British Assets Trust plc

Annual Report and Accounts

2014

F&C Investments

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The Association of Investment Companies

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your Ordinary Shares in British Assets Trust plc, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Company Summary

The Company

The Company is an investment trust. Its shares are listed on the Official List of the UK Listing Authority and are traded on the main market of the London Stock Exchange. The Company is a member of The Association of Investment Companies ('AIC') and is a constituent of the AIC Global Equity & Income sector.

Total assets less current liabilities at 30 September 2014 were £486.4 million.

Objective

The Company's current investment objective is to achieve a total return in excess of a composite index, weighted as to 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index, by investing principally in a diversified international portfolio of equities and equity-related securities. Within this overall objective, the Company aims to deliver dividend growth which will be dependent upon, inter alia, the rate of revenue growth within the investment portfolio and the level of dividend cover.

Investment Policy

The Company's current and proposed investment policies are contained within the Business Model and Strategy on pages 8 to 11.

Management

Throughout the year, the Company's investment managers were F&C Investment Business Limited (referred to throughout this document as 'the Managers'), a wholly owned subsidiary of F&C Asset Management plc ('F&C'). Details of the management contract are provided in note 3 to the Accounts.

F&C is a wholly owned subsidiary of Bank of Montreal ('BMO') and is part of BMO Global Asset Management.

As described in the Chairman's Statement on pages 4 to 7, since the end of the year the Board has announced proposals to change the Company's investment objective and policy and to appoint BlackRock Fund Managers Limited as the Company's investment manager. Full details of the proposals are set out in the circular which has been posted to shareholders with the Annual Report and which will be available from the Company's websites.

Capital Structure

The Company's capital structure consists solely of Ordinary Shares. Details are provided on page 56 and in note 13 to the Accounts.

Website

The Company's website address is
www.british-assets.co.uk or www.britishassetstrust.co.uk

Highlights for the Year

- Net asset value total return of 6.6 per cent
- Share price total return of 6.3 per cent
- Benchmark total return of 7.3 per cent
- Discount at the year end of 3.8 per cent (on an ex-income NAV with debt at market value basis)
- Dividend increase of 3.0 per cent
- Dividend yield of 4.8 per cent based on the year-end share price
- On 30 October 2014 the Board announced important proposals regarding the future of your Company:
    - Firstly, to seek shareholder approval to change the Company's existing investment objective and policy to a new investment objective and policy which is set out within the separate shareholder circular;
    - Secondly, to appoint BlackRock Fund Managers Limited ('BFM') as the Company's new investment manager; and
    - Thirdly, to seek shareholder approval to implement a tender offer.
- Assuming the proposals receive the necessary shareholder support, the Company will be re-named BlackRock Income Strategies Trust plc to reflect the Board's commitment to income generation for shareholders as part of delivering a total portfolio return of UK Consumer Price Index ('CPI') + 4 per cent per annum (before ongoing charges) over the medium term (5 to 7 years), as well as the range of approaches that will be deployed to achieve these outcomes.
- The Board believes that the proposed changes represent a unique opportunity to transform the Company into a strongly differentiated and relevant vehicle focused on delivering a highly attractive offering in the rapidly changing lifetime savings and pensions market.

Performance Summary

	30 September 2014	30 September 2013	% change
Total Return (note 1)			
Net asset value (note 2)	**6.6%**	15.2%	
Ordinary Share price	**6.3%**	15.6%	
Composite index (note 3)	**7.3%**	19.0%	
FTSE All-Share Index	**6.1%**	18.9%	
FTSE World (ex UK) Index	**12.5%**	19.2%	
Capital Values			
Net asset value per Ordinary Share	**147.5p**	144.5p	2.1%
Ordinary Share price	**134.0p**	132.0p	1.5%
Revenue and Dividends			
Revenue per Ordinary Share	**7.0p**	6.6p	6.1%
Dividends per Ordinary Share	**6.440p**	6.2522p	3.0%
Dividend Yield	**4.8%**	4.7%	
Discount – Basic (note 4)	**9.2%**	8.7%	
– Debt adjusted (note 5)	**6.5%**	6.3%	
– Debt adjusted (note 6)	**3.8%**	3.9%	
Gearing – Net of cash (note 7)	**14.9%**	16.7%	
– Equity gearing (note 8)	**3.4%**	3.9%	
Ongoing Charges (as a percentage of net asset value)	**0.65%**	0.70%	

Notes

1 All total return calculations are based on dividends reinvested.

2 Net asset value total return is calculated as the total return attributable to an Ordinary Share. It assumes that dividends paid to shareholders are re-invested in the net asset value.

3 Composite index of 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index.

4 Net asset value (UK GAAP) with debt at par.

5 Net asset value (UK GAAP) adjusted to reflect market value of debt.

6 Net asset value (non-UK GAAP, ex-income NAV) adjusted to reflect market value of debt.

7 Gearing net of cash: (Investments – Shareholders' Funds) ÷ Shareholders' Funds.

8 Equity gearing: (Equity Investments – Shareholders' Funds) ÷ Shareholders' Funds.

Sources: F&C Investment Business, AIC, Datastream, and Fundamental Data.

Chairman's Statement

Lynn Ruddick Chairman

Overview

Since the year-end your Board has proposed some important changes. On 30 October 2014, following a review of the new opportunities that we expect to be created by the rapidly changing environment for the UK savings and pension market, and to recognise what we believe shareholders of British Assets value most, we have decided to do the following:-

- Firstly, to seek shareholder approval to change the Company's existing investment objective and policy to a new multi-asset investment objective and policy;
- Secondly, to appoint BlackRock Fund Managers Limited as the Company's new investment manager; and
- Thirdly, to seek shareholder approval to implement a tender offer.

Your Board believes that these proposals are attractive for all shareholders, including investors through the F&C Savings Plans, for the following reasons:

- The new investment policy will continue to offer an attractive level of income. We expect to continue paying dividends at least at the current level of 6.44 pence per share per annum and to grow the dividend in line with inflation.
- The focus of the Company will be on delivering greater capital stability than an equity only portfolio, with an objective of achieving a total portfolio return of UK Consumer Price Index ('CPI') + 4 per cent per annum (before ongoing charges) over the medium term (five to seven years).
- The Board has selected the highly-rated BlackRock multi-asset team which currently manages over £15 billion of assets and is very well positioned to manage the Company's portfolio and deliver the returns we intend for shareholders. BlackRock is the world's largest fund manager and has a strong performance track record, brand and reputation.
- As part of our strategy to improve liquidity in the Company's shares, the Board intends to enable any shareholders who wish to sell their shares at a price close to Net Asset Value to do so by implementing a tender offer prior to 31 August 2015 for up to 20 per cent of shares in issue at that time (excluding any shares held in treasury) at a 2 per cent discount to the cum income Net Asset Value per share (with debt at market value) less costs and expenses. This tender offer is subject to shareholder approval.
- The Board believes that the new investment policy, combined with BlackRock's investment management and marketing expertise, should result in higher demand for the shares which will, in turn, lead to a re-rating of the shares by narrowing towards zero the current discount to Net Asset Value. Your Board believes that it is in the best interests of all our shareholders that the Company's shares trade at a price as close as possible to their underlying cum income Net Asset Value per Share (with debt at market value) ("NAV"). In normal market conditions and

following the Tender Offer, the Board intends to purchase and issue/re-issue shares in the market to ensure that Shares trade as close as possible to their underlying NAV on a consistent basis. To support this strategy, the Company is seeking to renew the shareholder authority to purchase and issue/re-issue Shares at the forthcoming Annual General Meeting.

- There will be no change to the management fee paid and therefore BlackRock will be paid an annual management fee of 0.4 per cent on the value of the Company's total assets less current liabilities (excluding loans).

We are very excited by this opportunity for the Company and believe that the proposed changes represent a unique opportunity to transform the Company into a strongly differentiated and relevant vehicle focused on delivering a highly attractive product offering in the rapidly changing lifetime savings and pensions market. We are encouraged by the positive investor and market reaction to the proposals. These proposals represent a material change in the investment objective and policy and therefore require shareholder approval. The Board strongly recommends these Proposals to shareholders.

Details of the Proposals are contained in the separate circular to shareholders which accompanies this Annual Report. A copy of the circular is also available at www.britishassetstrust.co.uk or www.british-assets.co.uk. As this Annual Report covers the financial period ending 30 September 2014 we have not included details of the Proposals in it. Resolutions relating to the Proposals will be put to shareholders at a separate General Meeting which will be held immediately after the Annual General Meeting on 26 February 2015.

We strongly recommend that all shareholders read the accompanying circular and seek independent financial advice in relation to the Proposals given the material changes which are being proposed. Shareholders will find enclosed Forms of Proxy to enable you to vote at both the Annual General Meeting and General Meeting. F&C Savings Plan holders will find enclosed Voting Direction Forms to enable you to vote at both the Annual General Meeting and General Meeting.

Assuming the Proposals receive the necessary shareholder support, it is intended that the Board will resolve to re-name the Company BlackRock Income Strategies Trust plc to reflect our commitment to income generation for shareholders as part of delivering a total portfolio return of CPI + 4 per cent per annum (before ongoing charges) over the medium term (5 to 7 years), as well as the range of approaches that will be deployed to ensure these outcomes are achieved.

The Board would like to place on record its sincere appreciation for the services and commitment that F&C has provided over many years as your investment manager.

Performance

Our net asset value total return of 6.6 per cent for the year ending 30 September 2014 was an acceptable level of absolute return although it fell short of the total return of 7.3 per cent from the composite benchmark (80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index).

Over the last 1, 3, 5 and 10 years total return performance vs benchmark has been as set out in the table below. The three months to December 2014 are also shown:–

Years to 30 September 2014, % pa	BAT NAV Total Return	Composite Benchmark Total Return
3 months to 31/12/14	(0.7)	1.4
1 year	6.6	7.3
3 years	13.0	14.4
5 years	8.9	10.0
10 years	7.1	8.4

Earnings and Dividends

The Company's revenue earnings for the year amounted to 7.0 pence per share (2013: 6.6 pence per share).

Chairman's Statement (continued)

The Company's ongoing charges for the year were 0.65 per cent of shareholders' funds (2013: 0.70 per cent).

A first quarterly interim dividend of 1.485 pence per share was paid on 11 April 2014, and second and third quarterly interim dividends of 1.530p per share were paid on 11 July and 10 October 2014 respectively. On 25 November 2014, the Board declared a fourth and final quarterly interim dividend of 1.895 pence per share which will be paid on 30 January 2015 to shareholders on the register on 30 December 2014. This brings the total dividends for the year to 6.440 pence per share, representing an increase of 3.0 per cent as compared to the total dividends for the year ended 30 September 2013 of 6.2522 pence per share.

The new investment policy will continue to offer an attractive level of income. We expect to continue to pay dividends at least at the current level of 6.440 pence per annum and to grow the dividend in line with inflation.

Gearing

At the end of the year, the Company's level of gearing, net of cash, was 14.9 per cent. This was represented by 3.4 per cent of equity gearing and 11.5 per cent in corporate bonds.

The Company's borrowings currently comprise £60 million 6.25 per cent Bonds which are due for redemption in 2031, and a £50 million bank facility which matures in March 2016. The bank facility was put in place in March 2013 to replace the previous £60 million facility which matured at that time. The new facility includes terms which are typical for a facility of this nature, and the principal covenants are similar to those previously in place. £20.0 million of the bank facility was drawn down at the end of the year.

Discount Control Policy

No shares were bought back by the Company in the financial year ended 30 September 2014. Since the year-end the Company has acquired 1.0 million shares on 14 October 2014 which are now held in Treasury.

As explained in more detail in my Overview at the beginning of this statement, following the Tender Offer the Board intends to purchase and issue shares so that in normal market conditions the Company's shares trade at a price close to their underlying Net Asset Value on a consistent basis.

Board Composition

All of the Directors are standing for re-election at the Annual General Meeting. For the last four years I have been a director of another investment company managed by BlackRock and therefore in accordance with the rules of the UK Listing Authority I will step down as your Chairman. Subject to re-election by shareholders, I will remain a Director of the Company. James Long will become the new Chairman and Ian Russell will become the Chairman of the Audit Committee.

F&C Savings Plan Holders

Given the proposed changes to the Company and irrespective of the outcome of the vote to change the investment policy it is the Board's intention to move the management of the Company's assets to BlackRock and, as a consequence, the Company's shares, will cease to qualify for inclusion within the F&C Savings plan with effect from 30 April 2015. A letter from F&C to all its plan holders is included with the Annual Report setting out the available options for your shareholding in the Company. Details may also be obtained from the Company's website at www.britishassetstrust.co.uk or www.british-assets.co.uk.

The Company's shares will now be available to be held in the BlackRock Investment Trust Stocks & Shares ISA and/or Savings Plan. Should you wish to transfer, we have arranged for holders within the F&C plans (except holders of Child Trust Funds and Junior ISAs) to transfer their holding easily and free of charge to BlackRock and have enclosed a reply paid form to enable you to register your interest in transferring your Shares to the BlackRock Investment Trust Stocks & Shares ISA and/or Savings Plan.

Holders who have questions in relation to the BlackRock savings plans can call the related help desk number on freephone 0800 44 55 22 and find information on the Company's website www.britishassetstrust.co.uk.

Annual General Meeting

The Annual General Meeting will be held at Drapers' Hall, Throgmorton Street, London EC2N 2AN on Thursday 26 February 2015 at 10.30am. It will include a presentation from Adam Ryan of BlackRock who will manage the portfolio in the event that the Proposals are approved. This is an excellent opportunity for shareholders to meet both the Board and the proposed investment managers.

The notice of Annual General Meeting is contained on pages 59 to 62 and a Form of Proxy is enclosed separately with the Annual Report. Shareholders who are unable to attend the Meeting are encouraged to complete and return their forms so as to ensure that their votes are represented.

Invitations to the Meeting are included separately with the Annual Report and shareholders who would like to attend are requested to complete and return these to the Company Secretary.

Investment Outlook

Global economic growth will likely remain positive but muted over the next three to six months. However this masks considerable disparity amongst regions and even countries, as US and UK momentum continues whilst continental Europe and certain emerging economies face headwinds. It remains difficult to see where inflationary pressures may emerge and, consequently, it is expected that monetary policy will remain accommodative. Even in economies where growth is pushing down unemployment, policy makers remain reluctant to increase interest rates amid fears that sentiment remains fragile. This backdrop should continue to be supportive of risk assets, such as equities and corporate bonds, provided companies are able to produce decent earnings growth to support valuations which are no longer cheap.

The consensus among central banks to support growth via asset purchase programmes and fiscal stimulus will likely start to fracture as policy makers in the US and UK anticipate rate rises. On the continent, renewed deflationary fears support continued action although the European Central Bank has thus far stopped short of full-on quantitative easing. Recent Japanese GDP figures disappointed those who believed Prime Minister Abe's "Three Arrows" policies to be having a stimulative effect and it is likely that further structural reform is needed to sustain growth. Finally, in China – one of the mainstays of global demand in recent years – growth is slowing as the economy adjusts from being export-led to one more driven by domestic consumption. Against this background of mixed growth, it should also be noted that sentiment over the next six months will also be dominated by oil as OPEC production continues despite a near 50 per cent price drop in price. At the same time, geopolitical tension in Eastern Europe and the Middle East will continue to affect market performance.

It is the Board's view that the proposed new investment approach is better suited to such a market environment. The proposed Investment Manager will be allowed greater asset allocation flexibility to better preserve capital and grow the dividend during such periods of uncertainty, and a wider set of investment tools with which to deliver our desired performance outcomes for our shareholders.

Lynn Ruddick
Chairman
15 January 2015

Business Model and Strategy

Introduction

The Company carries on business as an investment trust. Its Ordinary Shares are traded on the main market of the London Stock Exchange.

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate and gearing strategy, corporate governance procedures and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 19. Four of the Directors are men and one is a woman. The Company has no employees.

Throughout the year, the Company's investment managers were F&C Investment Business Limited ('the Managers'). A summary of the terms of the management agreement is contained in note 3 to the accounts.

On 30 October 2014 the Board announced important proposals regarding the future of the Company. The proposals seek to enable the Company to capitalise on the opportunities the Board expects to be created by the rapidly changing UK savings and pension market, and recognising what the Board believes the shareholders of the Company value most. The Board has therefore decided to do the following:

- Firstly, to seek shareholder approval to change the Company's existing investment objective and policy to a new investment objective and policy which is set out within the circular which has been posted to shareholders with the Annual Report;

- Secondly, to appoint BlackRock Fund Managers Limited ('BFM') as the Company's new investment manager and AIFM; and

- Thirdly, to seek shareholder approval to implement a tender offer.

The proposals are subject to shareholder approval at a General Meeting of the Company to be held at 11am on 26 February 2015 (or such later time as the Annual General Meeting to be held at 10.30am has been concluded).

Additional details on the proposals are set out in the circular which has been posted to shareholders with the Annual Report and which is also available on the Company's website (www.britishassetstrust.co.uk).

Assuming the proposals receive the necessary shareholder support, the Company will be re-named BlackRock Income Strategies Trust plc to reflect the Board's commitment to income generation for shareholders as part of delivering a total portfolio return of CPI + 4 per cent per annum (before ongoing charges) over the medium term (5 to 7 years), as well as the range of approaches that will be deployed to achieve these outcomes.

Current Investment Strategy

The Company's current investment strategy is set out in its objective and investment policy as set out below.

Current Objective

The Company's investment objective is to achieve a total return in excess of a composite index, weighted as to 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index, by investing principally in a diversified international portfolio of equities and equity-related securities. Within this overall objective, the Company aims to deliver dividend growth which will be dependent upon, inter alia, the rate of revenue growth within the investment portfolio and the level of dividend cover.

Current Investment Policy

The Company invests worldwide in companies which the Managers believe will generate a combination of long-term growth in capital and income for shareholders.

The Company has not set maximum exposures for any geographical regions or sectors. However, the greater part of the Company's investments will normally be UK equities. The Company also invests in other countries or regions and in corporate bonds. It would normally be expected that most of the Company's investments will be equities and equity-related securities (including corporate bonds). However, the Company is not prohibited from investing in other types of securities. No individual company exposure in the portfolio may exceed 10 per cent of the Company's total assets at the time of investment. The Company will not normally invest more than one per cent of its total assets in unlisted securities at the time of investment.

No more than 10 per cent of the Company's total assets may be invested in aggregate in other listed closed-ended investment companies unless such investment companies themselves have published investment policies to invest no more than 15 per cent of their total assets in other closed-ended investment companies, in which case the limit is 15 per cent.

The Company may use derivatives, principally, but not exclusively, to enhance portfolio returns (of a capital or income nature) and efficient portfolio management, that is, to reduce, transfer or eliminate risk in its investments, including protection against currency risks, or to gain exposure to a specific market.

The Company uses gearing to enhance income and capital returns over the long term and may borrow in sterling or other currencies. The Company's Articles of Association contain a borrowing limit equal to the value of its adjusted total of capital and reserves. However, equity gearing (see definition on page 3) would not normally be expected to exceed 20 per cent of shareholders' funds. The principal financial covenants relating to the Company's borrowings are disclosed in notes 11 and 12 to the accounts.

Proposed Changes to Investment Strategy

Proposed Objective

The proposed objective is, over the medium term (5 to 7 years), to aim to preserve capital in real terms and grow the dividend in line with inflation. The current composite benchmark will be removed and the Company will target a total portfolio return of UK Consumer Price Index ('CPI') plus 4 per cent per annum (before ongoing charges), over a five to seven year cycle.

Proposed Investment Policy

The new policy will be to follow a multi-asset approach. The current intention is to invest approximately 40 per cent of the portfolio into UK equity income stocks and approximately 60 per cent of the portfolio on a tactical asset allocation basis.

Full details of the proposed investment objective and policy are set out in the circular which has been posted to shareholders with the Annual Report and which is also available on the Company's website (www.britishassetstrust.co.uk).

Gearing

Under the proposals it is the Board's intention to retain the existing 6.25 per cent Bonds which mature in 2031.

Change of Manager

In addition to the proposed change to investment objective and policy, the Board has resolved to appoint BlackRock Fund Managers Limited ('BFM') as the Company's AIFM to provide it with discretionary portfolio management and risk management services.

The Company's portfolio will be managed by Adam Ryan, head of the BlackRock Diversified Strategies Team which currently manages over £15 billion. Adam has over 20 years of fund management experience and joined Merrill Lynch Investment Managers (predecessor to BlackRock) in 1999. He was previously with Goldman Sachs and Credit Suisse and graduated from Cambridge University in 1991.

BlackRock's appointment will become effective upon termination of the Company's existing investment management arrangements with F&C. It is expected that the appointment of BlackRock will become effective on or around 27 February 2015.

There will be no change in the management fee arrangements and therefore BlackRock will be paid an annual management fee of 0.4 per cent on the value of the Company's total assets less current liabilities (excluding loans). The Company will retain the right to terminate the investment management agreement on six months' notice.

Business Model and Strategy (continued)

Under the terms of the existing investment management agreement, F&C is entitled to six months' notice. Notice to terminate the existing investment management agreement was served on F&C on 29 October 2014 and BlackRock has agreed with the Company to meet any compensation payable to F&C in respect of the balance of its notice period, subject to BFM being appointed as the Company's AIFM.

The Company will notify the market at such time of the termination, expected to be on or around 27 February 2015, of the existing investment management arrangements and, subject to shareholder approval of the new investment objective and policy, at the same time the Board will also resolve to change the Company's name to BlackRock Income Strategies Trust plc and change the registered office of the Company.

Proposals for Discount Control Policy and Tender Offer

The Board believes that the combination of this new investment policy, combined with BlackRock's relevant expertise, should result in higher demand for the Company's shares which will, in turn, lead to a re-rating of the shares by narrowing the current discount to net asset value. In addition, following the tender offer (described below), the Board also intends to use share buy backs (and issues) so that in normal market conditions the market price of the Company's shares will trade close to its underlying cum income net asset value per Share (including debt at market value). To support this strategy the Board is seeking shareholder authority at the forthcoming Annual General Meeting to buy back Shares.

The Board recognises the value for shareholders of ensuring liquidity in the Company's shares by issuing new shares, re-issuing treasury shares and buying back shares. As part of the strategy to improve liquidity, the Board intends to enable any shareholders who wish to sell their shares at a price close to net asset value to do so by implementing a tender offer prior to 31 August 2015 for up to 20 per cent of shares in issue (excluding any shares held in treasury) at a two per cent discount to the cum income net asset value per share (debt at market value) less costs and expenses. This tender offer is subject to shareholder approval.

The proposals are subject to, amongst other things, obtaining the necessary legal, tax and regulatory clearances as well as shareholder approvals.

Managers' Investment Strategy

The current investment strategy employed by the Managers in meeting the investment objective focuses on active stock selection. The selection of individual holdings is based on analysis of, amongst other things, market positioning, competitive advantage, financial strength and cashflows. The weighting of individual investments reflects the Managers' conviction in those holdings and their aggregate views on asset allocation, including between UK and overseas equities, corporate bonds, cash and gearing. In implementing this strategy the Managers are cognisant of the Company's requirement for an above average level of investment income.

Investment of Assets

At each Board meeting, the Board considers compliance with the Company's investment policy and other investment restrictions during the reporting period. An analysis of the portfolio at 30 September 2014 is contained in note 9 to the accounts and in the Managers' Review on pages 12 to 15. The 50 largest investments are shown on pages 16 and 17.

Responsible Ownership

The Managers take a particular interest in corporate governance and sustainable business practices. This includes the integration of environmental, social and governance issues into its investment decisions. As stated within the Corporate Governance Statement on pages 25 and 26 all shareholdings are voted at all meetings worldwide where practicable. The Managers engage with companies on corporate governance matters to encourage good practice. This includes engagement on significant social and environmental issues where these may impact shareholder value.

The Managers' current policy is available on its website www.fcamplc.com. The Board supports the Managers on their voting policy and their stance towards environmental, social and governance issues. The Managers' statement of compliance with the UK Stewardship Code is included on the website www.fandc.com/ukstewardshipcode.

Principal Risks and Uncertainties and Risk Management

As stated within the Report of the Audit Committee on pages 28 to 30, the Board applies the principles detailed in the internal control guidance issued by the Financial Reporting Council, and has established an ongoing process designed to meet the particular needs of the Company in managing the risks and uncertainties to which it is exposed.

The principal risks and uncertainties faced by the Company are described below and in note 18 which provides detailed explanations of the risks associated with the Company's financial instruments.

- Market – the Company's fixed assets consist almost entirely of listed securities and it is therefore exposed to movements in the prices of individual securities and the market generally.
- Investment and strategic – incorrect investment strategy, asset allocation, stock selection and the use of gearing could all lead to poor returns for shareholders.
- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties, or a qualified audit report. Loss of investment trust status could lead to the Company being subject to tax on capital gains.
- Operational – failure of the Managers' accounting systems or disruption to its business, or that of other third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.
- Financial – inadequate controls by the Managers or other third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations. Breaching bond and loan covenants or being unable to replace maturing borrowing facilities could lead to a loss of shareholders' confidence and financial loss for shareholders.

The Board seeks to mitigate and manage these risks through continual review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's investment portfolio. Investment risk is spread through holding a wide range of securities in different countries and industrial sectors. The Managers monitor investment risk and the Board receives quarterly risk reports.

Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are as follows:

- Net asset value total return per share against the benchmark index.
- Discount of share price to net asset value per share.
- Revenue earnings and dividends per share.
- Ongoing charges as a percentage of the Company's net asset value.

The Company's performance against the key performance indicators is reported within the Performance Summary on page 3, the Chairman's Statement on pages 4 to 7 and the Managers Review on pages 12 to 15. A historical record of these indicators is contained in the Ten Year Record on page 56.

The Chairman's Statement on pages 4 to 7, Managers' Review on pages 12 to 15, Investment Portfolio on pages 16 and 17, and Classification of Investments on page 18 all form part of this Strategic Report.

By order of the Board
F&C Investment Business Limited
Secretary
80 George Street
Edinburgh EH2 3BU
15 January 2015

Managers' Review

In view of the changes to the management arrangements being proposed by the Board, our report focuses solely on a review of the past year.

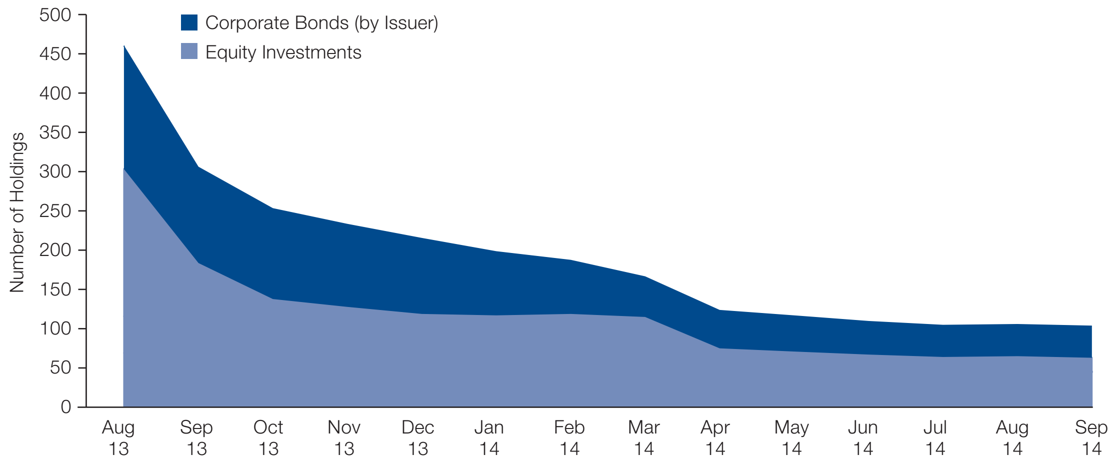
Introduction

The Company's net asset value total return for the year was 6.6 per cent. The total return from the benchmark (weighted as to 80 per cent of the FTSE All-Share Index and 20 per cent of the FTSE World (ex UK) Index) was 7.3 per cent.

The revised investment management approach described in the 2013 Annual Report and again in the Interim Report earlier this year was progressively implemented through the period. This phased change in process was largely completed by the end of the third quarter of the financial year.

The Company's equity investments are now invested as a single portfolio, with a significantly reduced number of holdings as illustrated below. These equity positions have continued to be complemented by a corporate bond portfolio, held principally to supplement the Company's income requirements.

Number of Holdings



Source: F&C Investment Business

At the year-end, the portfolio comprised 61 equity investments (30 September 2013: 176, 30 September 2012: 349) and 76 corporate bond holdings (30 September 2013: 212, 30 September 2012: 268). The thirty largest investments at the year-end represented 64.1 per cent of the portfolio (30 September 2013: 54.1 per cent, 30 September 2012: 46.0 per cent).

Having increased the dividend in 2013 the Board again felt able to increase the Company's dividend distribution in 2014. The increase of 3.0 per cent for the year provided shareholders with a yield of 4.8 per cent at the year end. This distribution is more than covered by the net revenues generated in the year and supported by the Company's strong revenue reserves.

Market Review

The global economy made modest, but positive, progress during the year despite the impact of the cold weather in the US in the spring, very subdued economic activity in Europe and the ongoing moderation of the rate of economic growth in China. As shown in the table below, this translated to a positive year for equity markets.

Stockmarket Total Returns – Year to 30 September 2014	£	Local Currency
FTSE All-Share Index	6.1%	6.1%
FTSE World (ex UK) Index	12.5%	16.2%

Source: Datastream

The liquidity provided by central banks has generally supported share prices and dampened equity market volatility. The unrest in the Ukraine and the Middle East, the troubling Ebola epidemic in Africa and, closer to home, the Scottish independence referendum and ensuing changes in the UK political landscape could all have unsettled markets far more than they have hitherto.

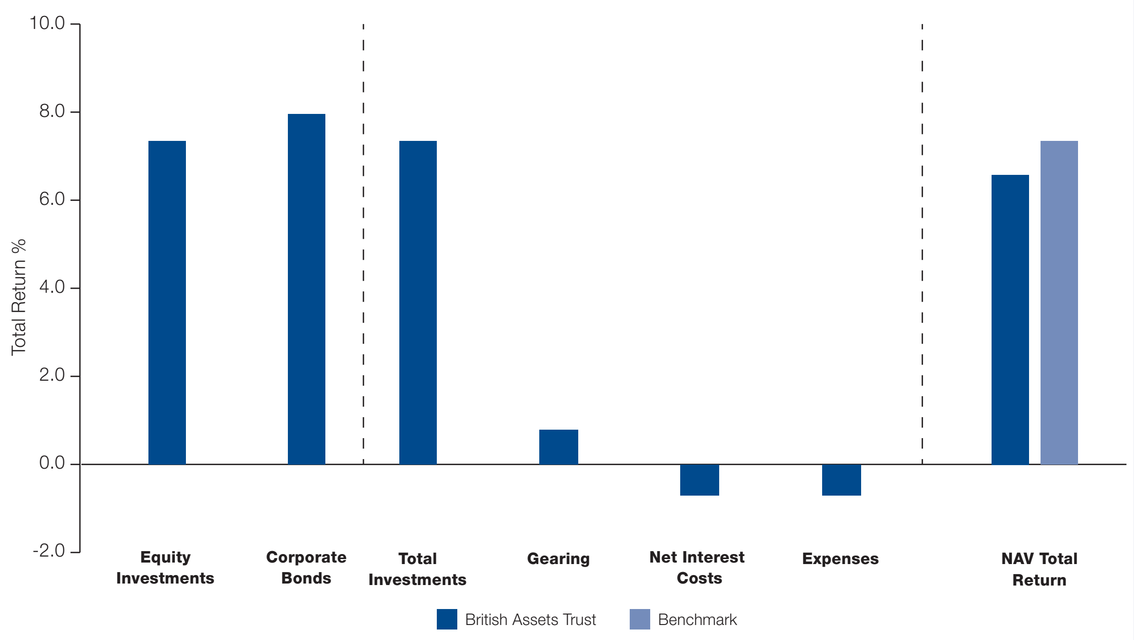
Positive market returns were generated during the year despite only mediocre earnings growth, which did not meet initial expectations. For investors in the UK stock market, with a large proportion of profits being generated overseas, the impact of modest global economic growth was amplified by the strength of sterling against the other major currencies, resulting in a reduction in reported profit growth.

Commodity markets were soft, particularly in the second half of the year, as slowing demand in China and Europe coincided with an abundant supply in the oil and iron ore markets in particular.

Many companies have used their balance sheet strength to embark on mergers, divestment and acquisition activity, at both the divisional and corporate level. Excess capital also continues to be returned to shareholders via buybacks and special dividends (which, as noted below, were a feature of the Company's income for the year).

Performance

Indicative Factors Impacting Returns



Source: F&C Investment Business

We have focused the Company's equity holdings in a concentrated portfolio of businesses that we consider to be of good quality and where their operations are competitively advantaged within their industries, enabling them to earn (or where we believe they will soon be able to earn) an attractive economic return.

Our approach towards the corporate bond portfolio, which represented 10.0 per cent of the overall portfolio at the end of the year, has also evolved, with more concentrated positions that reflect our fundamental views on the quality of the individual bonds, whilst seeking an attractive income.

As disclosed in note 9 to the accounts the implementation of this approach has led to higher levels of portfolio turnover during the year, with transaction costs incurred of £1.5 million, or 0.35 per cent of the Company's net assets. This compares to transaction costs of £1.0 million in each of the previous two financial years.

Managers' Review (continued)

Asset Allocation

Asset Allocation					
		30 September 2014		30 September 2013	
Asset Class	Benchmark 30.09.14 %	Share-holders' Funds %	Total Assets %	Share-holders' Funds %	Total Assets %
UK Equities	**80.0**	**74.6**	**62.9**	**78.1**	**65.0**
International Equities					
– Developed Americas	12.1	12.0	10.1	6.7	5.6
– Developed Europe	3.6	9.0	7.6	8.3	6.9
– Japan	1.8	3.1	2.6	0.8	0.7
– Other Developed	0.6	0.5	0.4	0.4	0.3
Emerging Markets Equities	1.9	4.2	3.6	9.6	8.0
Total Overseas Equities	**20.0**	**28.8**	**24.3**	**25.8**	**21.5**
Total Equities	**100.0**	**103.4**	**87.2**	**103.9**	**86.5**
Corporate Bonds	–	11.5	9.7	12.8	10.6
Net Current Assets	–	–	3.1	–	2.9
Gearing*	–	(14.9)	–	(16.7)	–
Total	**–**	**100.0**	**100.0**	**100.0**	**100.0**

*comprising equity gearing of 3.4 per cent (2013: 3.9 per cent) and 11.5 per cent in corporate bonds (2013: 12.8 per cent)

The outcome of the changes described above has been a greater exposure to holdings listed outside the UK than the composite benchmark index. This reflected the strength of conviction of individual positions and an, as yet unsubstantiated, belief that the domestic UK economic recovery was somewhat more fragile than commentators would have us believe. This was beneficial for the portfolio, with positive aggregate contributions from equities in each broad geographic region outside the UK – returns from equities listed in the UK were below benchmark.

The modest allocation to US listed companies at the beginning of the year was increased as the year progressed. This was achieved initially by reducing European exposures after their excellent performance in the first half of the year, and then latterly through reducing the Company's exposure to emerging markets.

These allocations and appropriately timed changes broadly benefitted performance, accompanied by a positive contribution from international equity stock selection.

The performance of the Company's UK listed equities has been mixed. Positioning in larger and mid-market capitalisation stocks, which constitute the majority of the UK listed equities, added value.

These positives were offset, however, by the significant underperformance of a small number of UK listed smaller companies. They were held in the belief they were on the cusp of demonstrating their operating profit potential but, whether through issues with the execution of their strategies or changes in the market environment in which they operate, this has not occurred.

In aggregate, the UK smaller capitalisation holdings, despite only being a modest percentage of the overall portfolio, had a sufficiently negative impact on performance to offset the positive contributions elsewhere. We have exited those positions where confidence in the investment case has waned. The Company's exposure to smaller companies (those with a market capitalisation of less than £500 million) at the year-end was £18.9 million (2013: £30.7 million), representing 4.3 per cent of the equities portfolio.

In terms of performance within sectors, our holdings in the insurance sector performed well, with shares in Direct Line being the biggest overall contributor to performance as it reduced operating costs, rationalised its non-core portfolio and returned the excess capital this generated back to shareholders through special dividends. Life assurance stocks such as Aegon and Prudential also added value over the year, as did the Company's holding in speciality insurer Amlin.

Technology investments, not a traditional hunting ground for income portfolios, such as Laird in the UK and US bell-weathers Intel and Microsoft, have all generated strong returns. Each has had changes in management in the past two years and the new teams are focussing on improving their respective competitive positions, aided by the modestly improving global economic backdrop.

In the pharmaceutical sector, holdings in Sanofi, Novartis and, towards the end of the year, Abbvie, all performed solidly. Not having significant exposures to AstraZeneca or indeed any shares in Shire Pharmaceuticals, which were both subject to (ultimately unsuccessful) corporate approaches, was detrimental to benchmark relative performance during the year.

The Company's corporate bond holdings generally performed well, slightly exceeding the total return performance of the equity benchmarks. As we have consolidated and increased the yield from the portfolio, holdings in the financial sector have been reduced, with a commensurate increase in higher yielding, non-sterling (the foreign exchange risk is hedged back into sterling) denominated bonds.

With only a modestly positive year for equity markets, the benefits of equity gearing were offset by the interest cost incurred. Equity gearing at the year-end was 3.4 per cent.

Revenue Account

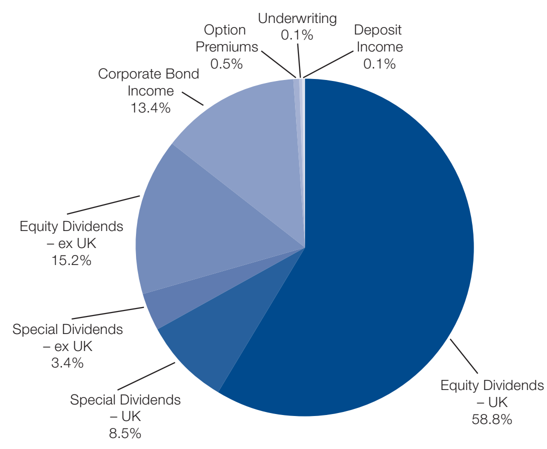
During the year the Company earned net revenues of £20.3 million which comfortably covered the dividend cost of £18.3 million. The surplus of £2.0 million has been transferred to the Company's revenue reserve. That reserve now stands at £35.5 million.

The majority of the Company's income was earned from the ordinary equity dividends of its investee companies. However, the revenue account also benefitted from a larger than normal quantum of special dividends during the year. Whilst some of these distributions, such as the special dividend received from Vodafone (on the disposal of its stake in Verizon Wireless), were treated as capital, the Company recognised £2.8 million of special dividends as income.

This dividend income was supplemented by the income from the corporate bond portfolio as well as income earned from writing options. The Company earned far less from option premiums during the year compared to the previous year, as we viewed the returns on offer as unattractive whilst levels of market volatility (which have a direct impact on the returns we can generate) remained so low.

A full summary of income earned by the Company during the year is contained in the chart below and in note 2 to the accounts.

Sources of Income



Source: F&C Investment Business

Outlook

The Directors' outlook for the Company and financial markets is contained in the Chairman's Statement.

F&C Investment Business Limited
Investment Manager

15 January 2015

Investment Portfolio

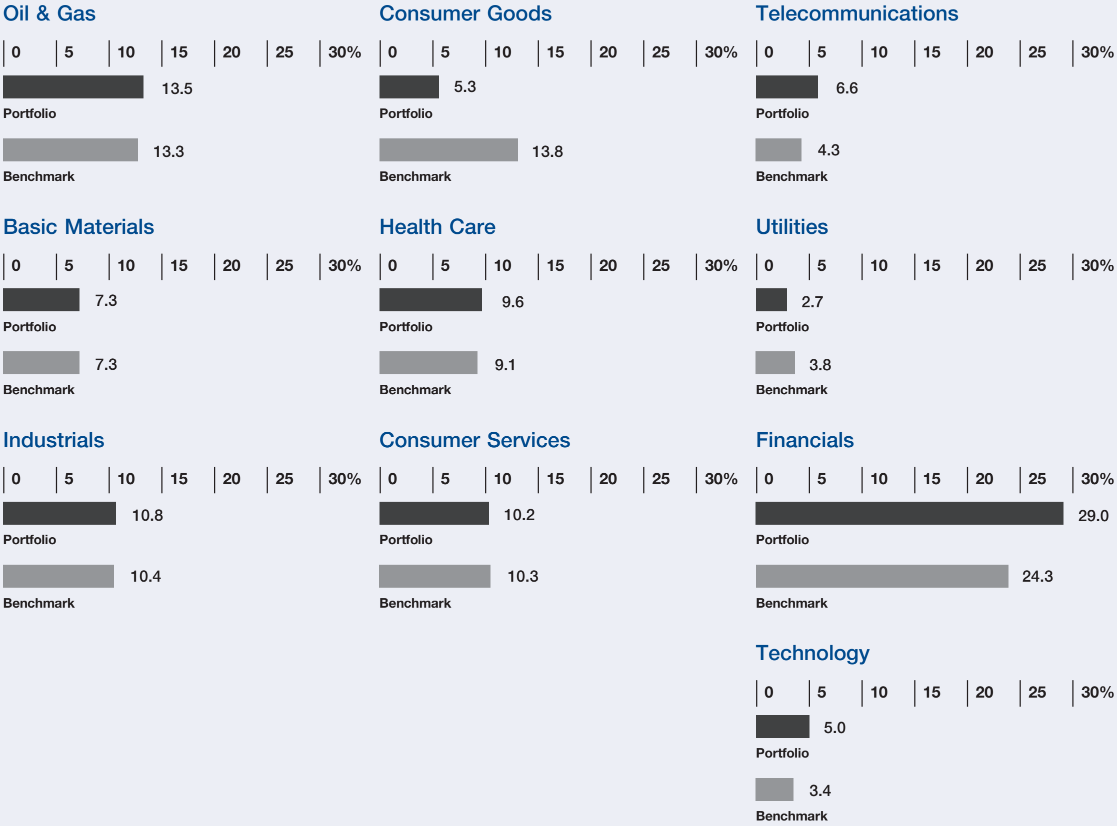
Company	Sector	Valuation £'000	% of Total Invest-ments	Country of listing	2013 Valuation £'000
HSBC provides a comprehensive range of banking and related financial services on a global basis.	Financials	25,282	5.2	UK	11,338
BAE Systems is a global defence, aerospace and security company.	Industrials	16,809	3.4	UK	7,103
Royal Dutch Shell is one of the world's largest integrated oil and gas companies.	Oil & Gas	16,504	3.3	UK	13,450
Total is one of the world's largest integrated oil and gas companies.	Oil & Gas	16,033	3.3	France	4,462
Rio Tinto is a multinational metals and mining company.	Basic Materials	15,543	3.2	UK	10,177
Prudential is a life insurance and financial services company.	Financials	15,091	3.1	UK	10,024
Barclays provides a comprehensive range of banking and related financial services on a global basis.	Financials	14,781	3.0	UK	7,981
GlaxoSmithKline is involved in the research, manufacture and sale of pharmaceuticals.	Health Care	12,692	2.6	UK	20,276
BP is one of the world's largest integrated oil and gas companies.	Oil & Gas	12,242	2.5	UK	11,470
British Sky Broadcasting is a satellite broadcasting, on-demand internet streaming media, broadband and telephone services company.	Media	10,137	2.0	UK	n/a
Ten largest investments		**155,114**	**31.6**		**96,281**

Company	Sector	Valuation £'000	% of Total Investments	Country of listing
Microsoft	Information Technology	9,437	1.9	USA
Vodafone	Telecommunications	9,244	1.9	UK
Sanofi	Health Care	9,072	1.8	France
Inmarsat	Telecommunications	8,756	1.8	UK
WPP	Media	8,636	1.8	UK
BHP Billiton	Industrials	8,573	1.8	UK
Abbvie	Health Care	8,551	1.7	USA
Legal & General	Financials	8,355	1.7	UK
Freeport McMoran	Basic Materials	8,056	1.7	USA
Lloyds Banking Group	Financials	7,973	1.6	UK
Twenty largest investments		**241,767**	**49.3**	
Informa	Consumer Services	7,877	1.6	UK
Ashmore Group	Financials	7,698	1.6	UK
Japan Tobacco	Consumer Goods	7,650	1.6	Japan
IG Group	Financials	7,602	1.6	UK
Direct Line Insurance	Financials	7,437	1.5	UK
British American Tobacco	Consumer Goods	7,156	1.5	UK
CRH	Industrials	7,050	1.4	UK
Novartis	Health Care	6,984	1.4	Switzerland
Verizon Communications	Telecommunications	6,621	1.3	USA
Occidental Petroleum	Oil & Gas	6,525	1.3	USA
Thirty largest investments		**314,367**	**64.1**	
Aegon	Financials	6,398	1.3	UK
National Grid	Electricity	6,347	1.3	UK
Pearson	Consumer Services	6,200	1.3	UK
General Electric	Industrials	6,003	1.2	USA
Intel	Technology	5,907	1.2	USA
Greenko	Utilities	5,671	1.1	UK
Industrial & Commercial Bank of China	Financials	5,437	1.1	Hong Kong
Komatsu	Industrials	5,432	1.1	Japan
Compass	Consumer Services	5,385	1.1	UK
Hunting	Oil & Gas	5,355	1.1	UK
Forty largest investments		**372,502**	**75.9**	
Premier Farnell	Financials	5,342	1.1	UK
Intermediate Capital	Financials	5,229	1.1	UK
AstraZeneca	Health Care	4,768	1.0	UK
China Overseas Land & Investment	Financials	4,735	1.0	Hong Kong
BT Group	Telecommunications	4,673	0.9	UK
Amlin	Financials	4,581	0.9	UK
Laird	Technology	4,558	0.9	UK
ICICI Bank	Financials	4,282	0.9	India
Doric Nimrod	Industrials	3,899	0.8	UK
GKN	Consumer Goods	3,801	0.8	UK
Fifty largest investments		**418,370**	**85.3**	
Other equity investments (11)		**23,018**	**4.7**	
Corporate bonds (76)		**49,302**	**10.0**	
Total investments		**490,690**	**100.0**	

Classification of Investments

	United Kingdom £'000	Developed Americas £'000	Developed Europe £'000	Japan £'000	Other Developed £'000	Emerging Markets £'000	**2014 Total £'000**
Sector Weighting – Equities							
Oil & Gas	36,971	6,525	16,033	–	–	–	**59,529**
Basic Materials	24,116	8,056	–	–	–	–	**32,172**
Industrials	36,032	6,002	–	5,432	–	–	**47,466**
Consumer Goods	13,649	–	–	7,649	2,076	–	**23,374**
Health Care	17,460	8,551	16,056	–	–	–	**42,067**
Consumer Services	41,523	–	–	–	–	3,671	**45,194**
Telecommunications	22,673	6,621	–	–	–	–	**29,294**
Utilities	12,018	–	–	–	–	–	**12,018**
Financials	107,167	–	6,398	–	–	14,454	**128,019**
Technology	6,911	15,344	–	–	–	–	**22,255**
Total	318,520	51,099	38,487	13,081	2,076	18,125	**441,388**
Corporate Bond Portfolio	30,231	7,712	11,359	–	–	–	**49,302**
Total Investments	348,751	58,811	49,846	13,081	2,076	18,125	**490,690**
% of Total Investments	71.1	12.0	10.1	2.7	0.4	3.7	**100.0**

Equity portfolio weighting (% total equity investments) versus Benchmark Index



Board of Directors

Lynn Ruddick †‡
Chairman
was appointed as a Director on 1 October 2004 and Chairman on 17 December 2009. She is Chairman of Fidelity Special Values plc, a non-executive director of BlackRock Frontiers Investment Trust plc and Standard Life UK Smaller Companies Trust plc, a member of the Investment Committee of The Pearson Group Pension Plan, and Chairman of the WPA Pension Scheme and the Scottish & Newcastle Pension Scheme. She was previously a Managing Director of Merrill Lynch Investment Managers where she headed the company's investment trust business unit.

Jim Grover *†‡
was appointed on 25 June 2013. He was, until June 2013, Group Strategy Director of Diageo plc and a member of its Executive Committee. He is a senior adviser to KPMG's Consumer Markets team.

James Long, TD *†‡
Chairman of the Audit Committee
was appointed on 1 May 2006. He was formerly Director of Risk and Compliance for AstraZeneca Europe, Corporate Finance Director of Inchcape plc and Managing Director, Asia and Emerging Markets, for the ESAB Group. He is Chairman of JPMorgan Asian Investment Trust plc.

Ian Russell *†‡
was appointed on 1 June 2008. He was formerly Chief Executive of Scottish Power plc. He is currently non-executive Chairman of Johnston Press plc, Remploy Ltd, and the Advanced Power AG advisory board, a non-executive director of British Polythene Industries plc, The Mercantile Investment Trust plc, and HICL Infrastructure Company Limited, and an adviser to the Clyde Bergemann Power Group.

Jimmy West †‡
Senior Independent Director
was appointed on 22 June 1995 and was formerly a Managing Director of Lazard Brothers and Co Ltd and Chief Executive of Lazard Asset Management Ltd. He is Chairman of New City High Yield Fund Ltd and a non-executive director of JPMorgan Income & Capital Trust plc, Aberdeen Smaller Companies High Income Trust plc and Threadneedle UK Select Trust plc. He is Chairman of Associated British Foods Pension Fund Ltd.

* Member of the Audit Committee
† Member of the Management Engagement Committee
‡ Member of the Nomination Committee

Report of the Directors

The Directors submit the Annual Report and Accounts of the Company for the year ended 30 September 2014.

Results and Dividends

The results for the year are set out in the attached accounts.

A first interim dividend of 1.485p per Ordinary Share was paid on 11 April 2014. Second and third interim dividends, each of 1.530p per Ordinary Share, were paid on 11 July and 10 October 2014 respectively. A fourth and final interim dividend for the year of 1.895p per Ordinary Share will be paid on 30 January 2015 to shareholders on the register at close of business on 30 December 2014. This brings the total dividends for the year to 6.440p per Ordinary Share, an increase of 3.0 per cent compared to the previous year's dividends of 6.2522p per Ordinary Share.

Principal Activity and Status

The Company (company number: SC3721) is a public limited company and an investment company in terms of the Companies Act 2006.

The Company carries on business as an investment trust and has been approved as such by HM Revenue & Customs.

Capital Structure

The Company's capital structure is set out on page 56.

Directors

Biographical details of the Directors, all of whom are non-executive, can be found on page 19. James MacLeod retired as a Director on 27 January 2014. There were no other changes to the composition of the Board during the year.

As explained in more detail in the Corporate Governance Statement on page 25, the Board has agreed that all Directors will retire annually. Accordingly, all five Directors will retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on page 24, the performance of each of the Directors seeking re-election continues to be effective and demonstrates commitment to the role. The Board therefore believes that it is in the interests of shareholders that these Directors be re-elected.

No Director has a contract of service with the Company or any interest in any contract to which the Company is a party. In addition to any power of removal conferred by the Companies Acts, the Company may by special resolution remove any Director without notice.

Directors' Deeds of Indemnity

The Company has entered into deeds of indemnity in favour of each of the Directors. The deeds give each Director the benefit of an indemnity to the extent permitted by the Companies Act 2006 against liabilities incurred by any of them in the execution of their duties and the exercise of their powers. A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

Conflicts of Interest

Each Director has a statutory duty to avoid a situation where he or she has, or could have, a direct or indirect interest which conflicts, or may conflict, with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised by the Board in accordance with the Company's Articles of Association.

The Board has approved a protocol for identifying and dealing with conflicts and conducts a review of actual or possible conflicts at least annually. No conflicts or potential conflicts were identified during the year.

Substantial Interests in Share Capital

As at 30 September 2014 the Company had received notification of the following voting rights (under the Financial Conduct Authority's Disclosure and Transparency Rules):

	Number of Ordinary Shares Held	Percentage Held
AXA Investment Managers SA	40,362,177	13.9

There have been no changes notified in respect of the above holdings, and no new holdings notified, since the end of the year.

Management

Throughout the year, F&C Investment Business Limited ('the Managers') provided investment management and other services to the Company and was appointed as the Company's AIFM on 22 July 2014.

A summary of the terms of the management agreement and fees paid during the year is contained in note 3 to the accounts.

With effect from 22 July 2014, the Company entered into arrangements to comply with the AIFM Directive. The Company appointed JPMorgan Europe Limited as its Depositary. The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements.

Change of Manager

As described in the Business Model and Strategy on pages 8 to 11, and subject to obtaining the necessary regulatory approvals, the Board has resolved to appoint BFM to manage the Company's investments. Subject to approval by shareholders of the change of investment policy and objective, the new manager will adopt a multi-asset approach. BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. At 30 September 2014, BlackRock's assets under management ('AuM') were $4.525 trillion. BlackRock Fund Managers Limited currently manages 10 closed end investment companies with a total AuM of £2.25 billion as at 31 December 2014.

Subject to shareholder approval of the Company's new investment objective and policy, the Company's assets will be managed by Adam Ryan, head of the BlackRock Diversified Strategies Team which currently manages over £15 billion including BlackRock Dynamic Diversified Growth. Adam has over 20 years' of fund management experience and joined Merrill Lynch Investment Managers in 1999.

BlackRock's appointment will become effective upon termination of the Company's existing investment management arrangements with F&C. It is expected that the appointment of BlackRock will become effective on or around 27 February 2015.

Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions.

Going Concern

In assessing the going concern basis of accounting, the Directors have had regard to the guidance issued by the Financial Reporting Council. They have considered the current cash position of the Company, the availability of the revolving advance facility, compliance with the bond and loan covenants, and forecast revenues for the current financial year. The Directors have also taken into account the Company's current and proposed investment policy, which are described on pages 8 to 11. The current policy is subject to regular Board monitoring processes, and both policies are designed to ensure that the Company is invested in mainly liquid, listed securities. The Company retains title to all assets held by its custodian.

Note 18 to the accounts sets out the financial risk profile of the Company and indicates the effect on its assets and liabilities of falls and rises in the value of securities, market rates of interest and changes in exchange rates.

The Directors believe, in the light of the controls and review processes noted above and any change in controls and review processes expected on the appointment of BFM and bearing in mind the nature of the Company's business and assets, that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Report of the Directors (continued)

Financial Instruments

The Company's financial instruments comprise its investment portfolio, bonds, bank loan, foreign exchange currency contracts, cash balances and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 18 to the accounts.

Annual General Meeting

The notice of the Annual General Meeting to be held at Drapers' Hall, Throgmorton Street, London EC2N 2AN at 10.30 am on 26 February 2015 is set out on pages 59 to 62. This will be followed by a General Meeting of the Company to approve the proposals outlined in the Chairman's Statement on pages 4 to 7.

Directors' Authority to Allot Shares

The Directors are seeking authority to allot shares. Resolution 10 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £7,210,307, being 10 per cent of the total issued shares on 15 January 2015, excluding shares held in treasury. Resolution 11 will, if passed, authorise the Directors to allot new shares for cash up to an aggregate nominal amount of £3,605,153, being 5 per cent of the total issued shares on 15 January 2015, excluding shares held in treasury, without first offering such shares to existing shareholders pro rata to their existing holdings. These authorities will continue until the earlier of the expiry of 15 months from the passing of the resolutions and the conclusion of the next Annual General Meeting. The Directors will only allot new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and will not result in a dilution of net asset value per share.

Directors' Authority to Buy Back Shares

Resolution 12, as set out in the notice of the Annual General Meeting, seeks renewal of the Company's share buy-back authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99 per cent of the issued Ordinary Shares of the Company on the date of the passing of the resolution, excluding shares held in treasury (approximately 43 million Ordinary Shares). The price paid for shares will not be less than the nominal value of 25p per share nor more than the higher of (i) 5 per cent above the average closing price on the London Stock Exchange of an Ordinary Share over the five business days before the shares are purchased and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. This power will only be exercised if, in the opinion of the Directors, a purchase will result in an increase in net asset value per share of the remaining shares and is in the interests of shareholders. Any shares purchased under this authority will be cancelled or held in treasury for future re-issue at a premium to the prevailing net asset value per share. This authority will expire on the earlier of 26 August 2016 and the conclusion of the next Annual General Meeting of the Company.

The Company did not buy back any shares during the year but since the year end has bought back 1,000,000 Ordinary Shares to be held in treasury. As at 15 January 2015 there were 291,112,282 Ordinary Shares in issue, including 2,700,000 Ordinary Shares held in treasury.

Notice Period for General Meetings

The Company's Articles of Association enable it to call general meetings (other than an Annual General Meetings) on 14 clear days' notice. In order for this to be effective, shareholders must also approve annually the calling of meetings on 14 clear days' notice.

Resolution 13, as set out in the notice of the Annual General Meeting, seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company meets the requirements for electronic voting under the Companies Act 2006, offering facilities for all shareholders to vote by electronic means.

The Directors believe it is in the best interests of shareholders for the shorter notice period to be available to the Company, although it is intended that this flexibility will be used only for non-routine business and only where merited in the interests of shareholders as a whole.

Adoption of New Articles of Association

Resolution 14, as set out in the notice of the Annual General Meeting, seeks approval from shareholders to adopt new Articles of Association ("Articles") for the Company.

The statutory rules governing investment trusts were amended in 2012 and, in particular, the rule which prohibited an investment trust from distributing any surplus arising from the realisation of its investments was repealed. In compliance with the previous statutory regime, the Company has a provision in its Articles which expressly prohibits the distribution of any surplus arising from the realisation of any investment. In the light of the amended statutory rules, the Board no longer considers it appropriate to have such a prohibition in the Articles and therefore proposes that it is removed. The new Articles, if adopted, remove this prohibition.

The Board believes that the removal of this restriction will give the Company greater flexibility in the long term as it will enable the Company to make distributions from any surplus arising from the realisation of any investment. However, the Board has no intention of exercising this authority at the current time.

In addition, the Board is also proposing to include provisions in the new Articles in response to the regulations implementing the AIFMD (the "AIFMD Regulations") coming into force. The principal changes proposed to be introduced to the Articles, and their effect, are set out below:

(i) The Articles will now provide that the NAV of the Company shall be calculated at least annually and be disclosed to shareholders from time to time in such manner as may be determined by the Board. The amendment will have no bearing on current practice and simply articulates the minimum requirements of the AIFMD Regulations.

(ii) The Articles will now provide that the Company's annual report and accounts may be prepared either in accordance with generally acceptable accounting principles of the UK or such other international accounting standards as may be permitted under the law of the UK. The amendment will have no bearing on current practice and simply articulates the minimum requirements of the AIFMD Regulations.

(iii) The AIFMD Regulations require that prior to any new or existing investor making an investment in the Company certain prescribed information is to be made available to them. Therefore, the new Articles will include language with the effect that such information shall be made available to prospective and existing shareholders from time to time in such manner as may be determined by the Board (including, in certain cases, on the Company's website or by electronic notice).

(iv) The AIFMD Regulations require that the Company has a depositary other than in certain limited circumstances. Under the AIFMD Regulations, the depositary has strict liability for the loss of the Company's financial assets in respect of which it has safe-keeping duties. This rule applies even where the depositary has delegated the actual custody of an asset to another entity. The Company may wish to hold assets in a country where the depositary is required by local law to use a local sub-custodian to hold the relevant asset. The depositary may not wish the Company to acquire or retain such an asset, unless it can discharge its strict liability to the local sub-custodian. A discharge of strict liability in these circumstances will only be possible if the Company's 'rules or instruments of incorporation' (for example, the Articles) permit such a discharge. The Board is aware that situations may arise where allowing the depositary to discharge its strict liability will be commercially necessary. An amendment to the Articles is therefore proposed with the effect of enabling the Board, should the need arise and subject to applicable laws, to allow a depositary to discharge its strict liability for loss of certain of the

Report of the Directors (continued)

Company's assets. This proposed amendment provides the Company with commercial flexibility and the Board will exercise its discretion in the usual way in determining whether or not to provide such a discharge.

(v) In line with guidance from the Financial Conduct Authority, the new Articles will now provide that valuation of the Company's assets shall be performed in accordance with prevailing accounting standards.

Finally, the Board is proposing to include a provision in the new Articles to give them discretion to decline the transfer of Ordinary Shares if it could result in a breach of regulatory requirements.

A copy of the existing Articles and the proposed new Articles marked to show the changes will be available during normal business hours (Saturdays, Sundays and public holiday excepted) at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY up to and including close of business on 26 February 2015 and at the venue of the Annual General Meeting for at least 15 minutes prior to the start of the Meeting and up to the close of the Meeting.

Disclosure of Information to the Auditor

The Directors confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution proposing its re-appointment will be submitted at the Annual General Meeting.

Individual Savings Accounts

The Company's shares are qualifying investments for Individual Savings Accounts. It is the intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

Recommendation

The Board unanimously recommend that shareholders vote in favour of the resolutions to be proposed at the Annual General Meeting and the General Meeting as in their view the resolutions are in the best interests of shareholders as a whole.

Statement Regarding Annual Report and Accounts

Following a detailed review of the Annual Report and Accounts by the Audit Committee, the Directors consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Accounts would have a reasonable level of knowledge of the investment industry in general and investment trusts in particular.

By order of the Board
F&C Investment Business Limited
Secretary
80 George Street
Edinburgh EH2 3BU
15 January 2015

Corporate Governance Statement

Shareholders hold the directors of a company responsible for the stewardship of that company's affairs. Corporate governance is the process by which a board of directors discharges this responsibility. The Company's arrangements in respect of corporate governance are explained in this report.

The Company is required to comply with, or to explain its non-compliance with, the relevant provisions of the UK Corporate Governance Code issued by the Financial Reporting Council (the 'FRC') in September 2012 which can be found at www.frc.org.uk. The Association of Investment Companies issued its own Code of Corporate Governance in February 2013 (the 'AIC Code'), which can be found at www.theaic.co.uk and which has been approved by the FRC as it addresses all the principles of the UK Corporate Governance Code as well as setting out additional principles and recommendations on issues which are of specific relevance to investment trusts. The Board considers that reporting against the principles and recommendations of the AIC Code provides better information to shareholders than the UK Corporate Governance Code on its own.

Throughout the year, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code. Since the Company has no employees and all Directors are non-executive, the provisions of the UK Corporate Governance Code on the role of a chief executive and on Directors' remuneration, except in so far as they apply to non-executive Directors, are not relevant to the Company and are not reported on further.

At the end of the year the Board consisted of five independent non-executive Directors. Lynn Ruddick is the Chairman and Jimmy West is the Senior Independent Director. All the Directors have been issued with letters of appointment, which are available upon request at the Company's registered office. The Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. The biographies of all the Directors are contained on page 19. During the year the performance of the Board, committees and individual Directors was evaluated through an interview-based process led by the Chairman. This process involved discussions between the Chairman and individual Directors and feedback from the Chairman to the Board and individual Directors. The performance of the Chairman was evaluated in the same way by the Senior Independent Director. The Board believes that each Director is independent in character and that there are no relationships or circumstances which are likely to affect his or her judgement. All Directors receive relevant training, collectively or individually, as necessary.

The Board subscribes to the view expressed in the AIC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that the length of a Director's tenure reduces his or her ability to act independently. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of services of any of the Company's Directors, including the Chairman, has been imposed, although the Board believes in the merits of periodic and progressive refreshment of its composition.

The basis on which the Company aims to generate value over the longer term is set out in the Business Model and Strategy on pages 8 to 11. A management agreement between the Company and the Managers sets out the matters over which the Managers have authority and the limits beyond which Board approval must be sought. All other matters, including corporate and gearing strategy, investment and dividend policies, corporate governance procedures and risk management are reserved for the approval of the Board of Directors. The Board receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. There were six scheduled Board meetings held during the year.

The Managers, in the absence of explicit instructions from the Board, are empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all meetings worldwide

Corporate Governance Statement (continued)

where practicable in accordance with the Managers' own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use their influence as investors with a principled approach to corporate governance.

Much of the Board's corporate governance responsibility is discharged through the Audit, the Management Engagement and the Nomination Committees. These Committees all operate within clearly defined written terms of reference which are available upon request at the Company's registered office.

Changes to the Board of Directors

Lynn Ruddick will step down as Chairman in accordance with the rules of the UK Listing Authority. James Long will become the new Chairman and Ian Russell will become the Chairman of the Audit Committee. James Long will become the Chairman of the Management Engagement Committee and the Nomination Committee.

Audit Committee

The Report of the Audit Committee is contained on pages 28 to 30.

Management Engagement Committee

The Management Engagement Committee, chaired by Lynn Ruddick, comprises the full Board. The committee reviews the appropriateness of the Managers' continuing appointment, together with the terms and conditions thereof, on a regular basis. In addition to total return performance, the Managers are also judged in relation to management of the revenue account, quality of the fund management and administration teams, commitment to their investment trust business, strength of relationships with shareholders and the appropriateness of the management contract, including fees. There was one Management Engagement Committee meeting held during the year.

As stated in the Directors' Remuneration Report on pages 31 and 32, the full Board determines the level of Directors' fees and accordingly there is no separate Remuneration Committee.

Nomination Committee

The Nomination Committee, chaired by Lynn Ruddick, comprises the full Board. The committee is convened for the purpose of considering the appointment of additional Directors as and when appropriate. Any appointments to the Board are based on merit, but in considering appointments, the Nomination Committee also takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, independence, diversity, including gender, and knowledge of the Company within the Board. The Directors have not set any measureable objectives in relation to the diversity of the Board. New Directors receive an induction from the Managers on joining the Board. The Nomination Committee did not meet during the year.

The table below sets out the number of scheduled Board and committee meetings attended by each Director during the year.

	Board of Directors	Audit Committee	Management Engagement Committee
Lynn Ruddick	6	n/a	1
Jim Grover	6	3	1
James Long	6	3	1
James MacLeod (retired 27 January 2014)	3	1	1
Ian Russell	6	3	1
Jimmy West	6	n/a	1

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

Relations with Shareholders

The Company places great importance on communication with shareholders and welcomes their views. The Managers and the Company's broker hold meetings with the Company's largest shareholders and report back to the Board on these meetings. The Chairman and other Directors are available to meet shareholders. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Managers of the Company.

The notice of the Annual General Meeting, to be held on 26 February 2015, is set out on pages 59 to 62. The Annual Report and Notice of Annual General Meeting are sent to shareholders at least 20 working days before the Meeting.

By order of the Board
F&C Investment Business Limited
Secretary
80 George Street
Edinburgh EH2 3BU
15 January 2015

Report of the Audit Committee

The members of the Audit Committee are James Long, Jim Grover and Ian Russell. James Long is the Chairman of the Committee, and was appointed to this position following the retirement of James MacLeod as a Director of the Company on 27 January 2014. Due to his length of tenure on the Board, Jimmy West stepped down from the Audit Committee on that same date. As James Long will become Chairman of the Company, subject to re-election at the AGM, he will be stepping down as Chairman of the Audit Committee but will remain a member of the Committee. Ian Russell will become Chairman of the Audit Committee.

The duties of the Committee include reviewing the Annual and Interim Accounts, the system of internal controls, and the terms of appointment and remuneration of the auditor, Ernst & Young LLP ('EY'), including its independence and objectivity. It is also the forum through which EY reports to the Board of Directors. The Committee meets at least twice yearly including at least one meeting with EY.

The Audit Committee met on three occasions during the year and the attendance of each of the members is set out on page 26. In the due course of its duties, the Committee had direct access to EY and senior members of the Managers' fund management and investment trust teams. Amongst other things, the Audit Committee considered and reviewed the following matters and reported thereon to the Board:

- The annual results announcements, and annual and half-yearly reports and accounts and interim management statements;
- The accounting policies of the Company;
- The principal risks faced by the Company and the effectiveness of the Company's internal control environment;
- The effectiveness of the audit process and related non-audit services and the independence and objectivity of EY, their re-appointment, remuneration and terms of engagement;
- The policy on the engagement of EY to supply non-audit services;
- The implications of proposed new accounting standards and regulatory changes;
- The receipt of internal control reports from the Managers and other service providers;
- Whether the Annual Report and Accounts is fair, balanced and understandable.

As part of its review of the scope and results of the audit, the Audit Committee considered and approved EY's plan for the audit of the financial statements for the year ended 30 September 2014. At the conclusion of the audit EY did not highlight any issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. EY issued an unqualified audit report which is included on pages 53 to 55.

In relation to the provision of non-audit services by the auditor, it has been agreed that all non-audit work to be carried out by the auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance. In addition to statutory audit fees of £27,000 (2013: £26,000), EY received fees for non-audit services of £11,000 for the year (2013: £13,000) which related to the provision of tax compliance services and certification of a bond compliance certificate. The Audit Committee does not consider that the provision of such non-audit services compromises the objectivity and independence of the conduct of the audit.

As part of the review of auditor independence and effectiveness, EY has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating EY, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The appointment has not been put out to tender notwithstanding EY's tenure over many years, as the Audit Committee, from direct observation and enquiry of the Managers, remains satisfied that EY continues to provide effective independent challenge in carrying out its responsibilities. Following professional guidelines, the audit partner rotates after five years. The current partner is in the first year of his appointment. On the basis of this assessment, the Audit Committee has recommended the continuing appointment of EY to the Board. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

Significant Issues Considered by the Audit Committee in Relation to the Financial Statements

Matter	Action
Investment Portfolio Valuation The Company's portfolio is invested in listed securities. Although most of the securities are highly liquid and listed on recognised stock exchanges, errors in the portfolio valuation could have a material impact on the Company's net asset value per share.	The Audit Committee reviewed the Managers' annual internal control report, which is reported on by independent external accountants, and which details the systems, processes and controls around the daily pricing of equity and fixed interest securities, including the application of exchanges rate movements.
Misappropriation of Assets Misappropriation of the Company's investments or cash balances could have a material impact on its net asset value per share.	The Audit Committee reviewed the Managers' annual internal control report, as referred to above, which details the controls around the reconciliation of the Managers' records to those of the custodian. The Audit Committee also reviewed the custodian's annual internal control report, which is reported on by independent external accountants, and which provides details regarding its control environment.
Income Recognition Incomplete or inaccurate income recognition could have an adverse effect on the Company's net asset value and earnings per share and its level of dividend cover.	The Audit Committee reviewed the Managers' annual internal control report, as referred to above, which details the systems, processes and controls around the recording of investment income. It also compared the final level of income received for the year to the budget which was set at the start of the year and discussed the accounting treatment of individual special dividends with the Managers.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. It has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued by the Financial Reporting Council.

The process relies principally on the Managers' existing risk-based approach to internal control whereby a risk matrix is created which identifies the key functions carried out by the Managers and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. From this, the Board has identified the Company's principal risks and controls employed to minimise these risks. The risk matrix is regularly updated and the Board is provided with reports highlighting all material changes to the risk ratings. The Board reviews the risk matrix on at least an annual basis. At each Board meeting the Board monitors the investment performance of the Company in comparison to its stated objective, the benchmark index, and against comparable investment trusts. The Board also reviews the Company's activities since the last Board meeting to ensure that the Managers adhere to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to the guidelines.

Report of the Audit Committee (continued)

A formal annual review of the foregoing procedures is carried out by the Audit Committee. The Audit Committee has also reviewed the Managers' "Report on Policies and Procedures in Operation and Tests in accordance with AAF (01/06)" for the year ended 31 December 2013 that has been prepared for their investment trust clients. Containing a report from independent external accountants, the report sets out the Managers' control policies and procedures with respect to the management of their clients' investments. The effectiveness of these controls is monitored by the Managers' group audit committee which receives regular reports from the Managers' compliance department. Procedures are in place to capture and evaluate failings and weaknesses and to ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No significant failings or weaknesses in respect of the Company were identified during the year under review nor to the date of this report. The Audit Committee also considers internal control reports issued by other service providers, including the Company's custodian.

The review procedures detailed above have been in place throughout the financial year and up to the date of approval of the Annual Report, and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Managers, including their internal audit function, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

James M Long
Chairman of the Audit Committee

15 January 2015

Directors' Remuneration Report

The Board consists solely of independent non-executive Directors. The Company has no executive Directors or employees. For these reasons, it is not considered appropriate to have a separate Remuneration Committee. The full Board determines the level of Directors' fees.

Full details of the Company's policy with regards to Directors' fees and fees paid during the year ended 30 September 2014 are shown below. No major decisions or substantial changes relating to Directors' remuneration were made during the year.

Under company law, the auditor is required to audit certain disclosures provided. Where disclosures have been audited they are indicated as such. The auditor's report is contained on pages 53 to 55.

Directors' Remuneration Policy

The Board considers the level of Directors' fees at least annually. Its policy is that the remuneration of Directors should reflect the experience of the Board as a whole, the responsibilities of the role, the time commitment required, and be fair and comparable to that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Company properly and to reflect its specific circumstances. There were no changes to the policy during the year.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is an aggregate of £300,000 per annum and may not be changed without seeking shareholder approval at a general meeting. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The non-executive Directors do not have service contracts, but each Director has a letter of appointment setting out the terms and conditions of his or her appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to and during the forthcoming Annual General Meeting.

The Board has agreed that all Directors will retire annually. There is no notice period and no provision for compensation upon early termination of appointment.

The Board has not received any views from the Company's Shareholders in respect of the levels of Directors' remuneration.

Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 27 January 2014, shareholders approved the Directors' Remuneration Policy. 95.2 per cent of votes were in favour of the resolution and 4.8 per cent were against. The Directors' Remuneration Policy will be put to shareholders for approval at the Annual General Meeting in 2017 unless changes are made to the policy before then.

Directors' Annual Report on Remuneration

Directors' Emoluments for the Year (audited)

The Directors who served during the year received the following emoluments in the form of fees. No other forms of remuneration were paid during the year.

	2014 £	2013 £
Lynn Ruddick (Chairman)	40,500	40,250
Jim Grover (appointed 25 June 2013)	23,750	6,333
James Long	26,470	23,562
James MacLeod (retired 27 January 2014)	8,952	27,562
Ian Russell	23,750	23,562
Jimmy West	25,750	25,562
Total	149,172	146,831

Relative Importance of Spend on Pay

The table below shows the actual expenditure during the year in relation to Directors' remuneration, other expenses and shareholder distributions:

	2014 £	2013 £	% Change
Aggregate Directors' Remuneration	149,172	146,831	+1.6%
Management and other expenses	2,712,000	2,787,000	-2.7%
Dividends paid to shareholders	18,331,000	17,872,000	+2.6%

Directors' Remuneration Report (continued)

Directors' Shareholdings (audited)

The Directors who held office at the year end and their interests in the Ordinary Shares of the Company were as follows:

		2014 Ordinary Shares	2013 Ordinary Shares
Lynn Ruddick	Beneficial	**62,844**	62,490
	Non-Beneficial	**5,743**	5,088
Jim Grover	Beneficial	**20,000**	20,000
James Long	Beneficial	**16,266**	15,592
Ian Russell	Beneficial	**20,000**	20,000
Jimmy West	Beneficial	**38,400**	38,400

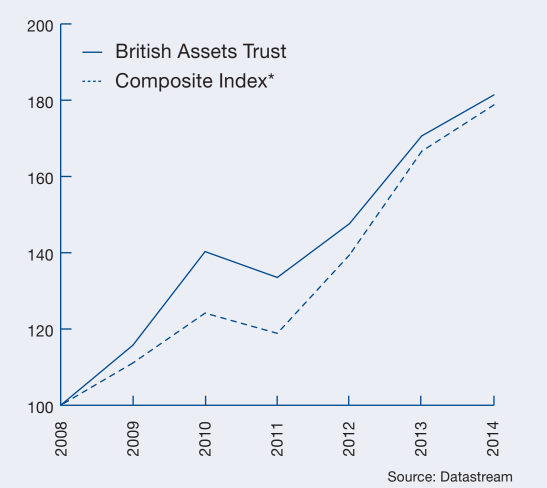
Since 30 September 2014, Lynn Ruddick has acquired a beneficial interest in a further 9,548 shares, Jim Grover has acquired a beneficial interest in a further 7,500 shares, James Long has acquired a beneficial interest in a further 199 shares and Ian Russell has acquired a beneficial interest in a further 7,500 shares. In addition, Lynn Ruddick has acquired a non-beneficial interest in a further 170 shares. There have been no other changes in the interests of the Directors in the Ordinary Shares of the Company between 30 September 2014 and 15 January 2015.

No Director had an interest in the Company's 6.25 per cent Bonds 2031 during the year ended 30 September 2014 or has acquired an interest since the year end.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Managers through the investment management agreement, as referred to in the Report of the Directors on page 21. The graph below compares, for the six financial years ended 30 September 2014, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which a composite index, weighted as to 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index, is calculated. This composite index was chosen as it represents a comparable broad equity market index and is the Company's benchmark. An explanation of the performance of the Company for the year ended 30 September 2014 is given in the Chairman's Statement and Managers' Review.

Share Price Total Return and Composite Index Total Return Performance Graph



*From 1 October 2011: 80 per cent FTSE All-Share Index, 20 per cent FTSE World (ex UK) Index. Until 30 September 2011: 75 per cent FTSE All-Share Index, 25 per cent FTSE World (ex UK) Index.

Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 27 January 2014, shareholders approved the Annual Report on Directors' Remuneration in respect of the year ended 30 September 2013. 95.1 per cent of votes were in favour of the resolution and 4.9 per cent were against.

An ordinary resolution for the approval of the Annual Report on Directors' Remuneration for the year ended 30 September 2014 will be put to shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

Lynn Ruddick
Director

15 January 2015

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Directors' Remuneration Report and a Corporate Governance Statement.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, net return and cash flows of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board
Lynn Ruddick
Chairman

15 January 2015

Income Statement

for the year ended 30 September	Notes	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Gains on investments	9	**–**	**9,596**	**9,596**	–	41,028	41,028
Exchange differences	14	**–**	**969**	**969**	–	(154)	(154)
Income	2	**23,608**	**–**	**23,608**	22,382	–	22,382
Management expenses	3	**(700)**	**(1,301)**	**(2,001)**	(671)	(1,246)	(1,917)
Other expenses	4	**(711)**	**–**	**(711)**	(870)	–	(870)
Net return before finance costs and taxation		**22,197**	**9,264**	**31,461**	20,841	39,628	60,469
Finance costs	5	**(1,460)**	**(2,711)**	**(4,171)**	(1,465)	(2,720)	(4,185)
Return on ordinary activities before taxation		**20,737**	**6,553**	**27,290**	19,376	36,908	56,284
Tax on ordinary activities	6	**(439)**	**–**	**(439)**	(359)	–	(359)
Return attributable to shareholders		**20,298**	**6,553**	**26,851**	19,017	36,908	55,925
Return per share	8	**7.0p**	**2.3p**	**9.3p**	6.6p	12.7p	19.3p

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 September 2014	Notes	Called-up Share Capital £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Shareholders' Funds £'000
Opening shareholders' funds		**72,778**	**15,563**	**296,437**	**33,567**	**418,345**
Dividends paid	7	**–**	**–**	**–**	**(18,331)**	**(18,331)**
Return attributable to ordinary shareholders		**–**	**–**	**6,553**	**20,298**	**26,851**
Closing shareholders' funds		**72,778**	**15,563**	**302,990**	**35,534**	**426,865**

for the year ended 30 September 2013	Notes	Called-up Share Capital £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Shareholders' Funds £'000
Opening shareholders' funds		72,778	15,563	261,772	32,422	382,535
Share buy-backs		–	–	(2,243)	–	(2,243)
Dividends paid	7	–	–	–	(17,872)	(17,872)
Return attributable to ordinary shareholders		–	–	36,908	19,017	55,925
Closing shareholders' funds		72,778	15,563	296,437	33,567	418,345

The total column of the Income Statement is the Profit and Loss Account of the Company. The supplementary revenue and capital columns are both prepared under guidance published by The Association of Investment Companies.

All revenue and capital items in the above Income Statement derive from continuing operations.

No operations were acquired or discontinued in the year.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above Income Statement.

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

Balance Sheet

as at 30 September	Notes	£'000	2014 £'000	£'000	2013 £'000
Fixed assets					
Investments at fair value through profit or loss	9		**490,690**		488,278
Current assets					
Debtors	10	**5,420**		23,072	
Cash in bank and on deposit		**14,790**		14,594	
		20,210		37,666	
Creditors: amounts falling due within one year	11	**(24,482)**		(48,072)	
Net current liabilities			**(4,272)**		(10,406)
Total assets less current liabilities			**486,418**		477,872
Creditors: amounts falling due after more than one year	12		**(59,553)**		(59,527)
Net assets			**426,865**		418,345
Capital and reserves					
Called-up share capital	13, 14		**72,778**		72,778
Capital redemption reserve	14		**15,563**		15,563
Capital reserve	14		**302,990**		296,437
Revenue reserve	14		**35,534**		33,567
Shareholders' funds	15		**426,865**		418,345
Net asset value per share	15		**147.5p**		144.5p

The accounts on pages 34 to 52 were approved by the Board of Directors and authorised for issue on 15 January 2015 and signed on its behalf by:

Lynn Ruddick

Lynn Ruddick, Chairman

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

Cash Flow Statement

for the year ended 30 September	Notes	£'000	2014 £'000	£'000	2013 £'000
Operating activities					
Investment income received		**23,753**		21,823	
Deposit interest received		**32**		29	
Option premiums received		**114**		409	
Underwriting commission received		**27**		39	
Management expenses paid		**(2,001)**		(1,917)	
Other cash payments		**(708)**		(897)	
Net cash inflow from operating activities	16		**21,217**		19,486
Servicing of finance					
Interest on 6.25 per cent Bonds 2031		**(3,750)**		(3,750)	
Interest on revolving advance facility		**(402)**		(422)	
Net cash outflow from servicing of finance			**(4,152)**		(4,172)
Capital expenditure and financial investment					
Purchases of investments		**(351,175)**		(344,520)	
Sales of investments		**356,482**		344,617	
Net cash inflow from capital expenditure and financial investment			**5,307**		97
Equity dividends paid	7		**(18,331)**		(17,872)
Net cash inflow/(outflow) before financing			**4,041**		(2,461)
Financing					
Revolving advance facility (repaid)/drawndown		**(5,023)**		5,015	
Ordinary Shares purchased to be held in treasury		**–**		(2,243)	
Net cash (outflow)/inflow from financing			**(5,023)**		2,772
(Decrease)/increase in cash	17		**(982)**		311
Reconciliation of net cash flow to movement in net debt					
(Decrease)/increase in cash in the year		**(982)**		311	
Revolving advance facility repaid/(drawndown)		**5,023**		(5,015)	
Change in net debt resulting from cash flows			**4,041**		(4,704)
Currency gains/(losses)			**1,132**		(187)
Increase in 6.25 per cent Bonds 2031 liability			**(26)**		(27)
Movement in net debt in the period			**5,147**		(4,918)
Opening net debt			**(69,886)**		(64,968)
Closing net debt	17		**(64,739)**		(69,886)

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

Notes to the Accounts

1 Accounting policies

A summary of the principal accounting policies adopted is set out below.

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ('UK GAAP') and in accordance with guidelines set out in the Statement of Recommended Practice ('SORP') for investment trust companies and venture capital trusts, issued in January 2009 by the Association of Investment Companies ('AIC'), except as disclosed in the following paragraph.

Expenses which are allocated to capital are available to reduce the Company's liability to corporation tax. The SORP recommends that the benefit of that tax relief should be allocated to capital and a corresponding charge made to revenue. This is known as the 'marginal method' of allocating tax relief between capital and revenue. The Company does not adopt the marginal method for two reasons. Firstly, the Company has only one class of share and any allocation of tax relief between capital and revenue would have no impact on shareholders' funds. Secondly, the significant unutilised management expenses and interest carried forward make it unlikely that the Company will be liable to corporation tax in the foreseeable future. Had this allocation been made, the charge to revenue and corresponding credit to capital for the year ended 30 September 2014 would have been £102,000 (2013: £165,000).

The notes and financial statements are presented in pounds sterling (being the functional currency of the Company and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

(b) Investments

Investments have been categorised as 'financial assets at fair value through profit or loss' and are recognised and derecognised on the date the shares are traded. Listed investments are valued at their fair value which is represented by the bid price. Changes in fair value are included in the Income Statement as a capital item. Unquoted investments are valued by the Directors at their fair value on the basis of all information available to them at the time of valuation.

(c) Capital reserve

The following are accounted for in this reserve:

- realised and unrealised exchange differences on transactions of a capital nature;
- realised and unrealised exchange differences on forward foreign currency contracts;
- gains and losses on the realisation of investments;
- increases and decreases in the valuation of investments held at the year end;
- special dividends of a capital nature;
- expenses and finance costs charged to capital as set out in the policies below; and
- cost of purchasing Ordinary Shares for cancellation or holding in treasury.

(d) Income

Dividends are recognised as income on the date on which the related investments are marked ex-dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established.

Income from fixed interest securities is recognised on an accruals basis. Other investment income, underwriting commission and deposit interest are also recognised on an accruals basis.

Special dividends of a revenue nature are recognised through the revenue column of the Income Statement. Where the Company has elected to receive dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income.

Notes to the Accounts (continued)

1 Accounting policies (continued)

(e) Traded options

The Company may enter into option contracts. The option contracts are shown in other assets or other liabilities at their fair values. The premiums received and fair value changes in the open positions are normally recognised in the revenue column of the Income Statement. The costs of closing open option positions are recognised in the capital column of the Income Statement. Where options are written for the maintenance or enhancement of the Company's investments then the changes in fair value are recognised in the capital column of the Income Statement.

(f) Deferred taxation

Where the year in which tax deductable expenditure is incurred differs from the year in which tax relief for the expenditure is given, the amount of the tax relief is known as 'deferred tax'. Since the management expenses incurred by the Company in the year under review exceed its profits liable to UK corporation tax (see note 6(b)), the tax relief attributable to the excess expenses, which can be carried forward to future years, is a'deferred tax asset'. However, in accordance with UK GAAP, that deferred tax asset has not been recognised in these accounts since it is unlikely that, in future years, the Company will receive sufficient profits liable to UK corporation tax against which the brought forward expenses can be set-off.

(g) Expenses

Expenses are accounted for on an accruals basis. Transaction costs incurred on the purchase and sale of investments are taken to the Income Statement as a capital item. Other expenses are all allocated to revenue with the exception of management fees which have been allocated 35 per cent to revenue and 65 per cent to capital in accordance with the Board's view on the expected long-term split of returns, in the form of income and capital gains respectively, from the Company's investment portfolio.

(h) Interest-bearing borrowings

All non-current borrowings are initially recognised at cost, being fair value of the consideration received, net of arrangement costs associated with the borrowings. After initial recognition, all interest-bearing borrowings are subsequently measured at amortised cost using the effective yield basis. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on issue.

(i) Finance costs

Finance costs are accounted for on an effective yield basis. Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, have been allocated 35 per cent to revenue and 65 per cent to capital in accordance with the Board's view on the expected long-term split of returns, in the form of income and capital gains respectively, from the Company's investment portfolio.

(j) Dividends

Dividends paid are calculated on an amount per share as approved by the Board of Directors and are recognised in the financial statements when they are paid.

(k) Foreign currencies

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates on the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the income statement as a revenue or capital item depending on the nature of the gain or loss.

1 Accounting policies (continued)

Rates of exchange at 30 September (per £)

	2014	2013
US Dollar	1.62	1.62
Euro	1.28	1.20
Japanese Yen	178	159

2 Income

	2014 £'000	2013 £'000
Investment income – listed UK:		
Dividend income	15,869	14,590
Other investment income	1,609	2,243
Investment income – listed overseas:		
Dividend income	4,402	4,084
Other investment income	1,555	969
Other income:		
Option premiums	114	428
Deposit interest	32	29
Underwriting commission	27	39
Total income	23,608	22,382
Total income comprises:		
Dividends	20,271	18,674
Income from fixed interest securities	3,164	3,212
Option premiums	114	428
Deposit interest	32	29
Underwriting commission	27	39
	23,608	22,382

Notes to the Accounts (continued)

3 Management expenses

	Revenue £'000	Capital £'000	2014 Total £'000	Revenue £'000	Capital £'000	2013 Total £'000
Investment management fee:	**700**	**1,301**	**2,001**	671	1,246	1,917

The Company's investment manager is F&C Investment Business Limited ('FCIB'). FCIB is entitled to a quarterly management fee, payable in advance, equal to 0.1 per cent of the value of the Company's total assets less current liabilities (excluding loans).

The contract between the Company and FCIB may be terminated at any time by either party giving six months' notice of termination. In the event of the Company terminating the contract by giving less than six months' notice, FCIB is entitled to compensation calculated as a proportion of the fees payable by the Company in respect of the previous financial year pro-rated to the date of termination. Notice to terminate the existing investment management agreement was served on FCIB on 29 October 2014.

Investment management fees have been allocated 35 per cent to revenue and 65 per cent to capital.

4 Other expenses

	2014 £'000	2013 £'000
Directors' fees	**149**	147
Auditors' remuneration for:		
– audit	**27**	26
– taxation compliance services	**10**	12
– other audit related services	**1**	1
Marketing and savings plan administration	**75**	175
Custody, depositary fees and bank charges	**118**	116
Registrars' fees	**71**	79
Other expenses	**260**	314
	711	870

5 Finance costs

	Revenue £'000	Capital £'000	2014 Total £'000	Revenue £'000	Capital £'000	2013 Total £'000
Debt repayable within 5 years:						
– Revolving advance facility	**138**	**257**	**395**	143	266	409
Debt repayable in more than 5 years:						
– 6.25 per cent Bonds 2031	**1,322**	**2,454**	**3,776**	1,322	2,454	3,776
	1,460	**2,711**	**4,171**	1,465	2,720	4,185

Finance costs have been allocated 35 per cent to revenue and 65 per cent to capital.

6(a) Tax on ordinary activities

	2014 £'000	2013 £'000
Overseas taxation	**439**	359

The Company had £56,870,000 unutilised management expenses and interest at 30 September 2014 (2013: £53,741,000). No deferred tax asset has been recognised on this amount as it is unlikely that there will be taxable profits from which unutilised expenses could be deducted.

6(b) Reconciliation of tax charge

A reconciliation of the current tax charge is set out below:	2014 £'000	2013 £'000
Return on ordinary activities before taxation	**27,290**	56,284
Corporation tax at standard rate of 22.0 per cent (2013: 23.5 per cent)	**6,004**	13,227
Effects of:		
Non-taxable capital returns	**(2,111)**	(9,642)
Non-taxable UK dividend income	**(3,491)**	(3,429)
Non-taxable overseas dividend income	**(968)**	(960)
Movement in unutilised management expenses	**566**	804
Overseas tax suffered	**439**	359
Total current tax charge for the year	**439**	359

Notes to the Accounts (continued)

7 Dividends

	2014 £'000	2013 £'000
Amounts paid during the year:		
– third quarterly interim of 1.4853p per share paid in respect of the year ended 30 September 2013 (2012: 1.442p)	**4,299**	4,198
– final of 1.8396p per share paid in respect of the year ended 30 September 2013 (2012: 1.786p)	**5,324**	5,199
– first quarterly interim of 1.485p per share paid in respect of the year ended 30 September 2014 (2013: 1.442p)	**4,298**	4,198
– second quarterly interim of 1.530p per share paid in respect of the year ended 30 September 2014 (2013: 1.4853p)	**4,428**	4,299
– unclaimed dividends from previous years	**(18)**	(22)
	18,331	17,872
Amounts payable after the year end:		
– third quarterly interim of 1.530p per share in respect of the year ended 30 September 2014 (2013: 1.4853p)	**4,428**	4,299
– fourth quarterly interim of 1.895p per share in respect of the year ended 30 September 2014 (2013: final dividend 1.8396p)	**5,465**	5,324
	9,893	9,623

8 Return per share

The returns per Ordinary Share represent the Company's earnings per share before the payment of dividends, as shown in the Income Statement.

	Revenue	Capital	2014 Total	Revenue	Capital	2013 Total
Ordinary	**7.0p**	**2.3p**	**9.3p**	6.6p	12.7p	19.3p

The returns per Ordinary Share are based on (i) a numerator being the returns attributable to shareholders of:

	Revenue £'000	Capital £'000	2014 Total £'000	Revenue £'000	Capital £'000	2013 Total £'000
Ordinary	**20,298**	**6,553**	**26,851**	19,017	36,908	55,925

and (ii) a denominator being a specific number of shares as follows:

	2014	2013
Weighted average number of shares in issue during the year	**289,412,282**	290,245,981

9 Investments

	2014 £'000	2013 £'000
Investments listed on a recognised investment exchange	**490,690**	487,278
Unquoted investments	**–**	1,000
Total investments	**490,690**	488,278

	Listed/Quoted Level 1 £'000	Unquoted Level 3 £'000	Total £'000
Opening book cost	444,312	1,446	445,758
Opening fair value adjustment	42,966	(446)	42,520
Opening valuation	487,278	1,000	488,278
Movements in the year:			
Purchases at cost	332,534	–	332,534
Sales – proceeds	(339,718)	–	(339,718)
– gains on sales	23,398	–	23,398
Transfers	1,000	(1,000)	–
Decrease in fair value adjustment	(13,802)	–	(13,802)
Closing valuation	**490,690**	**–**	**490,690**
Closing book cost	461,526	446	461,972
Closing fair value adjustment	29,164	(446)	28,718
Closing valuation	**490,690**	**–**	**490,690**

	2014 £'000	2013 £'000
Equity shares	**441,388**	434,752
Fixed income securities	**49,302**	53,526
	490,690	488,278
Gains on investments sold	**23,398**	31,285
Decrease in fair value adjustment	**(13,802)**	9,743
Gains on investments	**9,596**	41,028

The total expenses incurred on the purchase and sale of investments were £1,043,000 and £439,000 respectively (2013: £663,000 and £352,000).

Notes to the Accounts (continued)

10 Debtors

	2014 £'000	2013 £'000
Amounts due from brokers	**3,458**	20,222
Prepayments and accrued income	**1,857**	2,710
Foreign currency exchange contracts	**–**	79
Other debtors	**105**	61
	5,420	23,072

11 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Revolving advance facility	**19,976**	24,953
Amounts due to brokers	**4,042**	22,683
Interest on 6.25 per cent Bonds 2031	**207**	207
Foreign exchange contracts	**32**	–
Other creditors	**225**	229
	24,482	48,072

The Company has a £50 million committed unsecured multi-currency revolving advance facility which matures in March 2016. On 30 September 2014, £20.0 million (2013: £25.0 million), in various currencies, was drawn down.

The principal covenant relating to this loan requires the Company to ensure that at all times its total borrowings (including the 6.25 per cent Bonds 2031) do not exceed 45 per cent of the Adjusted Net Asset Value (as defined by the loan agreement).

12 Creditors: amounts falling due after more than one year

	2014 £'000	2013 £'000
6.25 per cent Bonds 2031	**59,553**	59,527

The Company has in issue £60 million nominal 6.25 per cent Bonds 2031 which were issued at 99.343 per cent. The bonds have been accounted for in accordance with accounting standards, which require any discount or issue costs to be amortised over the life of the bonds. The bonds are secured by a floating charge over all the assets of the Company.

Under the covenants relating to the bonds, the Company is to ensure that, at all times, the aggregate principal amount outstanding in respect of monies borrowed by the Company does not exceed an amount equal to its share capital and reserves.

13 Share capital

	2014 Shares	2013 Shares	2014 Nominal Value £'000	2013 Nominal Value £'000
Issued, allotted and fully paid at 30 September				
Ordinary Shares of 25p each	**291,112,282**	291,112,282	**72,778**	72,778

Of the above shares in issue, the movements in Ordinary Shares held in treasury are:

	2014	2013
As at 1 October	**1,700,000**	–
Purchased during the year	**–**	1,700,000
As at 30 September	**1,700,000**	1,700,000

14 Reserves

	Called-up share capital £'000	Capital redemption reserve £'000	Capital reserve – investments sold £'000	Capital reserve – investments held £'000	Revenue reserve £'000
At 30 September 2013	72,778	15,563	253,838	42,599	33,567
Exchange differences	–	–	1,402	(433)	–
Gains on investments sold	–	–	23,398	–	–
Losses on investments still held	–	–	–	(13,802)	–
Management expenses charged to capital	–	–	(1,301)	–	–
Finance costs charged to capital	–	–	(2,711)	–	–
Dividends paid	–	–	–	–	(18,331)
Retained net revenue for the year	—	–	–	–	20,298
At 30 September 2014	**72,778**	**15,563**	**274,626**	**28,364**	**35,534**

Capital management

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Business Model and Strategy on pages 8 to 11. The Company's capital is represented by the issued share capital, Capital Redemption Reserve, Capital Reserve and Revenue Reserve.

Capital redemption reserve

The nominal value of Ordinary Shares bought back for cancellation is added to this reserve. This reserve is non-distributable.

Capital reserve

Items accounted for in this reserve are shown in accounting policy 1(c).

Revenue reserve

The net profit arising in the revenue column of the Income Statement is added to this reserve. Dividends paid are deducted. This reserve is available for paying future dividends on the Company's shares.

Notes to the Accounts (continued)

15 Net asset value per share

The net asset value per share and the net asset value attributable to the Ordinary Shares at the year end were as follows:

	Net asset value per share		Net asset value	
	2014 pence	2013 pence	**2014 £'000**	2013 £'000
Ordinary Shares	**147.5**	144.5	**426,865**	418,345

Net asset value per Ordinary Share is calculated on shareholders' funds of £426,865,000 (2013: £418,345,000) divided by the number of Ordinary Shares in issue at the year end of 289,412,282 (2013: same), excluding those shares bought back and held in treasury.

16 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	2014 £'000	2013 £'000
Total return before finance costs and taxation	**31,461**	60,469
Gains on investments	**(9,596)**	(41,028)
Exchange differences	**(969)**	154
Decrease in accrued income and prepayments	**853**	316
Decrease in other creditors	**(4)**	(46)
Tax on investment income	**(528)**	(379)
Net cash inflow from operating activities	**21,217**	19,486

17 Analysis of changes in net debt

	At 30 September 2013 £'000	Cash flow £'000	Other movements £'000	Currency movements £'000	**At 30 September 2014 £'000**
Cash in bank and on deposit	14,594	(982)	–	1,178	**14,790**
6.25 per cent Bonds 2031	(59,527)	–	(26)	–	**(59,553)**
Revolving advance facility	(24,953)	5,023	–	(46)	**(19,976)**
	(69,886)	4,041	(26)	1,132	**(64,739)**

18 Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, foreign currency exchange contracts, cash balances, bonds, a bank loan and debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings, as shown in notes 11 and 12, the Chairman's Statement and the Managers' Review, with a view to achieving improved performance in markets. The risk of borrowings may be reduced by raising the level of cash balances held. The Company also has the ability to enter into derivative transactions in the form of financial currency contracts and futures and options, subject to Board approval, for the purpose of managing currency and market risk arising from the Company's portfolio, and enhancing income.

18 Financial instruments (continued)

Fixed asset investments held (see note 9) are valued at fair value. For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Unquoted investments are valued by the Directors on the basis of all information available to them at the time of valuation. The market value of the Company's bonds is disclosed on page 18. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 35.

The main risks that the Company faces arising from its financial instruments are:

(i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;

(ii) interest rate risk, being the risk that the value of financial instruments will fluctuate or that the future cash flows of financial instruments will fluctuate because of changes in market interest rates;

(iii) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company;

(iv) liquidity risk, being the risk that the Company may not be able to liquidate its investments quickly enough to meet its ongoing financial commitments; and

(v) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency rates.

The Company held the following categories of financial instruments as at 30 September 2014 and 2013:

	2014 £'000	2013 £'000
Financial assets		
Investment portfolio	**490,690**	488,278
Cash in bank and on deposit	**14,790**	14,594
Amounts due from brokers	**3,458**	20,222
Prepayments and accrued income	**1,857**	2,710
Other debtors	**105**	140
Financial liabilities		
6.25 per cent Bonds 2031	**59,553**	59,527
Revolving advance facility	**19,976**	24,953
Amounts due to brokers	**4,042**	22,683
Bond interest payable	**207**	207
Other creditors	**225**	229

Notes to the Accounts (continued)

18 Financial instruments (continued)

Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The bond portfolio is exposed to movements in price due to fluctuation in interest rates. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out in note 9. Derivatives may be used from time to time to hedge specific market risk, to gain exposure to a specific market or to enhance income. At the year end the Company held no material exposure to derivatives other than hedged currency exposure as disclosed on page 51.

If the value of the investment portfolio had fallen by 10 per cent on 30 September 2014, the impact on the profit or loss and the net asset value would have been a reduction of £49.1 million (2013: £48.8 million). If the value of the investment portfolio had risen by 10 per cent on 30 September 2014, the impact on the profit or loss and the net asset value would have been an increase of £49.1 million (2013: £48.8 million). These calculations are based on the portfolio valuation on the respective balance sheet dates and are not representative of the year as a whole.

The Company held the following categories of financial instruments at 30 September 2014 and 2013, all of which are included in the balance sheet at fair value:

Classification of financial instruments

				2014				2013
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Assets								
Investment portfolio	**490,690**	**–**	**–**	**490,690**	487,278	–	1,000	488,278
Foreign exchange currency contracts	**–**	**(32)**	**–**	**(32)**	–	79	–	79
	490,690	**(32)**	**–**	**490,658**	487,278	79	1,000	488,357

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data. The Company holds one unquoted investment, with a nil value, which is categorised as level 3. A reconciliation of movements in the year is contained in note 9.

18 Financial instruments (continued)

Interest rate risk

Floating rate

Interest payments are received on cash balances by reference to the bank base rates for the relevant currency for each deposit.

	2014 £'000	2014 Average interest rate	2014 Period until maturity	2013 £'000	2013 Average interest rate	2013 Period until maturity
Amount drawndown under multi-currency revolving advance facility	**19,976**	**1.64%**	**1.5 years**	24,953	1.66%	2.5 years

The revolving advance facility is a multi-currency facility consisting of:

	2014 £'000	2013 £'000
Sterling	**14,500**	19,400
US Dollar	**2,509**	3,418
Euro	**1,975**	1,884
Japanese Yen	**992**	251
	19,976	24,953

If the bank base rate had increased by 1.0 per cent, the impact on the profit or loss and net asset value would have been a decrease of £52,000 (2013: £104,000). If the bank base rate had decreased by 1.0 per cent, the impact on the profit or loss and net asset value would have been an increase of £52,000 (2013: £104,000). These calculations are based on the cash balances and the revolving advance facility on the respective balance sheet dates and are not representative of the year as a whole.

Fixed rate

The Company holds fixed interest investments and has fixed interest liabilities.

	2014 £'000	2014 Average interest rate	2014 Average period until maturity	2013 £'000	2013 Average interest rate	2013 Average period until maturity
Fixed interest investments	**49,302**	**4.99%**	**11.42 years**	53,526	6.1%	8.34 years
Fixed interest liabilities: 6.25 per cent Bonds 2031	**59,553**	**6.25%**	**16.95 years**	59,527	6.25%	17.95 years

The bonds are denominated in sterling. In the event that the Company decides to repay the bonds before their maturity date the terms of issue may result in a penalty for early repayment.

The fair value of the bonds, based on the middle market price at 30 September 2014 was £71.7 million (2013: £70.0 million).

Non-interest bearing investments

The Company's non-interest bearing investments are its equity investments which had a value of £441,388,000 on 30 September 2014 (2013: £434,752,000).

Notes to the Accounts (continued)

18 Financial instruments (continued)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represents the maximum credit risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2014 £'000	2013 £'000
Fixed income securities	**49,302**	53,526
Cash at bank and on deposit	**14,790**	14,594
Balances due from brokers	**3,458**	20,222
Interest, dividends and other receivables	**1,857**	2,710
	69,407	91,052

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the diversity of counterparties used.

All the assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase Bank, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Report of the Audit Committee on pages 29 and 30. The Managers have a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis.

The credit risk on liquid funds and derivative financial instruments is controlled through the Managers' process for approving counterparties, which incorporates both a quantitative and qualitative review in order to achieve an overview of the credit worthiness of all counterparties. Bankruptcy or insolvency of such counterparties may cause the Company's ability to access cash placed on deposit to be delayed, limited or lost.

On 30 September 2014 the Company had five overnight deposits of £10.6 million, £2.3 million, £2.0 million, £0.3 million and £0.1 million with five separate counterparties (2013: £4.3 million, £1.5 million, £1.1 million and £0.4 million with four separate counterparties). There were no other material concentrations of credit risk to counterparties on 30 September 2014 or 30 September 2013 because other deposits were spread over a number of counterparties.

Liquidity risk

The Company maintains sufficient investments in cash and readily realisable securities to pay expenses as they fall due. Short term flexibility is achieved, where necessary, through the use of overdraft facilities. The Company's liquidity risk is managed on an ongoing basis by the Managers.

Contractual maturity analysis for financial liabilities:

	Within one month £'000	Between one and three months £'000	Between three and twelve months £'000	Between one and five years £'000	After five years £'000	**Total £'000**
Current liabilities:						
Amounts due to brokers	4,042	–	–	–	–	**4,042**
Other creditors	203	–	–	–	–	**203**
Revolving advance facility	20,027	–	–	–	–	**20,027**
Long term liabilities:						
6.25 per cent Bonds 2031	–	–	3,750	15,000	105,000	**123,750**
Total liabilities	24,272	–	3,750	15,000	105,000	**148,022**

18 Financial instruments (continued)

Foreign currency risk

The Company invests in overseas securities and holds foreign currency cash balances which give rise to currency risks. In the year to 30 September 2014, the Company entered into US Dollar and Euro foreign currency contracts with a view to partially hedging these currency risks.

Foreign currency exposure:

	2014 Investments £'000	**2014 Current assets/ (liabilities) £'000**	**2014 Loans £'000**	2013 Investments £'000	2013 Current assets/ (liabilities) £'000	2013 Loans £'000
Australian Dollar	**–**	**–**	**–**	1,351	1,550	–
Brazilian Real	**–**	**–**	**–**	6,798	63	–
Canadian Dollar	**–**	**–**	**–**	545	3,512	–
Euro	**42,862**	**323**	**(1,975)**	36,018	(17,611)	(1,884)
Hong Kong Dollar	**10,171**	**2,589**	**–**	7,087	1,065	–
Indian Rupee	**4,282**	**–**	**–**	4,047	(26)	–
Indonesian Rupiah	**–**	**–**	**–**	1,425	–	–
Japanese Yen	**13,081**	**169**	**(992)**	3,481	(786)	(251)
Mexican Peso	**–**	**–**	**–**	659	–	–
New Zealand Dollar	**–**	**–**	**–**	–	18	–
Phillipine Peso	**–**	**–**	**–**	–	3	–
Polish Zloty	**–**	**–**	**–**	902	42	–
Singapore Dollar	**–**	**–**	**–**	–	2	–
South African Rand	**–**	**–**	**–**	2,788	(64)	–
South Korean Won	**2,076**	**–**	**–**	5,841	–	–
Swedish Krona	**–**	**–**	**–**	–	881	–
Swiss Franc	**6,984**	**–**	**–**	5,884	(1,618)	–
Taiwan Dollar	**–**	**–**	**–**	3,049	8	–
Thai Baht	**–**	**–**	**–**	813	6	–
Turkish Lira	**–**	**–**	**–**	1,823	–	–
US Dollar	**64,432**	**(1,891)**	**(2,509)**	43,723	18,228	(3,418)
Total	**143,888**	**1,190**	**(5,476)**	126,234	5,273	(5,553)

The foreign exchange currency contracts not yet realised at the year end were as follows:

	2014 Hedged amount £'000	**2014 Unrealised gain £'000**	2013 Hedged amount £'000	2013 Unrealised gain £'000
US Dollar for sterling	**7,560**	**(51)**	7,342	35
Euro for sterling	**11,441**	**19**	4,058	44
	19,001	**(32)**	11,400	79

If the value of sterling had weakened by 10 per cent against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been an increase of £15.5 million (2013: £14.0 million). If the value of sterling had strengthened by 10 per cent against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been a reduction of £12.7 million (2013: £11.5 million). These calculations are based on the portfolio valuation and cash and loan balances on the respective balance sheet dates and are not representative of the year as a whole. They do not take account of any impact on corporate profits of investee companies as a result of these currency movements.

Notes to the Accounts (continued)

19 Alternative Investment Fund Managers ('AIFM') Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, F&C Investment Business Limited, is required to be made available to investors. In accordance with the Directive, the AIFM's remuneration policy is available from F&C Investment Business Limited on request and the numerical remuneration disclosures in relation to the AIFM's first relevant accounting period will be made available in due course.

The Company's maximum and average actual leverage levels at 30 September 2014 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	200%	200%
Actual	119%	119%

For the purposes of the AIFM Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of Company's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Association. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

Independent Auditor's Report

Independent Auditor's Report to the Members of British Assets Trust plc

Opinion on Financial Statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at 30 September 2014 and of the Company's net return for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

What We Have Audited

We have audited the financial statements of British Assets Trust plc ("the Company") for the year ended 30 September 2014 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 33, 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 Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our Assessment of Risks of Material Misstatement

We identified the following risks of material misstatement that we believe to have had the greatest impact on our audit strategy, the scope of our work, the allocation of resources and the efforts of the engagement team:

- Incorrect valuation, existence and ownership of the investment portfolio.

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, in evaluating the effect of misstatements on our audit and on the financial statements and in forming our audit opinion. For the purposes of determining whether the financial statements are free from material misstatement we

Independent Auditor's Report (continued)

define materiality as the magnitude of misstatement that, individually or in aggregate in light of surrounding circumstances could reasonably be expected to influence the economic decisions of the users of the financial statements. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined the magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Company to be £4.27 million, which is 1 per cent of net assets. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment is that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75 per cent of materiality, namely £3.2 million. Our objective in adopting this performance materiality was to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds our materiality level for the financial statements as a whole.

We have agreed to report to the Audit Committee any audit differences in excess of £0.2 million, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.

An Overview of the Scope of Our Audit

Our response to the risk identified above was as follows:

- We agreed the year end prices of the investments to an independent source and the investment holdings to a third party custodian report.

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 Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which We are Required to Report by Exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 21, 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 UK Corporate Governance Code specified for our review.

Ashley Coups (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
Edinburgh

15 January 2015

Capital Structure

The Company's capital structure consists solely of Ordinary Shares.

Ordinary Shares
At 30 September 2014 there were 291,112,282 Ordinary Shares of 25p each in issue, including 1,700,000 held in treasury, (2013: 291,112,282 Ordinary Shares including 1,700,000 held in treasury).

The Ordinary Shares are designed to provide income and capital growth and their value will be dependent on, inter alia, the underlying income and capital growth of the Company's investment portfolio.

Capital Entitlement
In the event of a winding up, after meeting the liabilities of the Company, the surplus assets would be paid to the holders of Ordinary Shares and distributed among such holders pro-rata.

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.

Unless the Board otherwise decides, no member is entitled in respect of any share held by him to vote (either personally or by proxy or by a corporate representative) at any general meeting of the Company if he is a person with a 0.25 per cent interest (as defined in the Articles of Association) and he has been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

Income Entitlement
The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of interim and final dividends to the holders of the Ordinary Shares.

Subject to the provisions of the Companies Acts, the Board may from time to time declare dividends in accordance with the respective rights of the members. Subject to the provisions of the Companies Acts, the Board may pay such interim dividends as appear to the Board to be justified by the financial position of the Company. The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25 per cent interest (as defined in the Articles of Association) if such a person has been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

Ten Year Record

At 30 September	Net Asset Value Total Return	Benchmark Index Total Return	Net Asset Value per Ordinary Share	Ordinary Share Price	Discount (basic)	Revenue per Ordinary Share	Dividends per Ordinary Share	Ongoing Charges
2004	14.2%	13.6%	114.3p	101.0p	11.6%	4.0p	5.326p	0.94%*
2005	27.8%	24.6%	142.5p†	126.5p	11.2%†	4.8p	5.326p	1.05%†*
2006	10.9%	13.2%	152.5p	132.5p	13.1%	6.3p	5.486p	0.62%
2007	9.7%	12.5%	161.4p	140.8p	12.8%	5.7p	5.706p	0.63%
2008	(26.8)%	(20.3)%	114.0p	100.8p	11.6%	6.2p	5.934p	0.61%
2009	13.8%	11.1%	121.9p	109.2p	10.4%	5.8p	6.112p	0.89%*
2010	12.2%	11.7%	129.8p	125.5p	3.3%	5.0p	6.112p	0.72%*
2011	(5.1)%	(4.3)%	117.9p	114.0p	3.3%	5.7p	6.112p	0.59%
2012	17.3%	17.3%	131.4p	119.8p	8.8%	6.6p	6.112p	0.72%
2013	15.2%	19.0%	144.5p	132.0p	8.7%	6.6p	6.2522p	0.70%
2014	**6.6%**	**7.3%**	**147.5p**	**134.0p**	**9.2%**	**7.0p**	**6.440p**	**0.65%**

*Includes performance fee.
†Restated for changes in accounting standards.

Shareholder Information

Annual General Meeting

The Annual General Meeting will be held at Drapers' Hall, Throgmorton Street, London EC2N 2AN at 10.30 am on Thursday, 26 February 2015. It will be followed by a separate General Meeting to approve the proposals set out in the Chairman's Statement and enclosed shareholder circular.

Dividends

Ordinary dividends are paid quarterly in April, July, October and January each year. 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 to shareholders' bank accounts, dividend tax vouchers are sent to shareholders' registered addresses.

Dividend Reinvestment Plan

Shareholders who wish to use their dividends to purchase further shares in the Company by participating in the Company's Dividend Reinvestment Plan can complete a mandate form which may be obtained from Equiniti Limited at the above address.

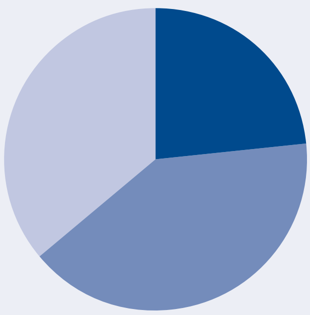
Share Prices

The Company's Ordinary Shares are listed on the London Stock Exchange under 'Investment Companies'. Prices are given daily in the *Financial Times* and other newspapers.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Equiniti Limited at the above address under the signature of the registered holder.

Profile of the Company's Ownership
% of Ordinary Shares held at 30 September 2014



F&C Asset Management Retail Products 25.4% (2013: 23.6%)

Institutions 39.2% (2013: 40.5%)

Individuals and Private Client Stockbrokers 35.4% (2013: 35.9%)

Shareholder Information (continued)

Financial Calendar 2014/15	
30 January 2015	Fourth and final interim dividend paid
26 February 2015	Annual General Meeting and General Meeting (London)
April 2015	First interim dividend paid
May 2015	Announcement of Interim Results
	Posting of Interim Report
July 2015	Second interim dividend paid
October 2015	Third interim dividend paid
December 2015	Announcement of Annual Results
	Posting of Annual Report

Warning to Shareholders – Beware of Share Fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you receive unsolicited investment advice or requests:

- Check the Financial Services Register from www.fca.org.uk to see if the person or firm contacting you is authorised by the FCA
- Call the Financial Conduct Authority ('FCA') on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme
- Think about getting independent financial and professional advice

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at www.fca.org.uk/scams where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Seventeeth Annual General Meeting of British Assets Trust Public Limited Company will be held at Drapers' Hall, Throgmorton Street, London EC2N 2AN on Thursday, 26 February 2015 at 10.30 am for the following purposes:

Ordinary Business

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

1. That the Annual Report and Accounts for the year ended 30 September 2014 be received.
2. That the Directors' Annual Report on Remuneration for the year ended 30 September 2014 be approved.
3. That Jim Grover, who retires annually, be re-elected as a Director
4. That Ian Russell, who retires annually, be re¬elected as a Director.
5. That James Long, who retires annually, be re-elected as a Director.
6. That Jimmy West, who retires annually, be re-elected as a Director.
7. That Lynn Ruddick, who retires annually, be re¬elected as a Director.
8. That Ernst & Young LLP be re-appointed as Auditor.
9. That the Directors be authorised to determine the Auditor's remuneration.
10. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any securities into shares in the Company ("Securities") provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £7,210,307, such authority to expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

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

11. That, subject to the passing of resolution number 10 above and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 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 securities into ordinary shares in the Company and to sell equity securities held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by resolution number 10 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:
    (a) expires at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, 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 any such offer or agreement as if the power conferred hereby had not expired; and
    (b) shall be limited to the allotment of equity securities up to an aggregate nominal value £3,605,153 being approximately 5 per cent of the nominal value of the issued share capital of the Company, as at 15 January 2015, excluding treasury shares.

Notice of Annual General Meeting (continued)

12. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 25 pence each in the capital of the Company ("ordinary shares") (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:

    (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 43,233,001 (or if less, 14.99 per cent of the number of ordinary shares in issue (excluding treasury shares) immediately prior to the passing of this resolution);

    (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 25 pence;

    (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:

        (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and

        (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and

    (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's next annual general meeting or on 26 August 2016 whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

13. That a general meeting, other than an annual general meeting, may be called on not less than 14 clear days' notice.

Special Business

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

14. That the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting, be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

By order of the Board
F&C Investment Business Limited
Secretary
80 George Street
Edinburgh EH2 3BU

15 January 2015

Notes

1. A member entitled to attend, speak and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him provided that, if more than one proxy is appointed, each proxy is appointed to exercise rights attached to different shares. A proxy need not be a member of the Company.

2. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

3. A form of proxy is enclosed for use at the above meeting. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. To be effective, the form of proxy, duly executed, must be lodged at the address shown on the form of proxy (i) by 10.30 am on 24 February 2015 or, (ii) in respect of an adjourned meeting, no later than 48 hours (excluding non-working days) before the holding of that adjourned meeting (or, in the case of a poll taken subsequent to the date of the meeting or an adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll).

4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those holders of Ordinary Shares entered on the Register of Members of the Company as at 6.00 pm on 24 February 2015 or, in the event that the meeting is adjourned, on the Register of Members as at 6.00 pm two days (excluding non-working days) before any adjourned meeting, shall be entitled to attend, speak or vote at the meeting in respect of the number of Ordinary Shares registered in their names at that time. Changes to the entries on the Register of Members after 6.00 pm on 24 February 2015 or, in the event that the meeting is adjourned, on the Register of Members as at 6.00 pm two days (excluding non-working days) before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.

5. Any person holding 3 per cent or more of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

6. Members of the Company may require the Company to publish, on its website (without payment), a statement (which is also passed to the Company's auditor) setting out any matter relating to the audit of the Company's accounts, including the auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from members representing at least 5 per cent of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to 80 George Street, Edinburgh EH2 3BU.

7. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from www.british-assets.co.uk.

8. Under section 338 of the Companies Act 2006, a member or members meeting the qualification criteria set out at note 10 below may, subject to certain conditions, require the Company to circulate to members notice of a resolution which may properly be moved and is intended to be moved at the meeting.

   The conditions are that: (i) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); (ii) the resolution must not be defamatory of any person, frivolous or vexatious; and (iii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than six weeks before the date of the meeting.

9. Under section 338A of the Companies Act 2006, a member or members meeting the qualification criteria set out at note 10 below, may, subject to certain conditions, require the Company to include in the business to be dealt with at the meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The conditions are that: (i) the matter of business must not be defamatory of any person, frivolous or vexatious; and (ii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported; (c) must be accompanied by a statement setting out the grounds for the request; (d) must be authenticated by the person or persons making it; and (e) must be received by the Company not later than six weeks before the date of the meeting.

10. In order to be able to exercise the members' right to require: (i) circulation of a resolution to be proposed at the meeting (see note 8); or a matter of business to be dealt with at the meeting (see note 9), the relevant request must be made by: (a) a member or members having a right to vote at the meeting and holding at least 5 per cent of the total voting rights of the Company; or (b) at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital.

11. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting and put by a member attending the meeting unless:

    (a) answering the question 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.

12. 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 and by logging on to www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting 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.

Notice of Annual General Meeting (continued)

13. 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. 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 Company's registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar 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 by other means.

14. 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(s), 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.

15. 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.

16. No Director has a contract of service with the Company. The Directors' letters of appointment will be available for 15 minutes prior to, and during, the Annual General Meeting.

17. As at 5.00 pm on 15 January 2015 (being the latest applicable date prior to the publication of this notice), the Company's issued share capital comprised 291,112,282 Ordinary Shares of 25p each, including 2,700,000 Ordinary Shares held in treasury. Every Member holding Ordinary Shares shall have one vote for every Ordinary Share held by them and therefore the total number of voting rights in the Company at 5.00 pm on 15 January 2015 was 288,412,282.

18. Members who have general queries about the Annual General Meeting should not use any electronic address to communicate with the Company but should call the Company's registrars on 0871 384 2462. Calls to this number cost 8p per minute plus network extras. Lines open 8.30 am to 5.30 pm, Monday to Friday. The Company's registrars' overseas helpline number is + 44 121 415 7047.

Glossary of Terms

AAF – Audit and Assurance Faculty guidance issued by the Institute of Chartered Accountants in England and Wales.

AIC – Association of Investment Companies, is the trade body for Closed-end Investment Companies (www.theaic.co.uk).

AIFMD – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles in the European Union, including Investment Trusts, must have appointed a Depositary and an Alternative Investment Fund Manager before 22 July 2014. The Board of Directors of an Investment Trust, nevertheless, remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations.

Benchmark – This is a measure against which an Investment Trust's performance is compared. The Company's benchmark is a composite of 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex UK) Index. The index averages the performance of a defined selection of companies listed in stockmarkets in the UK and around the World and gives an indication of how those markets have performed in any period.

Closed-end Investment Company – A company, including an Investment Trust, with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the Net Asset Value of the company and where shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended investment company, which has units not traded on an exchange but issued or bought back from investors at a price directly related to the Net Asset Value.

Custodian – A specialised financial institution responsible for safeguarding, worldwide, the listed securities and certain cash assets of the Company, as well as the income arising therefrom, through provision of custodial, settlement and associated services. The Company's Custodian is JP Morgan Chase Bank.

Depositary – Under AIFMD rules applying from July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. Under AIFMD regulations, the Depositary has strict liability for the loss of the Company's financial assets in respect of which it has safekeeping duties. The Depositary's oversight duties include, but are not limited to, oversight of share buybacks, dividend payments and adherence to investment limits. The Company's Depositary is JP Morgan Europe Limited.

Derivative – A contract between two or more parties, the value of which fluctuates in accordance with the value of an underlying security. The contract is usually short-term (for less than one year). Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. A derivative can be an asset or a liability and is a form of gearing because the fluctuations in its value are usually greater than the fluctuations in the underlying security's value.

Discount (or Premium) – If the share price of an Investment Trust is less than its Net Asset Value per share, the shares are trading at a discount. If the share price is greater than the Net Asset Value per share, the shares are trading at a premium.

Dividend – The income from an investment. The Company currently pays dividends to shareholders on a quarterly basis.

GAAP – Generally Accepted Accounting Practice. This includes UK GAAP and International GAAP (IFRS or International Financial Reporting Standards applicable in the European Union). The Company's financial statements are prepared in accordance with UK GAAP.

Gearing – Unlike open-ended investment companies, Investment Trusts have the ability to borrow to invest. This term is used to describe the level of borrowings that an Investment Trust has undertaken, and is stated as a percentage of shareholders' funds. The higher the level of borrowings, the higher the gearing ratio.

Glossary of Terms (continued)

Investment Trust – A Closed-end Investment Company which satisfies the requirements of Section 1158 of the Corporation Tax Act 2010. Companies which meet these criteria are exempt from having to pay tax on the capital gains they realise from sales of the investments within their portfolios.

Leverage – As defined under AIFMD rules, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

Managers – The Company's investment manager during the year was F&C Investment Business Limited, with is part of the F&C Asset Management plc Group. Further details are set out on page 1 and in note 3 to the accounts.

Market Capitalisation – The stock market value of a company as determined by multiplying the number of shares in issue, excluding those shares held in treasury, by the market price of the shares.

Net Assets (or Shareholders' Funds) – This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an Investment Trust at a point in time.

Net Asset Value ('NAV') per Ordinary Share – This is calculated as the net assets of an Investment Trust divided by the number of shares in issue, excluding those shares held in treasury.

Ongoing Charges – This is a measure of the level of expenses incurred by an Investment Trust during a reporting period. It is calculated as the sum of the investment management fee and other expenses divided by the average net assets during the period.

Ordinary Shares – The main type of equity capital issued by conventional Investment Trusts. Shareholders are entitled to their share of both income, in the form of dividends paid by the Investment Trust, and any capital growth. The Company has only Ordinary Shares in issue.

Share Price – The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are quoted on the main market of the London Stock Exchange.

SORP – Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the AIC.

Total Assets – This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors.

Total Return – The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been re-invested in the form of Ordinary Shares or Net Assets.

Corporate Information

Directors
Lynn C Ruddick, (Chairman)*
Jim N D Grover
James M Long, TD‡
Ian S M Russell
Jimmy G West†

Company Secretary, AIFM and Investment Managers
F&C Investment Business Limited
80 George Street
Edinburgh EH2 3BU

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

Brokers
Cenkos Securities Limited
6.7.8 Tokenhouse Yard
London EC2R 7AS

*Chairman of the Management Engagement Committee and the Nomination Committee
‡Chairman of the Audit Committee
†Senior Independent Director

Solicitors
Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

Depositary
JPMorgan Europe Limited
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London E14 5JP

Custodian
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Company Number
SC 3721

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Registrars' Shareholder Helpline: 0871 384 2462 *
Registrars' Broker Helpline: 0906 559 6025 †

* Calls to this number cost 8p per minute plus network extras.
† Calls to this number cost £1 per minute plus network extras.