28203

British Empire Securities and General Trust p.l.c.

Annual Review and Report

Year ending 30 September 1996

1996

IVORY SIME

Performance Summary

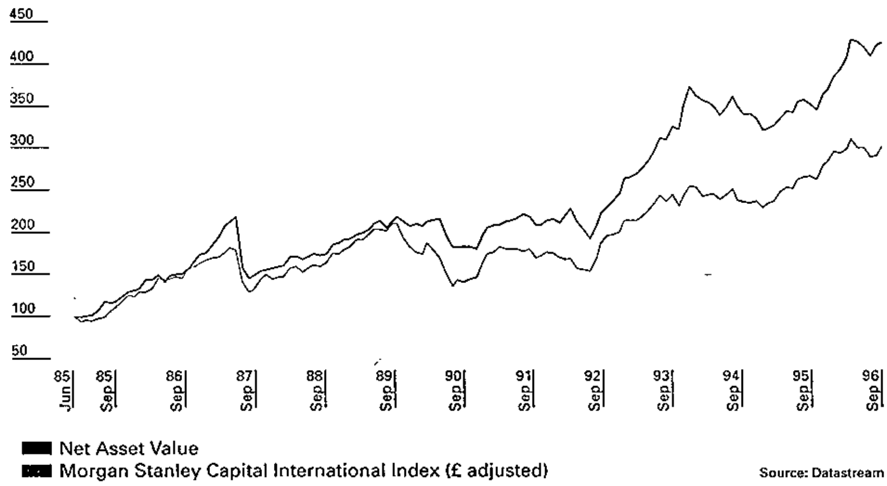
	30 September 1996	30 September 1995	% change
Capital Return			
Net asset value per share	123.38p	102.44p	20.4
Datastream Net Assets Index	1,227.05	1,102.24	11.3
FTSE All-Share Index	1,945.00	1,733.73	12.2
Morgan Stanley Capital International Index (£ adjusted)	1,209.16	1,067.55	13.3
Revenue and Dividends			
Gross Income	£10.4m	£6.0m	73.3
Earnings per ordinary share	1.37p	1.33p	3.0
Dividends per ordinary share	1.03p	1.00p	3.0
Share Price (mid market)	110.25p	92.50p	19.2
Discount	10.6%	9.7%	
Total Assets	£299.5m	£168.9m	77.3

Note
Sources: Ivory & Sime, Datastream.

The Company's net asset value per Share relative to the FTSE All-Share Price Index.

Source: Datastream

The Company's net asset value per share relative to the Morgan Stanley Capital International Index (£ adjusted)



Source: Datastream

In the 12 months to 30 September 1996, the share price rose by 19 per cent, the net asset value by 20 per cent and the profit before taxation by 39 per cent permitting the Board to recommend an increase of 4 per cent in the final dividend from 0.75p to 0.78p per Share.

I am glad to be able to report another successful year for our Company. A generally good performance by the securities in our portfolio has been assisted by above average gains in some specific stocks, most notably Forte, where, following the offer from Granada, we achieved a profit of 50 per cent on cost, and Boosey & Hawkes, where our 5.3 per cent holding appreciated by 70 per cent during the year. In the 12 months to 30 September 1996, the share price rose by 19 per cent, the net asset value by 20 per cent and the profit before taxation by 39 per cent permitting the Board to recommend an increase of 4 per cent in the final dividend from 0.75p to 0.78p per Share.

Since 1985, we have seen a near forty fold growth in net assets and a total return in net asset value and dividends of 415 per cent over the same period. This compares with total returns of 356 and 282 per cent respectively for the FTSE All-Share and MSCI World (£) indices over the period.

My Statement of last year was prepared immediately following our offer for Selective Assets Trust plc. The acquisition of all the shares of Selective was completed in November 1995 and the company was placed in liquidation on 22 December 1995, following which the investments and other assets were distributed to British Empire and now form part of our portfolio. There has been substantial rationalisation of the combined portfolio since January and over 90 holdings have been sold.

Part of the consideration for Selective comprised an issue of a new equities index unsecured loan stock of our Company; this stock matches the capital and income return on the FTSE All-Share Index. Your Board and the Investment Manager are committed to continuing the Company's investment strategy and it has been possible, within that strategy, to ensure that the stock is covered by holdings, meeting our criteria, which we expect to perform at least in line with the FTSE All-Share Index.

In each of my last two Statements I have referred to the Accounting Statement of Recommended Practice for investment trusts and the effect it may have on the allocation of expenses as between capital and income. The Accounting Statement has now been published but we understand that further consideration is being given to it and that amendments may be made. In these circumstances and to avoid a series of restatements of prior year accounts, your Board has decided to continue to charge debenture interest and management expenses wholly to revenue in these accounts.

Investment Performance

It is encouraging to think that in a year in which much time has been spent on the acquisition of Selective and the reorganisation of its portfolio, our Company has nevertheless comfortably outperformed the FT-SE All-Share and MSCI World indices.

Chairman

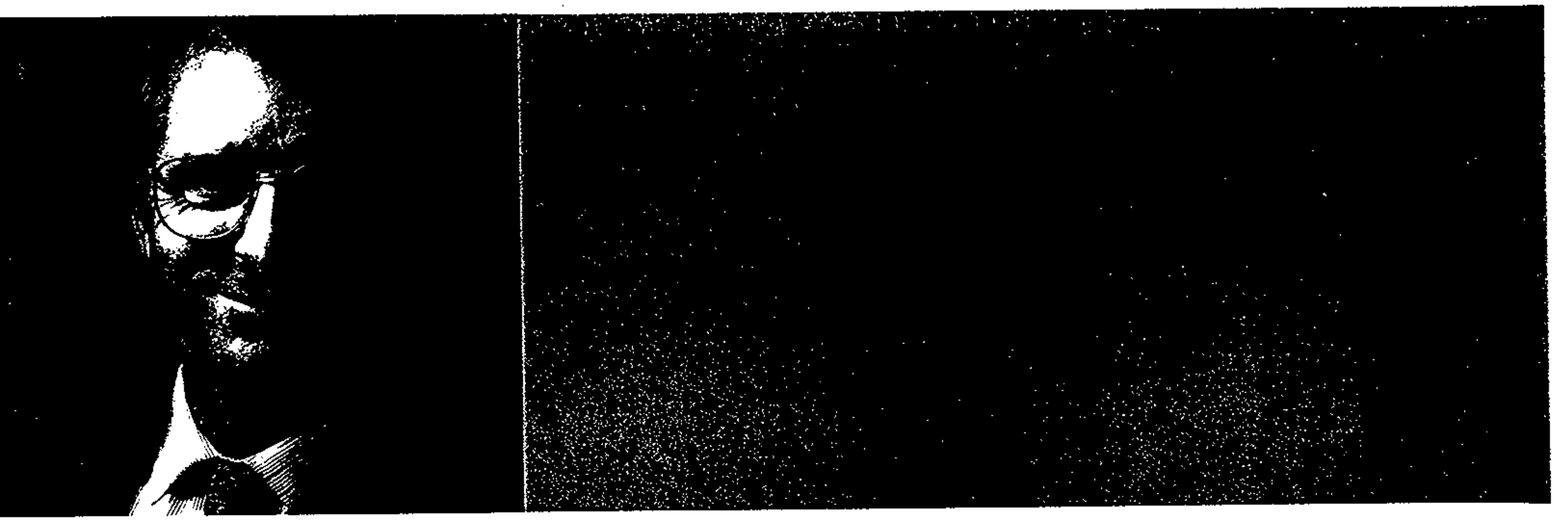
It is encouraging to think that, in a year in which much time has been spent on the acquisition of Selective and the reorganisation of its portfolio, our Company has nevertheless comfortably outperformed the above indices, and I should like to congratulate John Walton on the success which he has achieved.

However, the stock markets in the United States and the United Kingdom are reaching new highs despite some signs of overheating in both economies and the likelihood of higher interest rates once the elections are out of the way. It seems likely that market sentiment will turn down in due course and it appears advisable to adopt a cautious approach to investment. We believe that an increase in liquidity is appropriate but, more important, is the continued careful selection of stocks to provide against any weakness in markets. Your Board remains confident that our distinctive focus on asset related investments will continue to provide opportunities for profit in good markets while reducing the risk in poor ones.

We will once again be providing a buffet lunch for Shareholders attending the Annual General Meeting and I hope we can welcome you on that occasion. It is an opportunity for Shareholders to raise matters informally with the Board and we are always delighted when you do so. If you wish to attend, please complete the enclosed card and return it to the Company Secretary as soon as possible.

William Fossick

William Fossick
Chairman
13 November 1996



John Walton
(Investment Manager)

John Walton has managed the Company's portfolio for 12 years and is Managing Director of Ivory & Sime Asset Management Limited, a wholly owned subsidiary of Ivory & Sime plc

Ivory & Sime Investment Managers

Ivory & Sime dates its origins back to 1895 and has been managing money on behalf of its clients for almost a century. Based in Edinburgh, it is an independent fund manager with offices in London and Hong Kong. Its first client was an investment trust and its commitment to the sector is underlined by the fact that today it manages, advises or provides secretarial services to no fewer than nineteen investment companies.

With some £4 bn of assets under management, Ivory & Sime's objective is to provide its clients with superior investment returns and outstanding service.

1889 Company founded as The Transvaal Mortgage Loan & Finance Company Limited.

1906 Name changed to British Empire Land Mortgage and Loan Company Limited.

1966 British Empire Securities and General Trust, as the Company is now known, opts for Investment Trust status. Net assets £1 million.

1984 Open offer and change of management to Laurwood (now renamed Ivory & Sime Asset Management). Net assets £6 million.

1985 Rights Issue of 4 shares for 1. Net assets increased to £30 million.

1986 Acquisition of The Ashdown Investment Trust PLC involving the issue of 31.4 million Ordinary Shares and £11.9 million of 10⅜% Debenture Stock 2011.

1989 Offer for Schroder Global Trust plc leading to its unitisation.

1994 The issue of £15 million nominal of 8⅛% Debenture Stock 2023.

1995 Acquisition of Selective Assets Trust plc involving the issue of 45,451,489 Ordinary Shares and 20,130,104 units of Equities Index Unsecured Loan Stock 2013.

John Walton
Investment Manager

This was a good year.
A number of our "special situation" investments contributed to some particular highlights.

Our equity focus continues to be on investment holding companies, emerging markets and commodities, particularly energy. Many of our more important assets have been out of favour in the context of the long bull market. This may help relative performance in a shake-out.

his was a good year. A number of our "special situation" investments contributed to some particular highlights. Net asset value rose 20.4 per cent compared to gains in the Datastream Net Assets, FTSE All-Share and MSCI World (£) indices of 11.3, 12.2 and 13.3 respectively.

Selective Assets Trust

The Selective Assets Trust acquisition ensured that it would be a very active year. Portfolio rationalisation proceeded rapidly and of the combined portfolio of 162 investments, more than 90 have been eliminated; of the Selective holdings earmarked for sale less than £0.8 million remains to be realised. We were fortunate in deciding to retain the holding in Greenstone Resources following a visit by management. The company has continued to report excellent exploration results on its gold properties in Central America, and the shares have performed commensurately. The unlisted investment in Bankside has contributed strongly to income during the period. Overall, the result of the acquisition has been very satisfactory.

Portfolio Highlights

- Our investment in *Forte,* bought for its recovery potential and quality assets at a time of relative unpopularity among investors, benefited from the Granada offer to produce a profit of over £4 million on cost of £8 million.
- *MPG,* a Canadian closed end fund in which we built a 13 per cent stake over several years on discounts in excess of 30 per cent, announced an open-ending of the company which took place in August 1996 allowing us to exit at close to asset value.
- *BZW Commodities Trust* responded to higher commodity prices and measures announced to reduce the discount upon which the shares trade, giving a profit of £2.8 million, 42 per cent on cost.
- Our 5.3 per cent holding in *Boosey & Hawkes* has appreciated by 70 per cent during the year. The combination of brand leadership in brass and woodwind instruments,

unrivalled royalty assets and excellent management have underpinned further growth in the share price which now values our holding at £8.4 million against a cost of £2.8 million.

- *Christian Dior,* a holding which we were able to purchase on a discount of 40 per cent to estimated asset value (largely its 41.7 per cent interest in LVMH), rose by 35 per cent during the year.
- *Rue Impériale de Lyon* (4.7 per cent holding), at the head of the Lazard quoted corporate structure in France, has moved ahead well, but remains on an estimated discount of over 50 per cent.
- *Gulf Canada Resources* was a classic recovery situation following the acquisition by Torch Energy of a part of the Olympia & York stake held by the banks. We recently sold the holding for a profit of £2.8 million, 44 per cent on cost.
- *Calenergy,* a geothermal energy producer, marked 10 years in the portfolio by gaining 55 per cent.
- *Greenstone Resources,* mentioned above, has performed exceptionally well.

Portfolio Negatives

- Certain Asian emerging markets, notably Korea and India, have been unexpectedly weak.
- The independent valuation of our two property investments (4 per cent of the fund) shows an aggregate value of £12.65 million (down from £13.70 million at 30 September 1995) compared with original cost of £12.35 million. Values are based on yields of 9.8 per cent and 7.1 per cent.

Investment Profile

Stocks held to 'match' the FTSE All-Share loan stock (13 per cent of assets)

The loan stock, which was issued as part of the consideration for Selective Assets Trust and whose value at the year end was £39.2 million, is entirely covered by holdings which we expect to perform in aggregate at least in line with the index. They include *Edinburgh Investment Trust, Finsbury Trust 'A', United Kingdom Fund* and *Baring Tribune;* all sell on appreciable discounts.

Investment trust companies and closed-end funds (14 per cent of assets)

Our investment in a sector which underperformed during the year has been reduced substantially over the past four years. Our holdings have given us specialised exposure to certain asset categories, particularly in Europe. *Worldwide Value Fund* (recently sold) performed particularly well, whereas *German Investment Trust* has been a disappointment, significantly underperforming its benchmark index. Our Japanese trusts have lagged. A worthwhile holding has been accumulated in *NatWest Irish Smaller Companies,* a lowly-rated asset category which we expect to benefit from the continuing vibrancy of the Irish economy. *CU Environmental Trust* has benefited from a recovery in the stock-market ratings of its portfolio companies. Our only generalist fund, *RIT Capital Partners*, has again outperformed its peer group yet continues to sell on an above average discount.

Investment holding companies (19 per cent of assets)

We repeat what we said last year: excellent value continues to be available in this somewhat overlooked area of the markets where we seek to find quality assets, wide discounts, substantial management ownership and a long term perspective. Our major holdings are *Rue Impériale de Lyon, Caledonia Investments, Christian Dior* and *Quebecor*. Each correspond to the above criteria and we remain confident of outperformance from this important category of our investments.

Commodity-related investments (10 per cent of assets)

Three highlights, *Gulf Canada Resources, BZW Commodities Trust* and *Calenergy* gave us a sparkling performance and are mentioned above. We are pleased to have built a 7.4 per cent stake in *Morrison Middlefield,* a Canadian company which has recently taken a potentially exciting position in UK onshore oil and gas, and a holding in *Talisman Energy* (formerly BP Canada) whose production profile in Canada and overseas has already produced excellent share price performance. In the metals sector, *RTZ* has had to contend with a weakening copper price but has continued to develop a number of world class projects giving substantial volume gains well into the future. *Greenstone Resources'* important gold discoveries are referred to above.

Property-related and hotels (7 per cent of assets)

The profitable sale of our holding in *Forte* is referred to above; this was followed by the disposal of our 6 per cent holding in the *Grand Hotel Krasnapolsky* for a profit of 65 per cent, making up somewhat for our worst performing quoted investment, *Amrep Corporation,* where our patience finally ran out after ten years. The aggregate valuation by DTZ Debenham Thorpe of the *St Andrew's Park, Norwich* and *High Street, Kensington* properties is referred to above.

Emerging markets (12 per cent of assets)

We took advantage of emerging markets weakness to increase our position in one of the best relative performers among the Latin American funds, *Scudder Latin America,* at an average cost significantly below the current price. Far Eastern markets have been volatile and, on balance, a disappointment. We have added to *Abtrust Emerging Asia* (formerly New Asia) following weakness, and to our interests in Korea and India. Elsewhere, we have added to funds investing in the lowly rated markets of Eastern Europe (including Russia), Africa and the Middle East.

Media and royalties (5 per cent of assets)

Boosey & Hawkes has been the outstanding performer in the portfolio as a whole. A recent purchase, *Washington Post,* an underperformer in the US market during a period of increasing newsprint costs, is showing promise given its high cash generation from its valuable franchises in TV and cable stations. *Southern Newspapers* continues to strengthen its business, increasing its dividend by 14 per cent and has performed strongly since the year end.

Unlisted investments (2 per cent of assets)

The long term policy of eliminating unlisted holdings from the British Empire portfolio was virtually completed last year with further realisations from the SCF partnerships giving a cumulative aggregate return of 34 per cent per annum since commitment of funds; the two remaining partnership investments are valued at cost of £0.2 million. Selective Assets held an 8 per cent stake in *Bankside,* which it is anticipated will be sold before the end of the calendar year at a price in excess of current valuation. The Company acquired from Selective Assets Trust an investment in Ivory & Sime TrustLink Limited, a marketing company established to promote investment trust based retail products. This company is owned by Ivory & Sime plc and its managed trusts, and the investment has been increased to reflect the proportionate size of British Empire within this group. The holding in *Nippon Assets* is held at a 15 per cent discount to current net asset value, a substantial part of which is made up of cash. Finally, *New Century Holdings,* a fund investing mainly in Russia, has shown strong growth in asset value and is valued at a discount of 30 per cent.

Liquidity (18 per cent of assets)

This consists substantially of sterling cash balances held on deposit.

Geographical asset profile

Gross assets of £300 million were distributed (on a "look-through basis") as follows: UK equities 31 per cent, UK property 4 per cent, North America 10 per cent, Japan 5 per cent, other Far East 7 per cent, Continental Europe 19 per cent and Others 5 per cent; short term UK bonds and cash (mainly held in sterling) 19 per cent. The main changes since last year are the build up in cash and reductions in the UK and Far East exposures. The North American investments are biased towards Canada. If conventional debt of £26.7 million is deducted from liquidity, actual liquidity is 9 per cent of total assets. The £39.2 million Equities Index Loan Stock effectively reduces the net UK equity exposure to 18 per cent of assets.

Current themes

Last year we incorporated in the Investment Manager's Review a 10 year retrospective focusing on the inter-action between our investment style (cautious) stressing risk-averse characteristics of asset-based investing and the economic and stockmarket background during that period (buoyant).

Ten Year Record

Year ended 30 September	Group net profit after tax £'000	Earnings per Share p	Dividend per Share p	Net assets £'000	Basic net asset value per Share p
1987	1,595	1.20	.60	84,496	63.53
1988	377	.28	.66	65,938	49.58
1989	1,439	1.08	.71	82,315	61.89
1990	1,112	.84	.78	69,871	52.53
1991	1,397	1.05	.86	85,835	64.54
1992	1,301	.98	.89	80,429	60.47
1993	1,561	1.17	.93	123,452	92.82
1994	1,366	1.03	.96	140,792	105.83
1995	1,779	1.33	1.00	142,198	106.51
1996	2,530	1.37	1.03	233,611	123.38

On 27 May 1986 the Company acquired The Ashdown Investment Trust PLC for a consideration including the issue of 31,424,780 Ordinary Shares of the Company
On 6 October 1995 the Company's offers for Selective Assets Trust plc were declared unconditional. The consideration included the issue of 45,451,489 Ordinary Shares of the Company

Looking back, it has seemed hard work to outpace indices which have shown super-normal returns sustained for longer periods than at almost any time in stockmarket history. It is worth noting that during the past 14 years the Dow Jones Index has shown a negative return only in 1990 (less than 1%). Those of us entering the investment community in the late 1960's in time for two bear markets in five years, which reduced real values by over 80 per cent, blink in incredulity at the sort of returns that have been available in big market capitalisation stocks in the major markets, not to mention the valuation of many earnings deficient 'blue sky' emerging growth companies.

Clearly the economic and stockmarket background has been exceptionally benign. Broadly, corporate earnings have been powered by a long period of economic expansion (volume gains), spurred by faster rates of technical innovation; wage pressures have been subdued (reduced union power and 'downsizing'); energy prices have been under pressure (earlier this year the Brent price in real terms was well below the $3 price ruling when North Sea production began 23 years ago); interest rates have fallen; corporate taxes have also declined. Commensurate with the fall in inflation and bond yields the multiple attached to the higher stream of earnings has expanded. The bull case from now on is not so much that the profit share of GNP can be enhanced, although innovation and corporate restructuring continue to be vibrant themes, but that the combination of demographic trends and 'shareholder value' considerations will justify higher ratings.

However, since stockmarket nightmares feature tumbling earnings and squeezed multiples, any reversal of fortune for the five positive profit contributors to the corporate nirvana mentioned above would be worrying, especially if it were accompanied by a rise in interest rates.

Some signs give pause for concern. Oil prices have risen by about 25 per cent during the past 6 months. This may be a blip. We suspect it is not. Economic growth is nudging against labour capacity limits in some countries; in addition minimum wage legislation may lead to some wage drift. Deficit-ridden governments may decide to place a higher tax burden on highly profitable corporations. Easy money conditions (the concomitant of tight fiscal policies, especially in Europe) have caused interest rates to hit exceptionally low levels. Pricing power is generally difficult to achieve.

A too early anticipation of change in the trend of profitability can be highly dangerous in an increasingly short-term orientated investment management industry. But the prudent investor must take early action if the risks of equity investment are to be sensibly balanced against the stunning rewards that have been achieved over the past several years. Recent criticism by observers of the holding of cash reserves following a boom in the price of the asset in question recalls the herd-like benchmarking into the hugely overvalued Japanese market in 1989. British Empire has been reasonably fully invested during the past year, but cash has been allowed to build up recently, largely as a result of the sale of smaller, peripheral holdings.

Our equity focus continues to be on investment holding companies, emerging markets and commodities, particularly energy. Many of our more important assets have been out of favour in the context of the long bull market. This may help relative performance in a shake-out. We believe the underlying asset quality is high. Management often has substantial ownership and a long term (not option-related) perspective. We should point out our heavy overseas exposure. Although we are overweight in the UK compared to the world indices, many of our competitors in the AITC International category have a UK weight of 40-55 per cent of assets. This makes us that much more vulnerable in absolute and relative terms to sterling strength. Our present view is that although we may see further Deutsche Mark and French Franc weakness, we would be positive about the US Dollar, Japanese Yen and Far Eastern currencies *vis-à-vis* Sterling over a longer term horizon.

The past four years have produced net asset value growth of 105 per cent compared to 61 and 79 per cent for the FTSE All-Share and MSCI World (£) indices. Given the relative strength of the UK and of Sterling we may need to be braced for some near-term underperformance; we do feel confident however that our stance of seeking out quality undervalued asset opportunities will continue to produce good returns over the longer term.

J C Walton

John Walton
Managing Director, Ivory & Sime Asset Management Limited
13 November 1996

Investment Portfolio

Company	Valuation £'000	% of Total Assets
1. Rue Impériale de Lyon The company stands at the head of the Lazard corporate structure in France, owning directly and indirectly 33 per cent of the investment holding company Eurafrance. Estimated discount to net asset value 54 per cent.	17,573	5.9
2. Edinburgh Investment Trust* An investment trust 90 per cent invested in the UK which is held as a 'match' against the loan stock. Estimated discount 14 per cent.	15,215	5.1
3. RTZ-CRA The world's largest mining company, with an unrivalled geographical diversity of world class, low cost mines across a range of commodities.	10,672	3.6
4. RIT Capital Partners One of the best performing international trusts with a substantial unlisted portfolio which continues to produce outstanding results. Estimated discount 15 per cent.	9,965	3.3
5. Finsbury Trust 'A' Non Voting* A consistently above average performer acquired on a wide discount as a 'match' against the loan stock. Estimated discount 14 per cent.	9,323	3.1
6. Caledonia Investments An investment holding company with a long term perspective selling on a material discount to the value of a range of quality assets.	9,199	3.1
7. German Investment Trust An investment trust investing in leading German companies. Estimated discount 12 per cent.	8,374	2.8
8. Boosey & Hawkes The company owns a portfolio of royalty interests covering the music of many 20th century composers and a musical instrument business with a leading position in brass and woodwind.	7,902	2.6
9. Christian Dior The company's most important asset is its 41.7 per cent holding in Louis Vuitton Moet Hennessy. In addition, the non-perfume branded interests of Christian Dior continue to make dynamic progress. Estimated discount 32 per cent.	6,774	2.3
10. The United Kingdom Fund* A closed end New York listed investment company in which we have accumulated a holding of 18.2 per cent on a wide discount to NAV as a 'match' against our loan stock. There is an annual vote on unitisation. Estimated discount 18 per cent.	6,306	2.0
Ten largest holdings	101,303	33.8

Estimated discounts are based on estimates of net asset value by leading stockbrokers.

* held to match the Company's Equity Index-Unsecured Loan Stock liability.

Company	Nature of Business	Valuation £'000	% of Total Assets
Quebecor 'B'	Holding Company	6,169	2.1
Baring Tribune Investment Trust*	Investment Trust	6,096	2.0
Scudder Latin American Investment Trust	Investment Trust	6,022	2.0
Abtrust Emerging Asia Investment Trust	Investment Trust	5,859	2.0
Asean Fund	Investment Company	5,575	1.9
Washington Post	US Media	5,112	1.7
Talisman Energy	Canadian Energy	4,912	1.6
Morrison Middlefield	Canadian Energy	4,872	1.6
Toho	Japanese Holding Company	4,845	1.6
Greenstone Resources	Gold Producer	4,409	1.5
Twenty Largest Investments		155,174	51.8
St James Place Capital	Life Assurance Company	4,330	1.4
French Property Trust (including warrants)	Investment Trust	3,924 20	1.3 0.0
Great Universal Stores	Mail Order & Retailing	3,846	1.3
Calenergy Company	Geothermal Energy	3,670	1.2
Nippon Assets	Investment Company	3,553	1.2
NatWest Irish Smaller Companies	Investment Trust	3,467	1.2
Southern Newspapers	Regional Newspapers	3,239	1.1
Fidelity Japan OTC	Investment Company	3,199	1.1
East European Development Fund	Investment Company	3,123	1.0
HSBC China Fund	Investment Company	2,490	0.8
Thirty Largest Investments		190,035	63.4
European Asset Value Fund	Open Ended Investment Co.	2,337	0.8
Edinburgh Japan Trust	Investment Trust	2,320	0.8
Benfield & Rea Investment Trust	Investment Trust	2,318	0.8
Baillie Gifford Japan Trust	Investment Trust	2,077	0.7
Fidelity Special Values Index Loan Stock*	Loan Stock 'Match'	2,030	0.7
CU Environmental Trust	Investment Trust	1,982	0.7
Invesco Korea Trust	Investment Trust	1,949	0.7
Kleinwort Development Fund	Investment Trust	1,924	0.6
Pilot Investment Trust*	Investment Trust	1,913	0.6
Taittinger (C.I.)	Holding Company	1,908	0.6
Forty Largest Investments		210,793	70.4
Korea International Investment Fund	Open Ended Investment Co.	1,648	0.6
Value Realisation Trust	Investment Trust	1,626	0.5
Biotechnology Investments Ptg. Pref.	Investment Company	1,410	0.5
Edinburgh Java Trust	Investment Trust	1,410	0.5
Bankside Underwriting Agencies	Lloyd's Insurance Company	1,327	0.4
Blakeney Investors	Open Ended Investment Co.	1,302	0.4
Danzas Holding Ptg. Certs.	Transport Company	1,295	0.4
New Century Holdings III L.P	Investment Partnership	1,154	0.4
Lazard Birla India Investment Trust	Investment Trust	1,131	0.4
First NIS Regional Fund	Investment Company	1,108	0.4
Fifty Largest Investments		224,204	74.9
Other Investments (21)		7,681	2.5
Freehold Investment Properties		12,650	4.2
Total Investments		244,535	81.6
Net Current Assets		55,001	18.4
Total Assets		299,536	100.0

Capital Structure
As at 30 September 1996

The Company's capital structure comprises Ordinary Shares and two tranches of Debenture Stock. The Company is also geared by Equities Index Unsecured Loan Stock ('EIULS') issued in October and November 1995.

Ordinary Shares

At 30 September 1996 there were 189,355,089 Ordinary Shares of 10p each in issue.

Income entitlement:

The profits of the Company (including accumulated revenue reserves) available for distribution and resolved to be distributed shall be distributed by way of interim or final dividends among the holders of Ordinary Shares, subject to the payment of interest to the holders of Debenture Stock and Loan Stock.

Capital entitlement:

After meeting the liabilities of the Company and the amounts due to Debenture and Loan Stockholders on a winding up, the surplus assets shall be paid to the holders of Ordinary Shares and distributed among such holders rateably according to the amounts paid up or credited as paid up on their shares.

Voting entitlement:

Each Ordinary Shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Share held.

Debenture Stock

At 30 September 1996 there were two tranches of Debenture Stock: £11,883,322 $10^3/_8$ per cent Debenture Stock 2011 and £15,000,000 Debenture Stock $8^1/_8$ per cent 2023.

Income entitlement:

The holders of Debenture Stock are entitled to interest paid half-yearly at the rate of $10^3/_8$ per cent and $8^1/_8$ per cent, respectively, per annum (subject to income tax).

Capital entitlement:

The Stockholders are entitled to repayment of principal and outstanding interest on the redemption date or, if earlier, on the occurrence of an event of default. The Debenture Stock is secured by a floating charge on all the assets of the Company.

Voting entitlement:

Holders of Debenture Stock have no right to vote at or to attend any general meeting of the Company.

Equities Index Unsecured Loan Stock ('EIULS')

At 30 September 1996 there were 20,130,104 units of EIULS in issue.

Investment characteristics:

Units of EIULS entitle the holders to an income return that matches that of the FTSE All-Share Index (the 'Index') and, at maturity, a capital return that also matches that of the Index. Neither return is fixed and each moves up or down with the United Kingdom stockmarket.

Income entitlement:

Holders of the EIULS receive interest paid quarterly. Interest is calculated by reference to the gross yield on the Index having regard to the movement in the ex-dividend adjustment factor during the relevant quarter. The gross interest paid in the year to 30 September 1996 amounted to £87.27 per 1,000 units, equivalent to a yield of 4.49 per cent.

Capital entitlement:

The Company shall redeem the whole of the EIULS on the tenth Stock Exchange dealing day after 31 March 2013, barring any circumstances which may lead to an earlier redemption, at its capital value. The capital value means, in respect of one unit of EIULS, the higher of 10 per cent of its nominal amount (£1.74338) and the Index number at the date of calculation divided by 1,000 expressed in pounds and rounded up to five decimal places.

The capital value of the EIULS as at 30 September 1996 amounted to £1.94500 per unit.

Voting entitlement:

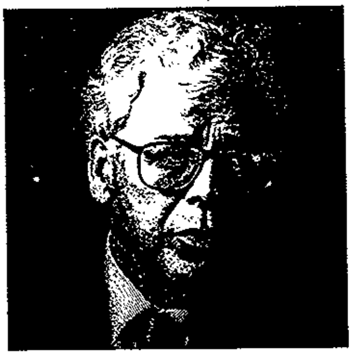
The holders of EIULS have no rights to vote at or to attend general meetings of the Company.

Board of Directors
at 30 September 1996

Sir David Kinloch
(age 54) joined the Board in 1991. He is Deputy Chief Executive of Caledonia Investments plc. He is also Chairman of The Fleming Chinese Investment Trust PLC and Ivory & Sime plc and a director of Sterling Industries PLC.

Clive Mace Gilchrist
(age 46) has been a Director for 12 years. He is Managing Director of BES Trustees plc. He is a director of a number of companies including Aberdeen Trust plc and Towry Law plc and recently retired as a Vice President of the National Association of Pension Funds.

William Gawne Fossick
(Chairman)
(age 55) has been a Director for 28 years and Chairman since 1988. He is a Consultant with Watson, Farley & Williams, solicitors to the Company. He is also chairman of Farlake Group plc and a director of BES Trustees plc and French Property Trust plc.



Sir Charles Fraser
(age 68) joined the Board on 26 October 1995. He is Chairman of Fidelity European Values plc and is on the Boards of several companies including British Assets Trust plc and Scottish Television plc.

John Cannell Walton
(age 50) has worked in investment management for 28 years and has been a Director of the Company for 12 years. He is Managing Director of Ivory & Sime Asset Management Limited, a subsidiary of Ivory & Sime plc, the Company's Investment Manager, and is also a director of French Property Trust plc.

Iain Gordon Tweeddale
(age 50) has been a Director for 12 years. He is a General Manager of Pearl Assurance plc and was formerly Managing Director of Laurentian Life plc.

Iain Samuel Robertson
(age 50) joined the Board on 26 October 1995. He is a director of The Royal Bank of Scotland Group plc and Managing Director of Corporate and Institutional Banking.

Results and Dividends

The gross income of the Group for the year amounted to £10,445,000. After expenses, interest, taxation and minority interests, there remains a balance of £2,530,000 which the Directors have appropriated as follows.

	Company £'000	Group £'000
Revenue available for dividends	2,637	2,530
Interim dividend of 0.25p per ordinary share paid on 13 June 1996	473	473
Recommended final dividend of 0.78p per share to be paid on 6 January 1997 to shareholders on the register on 10 December 1996	1,477	1,477
Transferred to revenue reserve	687	580

Principal Activity and Status

The Company is an Investment Company as defined in Section 266 of the Companies Act 1985 and qualifies as an Investment Trust within the meaning of the Income and Corporation Taxes Act 1988. Inland Revenue approval for such treatment has been given up to 30 September 1995. Since that date, the Company's affairs have been conducted in such a manner as to enable it to continue to seek such approval.

During the year the Company acquired the share capital of Selective Assets Trust plc. Full details are given below.

A review of the Group's business during the year, including the capital reorganisation, is contained in the Chairman's Statement and the Managers' Review.

Subsidiary Companies

The Company owns two investment dealing subsidiaries, BEST Securities Limited and Number One Securities Limited, and has a controlling interest in BES Trustees plc, a company established to provide independent professional trustee services to pension funds. In the year to 30 September 1996, BEST Securities Limited made a loss before taxation of £26,000 (1995 – £10,000) and Number One Securities Limited made a profit before taxation of £241,000 (nine months to 30 September 1995 – £274,000). BES Trustees plc made a profit of £15,000 (1995 – £17,000). During the year, through its subsidiaries, Kensington High Street Properties Limited and St Andrew's Park, Norwich Limited, the Group received rental income which, in aggregate, amounted to £1,065,000.

Directors

The present members of the Board are listed on page 16.

Messrs C M Gilchrist and I G Tweeddale retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

The interests of the Directors and their families in the securities of the Company as at 30 September 1996 are set out below:

	Ordinary Shares 30/9/96	Ordinary Shares 1/10/95	Warrants 1/10/95	Equities Index Unsecured Loans Stock 30/9/96	Equities Index Unsecured Loans Stock 1/10/95
W G Fossick	**110,000**	100,000	10,000	–	–
	***50,000**	*50,000	*5,000	–	–
Sir Charles Fraser	**50,422**	–	–	**23,528**	
	***3,940**	–	–	***1,835**	
C M Gilchrist	**22,000**	20,000	2,000	–	–
Sir David Kinloch	–	–	–	–	–
I S Robertson	–	–	–	–	–
I G Tweeddale	**5,500**	5,000	500	–	–
J C Walton	****191,941**	**155,183	13,502	–	–

*Held as trustee (non-beneficial)
**Mr J C Walton's holding includes 70,000 Ordinary Shares held for his benefit in the Clan Asset Management Pension Scheme.

In addition to the above Directors, R H A Wain (deceased) held 5,000 Ordinary Shares and 500 Warrants at 30 September 1995, and R P Laurie (resigned 26 October 1995) held 150,000 Ordinary Shares and 15,000 Warrants at 30 September 1995.

At the date of his appointment to the Board on 26 October 1995, Sir Charles Fraser had a beneficial interest in 50,422 Ordinary Shares and 23,528 units of Equities Index Unsecured Loan Stock 2013 of the Company and a non-beneficial interest, as trustee, in 3,940 Ordinary Shares and 1,835 units of Equities Index Unsecured Loan Stock 2013 of the Company following his acceptance of the Company's offer for his share and loan stock interests in Selective Assets Trust plc.

Mr I S Robertson did not have a beneficial interest in the securities of the Company at the date of his appointment on 26 October 1995.

Sir David Kinloch is Deputy Chief Executive of Caledonia Investments plc which owns 100 per cent of Caledonia Investment Trusts Limited which company owns 16.82 per cent of the Ordinary Shares of the Company. Another wholly owned subsidiary of Caledonia Investments plc, Caledonia Financial Limited, owns 29.11 per cent of Ivory & Sime plc, the parent undertaking of the Investment Manager. Sir David Kinloch is Chairman of Ivory & Sime plc.

Mr W G Fossick is a consultant with Watson, Farley & Williams who act as the Company's solicitors. The firm was paid fees of £94,000 during the year. Mr C M Gilchrist is Managing Director of BES Trustees plc with a service contract terminable by either party giving to the other not less than one year's prior written notice of termination. In addition, Mr C M Gilchrist holds a 14.3 per cent interest in the share capital of this subsidiary.

Mr J C Walton is Managing Director of Ivory & Sime Asset Management Limited with a service contract for a term of two years commencing on 31 July 1995 and thereafter subject to twelve months' written notice of termination given by either party. He holds 75,000 ordinary share options in Ivory & Sime plc.

Save as aforesaid, no Director was a party to or had an interest in any contract or arrangement with the Company. There has been no change in the holdings of the Directors between 30 September 1996 and 13 November 1996, apart from Mr J C Walton's regular contribution of £100 per month to the Clan Investment Trust Savings Scheme for the purchase of Ordinary Shares in the Company.

Directors' Authority to Issue Shares

The Directors are seeking a limited authority to allot Shares. This authority will be limited to issues of new Shares up to an aggregate nominal amount of £946,775, being 5 per cent of the total capital in issue on 13 November 1996.

The Resolution is set out in the Notice of Annual General Meeting on page 39.

Substantial Interests in Share Capital

Following the Company's offer for Selective Assets Trust plc, the issued share capital as at 13 November 1996 had increased to 189,355,089 Ordinary Shares.

At 13 November 1996 the following holdings representing more than 3 per cent of the Company's issued share capital had been reported:

	Number of Shares Held	Percentage Held
Caledonia Investment Trusts Limited*	31,856,530	16.82
Equitable Life Assurance Society	27,318,815	14.43
Compagnie UAP	24,614,091	13.00
London & Manchester Portfolio Management	11,800,000	6.23
Yale University	9,589,099	5.06

*The Cayzer Trust Company Limited is deemed to be interested in a total of 35,552,780 Ordinary Shares (representing 18.78 per cent of issued Ordinary Share capital), including the above interest of Caledonia Investment Trusts Limited, in consequence of its interest in Caledonia Investments plc.

Management and Management Fees

Ivory & Sime Asset Management Limited acts as Investment Manager under the terms of an agreement dated 21 June 1991. Its remuneration is performance related and is measured by the increase or decrease in the net asset value per Ordinary Share of the Company compared with the increase or decrease in the net asset index of investment trusts as published by Datastream International Limited. The resultant figure of such calculation determines the percentage rate (which ranges from 0.4 per cent to 0.8 per cent) which in a normal year is applied to the value of net assets of the Group attributable to the Shareholders plus long-term loan capital as shown by the audited Consolidated Balance Sheet of the Company as at the accounting reference date immediately preceding the period of management, but excluding the value of the Company's investment in funds managed by Ivory & Sime. During the current year the percentage rate was based on the combined assets of the Company and Selective Assets Trust plc on 6 October 1996, the formula asset value date for the acquisition. Performance was also measured over the period from this date to the year end. The agreement will continue in force unless terminated by either party giving not less than two years' prior written notice of termination to the other party.

Acquisition of Selective Assets Trust plc

On 1 September 1995 the Boards of the Company and of Selective Assets Trust plc announced recommended offers by SBC Warburg, on behalf of the Company, for all the ordinary shares and loan stock of Selective Assets Trust plc. The terms of the offers were as follows:

(a) For each ordinary share of Selective such number of new British Empire Ordinary Shares as had a value, at the British Empire formula asset value, equal to 96 per cent of the Selective formula asset value in respect of each Selective share. The respective formula asset values of such shares were calculated as of 6 October 1995.

(b) For each unit of loan stock in Selective a unit of British Empire loan stock with a nominal value equal to the nominal value of a unit of loan stock of Selective Assets Trust plc as at the close of business on 6 October 1995. The initial capital value of the loan stock issued was £35,207,000. The terms of the new British Empire loan stock were the same in all material respects as those of the Selective loan stock. The new British Empire loan stock is redeemable on 31 March 2013.

The offers were declared wholly unconditional on 13 October 1995.

As a result of the offer for the Selective ordinary shares, the Company issued an aggregate of 45,451,489 Ordinary Shares of 10p each to the shareholders of Selective Assets Trust plc and 20,130,104 units of Equities Index Unsecured loan stock to the holders of Selective loan stock.

The fair value of the acquisition was as laid out below:

	£'000
Net assets acquired:	
Investments	75,954
Net current assets	8,936
Long term loan	(37,025)
	47,865
Discount	(1,914)
	45,951
Satisfied by:	
Issue of Ordinary Shares	45,951

The 4 per cent discount involved in the acquisition of Selective Assets Trust plc has been offset against the cost of the investment on disposal and is dealt with in the capital reserves.

Corporate Governance

The Board consists of non-executive Directors the majority of whom are independent of the Company's Managers. Arrangements to ensure the appropriate level of corporate governance have been put in place by the Board which it believes are appropriate to an investment trust and will enable the Company to operate within the spirit of the Cadbury Committee's Code of Best Practice ('the Code').

The Audit Committee operates within clearly defined terms of reference and comprises three non-executive Directors: Mr W G Fossick (Chairman), Mr I G Tweeddale and Mr I S Robertson. The Audit Committee provides a forum through which the Group's external Auditors are required to report to the Board of Directors.

The Management Engagement Committee comprises three non-executive Directors independent of the Investment Manager: Mr W G Fossick (Chairman), Mr C M Gilchrist and Mr I G Tweeddale. It is responsible for reviewing the terms of the Investment Manager's contract.

The Nomination Committee comprises the full Board and will be convened for the purpose of considering the appointment of additional Directors as and when considered appropriate.

A management agreement between the Company and its Managers, Ivory & Sime Asset Management Limited, sets out the matters over which the Managers have authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors. The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights.

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 Board considers that, in view of its non-executive nature, it is not appropriate for the Directors to be appointed for a specified term as recommended by the Code. The Articles of Association require that all Directors retire by rotation at Annual General Meetings.

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company and the Group have 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.

The Directors are responsible for the Company's system of internal financial control. Day to day operations are delegated, through a management agreement, to Ivory & Sime Asset Management Limited which has established and disseminated clearly defined policies and standards. The system of internal financial control, which includes procedures such as physical controls, segregation of duties, authorisation limits and comprehensive financial reporting to the Board, is designed to provide reasonable but not absolute assurance against material misstatement or loss. In accordance with the Cadbury Committee's recommendations the Directors have reviewed with the Investment Managers the effectiveness of the system of internal financial control in operation throughout the year.

The Company's auditors, Ernst & Young, have reviewed this statement in so far as it relates to the paragraphs of the Code specified for their review and their report is contained on page 37.

Auditors

Ernst & Young 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.

By Order of the Board,
Ivory & Sime plc
Secretary

14th Floor
One Angel Court
London EC2R 7HJ
13 November 1996

Statement of Total Return

(Incorporating the Revenue Account*) of the Group for the Year ended 30 September 1996

	Notes	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000	1995 Revenue £'000	1995 Capital £'000	1995 Total £'000
Gains/losses on investments	9	–	43,433	43,433	–	758	758
Realised exchange differences		–	128	128	–	(74)	(74)
Appreciation of loan stock		–	(3,946)	(3,946)	–	–	–
Amortisation of debenture issue expenses		–	(7)	(7)	–	(7)	(7)
Cost of warrant buy back		–	(971)	(971)	–	–	–
Income	2	10,445	9	10,454	6,048	–	6,048
Investment management fee		(2,252)	–	(2,252)	(941)	–	(941)
Other expenses net of VAT recovered	3	(560)	–	(560)	(499)	–	(499)
Net return before finance costs and taxation		7,633	38,646	46,279	4,608	677	5,285
Interest payable	5	(4,646)	–	(4,646)	(2,469)	–	(2,469)
Return on ordinary activities before tax		2,987	38,646	41,633	2,139	677	2,816
Tax on ordinary activities	6	(454)	–	(454)	(357)	–	(357)
Return attributable to equity shareholders		2,533	38,646	41,179	1,782	677	2,459
Minority interests		(3)	–	(3)	(3)	–	(3)
Dividends in respect of equity shares	7	(1,950)	–	(1,950)	(1,335)	–	(1,335)
Transfer to reserves	17	580	38,646	39,226	444	677	1,121
Return per ordinary 25p share:							
Basic	8	1.37p	20.98p	22.35p	1.33p	0.51p	1.84p

* The revenue column of this statement is the profit and loss account of the Group.
The accompanying notes are an integral part of this statement.
The revenue column includes the results of Selective Assets Trust plc from its acquisition on 13 October 1995 until its liquidation on 22 December 1995, and those of Number One Securities Limited from its acquisition on 13 October 1995.

Balance Sheet
As at 30 September 1996

	Notes	Company 1996 £'000	Company 1995 £'000	Group 1996 £'000	Group 1995 £'000
Fixed assets					
Investments – Securities	9	253,038	176,047	231,885	155,552
– Property	9	–	–	12,650	13,700
		253,038	176,047	244,535	169,252
Current assets/(liabilities)					
Investments held by dealing subsidiary undertakings	12	–	–	420	94
Debtors	13	9,075	3,211	8,499	3,352
Cash at bank and on deposit		47,316	338	51,093	3,207
		56,391	3,549	60,012	6,653
Creditors: amounts falling due within one year	14	(12,056)	(13,918)	(5,011)	(7,013)
Net current assets/(liabilities)		44,335	(10,369)	55,001	(360)
Total assets less current liabilities		297,373	165,678	299,536	168,892
Creditors: amounts falling due after more than one year	15	(65,844)	(26,684)	(65,844)	(26,684)
Provision for liabilities and charges	15	–	–	(69)	(1)
		231,529	138,994	233,623	142,207
Minority interests		–	–	(12)	(9)
		231,529	138,994	233,611	142,198
Capital and reserves					
Called-up share capital					
Ordinary shares	16	18,935	13,351	18,935	13,351
Reserves					
Share premium	17	28,078	22,881	28,078	22,881
Capital reserve – realised	17	111,250	89,232	111,574	89,521
– unrealised	17	30,092	12,449	30,396	13,803
Merger reserve	17	41,406	–	41,406	–
Revenue reserve	17	1,768	1,081	3,222	2,642
Equity shareholders' funds	18	231,529	138,994	233,611	142,198
Net asset value per share:	18				
Ordinary					
– Basic		122.27	104.11	123.38	106.51
– Fully diluted		n/a	100.25	n/a	102.44

The financial statements on pages 22 to 35 were approved by the Board of Directors on 13 November 1996 and were signed on its behalf by:

William Fossick

W G Fossick (Chairman)

J C Walton

J C Walton (Director)

The accompanying notes are an integral part of this balance sheet.

Consolidated Statement of Cash Flows

For the Year Ended 30 September 1996

	Notes	1996 £'000	1996 £'000	1995 £'000
Net cash inflow from operating activities	19		5,932	3,396
Returns on investments and servicing of finance				
Interest paid		(4,140)		(1,857)
Dividends paid		(1,474)		(1,278)
Net cash outflow from returns on investments and servicing of finance			(5,614)	(3,135)
Total tax (paid)/recovered			(365)	269
Investing activities				
Purchase of investments		(132,265)		(108,447)
Sale of investments		154,690		104,396
Net proceeds from liquidation of subsidiary undertaking		21,631		–
Net cash inflow/(outflow) from investing activities			44,056	(4,051)
Net cash inflow/(outflow) before financing			44,009	(3,521)
Financing				–
Proceeds from subscription for shares in a subsidiary by minority		–		5
Warrants exercised	20	6,236		282
Net cash inflow from financing			6,236	287
Increase/(Decrease) in cash and cash equivalents	21		50,245	(3,234)

The purchase and sale of investment figures above are net of the non-cash transactions resulting from the acquisition and subsequent liquidation of Selective Assets Trust plc.

The accompanying notes are an integral part of this statement.

1. Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of fixed asset investments and investment properties. The presentational aspects of the Statement of Recommended Practice recently published by the Association of Investment Trust Companies have been adopted. As explained in the Chairman's Statement, the Group is , as permitted, waiting until its next accounting period before adopting the "SORP" in its entirety.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings for the financial year ended 30 September 1996. Selective Assets Trust plc and its subsidiary have been included in the accounts using the acquisition method of accounting. Accordingly the Group Statement of Total Return and Cash Flow Statement include the results and cash flows of Selective Assets Trust plc from its acquisition on 13 October 1995 to its liquidation on 22 December 1995, and of Number One Securities Limited from 13 October 1995 until the year end. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985.

Investment income

Dividend income is recognised in the Revenue Account when declared "ex-dividend" together with the related tax credit or avoir fiscal as appropriate. Income from fixed interest securities is dealt with on an accruals basis. Enhanced scrip dividend income is accounted for by recognising the "cash" element in the Revenue Account and the "bonus" element in the Capital Reserve Account.

Investments

UK listed investments have been valued at middle-market quotations ruling at the close of business on 30 September 1996 and foreign listed investments have been valued at market prices and exchange rates at the same date. Unlisted investments have been included at Directors' valuation. Any profits or losses arising from the disposal of investments are taken directly to capital reserves. Investments held by the dealing subsidiary undertakings are stated at the lower of cost and market value.

Investment properties

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to capital reserves. No depreciation is provided in respect of freehold investment properties. The Directors consider that this accounting policy results in the financial statements giving a true and fair view. Depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of settlement of the transaction. Foreign currency balances including investments denominated in foreign currencies are translated into sterling at the rate of exchange prevailing at the year end. Profits or losses on retranslation of investments at the year end are included within unrealised appreciation/depreciation of investments and are taken to capital reserves. All other profits and losses are dealt with through the Revenue Account.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements, to the extent that it is probable that a liability or asset will crystallise in the future.

Capital reserves

Capital Reserve – Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies

Capital Reserve – Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year-end
- unrealised exchange differences of a capital nature

Index Stock

The Index Stock is valued at the capital value determined by reference to the level of the FTSE All-Share Index at the close of business on the relevant date. Any difference between the nominal value and capital value is reflected through net unrealised (depreciation)/appreciation.

2. Income

	1996 £'000	1995 £'000
Income from investments		
Listed investments	6,164	3,915
Unlisted investments	1,305	269
	7,469	4,184
Other income		
Deposit interest	1,447	619
Profit/(Loss) from dealing activities of subsidiaries	193	(44)
Trustee and associated fee income	224	218
Rental income	1,065	1,069
Underwriting commission	30	–
Other income	17	2
	2,976	1,864
Total income	10,445	6,048
Total income comprises:		
Dividends	6,596	4,184
Interest	2,320	619
Other income	1,529	1,245
	10,445	6,048
Income from investments:		
Equity securities	6,596	4,184
Securities with an equity element	49	–
Fixed interest securities	824	–
	7,469	4,184

3. Other Expenses

	1996 £'000	1995 £'000
Directors' emoluments (Note 4) – fees	63	63
– executive duties	100	85
Auditors' remuneration for:		
– audit	24	19
– other services to the Group	15	8
Other including VAT reclaimed	358	324
	560	499

In addition to these expenses, £1,102,000 of expenses associated with the acquisition of Selective Assets Trust plc were charged to capital. £8,000 of these were in respect of work done by the Company's auditors.

4. Directors' Fees

Mr C M Gilchrist received emoluments from BES Trustees plc which during the year (including pension contributions) amounted to £99,605 (1995: £85,324) and were paid in respect of executive duties performed on behalf of the subsidiary undertaking.

Mr J C Walton receives emoluments from Ivory & Sime Asset Management Limited for his services to that company. The proportion of his emoluments from Ivory & Sime which relate to the management of the affairs of the Company and its subsidiary undertakings amounted to approximately £82,000 (1995: £70,000) and together with the £63,000 (1995: £63,000) paid directly by the Company to its Directors have been taken into account in providing the following disclosure.

Directors' emoluments (including all subsidiary undertakings and benefits-in-kind but excluding pension contributions) fell within the following ranges:

	1996 £	1995 £
Chairman	15,000	15,000
Highest paid Director	98,970	85,689

	1996 (Number)	1995 (Number)
£5,001–£10,000	4	4
£10,001–£15,000	1	1
£75,001–£80,000	–	1
£80,001–£85,000	1	–
£85,001–£90,000	–	1
£95,001–£100,000	1	–

5. Interest Payable

	1996 £'000	1995 £'000
Bank overdraft interest	153	18
On other loans	4,493	2,451
	4,646	2,469

6. Tax on Ordinary Activities

	1996 £'000	1995 £'000
Tax on franked investment income	760	441
Overseas taxation	295	109
Section 242 claim	(670)	(192)
Deferred taxation	69	(1)
	454	357

7. Dividends

	1996 £'000	1995 £'000
Dividends on equity shares:		
– ordinary – interim 0.25p (1995: 0.25p)	473	334
– ordinary – second interim 0.00p (1995: 0.75p)	–	1,001
– ordinary – final 0.78p (1995: 0.00p)	1,477	–
	1,950	1,335

8. Return per Ordinary Share

	1996 Revenue	1996 Capital	1996 Total	1995 Revenue	1995 Capital	1995 Total
Basic	1.37p	20.98p	22.35p	1.33p	0.51p	1.84p

Basic revenue return per ordinary share is based on Group revenue after taxation and minority interests of £2,530,000 (1995: £1,779,000), and on 184,247,332 (1995: 133,350,102) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Basic capital return per ordinary share is based on net capital gains for the financial year of £38,646,000 (1995: £677,000) and on 184,247,332 (1995: 133,350,102) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

9. Investments

(a) Securities

	Listed Investments £'000	Unlisted investments £'000	Group Total Investments £'000	Subsidiaries £'000	Company Total Investments £'000
Opening book cost	142,294	809	143,103	20,495	163,598
Opening unrealised appreciation	12,006	443	12,449	–	12,449
Opening valuation	154,300	1,252	155,552	20,495	176,047
Movements in the year:					
Purchases at cost	189,366	4,653	194,019	81,816	275,835
Sales – proceeds	(159,382)	(398)	(159,780)	(81,158)	(240,938)
– realised gains on sales	20,257	248	20,505	–	20,505
Increase in unrealised appreciation	20,843	746	21,589	–	21,589
Closing valuation	225,384	6,501	231,885	21,153	253,038
Closing book cost	192,535	5,312	197,847	21,153	219,000
Closing unrealised appreciation	32,849	1,189	34,038	–	34,038
	225,384	6,501	231,885	21,153	253,038

(b) Property

	Group Investment Property £'000
Opening book cost	12,346
Opening unrealised appreciation	1,354
Opening valuation	13,700
Decrease in unrealised appreciation	(1,050)
Closing valuation	12,650

(c) Gains/(Losses) on investments

	1996 Group £'000	1995 Group £'000
Realised gains on sales	20,505	657
Net gain on liquidation of Selective Assets Trust plc	2,389	–
Increase/(decrease) in unrealised appreciation – Securities	21,589	151
– Property	(1,050)	(50)
	43,433	758

10. Subsidiary undertakings

Name of undertaking	Principal Activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issue shares and voting rights held by: Company (%)	Group (%)
BEST Group Finance Limited	Group Finance	England	Ordinary	100	100
St Andrew's Park, Norwich Limited	Property Investment	England	Ordinary	100	100
Kensington High Street Properties Limited	Property Investment	England	Ordinary	100	100
BEST Securities Limited	Dealing Subsidiary	England	Ordinary	100	100
Number One Securities Limited	Dealing Subsidiary	Scotland	Ordinary	100	100
BES Trustees plc	Trustee Services	England	Ordinary	81	81
BEST Futures Limited	Dormant	England	Ordinary	100	100
BEST Number One Limited	Dormant	England	Ordinary	100	100
BEST Number Two Limited	Dormant	England	Ordinary	100	100
BEST Number Three Limited	Dormant	England	Ordinary	100	100

Number One Securities Limited was a 100 per cent owned subsidiary of Selective Assets Trust plc (see Report of the Directors) until that company entered into Members' Voluntary Liquidation on 22 December 1995, when it became directly owned by British Empire Securities and General Trust p.l.c.

11. Significant interests

Details of investments in which the Company or Group has an investment of 10 per cent or more of the nominal value of the allotted shares of any class, or the net assets, are as follows:

Name of undertaking	Country of incorporation and operation	Description of shares held	Proportion of class held Company and Group (%)
Abtrust Emerging Asia Investment Trust PLC	Guernsey	Ordinary $0.01	19.9
Caffyns PLC	UK	Ordinary 50p	10.6
The European Asset Value Fund	Luxembourg	Ordinary	17.9
CU Environmental Trust PLC	UK	Ordinary 25p	10.2
Edinburgh Java Trust PLC	UK	Ordinary 25p	15.5
Fidelity Japan OTC & Regional Markets Fund	Cayman Is	Ordinary $0.01	10.6
Fidelity Special Values Units 2004	UK	Equity I/L ULS	18.8
Finsbury Trust PLC	UK	'A' N/V Ordinary 5p	29.1
French Property Trust PLC	UK	Ordinary 25p	19.9
The German Investment Trust PLC	UK	Ordinary 10p	19.6
NatWest Irish Smaller Companies Investment Trust PLC	UK	Ordinary 25p	14.8
Nippon Assets Investments SA	Luxembourg	Ordinary NPV	26.4
Scudder Latin America Investment Trust PLC	UK	Ordinary 25p	14.4
Taittinger SA	France	Cl (N/V) F150	21.5
The United Kingdom Fund	US	Common $0.01	18.2

12. Investments held by dealing subsidiary undertakings

	Group	
	1996 £'000	1995 £'000
Listed	420	94

The aggregate market value of the above investments was £420,000 (1995: £94,000).

13. Debtors

	Company		Group	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Amounts due from brokers	6,466	1,376	6,563	1,420
Dividends receivable from subsidiary undertakings	815	–	–	–
Tax recoverable	1,122	380	1,176	388
Prepayments and accrued income	528	218	543	225
Other debtors	144	1,237	217	1,319
	9,075	3,211	8,499	3,352

14. Creditors: amounts falling due within one year

	Company		Group	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Amounts due to brokers	816	1,258	816	1,280
Bank overdraft	–	2,359	–	2,359
Tax payable	43	–	43	2
Dividend	1,477	1,001	1,477	1,001
Amounts owed to subsidiary undertakings	7,036	7,036	–	–
Other creditors	2,684	2,264	2,675	2,371
	12,056	13,918	5,011	7,013

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

	Company		Group	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
$10\frac{3}{8}$ per cent Debenture Stock 2011	11,883	11,883	11,883	11,883
$8\frac{1}{8}$ per cent Debenture Stock 2023	14,808	14,801	14,808	14,801
Equities Index Unsecured Loan Stock 2013	39,153	–	39,153	–
	65,844	26,684	65,844	26,684

The movement on the $8\frac{1}{8}$ per cent Debenture Stock 2023 represents the amortisation of issue expenses.

The Equities Index Unsecured Loan Stock 2013 was issued in respect of the acquisition of Selective Assets Trust plc (see Report of the Directors): the 20,130,104 units issued had a value of £35,207,000 on issue.

Provision for liabilities and charges

The amounts of deferred taxation provided in the financial statements are set out below:

	1996 £'000	1995 £'000
Provided		
Short-term timing differences	–	1
In respect of the possible disposal of investment property	69	–
	69	1
The movement in the provision for deferred taxation is as follows:		
Balance at 1 October 1995	1	2
Transfer to Revenue Account	68	(1)
Balance at 30 September 1996	69	1
Unprovided		
Short-term timing differences	345	517

The amount of deferred taxation unprovided is in respect of the liability that would arise on the disposal of investment property. As at 30 September 1996 there was no intention on the part of the Company to dispose of this asset within the foreseeable future and therefore no provision in the Accounts has been made.

16. Called-up share capital

	1996 Shares	1996 £'000
Ordinary shares of 10p each:		
Authorised	245,000,000	24,500
Allotted, called-up and fully paid:		
Balance at 30 September 1995	133,508,723	13,351
Issued to Selective Assets Trust plc shareholders on 13 October 1995	45,451,489	4,545
Issued in respect of warrants exercised on 31 January 1996	10,394,877	1,039
Balance at 30 September 1996	189,355,089	18,935

During January 1996 the Company purchased 2,400,000 warrants for cancellation in the market.

During the year 10,394,877 ordinary shares were issued for a consideration of £6,236,926 on the exercising of 10,394,877 warrants. No warrants remain in issue.

17. Reserves

	Merger reserve £'000	Share premium account £'000	Capital reserve–realised £'000	Capital reserve–unrealised £'000	Revenue reserve £'000
Group					
At 30 September 1995		22,881	89,521	13,803	2,642
Share premium resulting from exercise of warrants		5,197			
Share premium arising on acquisition of Selective Assets Trust plc	41,406				
Exchange differences			128		
Net gain on realisation of investments			20,505		
Net gain on liquidation of Selective Assets Trust plc			2,389		
Premium paid on purchase of Warrants			(971)		
Amortisation of debenture issue expenses			(7)		
Enhanced scrip dividends			9		
Increase in unrealised appreciation of investments				21,589	
Decrease in unrealised appreciation of freehold property investments				(1,050)	
Appreciation on Equities Index Unsecured Loan Stock 2013				(3,946)	
Retained net revenue for the year					580
At 30 September 1996	41,406	28,078	111,574	30,396	3,222

	Merger reserve £'000	Share premium account £'000	Capital reserve–realised £'000	Capital reserve–unrealised £'000	Revenue reserve £'000
Company					
At 30 September 1995		22,881	89,232	12,449	1,081
Share premium resulting from exercise of warrants		5,197			
Share premium arising on acquisition of Selective Assets Trust plc	41,406				
Exchange differences			128		
Net gain on realisation of investments			20,505		
Net gain on liquidation of Selective Assets Trust plc			2,354		
Premium paid on purchase of Warrants			(971)		
Amortisation of debenture issue expenses			(7)		
Enhanced scrip dividends			9		
Increase in unrealised appreciation				21,589	
Appreciation on Equities Index Unsecured Loan Stock 2013				(3,946)	
Retained net revenue for the year					687
At 30 September 1996	41,406	28,078	111,250	30,092	1,768

18. 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 are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Net asset value per share attributable (Company)		Net asset value per share attributable (Group)	
	1996 p	1995 p	1996 p	1995 p
Ordinary shares (basic)	122.27	104.11	123.38	106.51
Ordinary shares (diluted)	n/a	100.25	n/a	102.44

	Net asset values attributable (Company)		Net asset values attributable (Group)	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Ordinary shares (basic)	231,529	138,994	233,611	142,198

There is no fully-diluted net asset value at 30 September 1996, all outstanding warrants having been exercised during the year.

The movements during the year of the assets attributable to the ordinary shares were as follows:

	Ordinary shares (basic) £'000
Total net assets attributable at beginning of year	142,198
Total recognised gains/(losses) for the year	41,176
Dividends appropriated in the year	(1,950)
Proceeds resulting from exercise of warrants	6,236
Proceeds arising on acquisition of Selective Assets Trust plc	45,951
Total net assets attributable at end of year	233,611

Basic net asset value per ordinary share is based on net assets and on 189,355,089 (1995: 133,508,723) ordinary shares, being the number of ordinary shares in issue at the year end.

19. Reconciliation of operating profit to net cash inflow from operating activities

	Group 1996 £'000	Group 1995 £'000
Income before interest payable and taxation	7,633	4,608
(Increase)/decrease in stock of investments	(401)	62
(Decrease)/increase in creditors	(202)	692
(Increase)/decrease in investment income receivable	(239)	350
Decrease/(increase) in other debtors	1,023	(1,241)
Tax on franked investment income	(760)	(441)
Tax on unfranked investment income	(660)	(439)
Avoir fiscal	(462)	(195)
	5,932	3,396

20. Net cash inflow from warrants exercised

	1996 £'000	1995 £'000
Nominal value of share capital	1,039	47
Share premium	5,197	235
	6,236	282

21. Analysis of changes in cash and cash equivalents during the year

	Group 1996 £'000	Group 1995 £'000
Balance at 1 October 1995	848	4,082
Net cash inflow/(outflow)	50,245	(3,234)
Balance at 30 September 1996	51,093	848

22. Contingencies, guarantees and financial commitments

	1996 £'000	1995 £'000
Contingencies, guarantees and financial commitments of the Company, which have not been accrued, are as follows:		
Underwriting commitments	2,700	–
Commitments to partly paid shares	414	237
	3,114	237

The underwriting commitment at 30 September 1996 has now been extinguished. It resulted in the acquisition of £324,000 of securities.

Directors' Responsibility Statement and Report of the Auditors

Directors' Responsibility Statement

The Directors are required by law to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial period and of the revenue of the Company and of the Group for that period.

They are also responsible for ensuring that adequate accounting records are maintained and that the assets of the Company and the Group are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made in the preparation of the accounts. Applicable UK accounting standards have been followed.

Report of the Auditors to the members of British Empire and General Trust PLC

We have audited the accounts on pages 22 to 35 which have been prepared under the historical cost convention modified to include the revaluation of fixed asset investments and on the basis of the accounting policies set out on page 25.

Respective Responsibilities of Directors and Auditors

As described above the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 accounts are free from material mis-statement, 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 1996 and of the revenue of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

ERNST & YOUNG
Chartered Accountants
Registered Auditor
London
13 November 1996

Ernst & Young

In addition to our audit of the accounts we have reviewed the Directors' statements on pages 20 and 21 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to any non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board and assessed whether the Directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control and going concern on page 20, in our opinion the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for Directors) and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statements on page 20 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

ERNST & YOUNG
Chartered Accountants
London
13 November 1996

Dividends

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 the Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh on request. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered address.

Share Prices

The Company's Ordinary Shares are listed on the London Stock Exchange under 'Investment Trusts'. Prices are given daily in the *Financial Times, The Times, The Daily Telegraph, The Scotsman* and *The Evening Standard.*

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 the Bank of Scotland, Registrar Department, under the signature of the registered holder.

Daily Net Asset Value

The net asset value of the Company's shares can be obtained by contacting Ivory & Sime Customer Services on 0131-220 4239

AI TC ASSOCIATION OF INVESTMENT TRUST COMPANIES

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

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Seventh Annual General Meeting of British Empire Securities and General Trust p.l.c. will be held at Saddlers' Hall, Gutter Lane, Cheapside, London EC2V 6BR at 12 noon on Thursday, 12 December 1996 for the following purposes:

Ordinary Business

1. To receive and adopt the financial statements for the financial year ended 30 September 1996 together with the Reports of the Directors and Auditors thereon.

2. To approve the final dividend of 0.78 pence per Ordinary Share.

3. To re-elect Mr C M Gilchrist, a Director retiring by rotation under the Articles of Association.

4. To re-elect Mr I G Tweeddale, a Director retiring by rotation under the Articles of Association.

5. To re-appoint Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration.

Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution:

6. THAT the Directors be and they are hereby generally and unconditionally authorised and empowered pursuant to 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 of the Act) and empowered pursuant to Section 95 of the Act as if Section 89(1) of the Act did not apply to allot equity securities (as defined in Section 94 of the Act) for cash provided that this authority and power shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or 31 January 1998 and shall be limited to the allotment of any such securities having an aggregate nominal value not exceeding £946,775 (5 per cent of the equity share capital in issue on 13 November 1996) except that such authority and power shall enable the Company to make offers or agreements which would or might require any such securities to be allotted after the expiry of such period and the Directors may allot any such securities in pursuance of any such offer or agreement as if the authority had not expired.

By Order of the Board

Ivory & Sime plc
Secretary
1 Angel Court
London EC2R 7HJ
13 November 1996

Notes:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not also be a member of the Company.
2. A form of proxy is enclosed for use in connection with the business set out above. This form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or attorney, to reach the Registrars at the address printed on the form of proxy not later than 12 noon on 10 December 1996.
3. The register of Directors' interests in the Ordinary Shares of the Company will be available for inspection at the registered office of the Company during normal business hours (Saturdays excepted) from the date of this notice until the date of the Annual General Meeting and at Saddlers' Hall for fifteen minutes prior to and during the Meeting.
4. There are no service contracts between any of the Directors and the Company. A copy of the service contract between Mr C M Gilchrist and BES Trustees plc, a subsidiary of the Company, will be available for inspection at the registered office of the Company during normal business hours (Saturdays excepted) from the date of this notice until the date of the Annual General Meeting and at Saddlers' Hall for fifteen minutes prior to and during the Meeting.

Directors
William Gawne Fossick, (Chairman)
Sir Charles Annand Fraser
Clive Mace Gilchrist
Sir David Oliphant Kinloch Bt
Iain Samuel Robertson
Iain Gordon Tweeddale
John Cannell Walton

Registered Office
14th Floor
One Angel Court
London EC2R 7HJ

Investment Manager
Ivory & Sime Asset Management Limited
14th Floor
One Angel Court
London EC2R 7HJ

Registrars and Transfer Office
Bank of Scotland
Apex House
9 Haddington Place
Edinburgh EH7 4AL
Tel. No. 0131-442 7777

Corporate Advisers
Baring Brothers International Limited
60 London Wall
London EC2M 5TQ

Ivory & Sime Customer Services
One Charlotte Square
Edinburgh EH2 4DZ
Tel. No. 0131-220 4239

Secretary
Ivory & Sime plc
14th Floor
One Angel Court
London EC2R 7HJ

Auditors
Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

Bankers
Lloyds Bank Plc
City Office
72 Lombard Street
London EC3P 3BT

Solicitors
Watson, Farley & Williams
15 Appold Street
London EC2A 2HB

For further information contact Ivory & Sime Customer Services on 0131-220 4239

Designed by CGI · Typeset and printed by Pillans and Wilson Greenaway · Edinburgh London · 7724