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British Assets Trust plc
Annual Report and Accounts
2008

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. 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 at 30 September 2008 were £392.9 million.

Objective

The investment objective of the Company is to achieve a total return in excess of a composite index, weighted as to 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index, by investing principally in 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.

Investment Policy

The Company's investment policy is contained within the Report of the Directors on pages 20 and 21.

Management

The Board has appointed F&C Investment Business Limited, a wholly owned subsidiary of F&C Asset Management plc, as investment managers. The notice period is six months. Further details of the management contract are provided in Note 3 to the Accounts.

Capital Structure

The Company's capital structure consists solely of Ordinary Shares. Details are provided in Note 13 to the Accounts.

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 53.

ISA Status

The Company's shares are eligible for Individual Savings Accounts ('ISAs'). You may also invest through your stockbroker.

Website

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

Financial Highlights for the Year

- Dividend increase of 4.0 per cent
- Share price total return of -24.8 per cent
- Net asset value total return of -26.8 per cent

Performance Summary

	30 September 2008	30 September 2007	% change
Total Return (note 1)			
Net asset value (note 2)	(26.8)%	9.7%	
Ordinary Share price	(24.8)%	10.5%	
Composite index (note 3)	(20.3)%	12.5%	
FTSE All-Share Index	(22.3)%	12.2%	
FTSE World (ex UK) Index	(14.4)%	13.3%	
Capital Values			
Net asset value	114.0p	161.4p	(29.4)%
Ordinary Share price	100.8p	140.8p	(28.4)%
Revenue and Dividends			
Revenue per Ordinary Share	6.2p	5.7p	+8.8%
Dividends per Ordinary Share	5.934p	5.706p	4.0%
Dividend Yield	5.9%	4.1%	
Discount – Basic	11.6%	12.8%	
Gearing – Net of cash (note 4)	20.5%	15.0%	
– Equity gearing (note 5)	11.6%	8.4%	
Total Expense Ratio (as percentage of shareholders' funds)			
Management (excluding VAT recovery), marketing and other expenses	0.61%	0.63%	
Year's Highs/Lows	2008 High	2008 Low	
Net asset value	166.1p	109.0p	
Ordinary Share price	147.0p	100.0p	
Discount (basic)	8.2%	16.4%	

Notes

- 1 All total return calculations are based on net 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 Gearing net of cash: Investments + Shareholders' Funds.
- 5 Equity gearing: Equity Investments + Shareholders' Funds.

Sources: F&C Investment Business, AIC and Datastream.

Chairman's Statement

Against a backdrop of significant financial market turbulence, the Company's net asset value total return for the year ended 30 September 2008 was -26.8 per cent. This compares with a total return of -20.3 per cent from the composite benchmark of 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index. The share price total return for the year was -24.8 per cent, in part due to the narrowing of the debt-adjusted discount to 8.0 per cent at the end of the year, compared to 10.3 per cent as at 30 September 2007 (source: Fundamental Data).

Following a year of continued good dividend growth, the Board is pleased to be able to continue with its progressive dividend policy and to recommend an increase of 4.0 per cent in the rate of dividend for the year.

Throughout the year, there were growing concerns about the effects of a slow down in growth of the world's major economies, as rising oil and commodity prices led to higher inflation, and concerns intensified over the implications of the continuing global credit crisis. The concerns escalated towards the end of the financial year and it became clear that a global banking crisis was developing as a number of major financial

institutions, initially in the US, and then in the UK and Europe, faced collapse. Government intervention has been required to recapitalise the banking sector and avoid further collapses, and significant amounts of additional liquidity have been provided by central banks in an attempt to restore confidence to the sector. Notwithstanding these actions there are significant concerns over the wider economic implications and it now seems clear that the world's major economies are entering a period of slower growth or, more probably, recession.

Unsurprisingly, these events have had a profound impact on stockmarkets around the world, with shares of banks being among the most affected. The FTSE All-Share Index fell by more than 13 per cent in September and, since the end of the financial year, has fallen by a further 16 per cent.

The table below provides a breakdown of the estimated contributions to the Company's underperformance against its benchmark for the year, most of which is attributable to the effect of the level of gearing during the period. As explained later in my statement, the majority of the Company's borrowings are represented by long term Bonds, although a new borrowing facility was taken out during the year to provide the Company with greater flexibility than it has had in the past. The Company's Bonds are less flexible and, by their nature, are intended to enhance returns over the longer term. In times of falling markets, therefore, gearing will have an adverse effect on the Company's performance. The Board and Managers review the level of gearing very carefully at each Board Meeting, and between meetings where necessary. The Board has taken the view that, at current market levels, it would not be in the interests of shareholders to materially reduce the level of gearing.

Stock selection in all areas also had an adverse effect on the Company's performance relative to the benchmark. The UK portfolio, which outperformed in the first half of the year, underperformed the FTSE All-Share Index for the year as a whole, principally as a result of its exposure to certain financial stocks which have in the past been an important contributor to the Revenue Account.

Encouragingly the North American portfolio which, as previously reported, changed to being managed

Chairman's Statement (continued)

using quantitative stock selection techniques during the year, outperformed the regional benchmark for the period from 1 April 2008 when the change was made. Since the year end, the Board has agreed with the Managers that the overseas portfolios will be consolidated into two portfolios; a global developed markets portfolio which will be managed using quantitative stock selection techniques, and an actively managed global emerging markets portfolio. This change will mean moving away from regional portfolios based on geographic domicile. The reason for the change is to provide greater focus on the best individual investment opportunities overseas.

During the year, the corporate bond portfolio outperformed its composite benchmark, as well as continuing to be an important contributor to the Revenue Account.

Attribution of Return

Market/benchmark return	-20.3%
Stock selection	
UK equities	-1.3
Overseas equities	-1.1
Regional asset allocation	-0.3
Corporate bonds	0.9
Gearing	-5.0
Cash/other	0.7
Share buy backs	0.3
Expenses	-0.7
British Assets Trust net asset value	
total return	-26.8%

Earnings and Dividends

The Company's revenue earnings per share for the year were 6.2p (2007: 5.7p). First, second and third interim dividends, each of 1.4p per Ordinary Share, were paid on 11 April, 11 July and 10 October 2008 respectively.

During the year, the Company benefited from good levels of dividend growth from its investee companies, particularly in the UK where most of its investment income is generated. The investment

income arising from the corporate bond portfolio is also an important contributor to the Revenue Account. The Board is therefore pleased to recommend a final dividend of 1.734p per Ordinary Share in respect of the year, payable on 9 January 2009 to shareholders on the register at close of business on 12 December 2008. This brings the total dividend in respect of the year to 5.934p per Ordinary Share, an increase of 4.0 per cent from the previous year.

The Board considers the Company's dividend yield, which was 5.9 per cent as at 30 September 2008, to be one of its key attractions. Whilst the outlook for dividend receipts next year is clearly challenging, the Board has considered carefully the revenue forecast for the forthcoming year and the size of the Company's revenue reserve, and expects to continue with the stated aim of maintaining a progressive dividend policy.

Gearing

At the end of the year the Company's gearing, net of cash, was 20.5 per cent, represented by equity gearing of 11.6 per cent and 8.9 per cent in corporate bonds.

The Company's borrowings are represented by £60 million 6.25 per cent Bonds which are due for redemption in 2031 and a five year £60 million multi-currency revolving advance facility with The Royal Bank of Scotland plc ('the Revolving Advance Facility'). As stated at the interim stage, this facility was put in place on 31 March 2008 to coincide with the date on which the Company's £60 million 6.625 per cent Bonds ('the 2008 Bonds') were redeemed.

Amounts borrowed under the Revolving Advance Facility may be drawn down in varying amounts and currencies, thus providing the Company with a degree of flexibility which was not available with the 2008 Bonds. As at 30 September 2008 the amount drawn down under the facility was £30 million, in a variety of currencies relating to the geographical spread of the portfolio.

Share Buy Backs

During the year the Company purchased 8,400,000 shares for cancellation, equivalent to 2.8 per cent of

the shares in issue as at 30 September 2007, for an aggregate consideration of £10.6 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 Annual General Meeting.

VAT on Management Fees

Following the European Court of Justice ruling in June 2007 that investment trusts should be regarded as special investment funds, management fees paid by the Company are no longer subject to VAT.

During the year, the Managers have been liaising closely with HM Revenue and Customs ('HMRC') to recover on the Company's behalf VAT paid in the past on investment management fees. The accounts for the year include a provision for the recovery of VAT of £1.49 million in respect of the period from 1 January 2001. This has been allocated between revenue and capital and provides an enhancement of 0.5p per share to the net asset value and 0.1p to the revenue earnings per share. The Company expects to be able to make further provisions for recoveries for earlier years once the amounts involved can be estimated with sufficient accuracy.

The Company is also expecting to receive interest on amounts of VAT recovered. However, at this stage, the amounts involved and timings of the payments are uncertain and no provision has therefore been made in the accounts.

Board Composition

As stated at the interim stage, Mr Ian Russell was appointed as a non-executive Director of the Company on 1 June 2008. Mr Russell is a former chief executive and finance director of Scottish Power plc. He is currently a non-executive director of Johnston Press plc and The Mercantile Investment Trust plc, Chairman of Remploy Limited and an adviser to the 3i Group.

The current composition of the Board is in line with the Combined Code of Corporate Governance, which encourages boards to have at least half of their number, excluding the chairman, with service of less than nine years.

As previously announced, 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 Thursday 18 December 2008, at the offices of F&C Asset Management plc, 80 George Street, Edinburgh, and will be followed by a presentation from the Company's lead fund manager, Julie Dent. 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 54 to 56.

Shareholders will find a proxy form enclosed with the Annual Report, and a form of direction is enclosed for those who hold shares through the F&C investment 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.

Outlook

The effect on the global economy of recent events in financial markets will be long lasting, and as further signs of an economic slowdown emerge in the months ahead there are likely to be further interest rate cuts by central banks in an attempt to limit the downturn.

At current levels, stockmarkets are assuming a global recession in developed countries and a slow down in developing countries. In due course, fiscal stimulus and interest rate cuts should help confidence to return to markets, but until this happens there is unlikely to be a meaningful recovery in share prices. During this difficult time the Managers continue to focus on companies with good dividend prospects which they believe will provide a strong basis for both long term capital performance and dividend growth.



W R E Thomson

Chairman

14 November 2008

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 22 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 £93.3 billion under management as at 30 September 2008. 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

After five years of gains, global stockmarkets fell back sharply in 2008. Weakening global growth, the widening credit crunch, high oil and foods prices and related rising inflation all served to send stockmarkets lower.

Against this background, in the year to 30 September 2008, the Company's net asset value total return was -26.8 per cent, which compared to a negative return of 20.3 per cent for its composite benchmark index (75 per cent FTSE All-Share Index and 25% FTSE World (ex UK) Index). The Company's share price total return was -24.8 per cent.

Despite market weakness, 2008 has been another good year for dividends. Income from the Company's UK portfolio is ahead of expectation and the dividend is covered again this year.

On 30 September 2008 the Company's borrowings net of cash were 20.5 per cent of which 11.6 per cent was invested in equities and 8.9 per cent was invested in corporate bonds.

Asset Allocation

Towards the end of the year financial markets were rocked by a wave of bankruptcy filings and bailouts. Even in the emerging markets, which up until then had been largely immune from direct repercussions from the global credit crunch, contagion occurred.

In this highly charged environment, interbank interest rates climbed to unusually high levels. Institutions became unwilling to lend cash as a result of extreme caution over counterparty solvency risks. Central banks attempted to provide some relief by adding sizeable injections of liquidity and offering emergency funding to banks.

At the same time as panic hit money markets, equities across the globe fell sharply. With risk aversion increasing, investors moved into cash or government bonds. Unsurprisingly, financial stocks were the hardest hit.

Stockmarket Total Returns – Year to 30 September 2008

	£ %	Local Currency %
FTSE All-Share Index	(22.3)	(22.3)
FTSE World (ex UK) Index	(14.4)	(24.7)
FTSE North America Index	(9.8)	(20.7)
FTSE Europe (ex UK) Index	(19.7)	(29.1)
FTSE Pacific (ex Japan) Index	(27.1)	(30.0)
FTSE Japan Index	(15.4)	(31.7)

Source: Datastream (figures stated are total returns)

Managers' Review (continued)

Asset Allocation

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

Asset Class	30 September 2008			30 September 2007	
	Benchmark 30.09.08 %	Share- holders' Funds %	Total Assets %	Share- holders' Funds %	Total Assets %
UK Equities	75.0	74.8	59.0	77.2	62.0
Overseas Equities					
– North America	14.4	17.0	13.4	12.9	10.3
– Europe (ex UK)	5.7	7.6	6.0	8.1	6.5
– Pacific (ex Japan)	2.4	7.3	5.8	6.1	4.9
– Japan	2.5	4.9	3.8	4.1	3.3
Total Overseas Equities	25.0	36.8	29.0	31.2	25.0
Total Equities	100.0	111.6	88.0	108.4	87.0
Corporate Bonds	–	8.9	7.0	6.6	5.3
Net current assets	–	–	5.0	–	7.7
Actual Gearing	–	(20.5)	–	(15.0)	–
Total	100.0	100.0	100.0	100.0	100.0
Potential Gearing	–	(26.8)	–	(24.6)	–

The table below shows the equity weightings by sector in the benchmark and the portfolio as at 30 September 2008:

FTSE Sector	Benchmark %	Total Equities %	UK Equities %	Overseas Equities %
Oil & Gas	15.8	15.7	12.6	3.1
Basic Materials	8.2	5.9	4.4	1.5
Industrials	8.4	10.5	5.5	5.0
Consumer Goods	10.9	8.4	4.6	3.8
Health Care	8.5	9.7	7.3	2.4
Consumer Services	9.3	7.7	4.8	2.9
Telecommunications	5.8	7.4	6.3	1.1
Utilities	5.0	6.6	5.3	1.3
Financials	24.7	24.1	16.0	8.1
Technology	3.4	4.0	–	4.0
Total	100.0	100.0	66.8	33.2

Sub-Portfolio Reports

UK – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
BP	Oil & Gas Producers	22.5	5.6
Vodafone Group	Telecommunications	16.6	4.1
GlaxoSmithKline	Pharmaceuticals & Biotech	15.7	3.9
HSBC Holdings	Banks	14.6	3.6
Royal Dutch Shell	Oil & Gas Producers	13.3	3.3
AstraZeneca	Pharmaceuticals & Biotech	11.6	2.9
Royal Bank of Scotland Group	Banks	9.8	2.5
Centrica	Utilities	9.7	2.4
Imperial Tobacco Group	Tobacco	8.6	2.2
BG Group	Oil & Gas Producers	8.1	2.0

The UK portfolio returned –23.8 per cent over the year compared with a return of –22.3 per cent from the FTSE All-Share Index.

Following a period of improved performance in the first six months of the financial year, the portfolio was affected in the second half of the year by the events in financial markets. Deteriorating economic news and frozen money markets weighed heavily on investor sentiment, as did the collapse of some of the best known and longest established names on Wall Street followed by a number of European casualties. The main detractors to performance were HBOS, Royal Bank of Scotland and Cattles in the financial sector and Yell and Findel in the consumer sector.

The headline event was the near-collapse of HBOS, the country's largest mortgage lender, in the wake of concerns over its core mortgage business. The

crisis engulfing HBOS raised fears of contagion in the wider economy, although investors found reassurance in the Government's swift facilitation of a potential rescue by Lloyds TSB and a massive injection of liquidity by the monetary authorities.

Economic fundamentals deteriorated, with many commentators forecasting an imminent recession after data indicated that GDP growth had ground to a halt in the second quarter of 2008. News flow on inflation and unemployment has been disappointing. However, we are optimistic of an easing in inflationary pressures given the sharp correction in commodity prices coupled with weaker demand as growth slows. While market conditions are likely to remain turbulent, the indiscriminate nature of the market sell-off has left shares in a number of sound companies trading at attractive valuations.

Managers' Review (continued)

North America – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Johnson & Johnson	Pharmaceuticals & Biotech	3.9	1.0
Exxon Mobil	Oil & Gas Producers	3.8	0.9
Microsoft	Software & Computer Services	3.3	0.8
Anheuser-Busch	Beverages	3.1	0.8
Southwest Airlines	Travel & Leisure	3.1	0.8

The North American portfolio returned -10.2 per cent over the year compared with a return of -9.8 per cent from the FTSE North America Index (both expressed in sterling).

The North American portfolio benefited from the sharp rally in the dollar towards the end of the period.

In the final weeks of the period, the parlous state of the US financial system was exacerbated by a number of well-publicised business collapses, in particular, the bankruptcy of Lehman Brothers, which led to unprecedented Government intervention and a fall in equity values to a near

three-year low. A corollary of this weakness was a reduction in commodity, including oil, prices, which has led to a strengthening in the value of the US dollar, from which the Company's US portfolio has benefited.

However, the structural problems in the housing market persist and a weakening employment market will compound the pressures on the US consumer. The US economy looks set to remain fragile and companies will continue to find the environment a challenging one. With wage growth slowing and unemployment increasing we expect consumer spending to slow down.

Europe (ex UK) – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
ACP Mezzanine	General Financial	1.4	0.3
F Secure	Software & Computer Services	0.8	0.2
Zurich Financial	Non-Life Insurance	0.8	0.2
Roche Holding	Pharmaceuticals & Biotech	0.7	0.2
Société Générale	Banks	0.7	0.2

The Europe (ex UK) portfolio returned –27.7 per cent over the year compared with a return of –19.7 per cent from the FTSE Europe (ex UK) Index.

The past year has been a turbulent period for European equities which have declined sharply reflecting both difficulties in the credit markets and a broad based slowdown in growth. Eurozone GDP contracted in the second quarter of 2008 as higher oil prices squeezed consumer spending. Household spending continues to slow down across the region.

The underperformance is primarily attributable to the exposure to small and medium sized companies, where a lack of liquidity has led to dramatic falls in share values. We believe, however, that as markets begin to stabilise, low valuations will once again drive stock prices and the Company's investments will benefit.

We have seen a growing differential across Europe, as the markets in Germany and France have demonstrated far more resilience than the Spanish and Irish markets, both of which have suffered similarly to the UK. Spain and Ireland's boom was

supported by growth in construction and property; the well-documented downturn in these areas has led to an inevitable fall in share prices.

The financial crisis claimed several European victims. The Belgian-Dutch banking giant Fortis was nationalised by the Benelux governments. Germany's second-biggest commercial property lender Hypo Real Estate received a €35 billion loan guarantee from the German government to fend off insolvency and Brussels and Paris based Dexia, the world's biggest lender to local governments, was bailed out in a €6.4 billion state-backed rescue.

The dislocation in the banking sector is dominating sentiment in equity markets as its effect on economies is expected to be severe. Against this backdrop, corporate earnings will remain under pressure. Strategic merger and acquisition activity, which had been reasonably buoyant in the early part of the summer and was providing support to equity prices, is also constrained. The latest bout of financial distress has crippled confidence and constrained the funding required to complete many corporate transactions.

Managers' Review (continued)

Pacific (ex Japan) – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Shanghai Industrial	General Industrial	1.1	0.3
Cnooc	Oil & Gas Producers	0.9	0.2
Hang Lung Properties	Real Estate	0.9	0.2
Samsung Electronics	Technology Hardware & Equipment	0.8	0.2
Perusahaan Gas Negara	Gas, Water & MultiUtilities	0.8	0.2

The Pacific (ex Japan) portfolio returned –31.1 per cent over the year compared with a return of –28.6 per cent from the FTSE AW Pacific (ex Japan, Australia, New Zealand) Index.

The underperformance in the main reflects the Company's exposure to commodity and basic material stocks, particularly in China, as the slowdown in demand and the subsequent fall in commodity prices was greater than expected.

As concerns over the fundamental health of the global economy increased, investors looked to reduce exposure to the Asia Pacific region. Some markets were nevertheless surprisingly resilient to stalling growth rates elsewhere, with exports actually accelerating in Korea and Taiwan. In Hong Kong, however, rumours of high exposure to toxic assets forced the central bank to inject around US\$500 million into the Bank of East Asia to staunch a run on its deposits.

The emerging markets in India and China have fallen sharply. As the year progressed, China shifted from focussing on fighting inflation to supporting growth. Falling inflation and lower global commodity prices have created some scope for China to cut interest rates, effectively ending its five-year long credit tightening policy. In India, growth has averaged 9 per cent in the past three years resulting in high inflation and rising interest rates, affecting both business investment and consumer spending. Both markets continue to face difficulties, namely global risk aversion and decelerating profit growth.

Asian markets have fallen much more than we anticipated, and by more than developed markets, despite the arguably stronger financial systems. Given the relatively low valuations, we consider that significant earnings downgrades are priced in, and an easing of financial tensions combined with more stimulatory economic policies can lead to a rebound in share prices.

Japan – Major Holdings

Company	Nature of Business	Market Value £m	% Total Investments
Toyota Motor	Automobiles & Parts	0.8	0.2
Sumitomo Mitsui Financial	Banks	0.7	0.2
Mitsubishi UFJ Financial	Banks	0.7	0.2
KDDI	Mobile Telecoms	0.6	0.1
East Japan Railway	Travel & Leisure	0.6	0.1

The Japan portfolio returned –17.4 per cent over the year compared with a return of –15.4 per cent from the FTSE Japan Index.

The portfolio benefited from the appreciation of the yen which gained 24 per cent versus sterling over the year.

Investor sentiment in Japan was damaged by further signs of weakness in the world economy and indications of a deceleration in growth domestically. In August, Japan registered a rare trade deficit as exporting companies, already hurt by the strength of the yen, suffered weakening demand from the US, Europe and Asia. Although commodity prices have eased recently, rising input costs have pushed inflation to its highest level for fifteen years. That said, Japan's inflation is expected to slow into 2009. The

Bank of Japan kept interest rates fixed at 0.5 per cent but the government announced an ¥11.7 trillion stimulus package designed to breathe life into the faltering economy and stave off recession.

The outlook for equities in Japan has been tempered by the recent financial crisis and the effects of slowing global growth are likely to affect progress over the shorter term. However, it is clear that the domestic financial system in Japan has been affected less significantly than that of many developed countries, and financial companies such as Mitsubishi UFJ Financial Group are now seeking to take advantage of market falls and capitalise on the opportunities afforded by share-price weakness. As elsewhere, investor sentiment remains weak.

Corporate Bonds

The corporate bond portfolio returned –7.3 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 which returned –7.6 per cent. The Merrill Lynch Sterling Non-Gilts Index returned –3.2 per cent and the European Currency High Yield Index returned –15.5 per cent.

The portfolio remains defensively positioned with 5.2 per cent in government bonds and 16.8 per cent in high yield bonds. This has benefited the portfolio in what has been another difficult year in credit markets.

We remain cautious on the outlook for corporate bonds over the next few months as fundamentals continue to deteriorate. The good news is that one of the prerequisites of good absolute returns – lower inflation – may be in sight, assuming that commodity prices do not increase sharply again. Defaults are likely to rise, albeit from low levels. As a result, investment grade bonds are likely to remain our favoured market well into next year.

Valuations have moved a long way and the premium in interest rates over government bonds is currently at a level that looks attractive on a longer term view. We expect that as the next year progresses, the

Managers' Review (continued)

market will stabilise, with attractive opportunities to invest in new bond issues.

Dividends

After several years of strong dividend growth, 2009 will certainly be more of a challenge. If we look specifically at the UK, we have seen double digit dividend growth in 2008. This is expected to slow sharply next year but it is very unlikely we will see widespread dividend cuts. Whilst sharp dividend cuts, indeed in some cases no dividends, are now expected from the major banks, oil stocks are expected to see good dividend growth as are utilities, pharmaceuticals and telecoms.

With over 20 per cent of UK dividends denominated in US dollars, sterling weakness is good for dividends. The US dollar ended the year some 13 per cent higher versus sterling compared with the start of the year and this dollar strength has continued since the year end. Payout ratios have fallen to historically low levels as profitability has boomed on the back of five of the fastest years of global GDP growth on record. Today's payout ratio of 40 per cent is the lowest it has been since the 1970's. Companies have maintained a sensible level of dividend payout during the profit boom, suggesting that even if profits slow, dividends are unlikely to have to be cut significantly.

Overall Outlook

In recent weeks we have seen fear and panic grip equity markets.

We are now firmly in the phase where market and government activity will drive consolidation within the financial sector. Unfortunately, the deleveraging process will not be resolved quickly. Credit will continue to be expensive and constrained.

Consumers will not borrow so long as incomes are threatened and banks will be unwilling to lend as efforts to rebuild their capital bases are ongoing.

Central banks have signalled a renewed determination to address the risks to global growth and it seems likely that we will see an aggressive series of interest rate cuts over the coming months. Indeed, since the year end, UK base rates have already been cut by 2.0 per cent. Further initiatives, such as fiscal stimulus, to help limit the global economic downturn are also expected. The improving inflation outlook is also helpful with oil and food prices significantly lower.

Normalisation in credit markets is also key, particularly interbank lending rates ('LIBOR'). 60 per cent of corporate funding in Europe and sub-prime mortgages in the US for example are linked to LIBOR rates. Encouragingly, rates have at last started to fall as the steps taken by central banks to inject liquidity and guarantee unsecured wholesale funding take effect.

Whilst equities are now clearly pricing in a global recession and are, in our view, attractively valued at current market levels, any sustained rally in the short term is unlikely as the fears of a deep downturn are unlikely to be dispelled soon. In short, the worst of the financial storm may have passed but the economic storm has not, requiring further economic stimulus in the months ahead. Confidence should begin to return once these measures are announced.

Julie Dent

Investment Manager
F&C Investment Business Limited
14 November 2008

Classification of Investments

	United Kingdom £'000	North America £'000	Europe (ex UK) £'000	Pacific (ex Japan) £'000	Japan £'000	2008 Total £'000
Sector Weighting						
Oil & Gas	46,832	8,068	2,253	953	369	58,475
Basic Materials	16,538	1,648	330	2,062	1,253	21,831
Industrials	20,626	7,389	3,066	4,747	3,196	39,024
Consumer Goods	17,226	6,122	3,364	1,537	2,895	31,144
Health Care	27,272	5,689	1,865	–	1,337	36,163
Consumer Services	17,841	6,377	1,963	956	1,616	28,753
Telecommunications	23,597	1,044	1,014	1,038	917	27,610
Utilities	19,861	1,561	1,931	843	410	24,606
Financials	59,728	11,073	8,012	7,468	3,463	89,744
Technology	–	7,636	1,581	4,836	896	14,949
Total	249,521	56,607	25,379	24,440	16,352	372,299
Corporate Bond Portfolio	22,434	2,877	4,228	–	–	29,539
Total Investments	271,955	59,484	29,607	24,440	16,352	401,838
% of Total Investments	67.7	14.8	7.4	6.1	4.0	100.0

Investment Portfolio

Company	Valuation £'000	% of Total Invest- ments	% of Portfolio Income	Country of Incor- poration	% Change in Dividend 2007-2008*	2007 Valuation £'000
BP BP is one of the world's largest integrated oil and gas companies.	22,543	5.6	6.4	UK	24.2	30,457
Vodafone Group Vodafone is the world's largest global provider of mobile telecommunication services.	16,615	4.1	5.1	UK	11.1	24,935
GlaxoSmithKline GlaxoSmithKline is a global manufacturer and marketer of pharmaceutical products.	15,668	3.9	3.6	UK	10.0	11,056
HSBC Holdings HSBC provides a comprehensive range of banking and related financial services on a global basis.	14,617	3.6	4.2	UK	8.2	14,389
Royal Dutch Shell Royal Dutch Shell is one of the world's largest integrated oil and gas companies.	13,341	3.3	3.6	UK	11.9	15,435
AstraZeneca AstraZeneca is involved in the research, manufacture and sale of pharmaceuticals.	11,605	2.9	2.5	UK	8.6	12,885
Royal Bank of Scotland Group Royal Bank of Scotland Group provides a range of banking, insurance and other financial services.	9,832	2.5	6.2	UK	(6.7)	10,129
Centrica Centrica is the UK's leading integrated gas and electricity supply business.	9,687	2.4	2.1	UK	19.4	12,327
Imperial Tobacco Group Imperial Tobacco Group is a global manufacturer and distributor of cigarettes and other tobacco related products.	8,644	2.2	2.3	UK	12.4	8,989
BG Group BG Group specialises in the exploration, production, transmission and distribution of gas, oil and liquefied natural gas.	8,134	2.0	0.4	UK	33.9	7,859
Ten largest equity investments	130,686	32.5	36.4			148,461

* British Assets Trust's financial years to 30 September 2008 and 2007.

Company

Company	Nature of Business	Valuation £'000	% of Total Investments	% of Portfolio Income	Country of Incorporation
Standard Life European Private Equity Trust	Investment Company	7,950	2.0	0.9	UK
Cable & Wireless	Telecommunications	6,983	1.7	1.6	UK
Scottish & Southern Energy	Electricity	6,880	1.7	1.5	UK
Pearson	Media	6,875	1.7	1.9	UK
Anglo American	Mining	6,863	1.7	1.4	UK
BAE Systems	Aerospace & Defence	6,833	1.7	1.1	UK
Unilever	Food Producers & Processors	6,755	1.7	1.1	UK
Carillion	Construction & Materials	5,123	1.3	1.2	UK
Rio Tinto	Mining	5,002	1.3	0.6	UK
Prudential	Life Assurance	4,544	1.1	0.8	UK
Twenty largest equity investments		194,494	48.4	48.5	
Tui Travel	Travel & Leisure	4,459	1.1	0.9	UK
Johnson & Johnson	Pharmaceutical & Biotech	3,873	1.0	0.5	USA
Exxon Mobil	Oil & Gas Producers	3,821	0.9	0.4	USA
Microsoft	Software & Computer Services	3,329	0.8	0.3	USA
United Utilities	Utilities	3,293	0.8	1.1	UK
Standard Life	Life Insurance	3,293	0.8	0.8	UK
Cattles	General Financial	3,202	0.8	4.2	UK
Anheuser-Busch	Beverages	3,148	0.8	0.4	USA
Southwest Airlines	Travel & Leisure	3,140	0.8	-	USA
Spectris	Electronic & Electrical Equipment	3,035	0.8	0.5	UK
Thirty largest equity investments		229,087	57.0	57.6	
RSA Insurance Group	Non-Life Insurance	3,001	0.7	0.7	UK
Rolls Royce	Aerospace & Defence	2,500	0.6	0.4	UK
Encana	Oil & Gas Producers	2,434	0.6	0.3	Canada
Intercontinental Hotels	Travel & Leisure	2,416	0.6	0.4	UK
Standard Chartered	Banks	2,332	0.6	0.7	UK
Lonmin	Mining	2,257	0.6	0.6	UK
Allstate	Non-Life Insurance	2,237	0.6	0.4	USA
Fiberweb	Support Services	2,216	0.6	0.9	UK
Everest Resources	Non-Life Insurance	2,204	0.5	0.2	USA
Xstrata	Mining	2,195	0.5	0.3	UK
Forty largest equity investments		252,879	62.9	62.5	
Boeing	Aerospace & Defence	2,178	0.5	0.3	USA
HBOS	Banks	2,178	0.5	4.4	UK
Hansard Global	Life Insurance	1,969	0.5	0.9	UK
Cairn Energy	Oil & Gas Producers	1,891	0.5	-	UK
Illinois Tool Works	Industrial Engineering	1,848	0.5	0.3	USA
Man Group	General Financial	1,840	0.5	0.6	UK
Northern Foods	Food Producers & Processors	1,827	0.5	0.7	UK
JPMorgan Chase & Company	Banks	1,693	0.4	0.3	USA
EMC Corporation Massachusetts	Technology Hardware & Equipment	1,620	0.4	-	USA
Prodesse Investment	General Financial	1,560	0.4	1.0	UK
Fifty largest equity investments		271,483	67.6	71.0	
Other equity investments (210)		100,816	25.1	16.4	
Corporate bonds (186)		29,539	7.3	12.6	
Total investments		401,838	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.

Capital Structure

The Company's capital structure consists solely of Ordinary Shares.

Ordinary Shares

At 30 September 2008 there were 292,612,282 Ordinary Shares of 25p each in issue (2007: 301,012,282 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*
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%
2008	114.0p	100.8p	11.6%	6.2p	5.934p	0.61%

*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 68, 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.

James Long *††

age 53, was appointed in 2006. He is Director of Risk and Compliance for AstraZeneca Europe and was formerly Corporate Finance Director of Inchcape

plc and Managing Director, Asia and Emerging Markets, for the ESAB Group. He is Chairman of JPMorgan Asian Investment Trust plc.

James MacLeod *††

Chairman of the Audit Committee

age 67, 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.

Dr Christopher Masters *††

age 61, was appointed in 1990 and was, until 2002, executive Chairman of Aggreko plc. He is currently Chairman of Sagentia Group plc and the Festival

City Theatres Trust. He is also a non-executive director of John Wood Group plc, Alliance Trust plc, and the Crown Agents.

Lynn Ruddick *††

age 56, 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.

Ian Russell *††

age 55, was appointed on 1 June 2008. He was formerly Chief Executive of Scottish Power plc. He is currently a non-executive director of Johnston Press

plc and The Mercantile Investment Trust plc, non-executive Chairman of Remploi Ltd, the Advanced Power AG advisory board, and the University of Edinburgh campaign board, and an adviser to 3i and Clyde Bergemann Power Group Inc.

James West *††

Senior Independent Director age 61, 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, Canaccord Adams Ltd and Rurelec plc. He is also a director of 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 2008.

Results and Dividends

The results for the year are set out in the Income Statement on page 31.

First, second and third interim dividends, each of 1.4p per Ordinary Share, were paid on 11 April, 11 July and 10 October 2008 respectively. The Board recommends a final dividend for the year of 1.734p per Ordinary Share payable on 9 January 2009 to shareholders on the register at close of business on 12 December 2008.

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 833 of the Companies Act 2006. 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 2007. 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 18.

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance, and risk management.

Biographical details of the Directors, all of whom are non-executive, can be found on page 19. The Company has no executive Directors or employees.

Objective

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.

Investment Policy

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 Company has not set maximum exposures for any geographical regions. However, it would normally be expected that most of the Company's investments will be 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. There is no maximum exposure to any industrial sector but no individual investment in the portfolio may exceed 10 per cent of the Company's total assets.

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

The Company may use derivatives, principally, but not exclusively, for efficient portfolio management

(i.e. to reduce, transfer or eliminate 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.

Investment of Assets

At each Board meeting, the Board receives a presentation from the Managers which includes a review of investment performance, recent portfolio activity and market outlook. It also considers compliance with the investment policy and other investment restrictions during the reporting period. Investment risk is spread through holding a wide range of securities in different countries and industrial sectors. As at 30 September 2008, the portfolio was made up of 446 investments in 30 different countries. The Managers make use of third party risk systems to monitor investment risk and the Board receives quarterly risk reports. An analysis of the portfolio as at 30 September 2008 is contained in note 9 to the accounts and in the Managers' Review on pages 7 to 14. The 50 largest investments are shown on pages 16 and 17. The Company's borrowings are described in notes 11 and 12 to the accounts.

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 asset allocation, in particular between UK and overseas equities, corporate bonds, cash and gearing, coupled with active stock selection in the various sub-portfolios. The selection of investments is based on analysis of, amongst other things, market positioning and competitive advantage, financial strength and cashflow characteristics. 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. Reviews 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 are contained in the Chairman's Statement on pages 3 to 5 and the Managers' Review on pages 7 to 14, 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 note 18 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.

Report of the Directors (continued)

- 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 26.

Shareholder Value

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 53. 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.

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.

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.
- 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 18. 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 (2007 – £10,000).

Directors

On 1 June 2008 Mr I S M Russell, whose biographical details are shown on page 19, was appointed a Director. In accordance with the Company's Articles of Association he will retire at the Annual General Meeting, being the first such meeting following his appointment and, being eligible, offers himself for re-appointment.

As explained in more detail under Corporate Governance on page 24, 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 are re-elected.

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:

		2008 Ordinary Shares	2007* Ordinary Shares
W R E Thomson	Beneficial	9,600	9,600
J M Long	Beneficial	11,041	8,160
J S MacLeod	Beneficial	35,000	35,000
	Non-Beneficial	9,500	9,500
Dr C Masters	Beneficial	20,470	19,825
L C Ruddick	Beneficial	33,761	33,501
	Non-Beneficial	1,227	-
I S M Russell	Beneficial	20,000	-
J G West	Beneficial	12,000	12,000

*or subsequent date of appointment

Since 30 September 2008, Mr J M Long, Dr C Masters and Ms L C Ruddick have acquired beneficial interests in a further 95 shares, 241 shares and 96 shares respectively. Ms L C Ruddick has acquired a non-beneficial interest in a further 125 shares. These transactions included the quarterly re-investment of dividends. There have been no other changes in the interests of the Directors in the Ordinary Shares of the Company between 30 September 2008 and 14 November 2008.

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. No other Director had an interest in the Company's Bonds as at 30 September 2008 or 30 September 2007.

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 14 November 2008 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	50,132,097	17.1
Friends Provident Group	20,046,928	6.9
Legal & General Group	12,257,596	4.2

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 Board has reviewed the appropriateness of the Managers' appointment. In carrying out its review the Board 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 long term 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

Report of the Directors (continued)

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. The Company has also complied throughout the year with the minor revisions made to the Combined Code in June 2008. 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 A.7.2 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 the Chairman and Mr J G West is the Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Managers. During the year the Board reviewed its composition taking into account not only the need for refreshment over time but also the balance of skills, experience and tenure. It subsequently employed the services of an external search consultant to assist with the

recruitment of a new Director and Mr I S M Russell, who is considered by the Board to be independent of the Company's Managers, was appointed as a Director on 1 June 2008.

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 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 £7,000 for the year ended 30 September 2008 (2007: £12,000) and related principally to the provision of 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. A description of the main features of the Company's internal control and risk management systems is contained on page 26.

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 process which was conducted by a third party advisor. This involved interviews with each of the Directors followed by the production of a formal report to the Board.

The following table sets out the number of Board and Committee meetings held during the year ended 30 September 2008 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	2	2
J M Long	7	7	2	2	1	1	2	2
J S MacLeod	7	7	2	2	1	1	2	2
C Masters	7	7	2	2	1	1	2	2
L C Ruddick	7	7	2	2	1	1	2	2
I S M Russell	2	2	-	-	-	-	-	-
J G West	7	7	2	2	1	1	2	2

Report of the Directors (continued)

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

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 2008, is set out on pages 54 to 56. 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, bank loan, 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 note 18 to 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 £7,315,307, being 10 per cent of the total issued shares as at 14 November 2008. Resolution 11 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £3,657,653, being 5 per cent of the total issued shares as at 14 November 2008, for cash without first offering such shares to existing shareholders pro rata to their existing holdings. These authorities will continue until the conclusion of the Annual General Meeting in 2009. 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 8,400,000 Ordinary Shares with an aggregate nominal value of £2,100,000 for a total consideration of £10,607,000, representing 2.8 per cent of the Ordinary Shares in issue at the previous year end.

Resolution 12, as set out in the notice of the Annual General Meeting, seeks renewal of the Company's share buy-back 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 44 million Ordinary Shares). The price paid for shares will not be less than the nominal value of 25p per share nor more than the higher of (i) 5 per cent above the average of the middle market values of those shares for the five business days before the shares are purchased and (ii) the higher

of the last independent bid and the highest current independent bid on the London Stock Exchange. 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 2010 and the conclusion of the next Annual General Meeting of the Company.

Amendments to the Articles of Association

Over the past year, and since the Articles of Association (the 'Articles') of the Company were last updated, company law in the United Kingdom has undergone major reform through the coming into force of parts of the Companies Act 2006 (the '2006 Act'). Accordingly, the Board considers it prudent to replace the Company's Articles with new Articles of Association which take account of these developments (the 'New Articles').

The 2006 Act is being brought into force in stages, which began in January 2007, with full implementation scheduled by October 2009. At this year's Annual General Meeting, the Company proposes to adopt provisions which reflect changes in the law brought about by the 2006 Act in respect of, amongst other things, electronic communications, notice periods for meetings, proxy voting and Directors' conflicts of interest.

A copy of the New Articles will be available for inspection at Royal London House, 22-25 Finsbury Square, London EC2A 1DX and the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of the notice of the Annual General Meeting until the conclusion of the meeting and on the date of the Annual General Meeting at the offices of F&C Asset Management plc, 80 George Street, Edinburgh EH2 3BU from 11.45 am until the conclusion of the meeting.

A summary of the material changes proposed to be brought about by the adoption of the New Articles is set out in the Appendix to the notice of the Annual General Meeting.

Report of the Directors (continued)

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

The Company's shares are qualifying investments as defined by HM Revenue & Customs' regulations for Individual Savings Accounts. 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.

Recommendation

The Board considers that the resolutions to be proposed at the Annual General Meeting are in the best interests of the shareholders as a whole and recommends that they vote in favour of such resolutions as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board

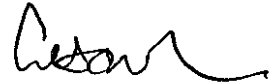
G R Hay Smith

Secretary

80 George Street

Edinburgh EH2 3BU

14 November 2008



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 49 and 50.

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

Policy on Directors' Fees

The Board's policy is that the remuneration of Directors should reflect the experience of the Board as a whole, 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 2009 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 an aggregate of £200,000 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 2008, the Chairman's fee was increased to £30,000 (previously £29,500), the Audit Committee Chairman's fee was increased to £22,500 (previously £22,000), the Senior Independent

Director's fee was increased to £21,500 (previously £21,000) and the other Directors' fees were increased to £20,000 (previously £19,500) 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 2008
J M Long	1/5/2006	AGM 2009
J S MacLeod	17/12/1998	AGM 2008
Dr C Masters	22/2/1990	AGM 2008
L C Ruddick	1/10/2004	AGM 2010
I S M Russell	1/6/08	AGM 2008
J G West	22/6/1995	AGM 2008

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 23. The graph below compares, for the five financial years

Directors' Remuneration Report (continued)

ended 30 September 2008, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which a composite index, weighted as to 75 per cent FTSE All-Share Index and 25 per cent FTSE World (ex UK) Index, is calculated. This composite index was chosen as it represents a comparable broad equity market index and is the Company's benchmark. An explanation of the performance of the Company for the year ended 30 September 2008 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:

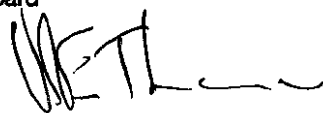
	2008 £	2007 £
W R E Thomson (Chairman)	29,875	29,125
J M Long	19,875	19,250
J S MacLeod	22,375	21,750
Dr C Masters	19,875	19,250
L C Ruddick	19,875	19,250
I S M Russell (appointed 1 June 2008)	6,667	–
J G West	21,375	20,375
Total	139,917	129,000

On behalf of the Board

W R E Thomson

Director

14 November 2008



Income Statement

for the year ended 30 September

		2008			2007		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	9	-	(137,257)	(137,257)	-	31,923	31,923
Exchange differences	14	-	(1,460)	(1,460)	-	(122)	(122)
Income	2	21,414	873	22,287	21,234	1,839	23,073
Investment management fee	3	(85)	(39)	(124)	(527)	(1,581)	(2,108)
Other expenses	4	(869)	-	(869)	(894)	-	(894)
Net return before finance costs and taxation		20,460	(137,883)	(117,423)	19,813	32,059	51,872
Finance costs	5	(1,680)	(4,961)	(6,641)	(1,954)	(5,860)	(7,814)
Return on ordinary activities before taxation		18,780	(142,844)	(124,064)	17,859	26,199	44,058
Tax on ordinary activities	6	(295)	-	(295)	(337)	-	(337)
Return attributable to shareholders		18,485	(142,844)	(124,359)	17,522	26,199	43,721
Return per share	8	6.2p	(48.0)p	(41.8)p	5.7p	8.6p	14.3p

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 September 2008

	Notes	Called up Share Capital £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total Shareholders' Funds £'000
Opening shareholders' funds		75,253	13,088	362,771	34,660	485,772
Ordinary Shares purchased for cancellation		(2,100)	2,100	(10,607)	-	(10,607)
Dividends paid	7	-	-	-	(17,290)	(17,290)
Return attributable to ordinary shareholders		-	-	(142,844)	18,485	(124,359)
Closing shareholders' funds		73,153	15,188	209,320	35,855	333,516

for the year ended 30 September 2007

	Notes	Called up Share Capital £'000	Capital Redemption Reserve £'000	Capital Reserve £'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

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	2008 £'000	£'000	2007 £'000
Non-current assets					
Investments at fair value through profit or loss	9		401,838		558,724
Current assets					
Debtors	10	4,263		5,937	
Cash at bank and on deposit		17,962		47,349	
		22,225		53,286	
Creditors: amounts falling due within one year	11	(31,152)		(66,870)	
Net current liabilities			(8,927)		(13,584)
Total assets less current liabilities			392,911		545,140
Creditors: amounts falling due after more than one year	12		(59,395)		(59,368)
Net assets			333,516		485,772
Capital and reserves					
Called-up share capital	13		73,153		75,253
Capital redemption reserve	14		15,188		13,088
Capital reserve	14		209,320		362,771
Revenue reserve	14		35,855		34,660
Shareholders' funds	15		333,516		485,772
Net asset value per share	15		114.0p		161.4p

The accounts on pages 31 to 47 were approved by the Board of Directors and authorised for issue on 14 November 2008 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	2008 £'000	2007 £'000
Operating activities			
Investment income received		20,267	20,953
Deposit interest received		1,575	1,808
Option premium received		136	-
Underwriting commission received		88	-
Investment management fees paid		(1,609)	(2,108)
Other cash payments		(880)	(906)
Net cash inflow from operating activities	16	19,577	19,747
Servicing of finance			
Interest on 6.625 per cent Bonds 2008		(1,987)	(5,963)
Interest on 6.25 per cent Bonds 2031		(3,750)	(3,750)
Interest on revolving advance facility		(711)	-
Interest on bank overdraft		(26)	-
Net cash outflow from servicing of finance		(6,474)	(9,713)
Capital expenditure and financial investment			
Purchases of investments		(366,192)	(470,340)
Disposals of investments		383,032	511,722
Net cash inflow from capital expenditure and financial investment		16,840	41,382
Equity dividends paid		(17,290)	(17,129)
Net cash inflow before financing		12,653	34,287
Financing			
6.625 per cent Bonds 2008 redeemed		(60,000)	-
Revolving advance facility drawn down		30,000	-
Ordinary Shares purchased for cancellation		(10,607)	(11,210)
Net cash outflow from financing		(40,607)	(11,210)
(Decrease)/increase in cash	17	(27,954)	23,077
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the year		(27,954)	23,077
6.625 per cent Bonds 2008 redeemed		60,000	-
Revolving advance facility drawn down		(30,000)	-
Currency (losses)/gains		(1,499)	132
Increase in 6.625 per cent Bonds 2008 liability		(32)	(63)
Increase in 6.25 per cent Bonds 2031 liability		(27)	(26)
Opening net debt		(71,987)	(95,107)
Closing net debt	17	(71,499)	(71,987)

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 recommends 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' funds. 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 2008 would have been £1,260,000 (2007: £1,012,000).

(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.

(c) Capital reserve

The following are accounted for in this reserve:

- realised and unrealised exchange differences on transactions of a capital nature;
- realised and unrealised exchange differences on forward foreign currency contracts;
- gains and losses on the realisation of investments;
- increase and decrease in the valuation of investments held at year end;
- special dividends of a capital nature;
- expenses and finance costs charged to capital as set out in the policies below; and
- cost of purchasing Ordinary Shares for cancellation.

(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 view on the 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 the Capital Reserve or Revenue Reserve depending on the nature of the gain or loss.

Rates of exchange at 30 September

	2008	2007
US Dollar	1.7825	2.0374
Euro	1.2690	1.4326
Japanese Yen	189.2338	234.3258

Notes to the Accounts (continued)

2 Income

	2008 £'000	2007 £'000
Income from investments		
Franked investment income	14,341	14,485
Unfranked investment income	1,691	1,700
Overseas dividends	3,019	2,843
Overseas interest	564	398
Special dividends credited to capital	873	1,839
	20,488	21,265
Other income		
Deposit interest	1,575	1,808
Option premium	136	—
Underwriting commission	88	—
	1,799	1,808
Total income	22,287	23,073
Total income comprises:		
Dividends	18,233	19,167
Income from fixed interest securities	2,255	2,098
Deposit interest	1,575	1,808
Option premium	136	—
Underwriting commission	88	—
	22,287	23,073
Income from investments:		
Listed UK	16,905	18,024
Listed overseas	3,583	3,241
	20,488	21,265

Total income of £22,287,000 (2007: £23,073,000) includes special dividends of £873,000 (2007: £3,152,000) of which £nil (2007: £1,313,000) is recognised through revenue and £873,000 (2007: £1,839,000) is recognised through capital.

3 Investment management fee	2008			2007		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee:						
- basic	403	1,211	1,614	448	1,346	1,794
- VAT thereon	-	-	-	79	235	314
- recoverable VAT	(318)	(1,172)	(1,490)	-	-	-
	85	39	124	527	1,581	2,108

Throughout the year the Company's investment manager was F&C Investment Business Limited ('FCIB'). 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 (excluding loans). FCIB also receives 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.

As a result of the European Court of Justice decision that investment management fees payable by investment trusts are not, and should never have been, liable to value added tax ('VAT'), the Company expects to recover VAT of £1.49 million in respect of investment management fees paid to FCIB in the period beginning on 1 January 2001. The Company expects to make further recoveries in respect of earlier periods (see note 19). The amount recovered has been recognised in the Income Statement and allocated between revenue and capital in the same ratio as the VAT originally suffered.

4 Other expenses	2008	2007
	£'000	£'000
Directors' fees	140	129
Auditors' remuneration for:		
- audit	23	22
- interim review	-	5
- taxation services	5	5
- other	2	2
Marketing	241	358
Bank charges	103	133
Registrars' fees	75	63
Other expenses	280	177
	869	894

Notes to the Accounts (continued)

5 Finance costs	2008			2007		
	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	505	1,514	2,019	1,010	3,028	4,038
– Bank overdraft	26	–	26	–	–	–
– Revolving advance facility	205	615	820	–	–	–
Repayable in more than 5 years:						
– 6.25 per cent Bonds 2031	944	2,832	3,776	944	2,832	3,776
	1,680	4,961	6,641	1,954	5,860	7,814

Finance costs have been allocated 25 per cent to revenue and 75 per cent to capital. Bank overdraft interest has been allocated 100 per cent to revenue.

6(a) Tax on ordinary activities	2008	2007
	£'000	£'000
Overseas taxation	295	337

The Company had £42,803,000 unutilised management expenses and interest at 30 September 2008 (2007: £39,408,000). 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

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

	2008	2007
	£'000	£'000
Return on ordinary activities before taxation	18,780	17,859
Corporation tax at standard rate of 29 per cent (2007: 30 per cent)	5,446	5,358
Effects of:		
Non-taxable dividend income	(4,159)	(4,346)
Movement in utilised management expenses	(1,278)	(1,012)
Movement in overseas dividend taxable on receipt	(9)	–
Overseas tax suffered	295	337
Revenue current tax charge for the year	295	337

7 Dividends	2008	2007
	£'000	£'000

Dividends on Ordinary Shares:

Amounts recognised as dividends to shareholders during the year

– third quarterly interim of 1.356p paid in respect of the year ended 30 September 2007 (2006: 1.33p) per share	4,082	4,103
– final of 1.638p paid in respect of the year ended 30 September 2007 (2006: 1.522p) per share	4,906	4,696
– first quarterly interim of 1.40p paid in respect of the year ended 30 September 2008 (2007: 1.356p) per share	4,165	4,183
– second quarterly interim of 1.40p paid in respect of the year ended 30 September 2008 (2007: 1.356p) per share	4,137	4,147
	17,290	17,129
Proposed third quarterly interim of 1.40p in respect of the year ended 30 September 2008 (2007: 1.356p) per share	4,097	4,082
Proposed final of 1.734p in respect of the year ended 30 September 2008 (2007: 1.638p) per share	5,074	4,914
	9,171	8,996

7 Dividends (continued)

	2008 £'000
Revenue available for distribution by way of dividends for the year	18,485
First quarterly interim dividend of 1.40p paid in respect of the year ended 30 September 2008	(4,165)
Second quarterly interim dividend of 1.40p paid in respect of the year ended 30 September 2008	(4,137)
Proposed third quarterly interim dividend of 1.40p in respect of the year ended 30 September 2008	(4,097)
Proposed final quarterly interim dividend of 1.734p in respect of the year ended 30 September 2008*	(5,074)
Undistributed revenue for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 (see page 20)	1,012

*based on 292,612,282 shares in issue at 14 November 2008.

8 Return per share

	Revenue	Capital	2008 Total	Revenue	Capital	2007 Total
Ordinary	6.2p	(48.0)p	(41.8)p	5.7p	8.6p	14.3p

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

	Revenue £'000	Capital £'000	2008 Total £'000	Revenue £'000	Capital £'000	2007 Total £'000
Ordinary	18,485	(142,844)	(124,359)	17,522	26,199	43,721

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

	2008	2007
Weighted average number of shares in issue during the year	297,162,555	306,387,624

9 Investments

	2008 £'000	2007 £'000
Investments listed on a recognised investment exchange	401,838	558,724

	Listed in UK £'000	Listed overseas £'000	Total £'000
Opening book cost	378,534	135,405	513,939
Opening fair value adjustment	23,274	21,511	44,785
Opening valuation	401,808	156,916	558,724
Movements in the year:			
Purchases at cost	159,942	200,683	360,625
Sales – proceeds	(184,606)	(195,648)	(380,254)
– realised (losses)/gains on sales	(21,486)	4,216	(17,270)
Decrease in fair value adjustment	(83,703)	(36,284)	(119,987)
Closing valuation	271,955	129,883	401,838
Closing book cost	332,384	144,656	477,040
Closing fair value adjustment	(60,429)	(14,773)	(75,202)
Closing valuation	271,955	129,883	401,838

Notes to the Accounts (continued)

9 Investments (continued)	2008	2007
	£'000	£'000
Equity shares	372,299	526,663
Fixed income securities	29,539	32,061
	401,838	558,724
Realised (losses)/gains on sales	(17,270)	88,339
Decrease in fair value	(119,987)	(56,416)
(Losses)/gains on investments	(137,257)	31,923

The total expenses incurred on the purchase and sale of investments were £1,088,000 and £561,000 respectively (2007: £2,483,000 and £968,000).

10 Debtors	2008	2007
	£'000	£'000
Amounts due from brokers	600	3,378
Prepayments and accrued income	2,173	2,559
Other debtors	1,490	–
	4,263	5,937

11 Creditors: amounts falling due within one year	2008	2007
	£'000	£'000
Revolving advance facility	30,066	–
6.625 per cent Bonds 2008	–	59,968
Amounts due to brokers	210	6,089
Interest on 6.25 per cent Bonds 2031	207	207
Other creditors	669	606
	31,152	66,870

On 31 March 2008 the Company redeemed in their entirety the £60 million 6.625 per cent Bonds 2008 which fell due for redemption on that date.

The Company replaced the Bonds with a five year £60 million multi-currency revolving advance facility. As at 30 September 2008, £30.1 million, in various currencies, was drawn down at an average interest rate of 4.88 per cent.

The interest rate on amounts utilised is variable at 0.50 per cent per annum above LIBOR for the relevant currency. An arrangement fee of £60,000 was paid and non-utilisation fees of 0.25 per cent per annum are payable.

Under the covenants relating to the multi-currency revolving advance facility the Company is to ensure that at all times its total borrowings (including the Bonds) do not exceed 50 per cent of the net asset value.

12 Creditors: amounts falling due after more than one year	2008	2007
	£'000	£'000
6.25 per cent Bonds 2031	59,395	59,368

The Company has in issue £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	2008 Shares	2007 Shares	2008 £'000	2007 £'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	292,612,282	301,012,282	73,153	75,253

During the year the Company purchased for cancellation 8,400,000 (2007: 7,500,000) Ordinary Shares of 25p each for a total consideration of £10,607,000 (2007: £11,210,000).

14 Reserves	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 30 September 2007	75,253	13,088	362,771	34,660
Exchange differences	-	-	(1,460)	-
Losses on investments sold	-	-	(17,270)	-
Losses on investments still held	-	-	(119,987)	-
Special dividends credited to capital	-	-	873	-
Management fees charged to capital	-	-	(39)	-
Finance costs charged to capital	-	-	(4,961)	-
Shares purchased for cancellation	(2,100)	2,100	(10,607)	-
Net revenue for the year	-	-	-	18,485
Dividends paid	-	-	-	(17,290)
At 30 September 2008	73,153	15,188	209,320	35,855

Capital redemption reserve

The nominal value of Ordinary Shares bought back for cancellation is added to this reserve. This reserve is non-distributable.

Capital reserve

Items accounted for this reserve are detailed in accounting policy 1(c).

Revenue reserve

The net profit arising in the revenue column of the Income Statement is added to this reserve. Dividends paid during the year are deducted from the reserve, and it is available for paying future dividends on the Company's shares.

Capital management

The Company's capital is represented by the issued share capital, Capital Redemption Reserve, Capital Reserve and Revenue Reserve.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Report of the Directors.

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	
	2008 pence	2007 pence	2008 £'000	2007 £'000
Ordinary Shares	114.0	161.4	333,516	485,772

Net asset value per Ordinary Share is calculated on shareholders' funds of £333,516,000 (2007: £485,772,000) divided by the number of Ordinary Shares in issue at the year end of 292,612,282 (2007: 301,012,282).

Notes to the Accounts (continued)

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

	2008	2007
	£'000	£'000
Net revenue before finance costs and taxation	(117,423)	51,872
Losses/(gains) on investments	137,257	(31,923)
Exchange differences	1,460	122
Decrease in accrued income and prepayments	386	27
Increase in other debtors	(1,490)	-
Decrease in other creditors	(6)	(12)
Scrip dividend	(312)	-
Tax on investment income	(295)	(339)
Net cash inflow from operating activities	19,577	19,747

17 Analysis of changes in net debt

	At 30 September 2007 £'000	Cash flow £'000	Other movements £'000	Currency movements £'000	At 30 September 2008 £'000
Cash at bank and on deposit	47,349	(27,954)	-	(1,433)	17,962
6.625 per cent Bonds 2008	(59,968)	60,000	(32)	-	-
6.25 per cent Bonds 2031	(59,368)	-	(27)	-	(59,395)
Revolving advance facility	-	(30,000)	-	(66)	(30,066)
	(71,987)	2,046	(59)	(1,499)	(71,499)

18 Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances, Bonds, bank loans, overdrafts, debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings, as detailed in notes 11 and 12 and the Chairman's Statement, to achieve improved performance in rising markets. The downside risk of borrowings may be reduced by raising the level of cash balances held.

Listed fixed asset investments held (see note 9) are valued at fair value. For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed. The market value of the Company's Bonds is disclosed in note 12. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 32. The fair value of the loans is not materially different from the carrying value in the Balance Sheet.

The main risks that the Company faces arising from its financial instruments are:

- (i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;
- (ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;
- (iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency rates;
- (iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and
- (v) liquidity risk, being the risk that the Company may not be able to liquidate its investments quickly enough to meet its ongoing financial commitments.

18 Financial instruments (continued)

The Company held the following categories of financial instruments as at 30 September 2008:

	2008	2007
	£'000	£'000
Financial assets		
Investment portfolio	401,838	558,724
Cash at bank and on deposit	17,962	47,349
Amounts due from brokers	600	3,378
Accrued income	2,173	2,559
Other debtors	1,490	-
Financial liabilities		
6.25 per cent Bonds 2031	59,395	59,368
6.625 per cent Bonds 2008	-	59,968
Revolving advance facility	30,066	-
Amounts due to brokers	210	6,089
Bond interest payable	207	207
Other creditors	669	606

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. Further information on the investment portfolio is set out on pages 16 and 17. Derivatives may be used from time to time to hedge specific market risk or gain exposure to a specific market. As at the year end the Company held no exposure to derivatives other than hedged currency exposure as disclosed on page 47.

If the investment portfolio valuation fell by 20 per cent at 30 September 2008, the impact on the profit or loss and the net asset value would have been negative £80.4 million (2007: negative £111.7 million). If the investment portfolio valuation rose by 20 per cent at 30 September 2008, the impact on the profit or loss and the net asset value would have been positive £80.4 million (2007: positive £111.7 million). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole.

Notes to the Accounts (continued)

18 Financial instruments (continued)

Interest rate risk

Floating rate

When the Company retains cash balances the majority of the cash is held in deposit accounts. The benchmark rate which determines the interest payments received on cash balances is the bank base rate for the relevant currency for each deposit.

	2008	2008	2008	2007	2007
	2008	Average	Average	2007	Average
	£'000	interest	period	2007	period
		rate	until	£'000	interest
			maturity		rate
					maturity
Multi-currency revolving advance facility	30,066	4.88%	4.50 years	-	-

The revolving advance facility is a multi-currency facility. As at 30 September 2008 this consisted of £19.0 million, US\$12.6 million (£7.1 million sterling equivalent), Euro 3.1 million (£2.4 million sterling equivalent) and Yen 293,595 million (£1.6 million sterling equivalent).

The interest rate on amounts utilised is variable at 0.5 per cent per annum above LIBOR for the relevant currency. An arrangement fee of £60,000 was paid and non-utilisation fees of 0.25 per cent per annum are payable.

If the bank base rate had increased by 1.0 per cent, the impact on the profit or loss would have been a negative £121,000 (2007: positive £473,000 – due to high cash balances). If the bank base rate had decreased by 1.0 per cent, the impact on the profit or loss would have been a positive £121,000 (2007: negative £473,000 – due to high cash balances). The calculations are based on the cash balances and the revolving advance facility as at the respective balance sheet dates and are not representative of the year as a whole.

Fixed rate

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

	2008	2008	2008	2007	2007
	2008	Average	Average	2007	Average
	£'000	interest	period	2007	period
		rate	until	£'000	interest
			maturity		rate
					maturity
Fixed interest investments	29,539	10.25%	8.01 years	32,061	6.87%
Fixed interest liabilities:					
6.625 per cent Bonds 2008	-	-	-	59,968	6.625%
6.25 per cent Bonds 2031	59,395	6.25%	22.95 years	59,368	6.25%

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 2008 was £63.1 million (2007: £126.3 million).

Non-interest bearing investments

The Company's non-interest bearing investments are its equity investments which had a value of £372,299,000 as at 30 September 2008 (2007: £526,663,000).

18 Financial instruments (continued)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represents the maximum credit risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2008	2007
	£'000	£'000
Cash and cash equivalents	17,962	47,349
Balances due from brokers	600	3,378
Interest, dividends and other receivables	3,663	2,559
	22,225	53,286

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the diversity of counterparties used.

All the assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase Bank, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Report of the Directors on page 26. The Managers have in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis.

The credit risk on liquid funds and derivative financial instruments is controlled because the counterparties are banks with high credit ratings, rated AA or higher, assigned by international credit rating agencies. Bankruptcy or insolvency of such financial institutions may cause the Company's ability to access cash placed on deposit to be delayed, limited or lost.

As at 30 September 2008 the Company had an overnight deposit of £13.5 million with a single counterparty. There were no other material concentrations of credit risk to counterparties at 30 September 2008 or 30 September 2007 because other deposits were spread over a number of counterparties.

Liquidity risk

The Company's listed securities are considered to be readily realisable in normal market conditions.

The Company's liquidity risk is managed on an ongoing basis by the Managers.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and expenses. Short term flexibility is achieved, where necessary, through the use of overdraft facilities. At 30 September 2008 the Company had a £60 million multi-currency revolving advance facility.

Notes to the Accounts (continued)

18 Financial instruments (continued)

Contractual maturity analysis for financial liabilities

	One month £'000	One and three months £'000	Three and twelve months £'000	Between one and five years £'000	After five years £'000	Total £'000
Current liabilities:						
Amounts due from brokers	(210)	-	-	-	-	(210)
Other creditors	(669)	-	-	-	-	(669)
Revolving advance facility	(30,188)	-	-	-	-	(30,188)
Long term liabilities:						
6.25 per cent Bonds 2031	-	-	(3,750)	(15,000)	(127,500)	(146,250)
Total liabilities	(31,067)	-	(3,750)	(15,000)	(127,500)	(177,317)

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 2008, the Company entered into US Dollar and Euro foreign currency contracts with a view to partially hedging these currency risks.

Foreign currency exposure:

	2008 Investments £'000	2008 Current assets/ (liabilities) £'000	2008 Loans £'000	2007 Investments £'000	2007 Current assets/ (liabilities) £'000	2007 Loans £'000
US Dollar	55,032	959	(7,087)	62,684	1,117	-
Euro	22,620	1,250	(2,428)	30,453	174	-
Swiss Franc	2,642	-	-	4,814	-	-
Norwegian Krone	2,528	-	-	3,343	-	-
Danish Krone	-	-	-	551	1	-
Swedish Krona	1,817	-	-	3,420	16	-
Canadian Dollar	4,452	13	-	2,911	27	-
Japanese Yen	16,352	451	(1,551)	19,882	492	-
Australian Dollar	371	3	-	930	6	-
Hong Kong Dollar	7,835	104	-	8,268	73	-
Singapore Dollar	1,726	-	-	3,351	24	-
Malaysian Dollar	1,129	-	-	920	-	-
Philippine Peso	237	-	-	459	-	-
South Korean Won	6,206	-	-	8,496	-	-
Taiwan Dollar	3,622	229	-	4,057	999	-
Thai Bhat	384	-	-	1,263	-	-
Indonesian Rupiah	843	-	-	1,114	-	-
Indian Rupee	2,087	-	-	-	-	-
South African Rand	-	-	-	-	199	-
Total	129,883	3,009	(11,066)	156,916	3,128	-

18 Financial instruments (continued)

The foreign exchange currency contracts not yet realised were as follows:

	2008	2008	2007	2007
	Hedged	Unrealised	Hedged	Unrealised
	amount	gain	amount	gain
	£'000	£'000	£'000	£'000
US Dollar for sterling	2,699	(110)	1,890	1
Euro for sterling	5,769	46	4,943	103
	8,468	(64)	6,833	104

If the value of sterling had weakened against each of the currencies in the portfolio by 20 per cent, the impact on the profit or loss and the net asset value would have been positive £24.4 million (2007: positive £32.0 million). If the value of sterling had strengthened against each of the currencies in the portfolio by 20 per cent, the impact on the profit or loss and the net asset value would have been negative £24.4 million (2007: negative £32.0 million). The calculations are based on the portfolio valuation and cash and loan balances as at the respective balance sheet dates and are not representative of the year as a whole. They do not take account of any impact on corporate profits of investee companies as a result of these currency movements.

19 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") announced that it would 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 paid by the Company to the Managers. The Managers have reached agreement with HMRC to recover £1.49 million in relation to the period from 1 January 2001 and this amount is included in the accounts (see note 3). The Company expects to recover further VAT on management fees in the range of £850,000 to £900,000 paid to the Managers in relation to earlier periods. However, at this point in time the amounts involved are uncertain and have therefore not been recognised in the accounts.

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the

Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including a Business Review), a Directors' Remuneration Report and a Corporate Governance Statement.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board
W R E Thomson
Chairman

14 November 2008



Independent Auditors' Report

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 2008 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement, and related notes 1 to 19. 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 Statement of Directors' Responsibilities.

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 and

whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we 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 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Company Summary, Financial Highlights for the Year, Performance Summary, Chairman's Statement, Investment Managers and Investment Process, 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 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.

Independent Auditors' Report (continued)

Basis of Audit Opinion

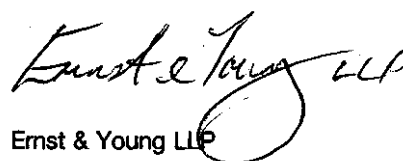
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration 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 the Company's affairs as at 30 September 2008 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
14 November 2008

Shareholder Information

Annual General Meeting

The Annual General Meeting of British Assets Trust plc will be held at 80 George Street, Edinburgh EH2 3BU on Thursday 18 December 2008 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 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*.

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 under the signature of the registered holder.

Daily Net Asset Value

The net asset value of the Company's shares can be obtained on the Company's website at www.british-assets.co.uk or by contacting F&C Asset Management plc's Investment Services team on 0845 600 3030.

Shareholder Information (continued)

Financial Calendar 2008/09

18 December 2008	Annual General Meeting
9 January 2009	Final dividend paid
January 2009	Publication of Interim Management Statement*
April 2009	First interim dividend paid
May 2009	Announcement of Interim Results
	Posting of Interim Report*
July 2009	Second interim dividend paid
	Publication of Interim Management Statement*
October 2009	Third interim dividend paid
November 2009	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 ('F&C').

You can enjoy the convenience of making regular savings by Direct Debit, take advantage of our tax-efficient ISA wrapper, 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 Child Trust Fund ('CTF')**

F&C is a leading provider of children's investment plans and is one of the few providers to offer an investment trust based CTF. Suitable for children born after 1 September 2002.

- **F&C Investment Trust ISA**

Invest up to £7,200 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 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 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, which is £60+VAT (no matter how many tax years' ISAs you take out with F&C, or how many ISAs 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

Calls may be recorded.

Existing plan holders email us at:
investors.enquiries@fandc.com

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 Eleventh Annual General Meeting of British Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh on Thursday 18 December 2008 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 2008 be received.
2. That a final dividend of 1.734 pence per Ordinary Share be declared.
3. That Mr I S M Russell, who retires at the first Annual General Meeting following his appointment, be re-appointed 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 2008 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 £7,315,307 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 2008, 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 £3,657,653 (5 per cent of the equity share capital in issue on 14 November 2008);

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 not be more than the higher of
 - (i) 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
 - (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange; and

(d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on the later of 18 June 2010 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.

13. That the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

By order of the Board
G R Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU
14 November 2008



Notice of Annual General Meeting (continued)

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 16 December 2008 or, (ii) in respect 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 an adjourned meeting, not less than 24 hours 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 2008 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 2008 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. Any person holding 3 per cent of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.
5. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
6. The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5 per cent of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100.
7. A copy of the Articles of Association of the Company as proposed to be adopted with effect from the passing of resolution 13 will be available for inspection at Royal London House, 22-25 Finsbury Square, London EC2A 1DX and at the registered office of the Company from the date of this notice until the conclusion of the Annual General Meeting and on the date of the Annual General Meeting 15 minutes prior to the start until the conclusion of the meeting.
8. 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.
9. As at 5.00 pm on 14 November 2008 (being the latest applicable date prior to the publication of this notice), the Company's issued share capital comprised 292,612,282 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 14 November 2008 was 18,288,267.
10. 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.

Appendix to the Notice of Annual General Meeting

Summary of the Proposed Material Changes to the Articles of Association of the Company

The principal changes which would arise from the adoption of the New Articles are set out below.

Electronic and Web Communication

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic means and/or website communications. The New Articles contain a number of provisions designed to maximise the Company's ability to use electronic systems, including websites, for communications with shareholders.

The New Articles give the Directors the discretion to use electronic communication to distribute notices of meetings, annual reports, accounts and summary financial statements. Before the Company can communicate with a member by electronic communication and/or by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to the member electronically or by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when documents or information are placed on the website and a member can always request a hard copy of the document or information. The use of electronic communication by the Company will enable the Company to reduce costs and generally facilitate communication with shareholders.

Form of Resolutions and Convening Meetings

The existing Articles refer to "extraordinary" resolutions and "extraordinary" general meetings. These concepts have been abolished by the 2006 Act. Meetings of shareholders other than annual

general meetings are referred to simply as general meetings. Any resolution requiring a 75 per cent majority will be a "special" resolution.

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform with the 2006 Act. In particular, general meetings to consider special resolutions can now be convened on 14 days' notice whereas previously 21 days' notice was required. The Annual General Meeting of the Company still requires 21 days' notice.

Quorum

In the New Articles, the quorum requirement has been reduced from three members to two members present in person or by proxy and, for the avoidance of doubt, corporate representatives.

Ordinary Business

The definition of ordinary business has been extended in the New Articles to include the renewal of the share buy-back authority as ordinary business when it is transacted at an Annual General Meeting of the Company.

Votes of Members

The existing Articles provide that on a poll every member who is present in person or by proxy shall have one vote for every £4 nominal of ordinary share capital which he is the holder. In order to simplify the voting procedure and computations the New Articles provide that on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

Proxies

Under the 2006 Act, proxies now have the right to vote on a show of hands and the New Articles reflect this.

The time limits for the receipt of the appointment of proxies have also been altered by the 2006 Act and

Appendix to the Notice of Annual General Meeting (continued)

a company may now exclude weekends and bank holidays from the period prior to the relevant general meeting by which forms of proxy must be received in order to be valid. The New Articles reflect these changes.

Corporate Representatives

The 2006 Act permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting. The New Articles reflect these provisions of the 2006 Act.

Conflicts of Interest

The New Articles reflect the provisions of the 2006 Act in relation to Directors' conflicts of interests which came into force on 1 October 2008.

From 1 October 2008, a Director must avoid a situation where he has, or can have, a direct or indirect interest which conflicts, or may conflict, with the Company's interests. The requirement is very broad and could apply, for example, where a Director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect.

It is proposed that the New Articles will contain provisions giving the Directors authority to approve situations involving Directors' conflicts of interest and to allow conflicts of interest to be managed by the Directors.

There are safeguards in the New Articles which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision, the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Periodic Retirement of Directors

The Combined Code on Corporate Governance recommends that a Director must submit himself for election by shareholders at the first Annual General Meeting after his appointment and to re-election thereafter at intervals of not more than three years until the ninth anniversary of his appointment and annually thereafter. The New Articles follow this recommendation.

Age of Directors on Appointment

The existing Articles contain a provision limiting the age at which a Director can be appointed. Such a provision could now infringe the Employment Equality (Age) Regulations 2006 and has not been included in the New Articles.

Indemnification of Directors and Officers

The New Articles incorporate the 2006 Act provisions on indemnification by the Company of its Directors and officers to the extent applicable to the Company and reflect the current market standard provisions which have evolved since the existing indemnity provisions were adopted.

Directors' Fees

It is proposed to increase the amount per annum that the Directors may be paid, out of the funds of the Company, by way of fees for their services as Directors from an aggregate of £200,000 to £300,000.

CREST and the Uncertificated Securities Regulations

The New Articles contain a number of provisions designed to maximise the ability of the Company's Shareholders to utilise CREST.

Corporate Information

Directors

William R E Thomson, (Chairman)*
James M Long, TD
James S MacLeod†
Dr Christopher Masters, CBE
Lynn C Ruddick
I S M Russell, CBE
James G West†

Company Secretary

Gordon R Hay Smith, CA

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

Company Number

SC 3721

*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: 0871 384 2462 *
Registrars' Broker Helpline: 0871 384 2779 †

* Calls to this number are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary.

† Calls to this number are charged at £1 per minute from a BT landline. Other telephone providers' costs may vary.