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British Empire

Securities and General Trust p.l.c.



AVI

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.

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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 2004 was £431 million and the market capitalisation was £423 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: 0870 600 9966)

Capital Structure

The Company 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 ('NAV') increases by over 23% to an all-time high**
- **NAV outperforms MSCI World Index by 17 percentage points**
- **Discount continues to narrow, below 2% at the year-end**

Performance Summary

	30 September 2004	30 September 2003	% change
Capital Return			
Net asset value per Share	269.30p	217.59p	23.76
Share price (mid market)	264.50p	204.50p	29.34
Total assets less current liabilities	£461.44m	£381.64m	20.91

Indices

Datastream Global Growth Investment Trust Index*	2,949.87	2,629.95	12.16
Morgan Stanley Capital International World Index (£ adjusted capital return)	583.10	546.87	6.62

Revenue and Dividends

Income	£9.17m	£8.16m	12.38
Earnings per Share	2.28p	1.70p	34.12
Ordinary Dividends per Share	1.70p	1.55p	9.68

Discount (difference between share price and net asset value)

1.78%	6.02%	-
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Total Expense Ratio

(as percentage of average shareholders' funds)

Management, marketing and other expenses	0.86 %	0.79%	-
Performance fee	0.38 %	0.24%	-

2004 Year's Highs/Lows

	High	Low
Net asset value per Share	270.65p	219.08p
Share price (mid market)	265.00p	203.75p

Share Buy-backs

The Company did not purchase any of its Ordinary Shares for cancellation during the year. The Company purchased 146,930 units of Equities Index Unsecured Loan Stock 2013 for cancellation for £318,452.

The Company also purchased £3,368,382 in nominal value of its 10³/₈ per cent. Debenture Stock 2011 for cancellation for £4,225,478 including accrued interest of £65,526.

* Index (based on total return) is subject to daily revision and the latest published figure is at 12 November 2004.

Chairman's Statement

The past year has been another excellent one for your Company with strong performance in both absolute and relative terms. The Company's net asset value per share increased by 24.5% on a total return basis compared to a rise in the MSCI World total return Index of 8.9%, while the FTSE All-Share Index rose 15.7% and the Datastream Global Growth Investment Trust Index (our benchmark) rose 12.2%.

Over 3 years the net asset value total return per share has grown by 48.2% compared to a fall in the MSCI World Index of 1.4%.

Iain Samuel Robertson CBE
Chairman

Over 5 years the Company's performance* remains 1st out of 28 Global Growth Trusts.

A second year of rising markets has borne out our belief two years ago that markets were cheap and oversold. The Trust's NAV total return has risen 57.3% during the last two financial years beating the MSCI World Index, which rose by 29.4% over the same period. The differences between the valuations of growth and value stocks and between small cap and large cap have narrowed dramatically over the two years. Bargains are harder to find in a world in which valuations have converged. Our Manager has become more cautious on the direction of equity markets in general. Nevertheless, we remain confident in their ability to uncover attractive opportunities in our specialist area of expertise. We have made an encouraging start to the new financial year and we shall continue to seek out value from our portfolio, current and prospective.

The income account was very healthy largely due to higher dividends from our investments as we re-balanced our portfolio during the year. On the back of this the Board is pleased to recommend an increase in the final dividend from 1.15p to 1.30p per share making a total dividend for the year of 1.70p, an increase of almost 10%.

Last year I informed Shareholders that our Manager, Asset Value Investors (AVI), had become employee owned. I am glad to say that the transition of the support functions including fund administration, accounting and secretarial services has gone smoothly. The Board was also heavily involved in implementing a new and updated management agreement with AVI, details of which are included later in this report.

**"The Trust's
NAV total
return has
risen 57.3%
during the last
two financial
years"**

* Cazenove (Total Return NAV)

In his second year in sole charge of the Company's investments, John Pennink has delivered another outstanding performance and investor confidence is indicated by the fact that the discount on which our shares trade has narrowed to just 1.8%. During the year our marketing efforts have been targeted at increasing our retail investor base and I am pleased to report that retail investors have increased by 21% since the start of the year. I am sure that our new investors have been influenced by the performance of our management team and I would like to welcome all new investors to British Empire. We would love to continue this year's performance level going forward but it is worthwhile reminding investors that our investment philosophy is to seek out long-term value and there will be periods when it will not be possible to deliver such outstanding returns. However, we do believe that our investment philosophy is proven and will continue to deliver long-term value to Shareholders.

Modified FSA Listing Rules require each Investment Trust to make a statement in the Annual Report affirming that the continuing appointment of the investment manager is in the best interests of the Shareholders. Shareholders will find our official statement in its proper form later in the report but I would just like to say here that in view of the outstanding performance outlined above, both in performance terms and in the day to day operations of the Trust, the Board had no difficulty in confirming the re-appointment of our Manager.

The Board is also aware of the possible effects of the new International Financial Reporting Standards (IFRS) on the results of your Company. Preliminary figures suggest that reductions in asset value from moving to bid rather than mid market prices on our investments will not be material to the overall value of your Company with possible offsets arising from asset revaluations at some of our investee companies as they also move to the new reporting regime.

As I indicated here last year, John Walton had offered to resign as a Director because of his concerns about potential conflicts of interest arising from the management buy-out of AVI and his longevity on the Board. We decided then to ask John to remain as a Director, subject to annual re-election by Shareholders, not least because experience of more than one investment cycle can be valuable to the Board of an investment trust. We have again discussed with John whether he wishes to seek re-election this year but

Chairman's Statement continued

have reluctantly come to the conclusion that we shall not be proposing this at the forthcoming Annual General Meeting.

John's wisdom and passion for investing will be missed by all the Board but John, in his role as Chairman of AVI, will remain available to the Board as we deem fit and, in particular, he will join us for our annual strategy session when we review the long-term direction of the Trust. It was John's vision that started British Empire on its path of searching for 'undervalued assets' all those years ago. The philosophy is now well proven and robust and Shareholders have benefited tremendously from his insights and hard work. The Board is sure that Shareholders would like to join us in thanking him for his remarkable 20 year contribution to the Company.

I should like to welcome John May who joined the Board on 15 December 2003 and has already made a very positive contribution to our deliberations. I would also like to thank my fellow Directors for their support and particularly for meeting the extra demands on their time during this transitional year.

As in previous years, the Directors would like to invite Shareholders to a buffet lunch following the AGM. If you would like to attend, please reply on the enclosed card.

Iain Samuel Robertson CBE

Chairman

17 November 2004

The Company's History

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 10 $\frac{3}{8}$ % 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 ('NAV') per Share rose 27% outperforming the MSCI World Index by 7 percentage points.

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

2001

Company outperforms the MSCI World Index by 20 percentage points.

2002

Company outperforms the MSCI World Index by 19 percentage points.

2003

Company outperforms the MSCI World Index by 9 percentage points.

2004

NAV per Share and Share price reached all-time highs, 270.7p and 265.0p respectively. The Company's NAV outperforms the MSCI World Index by 16 percentage points, on a total return basis, its sixth consecutive year of outperformance.

Historical Record

Year ended 30 September	Group net revenue return £'000	Earnings per Share p	Dividend per Share p	Net assets £'000	Basic net asset value per Share p
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
2003	2,726	1.70	1.55	348,326	217.59
2004	3,651	2.28	1.70	431,101	269.30

On 6 October 1995 the Company's offer for Selective Assets Trust plc was 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 Datastream Global Growth Investment Trust Index and the Morgan Stanley Capital International World Index

(£ adjusted total return)

Investment Manager

Asset Value Investors Limited

Asset Value Investors Limited ("AVI"), the Company's investment manager, specialises in quoted 'undervalued asset' securities. The company manages, in addition to British Empire Securities, The European Asset Value Fund (SICAV), CF Asset Value Investors Global Fund (OEIC), AVI Value Fund (LLC) and certain endowment funds. Funds under management have grown from £6 million in 1985 to above £800 million today. On 30 September 2003 Aberdeen Asset Management PLC sold AVI to the management of AVI.

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 has recently won several awards:

Investment Week

1st place - Global including US, Investment Trust of the Year Awards, 2004.

Moneywise

1st place - Global category, 2004.

The Association of Investment Trusts

Commended - The Best Information to Shareholders Award - Best Generalist Annual Report, 2004.

Bloomberg Money Investment Awards

Highly Commended - Best International Generalist Trust, 2004.

John Pennink

is a Chartered Financial Analyst (CFA) and is Chief Executive Officer of Asset Value Investors and the Fund Manager responsible for the British Empire Securities & General Trust portfolio.

Investment Manager's Review

Macarthur Coal

was the Company's best performing holding this year. The Australian metallurgical coal miner's share price has reacted positively to a very tight coking coal market. Internal demand in China has reduced supply for export.

The three and five year performance is as reported in the Chairman's Statement. In the nineteen years since the rights issue in 1985, NAV total return has shown a 966.5% gain, compared to an AITC Global Growth average of 503.1% and a return on the MSCI World Index of 442.1%.

During the year, British Empire's NAV rose 24.5% and the share price rose 30.1% on a total return basis. The NAV outperformed the Datastream Global Growth Investment Trust Index by 12.3 percentage points and the MSCI World Index by 15.6 percentage points on a total return basis.

Strong global GDP growth and low rates underpinned a second year of rising equity markets. Low rates in the United States sent investors scrambling for higher yielding, or perhaps, just potentially higher returning speculative assets. The extent to which rises in the markets reflect positive fundamentals or are due to 'carry trade' speculation is unclear. Either way, we have seen rising NAVs and a narrowing of discounts in many of our stocks over the past year. Recently, we have taken some profits and our net cash position has increased to 5.3%.

The major *gainers* are as follows: Macarthur Coal +196%, Jardine Strategic +78%, Wendel Investissement +52%, Beni Stabili +50%, Atlantis Japan Growth +45%, Danubius Hotels +43%, Hansa Trust +39%, Eastern European Trust +37%, FFP +35%, Galeries Lafayette +34%, Orkla +34%, GBL +31%, European Asset Value +31%, Prospect Japan Fund +27%.

The pendulum of investor sentiment swung further away from pessimism and towards optimism over the past year in equity markets. Reflationary and cyclical companies did well in the first half and we benefited from this trend in Japan,

emerging markets and mining stocks. During the second half of the year, progress in these areas became more difficult and it has become apparent that growth is facing headwinds in the form of higher energy prices and higher interest rates. Global growth and also profits growth seem to have already peaked for this cycle. Investors in 'reflation plays' have had to try to balance a loss of cyclical momentum against longer term structural positives.

The most important development of the next decade will likely be the rise of China as an industrial power. Investors have been fretting about the possibility of a slump in Chinese demand this year or next. While the Chinese authorities have been using administrative measures to rein in over-investment, growth has so far remained robust. The latest official figures show fixed investment growing at 28% for the first 9 months of 2004 and GDP growing at 9.5%. Commodity suppliers to China have so far seen no let up in demand. Among the beneficiaries of China's remarkable growth are energy producers, mining companies and the economies that are exposed to raw materials production. These are long term themes that we expect to be relevant for the next few years. Slowing cyclical momentum may cause a correction which would be a buying opportunity for China related themes.

The imbalances in the global economy have yet to be resolved but ultimately favour a rebalancing of purchasing power and demand away from the US and towards the growing economies of Asia. No serious attempt is being made to reduce the US budget deficit, which stands at \$415bn (compared with a \$236bn surplus 4 years ago). The US current account deficit, now running at just under 6% of GDP, will be corrected at some point and will likely involve a sharp fall in the US\$. So long as nations are competing to weaken their currencies, gold is of interest.

Corporate governance trends are improving in two of our key investment areas – European investment holding companies and UK investment trusts. The move towards simplification of investment holding company structures in Europe is continuing. During the past year we have benefited from a reorganisation of the listed investment holding companies in the Lazard and Rothschild groups.

Over the past year, we have had reconstructions in three of our Investment Trust holdings: Capital Opportunities Trust, Eastern European Trust and Henderson Electric and General Trust. In December, the Capital Opportunities Trust was reconstructed and we redeemed our shares for NAV minus costs after having bought the trust on a discount in the mid-teens. Eastern European Trust is a good performing trust that had a continuation vote in 2004. After consultations with shareholders, the Board of the trust offered a tender to purchase 25% of the ordinary shares at a discount of 5% to NAV. The tender allowed us to sell 34.5% of our holding in Eastern European Trust at a discount much lower than our entry level or the prevailing

Eurazeo is the product of the merger earlier this year of Rue Imperiale and Eurazeo. The company is focusing its efforts on private equity investments in France. Eutelsat (*pictured*) is one of the world's leading operators of communications satellites. Eurazeo invested into Eutelsat in April 2003 and it is the largest single investment in Eurazeo's private equity portfolio.

Investment Manager's Review continued

market level at that time. Henderson Electric and General Trust has also announced a tender offer, for 50% of their shares at a discount of 5% to NAV after deducting some costs. At the same time, the Board has switched the management contract to Taube Hodson Stonex. We wrote last year that we were in consultation with the Board of Henderson Electric and General Trust on the issues of performance and discount. We are supportive of the changes made and believe that the supply and demand for the trust's shares should be better balanced in the future.

Investment trusts are now under the requirement, according to the modified listing rules, to make a statement as to, 'whether the continuing appointment of the investment manager on the terms agreed is in the best interests of shareholders, together with a statement of the reasons for this view'. We believe this has had the effect of focusing minds on the Boards of trusts that have underperformed over the long term. The result should be a reduced tolerance for sustained underperformance and more corporate activity in the sector.

Portfolio Review

Investment Holding Companies 27.8%

Eurazeo

The merger this year of Rue Imperiale and Eurazeo is the culmination of a restructuring process that has resulted in the elimination of three of the four Lazard holding companies existing in 2000. Eurazeo rose a relatively modest 12% during the year but, with the prospect of a divestment of the interest in Lazard, strong results from the private equity interests and, not least, considerable upside in the Lyon and Marseilles property estates, the potential for asset growth and significant buyback activity looks promising.

Wendel

Our holding produced a spectacular performance for the second year running as the strongly implemented focus on private equity paid off in terms of net asset value growth. The investment in Legrand in 2002 – then the largest private equity transaction in Europe – appears to have been exceptionally well-timed. The recent flotation and divestment of BioMerieux and investment in publisher Editis (ex-Lagardere) has been followed by the announced intention to buy the remaining 66% of Bureau Veritas, one of Wendel's great long term successes. Such performance and activity suggests the discount (currently 23%) should narrow further.

Francarep

Francarep is a French investment holding company with direct private equity investments, listed French stocks and property in France, Germany and Poland. In September 2004, its 74% shareholder Paris Orleans announced an all share offer for

Wendel bought a 37.4% interest in Legrand alongside private equity firm KKR. Legrand (*pictured*) is the world leader for key component systems for electrical installation and information networks. It has 18% of the global market for switches and 15% for wire management products.

the minorities, whereby shareholders in Francarep would receive shares in Paris Orleans. Paris Orleans' main asset, apart from the Francarep holding, is a 50% stake in Rothschild Concordia BV, which in turn owns stakes in the recently integrated international Rothschild banking businesses. Following completion of the merger – expected at the end of October 2004 – the banking interests will represent approximately half the value of the company and the other half would be represented by the Francarep investment portfolio.

Ackermans & van Haaren

Ackermans & van Haaren is a Belgian investment holding company with interests in dredging, private banking, recruitment and private equity. It had a disastrous time in 2002 and early 2003 with problems in most of its areas of focus. Disputes with the Indonesian government affected its dredging business. Major write-downs on its private equity portfolio impacted on its NAV, and finally the timing of its investment into a European temporary recruitment agency coincided with an economic slowdown in Europe. We bought into the company on a wide discount and a share price down approximately 50% from its peak. Progress has been made in resolving its disputes with the Indonesian government; the private equity portfolio is achieving valuation surpluses on disposals, and the environment for the recruiting business appears to be improving. We estimate it is now trading on a discount of 20%.

Investment Trusts 21.7%

Discounts are generally lower today than they were one year ago in the Investment Trust sector. Despite this general trend, there are always opportunities. Global Growth trusts were trading on discounts approaching 20% earlier in the year. Their underlying holdings are liquid and the risk of holding them may have diminished as the underperformance of large vs. small and mid cap stocks in most markets may be coming to an end. In addition to our holding in Henderson Electric and General Trust, we have bought positions in Witan and Scottish Investment Trust.

Henderson Electric and General Trust

Asset Value Investors became the largest shareholder in Henderson Electric and General Trust last year with our holding eventually reaching 12.9% (British Empire owned 9.0%). We were concerned that the trust was not performing and the discount was too wide. The Board took decisive action in September and replaced the investment manager as well as putting in place a tender for 50% of the ordinary shares to remove the overhang of stock. The discount narrowed from 17% to 7% following the announcement.

Hansa Trust

Good stock picking and a narrowing discount have led to a very good performance from Hansa over the year. Large positions in Ocean Wilsons, Glenmorangie and Cairn Energy have led the way.

Hong Kong based
Hang Lung Group
currently has 4
properties in
development that it is
selling into a recovering
residential market.
The company is also a
property investor with
30% of its portfolio in
Shanghai (Plaza 66,
Shanghai pictured).

Investment Manager's Review continued

Property-related 10.8%

Western European property markets have re-rated on the back of a search for yield and the introduction of tax-efficient REIT structures in many markets. The European Asset Value Fund has benefited from these trends. In Asia, the property markets are in many cases just recovering from their Asian crises and SARS related lows. We are positive on property in Hong Kong, Singapore and Tokyo and are seeking to buy into these areas at discounts through the listed markets.

Hang Lung Group

Hang Lung Group is a Hong Kong listed property company whose principal asset is a holding in another Hong Kong property company called Hang Lung Properties. The majority of Hang Lung's portfolio is invested in Hong Kong. However, approximately 30% of the investment portfolio is invested in China. We estimate that Hang Lung Group is trading at a discount of 37% to its net asset value.

European Asset Value Fund

The fund invests mainly in property investment companies in Western Europe. The strong performance has been driven by legislation in France and, the prospect of similar legislation elsewhere allowing tax efficient real estate investment structures.

Société de la Tour Eiffel

Société de la Tour Eiffel has been transformed into an active French property company that invests mainly in regional France. The attraction of this area of the market is the relatively high yields that these properties produce, which should feed through to a high dividend yield on the shares. The iconic Tower was transferred to the City of Paris in 1979.

Commodity/Resources 10.9%

Sharp corrections in commodity prices have occurred from time to time this year as investors worried that the major source of growth in demand, the Chinese economy, was cooling. We take the view that the industrialisation of China will inevitably result in higher demand for many commodities and we are trying to position ourselves in commodities in which we believe there are supply constraints. Coking coal and nickel are two of our favourite commodities.

Macarthur

Macarthur Coal produces metallurgical PCI coal in Queensland, Australia. The expansion of steel production in China has left producers worldwide competing for access to metallurgical coal. Price settlements for next year are forecast to be extremely strong. Macarthur is trading 20% below its net present asset value.

We bought into the **Prospect J REIT**, which invests into Tokyo residential property, pre-IPO on a portfolio yield of 5.9%. This is very attractive in the Japanese context and compares favourably with listed Japanese REITs which yield below 4%.

LionOre

LionOre is a Canadian listed nickel miner with operations in Australia and Botswana. A recently concluded deal to acquire the nickel assets of MPI should allow a 50% increase in production and be earnings accretive.

Japan 12.3%

The Japanese equity market has stalled in recent months but the economy should continue to recover next year. We believe there is still value in Japanese smaller companies and that restructuring should drive returns higher.

Prospect Japan

Prospect Japan is an investment trust investing in smaller Japanese companies. The manager has a good track record and this is reflected in the discount to NAV which narrowed over the year to approximately 5% - amongst the lowest in the sector.

Prospect J REIT

Prospect J REIT is a limited partnership investing in residential property in Tokyo. Tokyo property prices have begun to increase in value following their extended downturn. There are signs that demand is strengthening and this should feed through to higher rental and capital values. The fund plans an IPO on the Tokyo Stock Exchange early next year. The JREIT sector of the market has performed well as Japanese institutional and retail investors search for yield.

Italian property company **Beni Stabili** is making progress in its asset management arm in launching new third party funds aimed at the institutional and retail markets. The assets managed in a joint venture with Banca Intesa are showing strong performance and contributing to profits on sale.

Investment Manager's Review continued

Emerging Markets 4.9%

Emerging markets outperformed their developed counterparts for the third year running. Emerging markets generally are no longer as desperately cheap as they were relative to developed markets and we have taken some profits.

Danubius Hotels

A recovery in Hungarian tourism drove the share price of this hotel chain higher last year. The company has had a difficult couple of years following the global travel decline post 9/11. Occupancy is now picking up and we believe the market cap significantly undervalues the company's property assets.

Mersey Docks

(above and below)
operates the Port of
Liverpool and 3 other
port operations in the
UK. Increased shipping
volume is boosting
revenues and profits.
The property division
is accelerating the
redevelopment of
redundant dockland
into residential and
commercial space.
The company has
strong cashflows and
has a stated intention
of buying back shares.

Edinburgh Dragon

The manager of Edinburgh Dragon, Jeremy Whitley, has recently relocated to Singapore to join Hugh Young and his successful team at Aberdeen. We still like the Asian markets and believe that the discount differential of more than 7% to Aberdeen New Dawn is too high.

Liquidity 11.5%

This is held in the form of short dated British Government securities and cash deposits with banks.

Geographic Profile

Gross Assets of £461.4m were distributed (on a look-through basis) as follows: Continental Europe 27.9%, UK 24.8%, Asia Pacific 13.8%, Japan 12.3%, Canada 4.8%, EMEA 4.9% and Liquidity of 11.5%.

Net Asset Value Total Returns: % Change

	Since 30/06/85	10 years	5 years	3years	1 year
British Empire	967	187	75	48	24
AITC Global Growth	503	98	3	10	13
MSCI World (£)	442	77	14	-1	9

Source: AITC, Fundamental Data and Datastream

Outlook

Rising equity markets over the past two years have left very few overlooked and oversold sectors and markets. The rising tide has lifted all boats. We must be careful not to compromise on quality in search of value at this stage of the cycle. Some of the companies which appear cheap today in relation to their assets have assets of deteriorating profitability and questionable liquidation value. These are not our typical 'good quality assets at a discount'. We will have to maintain our investment discipline and this may mean a higher cash weighting at some stage if opportunities are not sufficiently attractive. Improved corporate governance should mean, however, that there is more scope for the narrowing of discounts than in the past. New value opportunities will emerge as they always do if we are patient.

John Pennink

Asset Value Investors Limited

17 November 2004

Investment Portfolio

As at 30 September 2004

Company	Nature of business	% of class	Cost £'000	Valuation £'000	% of total assets less current liabilities
Hansa Trust Ordinary & 'A' shares*	Investment Company	2.6 & 42.9	15,120	30,310	6.57
Eurazeo	Investment Holding Company	1.5	17,409	26,699	5.78
Henderson Electric & General	Investment Company	9.0	17,220	21,484	4.66
Jardine Strategic Holdings	Investment Holding Company	0.5	10,365	20,996	4.55
Law Debenture	Investment Company	6.4	16,621	16,325	3.54
Prospect Japan Fund	Investment Company	18.3	10,888	16,243	3.52
Wendel Investissement	Investment Holding Company	0.8	7,456	14,270	3.09
Compagnie Nationale à Portefeuille	Investment Holding Company	0.7	9,978	12,755	2.76
Encana Corporation	Oil & Gas Company	0.1	9,912	12,585	2.73
The European Asset Value Fund	Investment Company	22.5	3,816	10,469	2.27
Top ten investments			118,785	182,136	39.47
Francarep	Investment Holding Company	3.8	6,893	8,494	1.84
Lundbergforetagen 'B'	Investment Holding Company	1.0	6,969	7,702	1.67
Advance UK Trust	Investment Company	13.6	6,353	7,583	1.64
Hang Lung Group	Real Estate Company	0.7	7,193	7,512	1.63
Investor 'A'	Investment Holding Company	0.4	6,428	6,936	1.50
JP Morgan Fleming Japan Smaller Companies Trust	Investment Company	8.5	6,118	6,817	1.48
Overseas Union Enterprise	Investment Holding Company	1.6	6,277	6,638	1.44
Danubius Hotel and Spa	Hotel Company	6.3	5,966	6,427	1.39
Macarthur Coal	Mining Company	2.9	2,430	6,238	1.35
Wheelock & Company	Investment Holding Company	0.4	3,718	6,129	1.33
Top twenty investments			177,130	252,612	54.74

Company	Nature of business	% of class	Cost £'000	Valuation £'000	% of total assets less current liabilities
Eastern European Trust	Investment Company	8.3	3,518	5,944	1.29
Mersey Docks & Harbour	Harbours & Property	1.0	5,197	5,891	1.28
Kleinwort Capital Trust	Investment Company	10.6	4,360	5,280	1.15
Scottish Investment Trust	Investment Company	0.8	4,981	5,232	1.13
Ackermans & van Haaren	Investment Holding Company	1.0	4,490	5,181	1.12
BGL Investment Partners	Investment Holding Company	3.7	4,794	5,095	1.10
Groupe Bruxelles Lambert	Investment Holding Company	0.1	4,278	5,079	1.10
LionOre Mining International	Mining Company	0.9	3,795	5,079	1.10
Fidelity Japan Values	Investment Company	8.5	3,943	5,056	1.10
Baillie Gifford Japan Trust	Investment Company	5.5	4,249	5,035	1.09
Top thirty investments			220,735	305,484	66.20
Industrivarden 'C'	Investment Holding Company	0.9	4,143	5,028	1.09
Petro-Canada	Oil & Gas Company	0.1	4,911	5,012	1.09
Fording Canadian Coal Trust Units	Mining Company	0.3	4,644	4,821	1.05
Beni Stabili	Real Estate Company	0.6	3,247	4,629	1.00
Witan Investment Trust	Investment Company	0.4	4,176	4,302	0.93
Prospect Residential Japan Fund	Investment Partnership	5.0	4,331	4,212	0.91
Vietnam Enterprise Investments	Investment Company	11.1	3,514	3,788	0.82
Société de la Tour Eiffel	Real Estate Company	3.4	3,212	3,544	0.77
Sangetsu	Housing Goods & Textiles	0.6	3,107	3,471	0.75
India Capital Funds	Investment Company	7.8	3,039	3,419	0.74
Top forty investments			259,059	347,710	75.35

Investment Portfolio continued

Company	Nature of business	% of class	Cost £'000	Valuation £'000	% of total assets less current liabilities
Aedes	Real Estate Company	1.3	3,234	3,188	0.69
African Rainbow Minerals	Mining Company	0.5	3,719	3,171	0.69
Kinnevik 'B'	Investment Holding Company	0.3	3,587	3,123	0.68
Rallye	Holding Company	0.3	3,661	3,112	0.68
Rutland Trust	Investment Company	4.3	2,795	3,055	0.66
Fleming Japanese Investment Trust	Investment Company	0.9	2,580	3,037	0.66
Mvelaphanda Resources	Mining Company	1.0	3,239	2,688	0.58
Oxus Gold	Mining Company	2.5	2,693	2,673	0.58
Edinburgh Dragon Trust	Investment Company	1.5	2,482	2,463	0.53
Oryx International Growth Fund	Investment Company	17.1	1,530	2,457	0.53
Top fifty investments			288,579	376,677	81.63
Aberforth Smaller Companies	Investment Company	0.5	2,324	2,393	0.52
Total value of investments over 0.5%			290,903	379,070	82.15
Other equity investments (33)			26,782	28,677	6.21
Treasury 8.5% 07/12/2005	UK Government Security	-	26,215	26,130	5.66
Treasury 6.75% 26/11/2004	UK Government Security	-	21,797	21,625	4.69
Treasury 2% Index-linked 19/07/2006	UK Government Security	-	5,332	5,363	1.16
Impax Group 5.5% 31/03/2009	UK Bond	-	653	676	0.15
Total investments			371,682	461,541	100.02
Net current liabilities				(106)	(0.02)
Total assets less current liabilities				461,435	100.00
*Hansa Trust 'A' (non-voting)				27,815	
*Hansa Trust Ordinary				2,495	

Capital Structure

As at 30 September 2004

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 2004 there were 160,080,089 (2003: 160,080,089) 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, final and (where applicable) special 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 2004 there were two tranches of Debenture Stock: £8,514,940 (2003: £11,883,322) 10³/₈ per cent Debenture Stock 2011 and £15,000,000 (2003: £15,000,000) 8¹/₈ per cent Debenture Stock 2023.

The Company purchased £3,368,382 10³/₈ per cent Debenture Stock 2011 for cancellation on 6 September 2004.

Income entitlement:

The holders of Debenture Stock are entitled to interest paid half-yearly at the rate of 10³/₈ per cent and 8¹/₈ per cent respectively, per annum.

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 10³/₈ per cent Debenture Stock at a premium based on its market price and in the case of the 8¹/₈ per cent Debenture Stock on the equivalent gilt yield. Had the Company been liquidated on 30 September 2004 such premiums would have amounted, in aggregate, to £7.8 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 2013 ("Index Stock")

At 30 September 2004 there were 3,061,267 units of Index Stock in issue (2003: 3,208,197).

During the year the Company purchased 146,930 units of Index Stock for cancellation.

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 in the year to 30 September 2004 amounted to £71.69 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 2004 amounted to £2.27167 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

Iain Samuel Robertson CBE (left)

Status: Independent Non-Executive Chairman

Age: 58 *Length of Service:* 9 years, appointed Chairman on 19 December 2002

Experience: A Director of The Royal Bank of Scotland Group plc and John Menzies plc and, Chairman of BT Scotland and Cairn Capital. Formerly a Director of Selective Assets Trust plc which was acquired by the Company in 1995

Last re-elected to the Board: Up for re-election in 2004

Committee membership: Audit Committee, Management Engagement Committee (Chairman), Nomination Committee

Number of meetings attended in the year: 12/12

Remuneration: £23,000 pa

Employment by the Manager: None

Other connections with the Trust or Manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 25,000 Ordinary Shares

Peter Richard Allen (below)

Status: Independent Non-Executive Director

Age: 61 *Length of Service:* 1 yr 11 months

Experience: Previously a Director of Lombard; Director and Chairman of the Audit Committee of Greenwich Capital; Finance Director of Corporate Banking and Financial Markets at The Royal Bank of Scotland

Last re-elected to the Board: 2003

Committee membership: Audit Committee (Chairman), Nomination Committee

Number of meetings attended in the year: 11/12

Remuneration: £15,500 pa

Employment by the Manager: None

Other connections with the Trust or Manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 5,000 Ordinary Shares

John Cannell Walton (left)

Status: Non-Independent Non-Executive Director

Age: 58 *Length of Service:* 20 years

Experience: Chairman and major shareholder of Asset Value Investors Limited, the Company's investment manager.

He has worked in investment management for 36 years

Last re-elected to the Board: Retiring at the 2004 Annual General Meeting

Committee membership: Nomination Committee

Number of meetings attended in the year: 8/9

Remuneration: £15,500 pa

Employment by the Manager: Yes, an employee and major shareholder

Other connections with the Trust or Manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 369,952 Ordinary Shares

John Michael May (below)

Status: Non-Independent Non-Executive Director

Age: 49 *Length of Service:* 11 months

Experience: A Director of Caledonia Investments plc and, formerly an Executive Director of Hambros Bank Limited and Joint Managing Director of Hambro Countrywide plc

Last re-elected to the Board: Up for election in 2004

Committee membership: Nomination Committee

Number of meetings attended during the year: 8/9

Remuneration: £15,500 pa

Employment by the Manager: None

Other connections with the Trust or Manager: Director of Caledonia Investments, a substantial shareholder

Shared Directorships with any other Trust Directors: None

Shareholding in Company: Nil

Philip Strone Stewart Macpherson (left)

Status: Independent Non-Executive Director

Age: 56 *Length of Service:* 1 yr 11 months

Experience: Chairman of JP Morgan Fleming Smaller Companies Investment Trust PLC, independent non-executive Director of AXA UK plc, and Close Brothers Group plc. Previously he had been a Director at Flemings and Executive Deputy Chairman of Misy plc.

Last re-elected to the Board: 2003

Committee membership: Audit Committee, Management Engagement Committee, Nomination Committee

Number of meetings attended during the year: 12/12

Remuneration: £15,500 pa

Employment by the Manager: None

Other connections with the Trust or Manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 40,000 Ordinary Shares

Rosamund Blomfield-Smith (right)

Status: Independent Non-Executive Director

Age: 55 *Length of Service:* 1 yr 11 months

Experience: A Director and Head of Corporate Finance at Arbuthnot Latham Limited. Previously an Executive Director of N M Rothschild and Sons and a Director of the National Rivers Authority. Her earlier banking career included positions at Morgan Grenfell, Schroders and ING Barings

Last re-elected to the Board: 2003

Committee membership: Audit Committee, Management

Engagement Committee, Nomination Committee

Number of meetings attended in the year: 12/12

Remuneration: £15,500 pa

Employment by the Manager: None

Other connections with the Trust or Manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: Nil

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 30 September 2004.

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 10.

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 £9,168,000. After expenses, interest and taxation, there remains a balance of £3,651,000 which the Directors have appropriated as follows:

	Company £'000	Group £'000
Revenue available for dividends	3,653	3,651
Interim dividend of 0.40p per Ordinary Share paid on 11 June 2004	(640)	(640)
Recommended final dividend payable on 7 January 2005 to Shareholders on the Register as at 3 December 2004:		
- Final dividend of 1.30p per Ordinary share	(2,081)	(2,081)
Transferred to revenue reserve	932	930

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 and a member of the Association of Investment Trust Companies.

The Company has been approved as an investment trust company under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 September 2003. The Directors are of the opinion, under advice, that the Company has conducted its affairs for the year ended 30 September 2004 so as to be able to obtain approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for that year.

The Company is a qualifying trust 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 2004, BEST Securities Limited made a loss before taxation of £2,246 (2003 - loss £26,703). All other subsidiaries are in liquidation as at the year end (see page 39 - note 9).

Directors

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

Sir David Kinloch retired as a Director at the conclusion of the Annual General Meeting on 15 December 2003.

Following his appointment to the Board on 15 December 2003, Mr JM May will retire at the Annual General Meeting and being eligible, offers himself for election. The Board, having reviewed his nomination, supports the election of Mr May on the grounds of the valuable contribution he has already made to the Board's stewardship of the Company during his

first year of appointment. Mr IS Robertson and Mr JC Walton will retire at the forthcoming Annual General Meeting. Mr Robertson being eligible and having the full support of the Board will offer himself for re-election at the Meeting. After 20 years service to the Company, Mr Walton has decided not to stand for re-election and will retire at the conclusion of the Annual General Meeting.

The interests of the current Directors and their families in the securities of the Company as at 30 September 2004 are set out below:

	Ordinary Shares 30/9/04	Ordinary Shares 1/10/03	Loan Stock 30/9/04	Loan Stock 1/10/03
IS Robertson	25,000	25,000	—	—
P Allen	5,000	5,000	—	—
R Blomfield-Smith	—	—	—	—
PSS Macpherson	40,000	—	—	—
JM May	—	—	—	—
JC Walton	369,952*	363,937*	—	—

*Mr JC Walton's holding includes 262,000 Ordinary Shares (2003: 249,000) held for his benefit in the Asset Value Investors Limited Pension Scheme

Throughout the year ended 30 September 2004 the Manager operated under the terms of an agreement with the Company. The terms of the agreement were changed during the period, as detailed in the Chairman's Statement in the Interim Report issued in May 2004. A summary of the terms of the new agreement is given below.

Mr JM May is a Director of Caledonia Investments plc which owns 19.90 per cent. of the Ordinary Shares of the Company.

Mr JC Walton is Chairman and a shareholder of Asset Value Investors Limited ("AVI"), the Company's investment manager. Mr Walton has a service contract with AVI 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.

Substantial Interests in Share Capital

At 11 November 2004 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
Axa SA and Group Companies	12,768,656	7.98
Legal and General	5,949,320	3.72
Funds under the management of ISIS Asset Management	5,561,739	3.47

* The Cayzer Trust Company Limited is deemed to be interested in a total of 31,856,530 Ordinary Shares (representing 19.90 per cent of the issued Ordinary Share capital) by virtue of its interest in Caledonia Investments plc.

The Investment Manager

AVI is the Company's appointed Investment Manager. Under the terms of a Management Agreement, effective from 1 October 2003, the Manager is entitled to a base management fee of 0.55% of the net assets of the Company at the end of the previous financial year, increasing to 0.6% in any financial period in which the Company out-performs the benchmark or under-performs by no more than 5%. The first 0.3% of the base management fee will be charged to revenue, with the remainder of the base management fee and any performance fee being charged to capital.

Report of the Directors continued

The new fee will also include a performance element under which the Manager will be paid 4% of any out-performance in the net asset value per share on a total return basis over the benchmark, the Thomson Financial Datastream Global Growth Investment Trust Index, at the year end with a cap on aggregate fees of 1% per annum.

The previous management fee was calculated on gross assets, however, the Board believes that calculating management fees on net assets, rather than gross assets, reduces the risk to Shareholders which might arise from the use of excessive gearing and more clearly aligns the Manager's interests with those of Shareholders in achieving an increase in the net assets of the Company.

The Directors have reviewed the performance of the Manager and are satisfied that the continued appointment of the Manager on the terms agreed is in the best interests of Shareholders and the Company.

The Management Agreement is terminable on a minimum of one year's notice by either party.

Corporate Governance

The Board consists entirely of non-executive Directors, the majority of whom are independent of the Company's Investment Manager. Arrangements are in place to ensure the level of corporate governance is appropriate to an investment trust and, taking account of the matters referred to below, the Company has complied with the Combined Code on Corporate Governance ('the Code'). Section 1 of the Code has been complied with throughout the period covered by this Report. The Board notes the Association of Investment Trust Companies' code of corporate governance for investment trusts and adheres to its principles and recommendations except where otherwise disclosed.

A revised Code was issued in July 2003, effective for financial years commencing on or after 1 November 2003. The Board is reviewing the impact of the additional requirements of the revised Code and will take appropriate measures to ensure compliance with it.

The Management Agreement between the Company and AVI sets out the matters over which the Investment 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 Board receives full details of the Company's assets, liabilities and other relevant information in advance of Board meetings. The Board meets formally at least nine times a year; however, the Investment Manager and Company Secretary stay in more regular contact with Directors on a less formal basis. Individual Directors have direct access to the Company Secretary and may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Directors welcome the views of all Shareholders and place great importance on communications with Shareholders. Board representatives and the Investment Manager meet with the Company's major Shareholders throughout the year. The Board recommends that Shareholders attend the Company's Annual General Meeting on 16 December 2004 and use the opportunity to ask questions of their Board and the Investment Manager, either formally at the Meeting or informally at the buffet luncheon afterwards. At the Annual General Meeting the Investment Manager will make a presentation to Shareholders covering the investment performance and strategy of the Company. Owing to the short period of time between the Company's annual report and accounts becoming available and the calendar year end, the Company is unable to comply with the recommendation in the Code that the accounts be sent out at least 20 working days prior to the Annual General Meeting.

In relation to the use of the Company's voting rights in respect of investee companies 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 in the best interests of the Company.

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. Instead, the Board has appointed a Management Engagement Committee which comprises three independent Directors, Mr IS Robertson (Chairman), Mrs R Blomfield-Smith and Mr PSS Macpherson. The function of this committee is to ensure that the Investment Manager complies with the terms of the Management Agreement and that the provisions of the Management Agreement follow industry practice, remain competitive and in the best interests of Shareholders.

A senior non-executive Director has not been appointed as all the Directors are non-executive and the Board considers that each of the Directors has different qualities and areas of expertise on which they may lead.

The Nomination Committee comprises the full Board and is convened for the purpose of considering the appointment of additional replacement Directors. During the year the Board appointed one new non-independent non-executive Director, Mr JM May. The Nomination Committee interviewed Mr May prior to making their recommendation, following which the Board appointed him a Director on 15 December 2003. All newly appointed Directors receive tailored training and induction.

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 intends to abide by the spirit of the Code by ensuring that each Director stands for re-election at least once every three years. The Board is not of the view that serving as a Director for nine or more years automatically results in that Director losing their independence. However, after nine years of service, a Director will be subject to annual re-election.

The Audit Committee operates within clearly defined terms of reference and comprises Mr PR Allen (Chairman), Mrs R Blomfield-Smith, Mr PSS Macpherson and Mr IS Robertson. In summary the Audit Committee's main functions are:

- To review and monitor the internal financial control systems and risk management systems on which the Company is reliant;
- To consider annually whether there is a need for the Company to have its own internal audit function;
- To monitor the integrity of the interim and annual financial statements of the Company by reviewing and, challenging where necessary the actions and judgements of the Investment Manager and Administrator;
- To meet with the external Auditors to review their proposed audit programme of work and the findings of the Auditors. The Committee also uses this as an opportunity to assess the effectiveness of the Audit process;
- To make recommendations to the Board in relation to the appointment of the external Auditors and to approve the remuneration and terms of engagement of the external Auditors;
- To monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualification.

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:

Report of the Directors continued

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

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

- The Investment Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- The Board and Investment 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 Investment Manager's evaluation procedure and financial analysis of the companies concerned include detailed appraisal and due diligence;
- As a matter of course the Investment Manager's compliance department continually reviews 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;
- At its September and November meetings, the Audit Committee carried out assessments of internal controls for the year ended 30 September 2004 by considering documentation from the Investment Manager and the Administrator, Phoenix Administration Services Limited, including their compliance function and taking account of events since 30 September 2004. The results of the assessments were then reported to the Board at the next Board meeting;

The Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Investment Manager and the Administrator, has decided that reliance can be placed on their systems and procedures.

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.

Since the year end evaluations of the performance of the Board as a whole, the Committees and individual Directors were undertaken using carefully structured questionnaires. The evaluations were led by the Chairman who, after receiving analyses of the results of the questionnaires, met to discuss the findings with each Director individually. The performance of the Chairman was assessed from discussion with the other members of the Board, led by Mr PSS Macpherson as the next most senior Director to the Chairman. The Board are satisfied from the results of the evaluation that the structure, mix of skills and operation of the Board are satisfactory.

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.

Statement of Directors' Responsibilities

The Directors are required 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 return of the Group for that period, all in accordance with applicable United Kingdom law and accounting standards. The Directors are responsible for preparing the Annual Report and ensuring that the financial statements referred to above are contained therein.

The Directors are also responsible for ensuring that adequate accounting records are maintained, that the assets of the Company and the Group are safeguarded and, for taking such steps for the detection and prevention of fraud and other irregularities as are reasonable in the circumstances.

The financial statements have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied, reasonable and prudent judgements and estimates have been made in their preparation and, all applicable UK accounting standards have been followed.

Special Business at the Annual General Meeting

Resolution 7 - Authority to allot Shares

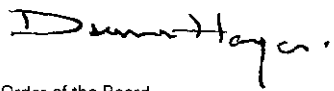
In order that a company can allot Shares or other relevant securities, it must have Shareholder authority under Section 80 of the Companies Act 1985. The authority may be general and unconditional or for a specific purpose and, may be sought for any length of time up to a maximum of five years. Under this Resolution the Company seeks general and unconditional authority to allot Ordinary Shares of 10p each up to an aggregate nominal value of £2,400,000, representing approximately 15 per cent of the Ordinary Share capital currently in issue. The authority sought would expire at earlier of the conclusion of the Annual General Meeting of the Company in 2005 or 15 March 2006 unless otherwise renewed, varied or revoked. The Directors would only exercise the authority granted if they considered it to be in the best interests of the Company.

Resolution 8 - Authority to issue Shares outside of pre-emption rights

The Directors are seeking to renew their limited authority to allot Shares other than on a pre-emptive basis. This authority will be limited to issues of new Shares up to an aggregate nominal amount of £800,400 being approximately 5 per cent of the Ordinary Share capital currently in issue. 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 15 March 2006 but the Board intends to seek a renewal of the authority at the Annual General Meeting of the Company in 2005.


By Order of the Board,
For and on behalf of
Phoenix Administration Services Limited
Secretary

Registered Office:
Bennet House
54 St James's Street
London
17 November 2004

Statement of Total Return of the Group for the year ended 30 September 2004

	Notes	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Gains on investments	8	-	86,347	86,347	-	71,502	71,502
Realised exchange (losses)/gains		-	(630)	(630)	-	8	8
Realised loss on buyback 10 $\frac{3}{8}$ % Deb Stk 2011		-	(792)	(792)	-	-	-
Losses on Index Stock		-	(767)	(767)	-	(740)	(740)
Income	2	9,168	-	9,168	8,162	1,003	9,165
Investment management fee (incl. irrecoverable VAT)	3	(1,146)	(2,667)	(3,813)	(1,373)	(709)	(2,082)
Other expenses (incl. irrecoverable VAT)	3	(1,107)	-	(1,107)	(1,002)	-	(1,002)
Net return before finance costs and taxation		6,915	81,491	88,406	5,787	71,064	76,851
Finance costs	4	(2,682)	(7)	(2,689)	(2,704)	(7)	(2,711)
Return on ordinary activities before taxation		4,233	81,484	85,717	3,083	71,057	74,140
Taxation on ordinary activities	5	(582)	361	(221)	(357)	(395)	(752)
Return attributable to equity shareholders		3,651	81,845	85,496	2,726	70,662	73,388
Dividend in respect of equity shares	6	(2,721)	-	(2,721)	(2,481)	-	(2,481)
Transfer to reserves	17	930	81,845	82,775	245	70,662	70,907
Return per Ordinary Share							
Basic	7	2.28p	51.13p	53.41p	1.70p	44.14p	45.84p

The revenue column of this statement represents the revenue account of the Group.

The accompanying notes form an integral part of this statement.

No operations were acquired or discontinued during the year.

Balance Sheets

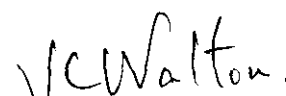
As at 30 September 2004

		Company		Group	
	Notes	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed assets					
Investments - Securities	8	463,576	386,946	461,541	382,106
Current assets					
Investments held by dealing subsidiary	11	-	-	5	6
Debtors	12	4,646	1,435	4,651	1,435
Cash at bank and on deposit		56	1,158	58	1,159
		4,702	2,593	4,714	2,600
Creditors: amounts falling due within one year	13	(6,843)	(7,915)	(4,820)	(3,070)
Net current liabilities		(2,141)	(5,322)	(106)	(470)
Total assets less current liabilities		461,435	381,624	461,435	381,636
Creditors: amounts falling due after more than one year	14	(30,334)	(33,246)	(30,334)	(33,246)
Provision for liabilities and charges	15	-	(64)	-	(64)
Net assets		431,101	348,314	431,101	348,326
Capital and reserve					
Called-up share capital					
Ordinary shares	16	16,008	16,008	16,008	16,008
Reserves					
Capital redemption reserve	17	2,927	2,927	2,927	2,927
Share premium account	17	28,078	28,078	28,078	28,078
Capital reserve - realised	17	246,363	225,100	246,363	224,827
- unrealised	17	87,707	27,115	85,922	23,762
Merger reserve	17	41,406	41,406	41,406	41,406
Revenue reserve	17	8,612	7,680	10,397	11,318
Equity shareholders' funds	18	431,101	348,314	431,101	348,326
Net asset value per Share	18	269.30p	217.59p	269.30p	217.59p

The financial statements on pages 30 to 46 were approved by the Board of Directors on 17 November 2004 and were signed on its behalf by:



IS Robertson Chairman



JC Walton Director

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

Consolidated Statement of Cash Flows

For the year ended 30 September 2004

	Notes	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Net cash inflow from operating activities	19		4,548		3,931
Servicing of finance					
Interest paid		(2,774)		(2,707)	
Net cash outflow from servicing of finance			(2,774)		(2,707)
Taxation					
UK tax paid less recovered		122		-	
WHT recovered		246		110	
Tax recovered			368		110
Capital expenditure and financial investment					
Purchase of investments		(276,103)		(140,795)	
Sale of investments		280,449		142,482	
Capital dividends		-		617	
Net cash inflow from investing activities			4,346		2,304
Equity dividends paid			(2,481)		(3,041)
Net cash inflow before financing			4,007		597
Financing					
Share buybacks		-		(2,189)	
Buyback of Index Stock		(318)		(412)	
Buyback of 10 ³ / ₈ % Debenture Stock 2011		(4,160)		-	
Net cash outflow from financing			(4,478)		(2,601)
Decrease in cash	20		(471)		(2,004)
Reconciliation of net cash flow to movements in net debt					
Decrease in cash as above			(471)		(2,004)
Buyback of Index Stock			318		412
Buyback of 10 ³ / ₈ % Debenture Stock 2011			4,160		-
Changes in net debt resulting from cash flows			4,007		(1,592)
Currency (losses)/gains			(630)		8
Amortisation of Debenture issue expenses			(7)		(7)
Increase in value of Index Stock			(767)		(740)
Increase in value of 10 ³ / ₈ % Debenture Stock 2011			(792)		-
Movement in net debt in year			1,811		(2,331)
Net debt at 1 October			(32,087)		(29,756)
Net debt at 30 September	21		(30,276)		(32,087)

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 asset investments and investment properties. The Statement of Recommended Practice ("SORP") for Financial Statements of Investment Trust Companies (2003) has been adopted, except in relation to accounting for Index Stock and the related interest 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 2004. 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. 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 2004 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.

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.

Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- the base management fee at the rate of 0.25% (or at the rate of 0.30% if the Company outperforms its benchmark index, or underperforms by no more than 5%). A base management fee of 0.30% is attributable to revenue reserve.
- the performance element of management costs.

The allocation of the management fee between revenue and capital is in line with the Board's expected long term split of returns and capital.

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. Deferred tax is measured without discounting on the basis of enacted tax rates.

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 enhanced scrip dividends;
- base management fee at the rate of 0.25% (or at the rate of 0.30% if the Company outperforms its benchmark index, or under - performs by no more than 5%). Base management fee of 0.30% is attributable to revenue reserve;
- the performance fee 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

	2004 £'000	2003 £'000
Income from investments		
Listed investments	8,982	9,054
Other income		
Deposit interest	187	110
(Loss)/gain from dealing activities of subsidiaries	(1)	1
	186	111
Total income	9,168	9,165
Income from investments:		
Equity securities	6,583	7,696
Fixed interest securities	2,399	1,358
	8,982	9,054
Total income comprises:		
Dividends	6,583	7,696
Interest	2,586	1,468
Other income	(1)	1
	9,168	9,165

3. Management fee and other expenses

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Management fee (including irrecoverable VAT)	1,146	1,146	2,292	1,373	-	1,373
Performance fee (including irrecoverable VAT)	-	1,521	1,521	-	709	709
	1,146	2,667	3,813	1,373	709	2,082
Other expenses:						
Directors' emoluments - fees	100	-	100	93	-	93
Auditors' remuneration for:						
- audit	25	-	25	26	-	26
- other services to the Group	34	-	34	41	-	41
Marketing costs	356	-	356	310	-	310
Other expenses (including irrecoverable VAT)	592	-	592	532	-	532
	1,107	-	1,107	1,002	-	1,002

For the year ended 30 September 2004, the fee earned by the Investment Manager amounted to 1.0952%. However, in accordance with the Investment Management Agreement, the fee has been capped at 1%. Any out-performance in excess of the cap or under-performance in any year will be carried forward for use in the next three year's fee calculations on a first-in first-out basis.

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

*Notes to the Accounts continued***4. Finance costs**

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Bank overdraft interest	29	-	29	28	-	28
On other loans	2,653	-	2,653	2,676	-	2,676
Amortisation of Debenture issue expenses	-	7	7	-	7	7
	2,682	7	2,689	2,704	7	2,711

5. Taxation on ordinary activities**(a) Analysis of charge in year**

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Corporation tax	361	(361)	-	564	41	605
Double Taxation relief	-	-	-	(564)	(41)	(605)
	361	(361)	-	-	-	-
Transfer of Double Tax relief	-	-	-	86	(86)	-
Prior year adjustment	(87)	-	(87)	(38)	95	57
Foreign Withholding tax	470	-	470	661	386	1,047
Overseas tax reclaimable	(98)	-	(98)	(85)	-	(85)
Avoir Fiscal	-	-	-	(147)	-	(147)
Italian Precompt	-	-	-	(115)	-	(115)
Total current tax for period (see note 5(b))	646	(361)	285	362	395	757
Deferred tax	(64)	-	(64)	(5)	-	(5)
Total deferred tax for year	(64)	-	-	(5)	-	(5)
Total tax for year	582	(361)	221	357	395	752

(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%).

	2004 £'000	2003 £'000
Net income before taxation	4,233	3,083
Corporation tax at 30%	1,270	925
Effects of:		
Non taxable UK dividends	(678)	(604)
Disallowed expenses	114	111
(Expenses charged to capital)/excess expenses	(750)	115
Overseas tax written off	372	98
FRS16 Avoir Fiscal and Italian tax adjustment	-	(184)
Net effect of capitalised dividend	-	(2)
Tax relief to capital	361	-
Prior year adjustment	(87)	(37)
Income taxable in different periods	44	(60)
Current tax charge for the period (note 5(a))	646	362

At the year end, the Company has an unrecognised deferred tax asset of approximately £315,000 (2003: nil) relating to excess expenses. It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

6. Dividends

	2004 £'000	2003 £'000
Dividends on Ordinary Shares:		
- interim - paid 0.40p (2003 - 0.40p)	640	640
- final - proposed 1.30p (2003 - 1.15p)	2,081	1,841
	2,721	2,481

7. Return per Ordinary Share

	2004 Revenue	2004 Capital	2004 Total	2003 Revenue	2003 Capital	2003 Total
Basic	2.28p	51.13p	53.41p	1.70p	44.14p	45.84p

Basic revenue return per Ordinary Share is based on Group revenue after taxation of £3,651,000 (2003: £2,726,000) and on 160,080,089 (2003: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

Basic capital return per Ordinary Share is based on net gains for the financial year of £81,845,000 (2003: £70,662,000) and on 160,080,089 (2003: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

*Notes to the Accounts continued***8. Investments****(a) Securities**

	Listed investments £'000	Unlisted investments £'000	Group total investments £'000	Subsidiaries £'000	Company total investments £'000
Opening book cost	355,417	164	355,581	907	356,488
Opening unrealised appreciation	26,438	87	26,525	3,933	30,458
Opening valuation	381,855	251	382,106	4,840	386,946
Movements in the year:					
Book cost re-classification on de-listing*	(7,785)	7,785	-	-	-
Depreciation re-classification on de-listing*	7,784	(7,784)	-	-	-
Purchases at cost	271,971	4,332	276,303	-	276,303
Sales - proceeds	(283,215)	-	(283,215)	(2,815)	(286,030)
- realised gains/(losses) on sales	30,798	(7,785)	23,013	2,158	25,171
Increase/(decrease) in unrealised appreciation	55,567	7,767	63,334	(2,148)	61,186
Closing valuation	456,975	4,566	461,541	2,035	463,576
Closing book cost	367,186	4,496	371,682	250	371,932
Closing unrealised appreciation	89,789	70	89,859	1,785	91,644
Closing valuation	456,975	4,566	461,541	2,035	463,576

(b) Gains/(losses) on investments

	Group £'000
Sales proceeds	283,215
Investments at cost	(260,202)
Realised gains on sales of securities based on historical cost	23,013
Add losses recognised as unrealised in previous year	1,565
Realised gains on sales of securities based on carrying value at previous year's balance sheet date	24,578
Unrealised appreciation for the year	61,769
Net gains on investments	86,347

* Adjusted to reflect the de-listing of four investments during the year.

9. 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 Securities Limited	Dealing Subsidiary	England	Ordinary	100	100
BEST Group Finance Limited *	Non Trading	England	Ordinary	100	100
Kensington High Street Properties Limited *	Non Trading	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

* At an extraordinary meeting of the above companies held on 26 March 2004, it was resolved that these companies be wound up voluntarily. On 28 September 2004 the assets of these companies were distributed to the Company and Group. As at 30 September 2004, these companies were in the final process of being liquidated.

10. Significant interest and investment funds

(a) Significant interest

Details of investment in which the Company and 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	42.87

(b) Investment funds

Investment funds held, managed or advised by companies within the same group as Asser Value Investors Limited during the year 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 (%)
The European Asset Value Fund	22.47

*Notes to the Accounts continued***11. Investments held by dealing subsidiary**

	2004 £'000	Group 2003 £'000
Listed (at market value)	5	6

12. Debtors: amounts falling due within one year

	Company 2004 £'000	2003 £'000	Group 2004 £'000	2003 £'000
Amounts due from brokers	2,766	-	2,766	-
Overseas tax recoverable	199	139	199	139
Avoir Fiscal recoverable	-	122	-	122
Corporation tax receivable	-	138	5	138
Income tax recoverable	3	-	3	-
Prepayments and accrued income	1,592	1,036	1,592	1,036
Other debtors	86	-	86	-
	4,646	1,435	4,651	1,435

13. Creditors: amounts falling due within one year

	Company 2004 £'000	2003 £'000	Group 2004 £'000	2003 £'000
Amounts due to brokers	200	-	200	-
Corporation tax payable	-	-	-	9
Dividends	2,081	1,841	2,081	1,841
Amounts owed to subsidiary undertakings	2,026	4,856	-	-
Other creditors	2,536	1,218	2,539	1,220
	6,843	7,915	4,820	3,070

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

	Company 2004 £'000	2003 £'000	Group 2004 £'000	2003 £'000
10½ per cent Debenture Stock 2011	8,515	11,883	8,515	11,883
8½ per cent Debenture Stock 2023	14,864	14,857	14,864	14,857
Index Stock	6,955	6,506	6,955	6,506
	30,334	33,246	30,334	33,246

The movement on the 8½ per cent Debenture Stock 2023 represents the amortisation of issue expenses. The combined market value of the two Debenture Stocks as at 30 September 2004 was £29.1 million (2003: £33.4 million). The effect on the net asset value of deducting Debenture Stocks at market value rather than par is disclosed in note 18.

During the year £3,368,382 10½ per cent Debenture Stock 2011 were bought back by the Company for cancellation at a price of 123.5p per Debenture Stock, leaving £8,514,940 10½ per cent Debenture Stock 2011 in issue at the year end. The consideration paid was £4,225,478 including accrued interest of £65,526.

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

During the year, 146,930 units of Index Stock were bought back by the Company for cancellation, at an average price of 217p per unit, leaving 3,061,267 units in issue at the year end. The consideration paid was £318,452.

15. Provision for liabilities and charges

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

	Group and Company	
	2004 £'000	2003 £'000
Provided		
In respect of the origination and reversal of timing differences	(64)	(5)
The movement in the provision for deferred taxation is as follows:		
Opening balance	64	69
Charge to revenue account	(64)	(5)
Closing balance	-	64

The deferred tax provision is made up as follows:

	2004 £'000	2003 £'000
Income taxable in different periods	-	130
Excess expenses carried forward	-	(107)
Double tax relief on accrued dividends	-	(18)
Unrealised gain on offshore fund	-	59
	-	64

16. Called-up share capital

	2004 and 2003 Shares	2004 and 2003 £'000
Ordinary Shares of 10p each:		
Authorised	245,000,000	24,500
Allotted, called-up and fully paid:		
At 30 September 2004 and 30 September 2003	160,080,089	16,008

*Notes to the Accounts continued***17. Reserves**

	Capital redemption reserve £'000	Share premium account £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Merger reserve £'000	Revenue reserve £'000
Group						
At 30 September 2003	2,927	28,078	224,827	23,762	41,406	11,318
Exchange losses	-	-	(630)	-	-	-
Net gains on realisation of investments	-	-	24,578	-	-	-
Increase in unrealised appreciation of investments in year	-	-	-	61,769	-	-
Transfer on disposal of investments	-	-	(1,565)	1,565	-	-
Net losses on buyback of Index Stock	-	-	(20)	-	-	-
Appreciation of Index Stock in year	-	-	-	(747)	-	-
Transfer on buyback of Index Stock	-	-	(153)	153	-	-
Loss on buyback of 10 3/4 % Debenture Stock 2011	-	-	(792)	-	-	-
Amortisation of Debenture issue expenses	-	-	(7)	-	-	-
Performance element of management fee	-	-	(1,521)	-	-	-
Management fee charged to capital	-	-	(1,146)	-	-	-
Tax relief to capital	-	-	361	-	-	-
Transfer in respect of liquidation of subsidiaries	-	-	2,431	(580)	-	(1,851)
Retained net revenue for the year	-	-	-	-	-	930
At 30 September 2004	2,927	28,078	246,363	85,922	41,406	10,397

	Capital redemption reserve £'000	Share premium account £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Merger reserve £'000	Revenue reserve £'000
Company						
At 30 September 2003	2,927	28,078	225,100	27,115	41,406	7,680
Exchange losses	-	-	(630)	-	-	-
Net gains on realisation of investments	-	-	24,578	-	-	-
Increase in unrealised appreciation of investments in year	-	-	-	61,779	-	-
Transfer on disposal of investments	-	-	593	(593)	-	-
Net losses on buyback of Index Stock	-	-	(20)	-	-	-
Appreciation of Index Stock in year	-	-	-	(747)	-	-
Transfer on buyback of Index Stock	-	-	(153)	153	-	-
Loss on buyback of 10 3/4 % Debenture Stock 2011	-	-	(792)	-	-	-
Amortisation of Debenture issue expenses	-	-	(7)	-	-	-
Performance element of management fee	-	-	(1,521)	-	-	-
Management fee charged to capital	-	-	(1,146)	-	-	-
Tax relief to capital	-	-	361	-	-	-
Retained net revenue for the year	-	-	-	-	-	932
At 30 September 2004	2,927	28,078	246,363	87,707	41,406	8,612

18. 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 value per share attributable Company		Net asset value per share attributable Group	
	2004 p	2003 p	2004 p	2003 p
Ordinary Shares (basic)	269.30	217.59	269.30	217.59

	Net asset values attributable Company		Net asset values attributable Group	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Ordinary Shares (basic)	431,101	348,314	431,101	348,326

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

	2004 Ordinary shares (basic) £'000	2003 Ordinary shares (basic) £'000
Total net assets attributable at beginning of year	348,326	277,419
Total recognised gains for the year	85,496	73,388
Dividends appropriated in the year	(2,721)	(2,481)
Net assets attributable at end of year	431,101	348,326

Basic net asset value per Ordinary Share is based on net assets and on 160,080,089 (2003: 160,080,089) 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 265.71p (2003 - 213.42p).

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

	Group	
	2004 £'000	2003 £'000
Net revenue before finance cost and taxation	6,915	5,787
Decrease in stock of investments	1	-
Increase/(decrease) in creditors	36	(866)
(Increase)/decrease in investment income	(555)	130
(Increase)/decrease in other debtors	(85)	130
Management fee charged to capital	(955)	-
Performance fee charged to capital	(337)	(709)
Tax on unfranked investment income	(472)	(541)
	4,548	3,931

*Notes to the Accounts continued***20. Analysis of changes in net funds**

	Group	
	2004	2003
	£'000	£'000
Balance at 1 October	1,159	3,155
Net cash outflow	(471)	(2,004)
Exchange (losses)/gains	(630)	8
Balance at 30 September	58	1,159
Cash at bank and on deposit	58	1,159

21. Analysis of changes in net debt

	At 1 October 2003 £'000	Cash flow £'000	Exchange movement £'000	Other non-cash movement £'000	At 30 September 2004 £'000
Cash at bank and on deposit	1,159	(471)	(630)	-	58
Debt due after one year:					
10 3/8 per cent Debenture Stock 2011	(11,883)	4,160	-	(792)	(8,515)
8 1/8 per cent Debenture Stock 2023	(14,857)	-	-	(7)	(14,864)
Index Stock	(6,506)	318	-	(767)	(6,955)
	(32,087)	4,007	(630)	(1,566)	(30,276)

22. Financial instruments

The Group's financial instruments comprise equity and fixed interest investments, cash balances and borrowings. As an investment trust the Group holds a portfolio of financial assets in pursuit of its investment objective. The Group 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 8) are valued at middle market prices which equate to their fair values. The market value of the Group's Debenture Stocks is disclosed in note 14. 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.

23. 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 Group has not used derivatives to date as part of its investment strategy but reserves the right to do so in the future.

24. Interest rate and liquidity risk

When the Group retains cash balances the majority of the cash is held in deposit accounts.

The benchmark rate which determines the interest payments received on such cash balances held in sterling was 4.58% at the balance sheet date (2003: sterling and foreign currencies 3.75%).

	2004 £'000	2003 £'000
The Group had the following floating rate liability:		
Equities Index Unsecured Loan Stock 2013 ('Index Stock')	6,955	6,506

The interest and capital liabilities of the Index Stock 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 Group holds fixed interest and index-linked investments and has fixed interest liabilities.

At 30 September 2004, these were:

	2004 £'000	2004 Average interest rate %	2004 Average period until maturity	2003 £'000	2003 Average interest rate %	2003 Average period until maturity
Fixed interest investments:						
UK Treasury 6.75% 2004 and 5% 2004	-	-	-	34,437	5.19	0.8 years
UK Treasury 6.75% 2004, 8.5% 2005, 2% Index-linked 2006 and Impax Group 5.5% 2009	53,794	7.45	0.9 years	-	-	-
Fixed interest liabilities:						
10 3/8 and 8 1/8 per cent Debenture Stocks 2011 and 2023	23,379	8.94	14 years	26,740	9.10	14 years

The Group 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 Group'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***25. Foreign currency risk**

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

Foreign currency exposure by currency of denomination:

	2004 Investments £'000	2004 Cash £'000	2003 Investments £'000	2003 Cash £'000
Euros	105,942	1,690	83,985	15
US Dollars	48,713	151	62,275	378
Canadian Dollars	27,498	64	23,068	-
Swedish Kroner	22,789	-	16,965	-
Japanese Yen	17,918	(68)	5,008	-
Hong Kong Dollar	14,438	-	4,340	-
Australian Dollar	11,826	1,189	8,277	-
Singapore Dollar	6,638	-	-	-
Hungarian Forint	6,427	-	7,493	-
South African Rand	5,858	-	2,930	2
Norwegian Kroner	-	-	3,615	-
Total	268,047	3,026	217,956	395

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

26. Contingencies, guarantees and financial commitments

At 30 September 2004 the Group had no contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2003: £nil).

Directors' Remuneration Report

This Report is prepared in accordance with Schedule 7A of the Companies Act 1985. As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of Director's fees is a matter dealt with by the whole Board.

It is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfill in respect of Board and Committee responsibilities and the time committed to the Company's affairs. Following a review in 2003 of Directors' fees the basic annual fee paid to the Chairman and each Director were increased in line with the Company's peer group to £23,000 and £15,500 respectively from 1 October 2003. The annual aggregate limit on fees payable to the Board of Directors under the Company's Articles of Association was increased on 15 December 2003 to £150,000.

No element of the Directors' remuneration is performance related, no Director past or present has any entitlement to pensions and, the Company has not awarded any share options or long-term performance incentives to any of the Directors. The Directors' interests in contractual arrangements with the Company are as shown on page 25 of the financial statements. Subject to these exceptions, no other Directors were interested in contracts with the Company during the period or subsequently. None of the Directors have a service contract with the Company.

The Board requires that Directors shall not remain in office for longer than three years without submitting themselves for re-election.

A resolution to receive and adopt the Directors' Remuneration Report will be proposed at the Annual General Meeting.

Directors and Officers liability insurance cover is maintained by the Company on behalf of the Directors.

Total Shareholder return

The chart below illustrates the total shareholder return for a holding in the Company's shares as compared to the Datastream Global Growth Investment Trust Index, which the Board has adopted as the measure for both the Company's performance and that of the Manager for the year.

Share Price total return vs Datastream Global Growth Investment Trust Index total return Five years to 30/09/04

Directors' Remuneration Report continued

Directors' emoluments (audited information)

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

	2004 £'000	2003 £'000
IS Robertson CBE	23.0	20
P Allen	15.5	12
R Blomfield-Smith	15.5	12
J C Walton	15.5	15
PSS Macpherson	15.5	12
J M May *	11.5	-
Sir DO Kinloch Bt †	4.0	15
WG Fossick	-	5
CM Gilchrist	-	2
	100.5	93

* Appointed Director 15 December 2003

† Retired as Director 15 December 2003

Sums paid to Third Parties (audited information)

Of the fees disclosed above, £31,000 (2003 - £30,000) was payable to third parties in respect of making available the services of Directors. These fees were assigned £15,500 (2002 - £15,000) to Caledonia Group Services Limited (Sir DO Kinloch, Bt and J M May) and £15,500 (2003 - £15,000) to Asset Value Investors Limited (JC Walton).

17 November 2004

Dummetts

By order of the Board
Phoenix Administration Services Limited
Secretary

Independent Auditor's Report to the members of the British Empire Securities and General Trust p.l.c.

We have audited the Group's financial statements for the year ended 30 September 2004 which comprise the Statement of Total Return of the Group, Group Balance Sheet, Company Balance Sheet and Consolidated Statement of Cash Flows, and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 Company Summary, Financial Highlights, Chairman's Statement, The Company's History, Historical Record, Investment Manager's Review, Investment Portfolio, Capital Structure, Board of Directors, unaudited part of the Directors' Remuneration Report, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you 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 our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other

Independent Auditor's Report continued

irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2004 and of the return of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG LLP

Registered Auditor

London

17 November 2004

Shareholder Information

Shareholders

At 30 September 2004 there were 5,833 Ordinary Shareholders in the Company (2003: 4,510 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 EH3 5DE 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 at the address given above, 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 0870 600 9966 or via the website, www.british-empire.co.uk

AVI ISA

The AVI Individual Savings Account (ISA) is a savings account that allows you to invest up to £7,000 each tax year until April 2006 and £5,000 thereafter. ISAs can consist of any combination of three types of investment; stocks and shares, cash or insurance. The AVI ISA is purely stocks and shares. ISAs fall into two categories; a Mini ISA that allows you to invest up to £3,000 and a Maxi ISA that lets you take advantage of the full £7,000 limit.

AVI PEP

Personal Equity Plans (PEPs), were introduced in 1987 as an easy straightforward way to make medium to long-term investments on the stock market without having to pay tax on any income or capital gains. Although April 1999 was the last date in which you could pay into a PEP, you can still transfer funds from any existing plan into an AVI PEP.

AVI Share Plan

The AVI Share Plan is a savings plan which aims to provide a simple and low cost way for private investors to purchase shares in the British Empire Securities and General Trust. Lump sum payments or regular monthly deposits can be made to the Share Plan.

Financial Calendar 2004/2005

16 December 2004	Annual General Meeting
January 2005	Final dividend paid on Ordinary Shares
May 2005	Announcement of interim results
May 2005	Posting of Interim Report
June 2005	Interim dividend paid on Ordinary Shares
November 2005	Announcement of annual results
November 2005	Posting of Annual Report
December 2005	Annual General Meeting

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Fifteenth 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 16 December 2004 to consider the following business:

Ordinary Business

1. To receive and adopt the financial statements for the financial year ended 30 September 2004 together with the Reports of the Directors and the Auditors.
2. To approve a final Ordinary Dividend of 1.30 pence per Ordinary Share.
3. To elect Mr John May, who was appointed subsequent to the last Annual General Meeting, as a Director.
4. To re-elect Mr Iain Robertson, a Director retiring by rotation under the Articles of Association.
5. To re-appoint Ernst & Young LLP as the Company's Auditors and, authorise the Directors to determine the Auditors' remuneration.
6. To receive the Directors' Remuneration Report.

Special Business

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

7. THAT, the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ('Act') to allot relevant securities (as defined in the said Section 80 of the Act) up to an aggregate nominal amount of £2,400,000 provided that the authority hereby granted shall expire at the earlier of the conclusion of the Annual General Meeting of the Company in 2005 or, 15 March 2006 unless otherwise renewed, varied or revoked.

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

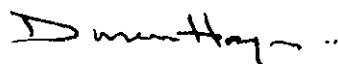
8. THAT the Directors be and they are hereby generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Act) pursuant to Section 95 of the Act as if Section 89(1) of the Act did not apply to any such allotment provided that this authority and power shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 15 March 2006 and shall be limited to:
 - (i) the allotment of any such securities having an aggregate nominal value not exceeding £800,400 (being approximately 5 per cent of the equity share capital currently in issue; 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,

save that the authority and power hereby granted 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 such securities in pursuance of such offers or agreements as if the authority hereby granted 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 ('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 immediately preceding the day of purchase; and
- (iv) unless otherwise varied or reviewed, the authority hereby conferred shall expire on 15 March 2006 save that the Company may, prior to such expiry, enter into contract(s) to purchase shares which will or may be completed or executed wholly or partly after such expiry and the Company may purchase such shares as if the authority hereby granted had not expired.

By Order of the Board



For and on behalf of Phoenix Administration Services Limited
Secretary
77a High Street
Brentwood
Essex CM14 4RR
17 November 2004

Registered Office:
Bennet House
54 St. James's Street
London

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 notorially 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 14 December 2004. The lodgement of a proxy form shall not preclude a member from attending the meeting and voting in person.
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

Iain Robertson CBE (Chairman)
Peter Allen
Rosamund Blomfield-Smith
Strone Macpherson
John May
John Walton

Registered Office

Bennet House
54 St James's Street
London SW1A 1JT

Investment Manager

Asset Value Investors Limited
Bennet House
54 St James's Street
London SW1A 1JT

Registrars and Transfer Office

Lloyds TSB Registrars Limited
Finance House
Orchard Brae
Edinburgh EH3 5DE

Registrar's Shareholder Helpline
Tel. No. 0870 6015366

Registrar's Broker Helpline
Tel. No. 0906 5596025

Corporate Broker

Dresdner Kleinwort Wassertstein
20 Fenchurch Street
London EC3P 3DB

Secretary

Phoenix Administration
Services Limited
77a High Street
Brentwood
Essex CM14 4RR

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers and Custodian

JP Morgan Chase Bank
125 London Wall
London EC2Y 5AJ

Solicitors

Herbert Smith
Exchange Square
Primrose Street
London EC2A 2HS

**For further information
contact Customer Services
on 0870 600 9966**

