

British Assets Trust plc

Annual Report and Accounts

2007

3721

THURSDAY



S1YJ2XS1

SCT

06/03/2008

1850

COMPANIES HOUSE

Contents

Company Summary	1
Financial Highlights for the Year	2
Performance Summary	2
Chairman's Statement	3
Investment Managers and Investment Process	6
Managers' Review	7
Investment Portfolio	14
Classification of Investments	16
Capital Structure	17
Ten Year Record	17
Board of Directors	18
Report of the Directors	19
Directors' Remuneration Report	27
Income Statement	29
Reconciliation of Movements in Shareholders' Funds	29
Balance Sheet	30
Cash Flow Statement	31
Notes to the Accounts	32
Directors' Responsibility Statement and Independent Auditors' Report	43
Shareholder Information	45
How to Invest	47
Notice of Annual General Meeting	48
Proxy	
Corporate Information	

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

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 (excluding borrowings) at 30 September 2007 were £605.1 million.

Objective and Investment Policy

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 a diversified 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.

The Company's investment policy is contained within the Business Review on pages 19 and 20.

Management

The Board has appointed F&C Investment Business Limited 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

The investment managers operate a number of investment plans which facilitate investment in the shares of the Company. Details are contained on page 47.

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.britishassets.co.uk

Financial Highlights for the Year

- Dividend increase of 4.0 per cent
- Share price total return of 10.5 per cent
- Net asset value total return of 9.7 per cent

Performance Summary

	30 September 2007	30 September 2006	% change
Total Return (note 1)			
Net asset value (note 2)	9.7%	10.9%	
Ordinary Share price	10.5%	9.2%	
Composite index (note 3)	12.5%	13.2%	
FTSE All Share Index	12.2%	14.7%	
FTSE World (ex UK) Index	13.3%	8.9%	
Capital Values			
Net asset value	161.4p	152.5p	+5.8%
Ordinary Share price	140.8p	132.5p	+6.3%
Revenue and Dividends			
Revenue per Ordinary Share	5.7p	6.3p	(9.5)%
Dividends per Ordinary Share	5.706p	5.486p	+4.0%
Dividend Yield	4.1%	4.1%	
Discount – Basic	12.8%	13.1%	
– Debt adjusted (note 4)	11.5%	10.5%	
Gearing – Net of cash (note 5)	15.0%	20.3%	
– Equity gearing (note 6)	8.4%	13.6%	
Total Expense Ratio (as percentage of shareholders' funds)			
Management (excluding performance fee), marketing and other expenses	0.63%	0.62%	
Year's Highs/Lows	2007 High	2007 Low	
Net asset value	169.9p	146.3p	
Ordinary Share price	153.5p	130.5p	
Discount (basic)	5.4%	14.8%	

Notes

- 1 All total return calculations are on a yield basis with dividends reinvested
- 2 Net asset value total return is calculated as the total return attributable to an Ordinary Share
- 3 Composite index of 75 per cent FTSE All Share Index and 25 per cent FTSE World (ex UK) Index
- 4 Discount of share price to net asset value with debt at market value
- 5 Gearing net of cash Investments – Shareholders' Funds
- 6 Equity gearing Equity Investments – Shareholders' Funds

Sources: F&C Investment Business, AIC and Datastream

Chairman's Statement

For most of the year, markets were supported by strong corporate earnings and dividend growth, together with ongoing mergers and acquisitions activity. Markets also benefited from signs that there was unlikely to be a severe economic slowdown in the US. However, in the summer months, increasing concerns over the US sub prime mortgage debt market caused panic in credit markets and a sharp increase in market volatility, particularly amongst financial stocks. It is already clear that the liquidity crisis which followed is likely to have an adverse effect on growth forecasts, as well as hampering activity by hedge fund and private equity investors who typically rely on borrowings to fund investments.

The best returns within the portfolio came from the Pacific (ex Japan) and Europe (ex UK) regions which have both benefited from strong economic growth and good corporate earnings. Led by China, the Pacific region is becoming a key contributor to global growth.

Global stockmarkets made good progress during the year ended 30 September 2007 with the result that the Company and its composite benchmark index have both delivered five consecutive years of positive total returns.

The Company's net asset value total return for the year was 9.7 per cent. The share price total return was 10.5 per cent and the Company is again in a position of being able to increase its dividend, with the Board recommending an increase of 4.0 per cent for the year.

The net asset value total return of 9.7 per cent compares with a total return of 12.5 per cent from the Company's composite benchmark index of 7.5 per cent FTSE All Share Index and 2.5 per cent FTSE World (ex UK) Index. Overseas stock selection, asset allocation, gearing and share buy backs all made positive contributions during the year. However, these gains were more than offset by the performance in the UK and the returns from the corporate bond portfolio.

As previously announced, a new manager of the UK portfolio was appointed from within the F&C UK equities team during the year, and this was followed by a period of improved performance. Unfortunately, towards the end of the year, performance suffered in the wake of the liquidity crisis as the Company has significant exposure to financial stocks, including Northern Rock, which are an important contributor to the revenue account. Notwithstanding the underperformance for the year, the Board believes that the change in UK manager will result in improved performance in this important part of the overall portfolio.

Although outperforming its composite benchmark index, returns from the corporate bond portfolio were less than equities during the year, principally as a result of fears of defaults caused by the liquidity crisis. One of the main and continuing reasons for having an exposure to corporate bonds is the benefit this provides to the Company's revenue account.

Chairman's Statement (continued)

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	12.5%
Stock selection	
UK equities	-2.1
UK equities – cost of portfolio re alignment	-0.4
Overseas equities	0.1
Regional asset allocation	0.4
Corporate bonds	-0.7
Gearing/cash	0.4
Share buy backs	0.2
Expenses	-0.7
British Assets Trust net asset value total return	9.7%

Earnings and Dividends

The Company's revenue earnings per share for the year were 5.7p (2006 6.3p). First, second and third interim dividends, each of 1.356p per Ordinary Share, were paid on 10 April, 6 July and 5 October 2007 respectively.

During the year the Company continued to benefit from strong dividend growth from its investee companies, in particular within the UK, as well as from the receipt of a number of special dividends. Having reviewed the revenue outcome for the year and considered carefully the Company's revenue forecast for the forthcoming year, the Board is pleased to recommend a final dividend of 1.638p per Ordinary Share in respect of the year ended 30 September 2007, payable on 11 January 2008 to shareholders on the register at close of business on 14 December 2007. This brings the total dividend in respect of the year to 5.706p per Ordinary Share, an increase of 4.0 per cent from the previous year.

The Board considers the Company's dividend yield to be one of its key attractions. As at 30 September

2007, the yield of 4.1 per cent was some 41 per cent higher than the FTSE All Share Index yield of 2.9 per cent.

Gearing

At the end of the year the Company's gearing, net of cash, was 15.0 per cent, which compares with 20.3 per cent as at 30 September 2006. The level of gearing was represented by 8.4 per cent in equities and 6.6 per cent in corporate bonds. As a reflection of their cautious view on markets, the Managers reduced the level of net gearing during the year by raising cash from the UK and Japanese portfolios.

The Company's borrowings are represented by two £60 million bonds, one of which is due for repayment in March 2008 and the other in 2031. It is the Board's current intention to replace in full, or in part, the 6.625 per cent 2008 bond. The Board has considered a number of options and currently favours replacing the 2008 bond with a more flexible form of borrowing.

More detailed information about the Company's borrowings can be found in notes 11 and 12 to the accounts.

Share Buy Backs

During the year the Company purchased 7,500,000 shares for cancellation, equivalent to 2.4 per cent of the shares in issue as at 30 September 2006, for an aggregate consideration of £11.2 million. These buy backs enhanced the net asset value by 0.5p per share.

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

Board Composition

During the year, the Board conducted a detailed review of its composition. Of the five Directors excluding the Chairman, three will have served for more than nine years at the time of the forthcoming Annual General Meeting.

The Combined Code on Corporate Governance encourages boards to have at least half of their

number, excluding the chairman, with service of less than nine years. The Board has therefore embarked on a process to appoint a new non executive Director within the next few months.

In addition, I will retire at the Annual General Meeting in 2009. Plans are in hand as regards my succession.

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Tuesday 18 December 2007, 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 therefore encourage you to attend. The Notice of Annual General Meeting can be found on pages 48 and 49.

Shareholders will find a proxy form at the back of the Annual Report, and a form of direction is enclosed for those who hold shares through the F&C savings plans. Shareholders who are unable to attend the Annual General Meeting are encouraged to complete and return their forms to the Company's registrars to ensure that their votes are represented at the Meeting.

VAT on Management Fees

The European Court of Justice ruling in June 2007, that investment trusts should be regarded as special investment funds, has recently been accepted in principle by HM Revenue & Customs, although a number of legal and procedural matters remain to be resolved. As a result of this decision, management fees paid by the Company will not be subject to VAT in future. In addition, the Company will be able to recover some of the VAT suffered in the past on management fees although at this stage the amount is uncertain.

Outlook

Following the events of recent months the immediate outlook for global growth and financial markets remains uncertain. Until the full impact of the liquidity crisis is clearer, market volatility is likely to continue, particularly amongst financial stocks. However, prospects for corporate profits remain reasonable and equity valuations are at fair levels by historic standards. The Board is therefore hopeful that further gains can be made in the year ahead.

W R E Thomson

Chairman

16 November 2007



Investment Managers and Investment Process

Julie Dent Investment Manager joined F&C Asset Management plc ('**F&C**') in 1986 and was appointed Investment Manager of British Assets Trust in 2001. She is Head of Global Equities (Edinburgh) of F&C and has over 21 years' experience in managing international equities.

Investment Managers

British Assets Trust plc is managed by F&C Investment Business Limited, a wholly owned subsidiary of F&C. F&C is a leading asset manager in both the UK and Europe with £103.5 billion under management as at 30 September 2007. 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 plc invests principally in a diversified 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.

Managers' Review

Introduction

In the year to 30 September 2007, the Company's net asset value total return was 9.7 per cent, which compares to a return of 12.5 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 10.5 per cent.

It has been another reasonable year for stockmarkets. Similar to last year, the first half of the financial year saw strong returns with a setback in the second half. The Company's revenue account benefited from good dividend growth and a number of special dividends.

Asset allocation made a positive contribution, as did overseas stock selection. The turmoil in credit markets over the summer hurt performance in the UK equity and corporate bond portfolios.

At 30 September 2007, the Company had gearing, net of cash, of 15.0 per cent (including equity gearing of 8.4 per cent and 6.6 per cent invested in corporate bonds). Gearing comprises a £60 million 6.625 per cent 2008 debenture and a £60 million 6.25 per cent 2031 debenture.

The highest stockmarket returns came from the Pacific region outside of Japan, as shown in the table below.

Over the summer, rising defaults in the US sub prime housing market, in which individuals with poor credit histories were able to borrow for house purchases, caused serious concerns over the

creditworthiness of institutions engaged in sub prime business. These concerns quickly affected the wider international financial system and the resultant threat to financial stability led to central bank intervention.

In the past two months, the US Federal Reserve Bank has reduced interest rates by 0.75 per cent, in order to limit the adverse economic effects of tighter credit conditions. In the UK and Europe, steps were taken to ease restrictions on inter bank lending, and although neither the Bank of England nor the European Central Bank have reduced interest rates, the actions of the central banks, taken together, have brought some stability to world stockmarkets.

Nevertheless, the outlook for world economies remains uncertain. Growth in the UK is likely to slow down from current levels, as higher interest payments and restricted credit affect consumer spending. Growth in the US is already slowing, due to a housing recession which is reducing consumer spending. The world, however, is no longer as dependent on the US economy as hitherto. While US consumption is subdued, consumer spending in Brazil, Russia, India, and especially China is growing quickly. Paradoxically, the strength of these economies is helping the US, where net exports are contributing to growth for the first time in many years. European growth is satisfactory although it is slowing slightly. Japan continues to show solid, although slow, growth, while the rest of Asia remains buoyant.

Stockmarket Total Returns – Year to 30 September 2007

	£ %	Local Currency %
FTSE All Share Index	12.2	12.2
FTSE World (ex UK) Index	13.3	18.4
FTSE North America Index	8.3	17.2
FTSE Europe (ex UK) Index	20.1	17.2
FTSE Pacific (ex Japan) Index	40.3	41.6
FTSE Japan Index	(3.4)	2.6

Source: Datastream (figures stated are total returns)

Managers' Review (continued)

Asset Allocation

During the year we increased cash levels, reducing exposure to the UK, and to a lesser extent to Japanese equities. This reflected our more cautious view towards stockmarkets, particularly over the summer

as the crisis in credit markets took hold. As a result, the Company's gearing to equities (represented by equity investments as a percentage of shareholders' funds) fell from 13.6 per cent at the start of the financial year to 8.4 per cent at 30 September 2007.

Asset Allocation

The asset allocation of the Company is shown in the table below

Asset Class	Benchmark 30 09 07 %	30 September 2007		30 September 2006	
		Share holders' Funds %	Total Assets %	Share holders' Funds %	Total Assets %
UK Equities	75.0	77.2	62.0	85.0	67.8
Overseas Equities					
– North America	13.8	12.9	10.3	12.3	9.8
– Europe (ex UK)	6.1	8.1	6.5	6.2	5.0
– Pacific (ex Japan)	2.7	6.1	4.9	4.0	3.2
– Japan	2.4	4.1	3.3	6.1	4.9
Total Overseas Equities	25.0	31.2	25.0	28.6	22.9
Total Equities	100.0	108.4	87.0	113.6	90.7
Corporate Bonds	–	6.6	5.3	6.7	5.3
Net current assets	–	–	7.7	–	4.0
Actual Gearing	–	(15.0)	–	(20.3)	–
Total	100.0	100.0	100.0	100.0	100.0
Potential Gearing	–	(24.6)	–	(25.4)	–

The table below shows the equity weightings by sector in the benchmark and the portfolio as at 30 September 2007

FTSE Sector	Benchmark %	Total Equities %	UK Equities %	Overseas Equities %
Oil & Gas	13.8	14.4	12.0	2.4
Basic Materials	9.2	6.2	4.5	1.7
Industrials	8.8	10.3	5.9	4.4
Consumer Goods	9.8	7.5	4.7	2.8
Health Care	7.1	6.4	4.6	1.8
Consumer Services	10.6	8.8	6.2	2.6
Telecommunications	6.3	6.1	4.7	1.4
Utilities	4.2	8.3	7.3	1.0
Financials	26.8	26.8	20.4	6.4
Technology	3.4	5.2	0.9	4.3
Total	100.0	100.0	71.2	28.8

Sub Portfolio Reports

UK – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
BP	Oil & Gas Producers	30.5	5.4
Vodafone Group	Telecommunications	24.9	4.5
Royal Dutch Shell	Oil & Gas Producers	15.4	2.8
HSBC Holdings	Banks	14.4	2.6
AstraZeneca	Pharmaceuticals	12.9	2.3
Anglo American	Mining	12.7	2.3
Centrica	Utilities	12.3	2.2
BAE Systems	Aerospace & Defence	11.5	2.0
Standard Life European Private Equity Trust	Investment Trust	11.3	2.0
GlaxoSmithKline	Pharmaceuticals	11.1	2.0

The UK portfolio returned 8.1 per cent over the year, under performing the FTSE All Share Index by 3.6 per cent.

There was a sharp divergence in returns across sectors, with resources, telecoms and chemicals seeing very strong returns whilst the banking and health care sectors fell over the period. After several years of out performance by medium sized companies, this year there was little difference, with the FTSE Mid 250 Index returning 12.9 per cent.

Following a period of improved performance for the UK portfolio in the first six months of 2007, the credit crisis over the summer, which resulted in the indiscriminate selling of financial and consumer stocks, hit performance hard. The Company has a significant exposure to financial stocks in the UK as they make an important contribution to revenue. This hurt performance, particularly the collapse in the share price of Northern Rock, which represented approximately half of the underperformance.

UK companies generally remain in good shape with strong company balance sheets and good cash flow. The most recent results season saw most companies report earnings that either met or exceeded expectations, news to which the markets responded favourably. Dividend growth has continued to exceed expectations as companies have continued to return cash to shareholders as ordinary and special dividends.

The outlook for the UK economy is deteriorating slightly. Households are facing higher interest rate costs coupled with less favourable credit conditions. Evidence is building that the housing market has finally started to slow. Mortgage rates have been rising for a year and first time house buyers are paying a higher proportion of net income in interest than at any time since 1991. With growth slowing and inflation easing, UK interest rates are expected to decline from current levels next year.

Managers' Review (continued)

North America – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Exxon Mobil	Oil & Gas Producers	26	05
Cisco Systems	Technology Hardware & Equipment	20	04
American International Group	Non Life Insurance	20	04
Schering Plough	Pharmaceutical & Biotech	20	03
Dun & Bradstreet	Media	19	03

The North American portfolio returned 4.3 per cent over the year, underperforming the FTSE North America Index by 3.7 per cent, reflecting poor stock selection in the financial and industrial sectors.

The North American markets had a reasonable year, but returns for sterling based investors were eroded as the dollar weakened. The resource and energy sectors performed well, but financial stocks, particularly banks, underperformed due to weakness in the housing and mortgage markets.

Although the housing slowdown had a negative impact on employment and consumer confidence, wider economic fundamentals remained encouraging,

with statistics on non manufacturing activity, industrial production and capacity utilisation all indicating solid growth.

Whilst corporate earnings forecasts remain good, we believe that the impact of the deteriorating housing market on consumer confidence and spending has not yet been fully felt. Inflation expectations have eased, giving the Federal Reserve Bank more flexibility on interest rates. However, it is not yet clear if we are in the early stages of a prolonged period of falling interest rates. Against this backdrop, we expect US stockmarkets to remain volatile and we favour larger growth companies.

Europe (ex UK) – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Siemens	Electronic & Electrical Equipment	11	02
Societe Generale	Banks	10	02
Stepstone	Support Services	10	02
Arques Industries	General Financial	09	01
Axis Communications	Technology Hardware & Equipment	09	01

The Europe (ex UK) portfolio returned 30.6 per cent over the year, outperforming the FTSE Europe (ex UK) Index by 8.7 per cent.

European markets continued to deliver good returns over the twelve months to 30 September 2007 with the FTSE Europe (ex UK) Index returning 20.1 per cent. The German stockmarket benefited from an

improving economic backdrop and delivered the highest country returns over the year. The Norwegian stockmarket also outperformed, as oil service companies rebounded, supported by higher oil prices. At the sector level, resources, basic materials, autos and utilities performed well. Similar to elsewhere, banks and pharmaceuticals had a poor year.

Following a period of good growth for the Eurozone economies in late 2006 and early 2007, recent news has been a little disappointing. GDP in the second quarter was below expectations. German business confidence fell to the lowest level since February 2006 as the euro's gains against the dollar in the past year eroded export competitiveness. Although corporate fundamentals have remained solid, the effects of market turmoil over the summer have caused the European Central Bank ('ECB') to reconsider further interest rate tightening. Although Eurozone economic data has been lacklustre, the ECB has maintained its

growth expectations of 2.5 per cent in 2007 and 2.3 per cent in 2008.

So far, European companies outside the financial sector have not reported changes to their outlook. Nevertheless, we expect some deterioration, and the banking sector looks set to be particularly affected by tighter credit conditions and lower volumes of higher margin products. On a more positive note, job creation remains healthy and most European consumers will not be faced with lower house prices. Their higher savings rates provide a cushion against possible further economic shocks.

Pacific (ex Japan) – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Cnooc	Oil & Gas Producers	15	0.3
Silicon Precision	Technology Hardware & Equipment	14	0.2
G S Engineering	Construction & Materials	14	0.2
Keppel	General Industrial	13	0.2
China Mobile	Mobile Telecoms	13	0.2

The Pacific (ex Japan) portfolio returned 57.8 per cent over the year, outperforming the FTSE AW Pacific (ex Japan, Australia, New Zealand) Index by 6.2 per cent. Stock selection in Korea, Taiwan and Singapore were the key drivers of performance.

The Asian markets had an outstanding year, shrugging off the credit problems in developed markets over the summer and rising to all time highs. Historically, export demand, particularly to the US, has been the main driver of growth in the region, but this is now changing. Growth in Asia remains robust and recent economic and corporate earnings suggest domestic demand, particularly consumer spending, is growing. The countries of the region now generally have strong current account surpluses, low levels of debt, high savings

rates, rising foreign exchange reserves and strengthening currencies.

The Chinese stockmarket led the way during the year with the MSCI China Index returning 114.9 per cent (sterling adjusted) over the twelve months to 30 September 2007. After three decades of uninterrupted economic expansion, China has become a key driver of global growth. The growth of its cities, absorbing millions of rural migrants each year, has translated into a huge demand for resources, lifting the global price of commodities such as copper, nickel and iron ore. Although consumption continues to grow more slowly than investment and exports, China has become a highly promising new market for multinational businesses ranging from car manufacturers to fast food companies.

Managers' Review (continued)

Japan – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Toyota Motor	Automobiles & Parts	11	02
Sumitomo Mitsui Financial	Banks	10	02
Tokyo Tatemono	Real Estate	08	01
Mitsubishi UFJ Financial	Banks	08	01
East Japan Railway	Travel & Leisure	07	01

The Japan portfolio returned negative 11.3 per cent over the year, underperforming the FTSE Japan Index by 8.1 per cent, reflecting the decision to be underweight in cyclical sectors.

The Japanese stockmarket had a poor year with the FTSE Japan Index returning just 2.6 per cent in local currency and negative 3.4 per cent in sterling terms over the year as the yen weakened further. Small and medium sized companies continued to underperform, with the Tokyo 2nd Market Index returning negative 17.4 per cent.

The Japanese economy is continuing a slow but solid recovery in growth, with the deflation problems easing slightly. Japan will continue to benefit from exports to Asia, limiting the impact of any US slowdown. It could be next year before we see a recovery in personal

consumption, as sluggish wage growth continues to deter individuals from spending. The Bank of Japan passed over the chance to increase interest rates in August, given the financial market turmoil at the time, but remains confident that the country's economic recovery will not be derailed.

Whilst the stockmarket has disappointed this year, it is worth remembering that Japan remains the largest economy in a dynamic growth region where intra regional trade is expanding fast. Whilst the competitive threat from Asia is growing, Japanese companies remain the global leaders in several areas, particularly in automobiles and specialist machinery. Generally, profitability is improving, with companies increasingly focused on shareholder value. This has resulted in higher levels of dividends and share buy backs.

Corporate Bonds

The corporate bond portfolio returned 2.3 per cent over the year, outperforming the 65 per cent Merrill Lynch Sterling Non Gilts/35 per cent European Currency High Yield composite benchmark index by 0.8 per cent.

The portfolio is currently defensively positioned, with 18 per cent in government bonds and 24 per cent in high yield bonds. This has benefited the portfolio in what has been a very difficult year in credit markets.

The pressures from US sub prime mortgages and excessive leverage elsewhere finally overwhelmed financial markets, causing severe liquidity problems throughout the global financial system. This had an immediate adverse impact on bond values. However, the ability to trade in secondary financial markets was also severely hampered as participants sought further clarification on how markets had been affected. Initially, the spotlight was on American mortgage firms such as Countrywide, but this soon turned to the UK, with Northern Rock being the most high profile casualty. Some signs of stability returned in September following central bank intervention.

Overall Outlook

The outlook for world growth and global stockmarkets is very uncertain and is likely to remain

so for some time. Investors in both the equity and credit markets are likely to pay more attention to corporate and macro economic fundamentals. This suggests more focus on large companies with good earnings visibility and strong balance sheets. Financial stocks will remain volatile until we have a clearer picture of the impact on earnings and dividends of the credit crisis. However, we believe that equity valuations are reasonable by historic standards. Although we expect slower earnings growth, companies generally are financially sound and we expect that the growth from Asia, particularly China, will remain strong.

At present we consider that holding a defensive stock portfolio and reducing gearing is the correct approach. Longer term, provided we can obtain the income we need to meet our dividend requirements, we intend moving more assets into the higher growth emerging markets, particularly in Asia. The focus here is very much on capital growth, whilst continuing to take the bulk of our income from the UK market and bonds.

Julie Dent

Investment Manager
F&C Investment Business Limited

16 November 2007

Investment Portfolio

Company	Valuation £'000	% of Total Invest ments	% of Portfolio Income	Country of Incor poration	% Change in Dividend 2006-2007*	2006 Valuation £'000
BP BP is one of the world's largest integrated oil and gas companies	30,457	5.4	6.3	UK	0.1	32,193
Vodafone Group Vodafone is the largest global provider of mobile telecommunication services	24,935	4.5	5.4	UK	11.4	18,162
Royal Dutch Shell Royal Dutch Shell is one of the world's largest integrated oil and gas companies	15,435	2.8	1.5	UK	4.0	25,390
HSBC Holdings HSBC provides a comprehensive range of banking and related financial services on a global basis	14,389	2.6	3.8	UK	13.3	27,574
AstraZeneca AstraZeneca is involved in the research, manufacture and sale of pharmaceuticals	12,885	2.3	2.6	UK	24.1	11,477
Anglo American Anglo American is a global mining and natural resources company	12,660	2.3	3.9	UK	19.0†	9,605
Centrica Centrica is the UK's leading integrated gas and electricity supply business	12,327	2.2	2.1	UK	7.6	6,803
BAE Systems BAE Systems is a defence and aerospace company delivering a range of products and support services for air, land and naval services	11,508	2.0	1.6	UK	9.7	4,996
Standard Life European Private Equity Trust Standard Life European Private Equity Trust invests in a portfolio of predominantly European private equity funds	11,250	2.0	0.7	UK	33.3	9,150
GlaxoSmithKline GlaxoSmithKline is a global manufacturer and marketer of pharmaceutical products	11,056	2.0	2.4	UK	8.7	21,384
Ten largest equity investments	156,902	28.1	30.3			166,734

* British Assets Trust's financial years to 30 September 2007 and 2006

† Excludes special dividends

Company

Company	Nature of Business	Valuation £'000	% of Total Investments	% of Portfolio Income	Country of Incorporation
Barclays	Banks	10,889	2.0	1.7	UK
Prudential	Life Assurance	10,748	1.9	1.9	UK
Royal Bank of Scotland	Banks	10,129	1.8	1.5	UK
Unilever	Food Producers & Processors	9,790	1.8	1.8	UK
National Grid	Utilities	9,017	1.6	3.0	UK
Imperial Tobacco Group	Tobacco	8,989	1.6	2.1	UK
Scottish & Southern Energy	Electricity	8,562	1.5	0.4	UK
United Utilities	Utilities	8,456	1.5	1.8	UK
Standard Chartered	Banks	8,300	1.5	1.3	UK
BG Group	Oil & Gas Producers	7,859	1.4	1.4	UK
Twenty largest equity investments		249,641	44.7	47.2	
Aviva	Life Insurance	7,557	1.4	1.0	UK
Lonmin	Mining	7,357	1.3	0.6	UK
Land Securities	Real Estate	6,441	1.2	0.6	UK
Man Group	General Financial	6,346	1.1	-	UK
Catties	General Financial	6,206	1.1	1.1	UK
Resolution	Life Insurance	5,783	1.0	0.5	UK
Standard Life	Life Insurance	5,770	1.0	0.5	UK
Intercontinental Hotels	Travel & Leisure	5,560	1.0	0.9	UK
Rolls Royce	Aerospace & Defence	5,520	1.0	-	UK
Cairn Energy	Oil & Gas Producers	4,920	0.9	0.7	UK
Thirty largest equity investments		311,101	55.7	53.1	
Pearson	Media	4,865	0.9	0.9	UK
Abbot Group	Oil Equipment & Gas Producers	4,736	0.8	-	UK
Telent	Software & Computer Services	4,524	0.8	0.3	UK
Inchcape	General Retailers	4,241	0.8	0.5	UK
Tui Travel	Travel & Leisure	4,230	0.8	0.2	UK
Findel	General Retailers	4,225	0.8	0.6	UK
Carillion	Construction & Materials	4,121	0.7	-	UK
Wolseley	Support Services	3,692	0.7	0.2	UK
Pendragon	General Retailers	3,677	0.6	-	UK
Northern Foods	Food Producers & Processors	3,593	0.6	0.1	UK
Forty largest equity investments		353,005	63.2	55.9	
Mecorm Group	Media	3,446	0.6	0.1	UK
Rio Tinto	Mining	3,428	0.6	1.4	UK
Forth Ports	Industrial Transport	3,155	0.6	-	UK
Exxon Mobil	Oil & Gas Producers	2,614	0.5	0.3	USA
Halfords Group	General Retailers	2,532	0.5	0.5	UK
Hogg Robinson Group	Support Services	2,498	0.4	0.3	UK
SSL International	Personal Goods	2,497	0.4	-	UK
Cisco Systems	Technology Hardware & Equipment	2,033	0.4	1.3	USA
American International Group	Non Life Insurance	1,963	0.4	0.2	USA
Schering Plough	Pharmaceutical & Biotech	1,951	0.3	0.1	USA
Fifty largest equity investments		379,122	67.9	60.1	
Other equity investments (221)		147,541	26.4	27.4	
Corporate bonds (122)		32,061	5.7	12.5	
Total investments		558,724	100.0	100.0	

Note: The full portfolio list will be available on the Company's website following publication of the Annual and Interim Reports

Classification of Investments

	United Kingdom £'000	North America £'000	Europe (ex UK) £'000	Pacific (ex Japan) £'000	Japan £'000	2007 Total £'000
Sector Weighting						
Oil & Gas	63,407	6,675	2,455	3,548	–	76,085
Basic Materials	23,445	5,471	680	1,589	1,379	32,564
Industrials	31,217	5,771	9,228	4,585	3,231	54,032
Consumer Goods	24,869	2,320	5,046	2,927	4,282	39,444
Health Care	23,941	5,203	2,626	–	1,911	33,681
Consumer Services	32,777	8,348	2,593	285	2,389	46,392
Telecommunications	24,935	4,250	307	1,753	757	32,002
Utilities	38,362	1,220	2,968	–	978	43,528
Financials	107,490	10,402	9,202	10,328	3,678	141,100
Technology	4,524	12,908	4,170	4,957	1,276	27,835
Total	374,967	62,568	39,275	29,972	19,881	526,663
Corporate Bond Portfolio	26,841	1,913	3,307	–	–	32,061
Total Investments	401,808	64,481	42,582	29,972	19,881	558,724
% of Total Investments	71.9	11.5	7.6	5.4	3.6	100.0

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

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

Capital Structure

The Company's capital structure 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 2007 there were 301,012,282 Ordinary Shares of 25p each in issue (2006 308,512,282 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*
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%
2007	161.4p	140.8p	12 8%	5 7p	5.706p	0.63%

*Includes performance fee

#Excludes special dividend of 0 5p per Ordinary Share

†Restated for changes in accounting standards

Board of Directors

William Thomson ††

Chairman
age 67, 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

Dr Christopher Masters *††

age 60, was appointed in
1990 and was, until April
2002, executive chairman of
Aggreko plc. He is currently
chairman of the Festival City
Theatres Trust. He is also a

non executive director of John Wood Group plc,
Alliance Trust plc, Sagentia Group AG and the
Crown Agents

James Long *††

age 52, 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

Lynn Ruddick *††

age 55, 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 and Gartmore Smaller
Companies Trust 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 MacLeod *††

Chairman of the Audit
Committee
age 66, 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, Invesco Perpetual
AIM VCT plc and Invesco Perpetual Recovery Trust
2011 plc. He is a Chartered Accountant

James West *††

Senior Independent Director
age 60, 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 Fund Ltd,
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, GNE Group 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

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 2007

Results and Dividends

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

First, second and third interim dividends, each of 1 356p per Ordinary Share, were paid on 10 April, 6 July and 5 October 2007 respectively. The Board recommends a final dividend for the year of 1 638p per Ordinary Share payable on 11 January 2008 to shareholders on the register at close of business on 14 December 2007

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 2006. 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 (the 'AIC')

Capital Structure

The Company's capital structure is set out on page 17

If a shareholder wishes to appoint a proxy to vote at a meeting on his or her behalf, a valid appointment is made if the form of proxy is received by the Company no later than 48 hours before the start of the meeting or, in the case of an adjourned meeting, no later than 48 hours before the holding of that adjourned meeting (or in the case of a poll taken

subsequent to the date of the meeting or adjourned meeting, no later than 24 hours before the time appointed for the taking of the poll). In the calculation of these time periods, no account is taken of any part of a day that is not a working day

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

Objective and Investment Policy

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 a diversified 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 portfolio and the level of dividend cover

The Company invests globally and has not set maximum exposures for any geographical regions. However, it would normally be expected that the majority of its total assets will be invested in UK equities. The Company also invests in the markets of North America, Europe (ex UK), Pacific (ex Japan), and Japan although it may invest in the markets of other countries or regions. It also invests in a portfolio of corporate bonds

It would normally be expected that the majority of the Company's investments will be in equities and fixed interest securities (including corporate bonds). However, the Company is not prohibited from investing in other types of securities. It would, however, not normally invest in unlisted securities

No more than 10 per cent of the Company's total assets may be invested in other listed closed ended investment companies unless such investment companies themselves have published investment policies to invest no more than 15 per cent of their total assets in other closed ended investment companies, in which case the limit is 15 per cent

Report of the Directors (continued)

Investment risk is spread through holding a wide range of securities in different countries and industrial sectors. There is no maximum exposure for any industrial sectors but no investment in the portfolio may exceed 10 per cent of the Company's total assets. The Company may use derivatives which will be principally, but not exclusively, for the purpose of efficient portfolio management (i.e. for the purpose of reducing, transferring or eliminating investment risk in its investments, including protection against currency risks). The Company uses gearing to enhance income and capital returns over the long term and may borrow in sterling or other currencies. The Company's Articles of Association contain a borrowing limit equal to the value of its adjusted total of capital and reserves. However, equity gearing (represented by equity investments as a percentage of shareholders' funds) would not normally be expected to exceed 20 per cent of shareholders' funds.

An explanation of how the Company has invested its assets with a view to spreading investment risk in accordance with its investment policy is contained under the heading *Management of Assets and Shareholder Value* below. An analysis of the portfolio is contained on pages 8 and 16 and the 50 largest investments are shown on pages 14 and 15.

Strategy

As part of its strategy, the Board has contractually delegated the management of the investment portfolio, and other services, to F&C Investment Business Limited ('FCIB').

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 3 to 5 and in the Managers' Review on pages 7 to 13, both of which form part of this Business Review.

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, protectionism, inflation or deflation, economic recessions and movements in interest rates and exchange rates could affect share prices in particular markets.
- Investment and strategic – incorrect strategy, asset allocation, stock selection and the use of gearing 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. Breaching bond covenants could lead to a loss of shareholders' confidence and financial loss for shareholders.

The Board seeks to mitigate and manage these risks through continual review, policy setting 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 internal control guidance issued by the Financial Reporting Council. Details of the Company's internal controls are described in more detail on page 25

Management of Assets and Shareholder Value

As stated above, the Board has contractually delegated the management of the investment portfolio to FCIB

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

Investment risks are spread through holding a wide range of securities in different countries and industrial sectors. As at 30 September 2007, the portfolio was made up of 393 investments in 29 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 consist of two £60 million Bonds, which are described in more detail in notes 11 and 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 Board and Managers recognise the importance of both marketing and share buy backs in enhancing shareholder value. In terms of marketing, the Managers offer a range of private investor savings schemes, details of which can be found on page 47. In addition, meetings are held regularly with current and prospective shareholders and stockbroking analysts covering the investment trust sector. Share buy backs help reduce the volatility of

the discount and enhance the net asset value per share for continuing shareholders. Communication of up to date portfolio information is made 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 market
- 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 2 and in the Ten Year Record on page 17. Additional comments are provided in the Chairman's Statement on pages 3 to 5

Charitable Donations

During the year the Company made donations to various local charities totalling £10,000 (2006 – £10,000)

Directors

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

		2007	2006
		Ordinary	Ordinary
		Shares	Shares
W R E Thomson	Beneficial	9,600	9,600
J M Long	Beneficial	8,160	4,871
J S MacLeod	Beneficial	35,000	35,000
	Non Beneficial	9,500	9,500
Dr C Masters	Beneficial	19,825	19,373
L C Ruddick	Beneficial	33,501	33,343
J G West	Beneficial	12,000	12,000

Report of the Directors (continued)

Since 30 September 2007 the number of shares held by Mr J M Long has increased to 9,010 and Ms L C Ruddick has acquired a non beneficial interest in 410 shares. There have been no other changes in the interests of the Directors in the Ordinary Shares of the Company between 30 September 2007 and 16 November 2007 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 2007 (2006: 50,000 units). No other Director had an interest in the Company's Bonds as at 30 September 2007 or 1 October 2006.

Ms L C Ruddick retires by rotation and, being eligible, offers herself for re-election. As explained in more detail under Corporate Governance on page 23, the Board has agreed that Directors who have served on the Board for more than nine years will retire annually. Accordingly, Mr J S MacLeod, Dr C Masters, Mr W R E Thomson 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 be re-elected.

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

The Company 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 Companies Act 1985 against liabilities incurred by each of them in the execution of their duties and the exercise of their 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.

Substantial Interests in Share Capital

As at 16 November 2007 the following holdings representing 3 per cent or more of the Company's issued share capital had been reported:

	Number of Ordinary Shares Held	Percentage Held
AXA Investment Managers	49,902,898	16.6
Friends Provident Group*	24,800,379	8.3
Legal & General Group	12,257,596	4.1

*Includes discretionary retail products

Management and Management Fees

FCIB provides management and secretarial services to the Company. A summary of the management agreement between the Company and FCIB in respect of those services is provided 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 agreement 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 the Directors are satisfied with the Managers' ability to deliver satisfactory income growth and investment performance, and the quality of other services provided. It is therefore their 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 AIC's Code of Corporate Governance issued in May 2007 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the

'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 June 2006 (the **'Combined Code'**), as well as setting out additional principles and recommendations on issues which are of specific relevance to investment trusts

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders than if it had adopted the Combined Code

Except as disclosed below, the Company has complied throughout the year with the recommendations of the AIC Code, and the relevant provisions of the Combined Code. Since all Directors are non executive, and in accordance with the AIC Code and the preamble to the Combined Code, the provisions of the Combined Code on the role of the chief executive and, except in so far as they apply to non executive Directors, on Directors' remuneration are not relevant to the Company and are not reported on further

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 principle 3 of the AIC Code and provision A7.2 of the Combined 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 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. 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, Mr J S MacLeod, Dr C Masters and Mr J G West have served on the Board for more than nine years and, as recommended by the

AIC Code and the Combined 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, FCIB, sets out the matters over which the Managers have authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board currently meets seven times a year and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Managers, in the absence of explicit instructions from the Board, are empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all meetings worldwide where practicable in accordance with the Managers' own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use their influence as investors with a principled approach to corporate governance

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

The Audit Committee, chaired by Mr J S MacLeod, operates within clearly defined written

Report of the Directors (continued)

terms of reference, which are available upon request, and comprises all of the Directors except 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 they 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 £12,000 for the year ended 30 September 2007 (2006 £11,000) 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 and that the provision of such non audit services is not a threat to the objectivity and independence of the conduct of the audit.

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 2007 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	7	6	2	2	1	1	1	1
J S MacLeod	7	7	2	2	1	1	1	1
C Masters	7	7	2	2	1	1	1	1
L C Ruddick	7	7	2	2	1	1	1	1
J G West	7	7	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 internal control guidance issued by the Financial Reporting Council in October 2005. The process relies 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. These procedures are designed to manage rather than eliminate risk and, by their nature, can only 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 the 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, which are reported on by a firm of external auditors, provide sufficient assurance that a sound system of internal control, to safeguard the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

Relations with Shareholders

The Company places great importance on communication with shareholders and welcomes their views. 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. 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 18 December 2007, is set out on pages 48 and 49. The Annual Report and Notice of Annual General Meeting are, 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, foreign exchange currency contracts, cash balances, overdrafts and 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 10 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £7,500,307, being 10 per cent of the total issued shares as at 16 November 2007. Resolution 11 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £3,750,153, being 5 per cent of the total issued shares as at 16 November 2007, for cash

Report of the Directors (continued)

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 2008. 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 authorisations proposed in resolutions 10 and 11 are necessary to retain flexibility, although they do not intend to exercise the powers conferred by these authorisations at the present time.

Directors' Authority to Buy Back Shares

During the year the Company purchased for cancellation 7,500,000 Ordinary Shares with an aggregate nominal value of £1,875,000 for a total consideration of £11,210,000, representing 2.4 per cent of the Ordinary Shares in issue at the previous year end.

The current authority of the Company to make market purchases of up to 14.99 per cent of the issued Ordinary Shares expires at the end of the Annual General Meeting and Resolution 12, as set out in the notice of the Annual General Meeting, seeks renewal of that 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 on the date of the passing of the resolution (approximately 45 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 18 June 2009 and the conclusion of the next Annual General Meeting of the Company.

Since the year end the Company has purchased for cancellation 1,000,000 Ordinary Shares and there were 300,012,282 Ordinary Shares in issue as at 16 November 2007.

Disclosure of Information to Auditors

The Directors confirm that, so far as each of them 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 are leaders in the field of socially responsible investment and, with the support of the Board, actively engage with investee companies. Environmental factors are, therefore, where appropriate, taken into consideration with regard to investment decisions on behalf of the Company.

By order of the Board

G R Hay Smith

Secretary

80 George Street

Edinburgh EH2 3BU

16 November 2007

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 43 and 44.

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. There is no Remuneration Committee.

Policy on Directors' Fees

The Board's policy is that the remuneration of Directors should reflect the experience of the Board as a whole, the time commitment required, 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 2008 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 2007, the Chairman's fee was increased to £29,500 (previously £28,000), the Audit Committee Chairman's fee was increased to £22,000 (previously £21,000), the Senior Independent

Director's fee was increased to £21,000 (previously £18,500) and the other Directors' fees were increased to £19,500 (previously £18,500) per annum.

Directors' Service Contracts

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

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 or herself 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 2007
J M Long	1/5/2006	AGM 2009
J S MacLeod	17/12/1998	AGM 2007
Dr C Masters	22/2/1990	AGM 2007
L C Ruddick	1/10/2004	AGM 2007
J G West	22/6/1995	AGM 2007

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 2007, the total return

Directors' Remuneration Report (continued)

(assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which a composite index, weighted as to 75 per cent FTSE All Share Index and 25 per cent FTSE World (ex UK) Index, is calculated. This composite index was chosen as it represents a comparable broad equity market index and is the Company's benchmark. An explanation of the performance of the Company for the year ended 30 September 2007 is given in the Chairman's Statement and Managers' Review.

Directors' Emoluments for the Year (audited)

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

W R E Thomson (Chairman)	29,125	27,750
J M Long (appointed 1 May 2006)	19,250	7,708
J S MacLeod	21,750	20,875
Dr C Masters	19,250	18,375
L C Ruddick	19,250	18,375
J G West	20,375	18,375
Total	129,000	111,458

On behalf of the Board

W R E Thomson

Director

16 November 2007



Income Statement

for the year ended 30 September

		2007			2006		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	–	31,923	31,923	–	33,150	33,150
Exchange differences	14	–	(122)	(122)	–	177	177
Income	2	21,234	1,839	23,073	23,353	257	23,610
Investment management fee	3	(527)	(1,581)	(2,108)	(512)	(1,537)	(2,049)
Other expenses	4	(894)	–	(894)	(826)	–	(826)
Net return before finance costs and taxation		19,813	32,059	51,872	22,015	32,047	54,062
Finance costs	5	(1,954)	(5,860)	(7,814)	(1,954)	(5,860)	(7,814)
Return on ordinary activities before taxation		17,859	26,199	44,058	20,061	26,187	46,248
Tax on ordinary activities	6	(337)	–	(337)	(305)	–	(305)
Return attributable to shareholders		17,522	26,199	43,721	19,756	26,187	45,943
Return per share	8	5 7p	8 6p	14 3p	6 3p	8 3p	14 6p

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 September 2007

	Notes	Called up Share Capital £'000	Capital Redemption Reserve £'000	Capital Reserves £'000	Revenue Reserve £'000	Total Shareholders' Funds £'000
Opening shareholders' funds		77,128	11,213	347,782	34,267	470,390
Ordinary Shares purchased for cancellation		(1,875)	1,875	(11,210)	–	(11,210)
Dividends paid	7	–	–	–	(17,129)	(17,129)
Return attributable to ordinary shareholders		–	–	26,199	17,522	43,721
Closing shareholders' funds		75,253	13,088	362,771	34,660	485,772

for the year ended 30 September 2006

	Notes	Called up Share Capital £'000	Capital Redemption Reserve £'000	Capital Reserves £'000	Revenue Reserve £'000	Total Shareholders' Funds £'000
Opening shareholders' funds		80,828	7,513	340,990	31,527	460,858
Ordinary Shares purchased for cancellation		(3,700)	3,700	(19,395)	–	(19,395)
Dividends paid	7	–	–	–	(17,016)	(17,016)
Return attributable to ordinary shareholders		–	–	26,187	19,756	45,943
Closing shareholders' funds		77,128	11,213	347,782	34,267	470,390

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.

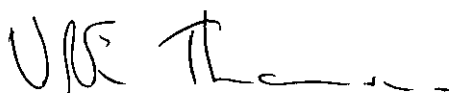
A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above Income Statement.

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

Balance Sheet

as at 30 September	Notes	£'000	2007 £'000	2006 £'000
Non current assets				
Investments at fair value through profit or loss	9		558,724	566,081
Current assets				
Debtors	10	5,937		5,430
Cash at bank and on deposit		47,349		24,140
		53,286		29,570
Creditors amounts falling due within one year	11	(66,870)		(6,014)
Net current (liabilities)/assets			(13,584)	23,556
Total assets less current liabilities			545,140	589,637
Creditors amounts falling due after more than one year	12		(59,368)	(119,247)
Net assets			485,772	470,390
Capital and reserves				
Called up share capital	13		75,253	77,128
Capital redemption reserve	14		13,088	11,213
Capital reserve – realised	14		318,090	246,431
Capital reserve – unrealised	14		44,681	101,351
Revenue reserve	14		34,660	34,267
Shareholders' funds	15		485,772	470,390
Net asset value per share	15		161 4p	152 5p

The accounts on pages 29 to 42 were approved by the Board of Directors and authorised for issue on 16 November 2007 and signed on its behalf by



W R E Thomson, Chairman

The accompanying notes are an integral part of the financial statements

Cash Flow Statement

for the year ended 30 September

	Notes	2007 £'000	2006 £'000
Operating activities			
Investment income received		20,953	22,666
Deposit interest received		1,808	783
Underwriting commission received		–	5
Investment management fees paid		(2,108)	(3,637)
Other cash payments		(906)	(769)
Net cash inflow from operating activities	16	19,747	19,048
Servicing of finance			
Interest on 6 625 per cent Bonds 2008		(5,963)	(1,988)
Interest on 6 25 per cent Bonds 2031		(3,750)	(3,750)
Net cash outflow from servicing of finance		(9,713)	(5,738)
Taxation			
Tax recovered		–	39
Capital expenditure and financial investment			
Purchases of investments		(470,340)	(187,017)
Disposals of investments		511,722	205,745
Net cash inflow from capital expenditure and financial investment		41,382	18,728
Equity dividends paid		(17,129)	(17,016)
Net cash inflow before financing		34,287	15,061
Financing			
Ordinary Shares purchased for cancellation		(11,210)	(19,395)
Net cash outflow from financing		(11,210)	(19,395)
Increase/(decrease) in cash	17	23,077	(4,334)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		23,077	(4,334)
Currency gains		132	171
Increase in 6 625 per cent Bonds 2008 liability		(63)	(63)
Increase in 6 25 per cent Bonds 2031 liability		(26)	(26)
Opening net debt		(95,107)	(90,855)
Closing net debt	17	(71,987)	(95,107)

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

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 2007 would have been £1,012,000 (2006: £640,000).

(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 as 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 on forward foreign currency contracts.

(d) Income

Dividends are recognised as income on the date which 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 a 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 had no deferred tax liabilities at the year end.

(f) Expenses

All expenses are accounted for on an accruals basis. Expenses are all allocated to 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, which derive predominantly by virtue of the Company's capital performance, 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

	2007	2006
US Dollar	2 0374	1 8680
Euro	1 4326	1 4746
Japanese Yen	234 3258	220 5395

Notes to the Accounts (continued)

2 Income

	2007 £'000	2006 £'000
Income from investments		
Franked investment income	14,485	17,928
Unfranked investment income	1,700	924
Overseas dividends	2,843	2,425
Overseas interest	398	1,288
Special dividends credited to capital	1,839	257
	21,265	22,822
Other income		
Deposit interest	1,808	783
Underwriting commission	-	5
	1,808	788
Total income	23,073	23,610
Total income comprises		
Dividends	19,167	20,610
Income from fixed interest securities	2,098	2,212
Deposit interest	1,808	783
Underwriting commission	-	5
	23,073	23,610
Income from investments		
Listed UK	18,024	19,109
Listed overseas	3,241	3,713
	21,265	22,822

Total income of £23,073,000 (2006 £23,610,000) includes special dividends of £3,152,000 (2006 £4,636,000) of which £1,313,000 (2006 £4,379,000) is recognised through revenue and £1,839,000 (2006 £257,000) is recognised through capital

3 Investment management fee

	2007			2006		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee						
– basic	527	1,581	2,108	512	1,537	2,049
– performance	–	–	–	–	–	–
	527	1,581	2,108	512	1,537	2,049

At the start of the year the Company's investment managers were F&C Asset Management plc ('F&C'). On 26 February 2007 the investment management agreement was novated to F&C Investment Business Limited ('FCIB'), a wholly owned subsidiary of F&C. FCIB 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 agreement 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 FCIB may be terminated at any time 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, FCIB 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

	2007	2006
	£'000	£'000
Directors' fees	129	111
Auditors' remuneration for		
– audit	22	24*
– interim review	5	4
– taxation services	5	5
– other	2	2
Marketing	358	366
Bank charges	133	127
Registrars' fees	63	90
Net VAT recovered	(4)	(196)
Other expenses	181	293
	894	826

* Includes £3,000 of non recurring fees

Notes to the Accounts (continued)

5 Finance costs	2007			2006		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'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	2007	2006
	£'000	£'000
Overseas taxation	337	305

The Company has £39,408,000 unutilised management expenses and interest at 30 September 2007 (2006 £35,341,000). No deferred tax asset has been recognised on this amount as it is unlikely that there will be taxable profits from which the future reversal of the deferred tax asset could be deducted.

6(b) Reconciliation of tax charge	2007	2006
	£'000	£'000
A reconciliation of the current tax charge is set out below		
Return on ordinary activities before taxation	17,859	20,061
Corporation tax at standard rate of 30 per cent	5,358	6,018
Effects of		
Non taxable dividend income	(4,346)	(5,378)
Expenses charged to capital	(675)	(335)
Current year tax charge (overseas taxation)	337	305

7 Dividends	2007	2006
	£'000	£'000
Dividends on Ordinary Shares		
Amounts recognised as dividends to shareholders during the year		
– third quarterly interim of 1 33p paid in respect of the year ended 30 September 2006 (2005 1 304p) per share	4,103	4,216
– final of 1 522p paid in respect of the year ended 30 September 2006 (2005 1 414p) per share	4,696	4,557
– first quarterly interim of 1 356p paid in respect of the year ended 30 September 2007 (2006 1 304p) per share	4,183	4,126
– second quarterly interim of 1 356p paid in respect of the year ended 30 September 2007 (2006 1 33p) per share	4,147	4,117
	17,129	17,016
Proposed third quarterly dividend of 1 356p in respect of the year ended 30 September 2007 (2006 1 33p) per share	4,082	4,103
Proposed final dividend of 1 638p in respect of the year ended 30 September 2007 (2006 1 522p) per share	4,914	4,696
	8,996	8,799

7 Dividends (continued)

	2007 £'000
Revenue available for distribution by way of dividends for the year	17,522
First quarterly interim dividend of 1 356p paid in respect of the year ended 30 September 2007	(4,183)
Second quarterly interim dividend of 1 356p paid in respect of the year ended 30 September 2007	(4,147)
Proposed third quarterly interim dividend of 1 356p in respect of the year ended 30 September 2007	(4,082)
Proposed final quarterly interim dividend of 1 638p in respect of the year ended 30 September 2007*	(4,914)
Undistributed revenue for Section 842 purposes	196

*based on 300,012,282 shares in issue at 16 November 2007

8 Return per share

	Revenue	Capital	2007 Total	Revenue	Capital	2006 Total
Ordinary	5 7p	8 6p	14 3p	6 3p	8 3p	14 6p

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

	Revenue £'000	Capital £'000	2007 Total £'000	Revenue £'000	Capital £'000	2006 Total £'000
Ordinary	17,522	26,199	43,721	19,756	26,187	45,943

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

	2007	2006
Weighted average number of shares in issue during the year	306,387,624	315,715,159

9 Investments

	2007	2006	
	£'000	£'000	
Investments listed on a recognised investment exchange	558,724	566,081	
	Listed in UK £'000	Listed overseas £'000	Total £'000
Opening book cost	337,711	127,169	464,880
Opening unrealised appreciation	86,683	14,518	101,201
Opening valuation	424,394	141,687	566,081
Movements in the year			
Purchases at cost	342,622	130,504	473,126
Sales – proceeds	(379,786)	(132,620)	(512,406)
– realised gains on sales	77,987	10,352	88,339
(Decrease)/increase in unrealised appreciation	(63,409)	6,993	(56,416)
Closing valuation	401,808	156,916	558,724
Closing book cost	378,534	135,405	513,939
Closing unrealised appreciation	23,274	21,511	44,785
Closing valuation	401,808	156,916	558,724

Notes to the Accounts (continued)

9 Investments (continued)

	2007 £'000	2006 £'000
Equity shares	526,663	534,576
Fixed income securities	32,061	31,505
	558,724	566,081
Realised gains on sales	88,339	16,933
(Decrease)/increase in unrealised appreciation	(56,416)	16,217
Gains on investments	31,923	33,150

The total expenses incurred on the purchase and sale of investments were £2,483,000 and £968,000 respectively (2006 £581,000 and £314,000)

10 Debtors

	2007 £'000	2006 £'000
Amounts due from brokers	3,378	2,694
Prepayments and accrued income	2,559	2,586
Other debtors	–	150
	5,937	5,430

11 Creditors amounts falling due within one year

	2007 £'000	2006 £'000
6 625 per cent Bonds 2008 (see note 12)	59,968	–
Amounts due to brokers	6,089	3,303
Interest on 6 625 per cent Bonds 2008	–	1,988
Interest on 6 25 per cent Bonds 2031	207	207
Other creditors	606	516
	66,870	6,014

12 Creditors amounts falling due after more than one year

	2007 £'000	2006 £'000
6 625 per cent Bonds 2008	–	59,905
6 25 per cent Bonds 2031	59,368	59,342
	59,368	119,247

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 share capital and reserves.

13 Share capital

	2007 Shares	2006 Shares	2007 £'000	2006 £'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	301,012,282	308,512,282	75,253	77,128
-----------------------------	--------------------	-------------	---------------	--------

During the year the Company purchased for cancellation 7,500,000 (2006 14,800,000) Ordinary Shares of 25p each for a total consideration of £11,210,000 (2006 £19,395,000)

14 Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve—realised £'000	Capital reserve—unrealised £'000	Revenue reserve £'000
At 30 September 2006	77,128	11,213	246,431	101,351	34,267
Exchange differences	—	—	132	(254)	—
Net gain on realisation of investments	—	—	88,339	—	—
Decrease in unrealised appreciation on investments	—	—	—	(56,416)	—
Special dividends credited to capital	—	—	1,839	—	—
Management fees charged to capital	—	—	(1,581)	—	—
Finance costs charged to capital	—	—	(5,860)	—	—
Shares purchased for cancellation	(1,875)	1,875	(11,210)	—	—
Net revenue for the year	—	—	—	—	17,522
Dividends paid	—	—	—	—	(17,129)
At 30 September 2007	75,253	13,088	318,090	44,681	34,660

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 were as follows

	Net asset value per share		Net asset value	
	2007 pence	2006 pence	2007 £'000	2006 £'000
Ordinary Shares	161.4	152.5	485,772	470,390

Net asset value per Ordinary Share is calculated on shareholders' funds of £485,772,000 (2006 £470,390,000) divided by the number of Ordinary Shares in issue at the year end of 301,012,282 (2006 308,512,282)

Notes to the Accounts (continued)

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

	2007	2006
	£'000	£'000
Net revenue before finance costs and taxation	51,872	54,062
Gains on investments	(31,923)	(33,150)
Exchange differences	122	(177)
Decrease in accrued income and prepayments	27	205
Decrease in other creditors	(12)	(1,588)
Tax on investment income	(339)	(304)
Net cash inflow from operating activities	19,747	19,048

17 Analysis of changes in net debt

	At 30 September 2006 £'000	Cash flow £'000	Other movements £'000	Currency movements £'000	At 30 September 2007 £'000
Cash at bank and on deposit	24,140	23,077	–	132	47,349
6 625 per cent Bonds 2008	(59,905)	–	(63)	–	(59,968)
6 25 per cent Bonds 2031	(59,342)	–	(26)	–	(59,368)
	(95,107)	23,077	(89)	132	(71,987)

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 Managers' 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

Cash is held in floating rate deposit accounts

The Company seeks to receive interest payments on cash balances at suitable commercial rates for the relevant currency for each deposit

Fixed rate

The Company holds fixed interest investments and has fixed interest liabilities

	2007	2007	2007		2006	2006
	£'000	Average interest rate	Average period until maturity	£'000	Average interest rate	Average period until maturity
Fixed interest investments	32,061	6.87%	9.01 years	31,505	5.77%	8.03 years
Fixed interest liabilities						
6.625 per cent Bonds 2008	59,968	6.625%	0.50 years	59,905	6.625%	1.50 years
6.25 per cent Bonds 2031	59,368	6.25%	23.95 years	59,342	6.25%	24.95 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 2007 was £126.3 million (2006: £132.9 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 which it has entered into with the Company. The Managers have a monitoring procedure whereby counterparty risk 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 £526,663,000 as at 30 September 2007 (2006: £534,576,000).

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 2007, the Company entered into US Dollar and Euro foreign currency contracts with a view to hedging these currency risks.

Foreign currency exposure

	2007 Investments £'000	2007 Current assets/ (liabilities) £'000	2006 Investments £'000	2006 Current assets/ (liabilities) £'000
US Dollar	62,684	1,117	59,814	3,839
Euro	30,453	174	20,788	180
Swiss Franc	4,814	–	5,619	26
Norwegian Krone	3,343	–	3,997	–
Danish Krone	551	1	–	217
Swedish Krona	3,420	16	3,105	305
Canadian Dollar	2,911	27	1,807	–
Japanese Yen	19,882	492	28,810	(94)
Australian Dollar	930	6	1,005	6
Hong Kong Dollar	8,268	73	4,383	(40)
Singapore Dollar	3,351	24	1,280	–
Malaysian Dollar	920	–	–	–
Philippine Peso	459	–	–	–
South Korean Won	8,496	–	5,491	–
Taiwan Dollar	4,057	999	3,257	213
Thai Bhat	1,263	–	1,210	–
Indonesian Rupiah	1,114	–	1,121	–
South African Rand	–	199	–	–
Total	156,916	3,128	141,687	4,652

The foreign exchange currency contracts not yet realised were as follows

	2007 Hedged amount £'000	2007 Unrealised gain £'000	2006 Hedged amount £'000	2006 Unrealised gain £'000
US Dollar for sterling	1,890	1	2,508	49
Euro for sterling	4,943	103	5,182	101
	6,833	104	7,690	150

Total realised gains in the year from foreign exchange currency contracts were £160,000 (2006 £241,000)

22 Contingent Asset

The Association of Investment Companies and JPMorgan Claverhouse Investment Trust plc lodged a joint appeal in 2004 for the payment of management fees by investment trusts to be treated as exempt from VAT. In June 2007 the European Court of Justice ('ECJ') found in favour of the appellants, declaring that investment trusts should be treated as special investment funds and thus exempted from VAT on management fees. HM Revenue & Customs ('HMRC') has recently announced that it will not appeal against the ECJ decision.

The Managers have submitted protective claims to HMRC in respect of all prior periods which might fall within the scope of the ECJ ruling and in which VAT was collected from the Company by the Managers. However, although the Company expects to recover VAT on management fees paid to the Managers, at this point in time the amount is so uncertain that it has not been recognised as an asset in the accounts.

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 2007 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' responsibilities 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) are 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.

Directors' Responsibility Statement and Independent Auditors' Report (continued)

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, Managers' 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, Proxy 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

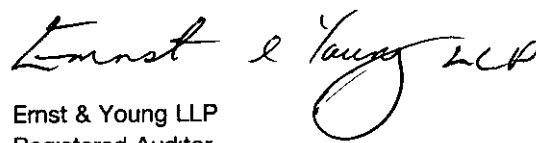
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration 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 2007 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
16 November 2007

Shareholder Information

Annual General Meeting

The Annual General Meeting of British Assets Trust plc will be held at 80 George Street, Edinburgh on Tuesday 18 December 2007 at 12 noon

Dividends

Ordinary dividends are paid quarterly in April, July, October and January each year. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Equiniti Limited, Aspect House, Spencer Road, Lancing, 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 Company's Dividend Reinvestment Plan can complete a mandate form which may also be obtained from Equiniti Limited on request.

Share Prices

The Company's Ordinary Shares are listed on the London Stock Exchange under 'Investment Companies'. Prices are given daily in the *Financial Times*, *The Scotsman*, *The Times* and *The Daily Telegraph* and can also be obtained from the Managers' website at www.fandc.co.uk

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 Equiniti Limited, Aspect House, Spencer Road, Lancing, 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 on F&C Asset Management plc's website at www.fandc.co.uk or by contacting their Investment Services team on 0845 600 6166.

Shareholder Information (continued)

Capital Gains Tax

The undernoted value as at 31 March 1982 is to assist shareholders with regard to capital gains tax

Ordinary Shares	23 ⁵ / ₈ p
-----------------	----------------------------------

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

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

Financial Calendar 2007/08

18 December 2007	Annual General Meeting
11 January 2008	Final dividend paid
January 2008	Publication of Interim Management Statement*
April 2008	First interim dividend paid
May 2008	Announcement of Interim Results
	Posting of Interim Report
July 2008	Second interim dividend paid
	Publication of Interim Management Statement*
October 2008	Third interim dividend paid
November 2008	Announcement of Annual Results
	Posting of Annual Report

will be available on the Company's website

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 Management Limited

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

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%. Government stamp duty of 0.5% 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.co.uk**

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 Tenth Annual General Meeting of British Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh on Tuesday 18 December 2007 at 12 noon for the following purposes

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

- 1 That the Report and Accounts for the year ended 30 September 2007 be received
- 2 That a final dividend of 1638 pence per Ordinary Share be declared
- 3 That Ms L C Ruddick, who retires by rotation, be re elected as a Director
- 4 That Mr J S MacLeod, 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 W R E Thomson, who retires annually, be re elected as a Director
- 7 That Mr J G West, who retires annually, be re elected as a Director
- 8 That the Directors' Remuneration Report for the year ended 30 September 2007 be approved
- 9 That Ernst & Young LLP be re appointed as Auditors and the Directors be authorised to determine their remuneration
- 10 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 £7,500,307 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

- 11 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 10 proposed at the Annual General Meeting of the Company convened for 18 December 2007, 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 £3,750,153 (5 per cent of the equity share capital in issue on 16 November 2007),

and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may, before such expiry, make any offer or agreement which would or might require

equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired

- 12 That the Company be generally and unconditionally authorised, in accordance with Section 166 of the Companies Act 1985 (the 'Act'), to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 25p each ('Ordinary Shares'), provided that

- (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99 per cent of the issued Ordinary Shares on the date on which this resolution is passed,
- (b) the minimum price which may be paid for an Ordinary Share shall be 25p,
- (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be 105 per cent of the average of the middle market quotations (as derived from the Daily Official List) for the Ordinary Shares for the five business days immediately preceding the date of purchase, and
- (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on the later of 18 June 2009 and the conclusion of the next Annual General Meeting of the Company, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares under such authority and may make a purchase of Ordinary Shares pursuant to any such contract

By order of the Board
G R Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU
16 November 2007



Notes

- 1 A member entitled to attend, speak and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and 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 (i) by 12 noon on 14 December 2007 or, (ii) in respect of an adjourned meeting, no later than 48 hours (excluding any part of a day that is not a working day) before the holding of that adjourned meeting (or, in the case of a poll taken subsequent to the date of the meeting or an adjourned meeting, not less than 24 hours (excluding any part of a day that is not a working day) before the time appointed for the taking of the poll)
- 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 16 December 2007 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, speak 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 16 December 2007 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, speak 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 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
- 5 As at 5.00 pm on 16 November 2007 (being the latest applicable date prior to the publication of this notice), the Company's issued share capital comprised 300,012,282 Ordinary Shares of 25p each. Every Member holding Ordinary Shares shall have one vote for every £4.00 of nominal ordinary share capital held by them and therefore the total number of voting rights in the Company at 5.00 pm on 16 November 2007 was 18,750,767
- 6 Members who have general queries about the Annual General Meeting should not use any electronic address to communicate with the Company but should call the Company's registrars on 0870 601 5366

Proxy Form

British Assets Trust plc

I/We (Note 1) _____

(BLOCK LETTERS PLEASE)

of (Note 2) _____

being a member of **British Assets Trust plc**, hereby appoint the Chairman of the meeting, or*

(Notes 3, 4 and 9) _____

as my/our proxy to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held at 80 George Street, Edinburgh on Tuesday 18 December 2007 at 12 noon, on the following Resolutions to be submitted to the meeting and at any adjournment thereof

My/our proxy is to vote or abstain as indicated by an "X" below in respect of the resolutions set out in the notice convening the meeting

Resolutions	For	Against	Abstain (Note 8)
1 To receive the Report and Accounts for the year ended 30 September 2007			
2 To declare a final dividend of 1 638 pence per Ordinary Share			
3 To re elect Ms L C Ruddick as a Director			
4 To re elect Mr J S MacLeod as a Director			
5 To re elect Dr C Masters as a Director			
6 To re elect Mr W R E Thomson as a Director			
7 To re elect Mr J G West as a Director			
8 To approve the Directors' Remuneration Report for the year ended 30 September 2007			
9 To re appoint Ernst & Young LLP as Auditors and to authorise the Directors to determine their remuneration			
10 To authorise the Directors to allot relevant securities			
11 To empower the Directors to allot equity securities without regard to pre-emptive rights			
12 To renew the Directors' authority to make market purchases of Ordinary Shares			

Signature (Notes 6 and 7) _____

Dated _____ Day of _____ 2007

Notes

- 1 Please insert FULL NAME(S) in BLOCK CAPITALS
- 2 Please insert FULL ADDRESS in BLOCK CAPITALS
- 3 As an ordinary shareholder of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.
- 4 Any person may be appointed as a proxy. If you wish to appoint a person other than the chairman, delete "the chairman of the meeting" or "and insert the name and address of the person in the space provided". A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different ordinary shares. You may not appoint more than one proxy to exercise rights attached to any one ordinary share. To appoint more than one proxy, please contact Equiniti Limited on 0870 601 5366.
- 5 Please indicate how you wish your proxy to vote on the resolution. In the absence of any direction your proxy may, in their discretion, vote or abstain from voting in respect of the resolution. Your proxy may also, in their discretion, vote or abstain from voting in respect of any other resolution proposed at the AGM. This proxy will be used only in the event of a poll being directed or demanded.
- 6 If the shareholder is a corporation, this form of proxy must be executed under its common seal or signed on its behalf by a duly authorised officer or attorney of the corporation. If the shareholder is an individual, this form of proxy must be signed by that individual or their attorney.
- 7 In the case of joint holders, the signature of the first named in the register of members of the Company will be accepted to the exclusion of the other joint holders.
- 8 The "Abstain" option is provided to enable you to abstain on the resolution. However, it should be noted that a vote abstained is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" the resolution.
- 9 Any alteration made in this form of proxy should be initialled.
- 10 Completion of this form of proxy will not prevent a shareholder from attending the AGM and voting in person should they so wish.
- 11 **To be effective, this form of proxy should be completed and sent or delivered, together with the power of attorney or other authority (if any) under which it is signed or a notorially certified copy of such power of attorney or other authority, to the Company's registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZR, so as to be received as soon as possible and, in any event, no later than 12 noon on Friday, 14 December 2007.**

SECOND FOLD

RESPONSE LICENCE No
SEA 10850

2



Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6ZR

FIRST FOLD

THIRD FOLD AND TUCK IN

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
Edinburgh EH2 3BU
Tel No 0207 628 8000
Facsimile No 0131 225 2375

Investment Managers

F&C Investment Business Limited
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

Equiniti Limited
Aspect House
Spencer Road
Lancing
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

Registered Office

80 George Street
Edinburgh EH2 3BU
Tel: 0207 628 8000
Fax: 0131 225 2375

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Registrars' Shareholder Helpline: 0870 601 5366
Registrars' Broker Helpline: 0870 600 0158