COMPANIES HOUSE

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British Assets Trust plc

Annual Report and Accounts

2006

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COMPANIES HOUSE

Company Summary

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 Companies ('AIC') and is a constituent of the AIC Global Growth & Income sector

Total assets less current liabilities at 30 September 2006 were £589 6 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 principally 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's capital structure consists of Ordinary Shares In addition, 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 50

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

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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

Financial Highlights for the Year

- Dividend increase of 3 0 per cent
- Share price total return of 9 2 per cent
- Net asset value total return of 10 9 per cent

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

Performance Summary

	30 September 2006	30 September 2005 (restated[Ø])	% change
Total Return			
Net asset value*†	**10 9%**	27 8%	
Ordinary Share price†	**9 2%**	31 1%	
Composite index†¶	**13.2%**	24 6%	
FTSE All Share Index†	**14.7%**	24 9%	
FTSE World (ex UK) Index†	**8 9%**	23 6%	
Capital Values			
Net asset value	**152.5p**	142 5p	+7 0%
Ordinary Share price	**132 5p**	126 5p	+4 7%
Revenue and Dividends			
Revenue per Ordinary Share	**6.3p**	4 8p	+31 3%
Dividends per Ordinary Share	**5.486p**	5 326p	+3 0%
Dividend Yield	**4 1%**	4 2%	
Discount – Basic	**13.1%**	11 2%	
– Debt adjusted #	**10 5%**	8 6%	
Gearing ‡			
Gearing net of cash	**20.3%**	19 9%	
Total Expense Ratio (as percentage of shareholders' funds)			
Management (excluding performance fee), marketing and other expenses	**0 62%**	0 68%	
Performance fee	**–**	0 37%	

	2006 High	**2006 Low**
Year's Highs/Lows		
Net asset value	**159.5p**	**130.8p**
Ordinary Share price	**142.0p**	**118 3p**
Discount (basic)	**8.0%**	**13 7%**

* 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
# Discount of share price to net asset value with debt at market value
‡ Gearing (Borrowings Net Current Assets) – Equity Shareholders' Funds
Ø See note 22

Sources F&C Asset Management, AIC and Datastream

Chairman's Statement

W R E Thomson Chairman

I am pleased to report another year of growth in the Company's net asset value per share for the year ended 30 September 2006 The net asset value total return, with net dividends reinvested, was 10 9 per cent, but perhaps more importantly the Company is now in a position to be able to start to grow its dividend for the first time since 2001 As explained in more detail below, the Board is proposing a dividend increase of 3 0 per cent in respect of the year, which maintains a premium yield above other comparable investment trusts

The Company's net asset value total return of 10 9 per cent compares with a return of 13 2 per cent from the composite benchmark index of 75 per cent FTSE All Share Index and 25 per cent FTSE World (ex UK) Index Despite the underperformance during the year, the Company is still ahead of its benchmark for the three year period ended 30 September 2006 with a net asset value total return of 61 6 per cent which compares to a return of 60 5 per cent from the composite index

Although gearing and share buy backs helped performance, this was more than offset by underperformance against local stockmarket indices, particularly in the UK and Japan

The majority of the return for the year occurred in the first six months and the Company outperformed the benchmark index by 0 5 per cent over this period However, during the second half of the year there was an increase in market volatility as investors became increasingly concerned about the deteriorating outlook for growth and inflation In the US, the Federal Reserve raised interest rates eight times during the year On a more positive note, mergers and acquisitions activity remained strong and investors have continued to benefit from strong growth in both ordinary dividends and special dividends paid by companies

The Board is disappointed with the poor stock selection this year and has been assured that the Managers are addressing this issue In particular, the Board has been advised that the Managers are looking to strengthen their UK team It is hoped this will result in improved performance in this important part of the overall portfolio

The following table provides a breakdown of the estimated contributions to the net asset value total return for the year

Attribution of Return

Market/benchmark return	13 2%
Stock selection	
UK equities	–1 7
Overseas equities	–0 7
Regional asset allocation	0 0
Corporate bonds	–0 5
Gearing	0 8
Share buy backs	0 4
Expenses	–0 6
British Assets Trust total return	10 9%

The Company's share price total return for the year was 9 2 per cent with the discount ending the year at 10 5 per cent There were no significant asset allocation changes during the year

Gearing

At the end of the year the Company's gearing net of cash was 20 3 per cent, which compares to 19 9 per cent as at 30 September 2005 The level of gearing is represented by 13 6 per cent in equities and 6 7 per cent in corporate bonds More detailed information about the Company's borrowings is provided in note 12 to the accounts

Earnings and Dividends

The Company's revenue earnings for the year were 6 3p per Ordinary Share (2005 – 4 8p) A first interim dividend of 1 304p per Ordinary Share was paid on 7 April 2006 and second and third interim dividends, of 1 33p per Ordinary Share each, were paid on 7 July and 6 October 2006 respectively

Over the past two years the Company has benefited from strong dividend growth from its investee companies, particularly in the UK, and from the receipt of special dividends The revenue account has also benefited from the effect of share buy backs, which reduce the number of shares on which the Company's own dividend is payable

Having not increased the rate of dividend since 2001, the Board announced an increase of 2 0 per cent in the second and third interim dividends earlier in the year The Board has reviewed the revenue outcome for the year and recommends a final dividend of 1 522p per Ordinary Share in respect of the year ended 30 September 2006, payable on 5 January 2007 to shareholders on the register on 8 December 2006 This brings the total dividend in respect of the year to 5 486p per Ordinary Share, an increase of 3 0 per cent from the previous year

The Board is cognisant of the Company's higher than average dividend yield, which it regards as one of the key attractions for shareholders As at 30 September 2006 the dividend yield was 4 1 per cent, which was some 24 per cent higher than the average of the AIC Global Growth & Income Sector

Subject to any unforeseen circumstances, the Board would hope to be able to increase the dividend again in respect of the year ending 30 September 2007, thereby achieving its stated aim of having a progressive dividend policy

Share Buy Backs

The Company continued to buy back shares for cancellation during the year 14,800,000 Ordinary Shares, equivalent to 4 6 per cent of the shares in issue as at 30 September 2005, were bought back for a total consideration of £19 4 million These buy backs enhanced the net asset value by 0 65p 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

As previously reported, Mr James Long was appointed a Director on 1 May 2006 The Board has already benefited from his significant skills and experience

Accounting Standards

As reported at the interim stage, recent changes to UK accounting standards require the Company's investments to be valued at bid prices and not middle market prices as had previously been the case In addition, dividends paid by the Company are only recognised in the accounts when paid to shareholders The third interim and final dividends, which are payable after the end of the year are, therefore, not provided for in these accounts

Comparative figures in respect of these changes have been adjusted accordingly in the accounts

Annual General Meeting

The Annual General Meeting will be held at 11 45 am on Wednesday 20 December 2006 at the offices of F&C Asset Management plc, 80 George Street, Edinburgh, and will be followed by a presentation from the Managers This is a good opportunity for shareholders to meet the Directors and Managers and we would therefore encourage you to attend The Notice of Annual General Meeting can be found on pages 51 and 52

Chairman's Statement (continued)

Shareholders who are unable to attend the meeting are encouraged to complete and submit their proxy forms, or voting cards for those who hold shares through the F&C Asset Management plc retail plans, which are enclosed with the Annual Report

Outlook

Against a backdrop of slowing global growth it is likely to be more difficult for equities to make substantial gains in the months ahead However, dividend growth is likely to remain strong and mergers and acquisitions activity and buybacks should continue to provide some support for markets



W R E Thomson
Chairman
17 November 2006

Investment Managers and Investment Process

Julie Dent Investment Manager

Julie Dent Investment Manager joined F&C Asset Management in 1986 and was appointed Investment Manager of British Assets Trust in 2001 She is Head of Global Equities (Edinburgh) of F&C Asset Management and has over 20 years' experience in managing international equities

Gordon Hay Smith Company Secretary

Gordon Hay Smith Company Secretary, 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 in 2004 following the merger of ISIS Asset Management plc and F&C Group (Holdings) Limited The group has around £106 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, and 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 2006, the Company's net asset value total return was 10 9 per cent, which compares to a return of 13 2 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 9 2 per cent Gearing and share buy backs boosted returns for shareholders over the year Stock selection was a drag on performance, particularly in the second half of the year when markets fell back as investors became concerned about the deteriorating outlook for growth at a time when inflation was rising

2006 has been another year of strong dividend growth, both in the UK and overseas This, combined with the buy back strategy and a number of special dividends, has enabled the Board to increase the dividend for the first time since the share structure simplified in September 2001

At 30 September 2006 the Company had gearing, net of cash, of 20 3 per cent, of which 6 7 per cent is invested in corporate bonds and 13 6 per cent is invested in equities

It has been another year for good returns from the world's stockmarkets with the highest returns coming from the Europe ex UK region and the lowest from North America, as shown in the table below

The strength of sterling, particularly in relation to the US Dollar, has eroded returns from overseas investments The Japanese Yen has remained weak

Evidence that global growth has peaked and is beginning to lose momentum is growing, led by the US In the US, housing, car sales and production, employment, capital investment and consumer credit growth are all weakening Further loss of US economic momentum in the coming months is likely to increase the risk of a US recession

UK growth seems to have improved and domestic demand in Germany is recovering However, the European economies could face difficulties next year The appreciation of the Euro and weaker US demand will dampen export growth, while fiscal tightening in Germany and Italy may reduce domestic consumption With the European Central Bank raising its growth and inflation targets, further interest rate rises are expected before the end of the year

Stockmarket Returns – Year to 30 September 2006	**£ %**	**Local Currency %**
FTSE All Share Index	14 7	14 7
FTSE World (ex UK) Index	8 9	14 2
FTSE North America Index	5 2	10 9
FTSE Europe (ex UK) Index	19 3	20 3
FTSE Japan Index	6 9	17 6
FTSE Pacific (ex Japan) Index	11 8	16 2

Source Datastream (figures stated are total returns)

Oil prices are falling, with West Texas oil now at $54 per barrel However, there is still geopolitical risk which could push prices back above $70

Difficult trading conditions in recent months have contributed to increased uncertainty amongst investors Three key themes are, first, the impact of lower US growth, second, the ability of other parts of the world, particularly China and Japan, to continue to grow as the US slows, and, third, capacity tightening and rising global interest rates which may hold down share prices

Can the rest of the world show resilience as US growth slows? Recent data suggests ongoing strength outside the US, with improving industrial demand in Europe and continued robust growth in China and Japan In China, consumer spending is accelerating, fuelled by higher wages and good employment growth Domestic inflation remains firmly under control and the authorities seem determined to control real estate speculation and over investment In Japan, inflation is now above zero making it no longer profitable to postpone consumption, and credit growth is at last accelerating Profit growth is better than expected and business investment is improving

As the economic cycle matures, capacity is tightening Traditionally, volatility in equities and currencies increases as uncertainty, particularly regarding the direction of interest rates, grows

After a decade of price stability, inflation has returned as a concern for financial markets Headline inflation rates are running above target in the UK and Europe, due mainly to higher oil prices Underlying inflation rates have remained more subdued However, if the US economy is slowing, US inflationary concerns are unlikely to increase, *even if core inflation continues to move higher in the* coming months Importantly, government bond markets have remained stable on the assumption that central bankers will do what is necessary to hold inflation in check

During the year we made no major regional asset allocation changes, remaining underweight in North America and overweight in Japan and in the Pacific region outside of Japan relative to our benchmark index We have a broadly neutral exposure to the markets of Europe outside the UK We are underweight in the UK compared with the benchmark, as we continue to hold a portfolio of corporate bonds to boost the revenue account

Manager's Review (continued)

Asset Allocation

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

		30 September 2005		30 September 2006	
Asset Class	Benchmark 30 09 06 %	Share holders' Funds (restated) %	Total Assets (restated) %	Share holders' Funds %	Total Assets %
UK Equities	**75.0**	**83.2**	**66.1**	**85.0**	**67.8**
Overseas Equities					
– North America	14 6	13 4	10 6	12 3	9 8
– Europe (ex UK)	5 6	5 9	4 6	6 2	5 0
– Japan	2 8	6 1	4 9	6 1	4 9
– Pacific (ex Japan)	2 0	4 0	3 2	4 0	3 2
Total Overseas Equities	**25.0**	**29.4**	**23.3**	**28 6**	**22 9**
Total Equities	**100.0**	**112.6**	**89.4**	**113.6**	**90.7**
Corporate Bonds	–	7 3	5 8	6 7	5 3
Liquidity	–	–	4 8	–	4 0
Actual Gearing	–	(19 9)	–	(20 3)	–
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Potential Gearing	–	(25 9)	–	(25 4)	–

The table below shows the equity weightings by sector in the benchmark and the portfolio as at 30 September 2006

FTSE Sector	Benchmark %	Total Equities %	UK Equities %	Overseas Equities %
Oil & Gas	13 3	14 2	12 2	2 0
Basic Materials	6 3	4 9	3 8	1 1
Industrials	8.2	13 2	9 1	4 1
Consumer Goods	9 8	7 9	5 5	2 4
Health Care	8 6	8 4	6 3	2 1
Consumer Services	11 6	9 2	7 3	1 9
Telecommunications	5 1	5 5	4 4	1 1
Utilities	4 6	5 0	4 7	0 3
Financials	29 2	28 2	21 0	7 2
Technology	3 3	3 5	0 5	3 0
Total	**100.0**	**100.0**	**74.8**	**25.2**

Sub-Portfolio Reports

UK – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
BP	Oil & Gas Producers	322	57
HSBC Holdings	Banks	276	49
Royal Dutch Shell	Oil & Gas Producers	254	45
GlaxoSmithKline	Pharmaceuticals	214	38
Vodafone Group	Telecommunications	182	32
Royal Bank of Scotland Group	Banks	164	29
AstraZeneca	Pharmaceuticals	115	20
HBOS	Banks	105	18
Tesco	Food & Drug Retailer	97	17
Anglo American	Mining	96	17

The UK portfolio returned 11 8 per cent over the year, underperforming the FTSE All Share Index by 2 5 per cent

The UK equity market as measured by the FTSE All Share Index returned 14 7 per cent Medium sized companies continued to outperform both large and small companies, with the FTSE Mid 250 Index returning 28 8 per cent After a difficult year in 2005, domestic sectors led the way with strong performance in the retail, financial services and construction sectors The oil and gas sector faced a difficult year as negative news on output, coupled with a weakening oil price over the summer, reduced returns

The key reasons for the underperformance of the UK portfolio were our underweight exposure to the general retailers, particularly Marks & Spencer Group, and to general financials, and from large holdings in Vodafone and BP, both of which underperformed despite making good contributions to the revenue account

2006 has been another year of exceptional dividend growth in the UK as companies have continued to favour returning cash to shareholders as ordinary and special dividends Dividends for the UK market as a whole are currently growing by around 14 per cent, well above our expectation at the start of the year With the corporate sector remaining in good financial health, the outlook for dividend growth in 2007 remains favourable

The UK economy improved markedly this year led by stronger consumer and corporate spending Growth in UK business investment is currently the highest of the G7 countries Consumer spending also picked up alongside a recovery in the housing market However, with growth and inflation increasing, interest rates may rise further and growth in 2007 is likely to slow as slower global growth and the strong pound reduce export demand

Manager's Review (continued)

Overseas

North America – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Pfizer	Pharmaceuticals	21	04
Bank of America	Banks	21	04
Exxon Mobil	Oil & Gas Producers	21	04
Hewlett Packard	Technology Hardware & Equipment	20	04
Altria	Tobacco	18	03

The North American portfolio returned 4 0 per cent over the year, underperforming the FTSE North America Index by 1 1 per cent

The North American markets had another relatively poor year compared to other major world stockmarkets, with the FTSE North America Index returning 5 2 per cent in sterling terms The Dollar weakened over the year as central banks continued to sell Dollars, eroding returns from our North American investments The banks and financial services companies had a good year, significantly outperforming the market overall The oil and gas, construction and technology sectors lagged the market

The US economic outlook continues to deteriorate with housing, employment growth, consumer spending and capital expenditure all showing signs of weakening

Despite a pause in its monetary tightening policy in August, the Federal Reserve still faces the prospect of creeping inflation Core inflation is at a ten year high, but should start to moderate next year as the effect of two years of rising interest rates and, more recently, falling oil prices take effect

On the corporate front, US equities continue to be supported by strong earnings growth and robust merger and acquisition activity, although here too, we expect a slowdown into 2007 With profits soaring, companies are awash with cash resulting in continued strong dividend growth and share buybacks

Europe (ex UK) – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Roche Holding	Pharmaceuticals	10	02
Unicredito Italiano	Banks	07	01
UBS	Banks	07	01
Actelion	Pharmaceuticals	07	01
Siemens	Electronic & Electrical Equipment	06	01

The Europe (ex UK) portfolio returned 14 1 per cent over the year, underperforming the FTSE Europe (ex UK) Index by 4 3 per cent

The European markets continued to deliver good returns over the twelve months to 30 September 2006 The FTSE Europe (ex UK) Index returned 19 3 per cent in sterling terms The stockmarkets in the Netherlands and Portugal delivered the highest returns The Norwegian stockmarket was the laggard, reflecting its bias towards oil service companies which underperformed as oil prices fell The Norwegian Krone was weak which further reduced our returns At the sector level, banks and insurance stocks performed well as did utilities, construction, and retail companies Telecom and technology stocks had another difficult year

European growth expectations continue to move higher, supported by generally improving domestic demand and falling unemployment, particularly in the key economies of Germany and France The outlook for 2007, however, looks uncertain Slower global growth and a strong Euro will reduce exports, while interest rates are expected to rise Encouragingly, consumer spending is increasing In particular, Spain, Ireland and France have seen strong growth in household borrowing and rising house prices

Japan – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Toyota Motor	Automobiles & Parts	21	04
Orix	General Financials	16	03
Sumitomo Mitsui Financial	Banks	15	03
Mitsubishi UFJ Financial	Banks	15	03
Juki	Industrial Engineering	11	02

The Japan portfolio returned negative 0 2 per cent over the year, underperforming the FTSE Japan Index by 6 6 per cent

The Japanese stockmarket had a good year, with the FTSE Japan Index returning 17 6 per cent in local currency However, the weakness in the Yen reduced the sterling return to 6 9 per cent The personal health, household goods, and travel and leisure sectors had a good year but the oil and gas, media and telecom sectors underperformed

Since the beginning of the year investors have been speculating about when the Bank of Japan might end its zero interest rate policy The answer was duly delivered in July when rates were lifted by 0 25 per cent, the first increase since August 2000 Leading indicators generally show an improvement in domestic demand, with loan growth and consumer spending both recovering Business confidence is generally upbeat, particularly in relation to capital expenditure intentions, and corporate earnings are generally exceeding market expectations

Manager's Review (continued)

Pacific (ex Japan) – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
G S Holdings	Oil & Gas Producers	0 9	0 2
Samsung Electronics	Technology Hardware & Equipment	0 9	0 2
Cheung Kong Holdings	Real Estate	0 8	0 1
G S Engineering	Construction & Materials	0 8	0 1
Keppel	General Industrial	0 8	0 1

The Pacific (ex Japan) portfolio returned 16 3 per cent, underperforming the FTSE AW Pacific (ex Japan, Australia, New Zealand) Index by 0 9 per cent over the year

The FTSE AW Pacific (ex Japan, Australia, New Zealand) Index returned 17 3 per cent over the year The smaller markets of the region, Indonesia and The Philippines delivered the highest returns Malaysia and Thailand were the laggards

Global issues have largely dominated the region's markets this year, with the outlook for US growth and interest rates the primary focus for investors The region's economies remain buoyant but it remains to be seen if they will be threatened by tighter global monetary conditions driven by inflation concerns The Chinese economy continues to grow, although the authorities seem determined to control real estate speculation and possible over investment

The region will not be isolated from any downturn in demand from the developed world, particularly if led by the US consumer However, the growth in domestic spending power, combined with corporate capital expenditure, should insulate the economies of the region to some degree

Corporate Bonds

The corporate bond portfolio returned 5 0 per cent over the year, underperforming the 65 per cent Merrill Lynch Sterling Non Gilts/35 per cent European Currency High Yield composite benchmark index by 0 6 per cent During the year, however, the portfolio continued to make an important contribution to the revenue account The Merrill Lynch Sterling Non Gilts Index returned 3 5 per cent and the European Currency High Yield Index returned 7 9 per cent

Investment grade corporate bonds had a fairly lacklustre year performing in line with Government bonds Credit fundamentals remained supportive and demand was robust However, we did see some weakness during July and September caused by rising levels of new issuance

Corporate activity was a key feature of the period The possible buyback of BAA bonds resulted in good performance However, corporate activity, for example at E ON and Telecom Italia, was not viewed favourably by bond holders and the bonds underperformed This emphasises the importance of stock selection in the prevailing environment

High yield bonds outperformed during the year driven by the benign credit environment with low default rates and low levels of new issuance This is likely to continue in the short term, so long as equity markets remain buoyant

In terms of economic fundamentals it would seem that the US Federal Reserve has stopped raising interest rates for the moment as weaker housing data and falling commodity prices have eased inflationary pressures The UK Monetary Policy Committee, however, seems determined to pre empt any rise in inflation The main risk for credit markets is a US recession In the meantime, we expect supply and demand will determine returns

Overall Outlook

One of the most important developments in the past five years has been the sharp improvement in corporate profitability This, in turn, has boosted investment and employment Globalisation has accelerated, with outsourcing to emerging economies, and imports of manufactured goods, particularly from China Labour markets worldwide have become more flexible IT investment has risen strongly, particularly in the US, where we have seen exceptional productivity growth One of the key contributors to improving profitability has been cost cutting, which has boosted profit margins

So can this exceptional period of profit growth continue? We believe it gets more difficult from here Sales growth is likely to slow, the ability to raise prices is likely to diminish and productivity growth will moderate further This will put further upward pressure on unit labour costs and will erode profit margins

Against a backdrop of slowing global growth, rising uncertainty and potential downgrades to earnings forecasts, it is going to be difficult for equities to make progress in the next six months On a more positive note continued merger and acquisition activity and buy backs should provide support

Our predominantly large company UK portfolio with its stable earnings characteristics should provide a relatively safe haven Japan remains our favoured overseas market, supported by improving profits, rising land prices and increased consumer spending However, the Japanese market, along with the major markets of Europe, remains vulnerable to weaker export growth and rising interest rates Emerging markets are the most vulnerable to slower growth and lower commodity prices

Given the uncertain outlook for global stockmarkets as we move into 2007, in early October we raised some cash and reduced the Company's gearing to equities by around four per cent

Julie Dent
Investment Manager
F&C Asset Management plc

17 November 2006

Investment Portfolio

Company	Valuation £'000	% of Total Investments	% of Portfolio Income	% Change in Dividend 2005–2006*	Country of Incorporation	2005 Valuation (restated) £'000
BP BP is one of the world's largest integrated oil and gas companies	32,193	5 7	6 5	16 2	UK	37,287
HSBC Holdings HSBC provides a comprehensive range of banking and related financial services on a global basis	27,574	4 9	6 4	10 3	UK	26,007
Royal Dutch Shell Royal Dutch Shell is one of the world's largest integrated oil and gas companies	25,390	4 5	5 4	8 4	UK	27,315
GlaxoSmithKline GlaxoSmithKline is a global manufacturer and marketer of pharmaceutical products	21,384	3 8	3 9	9 5	UK	22,433
Vodafone Group Vodafone is the largest global provider of mobile telecommunication services	18,162	3 2	5 1	49 1†	UK	26,553
Royal Bank of Scotland Group Royal Bank of Scotland provides a range of banking, insurance and other financial services	16,438	2 9	3 9	27 6	UK	14,813
AstraZeneca AstraZeneca is involved in the research, manufacture and sale of pharmaceuticals and agrochemicals	11,477	2 0	2 7	37 6	UK	10,014
HBOS HBOS has the largest share of the UK mortgage market The group also provides a wide range of banking and insurance services	10,509	1 8	2 1	11 7	UK	9,209
Tesco Tesco is the UK's dominant food retailer with growing non food and international businesses	9,716	1 7	1 4	14 2	UK	7,269
Anglo American Anglo American is a global mining and natural resources company	9,605	1 7	3 9	20 3†	UK	5,594
Ten largest equity investments	**182,448**	**32.2**	**41.3**			**186,494**

* British Assets Trust's financial years to 30 September 2006 and 2005
† Excludes special dividends

Company	Nature of Business	Valuation £'000	% of Total Investments	% of Portfolio Income	Country of Incorporation
Standard Life European Private Equity Trust	Equity Investment	9,150	1 6	0 5	UK
Barclays	Banks	9,054	1 6	2 1	UK
Lloyds TSB Group	Banks	8,599	1 5	3 1	UK
Aviva	Life insurance	6,825	1 2	1 4	UK
Centrica	Utilities	6,803	1 2	1 2	UK
Scottish & Southern Energy	Electricity	6,145	1 1	1 2	UK
Rio Tinto	Mining	6,098	1 1	0 6	UK
Imperial Tobacco Group	Tobacco	6,077	1 1	1 1	UK
Land Securities	Real Estate	5,827	1 1	0 8	UK
Prudential	Life Assurance	5,794	1 0	0 8	UK
Twenty largest equity investments		**252,820**	**44.7**	**54 1**	
British American Tobacco	Tobacco	5,597	1 0	1 1	UK
BT Group	Telecommunications	5,035	0 9	1 3	UK
BAE Systems	Aerospace & Defence	4,996	0 9	0 8	UK
BHP Billiton	Mining	4,744	0 8	1 0	UK
Sabmiller	Beverages	4,660	0 8	1 2	UK
Rexam	General Industrials	4,624	0 8	0 8	UK
Yell Group	Media	4,620	0 8	0 7	UK
Reed Elsevier	Media	4,498	0 8	0 6	UK
Severn Trent	Utilities	4,474	0 8	1 0	UK
BG Group	Oil & Gas Producers	4,235	0 7	0 3	UK
Thirty largest equity investments		**300,303**	**53 0**	**62.9**	
Bunzl	Support Services	4,134	0 7	0 6	UK
Standard Chartered	Banks	4,051	0 7	1 1	UK
National Grid	Utilities	4,026	0 7	0 9	UK
Cobham	Aerospace & Defence	3,835	0 7	0 4	UK
Carnival	Travel & Leisure	3,809	0 7	0 9	UK
IMI	Industrial Engineering	3,729	0 7	0 7	UK
Unilever	Food Producers & Processors	3,722	0 7	0 7	UK
Carillion	Construction & Materials	3,692	0 7	0 5	UK
United Utilities	Utilities	3,668	0 6	1 3	UK
Weir Group	Industrial Engineering	3,637	0 6	0 6	UK
Forty largest equity investments		**338,606**	**59.8**	**70.6**	
Hanson	Construction & Materials	3,621	0 6	0 5	UK
Intercontinental Hotels	Travel & Leisure	3,619	0 6	0 3	UK
Reckitt Benckiser	Household Goods	3,605	0 6	0 4	UK
Spectris	Electronics & Electrical Equipment	3,457	0 6	0 5	UK
Slough Estates	Real Estate	3,455	0 6	0 5	UK
Enterprise Inns	Travel & Leisure	3,352	0 6	0 4	UK
BBA Group	Industrial Transport	3,187	0 6	0 8	UK
Diageo	Beverages	3,151	0 6	0 6	UK
VT Group	Aerospace & Defence	3,017	0 5	0 4	UK
Sage Group	Software & Computer Services	2,534	0 5	0 2	UK
Fifty largest equity investments		**371,604**	**65 6**	**75.2**	
Other equity investments (221)		**162,972**	**28.8**	**13.4**	
Fixed interest corporate bonds (112)		**31,505**	**5.6**	**11.4**	
Total investments		**566,081**	**100 0**	**100 0**	

Classification of Investments

	United Kingdom £'000	North America £'000	Continental Europe £'000	Japan £'000	Pacific (ex Japan) £'000	**2006 Total £'000**
Sector Weighting						
Oil & Gas	65,276	5,294	3,212	–	2,288	**76,070**
Basic Materials	20,447	1,711	603	1,889	1,462	**26,112**
Industrials	48,562	7,367	4,702	6,228	3,808	**70,667**
Consumer Goods	29,571	3,044	2,258	6,346	1,001	**42,220**
Health Care	33,422	7,303	2,799	1,459	–	**44,983**
Consumer Services	39,091	6,110	1,462	2,495	3	**49,161**
Telecommunications	23,603	2,685	1,312	815	1,108	**29,523**
Utilities	25,117	–	786	573	–	**26,476**
Financials	112,061	15,929	9,329	8,304	5,246	**150,869**
Technology	2,534	8,487	2,732	701	4,041	**18,495**
Total	399,684	57,930	29,195	28,810	18,957	**534,576**
Corporate Bond Portfolio	24,710	2,481	4,314	–	–	**31,505**
Total Investments	424,394	60,411	33,509	28,810	18,957	**566,081**
% of Total Investments	75 0	10 7	5 9	5 1	3 3	**100.0**

Capital Structure

The Company's capital structure consists of Ordinary Shares. In addition, the Company 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 2006 there were 308,512,282 Ordinary Shares of 25p each in issue (2005 323,312,282 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 and final dividends to 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

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

Ten Year Record

At 30 September	Net Asset Value per Ordinary Share	Ordinary Share Price	Discount (basic)	Revenue per Ordinary Share	Dividends per Ordinary Share	Total Expense Ratio*
1996	120 8p	97 5p	19 3%	5 7p	4 655p	0 42%
1997	141 6p	119 5p	15 6%	5 4p	4 825p	0 40%
1998	134 1p	113 8p	15 2%	5 8p	4 985p	0 46%
1999	153 5p	135 3p	11 9%	5 9p	5 045p	0 48%
2000	178 3p	158 5p	11 1%	5 9p	5 216p	0 54%
2001	139 4p	118 5p	15 0%	7 1p	5 326p#	0 80%
2002	94 6p	90 3p	4 6%	4 0p	5 326p	0 94%
2003	104 9p	98 8p	5 9%	4 1p	5 326p	0 72%
2004	114 3p	101 0p	11 6%	4 0p	5 326p	0 94%
2005	142 5p†	126 5p	11 2%†	4 8p	5 326p	1 05%†
2006	**152.5p**	**132.5p**	**13.1%**	**6.3p**	**5.486p**	**0.62%**

*Includes performance fee
#Excludes special dividend of 0 5p per Ordinary Share
†Restated for changes in accounting standards (see note 22)

Board of Directors

William Thomson †‡
Chairman
age 66, 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 Long *†‡
age 51, was appointed on 1 May 2006 He is Director of Risk and Compliance for AstraZeneca Europe and was formerly Corporate Finance Director of Inchcape plc and Managing Director, Asia and Emerging Markets, for the ESAB Group He is chairman of JPMorgan Asian Investment Trust plc

James MacLeod *†‡
Chairman of the Audit Committee
age 65, 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 59, 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, The Generics Group AG and the Crown Agents

Lynn Ruddick *†‡
age 54, was appointed in 2004 She was previously a Managing Director of Merrill Lynch Investment Managers where she headed the company's investment trust business unit She is a non executive director of Fidelity Special Values plc, 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 trustee of the Scottish & Newcastle Pension Scheme

James West *†‡
Senior Independent Director
age 59, 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 Rurelec plc He is also a director of Candover Investments plc, JPMorgan Income & Capital Investment Trust plc, Shires Smaller Companies plc, UK Select Trust plc, Global Natural Energy plc and IPSA Group plc

* Member of the Audit Committee

† Member of the Management Engagement and Remuneration Committee

‡ Member of the Nomination Committee

Report of the Directors

Results and Dividends

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 2006

The results for the year are set out in the attached accounts

A first interim dividend of 1 304p per Ordinary Share was paid on 7 April 2006, and second and third interim dividends of 1 33p per Ordinary Share each were paid on 7 July and 6 October 2006 respectively The Board recommends a final dividend for the year of 1 522p per Ordinary Share payable on 5 January 2007 to shareholders on the register at close of business on 8 December 2006

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 that Act Its shares are quoted on the London Stock Exchange

The Company has been approved by HM Revenue & Customs as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 September 2005 As a result, it is not liable to corporation tax on capital gains In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain approval as an investment trust

The Company is required to comply with company law, the rules of the UK Listing Authority, UK Financial Reporting Standards, and its Articles of Association

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

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, corporate governance, and risk management Biographical details of the Directors, all of whom are non executive, can be found on page 18

Objectives and Strategy

The Company's investment objective 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 principally 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

As part of its strategy, the Board has contractually delegated the management of the investment portfolio, and other services, to F&C Asset Management plc

The investment strategy employed by the Managers in meeting the investment objective focuses on regional asset allocation, with reference to the Company's investment objective, coupled with active stock selection in the regional sub portfolios As part of this process the Managers are cognisant of the Company's requirement for an above average level of investment income, which is generated principally from UK equities and corporate bonds

The Company's performance in meeting its objectives is measured against key performance indicators as set out below A review of the Company's returns during the financial year, the position of the Company at the year end, and the outlook for the coming year is contained in the Chairman's Statement on pages 2 to 4 and in the Manager's Review on pages 6 to 13

Principal Risks and Risk Management

The Company's assets consist mainly of listed securities and its principal risks are therefore market related The Company is also exposed to currency risk in respect of overseas markets in which it invests More detailed explanations of these risks and the way which they are managed are contained in notes 18 to 21 to the accounts

Other risks faced by the Company include the following

- External – events such as terrorism, disease, protectionism, inflation or deflation, economic recessions and movements in interest rates could affect share prices

Report of the Directors (continued)

- Investment and strategic – incorrect strategy (including use of gearing), asset allocation, and stock selection could all lead to poor returns for shareholders
- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report Breach of Section 842 of the Income and Corporation Taxes Act 1988 could lead to the Company being subject to tax on capital gains
- Operational – failure of the Managers' accounting systems or disruption to the Managers' business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence
- Financial – inadequate controls by the Managers or third party service providers could lead to misappropriation of assets Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations

The Board seeks to mitigate and manage these risks through continual review, policy setting, shareholder communication and enforcement of contractual obligations It also regularly monitors the investment environment and the management of the Company's investment portfolio, and applies the principles detailed in the guidance provided by the Turnbull Committee Details of the Company's internal controls are described in more detail on pages 24 and 25

Management of Assets and Shareholder Value

As stated above, the Board has contractually delegated the management of the investment portfolio to F&C Asset Management plc

The Company invests worldwide in companies which the Managers believe will generate a combination of long term growth in capital and income for shareholders The selection of investments is based on analysis of, amongst other things, market positioning and competitive advantage, financial strength and cashflow characteristics

The Board measures the overall relative success of the Company against the benchmark index and against revenue growth

Investment risks are spread through holding a wide range of securities in different countries and industrial sectors As at 30 September 2006, the portfolio was made up of 383 investments in 25 different countries The Managers make use of third party risk systems to monitor investment risk and the Board receives quarterly risk reports At each Board meeting, the Board receives a presentation from the lead fund manager and at least once a year receives presentations from the regional and bond sub portfolio managers who outline strategy, recent portfolio activity and market outlooks

The Company's borrowings are represented by two £60 million Bonds, which are described in more detail in note 12 to the accounts The Board receives recommendations on gearing levels from the Managers and it is responsible for setting the gearing range within which the Managers may operate The Company's potential gearing level as at 30 September 2006 was 25 4 per cent, and the gearing level net of cash was 20 3 per cent (represented by 13 6 per cent in equities and 6 7 per cent in corporate bonds)

The Board and the Managers recognise the importance of managing the discount of share price to net asset value in enhancing shareholder value One aspect of this involves marketing, and to this end the Managers meet with current and potential new shareholders, and with stockbroking analysts who cover the investment trust sector, on a regular basis In addition, F&C Asset Management plc offers a range of private investor savings schemes which have been successful in increasing the number of shareholders in the Company in recent years Further information about savings schemes can be found on page 50 Communication of up to date portfolio information is provided through the Company's website

Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its

objectives The key performance indicators are as follows.

- Net asset value total return against the benchmark index and comparable investment trusts
- Discount of share price to net asset value
- Earnings and dividend per share, and dividend yield relative to the peer group
- Total expenses as a ratio of shareholders' funds

A historical record of these indicators is contained in the Financial Highlights for the Year on page 1 and in the Ten Year Record on page 17 Additional comments are provided in the Chairman's Statement on pages 2 to 4

Charitable Donations

During the year the Company made donations to various local charities totalling £10,000 (2005 – £8,500)

Directors

On 1 May 2006 Mr J M Long, whose biographical details are shown on page 18, was appointed a Director His business experience is directly relevant to the Company's circumstances In accordance with the Company's Articles of Association he will retire at the Annual General Meeting, being the first such meeting following his appointment and, being eligible, offers himself for re appointment

As explained in more detail under Corporate Governance on page 22, 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 The Board believes, therefore, that it is in the interests of shareholders that these Directors are re elected

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

		2006 Ordinary Shares	2005* Ordinary Shares
W R E Thomson	Beneficial	**9,600**	9,600
J M Long	Beneficial	**4,871**	3,309
J S MacLeod	Beneficial	**35,000**	35,000
	Non Beneficial	**9,500**	9,500
Dr C Masters	Beneficial	**19,373**	18,511
L C Ruddick	Beneficial	**33,343**	27,896
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 2006 and 17 November 2006 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 2006 (2005 50,000 units) No other Director had an interest in the Company's Bonds as at 30 September 2006 or 30 September 2005

No Director has a contract of service with the Company or any material interest in any contract to which the Company is a party

Directors' Deeds of Indemnity

Following recent changes to the Companies Act 1985 as a result of the Companies (Audit, Investigations and Community Enterprise) Act 2004, the Company is required to disclose that it has entered into deeds of indemnity in favour of each of the Directors The deeds give each Director the benefit of an indemnity to the extent permitted by the act against liabilities incurred by him in the execution of his duties and the exercise of his powers A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting

Report of the Directors (continued)

Substantial Interests in Share Capital

At 17 November 2006 the following holdings representing more than 3 per cent of the Company's issued share capital had been notified to the Company in accordance with Sections 198 to 208 of the Companies Act 1985

	Number of Ordinary Shares Held	Percentage Held
AXA Investment Managers	40,174,757	13 0
Friends Provident Group*	27,676,491	9 0
Legal & General Group	12,731,350	4 1

*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 those services 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 income growth and investment performance It also considered the length of the notice period of the investment management contract and the fees payable to the Managers, together with the standard of other services provided which include company secretarial, accounting and marketing

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

Corporate Governance

Arrangements in respect of corporate governance, appropriate to an investment trust, have been made by the Board The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in February 2006 ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide') The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the Combined Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company

The Board considers that it is appropriate to report against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code)

Except as disclosed below, the Company complied throughout the year with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code Since all the Directors are non executive the provisions of the Combined Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the Combined Code relating to Directors' remuneration are not relevant except in so far as they relate specifically to non executive Directors For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment trust The Company has therefore not reported further in respect of these provisions

- In view of the requirement in 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 and principle 3 of the AIC Code However, the Board has agreed that each Director will retire and, if appropriate, seek re election after each three years' service, and annually after serving on the Board for more than nine years
- The Company's full portfolio list will be made available on its website following publication of the Annual and Interim Reports The Company does not, however, publish the full portfolio list in the Annual Report as recommended by principle 21 of the AIC Code The portfolio comprised 383 investments as at 30 September 2006 and it

is not considered practicable to publish this information The 50 largest investments, which represented 63 0 per cent of the Company's total assets as at 30 September 2006, are disclosed on pages 14 and 15 and the largest investments in each of the regional sub portfolios are disclosed on pages 9 to 12

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 During the year 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 Mr J M Long, who is considered by the Board to be independent of the Company's Managers, was appointed as a Director on 1 May 2006

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 AIC Code, will seek re election annually The Board subscribes to the view expressed in the AIC Code that long serving Directors should not be prevented from forming part of an independent majority It does not consider that a Director's tenure necessarily reduces his or her ability to act independently and, following formal performance evaluations, believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of services of any of the Company's Directors, including the Chairman, has been imposed

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 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

Throughout the year, the Audit Committee, the Management Engagement and Remuneration Committee, and the Nomination Committee met as required

The Audit Committee, chaired by Mr J S MacLeod, operates within clearly defined written 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 It 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 £11,000 for the year ended 30 September 2006 (2005

Report of the Directors (continued)

£5,000) and related principally to the provision of a review of the interim accounts 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 2006 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	n/a	n/a	1	1	1	1
J M Long (appointed 1 May 2006)	7	2	2	1	1	–	1	–
J S MacLeod	7	7	2	2	1	1	1	1
C Masters	7	7	2	2	1	1	1	1
L C Ruddick	7	7	2	2	1	1	1	1
J G West	7	6	2	2	1	1	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

Going Concern

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 the Company's assets, is maintained An internal audit function, specific to the Company, is therefore considered unnecessary

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with them 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 Notice for the forthcoming Annual General Meeting, to be held on 20 December 2006, is set out on pages 51 and 52 The Annual Report and Notice of Annual General Meeting is, where practicable, sent to shareholders at least 20 working days before the Meeting

Financial Instruments

The Company's financial instruments comprise its investment portfolio, bonds, cash balances, overdrafts, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income The financial risk management objective and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in notes 1, 18, 19, 20 and 21 of the accounts

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 £7,712,807, being 10 per cent of the total issued shares as at 17 November 2006 Resolution 10 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £3,856,403, being 5 per cent of the total issued shares as at 17 November 2006, for cash without first offering such shares to existing shareholders pro rata to their existing holdings These authorities will continue until the conclusion of the Annual General Meeting in 2007 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 will not result in a dilution of net asset value per share The Directors consider that the authorities proposed in resolutions 9 and 10 are necessary to retain flexibility, although they do not have any intention of exercising such authorisation at the present time

Report of the Directors (continued)

Directors' Authority to Buy Back Shares

During the year the Company purchased for cancellation 14,800,000 Ordinary Shares with an aggregate nominal value of £3,700,000 for a total consideration of £19,395,000 representing 4 6 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 46 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 is in the interests of the shareholders Any shares purchased under this authority will be cancelled This authority will expire on the later of 19 June 2008 and the conclusion of the next Annual General Meeting of the Company

Disclosure of Information to Auditors

The Directors confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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 HM Revenue & Customs' 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

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

17 November 2006

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 46 and 47

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 in advance of each review

Policy on Directors' Fees

The Board's policy is that the remuneration of 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 the Company properly and to reflect its specific circumstances It is intended that this policy will continue for the year ending 30 September 2007 and subsequent years

The fees for the 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 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 2006, the Chairman's fee was increased to £28,000 (previously £27,000), the Audit Committee Chairman's fee was increased to £21,000 (previously £20,500) and the Directors' fees were increased to £18,500 (previously £18,000) 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

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

The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to, and during, the forthcoming Annual General Meeting

Director	Date of Appointment	Due date for Re election
W R E Thomson	1/7/1974	AGM 2006
J M Long	1/5/2006	AGM 2006
J S MacLeod	17/12/1998	AGM 2008
Dr C Masters	22/2/1990	AGM 2006
L C Ruddick	1/10/2004	AGM 2007
J G West	22/6/1995	AGM 2006

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 2006, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder

Directors' Remuneration Report (continued)

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 2006 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

	2006 £	2005 £
W R E Thomson (Chairman)	**27,750**	26,812
J M Long (appointed 1 May 2006)	**7,708**	–
J S MacLeod	**20,875**	20,375
Dr C Masters	**18,375**	17,875
Sir Malcolm Rifkind (retired 31 May 2005)	–	11,883
L C Ruddick	**18,375**	17,875
J G West	**18,375**	17,875
Total	**111,458**	112,695

On behalf of the Board

W R E Thomson

Director

17 November 2006

Income Statement

for the year ended 30 September	Notes	Revenue £'000	Capital £'000	2006 Total £'000	Revenue £'000	Capital (restated*) £'000	2005 Total (restated*) £'000
Gains on investments	9	–	**33,150**	**33,150**	–	91,844	91,844
Exchange differences	14	–	**177**	**177**	–	198	198
Income	2	**23,353**	**257**	**23,610**	19,479	1,167	20,646
Investment management fee	3	**(512)**	**(1,537)**	**(2,049)**	(460)	(2,968)	(3,428)
Other expenses	4	**(826)**	–	**(826)**	(1,090)	–	(1,090)
Net return before finance costs and taxation		**22,015**	**32,047**	**54,062**	17,929	90,241	108,170
Finance costs	5	**(1,954)**	**(5,860)**	**(7,814)**	(1,954)	(5,860)	(7,814)
Return on ordinary activities before taxation		**20,061**	**26,187**	**46,248**	15,975	84,381	100,356
Tax on ordinary activities	6	**(305)**	–	**(305)**	(270)	–	(270)
Return attributable to shareholders		**19,756**	**26,187**	**45,943**	15,705	84,381	100,086
Return per share	8	**6.3p**	**8.3p**	**14.6p**	4.8p	25.5p	30.3p

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 September	Notes	2006 £'000	2005 £'000
Opening shareholders' funds as previously reported		**452,841**	386,179
Adjustment mid to bid	22	**(771)**	(512)
Dividends accrued	22	**8,788**	9,211
Opening shareholders' funds (restated)		**460,858**	394,878
Share buy backs		**(19,395)**	(16,335)
Dividends paid	7	**(17,016)**	(17,771)
Return attributable to shareholders		**45,943**	100,086
Closing shareholders' funds		**470,390**	460,858

The total column of the Income Statement is the profit and loss account of the Company. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies.

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

No operations were acquired or discontinued in the year.

A more detailed reconciliation of the movements in shareholders' funds is contained in note 14.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above Income Statement.

* See note 22.

The accompanying notes are an integral part of the financial statements.

Balance Sheet

as at 30 September	Notes	£'000	2006 £'000	2005 (restated*) £'000	2005 (restated*) £'000
Non-current assets					
Investments	9		**566,081**		552,354
Current assets					
Debtors	10	**5,430**		6,321	
Cash at bank and on deposit		**24,140**		28,303	
		29,570		34,624	
Creditors amounts falling due within one year	11	**(6,014)**		(6,962)	
Net current assets			**23,556**		27,662
Total assets less current liabilities			**589,637**		580,016
Creditors amounts falling due after more than one year	12		**(119,247)**		(119,158)
Net assets			**470,390**		460,858
Capital and reserves					
Called up share capital	13		**77,128**		80,828
Capital redemption reserve	14		**11,213**		7,513
Capital reserve – realised	14		**246,431**		255,862
Capital reserve – unrealised	14		**101,351**		85,128
Revenue reserve	14		**34,267**		31,527
Shareholders' funds	15		**470,390**		460,858
Net asset value per share	15		**152.5p**		142.5p

The accounts on pages 29 to 45 were approved by the Board of Directors and authorised for issue on 17 November 2006 and signed on its behalf by



W R E Thomson, Chairman

See note 22

The accompanying notes are an integral part of the financial statements

Cash Flow Statement

for the year ended 30 September	Notes	£'000	2006 £'000	£'000	2005 £'000
Operating activities					
Investment income received		**22,666**		19,282	
Deposit interest received		**783**		988	
Underwriting commission received		**5**		–	
Investment management fees paid		**(3,637)**		(1,998)	
Other cash payments		**(769)**		(1,154)	
Net cash inflow from operating activities	16		**19,048**		17,118
Servicing of finance					
Interest on 6 625 per cent Bonds 2008		**(1,988)**		(3,975)	
Interest on 6 25 per cent Bonds 2031		**(3,750)**		(3,750)	
Net cash outflow from servicing of finance			**(5,738)**		(7,725)
Taxation					
Tax recovered			**39**		30
Capital expenditure and financial investment					
Purchases of investments		**(187,017)**		(145,189)	
Disposals of investments		**205,745**		182,453	
Net cash inflow from capital expenditure and financial investment			**18,728**		37,264
Equity dividends paid			**(17,016)**		(17,771)
Net cash inflow before financing			**15,061**		28,916
Financing					
Ordinary Shares purchased for cancellation		**(19,395)**		(16,346)	
Net cash outflow from financing			**(19,395)**		(16,346)
(Decrease)/increase in cash	17		**(4,334)**		12,570
Reconciliation of net cash flow to movement in net debt					
(Decrease)/increase in cash in the year			**(4,334)**		12,570
Currency gains/(losses)			**171**		(55)
Increase in 6 625 per cent Bonds 2008 liability			**(63)**		(63)
Increase in 6 25 per cent Bonds 2031 liability			**(26)**		(27)
Opening net debt			**(90,855)**		(103,280)
Closing net debt	17		**(95,107)**		(90,855)

The accompanying notes are an integral part of the financial statements

Notes to the Accounts

1 Accounting policies

A summary of the principal accounting policies adopted is set out below

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ('UK GAAP') and in accordance with guidelines set out in the Statement of Recommended Practice ('SORP'), revised December 2005, for investment trusts, issued by the Association of Investment Companies ('AIC'), except as disclosed in the following paragraph A number of new UK Financial Reporting Standards have been introduced as part of the UK convergence programme with International Financial Reporting Standards The changes affecting the Company relate to FRS 26 Financial Instruments Measurement, FRS 25 Financial Investments Presentation and Disclosures, and FRS 21 Events after the Balance Sheet Date A reconciliation of these changes is set out in note 22

Expenses which are allocated to capital are available to reduce the Company's liability to corporation tax The SORP 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 2006 would have been £640,000 (2005 £729,000)

(b) Investments

Investments have been categorised as 'financial assets at fair value through profit or loss' and are recognised on a purchase date basis Listed investments are valued at their fair value which is represented by the bid price Changes in fair value are included in the Income Statement as a capital item

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 exposures of a capital nature,
- expenses and finance costs charged to capital set out in the policies below,
- cost of purchasing Ordinary Shares for cancellation, and
- 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, and
- unrealised exchange differences in relation to forward foreign currency contracts

(d) Income

Dividends are recognised as income on the date that the related investments are marked ex dividend

Dividends receivable on equity shares where no ex dividend date is quoted are recognised when the Company's right to receive payment is established

Income from fixed interest securities is recognised on an effective yield basis Other investment income and deposit interest are shown on an accruals basis

Special dividends of a revenue nature are recognised through the revenue column of the Income Statement 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 The Company has no deferred tax liabilities

(f) Expenses

All expenses are accounted for on an accruals basis Expenses are all allocated as revenue with the exception of management fees which are allocated 25 per cent to revenue and 75 per cent to 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 Transaction costs incurred on the purchase and sale of investments are taken to the Income Statement as a capital item

(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 25 per cent to revenue and 75 per cent to 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 Reserve depending on the nature of the gain or loss

Rates of exchange at 30 September

	2006	2005
US Dollar	**1 8680**	1 7691
Euro	**1.4746**	1 4674
Japanese Yen	**220.5395**	200 5097

Notes to the Accounts (continued)

2 Income

	2006	2005
	£'000	£'000
Income from investments		
Franked investment income	**17,928**	13,545
Unfranked investment income	**924**	582
Overseas dividends	**2,425**	2,637
Overseas interest	**1,288**	1,727
Special dividends credited to capital	**257**	1,167
	22,822	19,658
Other income		
Deposit interest	**783**	988
Underwriting commission	**5**	–
	788	988
Total income	**23,610**	20,646
Total income comprises.		
Dividends	**20,610**	17,349
Income from fixed interest securities	**2,212**	2,309
Deposit interest	**783**	988
Underwriting commission	**5**	–
	23,610	20,646
Income from investments		
Listed UK	**19,109**	15,294
Listed overseas	**3,713**	4,364
	22,822	19,658

Total income of £23,610,000 (2005 £20,646,000) includes special dividends of £4,636,000 (2005 £2,249,000) of which £4,379,000 (2005 £1,082,000) is recognised through revenue and £257,000 (2005 £1,167,000) is recognised through capital

3 Investment management fee

	Revenue £'000	Capital £'000	2006 Total £'000	Revenue £'000	Capital £'000	2005 Total £'000
Investment management fee						
– basic	**512**	**1,537**	**2,049**	460	1,380	1,840
– performance	**–**	**–**	**–**	–	1,588	1,588
	512	**1,537**	**2,049**	460	2,968	3,428

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 0 3 per cent per annum of the value of equity shareholders' funds

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

Basic investment management fees have been allocated 25 per cent to revenue and 75 per cent to capital
Performance fees are charged 100 per cent to capital

4 Other expenses

	2006 £'000	2005 £'000
Directors' fees	**111**	113
Auditors' remuneration for		
– audit	**24***	20
– other services to the Company	**11**	5
Marketing	**366**	516
Bank charges	**127**	117
Registrars' fees	**90**	88
Net VAT recovered	**(196)**	(77)
Other expenses	**293**	308
	826	1,090

* Includes £3 000 of non recurring fees

Notes to the Accounts (continued)

5 Finance costs	Revenue £'000	Capital £'000	2006 Total £'000	Revenue £'000	Capital £'000	2005 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 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	2006 £'000	2005 £'000
Overseas taxation	**305**	270

The Company has £35,341,000 unutilised management expenses and interest at 30 September 2006 (2005 £31,220,000) 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	2006 £'000	2005 £'000
Return on ordinary activities before taxation	**20,061**	15,975
Corporation tax at standard rate of 30 per cent	**6,018**	4,792
Effects of		
Non taxable dividend income	**(5,378)**	(4,063)
Expenses charged to capital	**(335)**	(459)
Current year tax charge (overseas taxation)	**305**	270

7 Dividends	2006 £'000	2005 £'000
Dividends on Ordinary Shares		
Amounts recognised as dividends to shareholders during the year		
– third quarterly interim of 1 304p paid in respect of the year ended 30 September 2005 (2004 1 304p) per share	**4,216**	4,434
– final of 1 414p paid in respect of the year ended 30 September 2005 (2004 1 414p) per share	**4,557**	4,739
– first quarterly interim of 1 304p paid in respect of the year ended 30 September 2006 (2005 1 304p) per share	**4,126**	4,312
– second quarterly interim of 1 33p paid in respect of the year ended 30 September 2006 (2005 1 304p) per share	**4,117**	4,286
	17,016	17,771
Proposed third quarterly dividend of 1 33p in respect of the year ended 30 September 2006 (2005 1 304p) per share	**4,103**	4,216
Proposed final dividend of 1 522p in respect of the year ended 30 September 2006 (2005 1 414p) per share	**4,696**	4,572
	8,799	8,788

8 Return per share

	Revenue	Capital	2006 Total	Revenue	Capital (restated)	2005 Total (restated)
Ordinary	**6 3p**	**8.3p**	**14.6p**	4 8p	25 5p	30 3p

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

	Revenue £'000	Capital £'000	2006 Total £'000	Revenue £'000	Capital £'000 (restated)	2005 Total £'000 (restated)
Ordinary	**19,756**	**26,187**	**45,943**	15,705	84,381	100,086

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

	2006	2005
Weighted average number of shares in issue during the year	**315,715,159**	330,374,885

9 Investments

	2006 £'000	2005 (restated) £'000
Investments listed on a recognised investment exchange	**566,081**	552,354
Unlisted investments	**-**	-
	566,081	552,354

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	346,367	120,377	626	467,370
Opening unrealised appreciation/(depreciation) (restated)	65,212	20,398	(626)	84,984
Opening valuation (restated)	411,579	140,775	-	552,354
Movements in the year				
Purchases at cost	69,343	116,325	-	185,668
Sales - proceeds	(83,258)	(121,530)	(303)	(205,091)
- realised gains/(losses) on sales	5,259	11,997	(323)	16,933
Increase/(decrease) in unrealised appreciation	21,471	(5,880)	626	16,217
Closing valuation	**424,394**	**141,687**	**-**	**566,081**
Closing book cost	337,711	127,169	-	464,880
Closing unrealised appreciation	86,683	14,518	-	101,201
Closing valuation	**424,394**	**141,687**	**-**	**566,081**

Notes to the Accounts (continued)

9 Investments (continued)

	2006	2005 (restated)
	£'000	£'000
Equity shares	**534,576**	518,513
Fixed income securities	**31,505**	33,841
	566,081	552,354
Realised gains on sales	**16,933**	12,291
Increase in unrealised appreciation	**16,217**	79,553
Gains on investments	**33,150**	91,844

The total expenses incurred on the purchase and sale of investments were £581,000 and £314,000 respectively (2005 £438,000 and £291,000)

10 Debtors

	2006	2005
	£'000	£'000
Amounts due from brokers	**2,694**	3,348
Taxation recoverable	**-**	38
Prepayments and accrued income	**2,586**	2,791
Other debtors	**150**	144
	5,430	6,321

11 Creditors: amounts falling due within one year

	2006	2005 (restated)
	£'000	£'000
Amounts due to brokers	**3,303**	4,652
Performance fee payable to F&C Asset Management plc	**-**	1,588
Interest on 6 625 per cent Bonds 2008	**1,988**	-
Interest on 6 25 per cent Bonds 2031	**207**	207
Other creditors	**516**	515
	6,014	6,962

12 Creditors amounts falling due after more than one year

	2006	2005
	£'000	£'000
6 625 per cent Bonds 2008	**59,905**	59,842
6 25 per cent Bonds 2031	**59,342**	59,316
	119,247	119,158

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 26, 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

Under the covenants relating to the Bonds the Company is to ensure that, at all times, the aggregate principal amount outstanding in respect of moneys borrowed by the Company does not exceed an amount equal to its capital and reserves

13 Share capital

	2006 Shares	2005 Shares	**2006 £'000**	2005 £'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	**308,512,282**	323,312,282	**77,128**	80,828

During the year the Company purchased for cancellation 14,800,000 Ordinary Shares of 25p each for a total consideration of £19,395,000

14 Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve– realised £'000	Capital reserve– unrealised £'000	Revenue reserve £'000	Total £'000
At 30 September 2004	84,453	3,888	267,622	5,834	24,382	386,179
Effect of prior year adjustments						
Restatement of investments to bid prices	–	–	–	(512)	–	(512)
Dividends accrued	–	–	–	–	9,211	9,211
At 30 September 2004 (restated)	84,453	3,888	267,622	5,322	33,593	394,878
Exchange differences	–	–	(55)	253	–	198
Net gain on realisation of investments	–	–	12,291	–	–	12,291
Increase in unrealised appreciation on investments	–	–	–	79,553	–	79,553
Special dividends credited to capital	–	–	1,167	–	–	1,167
Management fees charged to capital	–	–	(2,968)	–	–	(2,968)
Finance costs charged to capital	–	–	(5,860)	–	–	(5,860)
Shares purchased for cancellation	(3,625)	3,625	(16,335)	–	–	(16,335)
Net revenue for the year	–	–	–	–	15,705	15,705
Dividends paid	–	–	–	–	(17,771)	(17,771)
At 30 September 2005 (restated)	80,828	7,513	255,862	85,128	31,527	460,858
Exchange differences	–	–	171	6	–	177
Net gain on realisation of investments	–	–	16,933	–	–	16,933
Increase in unrealised appreciation on investments	–	–	–	16,217	–	16,217
Special dividends credited to capital	–	–	257	–	–	257
Management fees charged to capital	–	–	(1,537)	–	–	(1,537)
Finance costs charged to capital	–	–	(5,860)	–	–	(5,860)
Shares purchased for cancellation	(3,700)	3,700	(19,395)	–	–	(19,395)
Net revenue for the year	–	–	–	–	19,756	19,756
Dividends paid	–	–	–	–	(17,016)	(17,016)
At 30 September 2006	**77,128**	**11,213**	**246,431**	**101,351**	**34,267**	**470,390**

Notes to the Accounts (continued)

15 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		Net asset value	
	2006	2005 (restated)	**2006**	2005 (restated)
	pence	pence	**£'000**	£'000
Ordinary Shares	**152.5**	142 5	**470,390**	460,858

Net asset value per Ordinary Share is calculated on shareholders' funds of £470,390,000 (2005 (restated) £460,858,000) divided by the number of Ordinary Shares in issue of 308,512,282 (2005 323,312,282)

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

	2006	2005 (restated)
	£'000	£'000
Net revenue before finance costs and taxation	**54,062**	108,170
Gains on investments	**(33,150)**	(91,844)
Exchange differences	**(177)**	(198)
Decrease/(increase) in accrued income and prepayments	**205**	(130)
(Decrease)/increase in other creditors	**(1,588)**	1,423
Tax on investment income	**(304)**	(303)
Net cash inflow from operating activities	**19,048**	17,118

17 Analysis of changes in net debt

	At 30 September 2005	Cash flow	Other movements	Currency movements	**At 30 September 2006**
	£'000	£'000	£'000	£'000	**£'000**
Cash at bank and on deposit	28,303	(4,334)	–	171	**24,140**
6 625 per cent Bonds 2008	(59,842)	–	(63)	–	**(59,905)**
6 25 per cent Bonds 2031	(59,316)	–	(26)	–	**(59,342)**
	(90,855)	(4,334)	(89)	171	**(95,107)**

18 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

Non current asset investments held (see note 9) are valued at bid prices which equate to their fair values The market value of the Company's Bonds is disclosed in note 20 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 25, other than for currency disclosures

19 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 14 and 15 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 21

20 Interest rate, liquidity and credit risk

Floating rate

When the Company retains cash balances they are held in floating rate deposit accounts

The Company seeks to receive interest payments on cash balances by reference to the bank base rate for the relevant currency for each deposit

Fixed rate

The Company holds fixed interest investments and has fixed interest liabilities

	2006 £'000	**2006 Average interest rate**	**2006 Average period until maturity**	2005 (restated) £'000	2005 Average interest rate	2005 Average period until maturity
Fixed interest investments						
Fixed interest portfolio	**31,505**	**5 77%**	**8.03 years**	33,841	7 05%	7 16 years
Fixed interest liabilities						
6 625 per cent Bonds 2008	**59,905**	**6 625%**	**1.50 years**	59,842	6 625%	2 50 years
6 25 per cent Bonds 2031	**59,342**	**6.25%**	**24.95 years**	59,316	6 25%	25 95 years

The Bonds are denominated in sterling As they are fixed rate bonds, the Company is exposed to changes in market value in the event that the bonds are repaid before maturity This exposure may be reduced by investing in fixed interest securities

The fair value of the Bonds, based on middle market prices, at 30 September 2006 was £132 9 million (2005 £131 7 million)

Liquidity risk

In respect of liquidity risk, the Company's assets comprise realisable securities The Company holds cash and has overdraft facilities to meet short term obligations

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company The Managers have in place a monitoring procedure in respect of counterparty risk which is monitored on an ongoing basis

Non interest bearing investments

The Company's non interest bearing investments are its equity investments which had a value of £534,576,000 as at 30 September 2006 (2005 £518,513,000)

Notes to the Accounts (continued)

21 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 2006, the Company entered into US Dollar and Euro foreign currency contracts with a view to hedging these currency risks

Foreign currency exposure

	2006 Investments	**2006 Current assets/ (liabilities)**	2005 Investments (restated)	2005 Current assets/ (liabilities)
	£'000	**£'000**	£'000	£'000
US Dollar	**59,814**	**3,839**	62,579	2,178
Euro	**20,788**	**180**	21,498	(982)
Swiss Franc	**5,619**	**26**	4,519	–
Norwegian Krone	**3,997**	**–**	2,680	2
Danish Krone	**–**	**217**	559	–
Swedish Krona	**3,105**	**305**	2,577	–
Canadian Dollar	**1,807**	**–**	2,317	(921)
Japanese Yen	**28,810**	**(94)**	27,685	140
Australian Dollar	**1,005**	**6**	1,042	5
Hong Kong Dollar	**4,383**	**(40)**	5,761	17
Singapore Dollar	**1,280**	**–**	1,093	–
Malaysian Dollar	**–**	**–**	541	–
South Korean Won	**5,491**	**–**	4,218	–
Taiwan Dollar	**3,257**	**213**	2,387	382
Thai Bhat	**1,210**	**–**	584	–
Indonesian Rupiah	**1,121**	**–**	735	–
Total	**141,687**	**4,652**	140,775	821

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

	2006 Hedged amount	**2006 Unrealised gain**	2005 Hedged amount	2005 Unrealised loss
	£'000	**£'000**	£'000	£'000
US Dollar for sterling	**2,508**	**49**	3,029	32
Euro for sterling	**5,182**	**101**	6,165	112
	7,690	**150**	9,194	144

Total realised gains in the year from foreign exchange currency contracts were £241,000 (2005 losses £173,000)

22. Explanation of prior year adjustments

Restatement of balances as at and for the year ended 30 September 2005

There have been a number of changes to financial reporting standards that came into effect on 1 January 2005 The principal ones affecting the Company are the requirement to value quoted investments at fair value, and to account for dividends on a payment date basis The effect of these changes in policy is set out below

	Notes	Previously reported 30 September 2005 £'000	Effect of change in policy £000	Restated 30 September 2005 £000
Investments	1	553,125	(771)	552,354
Net current assets	2	18,874	8,788	27,662
Total assets less current liabilities		571,999	8,017	580,016
Creditors amounts falling due after more than one year		(119,158)	–	(119,158)
Net Assets		452,841	8,017	460,858
Capital and reserves				
Called up share capital		80,828	–	80,828
Capital redemption reserve		7,513	–	7,513
Capital reserve – realised		255,862	–	255,862
– unrealised	1	85,899	(771)	85,128
Revenue reserve	2	22,739	8,788	31,527
Shareholders' funds		452,841	8,017	460,858

Notes to the reconciliation

1 Investments are designated as held at fair value under FRS 26 and are carried at bid prices which total their fair value of £552,354,000 Previously they were carried at mid prices The aggregate difference, being the reduction in value of £771,000, also decreases Capital Reserve–unrealised

2 No provision has been made for the third quarterly and final dividends on the Ordinary Shares for the year ended 30 September 2005 Under FRS 21 dividends are not accounted for until they are paid The aggregate amount of £8,788,000 increases the Revenue Reserve

Notes to the Accounts (continued)

22. Explanation of prior year adjustments (continued)

Restatement of the Income Statement for the year ended 30 September 2005

	Notes	As previously reported £'000	Effect of change in policy £'000	As restated £'000
Gains on investments	1	92,103	(259)	91,844
Exchange differences		198	–	198
Income		20,646	–	20,646
Investment management fee		(3,428)	–	(3,428)
Other expenses		(1,090)	–	(1,090)
Net return before finance costs and taxation		108,429	(259)	108,170
Finance costs		(7,814)	–	(7,814)
Return on ordinary activities before taxation		100,615	(259)	100,356
Tax on ordinary activities		(270)	–	(270)
Return attributable to shareholders		100,345	(259)	100,086
Dividends in respect of Ordinary Shares		(17,348)	17,348	–
Transfer to reserves		82,997	17,089	100,086

Notes to the reconciliation

1 The investments at 30 September 2004 and 30 September 2005 are required to be valued at fair value following the adoption of FRS 26 These values differ from the previous valuations by £512,000 and £771,000 respectively

2 Under FRS 21 dividends are not accounted for until they are paid and are shown through the Reconciliation of Movements in Shareholders' Funds rather than through the Income Statement

22. Explanation of prior year adjustments (continued)

Restatement of the Balance Sheet as at 30 September 2004

	Notes	Previously reported 30 September 2004 £'000	Effect of change in policy £000	Restated 30 September 2004 £'000
Investments	1	495,632	(512)	495,120
Net current assets	2	9,615	9,211	18,826
Total assets less current liabilities		505,247	8,699	513,946
Creditors amounts falling due after more than one year		(119,068)	–	(119,068)
Net Assets		386,179	8,699	394,878
Capital and reserves				
Called up share capital		84,453	–	84,453
Capital redemption reserve		3,888	–	3,888
Capital reserve – realised		267,622	–	267,622
– unrealised	1	5,834	(512)	5,322
Revenue reserve	2	24,382	9,211	33,593
Shareholders' funds		386,179	8,699	394,878

Notes to the reconciliation

1 Investments are designated as held at fair value under FRS 26 and are carried at bid prices which total their fair value of £495,120,000 Previously they were carried at mid prices The aggregate difference, being the reduction in value of £512,000, also decreases Capital Reserve–unrealised

2 No provision has been made for the third quarterly and final dividends on the Ordinary Shares for the year ended 30 September 2004 Under FRS 21 dividends are not accounted for until they are paid The aggregate amount of £9,211,000 increases the Revenue Reserve

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 net return 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 2006 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement, and related notes 1 to 22 These financial statements have been prepared under 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, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Directors' Responsibility Statement

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 and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view, 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 and whether the information given in the Report of the Directors is consistent with the financial statements

We also report to you, if, in our opinion, 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 regarding directors' remuneration and other transactions 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 only the Company Summary, Financial Highlights for the Year, Performance Summary, Chairman's Statement, Investment Managers and Investment Process, Manager's Review, Investment Portfolio, Classification of Investments, Capital Structure, Ten Year Record, Board of Directors, Report of the Directors, the unaudited part of the Directors' Remuneration Report, Shareholder Information, 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

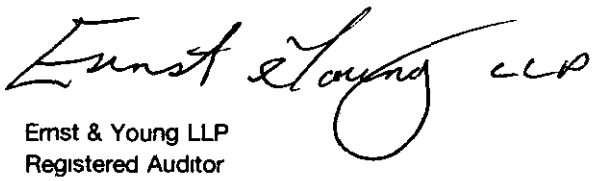
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 30 September 2006 and of the net return for the year then ended,
- 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, and
- the information given in the Report of the Directors is consistent with the financial statements



Ernst & Young LLP
Registered Auditor
Edinburgh
17 November 2006

Shareholder Information

Annual General Meeting

The Annual General Meeting of British Assets Trust plc will be held at 80 George Street, Edinburgh on Wednesday 20 December 2006 at 11 45 am

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

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 Times* and *The Daily Telegraph*

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

Profile of the Company's Ownership

% of Ordinary Shares held at 30 September 2006

Capital Gains Tax

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

Ordinary Shares	23⅝p
3 15% Preference Stock	29½p
'A' 3 50% Preference Stock	32½p

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

	First day of dealing value	Apportionment factor
Ordinary Shares	90 00p	0 8441
Growth Shares	62 50p	0 1103
Warrants	21 50p	0 0456

Financial Calendar 2006/07

20 December 2006	Annual General Meeting
5 January 2007	Final dividend paid
April 2007	First interim dividend paid
May 2007	Announcement of Interim Results
	Posting of Interim Report
July 2007	Second interim dividend paid
October 2007	Third interim dividend paid
November 2007	Announcement of Annual Results
	Posting of Annual Report

How to Invest

As well as investing in British Assets Trust plc directly through a stockbroker, you can enjoy some additional benefits by investing through one of the savings plans run by F&C Asset Management plc

You can enjoy the convenience of making regular savings by Direct Debit, take advantage of our tax efficient ISA and PEP wrappers, receive a simple statement every six months and let us automatically reinvest your dividends for you

- **F&C Private Investor Plan**
  A flexible, low cost way to invest with a lump sum from £500 or regular savings from £50 a month
- **F&C Investment Trust ISA**
  Invest up to £7,000 tax efficiently each year with a lump sum from £500 or regular savings from £50 a month You can also transfer any existing ISAs
- **F&C Investment Trust PEP**
  Although you can no longer invest in a PEP, you can transfer existing PEPs without losing their tax efficient status
- **F&C Child Trust Fund ('CTF')**
  F&C is a leading provider of children's investment plans and is currently the only provider to offer an investment trust based CTF Suitable for children born after 1 September 2002
- **F&C Children's Investment Plan**
  Suitable for older children ineligible for a CTF, or if you need access to the funds before the child is 18 This flexible plan can easily be written under trust to help reduce inheritance tax liability Investments can be made from a £250 lump sum or £25 a month

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested Tax rates and reliefs depend on the circumstances of the original investor Freedom from tax in an ISA or PEP applies directly to the investor

Low charges

All the plans are low cost and flexible When you buy or sell shares in these plans the dealing fee is only 0 2% 0 5% Government stamp duty also applies on purchases There are no initial or exit charges The only annual management fee is on the ISA or PEP, which is £60+VAT (no matter how many tax years' ISAs you take out with F&C, or how many ISAs or PEPs you transfer)

The F&C Child Trust Fund has no initial charges, dealing charges or annual management fee

How to invest

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

Call us on **0800 136 420**

email at **info@fandc.com**

invest online at **www.fandc.com**

Existing plan holders' enquiry line
0845 600 3030

Or write to

F&C
Freepost RLRY LYSR KYBU
Clandeboyne Business Park
West Circular Road
Bangor BT19 1AR

Calls may be recorded

The information on this page has been approved by F&C Management Limited which is a member of the F&C Asset Management Group and is authorised and regulated by the Financial Services Authority (FSA)

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Ninth Annual General Meeting of British Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh on Wednesday 20 December 2006 at 11 45 am 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 2006 be received

2 That a final dividend of 1 522 pence per Ordinary Share be declared

3 That J M Long, who retires at the first Annual General Meeting following his appointment, be re-appointed 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 2006 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 £7,712,807 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 20 December 2006, 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 £3,856,403 (5 per cent of the equity share capital in issue on 17 November 2006),

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

Notice of Annual General Meeting (continued)

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 19 June 2008 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
17 November 2006

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 18 December 2006 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 18 December 2006 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 The Directors' letters of appointment will be available for 15 minutes prior to and during the Annual General Meeting

Corporate Information

Directors
William R E Thomson, (Chairman)*
James M Long, TD
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
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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
Cenkos Securities Limited
6 7 8 Tokenhouse Yard
London EC2R 7AS

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

Summerhall Corporate 29193

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Registrars' Broker Helpline 0870 600 0158