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**British Empire**  
Securities and General Trust plc

AVI

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## 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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## Company Summary

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### 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 2011 was £740 million and the market capitalisation was £676 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 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](http://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 decreases by 10.3% impacted by widening of underlying discounts
- Benchmark\* Index falls by 4.6%
- Total ordinary dividend increased by 13.3%
- Special dividend of 2.0p
- At the end of the year liquidity within the portfolio was 12.1% held in UK and US government securities

### Performance Summary

	30 September 2011	30 September 2010	% change
<b>Capital Return</b>			
Net asset value per Share	462.51p	518.28p	(10.76)
Share price (mid market)	422.60p	465.50p	(9.22)
Net asset value per Share (total return)			(10.31)
<b>Indices</b>			
Morningstar Investment Trust Global Growth Index*	263.29	276.02	(4.61)
Morgan Stanley Capital International World Index (£ adjusted total return)	2,428.27	2,496.31 <sup>†</sup>	(2.73)
<b>Revenue and Dividends</b>			
Income	£25.93m	£19.54m	32.70
Earnings per Share	11.50p	7.94p	44.84
Ordinary Dividends per Share	8.50p	7.50p	13.3
Special Dividend per Share	2.00p	–	–
<b>Discount</b>			
(difference between share price and net asset value)	8.63%	10.18%	–
<b>Total Expense Ratio</b>			
(as percentage of average shareholders' funds)			
Management, marketing and other expenses	0.72%	0.73%	–
Performance fee	0.00%	0.02%	–
<b>2011 Year's Highs/Lows</b>			
	High	Low	
Net asset value per Share	565.70p	460.66p	–
Share price (mid market)	545.00p	422.60p	–

\* 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 10 October 2011

<sup>†</sup> Revised figure due to exchange rate error

#### Buy-backs

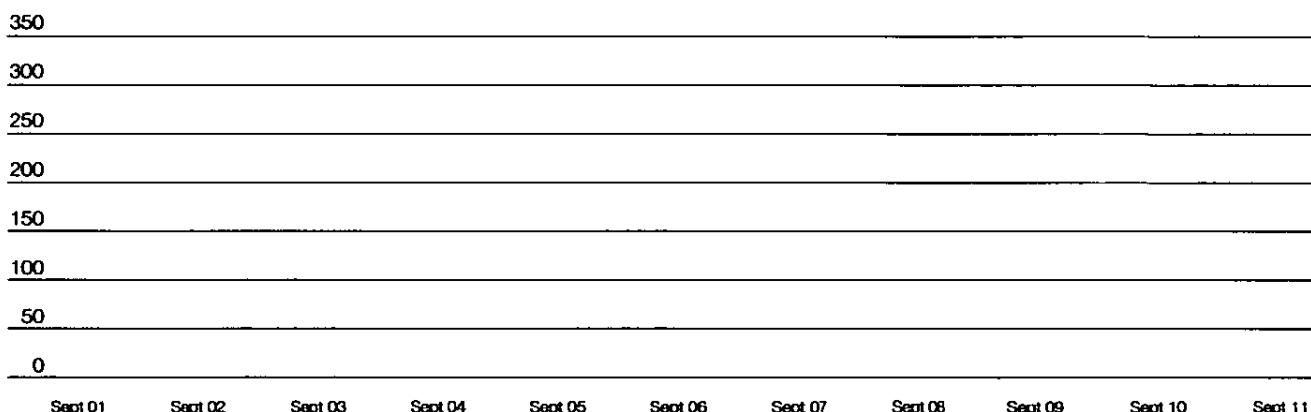
During the year the Company purchased 80,000 units of Equities Index Unsecured Loan Stock 2013 for cancellation for £204,000. The Company did not purchase any of its Ordinary Shares or any of its Debenture Stock for cancellation during the year.

**Historical record**

Year ended 30 September	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Group net revenue return £000	18,405	12,712	12,774	13,548	9,046	8,520	6,614	3,651	2,726	3,868
Revenue Earnings per Share (p)	11.50	7.94	7.98	8.46	5.65	5.32	4.13	2.28	1.70	2.29
Ordinary Dividend per Share (p)	8.50	7.50	6.00	5.75	5.00	4.00	2.20	1.70	1.55	1.50
Special Dividend per Share (p)	2.00	-	1.25	1.50	0.50	1.00	1.40	-	-	0.40
Net assets £000 <sup>1</sup>	740,385	829,670	735,188	633,856	815,124	701,291	618,739	429,474	348,326	277,419
Basic net asset value per Share (p)	462.51	518.28	459.26	395.96	509.19	438.08	386.51	268.28	217.59	173.30

<sup>1</sup>The figures for 2005 and 2004 have been restated in accordance with IFRS. Figures for earlier years 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)**



Net asset value  
Morgan Stanley Capital International World Index (£ adjusted)  
Morningstar Investment Trust Global Growth Index (total return)

**Portfolio value by Country**

	2011	2010		2011	2010
	%	%		%	%
France	13.31	8.88	Spain	4.12	-
Singapore	10.99	12.46	Japan	3.60	4.40
Canada	10.50	5.84	Turkey	2.60	3.63
Belgium	10.42	9.77	Italy	2.47	5.49
Norway	9.68	4.39	Germany	2.31	4.46
United Kingdom	5.71	5.73	Luxembourg	1.27	1.11
Sweden	4.54	6.06	Other	1.84	5.28
Hong Kong	4.52	2.27	Liquidity (£ and US\$)	12.12	20.23

## Chairman's Statement

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

Strone Macpherson  
Chairman

This report covers the period 1 October 2010 to 30 September 2011

At the half year, your Company's net asset value on a total return basis advanced 7.7% (modestly below the benchmark) and the share price was ahead by 6.7% at 496.7p. The Board also announced an interim dividend of 2.0p, an increase of 11.1%.

The second half of the financial year has proven much more difficult than even our cautious stance had led us to expect, and the headwinds which we were expecting at the interim stage proved very challenging, particularly from the end of July. The Company's NAV has fallen by 15.5% and the share price by 14.9% since the half year end with quite marked underperformance against its benchmark in that period.

For the year as a whole, the NAV is down 10.3% (on a total return basis) compared with 4.6% for the Company's benchmark (Morning Star Global Growth Index) and 2.7% in the MSCI World Index.

The Company's shares have traded over the past year between a premium to net asset value of 3.1% and a discount of 9.6%. We continue to monitor carefully the share price and the discount or premium at which the Company's shares trade to net asset value. We will, if necessary, take steps to limit the volatility of the discount or premium by either buying back shares at a discount or issuing new shares at a premium. Therefore, the Board is once again seeking to renew its authority to buy back and issue shares.

Your manager has continued to invest steadily in equities through this difficult period and some £60m of the surplus liquidity had been deployed by the year end. The overall investment strategy remains unchanged, with the manager finding new investments and adding to existing holdings at good discounts. Dividend yields on the Company's investments have also been attractive.

In these difficult market conditions, the deployment of the Company's liquidity into investments in selected equities at attractive prices but in markets which have continued to fall has contributed to the underperformance against the benchmark. Market conditions have also given rise to an estimated weighted average discount on your underlying equity investments of 39%, the highest level in our records and up from 23% a year ago. These underlying discounts have historically proved to be an excellent source of good returns for shareholders as markets stabilise and start to improve.

It is also worth noting that the fall in the NAV was more than entirely accounted for by the widening of underlying discounts. The estimated underlying value per share of our portfolio actually increased during the year.

In addition, the income of your Company has increased markedly in the period under review, by some £6.4m to £25.9m. This increase has been achieved against a background of historically low yields on cash and government securities and results partly from changes in the portfolio and partly from increased payments from investee companies. Approximately 30% of the income was derived from the top two holdings.

We are therefore pleased to be recommending an increased final dividend of 6.5p (2010: 5.7p) up 14.0% on last year, which together with the interim payment of 2.0p (2010: 1.8p) (+11.1%) would bring the total dividends for the year to 8.5p (2010: 7.5p) (+13.3%). In addition, we propose a special dividend of 2.0p, bringing total dividends for the year to 10.5p (2010: 7.5p), and reflecting the exceptional increase in earnings in the past year.

Between the year end and 9 November (the latest date for which data is available) the Company's net asset value increased by 4.1%, which is similar to the return of the benchmark.

On 2 July 2011, the Company's outstanding balance of £8.48 million of 10% Debenture Stock 2011 was, in accordance with the provisions of the Trust Deed governing the Stock, repaid in full, together with accrued interest to that date. Because it has been the Company's accounting policy to charge all of the interest on the Debenture Stock to the Revenue Account, repayment of the Stock will have a marginally beneficial account on the Company's revenue account in future years. The Board has reviewed with the Manager the current long term borrowing and the Company's cash position. The Board considers it unlikely that the Company will engage in any further long term or structural borrowing in the foreseeable future.

John May, who has been a director for eight years, retired as a director of our largest shareholder, Caledonia Investments, in September and has decided not to stand for re-election. The Board will very much miss his wise counsel and wishes him well in his future activities.

At the Nominations Committee, the Board has completed a formal evaluation, led by an external party for the first time, the conclusions of which were positive in terms of good boardroom practice and governance.

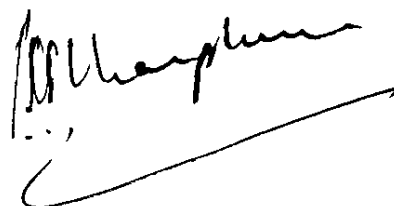
In line with current trends in corporate governance, the board has decided that all directors who wish to continue as directors should offer themselves for re-election at each Annual General Meeting. Apart from John May, the directors all offer themselves for re-election and the Nominations Committee has considered again their qualifications, performance and contribution to the Board. The Nominations Committee confirms that they each continue to be effective and to demonstrate commitment to the role. The Board therefore recommends that they should each be re-elected.

The Board has appointed a firm of head hunters to seek new candidates to expand the Board and ensure that an appropriate mix of skills and experience are available to the Company. A further announcement will be made in this regard in due course.

The severe market setback over the summer was an indication of the nervousness of the investment community that much slower growth and a significant further recession and consequent lower earnings for many businesses are a distinct possibility. It was also a warning to politicians in Europe in particular to become more proactive and speed up the process of finding workable and credible solutions to the serious issues facing the EU, the Euro, and the European banking system. There are now signs that some politicians may have understood the power of markets' impatience.

Though this still remains a difficult time for all investors, we are confident that your manager has sufficient flexibility and liquidity to continue to build a good store of value in selected stocks which will prove to be excellent investments when confidence returns.

**Strode Macpherson**  
Chairman  
11 November 2011



## Investment Portfolio

The top ten equity investments make up 46% of the portfolio with investments across a diverse range of sectors and regions

### Ten largest equity investments

Company	Vivendi	A French telecommunications and media conglomerate that trades on a discount of over 25% to the sum-of-its-parts. Vivendi owns stakes in companies operating in the music, games, television, films and telecommunications industries
Nature of business	Media Company	
Cost	£94.8m	
Valuation	£75.1m	
Valuation basis	Market price	
% of total assets	9.86%	

Company	Orkla	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 currently stands at 27%.
Nature of business	Investment Holding Company	
Cost	£57.1m	
Valuation	£51.2m	
Valuation basis	Market price	
% of total assets	6.72%	

Company	Jardine Strategic Holdings	Jardine Strategic, controlled by Jardine Matheson, an investment vehicle for the Keswick family, trades on a 34% discount to an attractive collection of Asian listed companies, including Hong Kong Land, Dairy Farm and Mandarin Oriental.
Nature of business	Investment Holding Company	
Cost	£6.5m	
Valuation	£40.3m	
Valuation basis	Market price	
% of total assets	5.28%	

Company	Investor AB 'A'	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 currently trades on a 31% discount to estimated NAV.
Nature of business	Investment Holding Company	
Cost	£31.1m	
Valuation	£34.6m	
Valuation basis	Market price	
% of total assets	4.54%	

Company	Sofina	A Belgian holding company that invests predominately in listed assets across a diverse range of sectors. The company currently trades on a 35% discount to estimated NAV.
Nature of business	Investment Holding Company	
Cost	£31.0m	
Valuation	£32.1m	
Valuation basis	Market price	
% of total assets	4.21%	

Company	<b>Groupe Bruxelles Lambert</b>
Nature of business	Investment Holding Company
Cost	£38.7m
Valuation	£31.2m
Valuation basis	Market price
% of total assets	4.10%

The listed Belgian holding company of Albert Frère trades on a 24% discount to its NAV. Its holdings include French blue chip listed companies.

Company	<b>Jardine Matheson Holdings</b>
Nature of business	Investment Holding Company
Cost	£9.5m
Valuation	£26.2m
Valuation basis	Market price
% of total assets	3.44%

The other Singapore listed company in the Jardine control chain. Jardine Matheson trades on a discount of 20% and owns 81% of Jardine Strategic which, in turn, owns 53% of Jardine Matheson. Jardine Strategic has the higher discount but Jardine Matheson is more liquid with a higher dividend yield.

Company	<b>Aker ASA 'A'</b>
Nature of business	Investment Holding Company
Cost	£27.6m
Valuation	£22.6m
Valuation basis	Market price
% of total assets	2.96%

A Norwegian conglomerate whose interests range from oil and gas exploration to seafood processing. The company currently trades on a 32% discount to estimated NAV.

Company	<b>Yamana Gold</b>
Nature of business	Mining Company
Cost	£14.4m
Valuation	£19.0m
Valuation basis	Market price
% of total assets	2.49%

A gold producer which has operating mines in Brazil, Chile and Argentina. The company currently trades at a 31% discount to its global peers.

Company	<b>Deutsche Wohnen</b>
Nature of business	Real Estate Company
Cost	£16.4m
Valuation	£17.6m
Valuation basis	Market price
% of total assets	2.31%

A German property company which develops, rents and sells properties. It is Germany's second largest listed residential property company and trades on a 16% discount to estimated NAV.

## Investment Manager's Review

During the year, the Company's NAV decreased by 10.3%, compared with a decrease of 4.6% in the benchmark Morningstar Global Growth Index (both on a total return basis). While the results are disappointing, value investing as a strategy has produced outperformance of equity markets over the long term and there is significant value in the underlying value of our investments at present.

British Empire is managed by Asset Value Investors Limited, which aims to deliver superior returns while minimising risks and specialises 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 their Net Asset Value (NAV)
- Identify good quality underlying assets with appreciation potential at compelling valuations
- Focus on balance sheet strength
- Look for catalysts to narrow discounts
- Focus on bottom up stock picking,
- Be willing to hold cash if investments do not meet our criteria

Over the long-term, each of AVI's funds has significantly outperformed its respective benchmark index.

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

Throughout a period of economic uncertainty and very volatile markets, your Board has continued to focus with the Manager on the Company's core investment approach in seeking to acquire investments at a discount to underlying value and where there is a realistic prospect of such value being realised over time. There is a substantial store of value in the Company's underlying investments and, notwithstanding market volatility, we remain confident that this approach will continue to produce, over the long term, good returns for shareholders.

Atlas Copco, held by Investor AB, is a global leader in manufacturing compressors, air treatment systems, construction and mining equipment. The company has benefitted from the continued Chinese appetite for raw materials as they manufacture equipment for both surface and underground mining.

## Overview

The near-term outlook for financial markets is impossible to predict as politicians, central bankers and financial players will all have an influence on the outcome. Despite this lack of visibility in the short-run, the long-term prognosis is getting better as valuations are declining. Eventually, stability will return to markets and, when it does, the quality of the investments which we have made should stand us in good stead.

## Investment Manager's Review

### Portfolio review

One of the investments Groupe Bruxelles Lambert (GBL) holds is Pernod Ricard the drinks manufacturer. Pernod Ricard's brands include Jacob's Creek wine, Beefeater gin and Chivas Regal whisky.

The financial crisis is very much still with us three years after the failure of Lehman Brothers. The crisis is a moveable feast that has encompassed banks, the consumer, money market funds and now sovereign borrowers. The fundamental problem is the build-up of unsustainable levels of debt in much of the developed world and the concomitant realisation that a significant portion of these debts will not be paid back in full. Thus, there is interminable political wrangling over just where the inevitable losses will be felt. There are no painless solutions and, in our view, a period of slower growth and lower standards of living in many developed countries is the likely result.

The uncertain economic and political environment has naturally had a negative effect on the equity markets. There has been a lack of confidence amongst investors which accelerated into the year-end, resulting in a very significant widening of the discounts on our underlying equity investments. The weighted average discount one year ago was 23% and it is now 39%. This widening of discounts meant that we could not avoid underperformance against our benchmark even though we estimate that there was a healthy increase in the underlying value of our portfolio during the year.

Value investing as a strategy has produced outperformance of equity indices over time by focusing attention on valuations and buying assets cheaply. Now would appear to be one of those times when extreme uncertainty and risk aversion allow us to buy certain equities at a very good price. This should set us up well for the long run. The difficulty is that no-one can accurately predict the pattern of returns and cheap assets can get even cheaper in the short-term. That is what has occurred in the latter part of this past year. We invested half of our net liquidity during the year in companies with attractive valuations but this worked to our disadvantage in the short term, as markets fell and discounts widened.

The near-term outlook for financial markets is impossible to predict as politicians, central bankers and financial players will all have an influence on the outcome. Despite this lack of visibility in the short-run, the long-term prognosis is getting better as valuations are declining. Eventually, stability will return to markets and, when it does, the quality of the investments which we have made should stand us in good stead. The discounts on our underlying investments are as wide as they have ever been and this should help to drive future returns when confidence returns. We cannot control the timing of the returns which we expect but an encouraging factor in a difficult year has been the growth in our income received from our portfolio companies. In an era of low yields on cash and government bonds, our income increased by over 30% over the past year. A portion of the cash invested last year has gone to higher yielding equities.

Liquidity is 12.1%, compared with 20.2% as at the previous year end, including cash and government bonds.

The Company's shares were trading on a discount of 8.6% as at the end of the financial year.

Yamana Gold Inc is an intermediate gold producer with production development stage, and exploration assets throughout Brazil. Like many gold miners, the company's share price has so far failed to keep up with the rising bullion price.

## Investment Manager's Review

### Portfolio review

#### Portfolio Review

The estimated weighted average discount on the portfolio is now 39% versus 23% one year ago

#### European Investment Holding Companies (35.9%)

Weighted average discounts on the European holding companies we own have widened to 38% from 33% one year ago. In general share prices fell by more than the fall in NAVs and thus discounts have widened. Notable exceptions include Pargesa and Exor SpA Preference shares, both of which were sold during the year on narrowing discounts. In other cases, we have used share price declines to add to positions.

One example of a company we have been adding to is Orkla (6.7%) in Norway. This is a conglomerate whose main business is branded consumer goods in the Nordic region. Its other assets include an aluminium profile business, an interest in a listed solar energy company, a chemical business and a portfolio of financial investments. Over the past 12 months the share price has been trading at a wider than average discount to our estimate of the sum of the parts value of the various businesses, which has frustrated investors and management alike. We were able to accumulate our shareholding at low multiples to earnings and a relatively high dividend yield of circa 5%. In an attempt to narrow the discount at which the stock trades, management announced in September 2011 that it would seek to divest all non-core assets. This will see the company transform itself into a pure-play branded consumer goods company, and thereby eliminate the conglomerate discount which exists today. The process of streamlining the business has already begun and in November the company will pay out a special dividend to shareholders with the intention of making the capital structure more efficient. As further asset sales are made over the next couple of years it is likely that further capital will be returned to shareholders.

The core branded consumer goods business is a market leader in the geographic areas in which it operates. It has proven to be a stable and cash generative business. As a focused company, we would expect the business to be more highly valued by the market. Management have demonstrated a proactive approach to unlocking the value in the conglomerate structure and we are confident that over the next few years, as non-core assets are disposed, shareholders will be well rewarded.

#### Asian Investment Holding Companies (14.1%)

The weighted average discount on the Asian holding companies which we own is 44%, compared to 32% a year ago. Share price moves within this segment of the portfolio were far more sedate than they have been in the past couple of years. However, strong performance during the first nine months of the year allowed us to take substantial profits on part of our holdings in the two Jardine companies at a time when discounts had begun to narrow and the valuations of the underlying business were less compelling than they had been.

While Orkla has an eclectic portfolio of assets that includes REC, a Norwegian company involved in the solar power industry its strategy of selling non-core assets to focus on its core branded goods business should see its conglomerate discount disappear over time.

Deutsche Wohnen is one of Germany's leading listed residential property companies. The fundamentals of the Berlin residential housing market where much of Deutsche Wohnen's portfolio is located remain very strong.

Since the opening of the first Mandarin Oriental hotel in Hong Kong in 1963, the company has grown its franchise and now consists of 27 operational hotels spanning the globe from Jakarta (pictured) to Munich. Jardine Strategic Holdings owns 74% of Mandarin Oriental.

## Investment Manager's Review

### Portfolio review

#### Portfolio value by geography

	2011	2010
	%	%
Continental Europe	48.12	41.01
Asia Pacific	17.35	18.87
Canada/US	10.50	6.13
United Kingdom	5.71	5.73
Japan	3.60	4.40
EMEA	2.60	3.63
Liquidity	12.12	20.23

#### Portfolio value by market capitalisation

	2011	2010
	%	%
<£1 billion	32.88	25.65
>£1 billion & <£5 billion	11.41	21.68
>£5 billion & <£10 billion	23.00	11.22
>£10 billion	20.59	21.22

#### Portfolio value by sector

	2011	2010
	%	%
Investment Holding Companies	50.01	49.48
Mining & Resources	12.82	8.52
Other	12.10	9.62
Real Estate Companies	7.41	6.93
Investment Companies	5.54	5.22
Liquidity	12.12	20.23

Swire Pacific (1.9%) is one of the oldest and largest Asian listed conglomerates which is currently trading on a 42% discount to its net asset value.

The company's largest division, by assets, is property where it owns high quality office, retail and residential properties in central Hong Kong. The group also has three significant investment properties in China. In May, Taikoo Hui, a 3.8 million square foot mixed-use development in Guangzhou, began trading. Swire Pacific recently monetised part of its property portfolio by agreeing to sell Festival Walk in July for HK\$18.8bn which resulted in a HK\$8.6bn profit for the group. Excluding the Festival Walk sale, the property division is performing strongly as a result of high occupancy rates (currently 100%) for Hong Kong malls and continued office rental growth.

Swire Pacific has significant exposure to aviation with its long term holding in Cathay Pacific, which it recently increased to 44%, along with its holding in HAECO, the Hong Kong based aviation maintenance company. Despite the macro headwinds, the core business remains robust as demand for premium class travel to Asia remains high.

The Marine services division of Swire Pacific has a fleet of 75 vessels with the intention to grow this division to 102 vessels by 2015 with an emphasis on vessels that are designed to operate in deep water where future demand is expected.

The group also has a trading and industrial division whose diverse activities include paints, motors, clothing and sugar.

The company is conservatively managed and after the recent sale of Festival Walk, total borrowings will be reduced to approximately 10% of the group's assets. The company has recently announced its intention to create a new listed vehicle for the group's property assets.

#### Investment Trusts and Funds (5.6%)

We have continued to reduce our weighting in investment trusts as value, in terms of wide discounts combined with high quality assets, has been harder to find. We have had success however, in finding value within the listed private equity sector and currently hold two investments, Electra Private Equity (0.8%) and Pantheon (1.5%).

Pantheon is a London-listed investment trust, investing in a diversified portfolio of private equity funds. The company has Ordinary and Redeemable share classes, both of which are owned by your portfolio, and trade on discounts of 45% and 43% respectively.

The portfolio has conservative levels of gearing by private equity standards. Approximately 40% of investments are in venture and growth funds that typically carry little or no leverage. The remaining 60% is allocated to buyout fund and direct investments, while these often carry leverage, the weighted average debt/EBITDA multiple of 3.7x of the top 50 buyout funds/direct investments is low both compared to peers and by historical levels. At the company level, Pantheon recently undertook a non-dilutive equity-for-debt swap to de-gear its balance sheet and simplify its capital structure.

Like many of its private equity peers, the slow-down in both realisations and new investments during the financial downturn has left Pantheon with a significantly more mature portfolio than has been the case historically, with 70% of its portfolio being of a vintage 5 years or greater. This presents increasing opportunities for realisations, which customarily are made at prices which add to NAV. While market volatility may stymie realisations through IPOs, cash-rich corporate balance sheets make trade sales a good exit opportunity and provide validation of both the reported NAV and the conservative valuation policy used to mark investment holdings. In a further reflection of the maturity of the portfolio, earnings growth has been strong at the underlying company level.

Alongside many other listed private equity funds of funds, Pantheon suffered during the financial crisis due to concerns over its ability to meet its undrawn commitments. By June 2011, however, cash balances and funds available from its undrawn credit facility covered its undrawn commitments by 3.9x.

Pantheon's discount to NAV is very wide by historical standards and recent share buybacks indicate management's recognition of the value inherent in the portfolio. Once sentiment turns back in favour of the listed private equity sector and the market accepts that concerns regarding over-commitments are no longer as valid, we expect the company to be re-rated and trade at a narrower discount than most peers given its impressive performance track record.

#### Resources (12.8%)

SOCO International (2.0%) has developed over the year to become both an exploration company and significant oil producer.

After two years of planning, the company commenced production in August and on time, on the Te Giac Trang (TGT) field which is based off Vietnam. The aim is to increase production over the next few months with the intention of targeting 70,000 barrels per day. Seismic data suggests that this field contains approximately 87 million barrels of oil.

## Outlook

There is a paradox at the moment between the extremely challenging and difficult political and economic environment and the attractiveness of the valuations on many individual listed equities. We believe the lack of confidence has led to a market in which there are bargains to be found. Mindful of the risks, we are trying to find equities that feature a defensive earnings profile, strong balance sheets and a high dividend yield. As described above, this has already produced a higher income return to the Company. In addition, as forecasting short term movements against such a volatile background seems unwise, we believe that it makes sense to buy equities when they are good value in spite of the difficult macro-economic environment.

SOCO International, though, had a disappointment earlier in the year when they struggled to find significant oil in the Te Giac Den (TGD) field, contrary to seismic data. Despite this setback the company is keen to explore this field further and the management has recently announced a new drilling program for this area.

SOCO International has also begun a series of exploration wells in the coastal basin off Congo. Initial seismic data estimate a potential resource of 250 million barrels. The Company also has drilling concessions in The Democratic Republic of Congo and Uganda which will be explored in due course.

#### Other (12.1%)

Vivendi (9.9%) is our largest single investment and one to which we have added substantially during the year. Its discount to our estimate of the sum of the parts value of its various businesses has risen from 25% last year to over 40% currently. At the same time the company remains committed to increasing its dividend which could see the yield on the stock increase from its present level of just under 9%. In addition to trading at this exceedingly attractive dividend yield level, other valuation measures are equally compelling. For example, Vivendi trades at approximately 7 times its 2011 earnings. The collection of businesses in the telecoms, media and computer games sectors combine to create a company with defensive and stable earnings that appear to be undervalued by the market.

Management have been active in attempting to create a structure that does not warrant such a large conglomerate discount. A 12.3% stake in NBC Universal was sold and the proceeds were used to fund part of the acquisition of Vodafone's minority interest in SFR, leaving Vivendi with an ownership of 100%. Further share buybacks in Activision Blizzard boosted ownership to 63% and the company remains in discussion with Lagardere over the 20% of Canal Plus not owned by Vivendi. We would have expected these measures to have boosted sentiment towards the stock but instead it has continued to be de-rated. We see tremendous value in this company and whilst we wait for the market to recognise it, we are being paid a substantial dividend.

#### Net Liquidity (12.1%)

Our liquidity position is held mainly in government bonds in the UK and the US and was reduced from 20.2% a year ago.

#### Geographic Profile

Gross Assets of £762m were distributed (on a look-through basis) as follows: Continental Europe 50.6%, UK 5.7%, Asia Pacific 17.4%, Japan 3.6%, Canada 10.5%, Other 0.1% and Liquidity of 12.1%.

As and when opportunities present themselves at compelling valuations, we will continue to invest our cash. At some point, these valuations should be recognised by the market and stocks should be re-rated. Further, wide discounts should eventually attract corporate activity as confidence returns. Annual capital returns on British Empire have been uneven in the past and now when discounts are at their widest is not, in our view, the time to abandon our approach. We feel confident that today's low valuations will translate into good returns for our shareholders in the future.

## Investment Portfolio

We seek to build a portfolio that is diversified 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 2011

Company	Nature of business	% of class	Cost £000	Valuation £000	% of total assets less current liabilities
Vivendi	Media Conglomerate	0.5	94,832	75,146	9.86
Orkla	Conglomerate	1.0	57,117	51,190	6.72
Jardine Strategic Holdings	Investment Holding Company	0.2	6,479	40,251	5.28
Investor AB'A'	Investment Holding Company	0.9	31,055	34,624	4.54
Sofina	Investment Holding Company	1.7	31,033	32,063	4.21
Groupe Bruxelles Lambert	Investment Holding Company	0.4	38,667	31,240	4.10
Jardine Matheson Holdings	Investment Holding Company	0.1	9,505	26,236	3.44
Aker	Investment Holding Company	2.4	27,614	22,558	2.96
Yamana Gold	Mining Company	0.3	14,435	18,975	2.49
Deutsche Wohnen	Real Estate Company	2.5	16,436	17,575	2.31
<b>Top ten investments</b>			<b>327,173</b>	<b>349,858</b>	<b>45.91</b>
Pars Orléans	Investment Holding Company	3.2	13,112	15,444	2.03
Soco	Energy Exploration Company	1.4	18,593	15,399	2.02
CIR SpA	Investment Holding Company	1.6	18,918	15,395	2.02
Kinross Gold	Mining Company	0.1	18,567	15,302	2.01
Ferrovial	Infrastructure Company	0.3	14,880	14,576	1.91
MI Developments	Real Estate Company	1.7	14,380	13,618	1.79
Swire Pacific'B'	Investment Holding Company	0.2	8,332	12,504	1.64
Macquarie International Infrastructure Fund	Investment Company	4.0	14,448	12,058	1.58
Wheelock	Real Estate Company	0.3	13,909	11,171	1.46
Detour Gold Corp	Mining Company	0.7	8,672	11,076	1.45
<b>Top twenty investments</b>			<b>470,984</b>	<b>486,401</b>	<b>63.82</b>
Eurazeo	Investment Holding Company	0.6	16,956	10,835	1.42
Nexen	Oil & Gas Company	0.2	15,788	10,403	1.37
Sheritt	Mining Company	1.2	15,155	9,786	1.29
BIP Investment Partners	Investment Holding Company	4.5	7,852	9,671	1.27
Shun Tak Holdings	Conglomerate	1.8	14,142	9,021	1.18
Daidoh	Textile & Property Company	3.2	6,739	8,613	1.13
Iş Gayrimenkul Yatırım Ortak	Real Estate Investment Company	3.3	11,159	8,087	1.06
NH Hoteles	Hotel Company	1.1	9,823	7,486	0.98
Prisa 'A'	Media Conglomerate	2.4	16,071	7,327	0.96
Pantheon International Participations	Investment Company	3.1	5,743	7,267	0.95
<b>Top thirty investments</b>			<b>590,412</b>	<b>574,897</b>	<b>75.43</b>

Company	Nature of business	% of class	Cost £000	Valuation £000	% of total assets less current liabilities
RHJ Internacional	Investment Holding Company	2.4	10,011	6,784	0.89
Allied Gold	Mining Company	1.8	7,918	6,675	0.88
Bajaj Holdings and Investment Warrants 27/07/2015 <sup>†</sup>	Investment Holding Company	0.6	7,577	6,487	0.85
JPMorgan Japanese Investment Trust	Investment Company	2.4	8,233	6,437	0.85
Electra Private Equity	Investment Company	1.2	5,108	5,815	0.76
Treasury China Trust	Real Estate Investment Company	2.6	4,670	5,238	0.69
Mitra Energy <sup>*</sup>	Oil & Gas Company	2.2	4,080	4,972	0.65
Henex	Investment Holding Company	0.9	4,748	4,848	0.64
Cie Du Bois Sauvage	Investment Holding Company	1.8	6,640	4,519	0.59
Alarko Gaymenkul Yatirim	Real Estate Investment Company	6.7	4,513	4,496	0.59
<b>Top forty investments</b>			<b>653,910</b>	<b>631,168</b>	<b>82.82</b>
Katakura Industres	Textile & Property Company	1.9	5,000	4,320	0.57
Alarko Holding	Investment Holding Company	1.9	5,480	4,134	0.54
Pantheon International Participation (Redeemable shares)	Investment Company	2.3	3,623	4,131	0.54
Showa Aircraft Industry	Transport & Property Company	2.8	5,958	4,122	0.54
JPMorgan Japan Smaller Companies Investment Trust	Investment Company	7.0	5,126	3,842	0.50
Amensur Resources	Energy Exploration Company	3.1	4,848	3,591	0.47
Cofide SpA	Investment Holding Company	0.9	4,150	3,428	0.45
GSD Holding	Investment Holding Company	5.1	5,360	3,087	0.41
Vietnam Property Fund	Investment Company	6.6	2,579	2,549	0.33
Prisa 'B'	Media Conglomerate	0.7	4,129	2,024	0.27
<b>Top fifty investments</b>			<b>700,163</b>	<b>666,396</b>	<b>87.44</b>
Swire Pacific 'A'	Investment Holding Company	0.0	1,985	1,759	0.23
Canaco Resources	Mining Company	0.3	2,125	744	0.10
Resaca Exploracion	Oil Production Company	3.9	4,880	661	0.09
JPMorgan Japan Smaller Companies Investment Trust (Subscription shares)	Investment Company	8.0	-	92	0.01
Tigray Resources	Mining Company	0.3	-	86	0.01
<b>Total equity investments</b>			<b>709,153</b>	<b>669,738</b>	<b>87.88</b>
<b>Fixed income investments</b>					
Treasury 5% 07/03/2012	UK Government Security	-	54,963	55,037	7.22
US Treasury Bill 01/12/2011	US Government Security	-	30,994	32,096	4.21
<b>Total investments</b>			<b>795,110</b>	<b>756,871</b>	<b>99.31</b>
<b>Net current assets</b>				<b>5,259</b>	<b>0.69</b>
<b>Total investments plus net current assets</b>				<b>762,130</b>	<b>100.00</b>

\*Unquoted Investment

<sup>†</sup>Held through a Participation Note issued by JPMorgan

## Capital Structure as at 30 September 2011

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

### Ordinary Shares

At 30 September 2011 there were 160,080,089 (2010 160,080,089) Ordinary Shares of 10p each in issue

#### Income entitlement:

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

#### Capital entitlement:

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

#### Voting entitlement:

Each Ordinary Shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every 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 2011 there was in issue £15,000,000 (2010 £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 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 2011, the redemption payment would have amounted to £6.1 million

The mid-market prices of the 8 $\frac{1}{8}$  per cent Debenture Stock 2023 as at 30 September 2011 was 122.50p (2010 135.40p)

#### 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 2011 there were 2,426,754 units of Index Stock in issue (2010 2,506,754). During the year the Company purchased 80,000 units of Index Stock for cancellation.

**Investment characteristics:**

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

**Income entitlement:**

Holders of the Index Stock receive interest paid quarterly. Interest is calculated by reference to the yield on the Index having regard to the movement in the ex-dividend adjustment factor during the relevant quarter as published in the Financial Times. The interest paid for the year to 30 September 2011 amounted to £97.80 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 2011 amounted to £2.65438 per unit and the offer market price of the Index Stock as at 30 September 2011 was £2.80 per unit.

**Voting entitlement:**

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

## Directors

**Strone Macpherson**  
Independent Non-Executive Chairman

Age: 63 Length of Service: 9 years

**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 Misys plc

Last re-elected to the Board:  
2009

**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 Fleming Smaller Companies Investment Trust plc

**Shareholding in Company**  
40,000 Ordinary Shares

**Andrew Robson**  
Independent Non-Executive Director

Age: 52 Length of Service: 3 years

**Experience**

A Director of JPMorgan Smaller Companies Investment Trust plc, Shires Income plc and Matrix 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

Last re-elected to the Board:  
2008

**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 Fleming Smaller Companies Investment Trust plc

**Shareholding in Company**  
2,800 Ordinary Shares

**Steven Bates**  
Independent Non-Executive Director

Age: 54 Length of Service: 6 years

**Experience**

A Director of Zephyr Management U.K. Limited, an investment management business specialising in emerging markets and of F&C Capital and Income Investment Trust plc and Renn Universal Growth Investment Trust plc. Chairman of Baring Emerging Europe plc, Chief Investment Officer of Salisbury Partners LLP 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:  
2009

**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

**John May**  
Non-Executive Director

Age 56 Length of Service 8 years

**Experience**

A Director of Begbies Traynor Group plc  
Formerly a Director of Caledonia Investments plc,  
an Executive Director of Hambros Bank Limited  
and Joint Managing Director of Hambro  
Countrywide plc

**Rosamund Blomfield-Smith**  
Independent Non-Executive Director

Age 62 Length of Service 9 years

**Experience**

Chairman of Moat Homes Limited, a Non-  
executive Director of 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

**Directors**

Philip Stone Stewart Macpherson (Chairman)  
Andrew Stephen Robson  
Steven Andrew Ralph Bates  
Rosamund Blomfield-Smith  
John Michael May

**Last re-elected to the Board  
2010**

**Committee membership**  
Nomination Committee

**Remuneration,**  
£21,240 pa

**Employment by the Manager**  
None

**Other connections with the Company  
or Manager**

Formerly a Director of Caledonia Investments,  
a substantial shareholder

**Shared Directorships with any other Company  
Directors**  
None

**Shareholding in Company**  
6,900 Ordinary Shares

**Last re-elected to the Board:  
2008**

**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

**Attendance at meetings**

Name	Board	Management		Nomination Committee
		Audit	Engagement	
S Macpherson	8	3	2	2
S Bates	8	3	2	2
R Blomfield-Smith	8	3	2	2
J May	8	n/a	n/a	2
A Robson	8	3	2	2
<b>Number of meetings held</b>	<b>8</b>	<b>3</b>	<b>2</b>	<b>2</b>

## Report of the Directors

The Directors present their report and the audited financial statements for the year ended 30 September 2011

### 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 2010. 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 2011.

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 price of which is 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 loss for the year was £(76,959,000) which included a profit of £18,405,000 attributable to revenue (2010 profit of £106,087,000 which included a profit of £12,712,000 attributable to revenue). The profit for the year attributable to revenue has been applied as follows:

	Company £'000	Group £'000
Revenue available for dividends	18,408	18,405
Interim dividend of 2.00p per Ordinary Share paid on 10 June 2011	(3,201)	(3,201)
Recommended final dividend payable on 6 January 2012 to Shareholders on the Register as at 9 December 2011 (ex dividend 7 December 2011)		
– Final dividend of 6.50p per Ordinary share	(10,406)	(10,406)
– Special dividend of 2.0p per Ordinary share	(3,201)	(3,201)
	1,600	1,597

### Directors

The Directors of the Company, all of whom were in office throughout the year under review, are listed on pages 20 and 21.

The beneficial interests of the current Directors and their connected persons in the securities of the Company as at 30 September 2011 are set out below:

In accordance with the recommendations of Principle 3 of the AIC's Code of Corporate Governance that the Directors of FTSE 350 companies should be subject to annual re-election by shareholders, all the members of the Board will retire at the forthcoming Annual General Meeting and, with the exception of Mr J M May, will offer themselves for re-election.

	Ordinary Shares 30/9/11	Ordinary Shares 1/10/10	Loan Stock 30/9/11	Loan Stock 1/10/10
PSS Macpherson	40,000	40,000	–	–
SAR Bates	20,000	20,000	–	–
RE Blomfield-Smith	3,100	3,100	–	–
JM May	6,900 <sup>†</sup>	6,900 <sup>†</sup>	–	–
AS Robson	2,800	1,800	–	–

<sup>†</sup>Includes a non-beneficial interest in 5,000 Ordinary Shares held in a Trust, of which Mr JM May is a Trustee, for the benefit of his children.

There were no changes to the above interests between the year end and the date of this report. Mr May was, until 30 September 2011, a Director of Caledonia Investments plc which at that date owned 12.99 per cent (30 September 2010: 16.95 per cent) of the Ordinary Shares of the Company. Except as noted here and on page 26, no Director was a party to or had an interest in any contract or arrangement with the Company.

### Subsidiary Companies

The Company owns one active dealing subsidiary, BEST Securities Limited. In the year to 30 September 2011, BEST Securities Limited made a loss after taxation of £2,698 (2010: loss £2,538).

Information on the appointment of Directors and their compensation for loss of office, as required by the Takeover Directive, is given on page 55.

## Report of the Directors

continued

### The Investment Manager

Asset Value Investors Limited is the Company's appointed Investment Manager ("Manager"), engaged under the terms of an Investment Management Agreement ("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 2011.

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. A performance fee at 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.

Company Secretarial services are provided by Phoenix Administration Services Limited (Phoenix) pursuant to an Agreement dated 17 December 2009, for a fee of £37,000 per annum. The Agreement with Phoenix continues until terminated by either party on giving not less than six months' written notice.

### 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 2011 and 31 October 2011 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 2011	Percentage held at 30 September 2011	Number held at 31 October 2011
Caledonia Investments plc	20,788,979	12.99	20,788,979
Funds managed by Brewin Dolphin Ltd	9,437,331	5.90	9,443,695
Alliance Trust Plc	7,200,896	4.50	7,183,200
Rothschild Bank AG	5,498,569	3.43	5,455,440
Legal & General Group Plc	5,416,767	3.38	5,433,305

### 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 10 - Authority to allot Shares

The Directors seek to renew the general and unconditional authority to allot up to 23,996,005 Ordinary Shares of 10p each, representing approximately 14.99 per cent of the issued Ordinary Share capital. The Directors would only exercise this authority if they considered it to be in the best interests of the Company generally.

#### Resolution 11 - 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 8,004,000 Ordinary Shares, being approximately 5 per cent of the Ordinary Shares 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 12 - Share Buy-Back Facility

The Directors seek to renew the authority to make market purchases of up to 23,996,005 Ordinary Shares (in accordance with the provisions of the Companies Act and Listing Rules) representing approximately 14.99 per cent of the issued Ordinary Share capital at the date of this Report. Ordinary Shares bought back may be held in treasury, up to a maximum of 10 per cent of the Ordinary Share capital then in issue, 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 2011 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 has elected not to designate a senior independent non-executive Director, as it considers that each Director has different strengths and qualities on which they may provide leadership,
- 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	<p>The Chairman, Mr PSS 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.</p>
2 A majority of the board should be independent of the manager	<p>At 30 September 2011, the Board consisted of five 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.</p> <p>Mr 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.</p> <p>Mr Macpherson and Mr Robson are both non-executive directors of JPMorgan Smaller Companies Investment Trust plc.</p> <p>Mr JM May was an executive director of Caledonia Investments plc during the period under review until he retired from Caledonia on 30 September 2011. Caledonia is a listed investment trust which has a large shareholding in the Company and Mr May was therefore considered by the Board to be non-independent during the period under review. Caledonia is also the largest shareholder in Close Brothers Group plc of which Mr Macpherson is Chairman.</p> <p>Mr Macpherson, Mr Robson and Mr May 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 and shareholdings compromise the ability or judgement of Mr Macpherson or Mr Robson as Directors of the Company nor compromised the ability or judgement of Mr May during the period under review.</p>
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.	<p>With effect from the forthcoming Annual General Meeting, all Directors will submit themselves for annual re-election by shareholders.</p> <p>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.</p>
4 The board should have a policy on tenure, which is disclosed in the annual report.	<p>The Board, meeting as the Nomination Committee, considers the structure of the Board and recognises the need for progressive refreshing of the Board.</p> <p>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.</p> <p>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.</p>

5 There should be full disclosure of information about the board

All 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

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 focussed on ensuring 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. Board evaluation questionnaires are completed by each Director. 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 the application of the dynamics and the interaction of Board members and contributors and effective use of Board meetings to achieve its objectives including the Board's strengths and weaknesses and identifying different methodologies to address risks and opportunities as they arose

Following the recent review undertaken by the Nomination Committee which discussed the recommendations of the independent review undertaken this year, the Board is satisfied from the results of the evaluation that the structure, mix of skills and operation of the Board continue to be satisfactory 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 55 and in note 3 to the Accounts

As all 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 but 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	<p>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.</p> <p>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.</p>
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
<b>Board Meetings and relations with the Investment Manager</b>	
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	<p>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.</p> <p>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.</p> <p>The Audit and Management Engagement Committees of the Board respectively, regularly review the Company's risk matrix and the performance and cost of the Company's third party service providers.</p>
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**

<b>AIC Code Principle</b>	<b>Compliance Statement</b>
15 The Board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company)	<p>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 set by the Board. 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.</p> <p>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.</p>
16 The Board should agree policies with the manager covering key operational issues	<p>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.</p> <p>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.</p> <p>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.</p> <p>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 <a href="http://www.assetvalueinvestors.com">www.assetvalueinvestors.com</a>.</p> <p>Reports on commissions paid by the Manager are submitted to each Board meeting.</p>
17 Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	<p>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.</p> <p>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.</p> <p>The Board reviews at each meeting reports from the investment manager's marketing department on marketing and shareholder communication strategies, and considers their effectiveness, as well as measures of investor sentiment and any recommendations on share buy-backs.</p>
18 The Board should monitor and evaluate other service providers	<p>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.</p> <p>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.</p>

## Report of the Directors

continued

### Shareholder Communications

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#### AIC Code Principle

#### Compliance Statement

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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 and the Directors welcome the views of all Shareholders and place considerable importance on communications with Shareholders.

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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 major corporate issues are discussed by the Board taking into account representations from the Manager, the Auditor, legal advisers, stockbroker and Company Secretary.

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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 the Notes to the Accounts.

The investment Portfolio is listed on pages 16 and 17.

The Company's website 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 comprises the independent Directors, Mr PSS Macpherson (Chairman), Mrs RE Blomfield-Smith, Mr SAR Bates and Mr AS Robson. 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 in the best interests of shareholders, and to monitor the Manager's compliance with the terms of the Management Agreement and its investment 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 in November 2011, 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 considered the AIC Code's Principle 3 that Directors should be submitted for re-election at regular intervals and that nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.

At a recent meeting, the Board, meeting as the Nomination Committee, considered the findings of the board evaluation which had been externally facilitated in July 2011 by an independent consultant. The Board evaluation considered the performance and contribution of each Director to the Board's deliberations and concluded that as a result of the extensive experience of each Director within the investment company sector each Director made a significant contribution to the Board and its management of the Company.

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 will retire and resolutions will be put to shareholders that, with the exception of Mr J M May, each Director, being eligible, be re-elected as a Director of the Company. Mr May will retire at the AGM and will not seek re-election.

#### Audit Committee

The Audit Committee meets at least twice each year and comprises the independent Directors, Mr AS Robson (Committee Chairman), Mr SAR Bates, Mrs RE Blomfield-Smith and Mr PSS Macpherson. 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 2011 was £17,000 (2010: £15,000) 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.

## Report of the Directors

continued

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.

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 specifies levels of authority and exposure limits and 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. Whilst the Company has no employees, is a minority shareholder in its underlying investments and invests in a variety of regions with varying degrees of political and corporate governance standards, which limits the extent to which it can influence environmental, social and community issues, the investment manager will take these factors into account as part of any investment decision. 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](http://www.assetvalueinvestors.com).

### Anti-Bribery and Corruption Policy

The Company had 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 annually 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 (2010: 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 which have been 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;
- 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](http://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

  
TR Smith  
for and on behalf of  
Phoenix Administration Services Limited  
Secretary  
11 November 2011

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

## Consolidated Statement of Comprehensive Income

of the Group for the year ended 30 September 2011

	Notes	2011 Revenue return £ 000	2011 Capital return £'000	2011 Total £ 000	2010 Revenue return £ 000	2010 Capital return £ 000	2010 Total £ 000
<b>Income</b>							
Investment income	2	25,929	-	25,929	19,535	-	19,535
(Losses)/gains on investments held at fair value	8	-	(91,472)	(91,472)	-	97,769	97,769
Gains on forward currency contracts							
held at fair value		-	-	-	-	1,952	1,952
Gains/(losses) on Equities Index Stock 2013							
held at fair value		-	145	145	-	(1,635)	(1,635)
Exchange losses on currency balances		-	(1,639)	(1,639)	-	(2,519)	(2,519)
		<b>25,929</b>	<b>(92,966)</b>	<b>(67,037)</b>	19,535	95,567	115,102
<b>Expenses</b>							
Investment management fee	3	(2,471)	(2,471)	(4,942)	(2,187)	(2,187)	(4,374)
Performance fee	3	-	-	-	-	(170)	(170)
Back VAT on management and performance fees	3	111	69	180	231	165	396
Other expenses (including irrecoverable VAT)	3	(1,194)	-	(1,194)	(1,114)	(1)	(1,115)
Profit/(loss) before finance costs and tax		<b>22,375</b>	<b>(95,368)</b>	<b>(72,993)</b>	16,465	93,374	109,839
Finance costs	4	(2,116)	(7)	(2,123)	(2,338)	(7)	(2,345)
<b>Profit/(loss) before taxation</b>		<b>20,259</b>	<b>(95,375)</b>	<b>(75,116)</b>	14,127	93,367	107,494
Taxation	5	(1,854)	11	(1,843)	(1,415)	8	(1,407)
<b>Profit/(loss) for the year</b>		<b>18,405</b>	<b>(95,364)</b>	<b>(76,959)</b>	12,712	93,375	106,087
<b>Earnings per Ordinary Share</b>	7	<b>11.50p</b>	<b>(59.57)p</b>	<b>(48.07)p</b>	7.94p	58.33p	66.27p

The Company did not have any income or expense that was not included in profit/(loss) for the year. Accordingly, the "Profit/(loss) for the year" is also the "Total comprehensive income for the year", as defined in IAS 1 (revised) and no separate Statement of Comprehensive Income 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 2011

	Ordinary share capital £'000	Capital redemption reserve £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
<b>Group</b>							
<b>For the year ended 30 September 2010</b>							
Balance as at 30 September 2009	16,008	2,927	28,078	622,927	41,406	23,842	735,188
Total comprehensive income for the year	-	-	-	93,375	-	12,712	106,087
Ordinary dividends paid (see note 6)	-	-	-	-	-	(9,604)	(9,604)
Special dividend paid (see note 6)	-	-	-	-	-	(2,001)	(2,001)
<b>Balance as at 30 September 2010</b>	<b>16,008</b>	<b>2,927</b>	<b>28,078</b>	<b>716,302</b>	<b>41,406</b>	<b>24,949</b>	<b>829,670</b>
<b>For the year ended 30 September 2011</b>							
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)	-	-	-	-	-	-	-
<b>Balance as at 30 September 2011</b>	<b>16,008</b>	<b>2,927</b>	<b>28,078</b>	<b>620,938</b>	<b>41,406</b>	<b>31,028</b>	<b>740,385</b>
<b>Company</b>							
<b>For the year ended 30 September 2010</b>							
Balance as at 30 September 2009	16,008	2,927	28,078	624,701	41,406	22,068	735,188
Total comprehensive income for the year	-	-	-	93,372	-	12,715	106,087
Ordinary dividends paid (see note 6)	-	-	-	-	-	(9,604)	(9,604)
Special dividend paid (see note 6)	-	-	-	-	-	(2,001)	(2,001)
<b>Balance as at 30 September 2010</b>	<b>16,008</b>	<b>2,927</b>	<b>28,078</b>	<b>718,073</b>	<b>41,406</b>	<b>23,178</b>	<b>829,670</b>
<b>For the year ended 30 September 2011</b>							
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)	-	-	-	-	-	-	-
<b>Balance as at 30 September 2011</b>	<b>16,008</b>	<b>2,927</b>	<b>28,078</b>	<b>622,706</b>	<b>41,406</b>	<b>29,260</b>	<b>740,385</b>

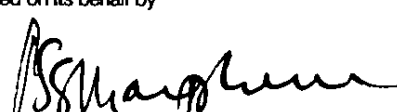
The accompanying notes are an integral part of the financial statements

## Consolidated and Company Balance Sheets

as at 30 September 2011

	Notes	Company		Group	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Non-current assets</b>					
Investments held at fair value through profit or loss	8	758,889	855,904	756,871	853,883
<b>Current assets</b>					
Other receivables	10	3,819	2,686	3,820	2,687
Cash and cash equivalents		5,660	6,018	5,662	6,020
		9,479	8,704	9,482	8,707
<b>Total assets</b>		<b>768,368</b>	<b>864,608</b>	<b>766,353</b>	<b>862,590</b>
<b>Current liabilities</b>					
Other payables	11	(6,238)	(4,356)	(4,223)	(2,338)
10 <sup>3</sup> / <sub>8</sub> per cent Debenture Stock 2011	12	–	(8,484)	–	(8,484)
<b>Total assets less current liabilities</b>		<b>762,130</b>	<b>851,768</b>	<b>762,130</b>	<b>851,768</b>
<b>Non-current liabilities</b>					
8 <sup>1</sup> / <sub>8</sub> per cent Debenture Stock 2023	12	(14,914)	(14,907)	(14,914)	(14,907)
Equities Index Stock 2013 held at fair value through profit or loss	12	(6,795)	(7,144)	(6,795)	(7,144)
Provision for deferred tax	13	(36)	(47)	(36)	(47)
<b>Net assets</b>		<b>740,385</b>	<b>829,670</b>	<b>740,385</b>	<b>829,670</b>
<b>Equity attributable to equity Shareholders</b>					
Ordinary share capital	14	16,008	16,008	16,008	16,008
Capital redemption reserve	15	2,927	2,927	2,927	2,927
Share premium	15	28,078	28,078	28,078	28,078
Capital reserve	15	622,706	718,073	620,938	716,302
Merger reserve	15	41,406	41,406	41,406	41,406
Revenue reserve	15	29,260	23,178	31,028	24,949
<b>Total equity</b>	16	<b>740,385</b>	<b>829,670</b>	<b>740,385</b>	<b>829,670</b>
<b>Net asset value per Ordinary Share – basic</b>	16	<b>462.51p</b>	<b>518.28p</b>	<b>462.51p</b>	<b>518.28p</b>
<b>Number of shares in issue</b>		<b>160,080,089</b>	<b>160,080,089</b>	<b>160,080,089</b>	<b>160,080,089</b>

The financial statements on pages 34 to 54 were approved by the Board of Directors and were authorised for issue on 11 November 2011 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 2011

	Notes	Company		Group	
		2011 £'000	2010 £'000	2011 £ 000	2010 £ 000
<b>Net cash inflow from operating activities</b>					
(Loss)/profit before taxation		(75,116)	107,494	(75,116)	107,494
(Gains)/losses on Equities Index Stock 2013 held at fair value		(145)	1,635	(145)	1,635
Realised exchange losses on currency balances		1,639	2,519	1,639	2,519
Losses/(gains) on investments held at fair value through profit or loss		91,475	(97,766)	91,472	(97,769)
Purchases of investments		(626,817)	(855,586)	(626,817)	(855,586)
Sales of investments		634,405	856,931	634,405	856,931
(Increase)/decrease in other receivables		(219)	1,694	(219)	1,694
Decrease in creditors		(322)	(2,139)	(319)	(2,136)
Taxation		(2,612)	(1,705)	(2,612)	(1,705)
Amortisation of Debenture issue expenses		7	7	7	7
<b>Net cash inflow from operating activities</b>		<b>22,295</b>	<b>13,084</b>	<b>22,295</b>	<b>13,084</b>
<b>Financing activities</b>					
Dividends paid	6	(12,326)	(11,605)	(12,326)	(11,605)
Buyback of Equities Index Stock 2013	12	(204)	(177)	(204)	(177)
Redemption of 10 <sup>3</sup> / <sub>8</sub> per cent Debenture Stock 2011	12	(8,484)	-	(8,484)	-
<b>Cash outflow from financing activities</b>		<b>(21,014)</b>	<b>(11,782)</b>	<b>(21,014)</b>	<b>(11,782)</b>
<b>Increase in cash and cash equivalents</b>		<b>1,281</b>	<b>1,302</b>	<b>1,281</b>	<b>1,302</b>
Exchange movements		(1,639)	(2,519)	(1,639)	(2,519)
<b>Change in cash and cash equivalents</b>		<b>(358)</b>	<b>(1,217)</b>	<b>(358)</b>	<b>(1,217)</b>
Cash and cash equivalents at beginning of year		6,018	7,235	6,020	7,237
<b>Cash and cash equivalents at end of year</b>	17	<b>5,660</b>	<b>6,018</b>	<b>5,662</b>	<b>6,020</b>

The accompanying notes are an integral part of the financial statements

## Notes to the Accounts

### 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>
IAS 24	Related Party Disclosures (revised 2009)	1 January 2011
IFRS 7	Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 9	Financial Instruments: Classification & Measurement	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interest in other Entities	1 January 2013
IFRS 13	Fair-Value Measurement	1 January 2013

#### (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. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010 (formerly Section 842 of the Income and Corporation Taxes Act 1988).

#### (e) Use of estimates

The preparation of financial statements requires the Group to make estimates and assumptions that affect items reported in the 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 Company'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 IPEV guidelines as described in note 1(f).

#### (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 by 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 (formerly section 842 of the Income and Corporation Taxes Act 1988) 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 International Private Equity and Venture Capital Valuation 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 Accounts

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

In accordance with IFRS recognition and measurement principles, the Equities Index Unsecured Loan Stock 2013 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 accruals 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 Stocks 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 £1,058,000

### (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 Equities Index Stock 2013,
- Amortisation of issue expenses,
- Exchange difference of a capital nature,
- Expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies, and

*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

<b>2. Income</b>	2011 £ 000	2010 £'000
<b>Income from investments</b>		
Listed investments	<b>25,788</b>	19,520
<b>Other income</b>		
Deposit interest	<b>11</b>	15
Interest received re VAT refunds on management fees	<b>130</b>	–
	<b>141</b>	15
<b>Total income</b>	<b>25,929</b>	19,535
<b>Income from investments:</b>		
Equity securities	<b>23,576</b>	17,094
Fixed interest securities	<b>2,212</b>	2,426
	<b>25,788</b>	19,520
<b>Total income comprises:</b>		
Dividends	<b>23,576</b>	17,094
Interest	<b>2,353</b>	2,441
	<b>25,929</b>	19,535

<b>3. Management fee and other expenses</b>	2011 Revenue return £ 000	2011 Capital return £'000	2011 Total £ 000	2010 Revenue return £ 000	2010 Capital return £ 000	2010 Total £'000
Management fee <sup>1</sup>	<b>2,471</b>	<b>2,471</b>	<b>4,942</b>	2,187	2,187	4,374
Performance fee	–	–	–	–	170	170
Back VAT on management fee (see note 19)	<b>(111)</b>	<b>(69)</b>	<b>(180)</b>	(231)	(165)	(396)
	<b>2,360</b>	<b>2,402</b>	<b>4,762</b>	1,956	2,192	4,148
<b>Other expenses</b>						
Directors' emoluments – fees	<b>120</b>	–	<b>120</b>	102	–	102
Auditor's remuneration – audit	<b>23</b>	–	<b>23</b>	19	–	19
– taxation	<b>9</b>	–	<b>9</b>	3	–	3
– other services to the Group	<b>8</b>	–	<b>8</b>	12	–	12
Marketing costs	<b>176</b>	–	<b>176</b>	202	–	202
Printing and postage costs	<b>73</b>	–	<b>73</b>	73	–	73
Registrar fees	<b>96</b>	–	<b>96</b>	92	–	92
Sub-custodian fees	<b>304</b>	–	<b>304</b>	257	–	257
Irrecoverable VAT	<b>91</b>	–	<b>91</b>	67	–	67
Other expenses	<b>294</b>	–	<b>294</b>	287	1	288
	<b>1,194</b>	–	<b>1,194</b>	1,114	1	1,115

<sup>1</sup>Net of the fee of £37,000 paid to Phoenix Administration Services Limited for company secretarial services

For the year ended 30 September 2011, 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 4.6639% to be carried forward for the period ending 30 September 2012.

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

## Notes to the Accounts

continued

### 4. Finance costs

	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000	2010 Revenue return £'000	2010 Capital return £'000	2010 Total £'000
Bank overdraft interest	-	-	-	10	-	10
Interest on other loans	2,116	-	2,116	2,328	-	2,328
Amortisation of Debenture issue expenses	-	7	7	-	7	7
	<b>2,116</b>	<b>7</b>	<b>2,123</b>	<b>2,338</b>	<b>7</b>	<b>2,345</b>

### 5. Taxation

	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000	2010 Revenue return £'000	2010 Capital return £'000	2010 Total £'000
<b>(a) Analysis of charge in year</b>						
Corporation tax	-	-	-	-	-	-
Foreign withholding tax	3,045	-	3,045	2,133	-	2,133
Overseas tax reclaimable	(1,185)	-	(1,185)	(718)	-	(718)
Prior year adjustment	(6)	-	(6)	-	-	-
<b>Total current tax for period (see note 5(b))</b>	<b>1,854</b>	<b>-</b>	<b>1,854</b>	<b>1,415</b>	<b>-</b>	<b>1,415</b>
Deferred tax	-	(11)	(11)	-	(8)	(8)
<b>Total deferred tax for year</b>	<b>-</b>	<b>(11)</b>	<b>(11)</b>	<b>-</b>	<b>(8)</b>	<b>(8)</b>
<b>Total tax for year</b>	<b>1,854</b>	<b>(11)</b>	<b>1,843</b>	<b>1,415</b>	<b>(8)</b>	<b>1,407</b>

### (b) Factors affecting current tax charge for the period

The tax assessed for the period is the standard rate of corporation tax in the UK for a large company 27%\* (2010: 28%)

	2011 £'000	2010 £'000
(Loss)/profit before tax	<b>(75,116)</b>	107,494
Corporation tax at 27%* (2010: 28%)	<b>(20,281)</b>	30,098
Effects of		
Capital losses/(gains) not subject to tax	<b>25,140</b>	(27,216)
Revaluation of Equities Index Stock 2013	<b>8</b>	8
Non-taxable UK dividends	<b>(43)</b>	(195)
Non-taxable overseas dividends	<b>(6,323)</b>	(4,591)
Overseas tax suffered	<b>1,860</b>	1,415
Movement in unutilised management expenses	<b>1,499</b>	1,896
Prior year adjustment	<b>(6)</b>	-
Movement in deferred tax	<b>(11)</b>	(8)
<b>Total tax charge for the period (note 5(a))</b>	<b>1,843</b>	1,407

\*Under the Finance Act 2011, the rate of Corporation Tax was lowered to 26% from 28% on 1 April 2011. An average rate of 27% is applicable for the year ended 30 September 2011.

## 6. Dividends

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 30 September 2010 of 5.70p (2009 – 4.20p) per Ordinary Share	9,125	6,723
Special dividend for the year ended 30 September 2010 of 0.00p (2009 – 1.25p) per Ordinary Share	–	2,001
Interim dividend for the year ended 30 September 2011 of 2.00p (2010 – 1.80p) per Ordinary Share	3,201	2,881
	<b>12,326</b>	11,605

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 2011 of 2.00p (2010 – 1.80p) per Ordinary Share	3,201	2,881
Proposed final dividend for the year ended 30 September 2011 of 6.50p (2010 – 5.70p) per Ordinary Share	10,406	9,125
Special dividend paid for the year ended 30 September 2011 of 2.00p (2010 – 0.00p) per Ordinary Share	3,201	–
	<b>16,808</b>	12,006

International Accounting Standard (IAS) 10 "Events after the Balance Sheet date" requires dividends to be recognised in the period in which they are paid or approved by shareholders

## 7. Earnings per Ordinary Share

	2011 Revenue	2011 Capital	2011 Total	2010 Revenue	2010 Capital	2010 Total
Basic	11.50p	(59.57)p	(48.07)p	7.94p	58.33p	66.27p

The total basic earnings per Ordinary Share is based on Group net losses for the financial year of £(76,959,000) (2010: profit £106,087,000) and on 160,080,089 (2010: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue 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 £18,405,000 (2010: £12,712,000) and on 160,080,089 (2010: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year

The basic capital earnings per Ordinary Share is based on Group net losses for the financial year of £(95,364,000) (2010: profit £93,375,000) and on 160,080,089 (2010: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year

## Notes to the Accounts

continued

### 8. Investments 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
<b>(a) Securities</b>					
Opening book cost	731,491	4,080	735,571	250	735,821
Opening investment holding gains	116,359	1,953	118,312	1,771	120,083
<b>Opening fair value</b>	<b>847,850</b>	<b>6,033</b>	<b>853,883</b>	<b>2,021</b>	<b>855,904</b>
Movements in the year					
Purchases at cost	629,021	–	629,021	–	629,021
Sales – proceeds	(634,561)	–	(634,561)	–	(634,561)
– realised gains on sales	65,079	–	65,079	–	65,079
Decrease in investment holding gains	(155,490)	(1,061)	(156,551)	(3)	(156,554)
<b>Closing fair value</b>	<b>751,899</b>	<b>4,972</b>	<b>756,871</b>	<b>2,018</b>	<b>758,889</b>
Closing book cost	791,030	4,080	795,110	250	795,360
Closing investment holding (losses)/gains	(39,131)	892	(38,239)	1,768	(36,471)
<b>Closing fair value</b>	<b>751,899</b>	<b>4,972</b>	<b>756,871</b>	<b>2,018</b>	<b>758,889</b>
				Group £'000	Company £'000
<b>(b) Losses on investments</b>					
Gains on sales of securities based on historical cost				65,079	65,079
Movement in investment holding losses for the year				(156,551)	(156,554)
Net losses on investments				(91,472)	(91,475)

### (c) Transaction costs

Investment transaction costs on purchases and sales of investments during the year to 30 September 2011 amounted to £743,000 and £615,000 respectively (2010: £823,000 and £708,000 respectively)

### 9. Subsidiary undertaking

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	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Sales for future settlement	156	–	156	–
Overseas tax recoverable	2,003	1,234	2,003	1,234
Prepayments and accrued income	1,506	1,308	1,506	1,308
VAT recoverable	7	12	7	12
Other debtors	147	132	148	133
	<b>3,819</b>	<b>2,686</b>	<b>3,820</b>	<b>2,687</b>

**11. Other payables**

	Company		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Purchases for future settlement	3,258	1,054	3,258	1,054
Amounts owed to subsidiary undertakings	2,017	2,020	–	–
Other creditors	963	1,282	965	1,284
	<b>6,238</b>	<b>4,356</b>	<b>4,223</b>	<b>2,338</b>

**12. Current and non-current liabilities: Debenture Stock and Equities Index Stock**

	Group and Company	
	2011 £'000	2010 £'000
10 <sup>3</sup> / <sub>8</sub> per cent Debenture Stock 2011	–	8,484
8 <sup>1</sup> / <sub>8</sub> per cent Debenture Stock 2023	14,914	14,907
Equities Index Stock 2013	6,795	7,144
	<b>21,709</b>	<b>30,535</b>

The movement on the 8<sup>1</sup>/<sub>8</sub> per cent Debenture Stock 2023 represents the amortisation of issue expenses. The market value of the Debenture Stock as at 30 September 2011 was £18.4 million (2010: £29.4 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 8<sup>1</sup>/<sub>8</sub> per cent Debenture Stock 2023 as at 30 September 2011 was 122.50p.

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

In accordance with the provisions of the Trust Deed governing the Debenture Stock, on 2 July 2011 the Company repaid the principal amount outstanding of the 10<sup>3</sup>/<sub>8</sub> per cent Debenture Stock at par to stockholders on the register at the close of business on 24 June 2011, together with accrued interest for the 6 months to 2 July 2011.

During the year, 80,000 (2010: 77,703) units of Index Stock were bought back by the Company for cancellation, at an average price of 255.00p (2010: 227.59p) per unit, leaving 2,426,754 (2010: 2,506,754) units in issue at the year end. The consideration paid was £204,000 (2010: £176,847).

The mid-market price of the Index Stock as at 30 September 2011 was 255.00p.

## Notes to the Accounts

continued

### 13. Provision for deferred tax

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

	Group and Company	
	2011 £'000	2010 £'000
<b>Provided</b>		
In respect of the origination and reversal of temporary differences	(11)	(8)
The movement in the provision for deferred taxation is as follows		
Opening balance	47	55
Charge to capital account	(11)	(8)
<b>Closing balance</b>	<b>36</b>	<b>47</b>
	2011 £'000	2010 £'000
The deferred tax provision is made up as follows		
Equities Index Unsecured Loan Stock 2013	36	47

### 14. Called-up share capital

	Group and Company	
	2011 and 2010 Shares	2011 and 2010 £'000
Ordinary Shares of 10p each		
<b>Authorised</b>	<b>245,000,000</b>	<b>24,500</b>
<b>Allotted, called-up and fully paid:</b>		
At 30 September 2011 and 30 September 2010	<b>160,080,089</b>	<b>16,008</b>

**15. Reserves**

	Capital redemption reserve £'000	Share premium account £ 000	Capital reserve £ 000	Merger reserve £ 000	Revenue reserve £'000
<b>Group</b>					
At 1 October 2010	2,927	28,078	716,302	41,406	24,949
Exchange losses	-	-	(1,639)	-	-
Losses on investments held at fair value	-	-	(91,472)	-	-
Gains on Index Stock	-	-	145	-	-
Amortisation of Debenture issue expenses	-	-	(7)	-	-
Management fee charged to capital	-	-	(2,471)	-	-
Back VAT due to capital	-	-	69	-	-
Deferred tax charge to capital	-	-	11	-	-
Ordinary dividends paid	-	-	-	-	(12,326)
Revenue profit for the year	-	-	-	-	18,405
<b>At 30 September 2011</b>	<b>2,927</b>	<b>28,078</b>	<b>620,938</b>	<b>41,406</b>	<b>31,028</b>
<b>Company</b>					
At 1 October 2010	2,927	28,078	718,073	41,406	23,178
Exchange losses	-	-	(1,639)	-	-
Losses on investments held at fair value	-	-	(91,475)	-	-
Gains on Index Stock	-	-	145	-	-
Amortisation of Debenture issue expenses	-	-	(7)	-	-
Management fee charged to capital	-	-	(2,471)	-	-
Back VAT due to capital	-	-	69	-	-
Deferred tax charge to capital	-	-	11	-	-
Ordinary dividends paid	-	-	-	-	(12,326)
Revenue profit for the year	-	-	-	-	18,408
<b>At 30 September 2011</b>	<b>2,927</b>	<b>28,078</b>	<b>622,706</b>	<b>41,406</b>	<b>29,260</b>

## Notes to the Accounts

continued

### 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	
	2011 p	2010 p
Ordinary Shares (basic)	<b>462.51</b>	518.28

	Net asset value attributable Group and Company	
	2011 £'000	2010 £'000
Ordinary Shares (basic)	<b>740,385</b>	829,670

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

	2011 Ordinary Shares (basic) £'000	2010 Ordinary Shares (basic) £'000
Total net assets attributable at beginning of year	<b>829,670</b>	735,188
Total comprehensive income for the year	<b>(76,959)</b>	106,087
Dividends appropriated in the year	<b>(12,326)</b>	(11,605)
<b>Net assets attributable at end of year</b>	<b>740,385</b>	829,670

Basic net asset value per Ordinary Share is based on net assets and on 160,080,089 (2010 160,080,089) Ordinary Shares being the number of Ordinary Shares in issue at the year end

At the year end the net asset value per Share adjusted to include the Debenture Stock at market value rather than par was 460.35p (2010 514.56p)

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

	At 1 October 2010 £'000	Cash flow £'000	Exchange movement £'000	At 30 September 2011 £'000
<b>Group</b>				
Cash at bank and on deposit	6,020	1,281	(1,639)	5,662
<b>Company</b>				
Cash at bank and on deposit	6,018	1,281	(1,639)	5,660

## 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 the Company's Investment Manager consider and review the number of risks inherent in managing the Group's assets which are detailed below

Currency exposure	Sterling £'000	Euro £'000	CAD £'000	US\$ £'000	Other £'000	Total £'000
<b>At 30 September 2011</b>						
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)
8 <sup>1</sup> / <sub>8</sub> per cent 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

## Notes to the Accounts

continued

	Sterling £'000	Euro £'000	JPY £'000	US\$ £'000	Other £'000	Total £'000
<b>At 30 September 2010</b>						
Investments held at fair value through profit or loss that are monetary items	138,212	-	-	36,217	-	174,429
Other receivables	466	807	236	558	620	2,687
Cash and cash equivalents	6,019	-	-	-	1	6,020
Other payables	(1,888)	-	-	-	(450)	(2,338)
10 <sup>3</sup> / <sub>8</sub> per cent Debenture Stock 2011	(8,484)	-	-	-	-	(8,484)
8 <sup>1</sup> / <sub>8</sub> per cent Debenture Stock 2023	(14,907)	-	-	-	-	(14,907)
Equities Index Unsecured Loan Stock 2013	(7,144)	-	-	-	-	(7,144)
Provision for deferred tax	(47)	-	-	-	-	(47)
Currency exposure on net monetary items	112,227	807	236	36,775	171	150,216
Investments held at fair value through profit or loss that are equities	64,734	253,067	20,645	119,664	221,344	679,454
Total net currency exposure	176,961	253,874	20,881	156,439	221,515	829,670

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 accounts 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 2011.

Over the year sterling strengthened against the Group's principal investing currencies, the Euro by 0.59% (2010: 5.49%) and the Canadian Dollar by 0.42% (2010: weakened by 5.83%), but weakened against the Group's remaining principal currency, the US Dollar by 1.14% (2010: 1.48%).

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 £32,447,000 or 4.38% (2010: £32,636,000 or 3.93%).

### 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 Index Stock 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 2011 £'000	At 30 September 2010 £'000
Exposure to floating interest rates.		
Cash and cash equivalents	5,662	6,020
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 £57,000 or 0.04p per share (2010: £60,000 or 0.04p per share)		
Exposure to fixed interest rates.		
Investments held at fair value through profit or loss	87,133	174,429
10% per cent Debenture Stock 2011 (fair value based on market prices)	–	(9,044)
8 1/8 per cent Debenture Stock 2023 (fair value based on market prices)	(18,375)	(20,310)
	<b>68,758</b>	<b>145,075</b>

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 0.86% (2010: 3.32%)

The Company's fixed income portfolio at the year end was valued at £87,133,000 (2010: £174,429,000) and it had a modified duration (interest rate sensitivity) of approximately 0.43 years (2010: 7.79 years). A 1% increase/decrease in relevant market interest rates would be expected to decrease/increase the portfolio's value by approximately £239,000 (2010: £13,586,000), all other factors being equal.

The fair value of the Company's debenture stock at the year end was £18,375,000 (2010: £29,354,000) and it had a modified duration (interest rate sensitivity) of approximately 7.3 years (2010: 5.5 years). A 1% increase/decrease in LIBOR would be expected to decrease/increase the fair values of the debenture stock by approximately £1,349,000 (2010: £1,627,000), 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 £75,687,000 or 47.28p per Ordinary Share (2010: £85,388,000 or 53.34p 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 £679,000 or 0.42p per Ordinary Share (2010: £714,000 or 0.45p 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.

## Notes to the Accounts

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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 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)
	<b>(5,442)</b>	<b>(8,050)</b>	<b>(1,219)</b>	<b>(25,666)</b>	<b>(40,377)</b>

	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 4 years but not more than 13 years £'000	Total £'000
At 30 September 2010					
10¾ per cent Debenture Stock 2011	(9,144)	-	-	-	(9,144)
8½ per cent Debenture Stock 2023	(1,219)	(1,219)	(1,219)	(26,885)	(30,542)
Equities Index Unsecured Loan Stock 2013	-	-	(7,144)	-	(7,144)
Other payables	(2,338)	-	-	-	(2,338)
Deferred tax	-	(47)	-	-	(47)
	<b>(12,701)</b>	<b>(1,266)</b>	<b>(8,363)</b>	<b>(26,885)</b>	<b>(49,215)</b>

### 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 £9,482,000 (2010 £8,707,000). Further details of the Group's credit exposure can be found within note 10 to the accounts.

### 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).

	2011		2010	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
10¾ per cent Debenture Stock 2011	-	-	(8,484)	(9,044)
8½ per cent Debenture Stock 2023	(14,914)	(18,375)	(14,907)	(20,310)

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 International Private Equity and Venture Capital Valuation 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 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
	<b>745,412</b>	<b>6,487</b>	<b>4,972</b>	<b>756,871</b>

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)
	<b>(6,795)</b>	<b>–</b>	<b>–</b>	<b>(6,795)</b>

Financial assets at fair value through profit or loss at 30 September 2010	Level 1 £ 000	Level 2 £ 000	Level 3 £'000	Total £ 000
Equity investments	666,675	6,746	6,033	679,454
Fixed interest bearing securities	174,429	–	–	174,429
	<b>841,104</b>	<b>6,746</b>	<b>6,033</b>	<b>853,883</b>

Financial liabilities at fair value through profit or loss at 30 September 2010	Level 1 £ 000	Level 2 £'000	Level 3 £'000	Total £'000
Equities Index Unsecured Loan Stock 2013	(7,144)	–	–	(7,144)
	<b>(7,144)</b>	<b>–</b>	<b>–</b>	<b>(7,144)</b>

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	2011 £ 000	2010 £'000
Opening fair value	6,033	4,404
Purchases at cost	–	–
Sales proceeds	–	(2,007)
Total gains or losses included in gains on investments in the Consolidated Statement of Comprehensive Income		
– on sold assets	–	1,712
– on assets held at the end of the year	(1,061)	1,924
Closing fair value	<b>4,972</b>	<b>6,033</b>

Level 3 valuations comprise investments held at Directors' valuation

## Notes to the Accounts

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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. For the current period to 30 September 2011, £179,975 has been recovered and shown within these financial statements. This has been allocated £110,901 as revenue and £69,074 as capital within the Consolidated Statement of Comprehensive Income in line with VAT previously written-off on investment management and performance fees previously charged.

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 2011 the Group had no financial commitments (2010: £nil)

At 30 September 2011 the Group had no contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2010: £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 £4,942,000 (2010: £4,374,000) and the performance fee for the year was £nil (2010: £170,000 of which £26,000 related to 2009 performance fee)

As at the year end, the following amounts were outstanding in respect of management fees: £412,000 (2010: £365,000) and performance fees: £nil (2010: £144,000)

At 30 September 2011 the Group had a contingent liability pursuant to an Indemnity given to Caledonia Investments Limited (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, against any amounts of VAT (including any interest or penalties) for which 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)

## 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:

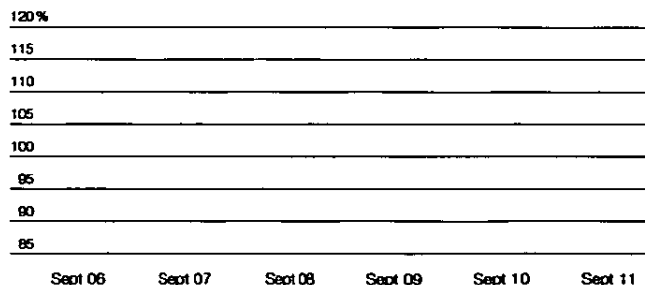
	2011 £'000	2010 £'000
PSS Macpherson – Chairman	31.9	27.0
AS Robson	24.8	21.0
SAR Bates	21.2	18.0
RE Blomfield-Smith	21.2	18.0
JM May	21.2	18.0
	<b>120.3</b>	<b>102.0</b>

### Sums paid to Third Parties (audited information)

The director's fee of £21,240 (2010: £18,000) payable to Mr JM 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 2011



British Empire  
Morningstar Investment Trust Global Growth Index

By order of the Board

TR Smith  
for and on behalf of  
Phoenix Administration Services Limited  
Secretary  
11 November 2011

## 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 2011 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 20. 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 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 2011 and of the Group's loss 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

11 November 2011

## Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Twenty Second 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 15 December 2011 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 2011 together with the Reports of the Directors and the Auditor
- 2 To approve a final Ordinary Dividend of 6.5 pence per Ordinary Share
- 3 To approve a Special Dividend of 2.0 pence per Ordinary Share
- 4 To re-elect Mr Strone Macpherson as a Director of the Company
- 5 To re-elect Mr Steven Bates as a Director of the Company
- 6 To re-elect Mrs Rosamund Blomfield-Smith as a Director of the Company
- 7 To re-elect Mr Andrew Robson as a Director of the Company
- 8 To re-appoint Ernst & Young LLP as the Company's Auditor and authorise the Directors to determine the Auditor's remuneration
- 9 To receive and adopt the Directors' Remuneration Report

### Special Business

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

- 10 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 23,996,005 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 2012, 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.

- 11 THAT, subject to the passing of resolution 10 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 8,004,000 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 2012, 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
- 12 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 23,996,005,
  - (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 save that the maximum number of Ordinary Shares held in treasury shall not exceed 10 per cent of the issued Ordinary Share capital of the Company at any time,

## Notice of Annual General Meeting

continued

- (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



TR Smith  
for and on behalf of  
Phoenix Administration Services Limited  
Secretary

Springfield Lodge,  
Colchester Road,  
Chelmsford, Essex CM2 5PW  
11 November 2011

### 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 13 December 2011.

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](http://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 13 December 2011.

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

#### 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 13 December 2011 (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 11 November 2011 the Company's issued share capital consisted of 160,080,089 Ordinary Shares, carrying one vote each. Therefore, the voting rights in the Company as at 11 November 2011 equate to a total of 160,080,089 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](http://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 13 December 2011. 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.

## Notice of Annual General Meeting

continued

### 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 accounts (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 accounts 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](http://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](http://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 2011/2012

15 December 2011	Annual General Meeting
• January 2012	Final and Special Dividend paid on Ordinary Shares
• May 2012	Announcement of half year results
• May 2012	Posting of Half Year Report
• June 2012	Interim Dividend paid on Ordinary Shares
• November 2012	Announcement of annual results
• November 2012	Posting of Annual Report
• December 2012	Annual General Meeting

## Advisers

### 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

Winterlood 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