Annual Report & Accounts 2002

BRITISH EMPIRE SECURITIES AND GENERAL TRUST p.l.c.

Asset Value Investors

GROWTH AT A DISCOUNT

The Company's investment objective is to achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

Contents

Company Summary

The Company	The Company is an investment trust and its shares are listed on the London Stock Exchange. It is a member of the Association of Investment Trust Companies. The Group's net asset value at 30 September 2002 was £277 million and the market capitalisation was £258 million.
Objective	The investment objective of the Company is to achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.
Investment Manager	Asset Value Investors Limited (Customer Services - 0500 00 0040)
Capital Structure	The Company currently has ordinary shares, debenture stock and equities index loan stock in issue. A full explanation of the capital structure is given on pages 21 and 22.
PEP/ISA Status	The Company's shares are eligible for ISAs and PEP transfers and can continue to be held in existing PEPs.
Website	The Company's internet website is : www.british-empire.co.uk

Financial Highlights

- **Net asset value outperforms MSCI World Index by 19 percentage points**
- **15 million shares bought back and cancelled**

Performance Summary

	30 September 2002	30 September 2001	% change
Capital Return			
Net asset value per Share	**173.30p**	186.18p	(6.92)
Share price (mid market)	**161.00p**	167.00p	(3.59)
Total assets less current liabilities	**£310.40m**	£361.70m	(14.18)
Indices			
Datastream Net Assets Index	**1,149.30**	1,388.58	(17.23)
Morgan Stanley Capital International World Index(£ adjusted)	**469.40**	630.08	(25.50)
Revenue and Dividends			
Income	**£10.24m**	£12.72m	(19.50)
Earnings per Share	**2.29p**	3.37p	(32.05)
Dividends per Share	**1.90p**	1.90p	0.00
Discount (difference between share price and net asset value)	**7.10%**	10.30%	-
Total Expense Ratio (as percentage of average shareholders' funds)			
Management, marketing and other expenses	**0.80%**	0.68%	-
Performance fee	**0.43%**	0.50%	-

2002 Year's Highs/Lows	High	Low
Net asset value per Share	**217.83p**	**173.17p**
Share Price (mid market)	**198.75p**	**161.00p**

Share Buy-backs

During the year the Company bought back 15,000,000 Ordinary Shares and 129,958 units of Equities Index Unsecured Loan Stock 2013 for cancellation for £27.31 million and £312,000 respectively, enhancing the net asset value per share by 0.7%.

Chairman's Statement

I am pleased to report a successful year in comparative performance terms although a less successful one in absolute terms. A satisfactory first six months of the period in which the net asset value increased by 11.8 per cent. was followed by the very difficult markets which have prevailed throughout the second half of the period.

In the circumstances, a fall in net asset value per share over the year of 7 per cent. as compared to a fall of 26 per cent. in the MSCI World Index can be regarded as a considerable achievement. Over three years our net asset value per share is up 9 per cent., while the MSCI World Index is down 37 per cent. over the same period. The Company is first out of 25 Global Growth Trusts over five years and first out of 29 Global Growth Trusts over three years (source: Cazenove/Datastream).

William Fossick
Chairman

Our revenue account has remained buoyant although at a slightly lower level than last year because of reduced liquidity. Accordingly your Board has decided to recommend a special dividend of 0.4p per share in addition to an increased final dividend of 1.1p per share. In aggregate, dividends for the year will total 1.9p per share, the same as last year. As I warned last year the special dividends recommended this year and last are the result of exceptional revenues earned in these years and are not to be regarded as dividends which will be paid regularly.

"A successful year in comparative performance terms"

Markets have mounted a vigorous rally in recent weeks but it is difficult to ascertain whether this is a technical situation or one in which investors are at last beginning to see value in stocks which have fallen substantially from previous highs. If the markets rally further, the Company may give up some of its exceptional outperformance but the Board believes that our policy of buying companies selling on wide discounts to asset values that have fallen sharply with the markets, continues to be appropriate. In many cases, yields are at attractive levels in the context of limited inflation and our managers feel that valuations, although not cheap, are at more realistic levels. However, it is difficult to believe that volatility in the markets will end until such time as the situation in Iraq has been resolved in one way or another.

In my statement of last year, I referred to the acquisition of our Investment Manager, Asset Value Investors Limited (AVI), by Aberdeen Asset Management plc. I emphasised that there was no change as far as this Company was concerned to the Manager, the investment strategy or in the terms our management contract and that remains the situation. I would like to re-emphasise that this remains the position and that AVI operates as an independant entity within the Aberdeen group.

During the year your Board has sought to address the rating of our shares through regular share buy-backs. We expressed an intention of buying back not less than an aggregate of 15 million shares over the period and this we did, buying back exactly that number. This has helped to maintain the discount on which our shares stand at around 8 per cent. and, at least in part, accounts for the fact that our share price fell by 3.6 per cent. compared with the fall of 7 per cent. in the attributable net asset value. While the Board sets no targets for the coming year, buy-backs will continue to be used to help maintain the Company's rating.

I also stated that we would be seeking to appoint additional independent directors to represent the interests of all the shareholders. The search has taken longer than anticipated but we have now been able to announce that Peter Allen, recently retired as the Finance Director of the Corporate Banking and Financial Markets division of the Royal Bank of Scotland, Rosamund Blomfield-Smith, a Director of Arbuthnot Latham, part of the Secure Trust Banking Group plc, and Strone Macpherson, formerly the Executive Deputy Chairman of Mysis plc will join the Board following the Annual General Meeting on 19th December. Further details of these appointments will be found on page 25. At the same time, Clive Gilchrist and I will step down from the Board and Iain Robertson will take over the Chairmanship.

It will be a sad moment for me when I leave the Board but I have decided that the time has come for me to depart. I do not share the belief of those ardent followers of corporate governance codes that, after a set number of years, a director ceases, by virtue of that fact, to be independent and to have no further useful contribution to make! However, after nearly 35 years on the Board, and 14 as Chairman, perhaps I should admit that I have enjoyed it all immensely and am very proud of what has been achieved over that period. The milestones are many and varied, but in 1967 when I joined the Board the Company was an eccentric, self-managed minnow with net assets of £1 million. In 1984 when John Walton was appointed to manage the Company, the assets had risen to £6 million and today net assets are over £275 million and we are one of the 300 largest companies by capitalisation on the London Stock Exchange. The transformation of the Company has, of course, been mainly due to the talent and hard work of John Walton but I think he would agree that he has been well supported by the Directors and has even had the odd helpful suggestion from them! I should also like to pay tribute to Clive Gilchrist. He has made a major contribution over the 18 years he has been on the Board. We have all appreciated his informed and cogent comments which have helped us and our Manager.

In retiring, Clive and I are leaving a Board which will have a majority of independent directors as defined by current standards and a Chairman of wide experience. As a substantial shareholder in the Company, I wish them well and hope and believe that the Company will continue to give its shareholders every reason to be satisfied with its performance.

In closing, I and the other Directors would like to thank John Walton, John Pennink and their team for another successful year and to congratulate them on British Empire being awarded *Money Observer* Best Global Trust, and named the winner of *Bloomberg Money* International Investment Trust and *Standard and Poor's* Global Growth Trust over both one year and three years besides the 3 and 5 year rankings referred to above.

As in previous years, the Directors would like to invite Shareholders to a buffet lunch following the Annual General Meeting. If you wish to attend, please complete the enclosed card and return it to the Company Secretary as soon as possible.

William Fossick
Chairman
21 November 2002

The Company's History

Right: The Certificate of Incorporation for the Company dated 1889.

1889

Company founded as The Transvaal Mortgage Loan and 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 Asset Value Investors Limited (formerly Laurwood Limited). 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.

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.

1999

Holding of 6.8% in Rue Impériale de Lyon was sold for £45.9 million, realising a profit of £25.6 million.

2000

Net asset value per Share rose 27% outperforming the MSCI Index by 7 percentage points.

2001

Company outperforms the MSCI World Index by 20 percentage points.

2002

Company outperforms the MSCI World Index by 19 percentage points.

Historical 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
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
1997	3,496	1.85	1.07	256,489	135.45
1998	3,542	1.87	1.11	220,352	116.37
1999	2,038	1.08	1.13	298,401	159.53
2000	3,882	2.15	1.30	356,337	202.11
2001	5,942	3.37	1.90*	325,970	186.18
2002	3,868	2.29	1.90*	277,419	173.30

On 6 October 1995 the Company's offer for Selective Assets Trust plc were declared unconditional. The consideration included the issue of 45,451,489 Ordinary Shares of the Company.

*Including a special dividend of 0.5p and 0.4p per Share in 2001 and 2002 respectively.

The Company's net asset value relative to the Morgan Stanley Capital International World Index (£ adjusted capital return)

Investment Manager

Asset Value Investors Limited

Asset Value Investors Limited ("AVI"), the Company's investment manager, specialises in quoted 'undervalued asset' securities. It is a wholly-owned subsidiary of Aberdeen Asset Management PLC. The company manages, in addition to British Empire Securities, The European Asset Value Fund (SICAV) and certain endowment funds. Funds under management have grown from £6 million in 1985 to about £500 million today.

John Pennink
John Pennink is a Chartered Financial Analyst (CFA) and an Executive Director of Asset Value Investors Limited. He has made a major contribution to the management of British Empire over the past three years and is now sole Manager.

AVI aims to deliver superior returns, while minimising risks, and specialises in securities that for a number of reasons may be selling on anomalous valuations.

Favoured investments:

- are not heavily promoted and therefore are not well known;
- sell on wide discounts to estimated asset value; and
- own quality assets that are expected to appreciate.

AVI has long experience in the undervalued assets arena, particularly in:

- the closed-end fund sector;
- property and hotels; and
- the European investment holding company sector.

Over the long term, each of AVI's funds has significantly outperformed their respective benchmark indices.

British Empire won several awards during 2002. The Company was also commended by the AITC for the quality of information in its 2001 Annual Report.

John Walton
John Walton managed the Company's portfolio for 18½ years and is Managing Director of Asset Value Investors Limited. He is also a Director of the Company.

Investment Manager's Review

During the year British Empire outperformed the MSCI World index by 19% and the FTSE All Share by 16%. In the language of 'relative' performance, it was an excellent year, our second best ever. However, private shareholders, for whom absolute returns are paramount, will be less happy. Following an initial period to May 2002, when our net asset value hit a new high, the last five months of the year were volatile and quite ugly. While in the earlier phase it was possible to identify sectors such as gold, where we were able to realise profits of 50% or so, the latter months of the financial year were characterised by massive falls in markets generally as confidence in the profits environment, not to mention the integrity of earnings statements, fell to a new low. Our own universe, not immune to falling stock prices, also saw underlying discounts widen. As a result NAV fell by 7% during the year while the MSCI World fell 26%.

Over 3 years net asset value was up 9% while the MSCI and the FTSE All-Share fell by 37% and 36% respectively. Since the rights issue in 1985 British Empire is first among conventional Global Growth trusts showing a total return percentage gain of 672% compared to an average of 393%, while the MSCI (£) rose 310%.

Our policy remains the same. In 1997 and 1998 we stuck to our (then) unfashionable philosophy during an uncomfortable 18 months of underperformance, finding very cheap stocks which subsequently passed on the way up the Ciscos and Vodafones on the way down. There was then good reason to take some excellent profits. We tried to preserve capital and the gains we had achieved over many years by moving to a heavily liquid position. At its peak, liquidity was nearly 50%. This went against the euphoria of the time and the dread historic experience that liquid trusts, if wrong-footed, are taken over. After an 18 year nirvana we tried to anticipate less pleasant days.

During the latter phases of the bull market the cry "it's far too expensive, but I have to own it" was heard repeatedly. Shrewd investors, who knew full well the fearful risks when markets are selling on 30 or 40 times earnings, were held to ransom by the tyranny of "business risk", the possible loss of a valuable account because the numbers looked wrong over the medium, or even possibly short term. The conformist tendencies within the industry, in which armies of people are employed to monitor the potential for risky *deviation* from an index, failed to spot that it was the *index* itself that was 'risky,' in the sense of the potential to lose a great deal of money.

GBL
Groupe Bruxelles Lambert owns 25.1% of Bertelsmann which, in turn, owns the media content businesses RTL, Gruner + Jahr, Random House and BMG. BMG owns more than 200 record labels including RCA Records and its valuable Elvis Presley back catalogue. The discount of ca. 39% to NAV on GBL means that the Bertelsmann holding is effectively in for nothing.

The huge enthusiasm for hedge funds and funds of hedge funds was a natural reaction to the slavish devotion to overvalued indices. Here was the obvious opportunity to benefit from falling stock prices in pools of capital run by managers incentivised to make absolute gains for their clients and themselves, which might be so rewarding as to offset the alternative tendency to boost funds under management and risk diluting performance. However, following the broad halving of markets, it may need real talent for hedge fund managers to beat the indices from now on.

Arguably we may have been premature in re-investing some of our liquidity. As reported last year, we bought a number of wide discount stocks in the aftermath of the

Investment Manager's Review continued

September 11th atrocity. Panic gave liquidity in some of our favoured investments and we were able to re-invest about £50 million often in securities we had sold much higher up. This worked well until such stocks succumbed in the summer to the general despondency caused by a litany of worries: accounting scandals, spectacular corporate collapses, weakening earnings and the prospect of war. Investor psychology has turned full circle, and this should now give us further opportunities to invest the rest of our cash.

It is almost impossible to obtain a consensus fix on the valuation basis of markets, a fact that gives pause for thought when one considers the apparent certainties of the bull market. In so many cases, corporate earnings were inflated and this appeared to justify higher and higher multiples. Traditional measures, (p/e, dividend yield, multiples of cash flow) were dropped if deemed implausible, to be replaced by a substitute ratio.

Prospect Japan
has once again been amongst the top performing Japanese trusts. The company has made good returns exploiting niche retailers such as Nishimatsuya Chain, a children's clothing retailer, and K's Denki, an electrical goods retail group.

Nothing is now taken on trust. Auditors and non-executives have carte blanche to ask awkward questions, earnings are restated, writedowns are made and multiples squeezed. Yet the calculation of earnings remains tricky in the extreme, especially in relation to option and pension costs and certain 'exceptional' items. Two current measures give multiples of earnings for the constituents of the S & P 500 index ranging between a p/e of 48 (Standard and Poor's 'core earnings') and 33 (reported earnings) and this is post a 40% fall in the index. Outrageously expensive then, and hardly cheap now. Clearly investors should expect to pay higher multiples of depressed earnings (just as p/e's should have contracted sharply the higher the bull market escalated) but it is difficult to put hand on heart and declare stock markets undervalued, even though bond yields are near generation lows. This much vaunted relationship has been useless for the past 5 years and in Japan seemingly for well over a decade.

There is also the bogey of deflation to consider. Profits, always the small difference between two very large numbers, could yet succumb to a long period of subdued volume growth and pricing pressure. Cost cutting may put pressure on hitherto buoyant consumer spending and residential asset prices. In such circumstances monetary policy may be impotent. These are worries enough without the added unease of possible war.

However, markets anticipate and discount a multiplicity of future hopes in bull markets and, by contrast, concomitant worries in bear phases. The rational valuation of a business should not swing anything like as much as occurs in volatile stock markets. As an example, Cap Gemini, an important asset of Wendel Investissement, acquired Ernst & Young Consulting with shares valued at □11.5 billion to put a value on the merged business of around □25 billion. Recently the capitalisation fell to nearly 95% less than at the peak, and yet the company has no net debt and its future has never been in any doubt.

Danubius Hotels
is using its cash flow to buy into privatised spa resorts in Eastern European markets such as the Czech Republic. Danubius owns a number of hotels in Marienbad, Czech Republic *(pictured)*.

Bear markets are savage, unforgiving and often terminal for borrowers. Yet they present unrepeatable opportunities. Although the present duration at 30 months seems short in span by comparison with 18 years of upswing, the amplitude of falls is not that far off that of the fearsome experiences of 1973/74. And if one generation of investors was scarred by that trauma, it also has memories of the markets broadly doubling in a six week period in early 1975. P/e's were then in modest single figures, but profits were calculated before inflation accounting adjustments which gave much lower earnings; on the whole most survivors prospered.

Now the test seems to be one that we have tried to pass in the past. Providing one can access (growing) corporate earnings on a p/e of around 10 (a pre-tax 15% starting return on investment) then, barring Armageddon, the investor should do well. Discounts of say 30 or 40% via holding company structures can also give access on such a valuation basis; a very satisfactory risk/reward relationship in a low inflation environment. The welcome return of focus on yield is also helpful and companies may respond to this by increasing pay-out ratios. Some of our stocks are now yielding well over 5%. Selectivity will be necessary against a market background which will probably see sharp rallies but no strong bull trend until the many excesses of the 90's have been worked out.

We also feel more comfortable where management has a large shareholding interest. As we said in our Interim Report, it has been more rewarding for us to be invested alongside owners rather than alongside holders of share options. Moreover, long term owners do not need to beat the drum of insistent publicity in promoting share price performance, one of the reasons for which often obscure investment holding companies sell on wide discounts. They should give additional scope for rewards: first the majority make sensible decisions based on long term objectives, rarely reckless ones based on short-term focus. Second, there is additional value for outlay with a larger quantum of assets working for the shareholder. Third, there is scope for additional gains from annual buy backs, well worth having in a low inflation environment. Fourth, the increasing focus on shareholder value (often supported by increasingly disparate family owners) can give one-off exceptional gains as the share price moves closer to underlying asset value.

The closed end fund sector is more difficult to call. When markets were high and discounts relatively low we reduced our exposure, while continuing to hold special situation trusts such as Law Debenture and contrarian investments in emerging markets and Japan. Markets are now much lower and in some cases there are attractive discounts, often with wind up opportunities in the relatively near-term. It is often sensible to buy investment trusts where there is potential for corporate activity. We continue to believe that there is an overwhelming argument for consolidation within the sector in view of the massive duplication of effort and costs. There is too little differentiation: the investment trust 'discount' is applied to all and sundry. Following the over supply of recent years, a multi-year period of restructuring is necessary.

John Walton and John Pennink

Asset Value Investors

21 November 2002

Wendel Investissement

The major part of Wendel's asset base is now invested in unlisted companies. This is expected to be the strategic focus in the future and is likely to have a beneficial impact on the rating. BioMerieux *(illustrated)* specialises in medical diagnostics for infectious diseases. Among its other unlisted investments, Wendel also owns 100% of Orange Nassau which holds oil and gas interests in the Dutch sector of the North Sea and property interests in Holland; 33% of Bureau Veritas, a leading verification company, and 100% of Wheelabrator Allevard, world leader in abrasive pellets.

Investment Manager's Review continued

I have run British Empire for 18½ years, for the past year jointly with John Pennink. It is a tribute to John that the three years of his contribution to management have been our best period of all relative to the markets. His reading of the likely course of the world economy and its probable impact on stocks has been outstanding. He believes strongly in the philosophy we follow and shareholders can be sure that, now as sole manager of the Company, he will implement our style with discipline and rigour.

Highlights of the past 18 years have included our corporate actions, examples being the take-over offers for three other investment trusts, of which two were completed and successfully integrated within British Empire, the other unitised to the benefit of shareholders. We have also had the good fortune to be able to build positions in obscure companies owning quality assets often ignored by other investors and, for this reason very undervalued. Examples that come to mind: companies within the Lazard group, the Arnault sphere, Ciga Hotels, Wendel and others. We have had constructive discussions with many of them about shareholder value. In the investment trust sector we have often taken up a contrarian stance, one example being a large and very rewarding position in Japanese smaller company trusts during the middle of a vicious bear market.

Worms & Cie is part of the Agnelli group. The company's paper subsidiary Arjo Wiggins has performed extremely well, allowing Worms to show excellent results and mount a 10% buy back at a premium of 40% to the then share price.

John Pennink will now take British Empire into a further phase in its development. The Company, £6 million at the start of 1985, was ranked 296 in the UK by market capitalisation in September 2002, and should have good future opportunities to exploit its focus on investments selling on wide discounts to asset value. I will continue working within Asset Value Investors for the foreseeable future and will continue to sit on the Board of the Company to support the philosophy and its implementation.

This report would not be complete without a tribute to the contribution William Fossick has made to the counsels of the Board over nearly 35 years as a Director, the latter 14 years as Chairman. William has always been vigorously supportive of our strategic development, and prepared to devote as much time as has been needed to ensure that implementation has been achieved successfully. He has always believed strongly in the Company's investment philosophy and has been prepared to back it even in difficult times. Both Shareholders and the investment management team have good cause to be grateful.

John Walton

21 November 2002

FCC has recently made an offer for the remaining equity in 48% owned Portland Valderrivas. The company has diversified interests in construction, services, cement and property. The photo shows the Portland Valderrivas "Torre Picasso" building in Madrid.

Portfolio Review

Investment Holding Companies (25.1% of assets)
We increased our exposure to (mainly European) investment holding companies during the year. The discounts to NAV have widened and the underlying holdings are rated much more cheaply than they were one or two years ago.

Rue Impériale
A successful holding in the past, it has re-emerged as our largest equity holding following the takeover of Immobilière Marseillaise by Rue Impériale. There are now just two quoted companies in the Lazard group, Rue Impériale and Eurazeo. We like the stability of the property interests and believe the investment bank is picking up business under Bruce Wasserstein's leadership. The share price is a little over one-third of the price paid by Credit Agricole for Vincent Bolloré's stake and at this level we have a small unrealised profit to add to the gains of £32m in Lazard companies in past years.

Wendel Investissement
Following very profitable disposals in the past, we had a small remaining position in Marine Wendel. Post September 11th, we bought sister company CGIP. Later the two

The photograph shows the mainly pedestrianised rue de la République at the heart of **Rue Impériale's** property estate in Lyon.

Investment Manager's Review continued

companies merged and a buyback took place. Post the collapse in Cap Gemini's share price (recently down over 90% from its peak) the shares, selling on a wide discount, are again very interesting.

Groupe Bruxelles Lambert/Compagnie Nationale à Portfeuille

We have built up our positions in these Belgian holding companies within the Albert Frere group. There is no capital gains tax in Belgium so the discount on both companies of ca. 39% is very attractive. Major holdings include TotalFinaElf and the unquoted Bertelsmann. GBL has an option to take Bertelsmann public in 2005 which may reveal the value of the holding. In the meantime, GBL is receiving a preferential dividend from Bertelsmann.

Orkla

Orkla has interests in branded consumer goods, beverages (40% of Carlsberg Breweries), specialist chemicals and media. It also has an investment portfolio worth almost 25% of its total capitalisation. Orkla trades at a 'conglomerate discount' of approximately 30% to its sum-of-the-parts valuation. This may narrow as the company divests itself of non-core businesses (chemicals and media) and uses funds from the investment portfolio to invest in core activities.

Investment Trusts (excluding Emerging Markets) (23.2% of assets)

Govett Strategic Investment Trust

During the year we bought and sold a 4.3% position in Govett Strategic. We bought the shares on a ca. 18% discount and benefited from reconstruction proposals which were announced on June 18th. The proposals had the effect of allowing shareholders out at an 8% discount (after costs relating to termination of the debt, management fees and liquidation of the holdings). Thus, we were able to break even on the position during a period when markets were very weak.

Law Debenture

The trustee business continues to demonstrate strong growth and our valuation (backed up by external estimates) suggests that the shares sell on an attractive discount to the aggregate value of the investment trust and trustee business.

Hansa Trust

Following a successful period since we took a substantial ownership position, this year has seen an outperformance of the indices but unfortunately a recent widening of the discount.

Private Equity Investor

The fund is trading at close to a 50% discount to its NAV, which approximates the value of cash and fixed income securities in the portfolio. The rest of the portfolio is invested in venture capital funds focused on the information technology sector. While this market sector is clearly in difficulty, we are effectively paying nothing for the existing investments and future investments will be made at depressed valuations.

Rue Impériale

A major new underground car park has been built in the central section of rue de la République *(above)*. In addition to ownership of one million sq.ft. of property in Lyon, Rue Impériale owns 3 million sq.ft. in Marseilles, mainly between the Vieux Port and the new port. We expect values in both cities to do well from current modest levels, but particularly in Marseilles where the Euroméditerranée project and the TGV are having a positive impact. Property represents about 35% of asset value. The 45% holding in Eurazeo (Lazard, Danone, private equity and many other interests) accounts for the remainder

Hansa Trust
currently sells on a discount as wide as 28%. In addition its largest asset, a 26.5% stake in Ocean Wilsons sells on a discount of around 40%. Ocean Wilsons' share price of 82p as at 30 June, 2002 compared to non-Brazilian financial assets of 77p per share as at the same date leaving the extensive tug-boat operations (pictured) and container port facilities in Brazil cheaply valued.

RIT Capital Partners
RIT continued to maintain a defensive approach during the year and was rewarded with a very impressive outperformance of the indices adding to the excellent long term record. At 30th September 34% of the portfolio was held in quoted securities, 17% in funds (mainly hedge funds), 26% was invested in private equity and 19% in Government securities. We believe the discount is too wide at 13%.

Beni Stabili
The photograph shows Beni Stabili's head office on the Via del Corso, Rome *(see portfolio review).*

Property-related, Hotels and Leisure (10.0%)
AMP Diversified Property Trust
An Australian Property Trust with 48% exposure to office, 43% exposure to retail and 9% exposure to industrial assets. The yield is 8%. Growth may come from increase in office occupancy, rent reviews and acquisitions.

Beni Stabili
Beni Stabili is one of the 3 largest quoted property companies in Italy. Its assets are valued at less than $100 per sq. ft. The entrepreneurial management is exploiting the arbitrage in buying property portfolios disposed of by major industrial companies and selling them on. The company is controlled by the Benetton and Del Vecchio (Luxottica) families. The company has recently announced an extraordinary dividend of €0.047 on a share price of €0.50.

European Asset Value Fund
The fund has continued to perform well over the year as European property and

property-related shares in Europe have been strong. Strong cashflows and high dividend yields have helped as investors turned away from overvalued growth stocks.

Danubius Hotels

Danubius trades at 8x 2002 earnings and a discount of 50% to its NAV. The company is currently increasing its stakes in privatised Czech, Slovakian and Romanian spa resorts to add to its core Hungarian operation. Recent acquisitions have taken place at valuations of $20,000 per room.

Japan (8.3%)

Prospect Japan

Despite the economic uncertainty in Japan, there continues to be opportunities in the small cap arena. Entrepreneurial companies with reasonable valuations and strong growth can be found. Prospect Japan has outperformed the markets by finding such overlooked value stocks.

Atlantis Japan

The trust owns a highly diversified portfolio of Japanese stocks with 90% in stocks below ¥200bn market cap where, it is judged, that most of the value resides. The fund is a consistently strong performer.

Vietnam Enterprise Investments

Hanoi Lake View is the second largest equity investment in the Vietnam Enterprise Fund at 11% of net assets. Hanoi Lake View owns a residential building comprising 31 apartments and one floor of office space in a prime residential area of Hanoi targeting an expatriate clientele.

Encana

Following the break-up of conglomerate Canadian Pacific, we received shares in Pan Canadian which has merged with Alberta Energy to form Encana. We believe Encana is cheap relative to its peers and its growth profile and we have bought more shares. *Photograph by Mark Gallup.Com*

Emerging Markets (6.6%)

Eastern European Trust

Eastern Europe has been a strong performer this year on the back of 'converging' Central European markets and political stability in Russia. We crystallised good gains in Baring Emerging Europe earlier in the year and have more recently been buying Eastern European Trust on a discount of ca. 17% to NAV.

Vietnam Enterprise Investments Limited

This fund is the largest investor, after the State, in the tiny Vietnamese stock market. The stockmarket trades at a PER of 10x and a dividend yield of 4.8%. There are many pre-IPO holdings in the fund which may experience uplifts upon listing.

Commodity/Other (8.9%)

Encana

Encana's production is 62% natural gas and 38% liquids. It is one of the few North American natural gas plays with strong organic production growth of close to 10% per annum at a time when production is declining due to the maturity of natural gas assets.

ARM Gold

ARM Gold has been a very good performer since its IPO in May 2002. The stock was arguably cheap relative to the gold mining sector on going public and has outperformed the sector markedly since. We took a position in ARM Gold following our disposal, at a substantial profit, of a position in gold mining fund ASA.

We bought **ARM Gold** in an IPO in May 2002. ARM Gold is a South African gold mining company that has performed very well on the back of higher gold prices.

Liquidity (17.9%)

Liquidity, which began the year at 37% of total assets, was reduced to 18% by the end of the period. Approximately half of this reduction in liquidity was attributable to the buy-back of 15 million shares.

Geographical Profile

Gross assets of £310 million were distributed (on a 'look-through' basis) as follows: UK 23%; Continental Europe 36%; North America 4%; Japan 8%; Other Pacific 5%; Other Markets 6%; liquidity 18%.

Net Asset Value Total Returns: % Change

	Since 30/06/85	10 years	5 years	3years	1 year
British Empire	672	219	34	11	-6
AITC Global Growth	393	108	-12	-26	-19
MSCI World (£)	310	101	-15	-34	-24

Source: AITC and Datastream

Investment Portfolio As at 30 September 2002

Company	Nature of business	% of class	Cost £'000	Valuation £'000	Price	% of Total assets less current liabilities
UK Treasury 2.5% Index-Linked 20/05/03	UK Government Security	-	32,749	33,502	£223.35	10.78
Rue Impériale	Property/Holding Company	2.8%	17,014	18,232	€130	5.86
Hansa Trust 'A'	Investment Trust	44.9%	14,377	17,243	£2.40	5.56
UK Treasury 6.5% 07/12/03	UK Government Security	-	15,528	15,505	£103.37	5.00
Law Debenture	Investment Trust/Trustee Business	6.5%	16,980	13,999	£1.845	4.51
Prospect Japan Fund	Investment Trust	18.8%	11,468	11,786	US$8.95	3.80
Encana Corporation	Canadian Oil and Gas Company	0.1%	9,860	9,754	CAN$48.00	3.14
Danubius Hotel and Spa	Hotels and Property	10.6%	9,997	8,427	HUF 3705	2.71
ARM Gold	Gold Mining Company	2.2%	5,454	7,343	ZAR 69.55	2.37
Altin	Fund of Hedge Funds	2.8%	7,760	7,283	US$37.75	2.35
Top ten investments			141,187	143,074		46.08
The European Asset Value Fund	Open Ended Investment Company	22.0%	4,270	7,100	US$23.77	2.29
Groupe Bruxelles Lambert	Investment Holding Company	0.2%	9,739	7,027	€37.28	2.26
UK Treasury 8% Loan 05/10/02-06	UK Government Security	-	7,012	7,000	£100	2.26
Fimalac	Industrial Holding Company	1.1%	5,821	6,904	€34.43	2.22
Orkla	Industrial Holding Company	0.3%	7,703	6,154	NOK 118.25	1.98
Corporacion Financiera Alba	Investment Holding Company	0.7%	6,847	6,034	€17.87	1.94
Investor 'A'	Investment Holding Company	0.7%	11,178	5,822	SEK 45.20	1.88
Wendel Investissement	Investment Holding Company	0.9%	8,112	5,614	€18.28	1.81
Beni Stabili	Property Company	1.1%	6,695	5,614	€0.446	1.81
Fomento de Construcciones y Contratas (FCC)	Construction	0.3%	6,118	5,575	€19.79	1.80
Top twenty investments			214,682	205,918		66.33

Company	Nature of business	% of class	Cost £'000	Valuation £'000	Price	% of Total assets less current liabilities
Atlantis Japan Growth Fund	Investment Trust	**5.4%**	**6,896**	**5,393**	**US$7.70**	**1.74**
Advance UK Trust	Investment Trust	**15.1%**	**7,191**	**5,369**	**£0.84**	**1.73**
Baillie Gifford Japan Trust	Investment Trust	**8.4%**	**6,771**	**5,216**	**£0.975**	**1.68**
AMP Diversified Property Trust	Property Trust	**1.0%**	**4,512**	**4,327**	**AUS$2.51**	**1.39**
IFIL Savings	Industrial Holding Company	**1.6%**	**7,116**	**4,291**	**□2.75**	**1.38**
RIT Capital Partners	Investment Trust	**0.7%**	**4,608**	**4,092**	**£3.72**	**1.32**
Kleinwort Capital Trust	Investment Trust	**9.9%**	**4,360**	**4,050**	**£1.35**	**1.30**
Intrawest	Property & Resorts	**0.9%**	**4,477**	**3,845**	**CAN$22.33**	**1.24**
Aberforth Split Level Trust	Investment Trust	**2.8%**	**3,850**	**3,594**	**£4.14**	**1.16**
Mediobanca	Banking	**0.1%**	**6,031**	**3,436**	**□6.84**	**1.11**
Top thirty investments			**270,494**	**249,531**		**80.38**
Schroder Asia Pacific Fund	Investment Trust	**4.4%**	**4,243**	**3,430**	**£0.56**	**1.10**
Vietnam Enterprise Investments	Investment Company	**9.7%**	**3,124**	**3,122**	**US$1.05**	**1.01**
Aberdeen New Dawn Investment Trust	Investment Trust	**7.3%**	**4,363**	**3,001**	**£1.78**	**0.97**
Buderus	Investment Holding Company	**0.4%**	**3,944**	**2,986**	**□19.80**	**0.96**
Compagnie Nationale à Portefeuille	Investment Holding Company	**0.3%**	**3,453**	**2,935**	**□95.28**	**0.95**
Henderson Absolute Return	Investment Trust	**2.8%**	**2,597**	**2,760**	**£0.86**	**0.89**
Jardine Matheson	Investment Holding Company	**0.1%**	**3,031**	**2,760**	**US$5.75**	**0.89**
Boosey & Hawkes	Investment Holding Company	**8.6%**	**6,301**	**2,692**	**£1.52**	**0.87**
Private Equity Investor	Investment Company	**6.8%**	**3,732**	**2,679**	**£0.87**	**0.86**
Worms & Cie	Industrial Holding Company	**0.2%**	**2,654**	**2,673**	**□15.26**	**0.86**
Top forty investments			**307,936**	**278,569**		**89.74**

Investment Portfolio continued

Company	Nature of business	% of class	Cost £'000	Valuation £'000	Price	% of Total assets less current liabilities
Finsbury Smaller Quoted Company Trust	Investment Trust	**12.9%**	**4,202**	**2,591**	**£1.29**	**0.83**
Fidelity Japan Values	Investment Trust	**6.4%**	**3,221**	**2,581**	**£0.41**	**0.83**
Henderson Electric & General	Investment Trust	**2.0%**	**2,716**	**2,300**	**£1.84**	**0.74**
IFI Priv	Investment Holding Company	**0.9%**	**5,131**	**2,242**	**EUR 12.85**	**0.72**
The East European Development Fund	Investment Trust	**8.1%**	**2,433**	**2,200**	**US$20.70**	**0.71**
Jardine Strategic Holdings	Investment Holding Company	**0.1%**	**2,466**	**2,197**	**US$2.54**	**0.71**
Edinburgh Smaller Companies Trust	Investment Trust	**8.0%**	**4,422**	**1,887**	**£0.35**	**0.61**
Eastern European Trust	Investment Trust	**3.9%**	**1,807**	**1,768**	**£6.55**	**0.57**
Inmobiliaria Colonial	Property Company	**0.4%**	**1,625**	**1,671**	**EUR 12.81**	**0.54**
Schroder Japan Growth Fund	Investment Trust	**2.1%**	**1,868**	**1,612**	**£0.60**	**0.52**
Top fifty investments			**337,827**	**299,618**		**96.52**
Other investments (25)			**23,888**	**13,284**		**4.28**
Total Investments			**361,715**	**312,902**		**100.80**
Net current liabilities				**(2,503)**		**(0.80)**
Total assets less current liabilities				**310,399**		**100.00**

Capital Structure As at 30 September 2002

The Company's capital structure comprises Ordinary Shares and two tranches of Debenture Stock. The Company also has outstanding Equities Index Unsecured Loan Stock ('Index Stock').

Ordinary Shares

At 30 September 2002 there were 160,080,089 (2001: 175,080,089) 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 and final dividends among the holders of Ordinary Shares, subject to the payment of interest to the holders of Debenture Stock and Index Stock.

Capital entitlement:

After meeting the liabilities of the Company and the amounts due to Debenture and Index 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 2002 there were two tranches of Debenture Stock: £11,883,322 10⅜ per cent. Debenture Stock 2011 and £15,000,000 8⅛ per cent. Debenture Stock 2023.

Income entitlement:

The holders of Debenture Stock are entitled to interest paid half-yearly at the rate of 10⅜ per cent. and 8⅛ per cent, respectively, per annum (subject to income tax if applicable).

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. If the Company is liquidated the Debenture Stock is redeemable by the Company, in the case of the 10⅜ per cent. Debenture Stock at a premium based on its market price and in the case of the 8⅛ per cent. Debenture Stock on the equivalent gilt yield. Had the Company been liquidated on 30 September 2002 such premiums would have amounted, in aggregate, to £10.97 million.

Capital Structure continued

Voting entitlement:

The holders of Debenture Stock have no right to attend or to vote at general meetings of the Company.

Equities Index Unsecured Loan Stock

At 30 September 2002 there were 3,428,997 units of Index Stock in issue (2001: 3,558,955).

Investment characteristics:

Units of Index Stock 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 stock market.

Income entitlement:

Holders of the Index Stock receive interest paid quarterly. Interest is calculated by reference to the yield on the Index having regard to the movement in the ex-dividend adjustment factor during the relevant quarter as published in the Financial Times. The interest paid (gross of income tax) in the year to 30 September 2002 amounted to £67.14 per 1,000 units.

Capital entitlement:

The Company shall redeem the whole of the Index Stock 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 Index Stock, the higher of 10 per cent of its nominal amount of £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. If the Index Stock is redeemed by the Company early, payment will be effected at the capital value.

The capital value of the Index Stock as at 30 September 2002 amounted to £1.80148 per unit.

Voting entitlement:

The holders of Index Stock have no right to attend or to vote at general meetings of the Company.

Board of Directors

William Gawne Fossick Chairman
(age 61) has been a Director for 35 years and Chairman since 1988. He is a Consultant with Watson, Farley & Williams, solicitors to the Company.

Sir David Kinloch Bt
(age 60) joined the Board in 1991. He is Deputy Chief Executive of Caledonia Investments plc, Chairman of ISIS Asset Management plc and serves as a Director of a number of companies.

Iain Samuel Robertson CBE
(age 56) became a Director of the Company following its acquisition of Selective Assets Trust plc in 1995.
He is a Director of The Royal Bank of Scotland Group plc where he is Chairman of Corporate Banking and Financial Markets.

John Carnell Walton
(age 56) has worked in investment management for 34 years and has been a Director of the Company for 18 years. He is Managing Director of Asset Value Investors, the Company's Investment Manager.

Clive Mace Gilchrist
(age 52) has been a Director for 18 years. He is Managing Director of BES Trustees plc. He is a Director of a number of companies including Aberdeen Asset Management PLC and has served as Vice-President of the National Association of Pension Funds.

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Report of the Directors

The Directors present their report and the audited financial statements for the year ended 30 September 2002.

Review of the Business

A review of the Company's activities is given in the Chairman's Statement on page 4 and the Investment Manager's Review on page 9. On 1 February 2002 the Company sold one of its subsidiary companies, St. Andrew's Park, Norwich Limited for a consideration of £8.2 million.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

Results and Dividends

The income of the Group for the year amounted to £10,241,000. After expenses, interest and taxation, there remains a balance of £3,868,000 which the Directors have appropriated as follows:

	Company £'000	Group £'000
Revenue available for dividends	3,641	3,868
Interim dividend of 0.40p per Ordinary Share paid on 12 June 2002	(674)	(674)
Prior year adjustment	16	16
Recommended final dividend of 1.10p per Ordinary Share to be paid on 9 January 2003 to shareholders on the register on 29 November 2002	(1,761)	(1,761)
Recommended special dividend of 0.40p per Ordinary Share to be paid on 9 January 2003 to shareholders on the register on 29 November 2002	(640)	(640)
Transferred to revenue reserve	582	809

Principal Activity and Status

The Company is registered as a Public Limited Company in terms of the Companies Act 1985. The Company is an investment company under Section 266 of the Companies Act 1985.

Status

The Company is an investment trust company and a member of the Association of Investment Trust Companies.

The Company has been approved as an investment trust company for the years ended 30 September 2000 and 30 September 2001. The Directors are of the opinion, under advice, that the Company has conducted its affairs for the year ended 30 September 2002 so as to be able to obtain approval as an investment trust for that year.

The Company is a qualifying investment for the purposes of Personal Equity Plans and Individual Savings Accounts.

Subsidiary Companies

The Company owns one active dealing subsidiary, BEST Securities Limited. In the year to 30 September 2002, BEST Securities Limited made a profit before taxation of £50,111 (2001 - £1,676,719). During the year, through its subsidiary, St Andrew's Park, Norwich Limited, the Group received rental income which amounted to £239,086 (2001 - £654,650) before the Company was sold on 1 February 2002.

Directors

The present members of the Board are listed on page 23.

Mr W. G. Fossick, Sir David Kinloch, Mr I.S. Robertson and Mr C. M. Gilchrist retire by rotation at the Annual General Meeting. Mr I. S. Robertson and Sir David Kinloch, being eligible, will be offering themselves for re-election at the Annual General Meeting. Mr W. G. Fossick and Mr C. M. Gilchrist will not be standing for re-election and will retire at the conclusion of the Meeting.

Immediately following the Company's Annual General Meeting, Mr P. Allen, Mrs R. Blomfield-Smith and Mr S. Macpherson will be appointed to the Board as non-executive independent Directors.

Peter Allen (59) – Mr Allen has spent the last eight years as Finance Director of Royal Bank of Scotland's Corporate Banking and Financial Markets business, retiring earlier this year. He is a Director of Lombard and a Director and Chairman of the Audit Committee of Greenwich Capital. His earlier career included positions at Peat Marwick, National Bank of Detroit, First National Bank of Dallas and Westpac.

Rosamund Blomfield-Smith (53) – Mrs Blomfield-Smith is currently a Director with Arbuthnot Latham focusing on corporate finance activities. She was previously an Executive Director of N M Rothschild and Sons and a Non-Executive Director of the National Rivers Authority. Her earlier banking career included positions at Morgan Grenfell, Schroders and ING Barings.

Strone Macpherson (54) – After gaining an MBA from INSEAD, Mr Macpherson joined Flemings in 1975. He became a Director in 1979 and worked in London and New York till 1989 when he joined the Board of Misys plc. He became Executive Deputy Chairman in 1991 and stepped down from this role earlier this summer. He remains Chairman of the Misys Charitable Foundation, is Chairman of the Fleming Smaller Companies Trust plc, a non-executive Director of AXA UK plc and on the Investment Committee and General Council of the King's Fund.

The interests of the current Directors and their families in the securities of the Company as at 30 September 2002 are set out below:

	Ordinary Shares 30/9/02	Ordinary Shares 1/10/01	Equities Index Unsecured Loan Stock 30/9/02	Equities Index Unsecured Loan Stock 1/10/01
W.G. Fossick	**110,000**	110,000	**–**	–
	–	50,000*	**–**	–
C.M. Gilchrist	**33,003**	30,182		
Sir David Kinloch	**–**	–	**–**	–
I.S. Robertson	**25,000**	25,000	**–**	–
J.C. Walton	**354,241****	347,067**	**–**	–

*Held as trustee (non-beneficial)

**Mr J C Walton's holding includes 200,000 Ordinary Shares held for his benefit in the Asset Value Investors Limited Pension Scheme

Report of the Directors continued

Mr W.G. Fossick is a consultant with Watson, Farley & Williams who act as the Company's solicitors. The firm received payments from the Company during the year amounting to £2,879 (2001 - £3,200).

Mr C.M. Gilchrist is a director of Aberdeen Asset Management PLC, the Secretary of the Company and the holding company of Asset Value Investors Limited. Asset Value Investors Limited is entitled to receive fees under the Management Agreement as described below.

Sir David Kinloch is Deputy Chief Executive of Caledonia Investments plc which owns 19.9 per cent. of the Ordinary Shares of the Company.

Mr J.C. Walton is Managing Director of Asset Value Investors Limited with a service contract subject to twelve months' written notice of termination given by either party.

Save as aforesaid, no Director was a party to or had an interest in any contract or arrangement with the Company.

There have been no changes in the holdings of the Directors between 30 September and 19 November 2002, apart from Mr Gilchrist's regular contribution of £583 per month to the Savings Scheme for the purchase of ordinary shares in the Company.

Substantial Interests in Share Capital

At 19 November 2002 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 plc*	31,856,530	19.90
Scottish Widows	16,481,174	10.30
Funds under the management of Axa Investment Management	14,276,207	8.92
Funds under the management of ISIS Asset Management	7,494,002	4.68
Millenium Partners LP	6,166,000	3.85
Henderson Global Investors	5,966,835	3.73
Legal and General	5,444,771	3.40
Cornhill Insurance plc	5,330,000	3.33

* The Cayzer Trust Company Limited is deemed to be interested in a total of 33,424,280 Ordinary Shares (representing 20.88 per cent. of the issued Ordinary Share capital), in consequence of its interest in Caledonia Investments plc.

Management Agreement and Management Fees

Asset Value Investors 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 to the increase or decrease in the net asset index of investment trusts as published by Datastream International Limited. The resultant figure of such calculation determined the percentage rate (which ranges from 0.4 per cent. to 0.8 per cent.) which 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 the Aberdeen Group. The performance element of management costs (deemed to be the amount payable at a fee rate in excess of 0.4 per cent.) is wholly charged to capital reserves. During the year £1,649,000 (2001: £1,715,000) was charged to revenue and £1,447,000 (2001: £1,715,000) was charged to capital. The agreement will continue in force unless terminated by either party giving not less than one year's prior notice of termination to the other party.

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, taking account of the matters referred to below, enable the Company to comply with the Combined Code on Corporate Governance ('the Code'). Since all Directors are non-executive, the Company is not required to comply with the principles of the Code in respect of executive Directors' remuneration. The Board receives full details of the Company's assets, liabilities and other relevant information in advance of Board meetings.

The Audit Committee operates within clearly defined terms of reference and this year comprised three non-executive Directors: Mr W.G. Fossick (Chairman), Sir David Kinloch 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 and this year comprised Mr W.G. Fossick (Chairman), Sir David Kinloch and Mr I.S. Robertson. It is responsible for reviewing the terms of the Investment Manager's contract.

The Nomination Committee comprises the full Board and is convened for the purpose of considering the appointment of additional Directors. Full details of the duties of new Directors are provided to them at the time of appointment.

A management agreement between the Company and its Manager, Asset Value Investors Limited, sets out the matters over which the Manager has 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 of no more than three years as recommended by the Code. The Articles of Association require that one third of the Directors retire by rotation at each Annual General Meeting and the Board intend to abide by the spirit of the Code and ensure that each Director stands for re-election at least once every three years.

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.

Report of the Directors continued

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. Following publication of 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Annual Report and Accounts, and is regularly reviewed by the Board and accords with the guidance. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The significant risks faced by the Company are as follows:

- financial;
- operational;
- compliance; and
- risk management.

The key components designed to provide effective internal control are outlined below:

- The Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- The Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board. The Manager's evaluation procedure and financial analysis of the companies concerned include detailed appraisal and due diligence;
- As a matter of course the compliance department of Aberdeen Asset Management PLC continually reviews the the Investment Manager's operations.
- Written agreements are in place which specifically define the roles and responsibilities of the Investment Manager and other third party service providers;
- The Board has considered the need for an internal audit function but, because of the internal control systems in place at Aberdeen, has decided to place reliance on Aberdeen's systems and internal audit procedures; and
- At its November Board meeting, the Board carried out an annual assessment of internal controls for the year ended 30 September 2002 by considering documentation from the Manager, including their internal audit and compliance functions and taking account of events since 30 September 2002.

Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against mis-statement and loss.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communications with shareholders. The Board and Manager meet with institutional shareholders throughout the year and 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 Manager of the Company. At the Annual General Meeting, the Manager makes a presentation to shareholders covering the investment performance and strategy of the Company.

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.

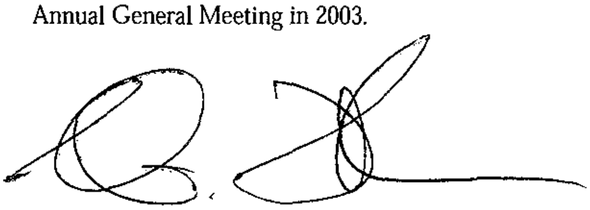
Special Business

Resolution 8 - 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 £800,400, being 5 per cent. of the total capital in issue on 21 November 2002. The Directors would only issue new Shares pursuant to this authority if they believe it is advantageous to the Company's Shareholders to do so and in no circumstances would result in a dilution of net asset value per Share.

Resolution 9 - Share Buy-Back Facility

A resolution will be proposed to renew the Director's authority to make market purchases of the Company's Shares in accordance with the provisions contained in the Companies Act and the Listing Rules of the Financial Services Authority. Accordingly, the Company will seek authority to purchase up to a maximum of 23,996,005 Ordinary Shares (representing 14.99 per cent. of the current issued Share capital) at a minimum price of not less than 10p per Share (being the nominal value) and a maximum price of not more than 5 per cent. above the average market values of the Shares for the preceding five business days. The Directors do not intend to use this authority to purchase the Company's Shares unless to do so would result in an increase in the net assets per Share and would be in the best interests of Shareholders generally. The authority being sought would last until 31 January 2004 but the Board intends to seek a renewal of the authority at the Annual General Meeting in 2003.



By Order of the Board,
For and on behalf of Aberdeen Asset Management PLC
Secretary

One Bow Churchyard, London
21 November 2002

Statement of Total Return of the Group for the year ended 30 September 2002

	Notes	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Losses on investments	9	-	(22,307)	(22,307)	-	(31,593)	(31,593)
Realised exchange losses		-	(281)	(281)	-	(736)	(736)
Depreciation of loan stock		-	1,839	1,839	-	2,756	2,756
Income	2	10,241	-	10,241	12,716	44	12,760
Investment management fee (incl. irrecoverable VAT)	3	(1,649)	(1,447)	(3,096)	(1,715)	(1,715)	(3,430)
Other expenses (incl. irrecoverable VAT)	3	(909)	(121)	(1,030)	(603)	-	(603)
Net return before finance costs and taxation		7,683	(22,317)	(14,634)	10,398	(31,244)	(20,846)
Finance costs	5	(2,644)	(7)	(2,651)	(2,730)	(7)	(2,737)
Return on ordinary activities before taxation		5,039	(22,324)	(17,285)	7,668	(31,251)	(23,583)
Taxation on ordinary activities	6	(1,171)	434	(737)	(1,726)	514	(1,212)
Return attributable to equity shareholders		3,868	(21,890)	(18,022)	5,942	(30,737)	(24,795)
Dividend in respect of equity shares	7	(3,059)	-	(3,059)	(3,331)	-	(3,331)
Transfer to/(from) reserves	18	809	(21,890)	(21,081)	2,611	(30,737)	(28,126)
Return per Ordinary Share							
Basic	8	2.29p	(12.94p)	(10.65p)	3.37p	(17.45p)	(14.08p)

The revenue column of this statement represents the profit and loss account of the Group.

The accompanying notes form an integral part of this statement.

Balance Sheets As at 30 September 2002

		Company		Group	
	Notes	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Fixed assets					
Investments - Securities	9	**317,769**	340,843	**312,902**	333,347
- Property	9	**-**	-	**-**	7,300
		317,769	340,843	**312,902**	340,647
Current assets					
Investments held by dealing subsidiary	12	**-**	-	**6**	9
Debtors	13	**1,771**	27,593	**1,771**	2,281
Cash at bank and on deposit		**3,918**	1,602	**3,918**	28,407
		5,689	29,195	**5,695**	30,697
Creditors: amounts falling due within one year	14	**(13,059)**	(9,012)	**(8,198)**	(9,681)
Net current (liabilities)/assets		**(7,370)**	20,183	**(2,503)**	21,016
Total assets less current liabilities		**310,399**	361,026	**310,399**	361,663
Creditors: amounts falling due after more than one year	15	**(32,911)**	(35,056)	**(32,911)**	(35,056)
Provision for liabilities and charges	16	**(69)**	-	**(69)**	(637)
		277,419	325,970	**277,419**	325,970
Capital and reserve					
Called-up share capitals					
Ordinary shares	17	**16,008**	17,508	**16,008**	17,508,
Reserves					
Capital redemption reserve	18	**2,927**	1,427	**2,927**	1,427
Share premium	18	**28,078**	28,078	**28,078**	28,078
Capital reserve - realised	18	**228,974**	252,503	**228,701**	255,086
- unrealised	18	**(47,394)**	(21,790)	**(50,774)**	(27,799)
Merger reserve	18	**41,406**	41,406	**41,406**	41,406
Revenue reserve	18	**7,420**	6,838	**11,073**	10,264
Equity shareholders' funds	19	**277,419**	325,970	**277,419**	325,970
Net asset value per Share	19	**173.30p**	186.18p	**173.30p**	186.18p

The financial statements on pages 30 to 46 were approved by the Board of Directors on 21 November 2002 and were signed on its behalf by:

JC Walton

W.G. Fossick *Chairman* 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 2002

	Notes	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Net cash inflow from operating activities	**20**	**-**	**5,494**	-	8,526
Servicing of finance					
Interest paid		**(2,701)**	**-**	(3,009)	-
Net cash outflow from returns on investment and servicing of finance		**-**	**(2,701)**	-	(3,009)
Taxation					
UK tax paid less recovered		**(985)**	**-**	(539)	-
WHT recovered/(paid)		**117**	**-**	(4)	-
Tax paid		**-**	**(868)**	-	(543)
Capital expenditure and financial investment					
Purchase of investments		**(205,062)**	**-**	(272,723)	-
Sale of investments		**200,612**	**-**	223,391	-
Capital dividends		**-**	**-**	44	-
Net cash outflow from investing activities		**-**	**(4,450)**	-	(49,288)
Acquisitions and disposals					
Sale of subsidiary		**6,553**	**-**	-	-
Expenses paid on sale of subsidiary		**(121)**	**-**	-	-
Net cash inflow from disposals		**-**	**6,432**	-	-
Equity dividends paid		**-**	**(3,284)**	-	(2,468)
Net cash inflow/(outflow) before financing		**-**	**623**	-	(46,782)
Financing					
Share buybacks		**(25,281)**	**-**	(2,241)	-
Buyback of index loan stock		**(313)**	**-**	(1,430)	-
Net cash outflow from financing		**-**	**(25,594)**	-	(3,671)
Decrease in cash	**21**	**-**	**(24,971)**	-	(50,453)
Reconciliation of net cash flow to movements in net debt					
Decrease in cash as above		**-**	**(24,971)**	-	(50,453)
Buyback of index loan stock		**-**	**313**	-	1,430
Changes in net debt resulting from cash flows		**-**	**(24,658)**	-	(49,023)
Currency losses		**-**	**(281)**	-	(736)
Amortisation of debenture issue expenses		**-**	**(7)**	-	(7)
Decrease in value of index loan stock		**-**	**1,839**	-	2,756
Movement in net debt in year		**-**	**(23,107)**	-	(47,010)
Net (debt)/funds at 1 October		**-**	**(6,649)**	-	40,361
Net debt at 30 September	**22**		**(29,756)**		(6,649)

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

Notes to the Accounts

1. Accounting policies

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

Accounting convention

The financial statements have been prepared under the historical cost convention as modified to include the revaluation of fixed investments and investment properties.The Statement of Recommended Practice ("SORP") for Financial Statements of Investment Trust Companies has been adopted, except in relation to accounting for Index Stock as outlined below.

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 2002. 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' as appropriate. In accordance with FRS16, dividend income is now shown excluding any associated tax credit with a consequent reduction in the amount of the tax charges. Avoir Fiscal is treated as a tax credit and not withholding tax. As a result, dividend income is shown net of Avoir Fiscal where appropriate and Avoir Fiscal is shown as a deduction from the tax charge. 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 2002 and foreign listed investments have been valued at market prices and exchange rates at the same date. Unlisted investments and investments in subsidiaries 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. Subsidiaries are valued at net asset value.

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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in the 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 between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

Investment in subsidiary undertakings

The Company's investment in its subsidiaries is carried in the Company's accounts at net asset value attributable to equity shareholders in the subsidiary undertakings.

Notes to the Accounts continued

Capital reserves

Capital reserves - realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- the 'bonus' element of the enhanced scrip dividend;
- the performance element of management costs (deemed to be the amount payable at a fee rate in excess of 0.4 per cent of assets) is charged wholly to capital reserve since it derives from the capital performance of the Group relative to the benchmark index.

Capital reserves - 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;
- increases and decreases in the valuation of the Index Stock.

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 day. Any difference between the nominal value and capital value is reflected through capital reserves. Interest paid on the Index Stock is charged to revenue. This does not comply with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies, which would require the finance costs of the Index Stock to be allocated between revenue and capital in line with the Board's expected long term split of returns and capital. However, the Directors consider that the treatment adopted, which is consistent with previous years, is the most appropriate given the nature of the Index Stock.

2. Income

	2002 £'000	2001 £'000
Income from investments		
Listed investments	**9,527**	7,737
Scrip dividend	**94**	-
	9,621	7,737
Other income		
Deposit interest	**384**	4,335
Loss from dealing activities of subsidiaries	**(3)**	(11)
Rental income	**239**	655
	620	4,979
Total income	**10,241**	12,716

Total income comprises:	**2002 £'000**	2001 £'000
Dividends	**5,262**	3,310
Interest	**4,743**	8,762
Other income	**236**	644
	10,241	12,716
Income from investments:		
Equity securities	**5,262**	3,310
Fixed interest securities	**4,359**	4,427
	9,621	7,737

Capital repayments of nil (2001:£351,000) paid by investee companies have been credited to capital reserves.

3. Management fee and other expenses

	2002 £'000 Revenue	2002 £'000 Capital	2002 £'000 Total	2001 £'000 Revenue	2001 £'000 Capital	2001 £'000 Total
Management fee (incl. irrecoverable VAT)	**1,649**	**-**	**1,649**	1,715	-	1,715
Performance fee (incl. irrecoverable VAT)	**-**	**1,447**	**1,447**	-	1,715	1,715
	1,649	**1,447**	**3,096**	1,715	1,715	3,430

Other expenses:	2002 £'000 Revenue	2002 £'000 Capital	2002 £'000 Total	2001 £'000 Revenue	2001 £'000 Capital	2001 £'000 Total
Directors' emoluments (Note 4) - fees	**64**	**-**	**64**	78	-	78
Auditors' remuneration for:						
- audit	**16**	**-**	**16**	21	-	21
- other services to the Group	**13**	**10**	**23**	7	-	7
Marketing costs	**122**	**-**	**122**	167	-	167
Other expenses including VAT	**694**	**111**	**805**	330	-	330
	909	**121**	**1,030**	603	-	603

Details of the management agreement and fees are contained in the Report of the Directors.

Notes to the Accounts continued

4. Directors' fees

The Chairman received a fee of £17,500 (2001: £17,500) and the other Directors received fees of £12,000 (2001: £12,000 each). Mr J.C. Walton receives emoluments from Asset Value Investors Limited ('AVI') for his services to that company. Under existing legislation it is necessary to state the proportion of the emoluments he receives from AVI which relate to the Management of the Company even though the Company does not pay these emoluments and is not involved in their determination. The Board has been advised that the proportion of his emoluments from AVI which relate to the management of the affairs of the Group amounted to approximately £150,000 (2001: £175,000).

5. Finance costs

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Bank overdraft interest	**15**	**-**	**15**	7	-	7
On other loans	**2,629**	**-**	**2,629**	2,723	-	2,723
Amortisation of debenture issue expenses	**-**	**7**	**7**	-	7	7
	2,644	**7**	**2,651**	2,730	7	2,737

6. Taxation on ordinary activities

(a) Analysis of charge in period

	2002 £'000	2001 £'000
Current tax		
UK Corporation tax at 30% (2001: 30%)	**1,084**	1,969
Double tax relief	**(410)**	(319)
Foreign withholding tax	**717**	345
Overseas tax reclaimable	**(149)**	(5)
Tax credits attributable to French dividend income	**(116)**	(287)
Prior year adjustment	**(24)**	(8)
Total current tax (note 6(b))	**1,102**	1,695
Deferred tax (note 16)	**69**	31
Taxation on ordinary activities	**1,171**	1,726

(b) Factors affecting current tax charge for the period

The tax assessed for the period is the standard rate of corporation tax in the UK for a large company (30%).

	2002 £'000	2001 £'000
Net income before taxation	**5,039**	7,668
Corporation tax at 30%	**1,512**	2,300
Effects of:		
Non taxable UK dividends	**(541)**	(378)
Disallowed expenses	**136**	-
Overseas tax written off	**158**	20
FRS16 Avoir Fiscal adjustment	**(81)**	(216)
Prior year adjustment	**(24)**	(8)
Income taxable in different periods	**(58)**	(23)
Current tax charge for the period (note 6(a))	**1,102**	1,695

7. Dividends

	2002 £'000	2001 £'000
Dividends on Ordinary Shares:		
- ordinary - interim - paid 0.40p (2001:0.40p)	**674**	705
- prior year adjustment	**(16)**	-
- ordinary - final - proposed 1.10p (2001:1.00p)	**1,761**	1,751
- ordinary - special - 0.40p (2001: 0.50p)	**640**	875
	3,059	3,331

8. Return/(loss) per Share (pence)

	2002 Revenue	2002 Capital	2002 Total	2001 Revenue	2001 Capital	2001 Total
Basic	**2.29p**	**(12.94p)**	**(10.65p)**	3.37p	(17.45p)	(14.08p)

Basic revenue return per Ordinary Share is based on Group revenue after taxation of £3,868,000 (2001: £5,942,000) and on 169,144,747 (2001: 176,171,390) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

Basic capital loss per Ordinary Share is based on net losses for the financial year of £21,890,000 (2001: £30,737,000) and on 169,144,747 (2001: 176,171,390) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

Notes to the Accounts continued

9. Investments

(a) Securities

	Listed investments £'000	Unlisted investments £'000	Group total investments £'000	Subsidiaries £'000	Company total investments £'000
Opening book cost	353,625	3,728	357,353	907	358,260
Opening unrealised (depreciation)/appreciation	(21,699)	(2,307)	(24,006)	6,589	(17,417)
Opening valuation	331,926	1,421	333,347	7,496	340,843
Movements in the year:					
Purchases at cost	202,562	-	202,562	-	202,562
Sales - proceeds	(200,246)	(364)	(200,610)	(8,189)	(208,799)
- realised gains/(losses) on sales	4,582	(2,172)	2,410	8,189	10,599
Decrease in unrealised (depreciation)/appreciation	(27,337)	2,530	(24,807)	(2,629)	(27,436)
Closing valuation	311,487	1,415	312,902	4,867	317,769
Closing book cost	360,523	1,192	361,715	907	362,622
Closing unrealised (depreciation)/appreciation	(49,036)	223	(48,813)	3,960	(44,853)
Closing valuation	**311,487**	**1,415**	**312,902**	**4,867**	**317,769**

(b) Property

	Group investments Property £'000
Opening book cost	6,719
Opening unrealised appreciation	581
Opening valuation	7,300
Sales - proceeds	(7,390)
- realised gains/(losses) on sales	671
Decrease in unrealised appreciation	(581)
Closing valuation	-

(c) Losses on investments

	2002 Group £'000	2001 Group £'000
Realised gains on sales of securities	**2,410**	21,441
Realised gain on sale of St. Andrew's Park, Norwich Limited	**90**	-
Increase in unrealised depreciation - Securities	**(24,807)**	(53,434)
- Properties	**-**	400
	(22,307)	(31,593)

(d) Group disposal of subsidiary

On 1 February 2002, the Group completed the sale of St.Andrew's Park, Norwich Limited. The disposal is analysed as follows:

Net assets disposed of:	£'000
Property	7,300
Sundry debtors	62
Cash at bank	1,636
Creditors	(5,497)
Inter company creditor	5,243
Deferred taxation	(645)
	8,099
Disposal proceeds	8,189
Gain on disposal (note 9(c))	90
Satisfied by:	
Cash at bank transferred from subsidiary	1,608
Cash	6,581
	8,189

The profit attributable to the Group includes profits of £178,000 earned by St.Andrew's Park, Norwich Limited up to the date of disposal on 1 February 2002. There were £121,000 of expenses relating to the sale of St.Andrew's Park, Norwich Limited which have been shown through the Statement of Total Return.

10. Subsidiary undertakings

Name of undertaking	Principal activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held by: Company (%)	Group (%)
BEST Group Finance Limited	Non Trading	England	Ordinary	100	100
Kensington High Street Properties Limited	Non Trading	England	Ordinary	100	100
BEST Securities Limited	Dealing Subsidiary	England	Ordinary	100	100
Number One Securities Limited	Non Trading	Scotland	Ordinary	100	100
BEST Number 1 Limited	Non Trading	England	Ordinary	100	100
BEST Number 2 Limited	Non Trading	England	Ordinary	100	100
BEST Number 3 Limited	Non Trading	England	Ordinary	100	100
BEST Futures Limited	Non Trading	England	Ordinary	100	100

Notes to the Accounts continued

11. Significant interest and investment funds

(a) Significant interest

Details of investments in which the Company or Group has an investment of 20 per cent or more of 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 (%)
Hansa Trust plc	UK	A' Non Voting	44.90
The European Asset Value Fund	Luxembourg	Ordinary	22.00

(b) Investment funds

Investment funds held, managed or advised by companies within the same group as the Investment Manager are set out below. Arrangements are in place to avoid the double charging of fees.

Name of undertaking	Proportion of class held Company and Group (%)
Aberdeen New Dawn Investment Trust Plc	7.20
The European Asset Value Fund	22.00

12. Investments held by dealing subsidiary

	Group	
	2002 £'000	2001 £'000
Listed (at market value)	**6**	9

13. Debtors: amounts falling due within one year

	Company		Group	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts due from brokers	**124**	126	**124**	126
Tax recoverable	**417**	145	**417**	145
Prepayments and accrued income	**1,171**	1,624	**1,171**	2,009
Amounts owed from subsidiary undertakings	**-**	25,697	**-**	-
Other debtors	**59**	1	**59**	1
	1,771	27,593	**1,771**	2,281

14. Creditors: amounts falling due within one year

	Company		Group	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts due to brokers	**735**	3,235	**735**	3,235
Bank overdraft	**259**	-	**763**	-
Tax payable	**-**	158	**21**	757
Dividends	**2,401**	2,626	**2,401**	2,626
Amounts owed to subsidiary undertakings	**5,391**	-	**-**	-
Other creditors	**4,273**	2,993	**4,278**	3,063
	13,059	9,012	**8,198**	9,681

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

	Company 2002 £'000	Company 2001 £'000	Group 2002 £'000	Group 2001 £'000
10⅜ per cent Debenture Stock 2011	**11,883**	11,883	**11,883**	11,883
8⅛ per cent Debenture Stock 2023	**14,850**	14,843	**14,850**	14,843
Equities Index Unsecured Loan Stock 2013	**6,178**	8,330	**6,178**	8,330
	32,911	35,056	**32,911**	35,056

The movement on the 8 ⅛ per cent debenture stock 2023 represents the amortisation of issue expenses. The combined market value of the two Debenture Stocks as at 30 September 2002 was £33.8 million (2001: £32.9 million). The effect on the net asset value of deducting Debenture Stocks at market value rather than par is disclosed in note 19.

The Debenture Stocks are secured by a floating charge on all the assets of the Company.

During the year, 129,958 units of the Equities Index Unsecured Loan Stock 2013 were bought back by the Company for cancellation, at an average price of 240p per unit, leaving 3,428,997 units in issue at the year end.

16. Provision for liabilities and charges

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

	2002 £'000	2001 £'000
Provided		
In respect of the origination and reversal of timing differences	**69**	-
In respect of the possible disposal of investment property	**-**	637
The movement in the provision for deferred taxation is as follows:		
Opening balance	**637**	606
Transfer from Revenue Account on sale of St. Andrew's Park, Norwich Limited	**(637)**	-
Charge to revenue account	**69**	31
Closing balance	**69**	637

17. Called-up share capital

	2002 and 2001 Shares	2002 and 2001 £'000
Ordinary Shares of 10p each:		
Authorised	**245,000,000**	**24,500**
Allotted, called-up and fully paid:		
At 30 September 2001	**175,080,089**	**17,508**
Cancellation of Shares bought back by the Company	**(15,000,000)**	**(1,500)**
At 30 September 2002	**160,080,089**	**16,008**

During the year the Company bought back for cancellation 15,000,000 of its own Shares for a total consideration of £27,470,000 (2001: £2,241,000) representing 8.6 per cent (2001: 0.7 per cent) of the number of Ordinary Shares in issue at the previous year end.

The nominal value of the Shares bought back has been transferred to the capital redemption reserve.

Notes to the Accounts continued

18. Reserves

Group	Capital redemption reserve £'000	Share premium account £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Merger reserve £'000	Revenue reserve £'000
At 30 September 2001	1,427	28,078	255,086	(27,799)	41,406	10,264
Exchange losses	-	-	(281)	-	-	-
Net gain on realisation of investments	-	-	2,410	-	-	-
Amortisation of debenture issue expenses	-	-	(7)	-	-	-
Increase in unrealised appreciation of investments	-	-	-	(24,807)	-	-
Realised gain on sale of St. Andrew's Park, Norwich Limited	-	-	90	-	-	-
Expenses relating to the sale of St. Andrew's Park, Norwich Limited	-	-	(121)	-	-	-
Share buybacks	1,500	-	(27,470)	-	-	-
Depreciation of Equities Index Unsecured Loan Stock 2013	-	-	7	1,832	-	-
Performance element of management fee	-	-	(1,447)	-	-	-
Retained net revenue for the year	-	-	-	-	-	809
Corporation tax credited to capital	-	-	434	-	-	-
At 30 September 2002	**2,927**	**28,078**	**228,701**	**(50,774)**	**41,406**	**11,073**

Company	Capital redemption reserve £'000	Share premium account £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Merger reserve £'000	Revenue reserve £'000
At 30 September 2001	1,427	28,078	252,503	(21,790)	41,406	6,838
Exchange losses	-	-	(281)	-	-	-
Net gain on realisation of investments	-	-	2,410	-	-	-
Amortisation of debenture issue expenses	-	-	(7)	-	-	-
Increase in unrealised appreciation of investments	-	-	-	(27,436)	-	-
Share buybacks	1,500	-	(27,470)	-	-	-
Realised gain on sale of St. Andrew's Park, Norwich Limited	-	-	8,189	-	-	-
Realised loss on write off of intercompany loan receivable from St. Andrew's Park, Norwich Limited	-	-	(5,243)	-	-	-
Expenses relating to the sale of St. Andrew's Park, Norwich Limited	-	-	(121)	-	-	-
Depreciation of Equities Index Unsecured Loan Stock 2013	-	-	7	1,832	-	-
Performance element of management fee	-	-	(1,447)	-	-	-
Retained net revenue for the year	-	-	-	-	-	582
Corporation tax credited to capital	-	-	434	-	-	-
At 30 September 2002	**2,927**	**28,078**	**228,974**	**(47,394)**	**41,406**	**7,420**

19. Net asset value

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 values attributable (Company)		Net asset values attributable (Group)	
	2002	2001	2002	2001
	p	p	p	p
Ordinary Shares (basic)	**173.30**	186.18	**173.30**	186.18

	Net asset values per Share attributable (Company)		Net asset values per Share attributable (Group)	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Ordinary Shares (basic)	**277,419**	325,970	**277,419**	325,970

The movement during the year of the Group assets attributable to the Ordinary Shares were as follows:

	2002 Ordinary shares (basic) £'000	2001 Ordinary shares (basic) £'000
Total net assets attributable at beginning of year	**325,970**	356,337
Total recognised losses for the year	**(18,022)**	(24,795)
Share buybacks made during the year	**(27,470)**	(2,241)
Dividends appropriated in the year	**(3,059)**	(3,331)
Total net assets attributable at end of year	**277,419**	325,970

Basic net asset value per Ordinary Share is based on net assets and on 160,080,089 (2001: 175,080,089) Ordinary Shares being the number of Ordinary Shares in issue at the year end.

At the year end the net asset value per Share adjusted to include the Debenture Stocks at market value rather than par was 168.89p (2001:182.67p).

20. Reconciliation of operating revenue to net cash inflow from operating activities

	Group	
	2002 £'000	2001 £'000
Net revenue before finance cost and taxation	**7,683**	10,398
Decrease in stock of investments	**3**	11
(Decrease)/increase in creditors	**(910)**	1,167
Decrease/(increase) in investment income	**857**	(1,336)
(Increase)/decrease in other debtors	**(119)**	1
Performance fee charged to capital	**(1,447)**	(1,715)
Debtors and creditors sold on subsidiary	**28**	-
Tax on unfranked investment income	**(601)**	-
	5,494	8,526

Notes to the Accounts continued

21. Analysis of changes in net debt

	Group 2002 £'000	Group 2001 £'000
Balance at 1 October	**28,407**	79,596
Net cash outflow	**(24,971)**	(50,453)
Exchange losses	**(281)**	(736)
Balance at 30 September	**3,155**	28,407
Cash at bank and overdrafts	**3,155**	28,407

22. Analysis of changes in net debt

	At 1 October 2001 £'000	Cash flow £'000	Exchange movement £'000	Other non-cash movement £'000	At 30 September 2002 £'000
Cash at bank and overdrafts	28,407	(24,971)	(281)	-	**3,155**
Debt due after one year:					
10 3/8 per cent Debenture Stock 2011	(11,883)	-	-	-	**(11,883)**
8 1/8 per cent Debenture Stock 2023	(14,843)	-	-	(7)	**(14,850)**
Equities Index Unsecured Loan Stock 2013	(8,330)	313	-	1,839	**(6,178)**
	(6,649)	(24,658)	(281)	1,832	**(29,756)**

23. Financial instruments

The Group's financial instruments comprise equity and fixed interest investments, cash balances and borrowings. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings to achieve improved performance in rising markets. The risk of borrowings may be reduced by raising the level of cash balances or fixed interest investments held.

Investments held (see note 9) are valued at middle market prices which equate to their fair values. The market value of the Company's Debenture Stocks is disclosed in note 15. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS 13, other than for currency disclosures.

24. 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 the objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out on pages 18 to 20. The Company has not used derivatives to date as part of its investment strategy but reserves the right to do so in the future.

25. Interest rate and liquidity risk

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 held in sterling and foreign currencies is the bank base rate which was 4% at the balance sheet date.

	2002 £'000	2001 £'000
The Company had the following floating rate liability:		
Equities Index Unsecured Loan Stock 2013 ('EIULS')	**6,178**	8,330

The interest and capital liabilities of the EIULS move in accordance with movements in the income and capital returns of the FTSE All-Share Index. This exposure may be reduced by investing in fixed assets expected to perform in line with FTSE All-Share Index.

Fixed rate

The Company holds fixed interest and index-linked investments and has fixed interest liabilities.

At 30 September 2002, these were: Fixed interest investments:	2002 £'000	2002 Average interest rate	2002 Average period until maturity	2001 £'000	2001 Average interest rate	2001 Average period until maturity
UK 6.5% 2003 and 8% loan 2002-2006 and 2.5% Index linked 2003	**56,008**	**3.41%**	**1 year**	-	-	-
UK 6.5% and 7% stock 2003 and 2002 and 2.5% Index linked 2003	-	-	-	88,768	5.70%	2 years
US 3.5% Index linked 2011	-	-	-	7,140	3.50%	10 years
Australia 4% Index linked 2015	-	-	-	6,524	4.0%	14 years
New Zealand 4.5% Index linked 2016	-	-	-	7,219	4.50%	15 years
Fixed interest liabilities:						
10 3/8 and 8 1/8 per cent Debenture Stocks 2011 and 2023	**26,733**	**9.10%**	**15 years**	26,726	9.10%	16 years

The Company is potentially exposed to payment of a penalty in the event that the Debenture Stock is repaid before maturity (see page 21).

In respect of liquidity risk, the Company's assets comprise mainly realisable securities. Short term flexibility is achieved by retaining cash and, where necessary, through the use of overdraft facilities.

Notes to the Accounts continued

26. Foreign currency risk

The Company invests in overseas securities and holds foreign currency cash balances which gives rise to currency risks. It is not the Company's policy to hedge this risk but reserves the right to do so in the future.

Foreign currency exposure by currency of denomination:

	2002 Investments £'000	2002 Cash £'000	2001 Investments £'000	2001 Cash £'000
US Dollars	**46,380**	**865**	59,359	203
Euros	**75,234**	**(404)**	65,972	143
Swedish Kroner	**5,822**	**-**	2,698	650
Norwegian Kroner	**6,154**	**-**	5,786	-
Yen	**-**	**-**	414	-
Canadian Dollars	**13,599**	**36**	12,651	27
Hungarian Forint	**8,427**	**-**	4,721	-
Australian Dollar	**4,327**	**14**	6,524	-
South African Rand	**7,343**	**2**	-	-
New Zealand Dollar	**-**	**31**	7,219	-
Total	**167,286**	**544**	165,344	1,023

The Company owns shares in collective investment funds where the currency of denomination differs from the currency of underlying assets.

27. Contingencies, guarantees and financial commitments

At 30 September 2002 the Group had no contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2001: £nil).

Directors' Responsibility Statement and Independent Auditors' Report

to the Members of the British Empire Securities and General Trust p.l.c.

Directors' Responsibility Statement

The Directors are required by law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the revenue 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 financial statements have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements. Applicable UK accounting standards have been followed.

Independent Auditors' Report to the shareholders of British Empire Securities and General Trust p.l.c.

We have audited the Group's financial statements for the year ended 30 September 2002 which comprise the Statement of Total Return of the Group, Group Balance Sheet, Company Balance Sheet, Consolidated Statement of Cash Flows and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for audit or if the information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules 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 Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Company Summary, Financial Highlights Statement, The Company's History, Historical Record, Investment Manager's Review, Investment Portfolio, Capital Structure, Board of Directors, Directors' Responsibility Statement, Shareholder Information, Notice of Annual General Meeting and Company 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.

Directors' Responsibility Statement and Independent Auditors' Report continued

Basis of Audit 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 financial statements. 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 Group'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 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2002 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 LLP

ERNST & YOUNG LLP
Registered Auditor
London

21 November 2002

Shareholder Information

Shareholders
At 30 September 2002 there were 4,435 Ordinary Shareholders in the Company (2001: 4,362 Ordinary Shareholders).

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 Lloyds TSB Registrars, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1XY 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 addresses.

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 Lloyds TSB Registrars, 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 Customer Services on 0500 00 0040 or via the website, www.british-empire.co.uk

Financial Calendar 2002/2003

19 December 2002	Annual General Meeting
9 January 2003	Final and special dividends paid on Ordinary Shares
May 2003	Announcement of interim results
May 2003	Posting of Interim Report
June 2003	Interim dividend paid on Ordinary Shares
November 2003	Announcement of annual results
November 2003	Posting of Annual Report
December 2003	Annual General Meeting

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Thirteenth Annual General Meeting of British Empire Securities and General Trust p.l.c. will be held at Grocers' Hall, Princes Street, London EC2R 8AD at 12 noon on Thursday, 19 December 2002 for the following purposes:

Ordinary Business

1. To receive and adopt the financial statements for the financial year ended 30 September 2002 together with the Reports of the Directors and Auditors thereon.

2. To approve the final dividend of 1.1 pence per Ordinary Share.

3. To approve the special dividend of 0.4 pence per Ordinary Share.

4. To re-elect Mr I. S. Robertson CBE, a Director retiring by rotation under the Articles of Association.

5. To re-elect Sir David Kinloch Bt, a Director retiring by rotation under the Articles of Association.

6. To re-appoint Ernst & Young LLP as the Company's Auditors.

7. To authorise the Directors to fix the Auditors remuneration.

Special Business

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

8. 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 2004 and shall be limited to:

   (i) the allotment of any such securities having an aggregate nominal value not exceeding £800,400 (5 per cent of the equity share capital in issue on 21 November 2002); and

   (ii) the allotment of equity securities at a price of not less than net asset value per share on the day preceding allotment or, if earlier, the agreement to allot,

   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.

9. THAT the Company be and is hereby authorised in accordance with Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163 of the said Act) of the Ordinary shares of 10p each in the Company (the 'shares') provided that:

   (i) the maximum number of shares hereby authorised to be purchased is 23,996,005.

   (ii) the minimum price which may be paid for a share shall be £0.10;

   (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be 5 per cent above the average of the mid market values of the shares on the Official List of the London Stock Exchange for the 5 business days before the purchase is made; and

   (iv) unless reviewed, the authority hereby conferred shall expire on 31 January 2004 save that the Company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By Order of the Board

For and on behalf of Aberdeen Asset Management PLC
Secretary
One Bow Churchyard
Cheapside
London EC4M 9HH
21 November 2002

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 of attorney, to reach the Registrars at the address printed on the form of proxy not later than 12 noon on 17 December 2002.
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 Grocers' Hall for fifteen minutes prior to and during the Meeting.
4. There are no service contracts between any of the Directors and the Company.

Company Information

Directors
William Gawne Fossick, (Chairman)
Clive Mace Gilchrist
Sir David Oliphant Kinloch Bt
Iain Samuel Robertson CBE
John Cannell Walton

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One Bow Churchyard
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Investment Manager
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London EC4M 9HH

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Registrar's Shareholder Helpline
Tel. No. 0870 6015366

Registrar's Broker Helpline
Tel. No. 0906 5596025

Corporate Broker
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Secretary
Aberdeen Asset Management PLC

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For further information contact Customer Services on 0500 00 00 40