Invesco Perpetual AIM VCT plc. He is a Chartered Accountant.

Dr Christopher Masters

age 58, was appointed in 1990 and was, until April 2002, executive chairman of Aggreko plc. He is currently chairman of SMG plc and the Festival City Theatres Trust. He is also a non-executive director of John Wood Group plc, The Alliance Trust plc and the Crown Agents.

Lynn Ruddick

age 53, was appointed on 1 October 2004. She retired as a Managing Director of Merrill Lynch Investment Managers in 2004 where she headed the company's investment trust business unit. She is a member of the Investment Committees of The Pearson Group Pension Plan and Western Provident Association, chairman of the WPA Pension Scheme Board and a non-executive director of Fidelity Special Values plc.

James West

Senior Independent Director

age 58, 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, New City High Yield Trust plc, Jupiter Second Enhanced Income Trust plc and Ruretec plc. He is also a director of Aberdeen New Dawn Investment Trust plc, Candover Investments plc, Shires Smaller Companies plc, UK Select Trust plc and Global Natural Energy plc.

Report of the Directors

British Assets Trust plc

Results and Dividends

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 2005.

	£'000
Revenue available for dividends	15,705
Dividends on Ordinary Shares:	
First quarterly interim dividend of 1.304p per share paid on 8 April 2005	(4,312)
Second quarterly interim dividend of 1.304p per share paid on 8 July 2005	(4,286)
Third quarterly interim dividend of 1.304p per share paid on 7 October 2005	(4,216)
Proposed final dividend of 1.414p per share payable on 6 January 2006 to ordinary shareholders on the register at close of business on 9 December 2005	(4,572)
Overprovision in respect of prior years	38
Transferred from revenue reserve	(1,643)

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 2004. 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 (2004 – £8,500).

Directors

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

		Ordinary Shares	Ordinary Shares
		2005	2004*
W R E Thomson	Beneficial	9,600	9,600
J S MacLeod	Beneficial	35,000	35,000
	Non-Beneficial	9,500	9,500
Dr C Masters	Beneficial	18,511	17,994
L C Ruddick	Beneficial	27,896	11,940
J G West	Beneficial	12,000	12,000

*or subsequent date of appointment

There have been no changes in the interests of the Directors in the Ordinary Shares of the Company between 30 September 2005 and 16 November 2005 other than as a result of the quarterly reinvestment of dividends.

In addition to the above interests, Mr J S MacLeod had a beneficial interest in 50,000 units of the 6.625 per cent Bonds 2008 as at 30 September 2005 (2004: nil). No other Director had an interest in the Company's Bonds as at 30 September 2005 or 30 September 2004.

Sir Malcolm Rifkind retired from the Board on 31 May 2005. Mr J S Macleod 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 to 24, 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.

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

Report of the Directors

Continued

Substantial Interests in Share Capital

At 16 November 2005 the following holdings representing more than 3 per cent of the Company's issued share capital had been reported:

	Number of Ordinary Shares Held	Percentage Held
AXA Investment Managers	35,211,656	10.9
Friends Provident Group*	33,580,433	10.4
Legal & General Group	12,731,350	4.0
Barclays plc	10,793,633	3.3

*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 continued appointment of the Managers on the terms agreed is in the interests of shareholders as a whole.

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 by the Financial Reporting Council ('the Combined Code'). The Board has also taken into account the recommendations of the AITC Code of Corporate Governance ('the AITC Code'). Since all the Directors are non-executive the provisions of the Combined Code in respect of Directors' remuneration are not relevant to the Company except in so far as they relate specifically 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 provision A.7.2 of the Combined 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. 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. As a result of changes made to the Listing Rules, effective from 1 April 2005, Sir Malcolm Rifkind was unable to be considered as an independent Director from that date until his retirement on 31 May 2005 because, at that time, he was a director of F&C Emerging Markets Investment Trust plc which was also managed by F&C Asset Management plc. During the year ended 30 September 2004 the Board reviewed its composition taking into account not only the need for refreshment over time, but also the 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 as a Director on 1 October 2004. Whilst the current composition of the Board is already compliant with the recommendations of the Combined Code, it is the Board's intention to seek to recruit an additional independent non-executive Director during the current financial year so as to continue to refresh the overall composition of the Board.

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 Combined 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 being regarded as independent. 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.

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 beyond 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 in discharging its responsibilities include reviewing the Annual and Interim Accounts, the system of internal controls, and the terms of appointment of the auditors together with their remuneration. It is also the forum through which the auditors report to the Board of Directors and meets at least twice yearly. The objectivity of the auditors is reviewed by the Audit Committee which also reviews the terms under which the external auditors are appointed to perform non-audit services. The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees. Such fees amounted to £5,000 for the year ended 30 September 2005 (2004: £7,000) and related to the provision of a review of the interim financial information and taxation services. Notwithstanding such services the Audit Committee considers Ernst & Young LLP to be independent of the Company.

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 a formal assessment process, led by the Chairman. This involved the completion of questionnaires tailored to suit the nature of the Company, and follow-up discussions between the Chairman and each of the Directors. 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 2005 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	–	–
J S Macleod	7	7	2	2	1	1	–	–
C Masters	7	7	2	2	1	1	–	–
Sir Malcolm Rifkind (retired 31 May 2005)	6	4	1	1	1	1	–	–
L C Ruddick (appointed 1 October 2004)	7	6	2	2	1	1	–	–
J G West	7	7	2	2	1	1	–	–

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.

Report of the Directors

Continued

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 internal control 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 9 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £8,057,807, being 10 per cent of the total issued shares as at 16 November 2005. Resolution 10 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £4,028,903, being 5 per cent of the total issued shares as at 16 November 2005, 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 2006. 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 14,500,000 Ordinary Shares with an aggregate nominal value of £3,625,000 for a total consideration of £16,335,000 representing 4.3 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 11, 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 48 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. This authority shall expire on the later of 18 June 2007 and the conclusion of the next Annual General Meeting of the Company.

Since the year end the Company has purchased for cancellation a further 1,000,000 Ordinary Shares and there were 322,312,282 Ordinary Shares in issue as at 16 November 2005.

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, and do, 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. The Annual Report and Notice of Annual General Meeting is, where practicable, sent to shareholders at least 20 working days before the Meeting.

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's Managers, F&C Asset Management plc, are leaders in the field of Socially Responsible Investment and, with the support of the Board, actively engage with investee companies. Environmental factors are, therefore, where appropriate, taken into consideration with regard to investment decisions on behalf of the Company.

By Order of the Board

G R Hay Smith

Secretary



80 George Street
Edinburgh EH2 3BU
16 November 2005

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, L C Ruddick and J G West. As the Company has no executive directors the Committee meets, at least annually, to review 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, and 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 its specific circumstances, the duties and responsibilities of the Directors, and the amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 30 September 2006 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 £200,000 in aggregate per annum. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The Board concluded following a review of the level of Directors' fees during the year that fees should be increased. Therefore, with effect from 1 January 2005, the Chairman's fee was increased to £27,000 (previously £26,250), the Audit Committee Chairman's fee was increased to £20,500 (previously £20,000) and the Directors' fees were increased to £18,000 (previously £17,500) per annum.

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 2005
J S MacLeod	17/12/1998	AGM 2005
Dr C Masters	22/2/1990	AGM 2005
L C Ruddick	1/10/2004	AGM 2006
J G West	22/6/1995	AGM 2005

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 2005, 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 kind 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 2005 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:

	2005 £	2004 £
W R E Thomson (Chairman)	26,812	25,437
J S MacLeod	20,375	18,750
Dr C Masters	17,875	16,875
Sir Malcolm Rifkind (retired 31 May 2005)	11,883	16,875
L C Ruddick (appointed 1 October 2004)	17,875	—
J G West	17,875	16,875
Total	112,695	94,812

On behalf of the Board



W R E Thomson

Director

16 November 2005

Statement of Total Return

(Incorporating the Revenue Account*) For the year ended 30 September 2005

	Notes	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000
Gains on investments	9	–	92,103	92,103	–	42,521	42,521
Exchange differences	14	–	198	198	–	793	793
Income	2	19,479	1,167	20,646	17,605	–	17,605
Investment management fee	3	(460)	(2,968)	(3,428)	(444)	(1,946)	(2,390)
Other expenses	4	(1,090)	–	(1,090)	(1,180)	–	(1,180)
Net return before finance costs and taxation		17,929	90,500	108,429	15,981	41,368	57,349
Finance costs	5	(1,954)	(5,860)	(7,814)	(1,954)	(5,860)	(7,814)
Return on ordinary activities before taxation		15,975	84,640	100,615	14,027	35,508	49,535
Tax on ordinary activities	6	(270)	–	(270)	(254)	–	(254)
Return attributable to shareholders		15,705	84,640	100,345	13,773	35,508	49,281
Dividends in respect of Ordinary Shares	7	(17,348)	–	(17,348)	(18,197)	–	(18,197)
Transfer (from)/to reserves	14	(1,643)	84,640	82,997	(4,424)	35,508	31,084
Return per share	8	4.75p	25.62p	30.37p	3.96p	10.22p	14.18p

* 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 2005

British Assets Trust plc

	Notes	2005 £'000	2004 £'000
Fixed assets			
Investments	9	553,125	495,632
Current assets			
Debtors	10	6,321	5,609
Cash at bank and on deposit		28,303	15,788
		34,624	21,397
Creditors: amounts falling due within one year	11	(15,750)	(11,782)
Net current assets		18,874	9,615
Total assets less current liabilities		571,999	505,247
Creditors: amounts falling due after more than one year	12	(119,158)	(119,068)
Net assets		452,841	386,179
Capital and reserves			
Called-up share capital	13	80,828	84,453
Capital reserve – realised	14	255,862	267,622
Capital reserve – unrealised	14	85,899	5,834
Capital redemption reserve	14	7,513	3,888
Revenue reserve	14	22,739	24,382
Equity shareholders' funds	15	452,841	386,179
Net asset value per share	16	140.1p	114.3p

The accounts on pages 28 to 41 were approved by the Board of Directors on 16 November 2005 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 2005

	Notes	2005 £'000	2004 £'000
Operating activities			
Investment income received		19,282	17,503
Deposit interest received		988	527
Investment management fees paid		(1,998)	(2,232)
Other cash payments		(1,141)	(1,173)
Net cash inflow from operating activities	17	17,131	14,625
Servicing of finance			
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)	(7,725)
Taxation			
Tax recovered		30	58
Capital expenditure and financial investment			
Purchases of investments		(145,189)	(188,006)
Disposals of investments		182,453	214,708
Net cash inflow from capital expenditure and financial investment		37,264	26,702
Equity dividends paid		(17,784)	(18,591)
Net cash inflow before financing		28,916	15,069
Financing			
Ordinary Shares purchased for cancellation		(16,346)	(15,717)
Net cash outflow from financing		(16,346)	(15,717)
Increase/(decrease) in cash	18	12,570	(648)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		12,570	(648)
Currency (losses)/gains		(55)	1,048
Increase in 6.625 per cent Bonds 2008 liability		(63)	(63)
Increase in 6.25 per cent Bonds 2031 liability		(27)	(26)
Opening net debt		(103,280)	(103,591)
Closing net debt	18	(90,855)	(103,280)

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. Had this allocation been made, the charge to revenue and corresponding credit to capital for the year ended 30 September 2005 would have been £729,000 (2004: £176,000).

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 charged to capital in accordance with the policies below
- cost of purchasing Ordinary Shares for cancellation
- special dividends of a capital nature.

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.

Notes to the Accounts

Continued

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.

Special dividends of a non-capital nature are recognised through the revenue account. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income.

e) Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods. 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. Performance fees are charged 100 per cent to capital.

g) Finance Costs

Finance costs are accounted for on an accruals basis. Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, are allocated between revenue and capital in 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 or the revenue account depending on the nature of the gain or loss.

Rates of Exchange at 30 September

	2005	2004
US Dollar	1.7691	1.8096
Euro	1.4674	1.4570
Japanese Yen	200.5097	199.4396

2. Income

	2005 £'000	2004 £'000
Income from investments		
Franked investment income	13,545	12,505
Unfranked investment income	582	866
Overseas dividends	2,637	2,299
Overseas interest	1,727	1,408
Special dividends credited to capital	1,167	–
	19,658	17,078
Other income		
Deposit interest	988	527
	988	527
Total income	20,646	17,605
Total income comprises:		
Dividends	17,349	14,804
Income from fixed interest securities	2,309	2,274
Deposit interest	988	527
	20,646	17,605
Income from investments:		
Listed UK	15,294	13,371
Listed overseas	4,364	3,707
	19,658	17,078

Total income of £20,646,000 includes special dividends of £2,249,000 of which £1,082,000 is recognised through revenue and £1,167,000 is recognised through capital.

3. Investment management fee

	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000
Investment management fee:						
– basic	460	1,380	1,840	444	1,333	1,777
– performance	–	1,588	1,588	–	613	613
	460	2,968	3,428	444	1,946	2,390

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 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 is payable in arrears at a rate of up to a maximum of 0.3 per cent per annum of the value of equity shareholders' funds.

Prior to 1 October 2004, the performance-related fee was calculated at the end of each calendar quarter 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 of the relevant quarterly valuation date, payable in arrears. The performance-related fee was payable at a rate of up to a maximum of 0.075 per cent per quarter.

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

	2005 £'000	2004 £'000
Directors' fees	113	95
Auditors' remuneration for:		
– audit	20	19
– other services to the Company	5	7
Other*	952	1,059
	1,090	1,180

*includes marketing, registration and professional fees.

5. Finance costs

	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000
Repayable within 5 years, not by instalments						
– 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
	1,954	5,860	7,814	1,954	5,860	7,814

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

6 a). Tax on ordinary activities

	2005 £'000	2004 £'000
Overseas taxation	270	254

The Company has £31,220,000 unutilised management expenses and interest at 30 September 2005 (2004: £24,860,000). 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:

	2005 £'000	2004 £'000
Return on ordinary activities before taxation	15,975	14,027
Corporation tax at standard rate of 30 per cent	4,792	4,208
Effects of:		
Non-taxable dividend income	(4,063)	(3,751)
Expenses charged to capital	(459)	–
Brought forward revenue expenses	–	(203)
Current year tax charge (overseas taxation)	270	254

7. Dividends

	2005 £'000	2004 £'000
Dividends on Ordinary Shares:		
– first quarterly interim paid 1.304p (2004: 1.304p) per share	4,312	4,537
– second quarterly interim paid 1.304p (2004: 1.304p) per share	4,286	4,460
– third quarterly interim paid 1.304p (2004: 1.304p) per share	4,216	4,434
– final proposed 1.414p (2004: 1.414p) per share	4,572	4,777
	17,386	18,208
Overprovision in respect of prior years	(38)	(11)
	17,348	18,197

8. Return per share

	2005 Revenue	2005 Capital	2005 Total	2004 Revenue	2004 Capital	2004 Total
Ordinary	4.75p	25.62p	30.37p	3.96p	10.22p	14.18p

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

	2005 Revenue £'000	2005 Capital £'000	2004 Revenue £'000	2004 Capital £'000
Ordinary	15,705	84,640	13,773	35,508

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

	2005	2004
Weighted average number of shares in issue during the year	330,374,885	347,578,402

Notes to the Accounts

Continued

9. Investments

	2005 £'000	2004 £'000
Investments listed on a recognised investment exchange	553,125	495,632
Unlisted investments	–	–
	553,125	495,632

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	344,683	144,380	626	489,689
Opening unrealised appreciation/(depreciation)	5,109	1,460	(626)	5,943
Opening valuation	349,792	145,840	–	495,632
Movements in the year:				
Purchases at cost	60,664	87,613	–	148,277
Sales – proceeds	(66,269)	(116,618)	–	(182,887)
– realised gains on sales	7,289	5,002	–	12,291
Increase in unrealised appreciation	60,644	19,168	–	79,812
Closing valuation	412,120	141,005	–	553,125
Closing book cost	346,367	120,377	626	467,370
Closing unrealised appreciation/(depreciation)	65,753	20,628	(626)	85,755
Closing valuation	412,120	141,005	–	553,125

	2005 £'000	2004 £'000
Equity shares	519,191	464,264
Fixed income securities	33,934	31,368
	553,125	495,632
Realised gains on sales	12,291	3,091
Increase in unrealised appreciation	79,812	39,430
Gains on investments	92,103	42,521

10. Debtors

	2005 £'000	2004 £'000
Amounts due from brokers	3,348	2,914
Taxation recoverable	38	34
Prepayments and accrued income	2,778	2,661
Other debtors	157	–
	6,321	5,609

11. Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Amounts due to brokers	4,652	1,564
Third quarterly interim dividend	4,216	4,434
Final dividend	4,572	4,777
Performance fee payable to F&C Asset Management plc	1,588	158
Interest on 6.25 per cent Bonds 2031	207	208
Other creditors	515	641
	15,750	11,782

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

	2005 £'000	2004 £'000
6.625 per cent Bonds 2008	59,842	59,779
6.25 per cent Bonds 2031	59,316	59,289
	119,158	119,068

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

	2005 Shares	2004 Shares	2005 £'000	2004 £'000
Authorised at 30 September				
Ordinary Shares of 25p each	460,800,000	460,800,000	115,200	115,200
Allotted, called-up and fully paid at 30 September				
Ordinary Shares of 25p each	323,312,282	337,812,282	80,828	84,453

During the year the Company purchased for cancellation 14,500,000 Ordinary Shares of 25p each for a total consideration of £16,335,000. Since the end of the year the Company has purchased for cancellation a further 1,000,000 Ordinary Shares of 25p each for a total consideration of £1,202,000. As at 16 November 2005 there were 322,312,282 Ordinary Shares in issue.

14. Reserves

	Capital reserve— realised £'000	Capital reserve— unrealised £'000	Capital redemption reserve £'000	Revenue reserve £'000
Opening balance	267,622	5,834	3,888	24,382
Net gain on realisation of investments	12,291	—	—	—
Increase in unrealised appreciation on investments	—	79,812	—	—
Exchange differences	(55)	253	—	—
Special dividends credited to capital	1,167	—	—	—
Investment management fee charged to capital	(2,968)	—	—	—
Finance costs charged to capital	(5,860)	—	—	—
Ordinary Shares purchased for cancellation	(16,335)	—	3,625	—
Retained net deficit for the year	—	—	—	(1,643)
Closing balance	255,862	85,899	7,513	22,739

15. Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Opening shareholders' funds	386,179	370,823
Total return before dividends	100,345	49,281
Dividends in respect of Ordinary Shares	(17,348)	(18,197)
Ordinary Shares purchased for cancellation	(16,335)	(15,728)
Closing shareholders' funds	452,841	386,179

16. Net asset value per share

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

	Net asset value per share attributable		Net asset values attributable	
	2005 pence	2004 pence	2005 £'000	2004 £'000
Ordinary Shares	140.1	114.3	452,841	386,179

Net asset value per Ordinary Share is calculated on equity shareholders' funds of £452,841,000 (2004: £386,179,000) divided by the number of Ordinary Shares in issue of 323,312,282 (2004: 337,812,282).

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

	2005 £'000	2004 £'000
Net revenue before finance costs and taxation	17,929	15,981
(Increase)/decrease in accrued income and prepayments	(117)	692
Increase in other creditors	1,423	165
Special dividends credited to capital	1,167	—
Investment management fee charged to capital	(2,968)	(1,946)
Tax on investment income	(303)	(267)
Net cash inflow from operating activities	17,131	14,625

18. Analysis of changes in net debt

	At 30 September 2004 £'000	Cash flow £'000	Other movements £'000	Currency movements £'000	At 30 September 2005 £'000
Cash at bank and on deposit	15,788	12,570	—	(55)	28,303
6.625 per cent Bonds 2008	(59,779)	—	(63)	—	(59,842)
6.25 per cent Bonds 2031	(59,289)	—	(27)	—	(59,316)
	(103,280)	12,570	(90)	(55)	(90,855)

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.

	2005 £'000	2005 Average interest rate	2005 Average period until maturity	2004 £'000	2004 Average interest rate	2004 Average period until maturity
Fixed interest investments:						
Fixed interest portfolio	33,934	7.05%	7.16 years	31,368	6.60%	5.50 years
Fixed interest liabilities:						
6.625 per cent Bonds 2008	59,842	6.625%	2.50 years	59,779	6.625%	3.50 years
6.25 per cent Bonds 2031	59,316	6.25%	25.95 years	59,289	6.25%	26.95 years

The Bonds are denominated in Sterling. As they 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 2005 was £131.7 million (2004: £120.9 million).

Non-interest bearing investments

The Company has non-interest bearing investments which had a value of £519,191,000 as at 30 September 2005 (2004: £464,264,000).

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 2005, the Company entered into US Dollar and Euro foreign currency contracts with a view to hedging these currency risks.

Foreign currency exposure:

	2005 Investments £'000	2005 Current assets/ (liabilities) £'000	2004 Investments £'000	2004 Current assets/ (liabilities) £'000
US Dollar	63,140	2,178	64,627	1,359
Euro	21,535	(982)	20,864	307
Swiss Franc	4,524	–	3,956	–
Norwegian Kroner	2,686	2	843	(13)
Danish Kroner	559	–	559	–
Swedish Kroner	2,587	–	1,958	–
Canadian Dollar	2,318	(921)	–	–
Japanese Yen	27,767	140	21,880	193
Australian Dollar	1,044	5	1,615	–
Hong Kong Dollar	5,774	17	5,986	30
Singapore Dollar	1,097	–	1,698	–
Malaysian Dollar	545	–	1,347	–
South Korea Won	3,710	–	1,874	(628)
Taiwan Dollar	2,392	382	2,659	6
Thailand Bhat	589	–	839	–
Indonesian Rupiah	738	–	869	–
Total	141,005	821	131,574	1,254

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:

	2005 Hedged amount £'000	2005 Unrealised gain £'000	2004 Hedged amount £'000	2004 Unrealised loss £'000
US Dollar for Sterling	3,029	32	3,062	(6)
Euro for Sterling	6,165	112	5,543	(103)
	9,194	144	8,605	(109)

Total realised losses in the year from foreign exchange currency contracts were £173,000 (2004: gains £1,261,000).

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 2005 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. The Directors are also responsible for preparing the Directors' Remuneration Report.

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 nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, 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 2005/06, How to Invest, 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 2005 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

A stylized handwritten signature in black ink, reading "Ernst & Young LLP". The signature is fluid and cursive, with the letters "Ernst" and "Young" being more prominent and connected by a long horizontal stroke. The "LLP" is written in a simpler, more upright style at the end.

Registered Auditor
Edinburgh

18 November 2005

Shareholder Information

Profile of the Company's Ownership

% of Ordinary Shares held at 30 September 2005

Total Number of Shareholders*

Ordinary Shares	19,937
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*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 Monday 19 December 2005 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 ⁵ / ₈ p
3.15% Preference Stock	29 ¹ / ₂ p
'A' 3.50% Preference Stock	32 ¹ / ₂ p

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

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

Financial Calendar 2005/06

19 December 2005	Annual General Meeting
6 January 2006	Final dividend paid
April 2006	First interim dividend paid
May 2006	Announcement of Interim Results Posting of Interim Report
July 2006	Second interim dividend paid
October 2006	Third interim dividend paid
November 2006	Announcement of Annual Results Posting of Annual Report

How to Invest

The Company's investment manager, F&C Asset Management plc ('F&C'), operates a number of savings products available for new investors who wish to invest in British Assets Trust plc in a cost effective and flexible way.

These products are:

- F&C Private Investor Plan
- F&C Investment Trust ISA
- F&C Investment Trust PEP
- F&C Children's Investment Plan
- F&C Child Trust Fund

For more information on any of these products please contact F&C's Investor Services Team:

Call on **0800 136 420**

Fax on **0131 243 1330**

Email at **Info@fandc.com**

Visit **www.fandc.com**

The above has been approved by F&C Management Limited which is authorised and approved by the Financial Services Authority ('FSA'). Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise. You may not get back the amount you originally invested.

Notice of Annual General Meeting

British Assets Trust plc

Notice is hereby given that the One Hundred and Eighth Annual General Meeting of British Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh on Monday 19 December 2005 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 2005 be received.
2. That a final dividend of 1.414 pence per Ordinary Share be declared.
3. That Mr J S MacLeod, who retires by rotation, be re-elected as a Director.
4. That Mr W R E Thomson, who retires annually, be re-elected as a Director.
5. That Dr C Masters, who retires annually, be re-elected as a Director.
6. That Mr J G West, who retires annually, be re-elected as a Director.
7. That the Directors' Remuneration Report for the year ended 30 September 2005 be approved.
8. That Ernst & Young LLP be re-appointed as Auditors and the Directors be authorised to determine their remuneration.
9. 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 £8,057,807 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:

10. 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 9 proposed at the Annual General Meeting of the Company convened for 19 December 2005, as if Section 89 of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue in favour of the holders of equity securities in the Company ('Shares') where the equity securities respectively attributable to the interest of all such shareholders are proportionate (as nearly as may be) to the respective number of Shares held (or deemed or notionally held) by them but subject to such exclusions or other arrangements as the Directors may think fit in relation to fractional entitlements or to deal with problems under the laws, or requirements, of any recognised body or Stock Exchange in any territory; and
 - (b) the allotment (other than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £4,028,903 (5 per cent of the equity share capital in issue on 16 November 2005);

Notice of Annual General Meeting

Continued

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

11. 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 the later of 18 June 2007 and the conclusion of the next Annual General Meeting of the Company, 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
16 November 2005

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 17 December 2005 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 17 December 2005 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.

Corporate Information

British Assets Trust plc

Directors

William R E Thomson, (Chairman)*
James S MacLeod†
Dr Christopher Masters, CBE
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

Registrars' Shareholder Helpline

Tel No. 0870 601 5366

Registrars' Broker Helpline

Tel No. 0870 600 0158

*Chairman of the Management Engagement and Remuneration Committee
and the Nomination Committee

†Chairman of the Audit Committee

†Senior Independent Director

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