

British Empire

Securities and General Trust plc

British Empire Securities and General Trust plc

Established in 1889, the Company's investment objective is to achieve capital growth through a focused portfolio of investments, particularly in companies whose shares stand at a discount to estimated underlying net asset value.

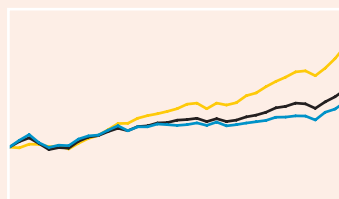
British Empire is managed by
Asset Value Investors Limited

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.

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Your Company continues to seek (and find) investment opportunities with real value and excellent prospects for good medium to long term capital appreciation.

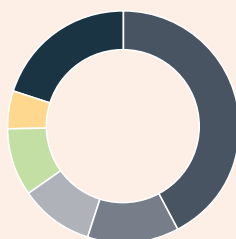
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Investment Portfolio.
Statistics and overview
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Company Summary

The Company

The Company is an investment trust and its shares are premium listed on the London Stock Exchange. It is a member of the Association of Investment Companies.

The Group's net asset value at 30 September 2012 was £791 million and the market capitalisation was £693 million.

Objective

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

Investment Manager

Asset Value Investors Limited
(Customer Services: 0845 850 0181)*

Capital Structure

The Company has Ordinary Shares, Debenture Stock and Equities Index Unsecured Loan Stock in issue. A full explanation of the capital structure is given on pages 18 and 19.

ISA Status

The Company's shares are eligible for Stocks & Shares ISAs.

Website

The Company's internet website is:
www.british-empire.co.uk

*Call charges may apply.

Company Performance

Financial Highlights

- Uncertain economic conditions continue to prevail
- Net asset value (NAV) on a total return basis increased by 10.3%
- Benchmark* Index increased by 13.8%
- Total ordinary dividends increased by 11.8%
- Special dividend of 3.5p
- At the end of the year net liquidity was 19.9%

Performance Summary

	30 September 2012	30 September 2011	% change
Capital Return			
Net asset value per Share	500.47p	462.51p	8.21
Share price (mid market)	438.30p	422.60p	3.72
Net asset value per Share (total return)			10.25
Indices			
Morningstar Investment Trust Global Growth Index*	299.68	263.38	13.78
Morgan Stanley Capital International World Index (£ adjusted total return)	2,865.48	2,428.27	18.00
Revenue and Dividends			
Income	£30.87m	£25.93m	19.05
Revenue earnings per Share	15.06p	11.50p	30.96
Ordinary Dividends per Share	9.50p	8.50p	11.76
Special Dividend per Share	3.50p	2.00p	75.00
Discount (difference between share price and net asset value)	12.42%	8.63%	–
Ongoing Charges Ratio (as percentage of average shareholders' funds)			
Management, marketing and other expenses	0.74%	0.72%	–
Performance fee	0.00%	0.00%	–
2012 Year's Highs/Lows	High	Low	
Net asset value per Share	506.60p	440.37p	–
Share price (mid market)	475.65p	387.05p	–
* The Morningstar Investment Trust Global Growth Index (total return basis), formerly known as Fundamental Data Global Growth Investment Trust Index, is subject to revision and the figures are as at 26 October 2012.			

Buy-backs

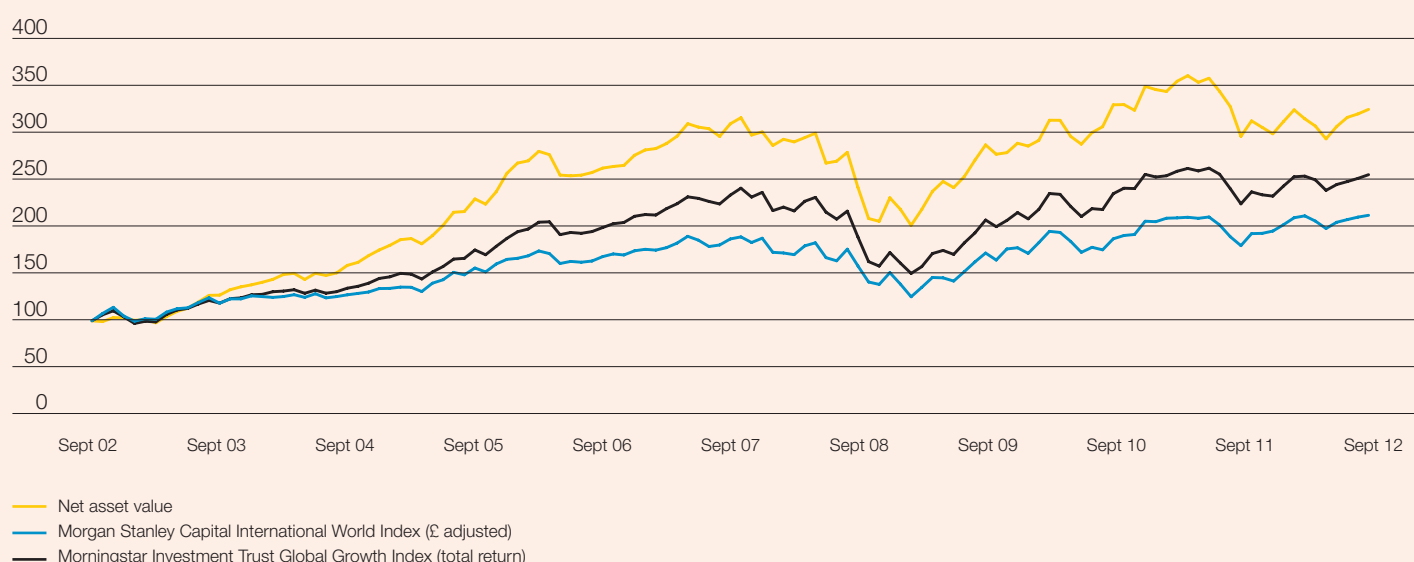
During the year the Company purchased 1,985,104 Ordinary Shares of which, at the year end, 66,000 had been cancelled. The Company did not purchase any of its Equities Index Unsecured Loan Stock 2013 or any of its Debenture Stock 2023 during the year.

Historical record

Year ended 30 September	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Group net revenue return £000	24,050	18,405	12,712	12,774	13,548	9,046	8,520	6,614	3,651	2,726
Revenue Earnings per Share (p)	15.06	11.50	7.94	7.98	8.46	5.65	5.32	4.13	2.28	1.70
Ordinary Dividends per Share (p)	9.50	8.50	7.50	6.00	5.75	5.00	4.00	2.20	1.70	1.55
Special Dividend per Share (p)	3.50	2.00	–	1.25	1.50	0.50	1.00	1.40	–	–
Net assets £000 [†]	791,225	740,385	829,670	735,188	633,856	815,124	701,291	618,739	429,474	348,326
Basic net asset value per Share (p)	500.47	462.51	518.28	459.26	395.96	509.19	438.08	386.51	268.28	217.59

[†]The figures for 2005 and 2004 have been restated in accordance with IFRS. Figures for 2003 have not been restated.

The Company's Net Asset Value relative to the Morningstar Investment Trust Global Growth Index and the Morgan Stanley Capital International World Index (£ adjusted total return)



Portfolio value by Country of listing



	2012	2011*		2012	2011*
	%	%		%	%
Singapore	14.72	11.44	Spain	2.28	3.96
Norway	14.04	9.92	Turkey	1.74	2.68
Canada	10.66	10.81	Netherlands	1.03	0.00
France	10.25	13.68	Australia	0.63	0.00
Belgium	7.46	10.75	Other	0.57	8.07
United Kingdom	6.90	7.69	Switzerland	0.46	0.00
Hong Kong	5.20	4.65	Japan	0.41	2.31
Sweden	3.74	4.69	Liquidity (£ and US\$)	19.91	9.35

Source Asset Value Investors. Percentages are of net asset value, calculated after deducting liabilities to Debenture Stock 2023 and Equities Index Unsecured Loan Stock 2013. *2011 has been restated to reflect this basis of presentation.

Chairman's Statement

Your Company continues to focus on investment opportunities with real value and excellent prospects for long term capital appreciation.



Strone Macpherson
Chairman

A handwritten signature in black ink, reading 'Strone Macpherson', on a light-colored background.

This report covers the period from 1 October 2011 to 30 September 2012.

The year under review has again been one in which markets have been difficult for the investment community but the Board is pleased to report that Asset Value Investors have not deviated from their established investment process and style; and in the second half of the year have outperformed the benchmark indices by an encouraging margin.

Our European holding company investments contributed 38% of our net total return for the year, despite the value of the euro declining against sterling; and our Asian holding companies a further 38%. The overall total return, after taking into account the currency effect and dividend income, amounted to some £75.9m.

For the year under review, the net asset value per share rose by 10.3% on a total return basis. This compares to an increase in our benchmark (the Morningstar Investment Trust Global Growth Index) of 13.8%. While this underperformance is disappointing, there was a marked improvement in the second half of the year, when the Company outperformed the index by over 3%. Most of the investments which we hold stand at discounts to their stated net asset value, and in the year under review, the average see through discount has narrowed from a peak of around 39% to approximately 30%. Our investee companies, on the whole, continued to trade well in difficult economic circumstances which was not always reflected in improving share prices. Nevertheless, improved dividend income generally reflected underlying trading performance.

There has again been good income growth over the year of some 19%. We are therefore pleased to be recommending an increased final dividend of 7.5p (2011: 6.5p) which, together with the interim dividend of 2.0p (2011: 2.0p), would bring total Ordinary dividends for this year to 9.5p, an increase of 11.8% over last year. In addition, to reflect some exceptional dividend receipts, we are again proposing a special dividend; this year of 3.5p and bringing total dividends for the year to 13.0p (2011: 10.5p).

At the year end net liquidity amounted to some 20% of the portfolio, reflecting the manager's cautious outlook. Further details of the breakdown of performance and changes in the portfolio are set out in the Investment Manager's Review on pages 8 to 15.

The share price increased during the year from 423p to 438p. The share price return of 6.2% (again on a total return basis, including re-invested dividends) was below the net asset value return, because of a widening discount over the year.

The level of discount has oscillated between 4.5% and 14% and, at the year end, was 12.4%.

Recognising the wider discount the Company has, during the second half of this financial year, bought back a total of 1.985 million shares, at an average discount of 13.8%, adding some 0.8p per share (0.2%) to the net asset value to the benefit of all shareholders. These purchases included 1.2 million shares bought at 412.6p at a discount of circa 14% through the market from Caledonia Investments plc. Reflecting a change in its investment policy, Caledonia, until recently our largest shareholder, has sold its entire holding to a combination of existing and new shareholders.

We will continue to take steps, if necessary, to limit the volatility of the discount or premium, as we have done this year. The Board is therefore once again seeking to renew its authorities to buy back and issue shares.

The Board, meeting as the Nomination Committee, decided to appoint two new directors, Nigel Rich and Susan Noble, both of whom joined the board in March 2012. Nigel Rich is chairman of Segro plc and a non-executive director of a number of companies. He brings extensive experience of the Far East from his former executive career as managing director of Hong Kong Land and Jardine Matheson. Susan Noble was a director and senior European fund manager at Robert Fleming Asset Management, and latterly head of Global Equities at Goldman Sachs Asset Management; she brings long experience of European Equity Investments. She is a non-executive director of Alliance Trust plc. We welcome both of them to the Board.

In line with best practice, all of the directors come up for re-election each year. The Board has completed a further board evaluation, this year internally, and has considered again the directors' qualifications, performance and contribution to the Board. The Board can confirm that they each continue to be effective and to demonstrate commitment to the role. The Board therefore recommends that each should be re-elected with the exception of Rosamund Blomfield-Smith, who has asked not to stand for re-election this year. Rosamund was appointed to the Board in 2003 and has made a substantial contribution to our Board discussions over a long period, and we shall miss her input greatly. We wish her all success in her future activities.

Between the year end and 6 November, the latest date for which data is available, the company's net asset value increased by 4.1% compared with a benchmark return of 1.3%.

The overall liquidity of the portfolio at the year end of some 20% is at the higher end of the usual range and reflects continuing concern about the growing evidence of slowing economic growth in many parts of the world and continuing political concerns in the USA, China and elsewhere. The solution to the problem of sovereign debt in many countries is far from clear, and the uncertain outlook in China is also unsettling the global investor. That said, the Board believes that your company is well positioned, with good liquidity, to take advantage of any further difficult market conditions, while pursuing its long term policy of investing in quality undervalued assets.

Strone Macpherson
Chairman

12 November 2012

Investment Portfolio

The top ten equity investments make up 45% of the portfolio, with underlying businesses across a diverse range of sectors and regions.

Ten largest equity investments

Vivendi

Nature of business	Media & Telecoms Conglomerate
Cost	£97.4m
Valuation	£74.2m
Valuation basis	Market price
% of total assets less current liabilities	9.2%

A French telecommunications and media conglomerate that trades on a discount of over 30% to the sum-of-its-parts. Vivendi owns stakes in companies operating in the music, games, television, films and telecommunications industries.

Copyright / Vivendi



Orkla

Nature of business	Investment Holding Company
Cost	£60.6m
Valuation	£52.5m
Valuation basis	Market price
% of total assets less current liabilities	6.5%

A Norwegian conglomerate operating in the branded consumer goods, aluminium and energy sectors. A streamlining of the business may narrow the discount to estimated NAV which stood at over 20% at year end.

Copyright / Orkla



Jardine Strategic Holdings

Nature of business	Investment Holding Company
Cost	£5.3m
Valuation	£41.7m
Valuation basis	Market price
% of total assets less current liabilities	5.2%

Jardine Strategic, controlled by Jardine Matheson, trades on a 36% discount to an attractive collection of Asian listed companies, including Hong Kong Land, Dairy Farm and Mandarin Oriental.

Copyright / Mandarin Oriental Hotel Group

Photography / George Apostolidis



Jardine Matheson Holdings

Nature of business	Investment Holding Company
Cost	£18.7m
Valuation	£41.5m
Valuation basis	Market price
% of total assets less current liabilities	5.1%

The other Singapore listed company in the Jardine control chain. Jardine Matheson trades on a discount of 29% and owns 82% of Jardine Strategic which, in turn, owns 55% of Jardine Matheson. Jardine Strategic has the higher discount but Jardine Matheson is more liquid with a higher dividend yield.

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Aker

Nature of business	Investment Holding Company
Cost	£28.6m
Valuation	£35.7m
Valuation basis	Market price
% of total assets less current liabilities	4.4%

A Norwegian conglomerate whose interests range from oil and gas exploration to seafood processing. The company was trading on a 41% discount to estimated NAV at year end.

Copyright / Aker Solutions



Investor AB 'A'

Nature of business	Investment Holding Company
Cost	£22.7m
Valuation	£29.7m
Valuation basis	Market price
% of total assets less current liabilities	3.7%

A Swedish industrial holding company that owns significant shareholdings in major public multinational companies as well as private companies mostly in the healthcare sector. Investor takes an active ownership role in many of the companies and was trading on a 36% discount to estimated NAV at the end of the year.

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Groupe Bruxelles Lambert

Nature of business	Investment Holding Company
Cost	£31.3m
Valuation	£27.5m
Valuation basis	Market price
% of total assets less current liabilities	3.4%

The listed Belgian holding company of Albert Frère trades on a 27% discount to its NAV. Its holdings include French blue chip listed companies.

Copyright / GDF SUEZ

Sofina

Nature of business	Investment Holding Company
Cost	£24.7m
Valuation	£24.1m
Valuation basis	Market price
% of total assets less current liabilities	3.0%

A Belgian holding company that invests predominately in listed assets across a diverse range of sectors. The company was trading on a 42% discount to estimated NAV at year end.

Copyright / Sofina

Granite Real Estate

Nature of business	Real Estate Investment Company
Cost	£16.2m
Valuation	£19.5m
Valuation basis	Market price
% of total assets less current liabilities	2.4%

Granite is a Canadian based real estate company engaged in the ownership and management of predominantly industrial properties in Canada, the United States, Mexico and Europe. Trading to a 13% discount, it is notably cheaper than peers. Granite's conversion to REIT status, and its strong balance sheet and low leverage offer scope for an increased dividend pay-out to drive a re-rating.

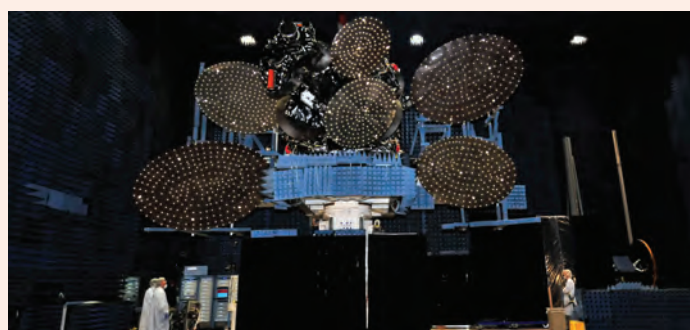
Copyright / Granite Real Estate

Nexen

Nature of business	Oil & Gas Company
Cost	£17.7m
Valuation	£19.1m
Valuation basis	Market price
% of total assets less current liabilities	2.4%

Nexen Inc. is a Canadian-based upstream oil and gas company responsibly developing energy resources in some of the world's most significant basins – including Western Canada, the UK North Sea, the Gulf of Mexico and offshore West Africa. At the year end, the company was subject to a takeover bid from CNOOC.

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Investment Managers' Review

During the year, the Company's NAV rose by 10.3%, compared with an increase of 13.8% in the benchmark Morningstar Global Growth Index (both on a total return basis). While value investing as a strategy has been out of favour for the last couple of years, we may now be seeing the early signs of a shift in sentiment as evidenced by our outperformance of the index over the second half of the year and after the period end. With the weighted average discount remaining towards the wider end of its historical range, there are good prospects for further discount narrowing and outperformance.

Overview of AVI's Investment Philosophy

British Empire is managed by
Asset Value Investors Ltd (AVI)

The aim of AVI is to deliver superior returns while minimising risks. AVI specialises in investing in securities that for a number of reasons may be selling on anomalous valuations.

AVI's investment philosophy is to:

> **Invest in companies trading on discounts to net asset value.**

Our focus is to find listed companies that own assets such as listed securities, property, cash and other businesses. We then estimate the value of all those assets. After deducting any liabilities such as debt or pension liabilities, we arrive at an estimate of net asset value for that company. We will consider investing in companies where the discount between the current share price and our estimate of the value of that business is wide. The types of company we typically find include investment holding companies, conglomerates, closed end funds and property companies. Our approach to investment naturally leads to investment in a variety of companies with diverse underlying businesses.

> **Identify good quality underlying assets with appreciation potential at compelling valuations.**

There are many companies trading on discounts to net asset value. Our aim is to identify companies that own high quality businesses where there is not only a wide discount, but also where we consider there to be a reasonable likelihood of those assets appreciating in value.

> **Focus on balance sheet strength.**

Debt works very well when markets are appreciating. However, debt can also destroy a lot of value when markets are falling and the business environment for a particular company deteriorates. We consider very carefully the balance sheet strength of the companies in which we invest. Factors we look at include the actual quantum of debt relative to the assets of the companies, the maturity profile of the debt and the cashflow the businesses generate.

> **Look for catalyst to narrow discounts**

Once we find a good quality business on an attractive valuation, we then consider whether it is likely that the discount will narrow. Many companies trade on a discount for a reason and if that reason persists, then the discount may persist. Catalysts differ for the various type of company we invest in. For example, in the case of a closed end fund, where we are a large shareholder we can influence the Board of Directors to pursue a strategy for discount narrowing. In the case of a family controlled shareholder where we cannot exert influence to the same extent, our analysis would involve trying to understand the interests and objectives of the controlling shareholder, and whether our interests were aligned with theirs.

> **Focus on bottom-up stock picking.**

We are not asset allocators attempting to invest a pool of money across various asset classes. We are equity investors focusing on a particular style of value investing. We do not hug benchmarks and we will not own a company just because it is in a benchmark. We seek to invest in companies that meet the criteria described above.

> **Be willing to hold cash if investments do not meet our criteria.**

Very simply put, if we cannot find companies that meet our valuation and quality criteria we will not invest our shareholders' money. We will preserve capital until a new investment opportunity arises.

Our focus on buying high quality businesses on wide discounts to their net asset value has served us well over the long term. There are periods of time, however, when our style is out of favour and the types of companies in which we invest are ignored by the broader market. This requires us to be patient and to remain true to our style, so that when investors begin to appreciate the value in those companies, we are well placed to benefit. In the short term, this means there could be some volatility in our returns. The recent past reflects this. However, we are confident that we own high quality businesses that are trading on cheap valuations and that generate reasonable cash dividends for us as we wait for the value to be appreciated by the market.

Members of the investment team at AVI invest their own money in funds which they manage. As at 30 September 2012, AVI's directors and staff own approximately 780,000 shares in British Empire Securities and General Trust plc.



Joe Bauernfreund

Joe is an Executive Director of Asset Value Investors Limited. He has been assisting John Pennink in the management of the portfolio over the past five years.



John Pennink

John has managed the Company's portfolio for the past ten years and is the Chief Executive Officer of Asset Value Investors Limited. He is a Chartered Financial Analyst.

Detour Gold Corp / Canada >

Detour Gold is a gold exploration and development company with its flagship asset, the Detour Lake project, based in Ontario, Canada. The company has 15.6 million ounces of gold in reserves and once construction is complete in 2013, this project will be one of Canada's largest operating mines.

With 90% of the construction complete, we believe that the current valuation for Detour is under valued on a 29% discount to its net asset value and also to its peers.

Copyright / Detour Gold Corp



Investment Manager's Review

Portfolio review

Groupe Bruxelles Lambert / Lafarge >

Lafarge is the world's largest producer of cement, the second largest producer of aggregates and the fourth largest producer of ready-mixed concrete. Groupe Bruxelles Lambert (GBL) owns several significant positions in listed companies along with a 21% holding in Lafarge.

During the year GBL reduced its holding in Pernod Ricard, the drinks company, to 7.5% after selling 2.3% of Pernod Ricard for €499m. GBL also sold its entire 10% holding in Arkema, the chemical company, for €433m. GBL continues to trade at a significant discount to its sum of the parts.

Copyright / Lafarge Photo Library

Photography / Claude Cieutat / Ignus Gerber

Architect / Oscar Niemeyer

Location / Minas Gerais State Administrative Center, Brazil



After a strong first half showing from global markets there was continued progress in the second half of British Empire's financial year, albeit at a reduced rate. Your Company's performance relative to the benchmark, however, improved in the second half of the year compared with the first half, owing in large part to the narrowing of discounts on many of the Company's investments. The proximate causes for both the equity markets' positive performance and also the narrowing of discounts on our holdings have been policy pronouncements from the European Central Bank and the US Federal Reserve. These policies have eased fears of an imminent collapse, especially in the European banking system, and allowed investors the confidence to extend their investment time horizons. A willingness to invest for the long term is a necessary pre-condition for the outperformance of the value style which we follow at AVI, as patience is often required to gather returns on investments made on the basis of low valuations.

Valuations within our portfolio companies still appear to be attractive, with a weighted average discount on our investments of 30%. This is down from 39% one year ago but still wide by historical standards. An increasing proportion of general equity market trading is being conducted through the medium of Exchange Traded Funds (ETFs) and other index-based products. This has meant that markets have awarded increasingly high valuations to large cap stocks vis a vis their less well known peers and this has, in turn, led to a corresponding lack of interest and liquidity in the smaller cap names. At some point in time, the valuation differential between the large cap stable growth stocks and the rest of the market will become so great as to sow the seeds of its own undoing. We believe that investors will realise at some point that they all own the same expensive stocks and look to buy what is today cheap and unloved.

The degree to which the equity markets appear to be driven by hopes for further stimulus is concerning. Each round of monetary easing or support is being met by the markets with diminishing returns. At the same time, economic fundamentals have not significantly improved and offer limited support for the equity markets absent artificial stimulus. To the extent that the economy does not pick up, there may be a gap opening up between the level of certain stock market indices (close to an all-time high) and the rather more gloomy economic fundamentals. Our net liquidity has increased to circa 20%.

We still believe it is sensible to focus on buying companies on discounts for their long term appreciation potential. In this particularly challenging environment of economic and policy uncertainty we believe a tweaking of our tactics (but not of our overall strategy) to pay more attention to dividends, which are an increasing component of returns, and catalysts is appropriate. In addition to the attractive value in the portfolio, as noted above, British Empire shares have themselves traded on a significant discount at times throughout the year. This has represented an appealing investment opportunity and your Company has bought back 1.985m shares at an average discount of 13.8%.

Ferrovial / Spain >

Ferrovial is a Spanish listed holding company which has global operations in more than 15 countries. The company has four key divisions; airports, toll roads, construction and services where prominent infrastructure assets include Heathrow Airport and 407 ETR, a major Canadian toll road.

Ferrovial is commonly perceived to be a Spanish company despite 78% of the underlying earnings being derived from other countries. The company appears to be well financed with €2.6bn liquidity and a net cash position. As at 30 September, Ferrovial was trading at a 31% discount to its net asset value.

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Investment Manager's Review

Portfolio review

Portfolio Review

During the year, your company's NAV increased by 10.3% compared with an increase of 13.8% in the benchmark Morningstar Global Growth Index (both on a total return basis). Whilst it is disappointing to have underperformed the benchmark over the year, it was encouraging that the Company has outperformed the benchmark over the second half of the year by over 3% and we remain confident that the significant value in our portfolio will be realised over time.

The following Table is intended to provide shareholders with greater clarity on the sources of return from the various parts of the portfolio.

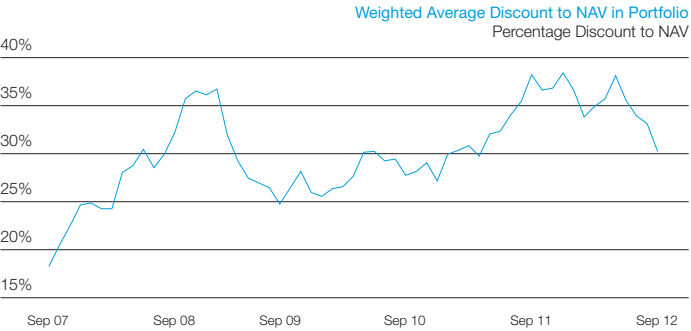
Sector	Local CCY Return	Dividend Income	FX	Total Return
European Holding Companies	3.6%	1.8%	(1.5)%	3.9%
Asian Holding Companies	3.7%	0.4%	(0.2)%	3.9%
Mining & Resources	1.3%	0.1%	0.2%	1.7%
Closed-end Funds	1.0%	0.2%	0.0%	1.3%
Property	0.6%	0.2%	(0.1)%	0.7%
Other (including Vivendi)	(0.1)%	0.6%	(1.2)%	(0.6)%
Cash/Government Bonds/Expenses	(0.7)%	0.3%	(0.1)%	(0.5)%
Grand Total	9.5%	3.7%	(3.0)%	10.3%

Source Asset Value Investors. Please note that, due to rounding effects some numbers may not reconcile exactly. The attribution and returns are generated from Asset Value Investors' internal reporting system and there may be small differences between the figures shown in this table and those shown in the accounts, primarily due to differing approaches to the recognition of income.

As far as returns go, two particular factors merit mention this year. First, shareholders will be aware that the dividends which have flowed into the Company's income account in recent years have increased sharply and this dividend income has formed a significant part of the total return during the financial year. This accounted for over a third of total return for the year. Second, on the other side of the ledger, the strength of the Pound against several currencies, but principally the Euro, has had a negative effect on total returns during the year, accounting for a drag of 3% on NAV returns.

Weighted Average Discount

As ever, this factor remains a major determinant of returns over any given period. The graph below shows the weighted average discount on the invested part of the portfolio between 2006 and 2012. It is clear that discounts remain at the wider end of the historic range. The wide discounts and absence of significant narrowing have acted as a headwind to performance in recent years as narrowing discounts can be an important boost to returns. The outperformance of the portfolio over the second half of the year has coincided with a narrowing of the discount from 35% to 30%.



Source Estimated by Asset Value Investors.

Nexen / Canada >

Nexen is an upstream oil and gas company with energy assets in the UK North Sea, offshore West Africa, the Gulf of Mexico and Western Canada producing approximately 200,000 barrels of oil per day.

Subsequent to our purchase, Nexen was targeted by CNOOC, the Chinese state owned oil company, in the form of a friendly cash bid for the whole company. This takeover attempt is subject to Canadian regulatory approval.

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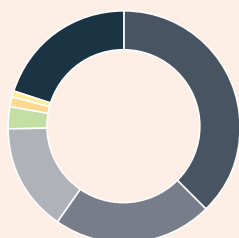
Photography / Kate Kunz / Dave Olecko

Location / Canada, Long Lake Oil Sands Facility / Scotland, Buzzard Offshore Facility



Investment Manager's Review

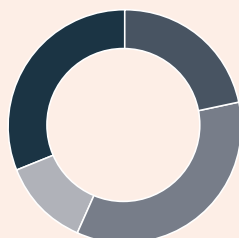
Portfolio review



Portfolio value on a look through basis

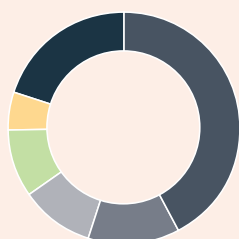
	2012	2011*
	%	%
Continental Europe	37.76	49.54
Asia Pacific	22.34	19.19
Canada/US	15.19	9.89
EMEA	3.03	4.95
United Kingdom	1.36	0.79
Japan	0.41	3.73
South America	0.00	2.56
Liquidity	19.91	9.35

Based on location of companies' underlying assets



Equity portfolio value by market capitalisation

	2012	2011*
	%	%
<£1 billion	21.71	37.45
>£1 billion & <£5 billion	35.07	13.00
>£5 billion & <£10 billion	12.32	26.08
>£10 billion	30.90	23.47



Portfolio value by sector

	2012	2011*
	%	%
Investment Holding Companies	42.39	52.72
Other (including Vivendi)	12.68	12.43
Mining & Resources	10.35	13.22
Investment Companies	9.40	5.40
Real Estate Companies	5.27	6.88
Liquidity	19.91	9.35

Source Asset Value Investors. Percentages for the Geographic Breakdown and the Sector Breakdown are net asset value, calculated after deducting liabilities to Debenture Stock and Equities Index Unsecured Loan Stock 2013 holders from the liquidity figure. The percentages for Market Capitalisation are of the Portfolio excluding liquidity.

*2011 has been restated to reflect this basis of presentation.

European Holding Companies

This part of the portfolio contributed 38% of total gains achieved over the financial year. Local currency gains and dividend income were offset by negative foreign exchange translation effects. The Euro was by far the weakest currency in the portfolio against Sterling. 15% of the total portfolio is listed in Nordic countries. There remains a lot of value in European Holding Companies. Weighted average discounts are 33% compared with 38% one year ago.

Notable gains were made in Aker, a Norwegian listed company focused on the oil services industry through a 28% stake in Aker Solutions, a major oil services business, and a 49.9% stake in Det Norske, the second largest oil company in Norway. Both of these companies have had a good year. In the case of Aker Solutions a change of management and operational improvements have driven a share price re-rating, whilst at Det Norske being part of the consortium that made a large discovery in the North Sea boosted its share price enormously over the year. Aker holds some other investments in related industries and also has significant net cash on its balance sheet, having made asset disposals early in the year. It trades on a 41% discount and is committed to paying a relatively high dividend yield, currently 5.9%. A share price total return during the year of 66% has been driven by underlying NAV growth rather than discount compression. We consider that there is scope for further growth in the value of its businesses which suggests that the current wide discount level is unjustified.

Other strong contributors to performance based in Scandinavia include Investor AB 'A' and Orkla; both of which trade on wide discounts, have attractive dividend yields and strong balance sheets, as well as catalysts for discount narrowing.

There were some disappointing performances elsewhere in Europe. For example, CIR SpA in Italy, which we no longer hold, detracted from performance to the tune of £2.8m over the period. This is an example of a company that trades on a very wide discount. However, being based in Italy, it has suffered from negative investor sentiment, as well as a deteriorating operational outlook for some of its businesses.

Asian Holding Companies

Asian companies have been a source of strong returns for a number of years and once again they contributed significantly. 38% of this year's returns came from this group of companies, with the bulk of these coming from our investments in Jardine Matheson Holdings and Jardine Strategic Holdings.

Wheelock & Co was another notable contributor to performance. In recent months its share price appreciated sharply and thus the discount at which it trades narrowed. We used this strength to sell our holding and realise profits. We also took profits on part of our holdings in Swire Pacific and thereby further reduced our exposure to property markets in Hong Kong and China, both of which have been remarkably strong in recent years.

We have been adding companies that offer exposure to the Asian domestic consumer. During the year we had a position in Fraser & Neave which was the subject of corporate activity that allowed us to sell our holding for a reasonable profit.

Another recent addition is First Pacific, which is a Hong Kong listed holding company that owns stakes in four other listed companies in the Philippines and Indonesia. It is on a 45% discount and management are attempting to narrow the discount by way of share buybacks and generally increasing the investor awareness and understanding of the company.

Vivendi

Vivendi is the largest single holding in the portfolio. Its share price has been relatively flat over the year but this masks a rather more volatile time for the company as challenges in its French mobile phone business contributed to a decision to cut the dividend by a third. Vivendi owns a collection of businesses spanning mobile phones, broadband, television, music and computer games and the share price is significantly below the aggregate value of those businesses. Following management changes, the company has now embarked on a different strategy that we believe will see one or more of those businesses disposed of. This reflects a recognition by management that the present structure does not work, as a huge amount of value could be created for shareholders if the discount were successfully eliminated.

The company trades on very low multiples of earnings and, even after the cut in dividend, currently yields over 6%.

We added to our holding in Vivendi after the sharp sell-off in the shares earlier in the year and this, together with the dividend income, has meant that Vivendi made a small positive contribution to returns during the year.

Other

Losses within this sector have come from small Japanese companies, where we have been reducing our investments. Despite very wide discounts indeed, it seems unlikely that management will pursue the kind of strategy that could lead to those discounts being reduced.

Outlook

There is good value in our portfolio of stocks relative to the market, as evidenced by the continued very wide weighted average discount to NAV. In these holdings is embedded a store of value that can be released through corporate activity such as takeovers and reorganisations. Corporate activity may affect a small sub-set of our portfolio in any given period; as we have seen in the past year with Nexen, Allied Gold and Fraser & Neave. A more general narrowing of discounts will occur when investors gain confidence in the economic and political environment and can make longer term investment decisions. Because the investment environment has been so influenced by central bank policies, many investors have become less interested in stock-picking and the major decision has been between 'risk-on'

Closed End Funds

The weighting in closed end funds has expanded over the year and we have been particularly focused on the listed private equity sector. Holdings in Pantheon and Electra have been supplemented with new investments including LMS Capital and AP Alternative Assets. These investments were made on average discounts above 30% and we are confident in the value of the underlying businesses. In addition, action is being taken to address wide discounts, with no new investments being made by the funds and capital being returned to shareholders from the sale of existing holdings.

Mining & Resources

Nexen was a large contributor to performance for the year under review as a result of a take over bid from CNOOC at a premium of circa 60% to the prevailing share price. This was almost matched by a very strong performance over the year from Amerisur Resources, a London listed oil exploration company with assets in South America.

It has been a challenge to make money out of gold mining stocks despite another year of decent gains in the gold spot price. We currently have 3% in gold mining companies, which is lower than a year ago. A loss on the sale of one holding was partially offset by the gains made in others.

Property

Granite Real Estate, a Canadian listed REIT, performed well; with its share price rising by over 30% during the year. This has been driven by improving investor sentiment following the implementation of a more shareholder friendly strategy. The company yields almost 6% and is trading on a discount to NAV of circa 12%, which is far more attractive than most of its peer group of North American REITs.

Suntec REIT in Singapore is an example of a more recent investment. This company owns prime commercial property in Singapore and yields almost 6.5%. There is scope for this to be increased after the company completes its recently announced asset enhancement initiative.

Liquidity

A comment is warranted on the level of liquidity within the portfolio which has expanded from 10% one year ago to 20% as at 30 September 2012. Much of this increase has come about during the last few months of the financial year, as stronger markets and narrower discounts in some of our stocks allowed us to take profits and to build up our cash levels for investment into more attractive opportunities. We do not target a particular level of cash. However, at times cash will build up as the timing of sales and purchases do not always match.

and 'risk-off'. This has led many of them into using only the most liquid index investments so as to be able to change their orientation quickly. Longer-term investment is discouraged for both corporate and stock market investors. For this reason, we consider the monetary activism as carried out by the US Federal Reserve, the Bank of England and the ECB to be misconceived. In delivering a transient shot in the arm to the markets we are also destroying the predictability and stability that we need to make sound investments and capital allocations both as investors and as a society.

Notwithstanding the economic and policy headwinds, we will continue to seek to invest in good companies at attractive valuations.

Investment Portfolio

We seek to build a portfolio that is diversified in the underlying businesses in which it invests by sector, country and market capitalisation. The portfolio has a built in 'margin of safety' through the purchase of good quality assets on a substantial discount.

Investments at 30 September 2012

Company	Nature of business	% of class	Cost £000	Valuation £000	% of total assets less current liabilities
Vivendi	Media & Telecoms Conglomerate	0.5	97,427	74,196	9.20
Orkla	Investment Holding Company	1.1	60,578	52,453	6.51
Jardine Strategic Holdings	Investment Holding Company	0.2	5,266	41,656	5.17
Jardine Matheson Holdings	Investment Holding Company	0.2	18,701	41,477	5.14
Aker	Investment Holding Company	2.5	28,566	35,721	4.43
Investor AB 'A'	Investment Holding Company	0.6	22,748	29,662	3.68
Groupe Bruxelles Lambert	Investment Holding Company	0.4	31,300	27,455	3.41
Sofina	Investment Holding Company	1.4	24,662	24,146	3.00
Granite Real Estate	Real Estate Investment Company	1.9	16,180	19,547	2.42
Nexen	Oil & Gas Company	0.2	17,718	19,144	2.37
Top ten investments			323,146	365,457	45.33
Detour Gold Corp	Mining Company	1.0	15,748	18,868	2.34
First Pacific	Investment Holding Company	0.7	19,947	18,578	2.31
Macquarie International Infrastructure Fund	Investment Company	5.7	18,304	17,722	2.20
Ferrovial	Investment Holding Company	0.3	16,234	17,668	2.19
Shun Tak Holdings	Investment Holding Company	1.9	16,078	13,612	1.69
Talisman Energy	Oil & Gas Company	0.2	12,478	13,523	1.68
Fred Olsen Energy	Oil Services	0.7	13,039	13,002	1.61
Suntec REIT	Real Estate Company	0.7	10,957	12,185	1.51
Electra Private Equity	Investment Company	1.7	7,934	10,730	1.33
Onex	Investment Company	0.4	9,742	10,373	1.29
Top twenty investments			463,607	511,718	63.48
Prosafe	Oil Services	0.9	10,411	10,107	1.25
Amerisur Resources	Oil & Gas Company	3.1	5,410	10,100	1.25
LMS Capital	Investment Company	5.6	9,290	9,638	1.20
Iş Gayrimenkul Yatırım Ortak	Real Estate Investment Company	3.3	11,159	9,184	1.14
Pantheon International Participations	Investment Company	3.3	5,743	9,122	1.13
Swire Pacific 'B'	Investment Holding Company	0.2	4,731	8,806	1.09
AP Alternative Assets	Investment Company	1.3	7,326	8,053	1.00
Soco International	Oil & Gas Company	0.7	8,936	7,499	0.93
Paris Orléans	Investment Holding Company	0.8	6,962	7,104	0.88
St Barbara	Mining Company	0.7	6,184	4,964	0.62
Top thirty investments			539,759	596,295	73.97

Company	Nature of business	% of class	Cost £000	Valuation £000	% of total assets less current liabilities
Pantheon International Participation (Redeemable shares)	Investment Company	1.9	3,623	4,931	0.61
Henex	Investment Holding Company	0.9	4,747	4,844	0.60
Alarko Gayrimenkul Yatirim	Real Estate Investment Company	6.7	4,513	4,589	0.57
Mitra Energy*	Oil & Gas Company	2.2	4,234	4,492	0.56
Private Equity Holding AG	Investment Company	3.3	3,578	3,658	0.45
Treasury China Trust	Real Estate Investment Company	2.6	4,670	3,388	0.42
Sherritt International	Mining Company	0.3	3,843	2,891	0.36
RHJ International	Investment Holding Company	1.0	4,150	2,650	0.33
Vietnam Property Fund	Investment Company	7.3	2,741	1,906	0.24
Showa Aircraft Industry	Transport & Property Company	1.5	3,183	1,656	0.20
Top forty investments			579,041	631,300	78.31
Daidoh	Textile & Property Company	1.1	2,225	1,532	0.19
Resaca Exploitation	Oil & Gas Company	9.1	5,296	228	0.03
Total equity investments			586,562	633,060	78.53
Fixed income investments					
Treasury 4.50% 07/03/2013	UK Government Security		80,530	80,454	9.98
UK Treasury Bill 24/12/2012	UK Government Security		50,954	50,959	6.32
US Treasury Bill 10/01/2013	US Government Security		31,002	29,717	3.68
UK Treasury Bill 12/12/2012	UK Government Security		12,993	12,991	1.61
Total investments			762,041	807,181	100.12
Net current liabilities				(1,008)	(0.12)
Total assets less current liabilities				806,173	100.00

*Unquoted Investment

Capital Structure *as at 30 September 2012*

The Company's capital structure comprises Ordinary Shares, Debenture Stock and Equities Index Unsecured Loan Stock (Index Stock).

Ordinary Shares

At 30 September 2012 there were 160,014,089 (2011: 160,080,089) Ordinary Shares of 10p each in issue, of which 1,919,104 (2011: nil) were held in treasury and therefore the total voting rights attaching to Ordinary Shares in issue are 158,094,985.

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 Ordinary Share held.

The Notice of Meeting and Form of Proxy stipulate the deadlines for the valid exercise of voting rights and, other than with regard to Directors not being permitted to vote their shares on matters in which they have an interest, there are no restrictions on the voting rights of Ordinary Shares.

Transfers

There are no restrictions on the transfer of Ordinary Shares except for dealings which would or could constitute insider dealing or, in the case of Directors and Persons Discharging Managerial Responsibilities, as would otherwise be prohibited under the UKLA Listing Rules.

The Company is not aware of any agreements between Shareholders nor any agreements or arrangements with Shareholders which would change in the event of a change of control of the Company.

Debenture Stock

At 30 September 2012 there was in issue £15,000,000 (2011: £15,000,000) 8 $\frac{1}{8}$ per cent Debenture Stock 2023, repayable on 2 July 2023.

Income entitlement:

Holders of the Debenture Stock are entitled to interest paid half-yearly at the rate of 8 $\frac{1}{8}$ per cent 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 of the assets of the Company. If the Company is liquidated the Debenture Stock is redeemable by the Company at a price which is the higher of par and that price at which the Gross Redemption Yield on the Relevant Date is equal to the Gross Redemption Yield at 3 p.m. on that date of the 8 $\frac{3}{4}$ per cent Treasury Stock 2017 or such other government stock as the Trustees, upon advice, may agree, together with interest accrued up to and including the date of redemption. Had the Company been liquidated on 30 September 2012, the redemption payment would have amounted to £5.9 million.

The mid-market prices of the 8 $\frac{1}{8}$ per cent Debenture Stock 2023 as at 30 September 2012 was 123.50p (2011: 122.50p).

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 2012 there were 2,426,754 units of Index Stock in issue (2011: 2,426,754).

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 for the year to 30 September 2012 amounted to £108.73 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 prevailing 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 2012 amounted to £2.99886 per unit and the offer market price of the Index Stock as at 30 September 2012 was £2.90 per unit.

Voting entitlement:

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

First Pacific / PLDT >

Philippine Long Distance Telephone (PLDT) is one of the largest telecommunication providers in the Philippines with 67.4m mobile subscribers recorded in June 2012. First Pacific owns a 23.1% stake in PLDT.

First Pacific is a family controlled, Hong Kong listed, investment holding company which has assets located in Indonesia and the Philippines. Apart from PLDT, First Pacific has significant interests in Metro Pacific Investments (infrastructure), Indofood (food producer) and Philex Mining (gold miner). First Pacific is currently trading at a 44% discount to its net asset value which, we believe, is wider than many of its Philippine and Indonesian listed peers.

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Photography / Dougal Waters



Directors



Strone Macpherson

Independent Non-Executive Chairman

Age: 64 Length of Service: 10 years
Appointed Chairman: December 2007

Experience:

Chairman of Close Brothers Group plc, JPMorgan Smaller Companies Investment Trust plc and the Investment Committee of the King's Fund. Formerly a Director at Flemings and Executive Deputy Chairman of Misy plc.



Rosamund Blomfield-Smith

Independent Non-Executive Director

Age: 63 Length of Service: 10 years

Experience:

Chairman of Moat Homes Limited, an Advisor to Thames Water and an independent Board member of the Wales Audit Office. Governor of Hartpury Agricultural College. Formerly Head of Corporate Finance at Arbuthnot Latham Limited and a Director of N M Rothschild & Sons and ING Barings.



Steven Bates

Independent Non-Executive Director

Age: 55 Length of Service: 7 years

Experience:

A Director of Zephyr Management UK Limited, an investment management business specialising in emerging markets. Chairman of F&C Capital and Income Investment Trust plc. Chairman of Baring Emerging Europe plc, Chief Investment Officer of Salisbury Partners LLP. A Director of Renn Universal Growth Investment Trust plc and a Member of the Investment Committee of the Rank Foundation. Previously an Executive Director of JPMorgan Asset Management responsible for emerging markets investments.

Last re-elected to the Board:
2011

Committee membership:

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

Remuneration:
£31,860 pa

Employment by the Manager:
None

Other connections with the Company or Manager:
None

Shared Directorships with any other Company Directors:
JPMorgan Smaller Companies Investment Trust plc

Shareholding in Company:
40,000 Ordinary Shares

Last re-elected to the Board:
2011

Committee membership:

Audit Committee, Management Engagement Committee, Nomination Committee

Remuneration:
£21,240 pa

Employment by the Manager:
None

Other connections with the Company or Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
3,100 Ordinary Shares

Last re-elected to the Board:
2011

Committee membership:

Audit Committee, Management Engagement committee, Nomination Committee

Remuneration:
£21,240 pa

Employment by the Manager:
None

Other connections with the Company or Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
20,000 Ordinary Shares



Andrew Robson

Independent Non-Executive Director

Age: 53 Length of Service: 4 years
Appointed Audit Committee Chairman:
October 2008

Experience:

Non-Executive Director of JPMorgan Smaller Companies Investment Trust plc, Shires Income plc and Mobeus Income & Growth 4 VCT plc. Formerly Group Finance Director of eFinancial Group Limited, and a Director of Robert Fleming & Co Ltd, SG Hambros and M&G Equity Investment Trust plc.



Susan Noble

Independent Non-Executive Director

Age: 55 Appointed: March 2012

Experience:

A member of the Finance Committees of the Hospice of St Francis, Berkhamsted and Mencap. Formerly a Managing Director of Goldman Sachs Asset Management, Head of European Equities and Head of Global Equities. Also a Director and Senior European Portfolio manager in Robert Fleming Asset Management. Non-Executive Director of Alliance Trust plc.



Nigel Rich

Independent Non-Executive Director

Age: 67 Appointed: March 2012

Experience:

Chairman of Segro plc, Non-Executive Director of Bank of the Philippine Islands (Europe) plc, Matheson & Co Ltd and Pacific Assets Trust plc. Formerly Chairman of Xchanging plc, Ocean Group/Exel plc, CP Ships Limited and Hamptons Group Limited.

Last re-elected to the Board:
2011

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

Remuneration:
£24,780 pa

Employment by the Manager:
None

Other connections with the Company or Manager:
None

Shared Directorships with any other Company Directors:
JPMorgan Smaller Companies Investment Trust plc

Shareholding in Company:
2,800 Ordinary Shares

Appointed to the Board:
2012

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

Remuneration:
£21,240 pa

Employment by the Manager:
None

Other connections with the Company or Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
3,402 Ordinary Shares

Appointed to the Board:
2012

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

Remuneration:
£21,240 pa

Employment by the Manager:
None

Other connections with the Company or Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
8,000 Ordinary Shares

Attendance at meetings

Name	Board	Audit	Management Engagement	Nomination Committee
Strone Macpherson	10	2	2	1
Steven Bates	10	2	2	1
Rosamund Blomfield-Smith	10	2	2	1
John May*	3	1	1	1
Susan Noble**	6	1	1	n/a
Nigel Rich**	6	1	–	n/a
Andrew Robson	9	2	2	1

*retired December 2001, **appointed March 2012

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 30 September 2012.

Status

The Company is registered as a public limited company under the Companies Acts and is an investment company under Section 833 of the Companies Act 2006. It is a member of the Association of Investment Companies.

The Company has been approved as an investment company under Sections 1158/1159 of the Corporation Tax Act 2010 for the year ended 30 September 2011. The Directors are of the opinion, under advice, that the Company has conducted its affairs so as to be able to obtain approval as an investment company for the year ended 30 September 2012. An application for Approved Investment Trust status under the new investment trust tax regulations, which apply to the Company from 1 October 2012 has been made.

The Company is a qualifying company for the purposes of Stocks & Shares Individual Savings Accounts.

Investment Objective, Policy, Restrictions and Business Review

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

Investments are principally in companies listed on recognised stock exchanges in the UK and/or overseas, which may include investment holding companies, investment trusts and other companies, the share prices of which are assessed to be below their estimated net asset value or intrinsic worth. Although listed assets make up the bulk of the portfolio the Company may also invest in unlisted assets with the prior approval of the Board.

The Company generally invests on a long-only basis but may hedge exposures through the use of derivative instruments and may also hedge its foreign currency exposures.

There are no geographic limits on exposure, as the Company invests wherever it considers that there are opportunities for capital growth. Risk is spread by investing in a number of holdings, many of which themselves are diversified companies.

The Company will not invest in any holding that would represent more than 15% of the value of its total investments at the time of investment.

Potential investments falling within the scope of the Company's investment objective will differ over the course of market cycles. The number of holdings in the portfolio will vary depending upon circumstances and opportunities within equity markets at any particular time.

The Company may gear its assets through borrowings which may vary substantially over time according to market conditions but which will not exceed twice the nominal capital and reserves of the Company.

Reviews of the Company's NAV performance during the year in comparison to the benchmark (the Company's key performance indicator), are contained in the Chairman's Statement on pages 04 and 05 and the Investment Manager's Review on pages 08 to 15.

Principal risks

The principal risks facing the Company are market risk and foreign exchange risk. Market risk arises from uncertainty about future movements in, principally, equity and bond markets, which are themselves influenced by a number of factors including economic conditions and interest rates. There is a further risk that the performance of the Company's portfolio fails to match the performance of the markets generally, and its benchmark specifically. Foreign exchange risk arises if there are falls against sterling in the currencies in which the Company's investments are denominated. These risks are managed by the Board and the Manager mainly by way of portfolio diversification, regular investment review, strategic discussion, and consideration of currency exposures.

The principal risks are examined in more detail in note 18 in the Notes to the Accounts on pages 49 to 54.

Further risks which can impact on performance are a loss of key personnel (especially within the investment management team); regulatory (principally breaches of either UKLA Listing Rules or Section 1159 of the Corporation Tax Act 2010) and failure of systems or controls. In managing these risks the Company reviews staffing and activity levels of the Investment Manager and Administrator at least annually to ensure that there are adequate qualified staff/capacity available, and in particular requires the Investment Manager to notify promptly the Board of any changes in senior staff. The Company also reviews the systems of the Investment Manager and Administrator as part of its half yearly compliance checks.

The shares of Investment Trusts frequently trade at a discount to their published net asset value. The Board seeks to manage the risk of any widening of the discount by regularly reviewing the level of discount at which the Company's shares trade, and it will, if necessary and appropriate, limit any significant widening through measured buybacks of shares.

The value of the Company's shares will additionally be subject to the interaction of supply and demand, prevailing net asset values and the general perceptions of investors. The share price will accordingly be subject to unpredictable fluctuations and the Company cannot guarantee that the share price will appreciate in value.

Results and Dividends

Group profit for the year was £75,894,000 which included a profit of £24,050,000 attributable to revenue (2011: loss of £76,959,000 which included a profit of £18,405,000 attributable to revenue). The profit for the year attributable to revenue has been applied as follows:

	Company £'000	Group £'000
Revenue available for dividends	24,053	24,050
Interim dividend of 2.00p per Ordinary Share paid on 5 June 2012	(3,201)	(3,201)
Recommended final dividend payable on 7 January 2013 to Shareholders on the Register as at 7 December 2012 (ex dividend 5 December 2012):		
– Final dividend of 7.50p per Ordinary share	(11,857)	(11,857)
– Special dividend of 3.50p per Ordinary share	(5,533)	(5,533)
	3,462	3,459

Directors

The Directors of the Company are listed on pages 20 and 21. All served throughout the period under review with the exception of Nigel Rich and Susan Noble who were appointed as non-executive Directors in March 2012. John May retired from the Board on 15 December 2011.

Rosamund Blomfield-Smith has asked not to stand for re-election at the forthcoming AGM. In accordance with the recommendations of the AIC's Code of Corporate Governance Principle 3, all of the remaining Directors of the Board will retire at the forthcoming Annual General Meeting and offer themselves for re-election, with the exception of Nigel Rich and Susan Noble who offer themselves for election.

In accordance with the Company's Articles of Association, Nigel Rich and Susan Noble, having been appointed by the Board subsequent to the last Annual General Meeting, will retire and stand for election by shareholders.

The beneficial interests of the current Directors and their connected persons in the securities of the Company as at 30 September 2012 are set out below:

	Ordinary Shares 30/9/12	Ordinary Shares 1/10/11	Loan Stock 30/9/12	Loan Stock 1/10/11
Strone Macpherson	40,000	40,000	–	–
Steven Bates	20,000	20,000	–	–
Rosamund Blomfield-Smith	3,100	3,100	–	–
John May	–	6,900†	–	–
Susan Noble	3,402	–	–	–
Andrew Robson	2,800	2,800	–	–
Nigel Rich	8,000	–	–	–

†Includes a non-beneficial interest in 5,000 Ordinary Shares held in a Trust, of which John May is a Trustee, for the benefit of his children. John May retired as a Director on 15 December 2011.

There were no changes to the above interests between the year end and the date of this report. No Director was a party to or had an interest in any contract or arrangement with the Company.

Information on the appointment of Directors and their compensation for loss of office, as required by the Takeover Directive, is given on page 56.

Subsidiary Companies

The Company owns one active dealing subsidiary, BEST Securities Limited. In the year to 30 September 2012, BEST Securities Limited made a loss after taxation of £2,549 (2011: loss £2,698).

Report of the Directors

continued

The Investment Manager

Asset Value Investors Limited is the Company's appointed Investment Manager (the Manager), engaged under the terms of an Investment Management Agreement (the IMA) effective from 1 October 2003 and varied with effect from 1 October 2008. The IMA is terminable by one year's notice from either party, other than for "cause". The Manager has complied with the terms of the IMA throughout the year to 30 September 2012.

Under the IMA the Manager is entitled to a base management fee of 0.60% of the net assets of the Company at the end of the preceding financial period. Phoenix Administration Services Limited charge the Company for corporate secretarial services, the Manager then refunds this fee by deducting it from their base management fee of 0.60%. A performance fee of 6% is also payable for any outperformance in the net asset value (on a total return basis) over the benchmark at the year end, with a cap on aggregate fees of 1% of net assets of the Company per annum. Any underperformance or outperformance in excess of the cap is carried forward for use in the next 3 years' fee calculations, after which it shall lapse.

The Company has adopted the Morningstar Investment Trust Global Growth Index as the benchmark against which the Company's performance is measured.

Corporate secretarial services are provided by Phoenix Administration Services Limited (Phoenix) pursuant to an Agreement dated 17 December 2009, for a fee of £42,000 per annum. The Agreement with Phoenix continues until terminated by either party on giving not less than six months' written notice. The fee paid to the Manager under the IMA is reduced by the amount paid to Phoenix for corporate secretarial services.

Interests in Share Capital

Information on the structure, rights and restrictions relating to share capital, as required by the Takeover Directive, is given on pages 18 and 19.

At 30 September 2012 and 31 October 2012 the following holdings representing more than 3 per cent of the Company's issued share capital had been reported to the Company:

	Number held at 30 September 2012	Percentage held at 30 September 2012	Number held at 31 October 2012
Rothschild Bank AG	8,893,417	5.62%	9,071,317
HSBC Global Asset Management (UK) Limited	8,678,297	5.48%	8,453,096
Brewin Dolphin Limited	8,601,411	5.43%	8,510,672
Alliance Trust Savings Limited	7,032,320	4.44%	6,972,171
Legal & General Investment Management Ltd	5,313,099	3.35%	5,180,922

Auditor

Ernst & Young LLP have indicated their willingness to continue in office and a Resolution will be proposed at the forthcoming Annual General Meeting to re-appoint them as Auditor and authorise the Directors to determine the Auditor's remuneration for the ensuing year.

Special Business at the Annual General Meeting

Resolution 11 - Authority to allot Shares

The Directors seek to renew the general and unconditional authority to allot up to 23,685,996 Ordinary Shares of 10p each, representing approximately 14.99% of the issued Ordinary Share capital (excluding shares held in treasury). The Directors would only exercise this authority if they considered it to be in the best interests of the Company generally.

Resolution 12 - Authority to issue Shares outside of pre-emption rights

The Directors seek to renew the authority to allot, other than on a pre-emptive basis, Ordinary Shares (including the grant of rights to subscribe for, or to convert any securities into Ordinary Shares) up to a maximum of 7,900,599 Ordinary Shares, being approximately 5% of the Ordinary Shares (excluding shares held in treasury) currently in issue, and to transfer or sell Ordinary Shares held in treasury. The Directors would only exercise this authority if they consider it to be advantageous to the Company.

Resolution 13 - Share Buy-Back Facility

This Directors seek to renew the authority to make market purchases of up to 23,685,996 Ordinary Shares (in accordance with the provisions of the Companies Act and Listing Rules) representing approximately 14.99% of the issued Ordinary Share capital (excluding shares held in treasury) at the date of this Report. Ordinary Shares bought back may be held in treasury for cancellation or sale at a future date rather than being cancelled upon purchase. The Directors would not exercise the authority granted under this Resolution unless they consider it to be in the best interests of Shareholders e.g. resulting in an increase in net asset value per Share.

Corporate Governance

The Listing Rules and the Disclosure Rules and Transparency Rules (Disclosure Rules) of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject. The provisions of the UK Corporate Governance Code (UK Code) issued by the Financial Reporting Council (FRC) in June 2010 are applicable for the year under review. The related Code of Corporate Governance (AIC Code) issued by the Association of Investment Companies (AIC) in October 2010 provides specific corporate governance guidelines to investment trusts. The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for investment Companies (AIC Guide). The FRC has confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide for Investment Companies will be meeting obligations in relation to the UK Code and associated disclosure requirements of the Disclosure Rules.

The AIC Code can be viewed at
<http://www.theaic.co.uk/files/technical/AICCode.pdf>

The UK Code can be viewed at
<http://www.frc.org.uk/corporate/ukcgcode.cfm>

The Board considers that reporting against the principles and recommendations of the AIC Code and the AIC Guide (which incorporates the UK Code) provides shareholders with full details of the Company's Corporate Governance compliance.

The UK Code includes provisions relating to the role of the chief executive and of the executive directors' remuneration. However, as all the Directors are non-executive, these provisions are not applicable. The UK Code also sets out the case for establishing an internal audit function. For the reasons set out in the AIC Guide, the Board considers that an internal audit function is not relevant to the Company, being an externally managed investment company.

Throughout the year ended 30 September 2012 the Company complied with the provisions of the AIC Guide and AIC Code other than for the following matters and any exceptions detailed in the schedule below reporting on the Company's compliance with the AIC Code's Principles:

- the Board did not have a nominated senior independent non-executive Director. However, at a meeting in November 2012 it was agreed that Steven Bates would assume this role.
- owing to the short timeframe between the Company's financial year end and the publication of this Report, the Company is not able to meet the UK Code's provision E.2.4 that the Notice of the AGM and related papers be sent to shareholders at least 20 working days before the meeting.

Report of the Directors

continued

The Principles of the AIC Code

The AIC Code is made up of twenty-one principles split into three sections covering:

- The Board
- Board Meetings and relations with the Investment Manager
- Shareholder Communications

The Board

AIC Code Principle	Compliance Statement
1. The Chairman should be independent.	The Chairman, Strone Macpherson, was independent of the Investment Manager at the time of his appointment and remains so. There is a clear division of responsibility between the Chairman, the Directors, the Investment Manager and the Company's other third party service providers. The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and is responsible for ensuring that all Directors receive accurate, timely and clear information.
2. A majority of the Board should be independent of the manager.	The Board consists of six non-executive Directors, each of whom is independent of the Investment Manager. No member of the Board is a Director of another investment company managed by the Company's investment manager, nor has any Board member been an employee of the Company, its investment manager or any of its service providers. Strone Macpherson is Chairman of Close Brothers Group plc, the ultimate parent of Winterflood Securities Limited which acts as the Company's Corporate Broker for a retainer of £25,000 per annum paid by the Company. Strone Macpherson and Andrew Robson, both non-executive directors of JPMorgan Smaller Companies Investment Trust plc, are fully aware of their fiduciary duties to act in the best interests of the Company and the Board does not consider these non-executive appointments compromise their ability or judgement as Directors of the Company. Susan Noble is a director of Alliance Trust PLC. Alliance Trust Savings Ltd, which is a subsidiary of Alliance Trust PLC, provides savings and investment plans on a non-discretionary basis.
3. Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	All Directors will submit themselves for annual re-election by shareholders. This year Rosamund Blomfield-Smith has asked not to stand for re-election. Nigel Rich and Susan Noble stand for election, having been appointed since the AGM in 2011. The individual performance of each Director standing for re-election is evaluated annually by the remaining members of the Board and, if considered appropriate, a recommendation is made that shareholders vote in favour of their re-election at the AGM.
4. The Board should have a policy on tenure, which is disclosed in the annual report.	The Board, meeting as the Nomination Committee, considers the structure of the Board and recognises the need for progressive refreshing of the Board. The Board does not have a formal policy requiring that directors should stand down after a fixed period. It considers that a long association with the Company and experience of a number of investment cycles can be valuable to its deliberations and does not compromise a Director's independence. The terms and conditions of the Directors' appointments are set out in letters of engagement which are available for inspection on request at the registered office of the Company and at the AGM.

5. There should be full disclosure of information about the Board. All of the Directors are resident in the UK and their biographical details, set out on pages 20 and 21 of this Report, demonstrate the wide range of skills and experience that they bring to the Board.

Details of the Board's Committees and their composition are set out on pages 31 and 32 of this Report.

The Board considers that as it is comprised of non-executive Directors it is not necessary to establish a separate Remuneration Committee. Whilst the whole Board considers Directors' remuneration, the Chairman will absent himself from the discussion on his remuneration.

6. The Board should aim to have a balance of skills, experience, length of service and knowledge of the company. The Nomination Committee conducts annually a skills audit to enable the Board to identify any skill shortages to be filled by new Directors.

When considering new appointments, the Board reviews the skills of the Directors and seeks to add persons with complementary skills or who possess the skills and experience which fill any gaps within the Board's knowledge or experience and who can devote sufficient time to the Company to carry out their duties effectively.

The experience of the current Directors is detailed in the biographies of the Directors, set out on pages 20 and 21 of this Report.

The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates and recognises the value of diversity in the composition of the Board. When Board positions become available as a result of retirement or resignation, the Company will be focused on ensuring that a diverse group of candidates is considered.

7. The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The Board, meeting as the Nomination Committee, has formalised a process to evaluate its own performance and that of its Chairman annually. The Chairman leads the assessment which covers the functioning of the Board as a whole and the effectiveness of the Board Committees. Where necessary the Chairman discusses the responses with each Director individually. The Chairman absents himself from the Board's review of his effectiveness as the Company Chairman.

During 2011 an independent review of the Board was undertaken, the results of which were considered by the Board. The Board has agreed that an independent review of the Board be commissioned regularly.

The review considered the Board's objectives and how the contributions made individually and collectively to Board meetings helped the Company to achieve its objectives. The Board's strengths and weaknesses were considered and different methodologies to address risks and opportunities were identified.

The Board is satisfied that the structure, mix of skills and operation of the Board continue to be effective and relevant for the Company.

8. Director remuneration should reflect their duties, responsibilities and the value of their time spent. The Board periodically reviews the fees paid to the Directors and compares these with the fees paid by the Company's peer group and the investment trust industry generally, taking into account the level of commitment and responsibility of each Board member. Details on the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Report on page 56 and in note 3 to the Accounts.

As all of the directors are non-executive, the Board considers that it is acceptable for the Chairman of the Company to chair meetings when discussing Directors' fees. The Chairman's remuneration is determined by the Board in his absence. The Board periodically takes advice from external independent advisers on Directors' remuneration.

All Directors own shares in the Company. No stock options or other performance-related elements have been awarded.

Report of the Directors

continued

The Board continued

AIC Code Principle	Compliance Statement
9. The independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report.	The Nomination Committee is comprised of the whole Board which has a majority of independent directors and, subject to there being no conflicts of interest, all members of the Committee are entitled to vote on candidates for the appointment of new Directors and on recommending for shareholders' approval the Directors seeking re-election at the AGM.
10. Directors should be offered relevant training and induction.	New appointees to the Board are provided with a full induction programme. The programme covers the Company's investment strategy, policies and practices. The Directors are also given key information on the Company's regulatory and statutory requirements as they arise including information on the role of the Board, matters reserved for its decision, the terms of reference for the Board Committees, the Company's corporate governance practices and procedures and the latest financial information. It is the Chairman's responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to participate in training courses where appropriate. The Directors have access to the advice and services of a Company Secretary through its appointed representative which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties.
11. The Chairman (and the Board) should be brought into the process of structuring a new launch at an early stage.	Principle 11 applies to the launch of new investment companies and is therefore not applicable to the Company.

Board Meetings and relations with the Investment Manager

12. Boards and managers should operate in a supportive, co-operative and open environment.	The Board meets regularly throughout the year and a representative of the Investment Manager is in attendance at each meeting and most Committee meetings. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants.
13. The primary focus at regular board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.	The Board has agreed a schedule of matters specifically reserved for decision by the Board. This includes establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments, the markets in which transactions may be undertaken, the level of permitted gearing and borrowings, the amount or proportion of the assets that may be invested in any category of investment or in any one investment, and the Company's treasury and share buyback policies. The Board, at its regular meetings, undertakes reviews of key investment and financial data, revenue projections and expenses, analyses of asset allocation, transactions and performance comparisons, share price and net asset value performance, marketing and shareholder communication strategies, the risks associated with pursuing the investment strategy, peer group information and industry issues. The Audit and Management Engagement Committees of the Board respectively, review the Company's risk matrix and the performance and cost of the Company's third party service providers.
14. Boards should give sufficient attention to overall strategy.	The Board is responsible for strategy and has established a predetermined annual programme of agenda items under which it reviews the objectives and strategy for the Company at each meeting. In addition to the regular board meetings the Board meets specifically on one additional day each year to focus on strategy and any other issues that require in-depth attention.

Board Meetings and relations with the Investment Manager continued

AIC Code Principle	Compliance Statement
15. The Board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company).	The Management Engagement Committee meets twice a year. It reviews annually the performance of the Investment Manager, particularly against that of the benchmark, the Morningstar Investment Trust Global Growth Index. The Committee considers the quality, cost and remuneration method (including the performance fee) of the service provided by the Investment Manager against its contractual obligations and the Board receives regular reports on compliance with the Investment Restrictions which it has set. It also considers the performance analysis provided by the Manager. In view of the level of data available from independent service providers, and the appraisal undertaken by the Board, the Board does not consider an independent appraisal of the manager's service to be necessary. The Audit Committee reviews the Manager's compliance and control systems in operation insofar as they relate to the affairs of the Company and the Board undertakes periodic reviews of the arrangements with and the services provided by the Custodian, to ensure that the safeguarding of the Company's assets and security of the shareholders' investment is being maintained.
16. The Board should agree policies with the manager covering key operational issues.	The Investment Management Agreement between the Company and the Manager sets out the limits of the Manager's authority beyond which Board approval is required. The Board has also agreed detailed investment guidelines with the manager which are considered at each Board meeting. A representative of the Manager attends each meeting of the Board to address questions on specific matters and to seek approval for specific transactions which the manager is required to refer to the board e.g. investing in unquoted investments. The Board has delegated discretion to the Investment Manager to exercise voting powers on its behalf, other than for contentious or sensitive matters which are to be referred to the Board for consideration. The Board has reviewed the Investment Manager's Stewardship Policy, which includes its Corporate Governance and Voting Guidelines, and which is published on the Investment Manager's web-site: www.assetvalueinvestors.com. Reports on commissions paid by the Manager are submitted to the Board regularly.
17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	The Board considers any imbalances in the supply of and the demand for the Company's shares within the market and takes appropriate action when considered necessary. The Board considers the discount or premium to NAV of the Company's share price at each Board meeting and reviews the changes in the level of discount or premium and in the share price since the previous Board meeting and over the previous twelve months. At each meeting the Board reviews reports from the investment manager's marketing department on marketing and shareholder communication strategies. It also considers their effectiveness as well as measures of investor sentiment and any recommendations on share buy-backs.
18. The Board should monitor and evaluate other service providers.	The Management Engagement Committee reviews, at least annually, the performance of all the Company's third party service providers, including the level and structure of fees payable and the length of the notice period, to ensure that they remain competitive and in the best interests of shareholders, as well as reviewing service providers' anti-bribery and corruption policies to address the provisions of the Bribery Act 2010. The Audit Committee reviews reports from the principal service providers on compliance and the internal and financial control systems in operation and relevant independent audit reports thereon.

Report of the Directors

continued

Shareholder Communications

AIC Code Principle	Compliance Statement
19. The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders.	A detailed analysis of the substantial shareholders of the Company is provided to the Directors at each board meeting. Representatives of the Manager regularly meet with institutional shareholders and private client asset managers to discuss strategy and to understand their issues and concerns and, if applicable, to discuss corporate governance issues. The results of such meetings are reported at the following Board meeting. Regular reports from the Company's broker are submitted to the Board on investor sentiment and industry issues. Shareholders wishing to communicate with the Chairman, or any other member of the Board may do so by writing to the Company, for the attention of the Company Secretary at the Registered Office. All shareholders are encouraged to attend the AGM, where they are given the opportunity to question the Chairman, the Board and representatives of the Investment Manager. The Investment Manager will make a presentation to Shareholders covering the investment performance and strategy of the Company at the forthcoming Annual General Meeting. The Directors welcome the views of all Shareholders and place considerable importance on communications with them.
20. The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.	All substantive communications regarding any major corporate issues are discussed by the Board taking into account representations from the Manager, the Auditor, legal advisers, stockbroker and Company Secretary.
21. The Board should ensure that shareholders are provided with sufficient information for them to understand the risk/reward balance to which they are exposed by holding the shares.	The Company places great importance on communication with shareholders and aims to provide them with a full understanding of the Company's investment objective, policy and activities, its performance and the principal investment risks by means of informative Annual and Half Year reports and Interim Management Statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares. The Annual Report provides information on the Manager's investment performance, portfolio risk and operational and compliance issues. Further details on the risk/reward balance are set out in the Report of the Directors under Principal Risks on page 22 and in note 18 to the Accounts. The Investment Portfolio is listed on pages 16 and 17. The Company's website, www.british-empire.co.uk, is regularly updated with monthly factsheets and provides useful information about the Company including the Company's Financial Reports and Announcements.

Board Committees

The Board has agreed a schedule of matters specifically reserved for decision by the full Board subject to which the Board has delegated specific duties to Committees of the Board which operate within written terms of reference. Phoenix Administration Services Limited acts as Company Secretary to each Committee. No persons other than the Committee members are entitled to attend at Committee meetings unless formally invited by the Committee. Copies of the terms of reference for Board Committees are available from the Company Secretary.

Management Engagement Committee

The Management Engagement Committee meets at least twice each year and since the retirement of John May in December 2011 comprises the whole Board being independent Directors. The main functions of the Committee are to define the terms of the Investment Management Agreement, ensuring that they follow good industry practice, are competitive and are in the best interests of shareholders. The Committee monitors the Manager's compliance with the terms of the Investment Management Agreement and the Manager's performance. The Committee also reviews the services and performance of the Company's other third-party service providers. A review of the Investment Manager and the other service providers undertaken during the year, concluded that the services provided to the Company were satisfactory and that the Agreements entered into with them were operating in the best interests of the shareholders.

Nomination Committee

The Nomination Committee comprises the whole Board and convenes to undertake the annual appraisal of the performance of the Board, its Committees and the Directors and to propose the re-election of the Directors, each of whom will retire at the Annual General Meeting. It also meets to consider the appointment of new Directors to the Board. Candidates for nomination may be sourced from outside of the Company using third party search and selection services as well as potential candidates known to Directors through their extensive knowledge of the industry.

The Board has agreed to follow the recommendations of the AIC Code Principle 3 that the Directors of FTSE 350 companies should be subject to annual re-election by shareholders. Accordingly, at the forthcoming AGM, all the Directors of the Board will retire with the exception of Rosamund Blomfield-Smith, who has asked not to stand for re-election this year, Nigel Rich and Susan Noble who will stand for election by shareholders, having been appointed by the Board subsequent to the last Annual General Meeting.

Audit Committee

The Audit Committee meets at least twice each year and since the retirement of John May in December 2011 comprises the whole Board being independent Directors. All members of the Committee have recent and relevant financial experience.

The Audit Committee's main functions are:

- To monitor the internal financial control and risk management systems on which the Company is reliant;
- To consider whether there is a need for the Company to have its own internal audit function;
- To monitor the integrity of the half-year and annual financial statements of the Company by reviewing and challenging, where necessary, the actions and judgements of the Investment Manager;
- To meet with the independent Auditor of the Company to review their proposed audit programme of work and the subsequent Audit Report and to assess the effectiveness of the Audit process and the levels of fees paid in respect of both audit and non-audit work;
- To make recommendations to the Board in relation to the appointment, re-appointment or removal of the Auditor, and to negotiate their remuneration and terms of engagement on audit and non-audit work;
- To monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualification.

The Audit Committee has approved and implemented a policy on the engagement of the auditor to supply non-audit services, taking into account the recommendations of the Accounting Practices Board and does not believe there to be any impediment to the Auditor's objectivity and independence. All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance. The cost of non-audit services provided by the Auditor for the financial year ended 30 September 2012 was £23,000 (2011: £17,000) as detailed in note 3 to the accounts and is not material in nature in the context of these accounts. The Committee confirms that the non-audit work undertaken by the Company's independent Auditor satisfies and does not compromise the tests of the Auditor's independence, objectivity, effectiveness, resources and qualification.

The Committee is responsible for ensuring that suitable internal control systems are designed and implemented by the third party service providers to the Company to prevent and detect fraud and error and is also responsible for reviewing the effectiveness of such controls. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in line with the Financial Reporting Council's Internal Control: Guidance to Directors (the Turnbull guidance) and the FRC's Guidance on Audit Committees published in December 2010. This process has been in place for the year under review and up to the date of approval of this Report, and accords with the guidance. 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 risks of any failure of such controls are identified in a Risk Matrix which is regularly reviewed by the Board and which identifies the likelihood and severity of the impact of such risks and the controls in place to minimise such risks occurring.

Report of the Directors

continued

The following are the key components which the Company has in place to provide effective internal control:

- The Board has agreed clearly defined investment criteria, which specify levels of authority and exposure limits. Reports on compliance with these criteria are regularly reviewed by the Board;
- The Investment Manager and Administrator prepare forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- The contractual agreements with the Investment Manager and other third party service providers, and adherence to them are regularly reviewed;
- The Investment Manager's Compliance Officer continually reviews the Investment Manager's operations.

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

As neither the Company nor the Group has any employees, the Company does not have a whistleblowing policy and procedure in place. The Company delegates its main functions to third party providers, each of whom report on their policies and procedures to the Audit Committee.

Environmental, Social and Community Issues

The Company considers it a primary duty to act in the best financial interests of its shareholders and to achieve good financial returns consistent with an acceptable level of risk. The Company recognises that non-financial issues, such as social and environmental issues, can have an economic impact and that any company run in the long term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard to the environment and society as a whole. The Company has no employees. It is a minority shareholder in its underlying investments and invests in a variety of regions with varying degrees of political and corporate governance standards. This limits the extent to which it can influence environmental, social and community issues. The Investment Manager will bear environmental, social and community issues in mind as part of its investment decision making. Where the Board deems an issue to be of importance or sensitivity it may, through the investment manager, use its voting rights and contact with senior executives of an investee company to make its views known.

Stewardship Policy

In principle, the Board delegates investee company communication and voting to the Investment Manager, to be managed as part of the investment management process. The Board has reviewed the Investment Manager's Stewardship Policy, which includes its Corporate Governance and Voting Guidelines, and is published on the Investment Manager's web-site: www.assetvalueinvestors.com.

Anti-Bribery and Corruption Policy

The Company has adopted an Anti-Bribery and Corruption Policy and has reviewed the statements regarding compliance with the Bribery Act 2010 by the Company's Investment Manager and key service providers. Henceforth these statements will be reviewed regularly by the Management Engagement Committee.

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 (2011: Nil).

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare Group financial statements in accordance with those International Financial Reporting Standards as adopted by the EU (IFRS) and have elected to prepare the parent Company financial statements on the same basis. They are also responsible for ensuring that the Annual Report includes information required by the Rules of the UK Listing Authority.

The Group and Company financial statements are required by law and IFRS to present fairly the financial position of the Group and Company and the financial performance and cash flows of the Group and Company for the relevant period. The Companies Act 2006 (Act) provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. In preparing the Group and Company financial statements the Directors are required to:

- select suitable accounting policies and apply them consistently in accordance with IAS 8 Accounting Policies, Changing in Accounting Estimates and Errors;
- make judgements and estimates which are reasonable and prudent;
- state whether the financial statements have been prepared in compliance with IFRS, subject to any material departures disclosed and explained therein;
- provide additional disclosures where compliance with the specific requirements of IFRS are considered to be insufficient to enable users to understand the impact of particular transactions, events and conditions on the financial position and performance; and
- prepare financial statements on a going concern basis unless it is inappropriate to presume that the Group or Company will continue in business.

Financial statements of the Company are published on the Company's website at www.british-empire.co.uk. The Directors are responsible for ensuring the maintenance and integrity of the information relating to the Company published on this website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are also responsible for ensuring that the Company complies with the provisions of the Listing Rules and the Disclosure Rules and Transparency Rules of the UK Listing Authority which, with regard to corporate governance, require the Company to disclose how it has applied the principles, and complied with the provisions, of the corporate governance code applicable to the Company.

Disclosure of information to the Auditor

The Directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all of the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and establish that the Company's Auditor is aware of that information.

Going Concern

The Directors have carefully reviewed the Company's current financial resources and the projected expenses of the Group for the next 12 months. On the basis of that review and as the majority of net assets are securities which are traded on recognised stock exchanges, the Directors are satisfied that the Company's resources are adequate for continuing in business for the foreseeable future and that it is appropriate to prepare the Group's financial statements on a going concern basis.

Declaration

The non-executive Directors listed on pages 20 and 21, being the persons responsible, hereby confirm to the best of their knowledge:

- that the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Management Report (which comprises the Chairman's Statement and the Investment Manager's Review) includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that the Group faces.

By Order of the Board

Phoenix Administration Services Limited
Corporate Secretary
12 November 2012

Registered Office:
Springfield Lodge
Colchester Road
Chelmsford, Essex CM2 5PW

Consolidated Statement of Comprehensive Income

of the Group for the year ended 30 September 2012

	Notes	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
Income							
Investment income	2	30,865	–	30,865	25,929	–	25,929
Gains/(losses) on investments held at fair value	8	–	55,533	55,533	–	(91,472)	(91,472)
Unclaimed distribution monies		–	52	52	–	–	–
(Losses)/gains on Equities Index Unsecured Loan							
Stock 2013 held at fair value		–	(243)	(243)	–	145	145
Exchange losses on currency balances		–	(1,242)	(1,242)	–	(1,639)	(1,639)
		30,865	54,100	84,965	25,929	(92,966)	(67,037)
Expenses							
Investment management fee	3	(2,200)	(2,200)	(4,400)	(2,471)	(2,471)	(4,942)
Back VAT on management and performance fees	3	–	–	–	111	69	180
Other expenses (including irrecoverable VAT)	3	(1,235)	(58)	(1,293)	(1,194)	–	(1,194)
Profit/(loss) before finance costs and tax		27,430	51,842	79,272	22,375	(95,368)	(72,993)
Finance costs	4	(1,486)	(7)	(1,493)	(2,116)	(7)	(2,123)
Profit/(loss) before taxation		25,944	51,835	77,779	20,259	(95,375)	(75,116)
Taxation	5	(1,894)	9	(1,885)	(1,854)	11	(1,843)
Profit/(loss) for the year		24,050	51,844	75,894	18,405	(95,364)	(76,959)
Earnings per Ordinary Share	7	15.06p	32.46p	47.52p	11.50p	(59.57)p	(48.07)p

The Company did not have any income or expense that was not included in consolidated profit/(loss) for the year. Accordingly, the “Profit/(loss) for the year” is also the “Total comprehensive income for the year” for the Company, as defined in IAS 1 (revised) and no separate Statement of Comprehensive Income for the Company has been presented.

The total column of this statement is the profit and loss account of the Group. The revenue return and capital return columns are supplementary to this and are prepared under the guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of British Empire Securities and General Trust plc. There are no minority interests.

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

Consolidated and Company Statements of Changes in Equity

for the year ended 30 September 2012

	Ordinary share capital £'000	Capital redemption reserve £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
Group							
For the year ended 30 September 2012							
Balance as at 30 September 2011	16,008	2,927	28,078	620,938	41,406	31,028	740,385
Ordinary Shares bought back and cancelled	(7)	7	–	(264)	–	–	(264)
Ordinary Shares bought back and held in treasury	–	–	–	(7,982)	–	–	(7,982)
Total comprehensive income for the year	–	–	–	51,844	–	24,050	75,894
Ordinary dividends paid (see note 6)	–	–	–	–	–	(13,607)	(13,607)
Special dividend paid (see note 6)	–	–	–	–	–	(3,201)	(3,201)
Balance as at 30 September 2012	16,001	2,934	28,078	664,536	41,406	38,270	791,225
For the year ended 30 September 2011							
Balance as at 30 September 2010	16,008	2,927	28,078	716,302	41,406	24,949	829,670
Total comprehensive income for the year	–	–	–	(95,364)	–	18,405	(76,959)
Ordinary dividends paid (see note 6)	–	–	–	–	–	(12,326)	(12,326)
Special dividend paid (see note 6)	–	–	–	–	–	–	–
Balance as at 30 September 2011	16,008	2,927	28,078	620,938	41,406	31,028	740,385
Company							
For the year ended 30 September 2012							
Balance as at 30 September 2011	16,008	2,927	28,078	622,706	41,406	29,260	740,385
Ordinary Shares bought back and cancelled	(7)	7	–	(264)	–	–	(264)
Ordinary Shares bought back and held in treasury	–	–	–	(7,982)	–	–	(7,982)
Total comprehensive income for the year	–	–	–	51,841	–	24,053	75,894
Ordinary dividends paid (see note 6)	–	–	–	–	–	(13,607)	(13,607)
Special dividend paid (see note 6)	–	–	–	–	–	(3,201)	(3,201)
Balance as at 30 September 2012	16,001	2,934	28,078	666,301	41,406	36,505	791,225
For the year ended 30 September 2011							
Balance as at 30 September 2010	16,008	2,927	28,078	718,073	41,406	23,178	829,670
Total comprehensive income for the year	–	–	–	(95,367)	–	18,408	(76,959)
Ordinary dividends paid (see note 6)	–	–	–	–	–	(12,326)	(12,326)
Special dividend paid (see note 6)	–	–	–	–	–	–	–
Balance as at 30 September 2011	16,008	2,927	28,078	622,706	41,406	29,260	740,385

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

Consolidated and Company Balance Sheets

as at 30 September 2012

		Company		Group	
	Notes	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Non-current assets					
Investments held at fair value through profit or loss	8	809,196	758,889	807,181	756,871
Current assets					
Other receivables	10	5,776	3,819	5,776	3,820
Cash and cash equivalents		7,778	5,660	7,780	5,662
		13,554	9,479	13,556	9,482
Total assets		822,750	768,368	820,737	766,353
Current liabilities					
Other payables	11	(9,539)	(6,238)	(7,526)	(4,223)
Equities Index Unsecured Loan Stock 2013 held at fair value through profit or loss	12	(7,038)	–	(7,038)	–
Total assets less current liabilities		806,173	762,130	806,173	762,130
Non-current liabilities					
8 ¹ / ₈ per cent Debenture Stock 2023	12	(14,921)	(14,914)	(14,921)	(14,914)
Equities Index Unsecured Loan Stock 2013 held at fair value through profit or loss	12	–	(6,795)	–	(6,795)
Provision for deferred tax	13	(27)	(36)	(27)	(36)
Net assets		791,225	740,385	791,225	740,385
Equity attributable to equity Shareholders					
Ordinary share capital	14	16,001	16,008	16,001	16,008
Capital redemption reserve	15	2,934	2,927	2,934	2,927
Share premium	15	28,078	28,078	28,078	28,078
Capital reserve	15	666,301	622,706	664,536	620,938
Merger reserve	15	41,406	41,406	41,406	41,406
Revenue reserve	15	36,505	29,260	38,270	31,028
Total equity	16	791,225	740,385	791,225	740,385
Net asset value per Ordinary Share – basic	16	500.47p	462.51p	500.47p	462.51p
Number of shares in issue excluding Treasury		158,094,985	160,080,089	158,094,985	160,080,089

The financial statements on pages 34 to 55 were approved by the Board of Directors and were authorised for issue on 12 November 2012 and were signed on its behalf by

PSS Macpherson Chairman

AS Robson Director

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

Registered in England & Wales No. 28203

Consolidated and Company Cash Flow Statements

for the year ended 30 September 2012

		Company		Group	
	Notes	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities					
Profit/(loss) before taxation		77,779	(75,116)	77,779	(75,116)
Losses/(gains) on Equities Index Unsecured Loan Stock 2013 held at fair value		243	(145)	243	(145)
Realised exchange losses on currency balances		1,242	1,639	1,242	1,639
(Gains)/losses on investments held at fair value through profit or loss		(55,530)	91,475	(55,533)	91,472
Purchases of investments		(556,735)	(626,817)	(556,735)	(626,817)
Sales of investments		563,194	634,405	563,194	634,405
Decrease/(increase) in other receivables		733	(219)	733	(219)
Increase/(decrease) in creditors		925	(322)	927	(319)
Taxation		(3,444)	(2,612)	(3,443)	(2,612)
Amortisation of Debenture issue expenses		7	7	7	7
Net cash inflow from operating activities		28,414	22,295	28,414	22,295
Financing activities					
Dividends paid	6	(16,808)	(12,326)	(16,808)	(12,326)
Payments for Ordinary Shares bought back and cancelled		(264)	–	(264)	–
Payments for Ordinary Shares bought back and held in Treasury		(7,982)	–	(7,982)	–
Buyback of Equities Index Unsecured Loan Stock 2013	12	–	(204)	–	(204)
Redemption of 10 ³ / ₈ per cent Debenture Stock 2011	12	–	(8,484)	–	(8,484)
Cash outflow from financing activities		(25,054)	(21,014)	(25,054)	(21,014)
Increase in cash and cash equivalents					
Exchange movements		(1,242)	(1,639)	(1,242)	(1,639)
Change in cash and cash equivalents		2,118	(358)	2,118	(358)
Cash and cash equivalents at beginning of year		5,660	6,018	5,662	6,020
Cash and cash equivalents at end of year	17	7,778	5,660	7,780	5,662

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

Notes to the Financial Statements

1. Accounting policies

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These comprise standards and interpretations approved by the International Accounting Standards Board (IASB), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee (IASC) that remain in effect, to the extent that IFRS have been adopted by the European Union.

The functional currency of the Group is pounds sterling because this is the currency of the primary economic environment in which the Group operates. The financial statements are also presented in pounds sterling rounded to the nearest thousand, except where otherwise indicated.

(a) Basis of preparation

The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice (the SORP) for investment trusts issued by the Association of Investment Companies (the AIC) in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

(b) Adoption of new and revised standards

At the date of authorisation of these financial statements, the following Standards which have not been applied in these financial statements were in issue but were not yet effective (and in some cases had not yet been adopted by the EU):

<i>International Accounting Standards (IAS/IFRS)</i>		<i>Effective for periods beginning on or after</i>
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

The Company is considering what impact, if any, the adoption of these standards/interpretations in future periods will have. Currently they do not believe that there will be a material impact on the 2013 consolidated financial statements.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary) made up to 30 September each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

As permitted by Section 408 of the Companies Act 2006 no Company Statement of Comprehensive Income has been prepared.

(d) Presentation of Statement of Comprehensive Income

In order to reflect better the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. The Company is registered as a UK Investment Company under Section 833 of the Companies Act 2006. Additionally, net revenue is the measure which the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

(e) Use of estimates

The preparation of financial statements requires the Group to make estimates and assumptions that affect items reported in the Group and Company balance sheet and Consolidated Statement of Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on best knowledge of current facts, circumstances and, to some extent, future events and actions, the Group's actual results may ultimately differ from those estimates, possibly significantly. Unquoted equity investments that the Group holds are not traded and, as such, the prices are more uncertain than those more widely traded securities. The unquoted investments are valued by reference to valuation techniques approved by the Directors and in accordance with the International Private Equity and Venture Capital Valuation (IPEVC) guidelines as described in note 1(i).

(f) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Where an ex-dividend date is not available, dividends received on or before the year end are treated as revenue for the year. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount. Interest receivable from cash and short term deposits is accrued to the end of the year.

(g) Expenses

All expenses and interest payable are accounted for on an accruals basis. Expenses have been charged to revenue except as follows:

- The base management fee has been allocated 50% to revenue and 50% to capital within the Consolidated Statement of Comprehensive Income. The performance element of the management fee is charged 100% to capital within the Consolidated Statement of Comprehensive Income;
- Expenses which are incidental to the purchase or sale of an investment are recognised within the Consolidated Statement of Comprehensive Income as a capital item;
- Expenses are presented as capital where a connection with the maintenance or enhancement of the value of investments can be demonstrated.

(h) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that were enacted or substantially enacted at the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Consolidated Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Consolidated Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with within equity.

Investment trusts which have approval as such under Section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

(i) Investments held at fair value through profit or loss

When a purchase or sale is made under a contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

In accordance with IFRS recognition and measurement principles, all the Group's investments are classified as investments designated at fair value through profit or loss and are described in these financial statements as investments held at fair value.

All investments are designated as held at fair value upon initial recognition and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

Fair values for unquoted investments, or investments for which the market is inactive, are established by using various valuation techniques in accordance with the IPEVC guidelines. These may include recent arm's length market transactions, the current fair value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised. Where no reliable fair value can be estimated for such instruments, they are carried at cost subject to any provision for impairment.

Investments held by the subsidiary undertaking are classified as "held for trading" and are valued at fair value in accordance with the policies above for listed and unlisted holdings. Profits or losses on investments "held for trading" are taken to revenue.

Foreign exchange gains and losses for fair value through profit or loss on investments are included within the changes in their fair value.

(j) Movements in fair value

Changes in fair value of investments not designated as held for trading are recognised in the Consolidated Statement of Comprehensive Income as a capital item. On disposal, realised gains and losses are also recognised in the Consolidated Statement of Comprehensive Income as capital items.

Notes to the Financial Statements

continued

(k) Cash and cash equivalents

Cash comprises cash in hand and at bank and short term deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(l) Dividends payable

Interim and final dividends are recognised in the period in which they are paid.

(m) Foreign currency translation

Transactions in currencies other than sterling are recorded at the rates of exchange prevailing on the date of the transaction. Monetary items that are fair valued and are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange differences arising on translation are recognised in the Consolidated Statement of Comprehensive Income.

(n) Equities Index Unsecured Loan Stock 2013 (Index Stock)

In accordance with IFRS recognition and measurement principles, the Index Stock is classified as a financial liability designated at fair value through profit or loss and is valued at the closing offer price. Changes in its fair value are recognised in the Consolidated Statement of Comprehensive Income as a capital item. On cancellation, gains and losses are also recognised through the Consolidated Statement of Comprehensive Income as capital items. Interest paid on the Index Stock is charged to the Consolidated Statement of Comprehensive Income as a revenue item.

(o) Finance costs

Finance costs are accounted for on an effective interest basis and are recognised through the Consolidated Statement of Comprehensive Income as revenue items. 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 Debenture Stock and the Index Stock to be allocated between revenue and capital in the same proportions as the Management Fee. However, the Directors consider that the treatment adopted, which is consistent with previous years, is the most appropriate given the liquidity of the Company and the nature of the Index Stock. Had the Company complied with the Statement of Recommended Practice, the result would have been an increase in revenue of £742,000.

(p) Debenture pricing

The 8 $\frac{1}{8}$ per cent Debenture Stock 2023 is valued at amortised cost under the effective interest method and secured by a floating charge over all assets of the Company. Costs in relation to arranging the debt finance of the 8 $\frac{1}{8}$ per cent Debenture Stock 2023 have been capitalised and are amortised over the term of the finance. Further details of the Debenture Stock are disclosed in notes 12 and 18.

(q) Capital Reserve

Capital reserve – other The following are taken to this reserve:

- Gains and losses on the disposal of investments;
- Gains and losses on the Index Stock;
- Amortisation of issue expenses;
- Costs of share buybacks;
- Exchange difference of a capital nature; and
- Expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies.

Capital reserve – investment holding gains The following are taken to this reserve:

- Increase and decrease in the valuation of investments held at the year end.

(r) Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being the Investment business. Consequently, no business segmental analysis is provided.

2. Income

	2012 £'000	2011 £'000
Income from investments		
Listed investments	30,849	25,788
Other income		
Deposit interest	16	11
Interest received re VAT refunds on management fees	–	130
	16	141
Total income	30,865	25,929
Income from investments:		
Equity securities	30,578	23,576
Fixed interest securities	271	2,212
	30,849	25,788
Total income comprises:		
Dividends	30,578	23,576
Interest	287	2,353
	30,865	25,929

3. Management fee and other expenses

	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
Management fee†	2,200	2,200	4,400	2,471	2,471	4,942
Performance fee	–	–	–	–	–	–
Back VAT on management fee (see note 19)	–	–	–	(111)	(69)	(180)
	2,200	2,200	4,400	2,360	2,402	4,762
Other expenses:						
Directors' emoluments – fees	129	–	129	120	–	120
Auditor's remuneration: – audit	25	–	25	23	–	23
– taxation	16	–	16	9	–	9
– other services to the Group	7	–	7	8	–	8
Marketing costs	166	–	166	176	–	176
Printing and postage costs	79	–	79	73	–	73
Registrar fees	108	–	108	96	–	96
Sub-custodian fees	264	–	264	304	–	304
Advisory fees	111	–	111	63	–	63
Irrecoverable VAT	80	–	80	91	–	91
Other expenses	250	58*	308	231	–	231
	1,235	58	1,293	1,194	–	1,194

†Net of the fee of £42,000 paid to Phoenix Administration Services Limited for company secretarial services, as set out on page 24.

*Other expenses charged to capital represent transaction fees incurred in relation to the share buy-backs which took place during the year.

For the year ended 30 September 2012, the fee calculated in accordance with the Investment Management Agreement amounted to 0.6%. Any out-performance in excess of the cap of 1% or under-performance in any year will be carried forward for use in the next three years fee calculations on a first-in first-out basis. There is an under-performance of 8.5688% to be carried forward for the period ending 30 September 2013.

Brief details of the Investment Management Agreement and fees paid to the Manager are contained in the Report of the Directors.

Notes to the Financial Statements

continued

4. Finance costs

	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
Bank overdraft interest	3	–	3	–	–	–
Interest on other loans	1,483	–	1,483	2,116	–	2,116
Amortisation of Debenture issue expenses*	–	7	7	–	7	7
	1,486	7	1,493	2,116	7	2,123

*See note 12

5. Taxation

	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
(a) Analysis of charge in year						
Corporation tax	–	–	–	–	–	–
				–	–	–
Foreign withholding tax	3,852	–	3,852	3,045	–	3,045
Overseas tax reclaimable	(1,958)	–	(1,958)	(1,185)	–	(1,185)
Prior year adjustment	–	–	–	(6)	–	(6)
Total current tax for period (see note 5(b))	1,894	–	1,894	1,854	–	1,854
Deferred tax	–	(9)	(9)	–	(11)	(11)
Total deferred tax for year	–	(9)	(9)	–	(11)	(11)
Total tax for year	1,894	(9)	1,885	1,854	(11)	1,843

(b) Factors affecting current tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company 25%* (2011: 27%).

	2012 £'000	2011 £'000
Profit/(loss) before tax	77,779	(75,116)
Corporation tax at 25%* (2011: 27%)	19,445	(20,281)
Effects of:		
Capital (gains)/losses not subject to tax	(13,571)	25,140
Revaluation of Equities Index Unsecured Loan Stock 2013	7	8
Non-taxable UK dividends	(33)	(43)
Non-taxable overseas dividends	(7,612)	(6,323)
Overseas tax suffered	1,894	1,860
Movement in unutilised management expenses	1,764	1,499
Prior year adjustment	–	(6)
Movement in deferred tax	(9)	(11)
Total tax charge for the period (note 5(a))	1,885	1,843

*Under the Finance Act 2012, the rate of Corporation Tax was lowered to 24% from 26% on 1 April 2012. An average rate of 25% is applicable for the year ended 30 September 2012.

(c) Unrecognised tax losses

The Company has a tax loss of £12,492,000 carried forward at the balance sheet date that are available indefinitely for offset against future taxable profits. A deferred tax asset has not been recognised in respect of this tax loss as there is uncertainty over whether there will be sufficient future taxable profits against which this tax loss can be offset.

6. Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 September 2011 of 6.50p (2010 – 5.70p) per Ordinary Share	10,406	9,125
Special dividend for the year ended 30 September 2011 of 2.00p (2010 – 0.00p) per Ordinary Share	3,201	–
Interim dividend for the year ended 30 September 2012 of 2.00p (2011 – 2.00p) per Ordinary Share	3,201	3,201
	16,808	12,326

Set out below are the interim, final and special dividends paid or proposed on Ordinary Shares in respect of the financial year, which is the basis on which the requirements of Section 1159 of the Corporation Tax Act 2010 are considered.

Interim dividend for the year ended 30 September 2012 of 2.00p (2011 – 2.00p) per Ordinary Share	3,201	3,201
Proposed final dividend for the year ended 30 September 2012 of 7.50p (2011 – 6.50p) per Ordinary Share	11,857	10,406
Proposed special dividend for the year ended 30 September 2012 of 3.50p (2011 – 2.00p) per Ordinary Share	5,533	3,201
	20,591	16,808

International Accounting Standard (IAS) 10 “Events after the Reporting Period” requires dividends to be recognised in the period in which they are paid or approved by shareholders.

7. Earnings per Ordinary Share

	2012 Revenue	2012 Capital	2012 Total	2011 Revenue	2011 Capital	2011 Total
Basic	15.06p	32.46p	47.52p	11.50p	(59.57)p	(48.07)p

The total basic earnings per Ordinary Share is based on Group net profit for the financial year of £75,894,000 (2011: loss £(76,959,000)) and on 159,727,619 (2011: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue (excluding shares in treasury) during the year.

The total basic earnings per Ordinary Share figures detailed above can be further analysed between revenue and capital, as below.

The basic revenue earnings per Ordinary Share is based on Group revenue after taxation for the financial year of £24,050,000 (2011: £18,405,000) and on 159,727,619 (2011: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue (excluding shares in treasury) during the year.

The basic capital earnings per Ordinary Share is based on Group net profit for the financial year of £51,844,000 (2011: loss £95,364,000) and on 159,727,619 (2011: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue (excluding shares in treasury) during the year.

Notes to the Financial Statements

continued

8. Investments held at fair value through profit or loss

	Listed investments £'000	Unlisted investments £'000	Group total investments £'000	Investment in subsidiary £'000	Company total investments £'000
(a) Securities					
Opening book cost	791,030	4,080	795,110	250	795,360
Opening investment holding (losses)/gains	(39,131)	892	(38,239)	1,768	(36,471)
Opening fair value	751,899	4,972	756,871	2,018	758,889
Movements in the year:					
Purchases at cost:					
Equities	224,121	155	224,276	–	224,276
Bonds	334,835	–	334,835	–	334,835
Sales – proceeds:					
Equities	(320,314)	–	(320,314)	–	(320,314)
Bonds	(244,020)	–	(244,020)	–	(244,020)
– realised losses on sales	(27,845)	–	(27,845)	–	(27,845)
Movement in investment holding gains/(losses)	84,013	(635)	83,378	–	83,375
Closing fair value	802,689	4,492	807,181	2,015	809,196
Closing book cost	757,807	4,234	762,041	250	762,291
Closing investment holding gains	44,882	258	45,140	1,765	46,905
Closing fair value	802,689	4,492	807,181	2,015	809,196

	Group £'000	Company £'000
(b) Gains on investments		
Losses on sales of securities based on historical cost	(27,845)	(27,845)
Movement in investment holding gains/(losses) for the year	83,378	83,378
Net gains on investments	55,533	55,530

(c) Transaction costs

Investment transaction costs on purchases and sales of investments during the year to 30 September 2012 amounted to £543,000 and £667,000 respectively (2011: £743,000 and £615,000 respectively).

9. Subsidiary undertaking

The Group consists of the Company and its one subsidiary, BEST Securities Limited.

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

10. Other receivables

	Company		Group	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Sales for future settlement	1,296	156	1,296	156
Overseas tax recoverable*	3,669	2,003	3,669	2,003
Prepayments and accrued income	782	1,506	782	1,506
VAT recoverable	29	7	29	7
Other debtors	–	147	–	148
	5,776	3,819	5,776	3,820

*This relates to withholding tax in a number of countries which is in the process of being reclaimed and which the Company expects to receive in due course.

11. Other payables

	Company		Group	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Purchases for future settlement	5,634	3,258	5,634	3,258
Amounts owed to subsidiary undertakings	2,016	2,017	–	–
Other creditors	1,889	963	1,892	965
	9,539	6,238	7,526	4,223

12. Current and non-current liabilities: Debenture Stock and Equities Index Unsecured Loan Stock 2013

	Group and Company	
	2012 £'000	2011 £'000
8½ per cent Debenture Stock 2023	14,921	14,914
Index Stock	7,038	6,795
	21,959	21,709

The movement on the 8½ per cent Debenture Stock 2023 represents the amortisation of issue expenses. The market value of the Debenture Stock as at 30 September 2012 was £18.5 million (2011: £18.4 million). The effect on the net asset value of deducting Debenture Stocks at market value rather than par is disclosed in note 18.

The mid-market price of the 8½ per cent Debenture Stock 2023 as at 30 September 2012 was 123.50p (2011: 122.50p).

The Debenture Stock is secured by a floating charge over all the assets of the Company.

During the year, no (2011: 80,000) units of Index Stock were bought back by the Company for cancellation.

The mid-market price of the Index Stock as at 30 September 2012 was 277.50p (2011: 255.00p).

Notes to the Financial Statements

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13. Provision for deferred tax

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

	Group and Company	
	2012 £'000	2011 £'000
Provided		
In respect of the origination and reversal of temporary differences	(9)	(11)
The movement in the provision for deferred taxation is as follows:		
Opening balance	36	47
Charge to capital account	(9)	(11)
Closing balance	27	36
	2012 £'000	2011 £'000
The deferred tax provision is made up as follows:		
Equities Index Unsecured Loan Stock 2013	27	36

14. Called-up share capital (Group and Company)

	Ordinary Shares of 10p each	
	Shares	£'000
Authorised:		
Balance throughout year	245,000,000	24,500
Alloted, called up and fully paid:		
Balance at beginning of year	160,080,089	16,008
Cancellation of Ordinary Shares	(66,000)	(7)
Balance at end of year	160,014,089	16,001
Treasury Shares:		
Balance at beginning of year	–	–
Buyback of Ordinary Shares into treasury	(1,919,104)	–
Balance at end of year	(1,919,104)	–
Total ordinary share capital excluding treasury shares	158,094,985	16,001

During the year 1,919,104 (2011: nil) Ordinary Shares were bought back and placed in treasury for an aggregate consideration of £7,982,558 (2011: nil) and 66,000 (2011: nil) Ordinary Shares were bought back and cancelled for an aggregate consideration of £263,875 (2011: nil).

15. Reserves

	Capital redemption reserve £'000	Share premium account £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000
Group					
At 1 October 2011	2,927	28,078	620,938	41,406	31,028
Ordinary shares bought back and cancelled	7	-	(264)	-	-
Ordinary shares bought back and held in treasury	-	-	(7,982)	-	-
Exchange losses	-	-	(1,242)	-	-
Gains on investments held at fair value	-	-	55,533	-	-
Losses on Equities Index Unsecured Loan Stock 2013	-	-	(243)	-	-
Amortisation of debenture issue expenses	-	-	(7)	-	-
Management fee charged to capital	-	-	(2,200)	-	-
Capital charges	-	-	(58)	-	-
Unclaimed distributions	-	-	52	-	-
Deferred tax charge to capital	-	-	9	-	-
Ordinary dividends paid	-	-	-	-	(13,607)
Special dividends paid	-	-	-	-	(3,201)
Revenue profit for the year	-	-	-	-	24,050
At 30 September 2012	2,934	28,078	664,536	41,406	38,270

	Capital redemption reserve £'000	Share premium account £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000
Company					
At 1 October 2011	2,927	28,078	622,706	41,406	29,260
Ordinary shares bought back and cancelled	7	-	(264)	-	-
Ordinary shares bought back and held in treasury	-	-	(7,982)	-	-
Exchange losses	-	-	(1,242)	-	-
Gains on investments held at fair value	-	-	55,530	-	-
Losses on Equities Index Unsecured Loan Stock 2013	-	-	(243)	-	-
Amortisation of debenture issue expenses	-	-	(7)	-	-
Management fee charged to capital	-	-	(2,200)	-	-
Capital charges	-	-	(58)	-	-
Unclaimed distributions	-	-	52	-	-
Deferred tax charge to capital	-	-	9	-	-
Ordinary dividends paid	-	-	-	-	(13,607)
Special dividends paid	-	-	-	-	(3,201)
Revenue profit for the year	-	-	-	-	24,053
At 30 September 2012	2,934	28,078	666,301	41,406	36,505

Notes to the Financial Statements

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16. 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 Group and Company	
	2012 p	2011 p
Ordinary Shares (basic)	500.47	462.51

	Net asset value attributable Group and Company	
	2012 £'000	2011 £'000
Ordinary Shares (basic)	791,225	740,385

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

	2012 Ordinary Shares (basic) £'000	2011 Ordinary Shares (basic) £'000
Total net assets attributable at beginning of year	740,385	829,670
Ordinary Shares bought back and cancelled	(264)	–
Ordinary Shares bought back and held in treasury	(7,982)	–
Total comprehensive income for the year	75,894	(76,959)
Dividends appropriated in the year	(16,808)	(12,326)
Net assets attributable at end of year	791,225	740,385

Basic net asset value per Ordinary Share is based on net assets and on 158,094,985 (2011: 160,080,089) Ordinary Shares being the number of Ordinary Shares in issue excluding treasury shares at the year end.

At the year end the net asset value per Ordinary Share adjusted to include the Debenture Stock at market value rather than amortised cost was 498.19p (2011: 460.35p).

17. Analysis of cash and cash equivalents at end of year

	At 1 October 2011 £'000	Cash flow £'000	Exchange movement £'000	At 30 September 2012 £'000
Group				
Cash at bank and on deposit	5,662	3,360	(1,242)	7,780
Company				
Cash at bank and on deposit	5,660	3,360	(1,242)	7,778

18. Financial instruments and capital disclosures

Risk management policies and procedures

The investment objective of the Group 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.

The Group's financial instruments comprise equity and fixed interest investments, cash balances and borrowings. 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.

The Group may also enter into derivative transactions which comprise forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Group's investing activities) and quoted options on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings). The Group has not used derivatives during the current financial year as part of its investment strategy.

The Board sets out its investment policies on page 22.

The Board and Investment Manager consider and review the risks inherent in managing the Group's assets which are detailed below.

Currency exposure	Sterling £'000	Euro £'000	NOK £'000	US\$ £'000	Other £'000	Total £'000
At 30 September 2012						
Investments held at fair value through profit or loss that are monetary items	144,403	–	–	29,718	–	174,121
Other receivables	265	2,210	2,565	332	404	5,776
Cash and cash equivalents	7,612	1	–	–	167	7,780
Other payables	(1,739)	–	(5,217)	(567)	(3)	(7,526)
8½% Debenture Stock 2023	(14,921)	–	–	–	–	(14,921)
Equities Index Unsecured Loan Stock 2013	(7,038)	–	–	–	–	(7,038)
Provision for deferred tax	(27)	–	–	–	–	(27)
Currency exposure on net monetary items	128,555	2,211	(2,652)	29,483	568	158,165
Investments held at fair value through profit or loss that are equities	52,248	158,062	111,284	97,584	213,882	633,060
Total net currency exposure	180,803	160,273	108,632	127,067	214,450	791,225

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	Sterling £'000	Euro £'000	JPY £'000	US\$ £'000	Other £'000	Total £'000
At 30 September 2011						
Investments held at fair value through profit or loss that are monetary items	55,037	–	–	32,096	–	87,133
Other receivables	335	1,046	100	375	1,964	3,820
Cash and cash equivalents	5,661	–	1	–	–	5,662
Other payables	(1,088)	(829)	–	–	(2,306)	(4,223)
8½% Debenture Stock 2023	(14,914)	–	–	–	–	(14,914)
Equities Index Unsecured Loan Stock 2013	(6,795)	–	–	–	–	(6,795)
Provision for deferred tax	(36)	–	–	–	–	(36)
Currency exposure on net monetary items	38,200	217	101	32,471	(342)	70,647
Investments held at fair value through profit or loss that are equities	53,248	256,335	79,991	83,180	196,984	669,738
Total net currency exposure	91,448	256,552	80,092	115,651	196,642	740,385

The value of the Group's assets and the total return earned by the Company's shareholders can be significantly affected by foreign exchange rate movements as some of the Group's assets are denominated in currencies other than sterling, the currency in which the Company's financial statements are prepared. It is not the Group's usual policy to hedge this risk. Income denominated in foreign currencies is converted to sterling upon receipt.

During the year, the Company did not enter into any forward foreign exchange contracts. There were no open forward foreign exchange contracts as at 30 September 2012.

Over the year sterling strengthened against the Group's principal investing currencies, the Euro by 8.10% (2011: 0.59%), the Norwegian Krona by 1.08% (2011: weakened by 0.89%) and the US Dollar by 3.66% (2011: weakened by 1.14%).

A 5% rise or decline of sterling against foreign currency denominated (i.e. non sterling) assets held at the year end would have decreased/increased the total return and net asset value by £30,521,000 or 3.86% (2011: £32,447,000 or 4.38%).

Interest rate risk

Interest rate movements may affect:

- the fair value of investments in fixed-interest rate securities;
- the level of income receivable on cash deposits;
- the interest payable on variable rate borrowings; and
- the fair value of the Company's long term debt in the event that the debt is repaid before maturity.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The Company, generally, does not hold significant cash balances, with short term borrowings being used when required.

The debenture stock, issued by the Company as a planned level of gearing, pays a fixed rate of interest and is carried in the Company's balance sheet at amortised cost rather than at fair value. Hence movement in interest rates will not affect equity but may have an impact on the Company's share price and discount/premium which is not likely to be material. Further information on the debenture stock is shown in note 12.

The interest liability of the Equities Index Unsecured Loan Stock 2013 moves in accordance with movements in the income returns of the FTSE All-Share Index. This exposure may be reduced by investing in non-current assets expected to perform in line with the FTSE All-Share Index.

The exposure at 30 September of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates – when the interest rate is due to be re-set;
- fixed interest rates – when the financial instrument is due for repayment.

	At 30 September 2012 £'000	At 30 September 2011 £'000
Exposure to floating interest rates:		
Cash and cash equivalents	7,780	5,662

If the above level of cash was maintained for a year, a 1% increase/decrease in LIBOR would increase/decrease the revenue return and net assets by £78,000 or 0.05p per share (2011: £57,000 or 0.04p per share).

Exposure to fixed interest rates:

Investments held at fair value through profit or loss	174,121
8 ¹ / ₈ per cent Debenture Stock 2023 (fair value based on market prices)	(18,525)
	155,596

The maturity dates and the nominal interest rates on the investments held at fair value through profit or loss are shown in the portfolio statement on page 17. The weighted average effective interest rate on these investments is 0.18% (2011: 0.86%).

The Company's fixed income portfolio at the year end was valued at £174,121,000 (2011: £87,133,000) and it had a modified duration (interest rate sensitivity) of approximately 0.20 years (2011: 0.43 years). A 1% increase/decrease in relevant market interest rates would be expected to decrease/increase the portfolios value by approximately £351,000 (2011: £239,000), all other factors being equal.

The fair value of the Company's debenture stock at the year end was £18,525,000 (2011: £18,375,000) and it had a modified duration (interest rate sensitivity) of approximately 6.9 years (2011: 7.3 years). A 1% increase/decrease in LIBOR would be expected to decrease/increase the fair values of the debenture stock by approximately £1,287,000 (2011: £1,349,000), all other factors being equal.

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 16 and 17.

If the fair value of the Group's investments at the year end increased or decreased by 10% then it would have had an effect on the Group's capital return and equity equal to £80,718,000 or 51.06p per Ordinary Share (2011: £75,687,000 or 47.28p per Ordinary Share).

If the fair value of the Equities Index Unsecured Loan Stock 2013 at the year end increased or decreased by 10% then it would have had an effect on the Group's capital return equal to £704,000 or 0.45p per Ordinary Share (2011: £679,000 or 0.42p per Ordinary Share).

Liquidity risk

The Company's assets mainly comprise readily realisable securities which can be easily sold to meet funding commitments if necessary. Unlisted investments in the portfolio are subject to liquidity risk. The risk is taken into account by the Directors when arriving at their valuation of these items.

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The remaining contractual maturities of the Group's financial liabilities at 30 September, based on the earliest date on which payment can be required was as follows:

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 3 years but not more than 11 years £'000	Total £'000
At 30 September 2012					
8½% Debenture Stock	(1,219)	(1,219)	(1,219)	(24,447)	(28,104)
Equities Index Unsecured Loan Stock 2013	(7,038)	–	–	–	(7,038)
Other payables	(7,526)	–	–	–	(7,526)
Deferred tax	–	(27)	–	–	(27)
	(15,783)	(1,246)	(1,219)	(24,447)	(42,695)

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 3 years but not more than 12 years £'000	Total £'000
At 30 September 2011					

8½% Debenture Stock 2023	(1,219)	(1,219)	(1,219)	(25,666)	(29,323)
Equities Index Unsecured Loan Stock 2013	–	(6,795)	–	–	(6,795)
Other payables	(4,223)	–	–	–	(4,223)
Deferred tax	–	(36)	–	–	(36)
	(5,442)	(8,050)	(1,219)	(25,666)	(40,377)

Credit risk

Credit risk is mitigated by diversifying the counterparties through whom the Investment Manager conducts investment transactions. The credit standing of all counterparties is reviewed periodically with limits set on amounts due from any one broker.

The total credit exposure of the Group at the year end as shown on the Balance Sheet was £13,556,000 (2011: £9,482,000). Further details of the Group's credit exposure can be found within note 10 to the financial statements.

Fair values of financial assets and financial liabilities

Except for the Group's Debenture Stocks measured at amortised cost as shown below, the financial assets and financial liabilities of the Group are either carried in the balance sheet at their fair value (investments and Equities Index Unsecured Loan Stock 2013), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, cash at bank and due to brokers).

	2012		2011	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
8½% Debenture Stock 2023	(14,921)	(18,525)	(14,914)	(18,375)

Market values have been used to determine the fair value of the Group's Debenture Stock.

The fair value of the Group's unquoted investments is measured by the Directors using valuation methodologies in accordance with IPECV guidelines.

Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included within Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

The tables below set out fair value measurements of financial instruments as at the year end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Financial assets at fair value through profit or loss at 30 September 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	628,568	–	4,492	633,060
Fixed interest bearing securities	174,121	–	–	174,121
	802,689	–	4,492	807,181

Financial liabilities at fair value through profit or loss at 30 September 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities Index Unsecured Loan Stock 2013	(7,038)	–	–	(7,038)
	(7,038)	–	–	(7,038)

Financial assets at fair value through profit or loss at 30 September 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	658,279	6,487	4,972	669,738
Fixed interest bearing securities	87,133	–	–	87,133
	745,412	6,487	4,972	756,871

Financial liabilities at fair value through profit or loss at 30 September 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities Index Unsecured Loan Stock 2013	(6,795)	–	–	(6,795)
	(6,795)	–	–	(6,795)

The valuation techniques used by the Company are explained in the accounting policies note on page 39. There have been no transfers during the year between Levels 1 and 2.

A reconciliation of fair value measurements in Level 3 is set out below.

Level 3 financial assets at fair value through profit or loss at 30 September	2012 £'000	2011 £'000
Opening fair value	4,972	6,033
Purchases at cost	155	–
Sales proceeds	–	–
Total gains or losses included in gains on investments in the Consolidated Statement of Comprehensive Income		
– on sold assets	–	–
– on assets held at the end of the year	(635)	(1,061)
Closing fair value	4,492	4,972

Level 3 valuations comprise an investment in Mitra Energy Limited ("Mitra") held at Directors' valuation. The valuation methodology which considers peer entities has been updated in 2012 to apply adjustments for contingent resources, risked resources and cash and liquidity levels. The updated valuation methodology resulted in a change of £635,000.

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Capital management policies and procedures

The structure of the Company's capital is described in note 14 and details of the Company's reserves are shown in the statement of changes in equity on page 35.

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- 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; through an appropriate balance of equity capital and debt.

The Board, with the assistance of the Investment Manager, regularly monitors and reviews the broad structure of the Group's capital on an ongoing basis. These reviews include:

- the level of gearing, which takes account of the Group's position and the Investment Manager's views on the market; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Group's objectives, policies and processes for managing capital are unchanged from last year.

The Group is subject to externally imposed capital requirements:

- a) as a public company, the Company is required to have a minimum share capital of £50,000; and
- b) in accordance with the provisions of sections 832 and 833 of the Companies Act 2006, the Company, as an investment company:
 - (i) is only able to make a dividend distribution to the extent that the assets of the Company are equal to at least one and a half times its liabilities after the dividend payment has been made; and
 - (ii) is required to make a dividend distribution each year such that it does not retain more than 15% of the income that it derives from shares and securities.

These requirements are unchanged since last year and the Company has complied with them at all times.

19. Contingencies, guarantees and financial commitments

In June 2007 the European Court of Justice ruled that investment management fees should be exempt from VAT, and in early November 2007 HM Revenue & Customs decided not to contest that ruling. The Board is taking steps to reclaim such back VAT on investment management fees as it can and has recovered £3,603,575 up to the date of this report.

While most of the Back VAT has now been recovered, the Company will continue to examine methods to recover further Back VAT, and interest, but does not anticipate any further significant recovery in the near term.

At 30 September 2012 the Group had no financial commitments (2011: £nil).

At 30 September 2012 the Group had no contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2011: £nil).

20. Related party disclosure

The related party transaction pursuant to the Investment Management Agreement with Asset Value Investors Limited is set out in the Directors' Report on page 24. Management fees for the year amounted to £4,400,000 (2011: £4,942,000) and the performance fee for the year was £nil (2011: £nil).

As at the year end, the following amounts were outstanding in respect of management fees: £367,000 (2011: £412,000) and performance fees: £nil (2011: £nil).

Strone Macpherson is Chairman of Close Brothers Group plc, the ultimate parent of Winterflood Securities Limited which acts as the Company's Corporate Broker for a retainer of £25,000 per annum paid by the Company.

At 30 September 2012 the Group had a contingent liability pursuant to an Indemnity given to Caledonia Investments plc (Caledonia) in respect of sums received from Caledonia by way of repayment of VAT (the VAT Refund) paid by the Company between 1991 and 1995 on investment management fees to Caledonia. This Indemnity is against any amounts of VAT (including any interest or penalties) Caledonia is liable to repay to HM Revenue & Customs in respect of the VAT Refund together with all reasonable costs, charges and expenses incurred by Caledonia in enforcing its rights under the Indemnity. The Company's liability under the Indemnity shall not exceed the amount of the VAT Refund received from Caledonia which amounted to £619,178 (including simple interest of £263,337).

21. Post balance sheet events

Since the year end the Company has completed the following transactions in its own shares:

Shares bought back and held in treasury

Date	Number of Ordinary Shares	Cost £'000
7 November 2012	83,000	375

Directors' Remuneration Report

This Report is prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The Board of Directors is comprised solely of non-executive Directors and the determination of Directors' fees is considered 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. The Directors' fees, which were last increased with effect from 1 October 2010 are: Chairman £31,860, Chairman of Audit Committee £24,780, other non-executive Directors £21,240. The annual aggregate limit on fees payable to the Board of Directors under the Company's Articles of Association is currently £200,000.

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 23 and except as noted in the Directors' Report no other Directors were interested in contracts with the Company during the period or subsequently. None of the Directors has a service contract with the Company and no Director is entitled to compensation on leaving office.

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.

The Company has agreed in line with market practice to indemnify the Directors in respect of costs, charges, losses, liabilities, damages and expenses, arising out of any claims or proposed claims made for negligence, default, breach of duty, breach of trust or otherwise, or relating to any application under Section 1157 of the Companies Act 2006, in connection with the performance of their duties as Directors of the Company.

Total Shareholder return

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

Directors' emoluments (audited information)

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

	2012 £'000	2011 £'000
Strone Macpherson – Chairman	31.9	31.9
Andrew Robson	24.8	24.8
Steven Bates	21.2	21.2
Rosamund Blomfield-Smith	21.2	21.2
Nigel Rich	12.3	–
Susan Noble	12.3	–
John May†	5.3	21.2
	129.0	120.3

†retired as a Director on 15 December 2011.

Sums paid to Third Parties (audited information)

The director's fee of £5,310 (2011: £21,240) payable to John May was paid to Caledonia Group Services Limited in respect of making available his services to the Company.

Share Price Total Return

vs Morningstar Investment Trust Global Growth Index Total Return
– Five years to 30 September 2012



By order of the Board

Phoenix Administration Services Limited
Corporate Secretary
12 November 2012

Independent Auditor's Report

to the Members of British Empire Securities and General Trust plc

We have audited the financial statements of British Empire Securities and General Trust plc for the year ended 30 September 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 33, in relation to going concern; and
 - the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2010 UK Corporate Governance Code specified for our review.
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Julian Young Senior Statutory Auditor
For and on behalf of
Ernst & Young LLP
Statutory Auditor
London
12 November 2012

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Twenty Third Annual General Meeting of British Empire Securities and General Trust plc will be held at Grocers' Hall, Princes Street, London EC2R 8AD at 12 noon on Thursday 13 December 2012 to consider the following business:

Ordinary Business

1. To receive and adopt the financial statements of the Company for the financial year ended 30 September 2012 together with the Reports of the Directors and the Auditor.
2. To approve a final Ordinary Dividend of 7.5 pence per Ordinary Share.
3. To approve a Special Dividend of 3.5 pence per Ordinary Share.
4. To re-elect Strone Macpherson as a Director of the Company.
5. To re-elect Steven Bates as a Director of the Company.
6. To re-elect Andrew Robson as a Director of the Company.
7. To elect Susan Noble as a Director of the Company.
8. To elect Nigel Rich as a Director of the Company.
9. To re-appoint Ernst & Young LLP as the Company's Auditor and authorise the Directors to determine the Auditor's remuneration.
10. To receive and adopt the Directors' Remuneration Report.

Special Business

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

11. THAT, the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot Ordinary Shares of 10p each in the capital of the Company ('Ordinary Shares') and to grant rights to subscribe for or to convert any security into Ordinary Shares in the Company up to a maximum of 23,685,996 Ordinary Shares provided that such authority shall expire on the date which is 18 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company in 2013, save that the Company may before such expiry make offers or agreements which would or might require Ordinary Shares to be allotted, or rights to be granted, after such expiry and the Directors may allot Ordinary Shares, or grant such rights, in pursuance of such offers or agreements as if the authority conferred hereby had not expired; and all unexercised authorities previously granted to the Directors to allot Ordinary Shares be and are hereby revoked.

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

12. THAT, subject to the passing of resolution 12 above, the Directors of the Company be and are hereby generally authorised and empowered pursuant to Sections 570 and 573 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 of the Act) (including the grant of rights to subscribe for, or to convert any securities into, Ordinary Shares in the capital of the Company ('Ordinary Shares') and the sale of Ordinary Shares held by the Company in treasury) wholly for cash pursuant to any existing authority given in accordance with Section 551 of the Act, as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:
 - (a) to the allotment of equity securities in connection with an offer of such securities by way of rights to holders of Ordinary Shares on the register of members of the Company on a fixed record date in proportion (as nearly as may be practicable) to their respective holdings of Ordinary Shares but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements or any legal or practical problems arising under the laws of, or the requirements of, any territory or any regulatory or governmental body or authority or stock exchange; and
 - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities equating to a maximum of 7,900,599 Ordinary Shares being approximately 5 per cent of the equity share capital currently in issue; and such authority shall expire on the date of the next Annual General Meeting of the Company to be held in 2013, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.
13. THAT, the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of Section 693(4) of the Act) of Ordinary Shares of 10p each in the capital of the Company ('Ordinary Shares') either for cancellation or to hold as treasury shares (within the meaning of Section 724 of the Act) provided that:
 - (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 23,685,996;
 - (b) the Directors be authorised to determine at their discretion that any Ordinary Shares purchased be cancelled or held by the Company as treasury shares;

- (c) the minimum price which may be paid for a share shall be 10 pence (exclusive of associated expenses);
- (d) the maximum price which may be paid for an Ordinary Share shall equate to 105 per cent of the average of the middle market quotations of the Ordinary Shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date on which the relevant share is contracted to be purchased (exclusive of associated expenses); and
- (e) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on the date which is 18 months after the date of the passing of this resolution save that the Company may prior to such expiry enter into a contract or arrangement to purchase Ordinary Shares under this authority which will or may be completed or executed wholly or partly after the expiry of this authority and may make a purchase of ordinary shares pursuant to any such contract or arrangement as if the authority hereby conferred had not expired.

By Order of the Board

Phoenix Administration Services Limited
Corporate Secretary

Springfield Lodge,
Colchester Road,
Chelmsford, Essex CM2 5PW
12 November 2012

Notes

1. Attending the Annual General Meeting in person

If you wish to attend the Annual General Meeting in person, you should sign the attendance card enclosed with this document and hand it to the Company's registrars on arrival at the Annual General Meeting.

2. Appointment of Proxy

Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

3. Appointment of Proxy

A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. Where two or more valid appointments of proxy are received in respect of the same share in relation to the same meeting, the one which is last sent shall be treated as replacing and revoking the other or others. If the Company is unable to determine which is last sent, the one which is last received shall be so treated. If the Company is unable to determine either which is last sent or which is last received, none of such appointments shall be treated as valid in respect of that share.

To be valid, any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 12 noon on Tuesday 11 December 2012.

The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 8 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so. If you require additional proxy forms, please contact the Registrar's helpline on 0871 384 2490* (+44 121 415 7047 from outside the UK). Lines are open 8.30am to 5.30pm Monday to Friday.

Alternatively, you may, if you wish, register the appointment of a proxy electronically by logging on to www.sharevote.co.uk. To use this service you will need your Voting ID, Task ID and Shareholder Reference Number printed on the accompanying form of proxy. Full details of the procedure are given on the website.

To be valid, the appointment of a proxy electronically must be made by 12 noon on Tuesday 11 December 2012.

**Phone calls to this number cost 8p per minute from a BT landline. Other providers' costs may vary.*

Notice of Annual General Meeting

continued

4. Appointment of Proxy by Joint Shareholders

In the case of joint shareholders, where more than one of the joint shareholders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint shareholders appear in the Company's register of members in respect of the joint shareholding, with the first named being the most senior.

5. Nominated Persons

Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies does not apply to Nominated Persons as such rights can only be exercised by registered shareholders of the Company.

6. Entitlement to Attend and Vote

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00 pm on Tuesday 11 December 2012 (or, in the event of any adjournment, 6.00 pm on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

7. Issued Share Capital and Total Voting Rights

As at 12 November 2012 the Company's issued share capital consisted of 160,014,089 Ordinary Shares, carrying one vote each, of which 2,002,104 were in treasury. Therefore, the voting rights in the Company as at 12 November 2012 equate to a total of 158,011,985 votes.

8. CREST Members

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 12 noon on Tuesday 11 December 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

9. Corporate Members

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

10. Rights to publish statements under section 527 of the Companies Act 2006

Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:

- (i) the audit of the Company's financial statements (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or
- (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with section 437 of the Companies Act 2006.

The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

11. Questions and Answers

Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

However, where appropriate, the Chairman may offer to provide an answer to a question after the conclusion of the Annual General Meeting.

12. Information on the Company's website

In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.british-empire.co.uk

Shareholder Information

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 Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA on request. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly into Shareholders' bank accounts, dividend tax vouchers are sent 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 last address held on the Share register. Any change or amendment should be notified to Equiniti Limited 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 0845 850 0181 or via the website: www.british-empire.co.uk

AVI ISA

The AVI Stocks and Shares Individual Savings Account (ISA) is a savings account that allows you to invest in stocks and shares in line with HM Revenue & Customs limitations.

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.

For further information contact Customer Services
on 0845 850 0181
Call charges may apply

Provisional Financial Calendar 2012/2013

13 December 2012	Annual General Meeting
• January 2013	Final and Special Dividend paid on Ordinary Shares
• May 2013	Announcement of half year results
• May 2013	Posting of Half Year Report
• June 2013	Interim Dividend paid on Ordinary Shares
• November 2013	Announcement of annual results
• November 2013	Posting of Annual Report
• December 2013	Annual General Meeting

Company Information

Directors

Philip Strone Stewart Macpherson
(Chairman)
Rosamund Evelyn Blomfield-Smith
Steven Andrew Ralph Bates
Andrew Stephen Robson
Susan Margaret Noble
Nigel Mervyn Sutherland Rich

Secretary

Phoenix Administration
Services Limited
Springfield Lodge
Colchester Road
Chelmsford
Essex CM2 5PW
Tel: 01245 398950
www.phoenixfundservices.com
cosec@phoenixfundservices.com

Registered Office

Springfield Lodge
Colchester Road
Chelmsford
Essex CM2 5PW

Registered in England & Wales
No. 28203

Investment Manager

Asset Value Investors Limited
25 Berkeley Square
London W1J 6HN

Registrars and Transfer Office

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

Registrar's Shareholder Helpline
Tel: 0871 384 2490

*Calls to this number cost 8p per minute from a
BT landline, other providers' costs may vary.
Lines are open 8.30am to 5.30pm, Monday to Friday.*

Registrar's Broker Helpline
Tel: 0906 559 6025

*Calls to this number cost £1 per minute from a
BT landline, other providers' costs may vary.
Lines are open 8.30am to 5.30pm, Monday to Friday.*

Corporate Broker

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC2R 2GA

Auditor

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



Notes



Design & Production
www.ckdcorp.co.uk

Print
www.corporateink.co.uk



Printed on Chorus Silk and Soporset; both papers containing 100% virgin fibre sourced from well-managed, sustainable FSC certified forests. The paper is FSC certified. The factory is an EMAS and FSC® certified CarbonNeutral® Company, and its Environmental Management System is certified to ISO14001. 100% of the inks used are vegetable oil based and 95% of press chemicals are recycled for further use and on average 99% of any waste associated with this production will be recycled.

