British Empire
Securities and General Trust plc

AVI

Annual Report & Accounts 2008

Financial Statements on website
www.british-empire.co.uk

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

Contents

Company Summary

The Company	The Company is an investment trust and its shares are listed on the London Stock Exchange. It is a member of the Association of Investment Companies. The Group's net asset value at 30 September 2008 was £634million and the market capitalisation was £634million.
Objective	The investment objective of the Company is to achieve capital growth through a focused portfolio of investments, particularly in companies whose shares stand at a discount to estimated underlying net asset value.
Investment Manager	Asset Value Investors Limited (Customer Services: 0845 850 0181)*
Capital Structure	The Company has Ordinary Shares, Debenture Stock and Equities Index Loan Stock in issue. A full explanation of the capital structure is given on pages 19 and 20.
ISA Status	The Company's shares are eligible for Stocks & Shares ISAs
Website	The Company's internet website is : www.british-empire.co.uk

** Calls charged at 4p per minute plus network charges*

Financial Highlights

- **Net asset value ('NAV') on a total return basis decreases by 21.1%**
- **NAV underperforms Datastream Index by 2.0%**
- **Ordinary dividend increased by 15.0%**

Performance Summary

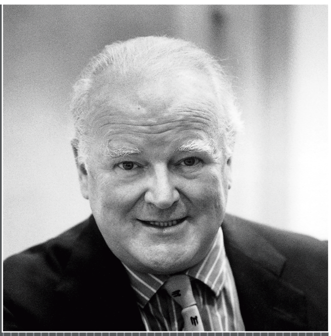
Capital Return	30 September 2008	30 September 2007	% change
Net asset value per Share	**395.96p**	509.19p	(22.24)
Share price (mid market)	**396.00p**	476.00p	(16.81)
Total assets less current liabilities	**£662.98m**	£847.31m	(21.75)
Net asset value per Share (total return)			(21.09)
Indices			
Datastream Global Growth Investment Trust Index*	**4049.00**	5002.14	(19.05)
Morgan Stanley Capital International World Index (£ adjusted total return)	**2090.77**	2459.11	(14.98)
Revenue and Dividends			
Income	**£23.35m**	£17.73m	31.70
Earnings per Share	**8.46p**	5.65p	49.73
Ordinary Dividends per Share	**5.75p**	5.00p	15.00
Special Dividend per Share	**1.50p**	0.50p	200.00
Premium/(Discount)			
(difference between share price and net asset value)	**0.01%**	(6.52)%	-
Total Expense Ratio			
(as percentage of average shareholders' funds)			
Management, marketing and other expenses	**0.83%**	0.78%	-
Performance fee	**0.00%**	0.08%	-
2008 Year's Highs/Lows	High	Low	
Net asset value per Share	**521.13p**	**395.96p**	-
Share price (mid market)	**495.21p**	**391.00p**	-

Share Buy-backs

The Company did not purchase any of its Ordinary Shares for cancellation during the year. The Company purchased 94,235 units of Equities Index Unsecured Loan Stock 2013 for cancellation for £234,883.

* Index (based on total return) is subject to daily revision and this figure is at 1 October 2008.

Chairman's Statement



Strone Macpherson
Chairman

"Portfolio reasonably well positioned for these highly volatile markets"

In my first Annual Report to you as Chairman I am disappointed to have to say that the past year has been one of the most challenging in your Company's recent history. By the half year the Net Asset Value had fallen by 6.2% and we did not feel there was any hurry to deploy the significant level of liquidity then held (15.9%). Liquidity had at the year end increased to 17.1% as credit conditions and stock markets worldwide continue to get more difficult. Conditions in September, the last month of our financial year proved to be exceptionally volatile. The Net Asset Value has decreased during our financial year by 21.1% compared to 19.1% in our benchmark Datastream Global Investment Trust Growth Index, and 22.3% in the FTSE All Share index, all on a total return basis.

Over 3 years your Company's Net Asset Value total return per share has been 6.0%, against 5.9% for the benchmark, over 5 years 90.2% (36.8% ahead of the benchmark) and over 10 years 271.0% (with a benchmark return of 72.2%).

Since the year end, stock market and credit conditions have deteriorated significantly, prompting substantial capital injections by governments and their agencies into the banking system worldwide. This concerted action on a global basis is unprecedented but does appear to have calmed worries about a collapse of the banking system. However, increased concerns about the global economy have led to further deterioration in equity markets and the Company's Net Asset Value was down a further 14.2% in October.

As the following detailed Manager's Report shows, with such difficult market conditions also come opportunities. By "sticking to our knitting", that is investing in cash generative companies with little or no gearing standing at a substantial discount to their asset value, we have been able to add at recent very depressed levels to our core longer-term investments, many of which are standing at the largest discounts we have seen in many years. Consequently, overall, the Company's investments stood at the year-end at an average discount of approximately 30% to their underlying net asset value. This is its highest level for many years and should represent a good store of value for the future.

The Company's shares have traded over the past year within a relatively narrow range around its Net Asset Value (between 6.10% premium and 11.80% discount). The Board monitors the level of discount or premium, and will, if necessary, take steps to limit discount volatility through measured buy-backs of shares. Accordingly, the Board is again seeking to renew its powers to buy back the Company's shares.

Despite the recent volatility in the value of the portfolio, income streams have shown strong growth, again reflecting good long term progress in dividends from our portfolio companies and increased income from our liquid holdings. Total income is up over 30%. Earnings per share are up by nearly 50%, benefitting partly from a VAT reclaim referred to below. We are recommending the payment of a final dividend of 4.00p (2007: 3.60p), which together with the interim dividend of 1.75p (2007: 1.40p) brings the ordinary dividends for the year to 5.75p, an increase of 15% over last year's ordinary dividends of 5.00p. In addition, and partly due to the VAT reclaim which I comment on later, we are also recommending a special dividend of 1.50p, compared to 0.50p last year. Overall, total dividends will be 7.25p, a 32% increase on last year.

While the credit crisis and sharply slowing world economy have made it impossible, despite significant levels of liquidity, to make any positive absolute returns, John Pennink and his team at AVI have continued to find investment opportunities with real value and excellent prospects for good medium to long term capital appreciation. We are confident that the portfolio is reasonably positioned for these highly volatile and unpredictable market conditions and should perform well when monetary and economic conditions improve. There is also adequate liquidity available to be deployed when further opportunities and anomalies thrown up by the current turbulence arise.

There have been a number of changes to the Board since last year's report. Iain Robertson stepped down after 12 years on the Board, for 5 of which he was Chairman. We thank him for his huge contribution to our Company's deliberations and given his banking background, and characteristic Scottish caution which I share, for the help he provided in preparing us for the difficulties of the past year. Peter Allen, who has so ably chaired your Audit Committee since 2003, has also expressed his wish to step down after 6 years on the Board with effect from the end of March 2009. After an extensive search we have appointed Andrew Robson to the Board. He has wide experience of the investment trust world and elsewhere in financial services and it is planned that he should succeed Peter as chairman of the Audit Committee. Rosamund Blomfield-Smith has reached the end of her second term and also comes up for re-election and I am delighted to support the election of Andrew and the re-election of both Peter and Rosamund.

I am pleased to report that, following the European Court of Justice's decision that fund management services supplied to investment trusts are exempt from VAT, HMRC has agreed a refund of a little over £2 million in respect of the period 2004 – 2007. This represents 1.29p per share, of which 0.47p is attributable to income. We are taking appropriate steps to reclaim VAT relating to previous years, to the extent this is possible, but because the amounts of any further recoveries are not yet certain they have not been recognised as assets in these accounts.

As a result of an independent assessment by the Company's advisors, after consultation with major shareholders the Board has decided on some changes to the management and performance fees payable to AVI, which are effective from 1 October 2008. Fuller details of the changes can be found in the Report of the Directors. Henceforth the benchmark will be the Fundamental Data Global Growth Investment Trust Index, as its calculation methodology is considered to be more robust; the basic management fee will be paid at a rate of 0.6%.of net assets, with no reduction for underperformance; a performance fee will be paid at a rate of 6% (previously 4%) of any outperformance in the net asset value (on a total return basis) over the benchmark at the year end. Importantly the cap on aggregate fees remains at 1% of net assets at the preceding year end.

The Company's Articles of Association have not needed review since 1998 and our advisors have recommended that they be amended to reflect those provisions of the Companies Act 2006 already in force. Details of the principal changes proposed can also be found in the Report of the Directors.

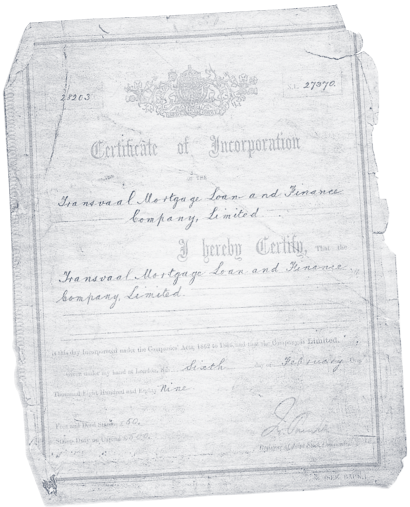
Outlook

Since the year end, the Company's Net Asset Value has fallen by 14.1% the Data Stream Global Growth Investment Trust Index by 13.48% and the MSCI World Index 10.57%. Over the same period the Fundamental Data Global Growth Investment Trust Index fell by 13.7%. October has been the most difficult month so far in this savage bear market, despite the global effort by monetary authorities to strengthen the banking system and capital ratios and depositors confidence following the Lehman collapse.

The extent of the credit crisis and the increasing evidence of the sharpness of the economic slowdown in most parts of the world, together with widespread deleveraging, does not currently bode well for early strong and sustainable recovery in equity markets. However, despite all these difficulties, your board sees a good deal of value in many investment situations now and looks forward to the returns that should be made from our investments and from putting our cash resources to work carefully, over time.

Strone Macpherson
Chairman
17 November 2008

The Company's History


Certificate of Incorporation
Transvaal Mortgage Loan and Finance Company, Limited
I hereby Certify, that the Transvaal Mortgage Loan and Finance Company, Limited

The Certificate of Incorporation for the Company dated 1889

1889
Company founded as The Transvaal Mortgage Loan and Finance Company Limited.

1906
Name changed to British Empire Land Mortgage and Loan Company Limited.

1966
British Empire Securities and General Trust, as the Company is now known, opts for Investment Trust status. Net assets £1 million.

1984
Open offer and change of management to Asset Value Investors Limited (formerly Laurwood Limited). Net assets £6 million.

1985
Rights Issue of 4 shares for 1. Net assets increased to £30 million.

1986
Acquisition of The Ashdown Investment Trust PLC involving the issue of 31.4 million Ordinary Shares and £11.9 million of $10\frac{3}{8}\%$ Debenture Stock 2011.

1989
Offer for Schroder Global Trust plc leading to its unitisation.

1995
Acquisition of Selective Assets Trust plc involving the issue of 45,451,489 Ordinary Shares and 20,130,104 units of Equities Index Unsecured Loan Stock 2013.

1999
Holding of 6.8% in Rue Impériale de Lyon was sold for £45.9 million, realising a profit of £25.6 million.

2001
Company exceeds the MSCI World Index by 20 percentage points.

2005
The Company's NAV exceeds the MSCI World Index for a seventh consecutive year, by 26 percentage points on a total return basis.

2007
NAV per Share reaches 517.8p. The Company's positive performance continues, 5.9 percentage points above the MSCI World Index on a total return basis.

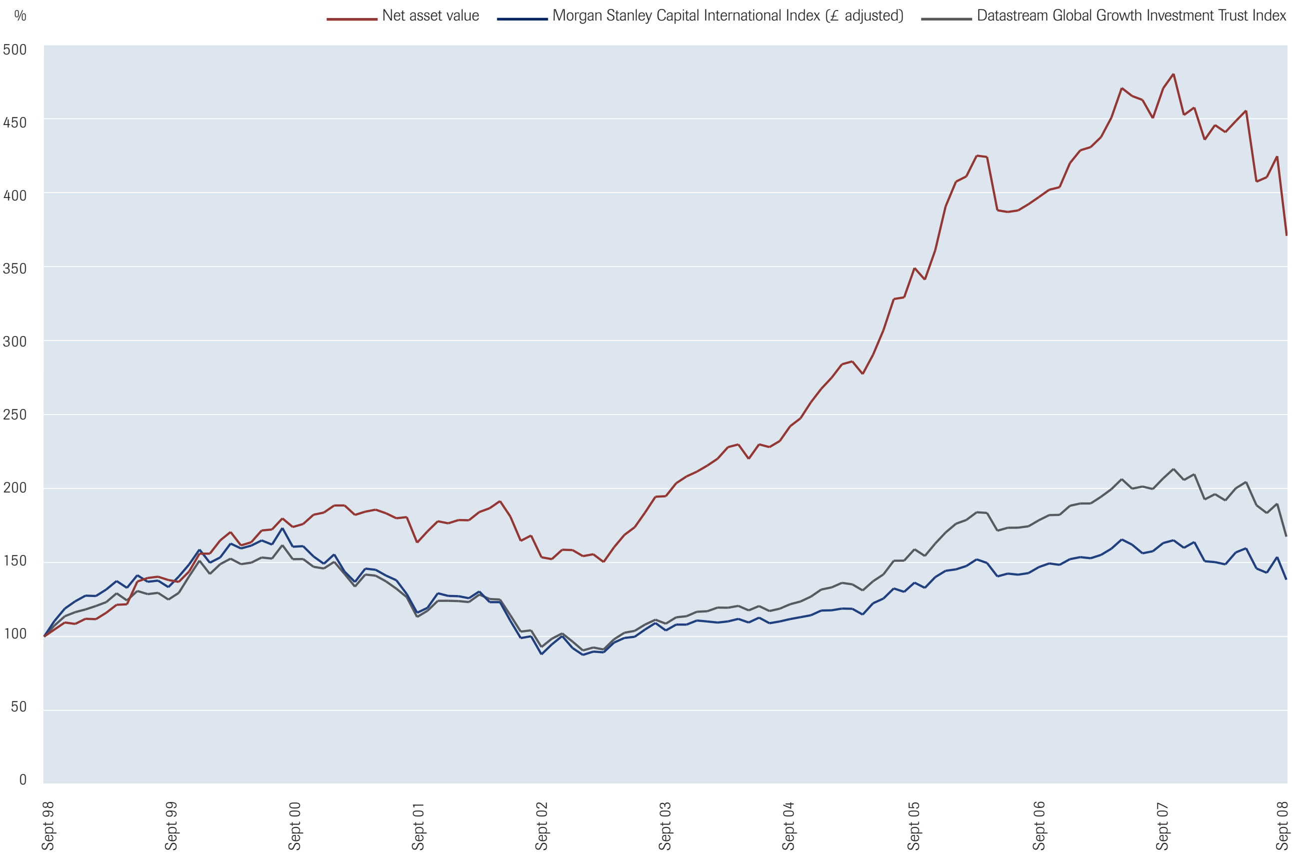
2008
NAV per Share reaches 521.1p, a record level, before market turmoil causes it to fall.

Historical Record

Year ended 30 September	Group net revenue return £'000	Earnings per Share (p)	Ordinary dividend per Share (p)	Special dividend per Share (p)	Net assets £'000 †	Basic net asset value per Share (p) †
1999	2,038	1.08	1.13	-	298,401	159.53
2000	3,882	2.15	1.30	-	356,337	202.11
2001	5,942	3.37	1.40	0.50	325,970	186.18
2002	3,868	2.29	1.50	0.40	277,419	173.30
2003	2,726	1.70	1.55	-	348,326	217.59
2004	3,651	2.28	1.70	-	429,474	268.28
2005	6,614	4.13	2.20	1.40	618,739	386.51
2006	8,520	5.32	4.00	1.00	701,291	438.08
2007	9,046	5.65	5.00	0.50	815,124	509.19
2008	13,548	8.46	5.75	1.50	633,856	395.96

† The figures for 2005 and 2004 have been restated in accordance with IFRS. Figures for earlier years have not been restated.

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



Sources: Fundamental Data (2008) www.funddata.com, Bloomberg, Thomson Financial Datastream

Investment Manager

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

Asset Value Investors Limited

Asset Value Investors Limited ("AVI"), the Company's investment manager, specialises in quoted 'undervalued asset' securities. The company manages, in addition to British Empire Securities and General Trust, The European Asset Value Fund (SICAV), CF Asset Value Investors Global Fund (OEIC), AVI Value Fund (LLC) and other managed accounts. Funds under management have grown from £6m in 1985 to above £1.4bn today.

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

Favoured investments:

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

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

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

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

Investment Manager's Review

During the year, British Empire's NAV fell 21.1% to 396p and the share price fell 15.6% to 396p on a total return basis. This compares with a decline of 19.1% on the Datastream Global Growth Investment Trust Index and 15.0% on the MSCI World Index on a total return basis.

The credit crisis which has been stalking the markets all year took a nasty turn for the worse in September, the last month of the Company's financial year. The U.S. Treasury Department allowed Lehman Brothers to fail and the consequences were a loss of confidence in markets generally and forced selling by those geared investors who found themselves cut off from access to borrowing. Discounts on the Company's universe of stocks were already at historically wide levels before September and widened further during the month as markets panicked. The Company has held net cash throughout the year and is in a strong position to take advantage of opportunities that present themselves as a result of extreme market conditions. We do not consider it advisable to sell stocks in these conditions and investors with a long-term investment horizon should be looking to gradually increase exposure to the equity markets.

Aker ASA is a Norwegian holding company that owns 100% of Aker Drilling. The Aker Spitsbergen rig (shown in photo as of 17th October 2008) was commissioned by Aker Drilling, which has arranged to lease it out on completion to StatoilHydro on a long term contract.

Investment Manager's Review continued

Mitsubishi Estate Co develops, manages and leases a portfolio of high quality properties in central Tokyo, including the Maranouchi Park Building, *right*. Occupancy rates remain high and rents are rising in Central Tokyo.

Portfolio Review

Performance was poor across the board in equity markets as almost all countries and all sectors were affected by the drying up of formerly abundant debt and equity funding. Resource companies and emerging markets held out the promise of growth for longer but succumbed to selling pressure by the end of the Company's financial year.

Investment Holding Companies (35.6%)

The weighted average discount to NAV on the investment holding companies held was 35%, up from 24% last year. Although it is difficult to get hard figures, it is clear in some cases that hedge fund and other investors are liquidating long positions in holding companies and this is putting pressure on discounts. This phenomenon is, perhaps, most clear in IFI, where the discount widened from ca. 50% to over 70% following a merger proposal unpopular with investors. The discount widening hurt the Company's performance last year but is creating some very interesting opportunities.

GBL / Pargesa
The discounts on these two companies controlled by Albert Frère continue to be above 30%. We sold out of our holding in the top company in the group, Compagnie Nationale à Portefeuille, on a discount to NAV of less than 10%. Frere has built up cash in GBL and has been using it to increase his ownership in French cement company, Lafarge, in which he now holds a stake of over 20%. At the same time Pargesa has been adding to its stake in GBL. With minimal administration and head office expenditure, this is an efficient way to gain exposure to companies such as Total, Suez and Lafarge, alongside Albert Frère who is actively pursuing value creation strategies in his portfolio companies.

Aker ASA
Aker ASA is a Norwegian holding company with exposure to the oil and gas services industry as well as marine-based industries. Aker's recent market cap was NOK12bn, despite the company having NOK8.9bn of net cash. The assets that an investor in the company is effectively paying NOK3.1bn for are estimated to be worth NOK11.9bn. The assets include a 41% stake in Aker Solutions, a NOK16bn market cap company that provides engineering and construction services primarily to the oil and gas industry, and 100% of Aker Drilling. Aker Drilling owns two of the world's largest semi-submersible drilling rigs designed for deep sea use. Aker should benefit from any increase in activity in offshore deep sea drilling.

Orkla ASA
manufactures branded consumer goods to the Nordic food market. Its other holdings include investments in the renewable energy sector. It owns a 40% stake in REC, a Norwegian company that specialises in harnessing solar energy.

Investment Manager's Review continued

IFI/IFIL

IFI and IFIL are the holding companies through which the Agnelli family hold their 30% interest in Fiat. Fiat makes up almost half the value of the holding companies, and other investments include stakes in Juventus Football Club, SGS and Intesa Sanpaolo. In September of this year, it was announced that the family would merge IFIL into IFI, thereby simplifying the ownership structure and making the holding company more transparent and efficient. The market has not reacted positively thus far to the proposals and IFI has traded recently on a discount to NAV of over 70%.

Investment Trusts and Funds (12.0%)

Discounts on our investment trust holdings average 19%, which is almost twice last year's 10% level.

Electra

Electra is an investment trust that invests directly into private equity. It has recently traded on a discount of almost 50% to its last published NAV. The trust itself is not overly geared and, in fact, has 25% net cash. The trust has a very good long term track record of investing. It has raised cash from sales into a strong market in recent years and is now in a position to re-invest in a more distressed environment.

Forth Ports Plc owns and operates ports in strategic locations around the UK. The company also comprises a property business owning 400 acres of land available for development and forming the major part of the waterfront in Leith.

Japan (12.2%)

Japan has been disappointing this year in that, despite a plethora of companies trading below net asset value and a financial system in relatively good shape, it has not managed to outperform the falling global equity markets. Stock price declines in Sterling terms have been offset by the stronger Yen.

NTT Urban

A high quality Japanese office leasing business that trades on an implied cap rate of ca. 6.75%. This is too high in the Japanese context and a more normal cap rate of 4.25% would put the company on a discount of well over 50%.

Other (23.1%)

The Company invests in listed companies globally that are trading on significant discounts to net asset value and are neither investment holding companies nor investment trusts.

Tüpraş -Turkiye Petrol Rafinerileri A.S. owns and operates the only four refineries in Turkey, enjoying a geographic position engendering strategic advantages in sourcing crude oil. It trades on very low multiples, at around a third of the cost of building comparable facilities, and has a high dividend yield.

Vivendi

A diversified telecoms and media company currently trading on a discount of 33% to its sum-of-the-parts valuation. The group is defensive as much of its revenues are subscription-based. The discount may be too wide given that the company has E23bn of tax losses to offset capital gains tax on any disposals, and cash flow from underlying investments is good leading to a dividend yield on Vivendi of over 6%.

Tüpraş

Tüpraş is a Turkish petroleum refinery business with a very strong domestic position. Tüpraş currently owns the only four refineries in Turkey and potential competitors' plans to build refineries are being hit by high costs and the difficult credit environment. Tüpraş is currently valued in the market well below the replacement cost of its assets. The company trades at less than 4x earnings with a forecast dividend yield above 20%.

Sofina SA holds a diversified portfolio of predominantly European stocks. Its largest holding is in GDF Suez, a global energy provider, specialising in the provision of natural gas, but also involved in the supply of other energy sources, including hydroelectricity.

Liquidity (17.1%)

Liquidity stood at 17.1% of gross assets at the end of the year. The bulk of the Company's liquidity is held in short-dated UK Gilt Bonds.

Investment Manager's Review continued

Geographical Profile

Gross Assets of £672 million were distributed (on a look-through basis) as follows: Continental Europe 36.6%, UK 16.8%, Asia Pacific 10.4%, Japan 12.2%, Canada 2.8%, Other 4.1%. Liquidity was 17.1%.

Outlook

Your company's portfolio of investments is as cheap as it has ever been with a weighted average discount of 29%. Discounts levels tend to have an inverse relationship with investor confidence so this is no surprise given the current extreme negative market sentiment. As contrarian investors, we take some encouragement from the valuation levels and the depressed sentiment in markets. Another positive factor is that central

Jardine Matheson Holdings and **Jardine Strategic Holdings** are listed holding companies controlled by the Keswick family. Their diversified holdings cover the retail, motor, real estate and insurance industries, as well as the hotel industry through its 74% stake in Mandarin Oriental Hotels.

Groupe Bruxelles Lambert SA is a Belgian holding company that takes an active interest in its portfolio companies. GBL owns 19.8% of Lafarge, a cement company, and has board representation. Lafarge has been expanding its presence in emerging markets, the picture above shows a bridge built using Lafarge cement.

banks and governments have recognised the seriousness of the financial crisis and are taking unprecedented actions to deal with it, including recapitalising banks and guaranteeing bank deposits and bank borrowing. Undoubtedly, other measures will need to be taken to stabilise the economy but the authorities have clearly signalled their intent to take all necessary measures. As conditions normalise, borrowing rates should come down and equity markets should find their footing. Some of the distressed valuations will come to be seen as a good entry point into the market. The situation remains precarious as many countries' economies slip into recession and profit levels come under pressure at the corporate level. The slowing global economy, however, should have a moderating effect on commodity prices and allow for further reductions in interest rates. Equity markets continued to fall for the first few weeks of the Company's 2009 financial year. Stockmarkets now represent good value but it will take time for confidence to be rebuilt in the face of a recessionary economic environment and extreme risk aversion.

John Pennink
Asset Value Investors Limited
17 November 2008

Investment Portfolio As at 30 September 2008

Company	Nature of business	% of class	Cost £'000	Valuation £'000	% of total assets less current liabilities
Sofina	Investment Holding Company	**1.7**	**31,180**	**32,690**	**4.93**
Investor AB 'A'	Investment Holding Company	**1.0**	**26,912**	**29,380**	**4.43**
Jardine Strategic Holdings	Investment Holding Company	**0.3**	**8,432**	**25,591**	**3.86**
Jardine Matheson Holdings	Investment Holding Company	**0.3**	**17,454**	**23,842**	**3.60**
Holmen AB 'B	Forestry & Paper Company	**1.8**	**23,397**	**20,469**	**3.09**
Groupe Bruxelles Lambert	Investment Holding Company	**0.3**	**25,691**	**19,963**	**3.01**
Vivendi	Media Company	**0.1**	**22,996**	**19,289**	**2.91**
Paris Orléans	Investment Holding Company	**3.1**	**12,474**	**18,994**	**2.87**
Electra Private Equity	Investment Company	**3.9**	**18,632**	**17,067**	**2.57**
Tüpraş Turkiye Petrol Rafinerileri	Oil Refining Company	**0.6**	**18,584**	**14,668**	**2.21**
Top ten investments			**205,752**	**221,953**	**33.48**
Pargesa Holding	Investment Holding Company	**0.4**	**16,641**	**14,330**	**2.16**
Lundbergforetagen AB 'B'	Investment Holding Company	**1.6**	**13,208**	**13,201**	**1.99**
NTT Urban Development	Real Estate Company	**0.6**	**15,932**	**12,630**	**1.90**
Tokyu Corp	Transport & Property Company	**0.4**	**16,101**	**12,548**	**1.89**
Mitsubishi Estates	Real Estate Company	**0.1**	**12,704**	**12,054**	**1.82**
BIP Investment Partners	Investment Holding Company	**4.7**	**8,060**	**11,022**	**1.66**
Swire Pacific 'B'	Investment Holding Company	**0.4**	**9,292**	**10,444**	**1.58**
Finsbury Worldwide Pharmaceutical Trust	Investment Company	**3.4**	**9,781**	**10,127**	**1.53**
Deutsche Wohnen	Real Estate Company	**5.3**	**24,392**	**9,841**	**1.48**
Law Debenture	Investment Company	**2.9**	**7,852**	**9,330**	**1.41**
Top twenty investments			**339,715**	**337,480**	**50.90**
Orkla	Investment Holding Company	**0.2**	**10,720**	**8,589**	**1.30**
Aksigorta	Insurance Company	**1.5**	**10,602**	**8,578**	**1.29**
Land Securities	Real Estate Company	**0.2**	**12,679**	**8,564**	**1.29**
Industrivarden AB 'C'	Investment Company	**1.3**	**12,455**	**8,562**	**1.29**
Edinburgh Dragon Trust	Investment Company	**2.9**	**5,373**	**8,336**	**1.26**
Herald Investment Trust	Investment Company	**3.7**	**10,773**	**8,278**	**1.25**
Wheelock & Company	Investment Holding Company	**0.4**	**5,208**	**7,996**	**1.21**
Aker	Investment Holding Company	**0.7**	**10,241**	**7,896**	**1.19**
Ackermans & van Haaren	Investment Holding Company	**0.5**	**3,009**	**7,833**	**1.18**
Istituto Finanziario Industriale	Investment Holding Company	**1.6**	**15,202**	**7,593**	**1.15**
Top thirty investments			**435,977**	**419,705**	**63.31**

Company	Nature of business	% of class	Cost £'000	Valuation £'000	% of total assets less current liabilities
Cameco Corp	Mining Company	**0.2**	**11,317**	**7,247**	**1.09**
Impax Environmental Markets Ireland Fund 'A'	Investment Company	**3.2**	**6,461**	**7,013**	**1.06**
Katakura Industries	Textile & Property Company	**2.8**	**7,493**	**6,769**	**1.02**
Forth Ports	Harbours & Property Company	**1.1**	**6,963**	**6,729**	**1.02**
Daidoh	Textile & Property Company	**3.1**	**6,560**	**6,386**	**0.96**
Daibiru Corp	Real Estate Company	**1.2**	**8,002**	**5,925**	**0.89**
BlackRock Smaller Companies Trust	Investment Company	**4.6**	**5,946**	**5,921**	**0.89**
New India Investment Trust	Investment Company	**10.0**	**4,232**	**5,873**	**0.89**
Jazz Air Income Fund Units	Regional Airline Operator	**1.7**	**9,764**	**5,742**	**0.87**
JP Morgan Japanese Investment Trust	Investment Company	**2.3**	**8,233**	**5,727**	**0.86**
Top forty investments			**510,948**	**483,037**	**72.86**
First Uranium Corp	Mining Company	**2.5**	**11,351**	**5,385**	**0.81**
CF Morant Wright Japan 'B'	Investment Company	**1.1**	**5,292**	**5,377**	**0.81**
Cie Du Bois Sauvage	Investment Holding Company	**1.9**	**7,503**	**4,964**	**0.75**
Polar Capital Technology Trust	Investment Company	**2.2**	**6,084**	**4,729**	**0.71**
Resaca Exploitation	Oil & Gas Company	**9.0**	**4,810**	**4,551**	**0.69**
Nippon Residential Investment Corp	Investment Company	**1.3**	**8,946**	**4,283**	**0.64**
Bovis Homes	Housebuilding Company	**0.9**	**6,487**	**4,162**	**0.63**
Rift Oil	Oil & Gas Company	**11.3**	**3,529**	**4,054**	**0.61**
Persimmon	Housebuilding Company	**0.3**	**6,050**	**3,986**	**0.60**
Henex	Investment Holding Company	**0.8**	**4,681**	**3,896**	**0.59**
Top fifty investments			**575,681**	**528,424**	**79.70**

Investment Portfolio continued

Company	Nature of business	% of class	Cost £'000	Valuation £'000	% of total assets less current liabilities
Simmer and Jack Mines	Mining Company	**2.1**	**8,079**	**3,878**	**0.59**
JPMorgan Fleming Japanese Smaller Companies	Investment Company	**7.3**	**5,337**	**3,799**	**0.57**
Total value of investments over 0.5%			**589,097**	**536,101**	**80.86**
Other investments (19)			**32,966**	**17,379**	**2.62**
Treasury 4% 07/03/2009	UK Government Security	**-**	**47,772**	**48,091**	**7.26**
Treasury 5.75% 07/12/2009	UK Government Security	**-**	**46,692**	**47,012**	**7.09**
Treasury 4.75% 07/06/2010	UK Government Security	**-**	**15,088**	**15,182**	**2.29**
Total investments			**731,615**	**663,765**	**100.12**
Net current liabilities				**(788)**	**(0.12)**
Total assets less current liabilities				**662,977**	**100.00**

Capital Structure As at 30 September 2008

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

Ordinary Shares

At 30 September 2008 there were 160,080,089 (2007:160,080,089) Ordinary Shares of 10p each in issue.

Income entitlement:

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

Capital entitlement:

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

Voting entitlement:

Each Ordinary Shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Ordinary Share held.

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

Transfers

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

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

Debenture Stock

At 30 September 2008 there were two tranches of Debenture Stock: £8,514,940 (2007: £8,514,940) $10\frac{3}{8}$ per cent Debenture Stock 2011 and £15,000,000 (2007: £15,000,000) $8\frac{1}{8}$ per cent Debenture Stock 2023.

Income entitlement:

Holders of the respective Debenture Stocks are entitled to interest paid half-yearly at the rate of $10\frac{3}{8}$ per cent and $8\frac{1}{8}$ per cent per annum.

Capital Structure continued

Capital entitlement:

The Stockholders are entitled to repayment of principal and outstanding interest on the redemption date or, if earlier, on the occurrence of an event of default. The Debenture Stock is secured by a floating charge on all the assets of the Company. If the Company is liquidated the Debenture Stock is redeemable by the Company, in the case of the $10\frac{3}{8}$ per cent Debenture Stock at a premium based on its market price and in the case of the $8\frac{1}{8}$ per cent Debenture Stock on the equivalent gilt yield. Had the Company been liquidated on 30 September 2008 such premiums would have amounted, in aggregate, to £5.9million.

Voting entitlement:

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

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

At 30 September 2008 there were 2,635,996 units of Index Stock in issue (2007: 2,730,231). During the year the Company purchased 94,235 units of Index Stock for cancellation.

Investment characteristics:

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

Income entitlement:

Holders of the Index Stock receive interest paid quarterly. Interest is calculated by reference to the yield on the Index having regard to the movement in the ex-dividend adjustment factor during the relevant quarter as published in the Financial Times. The interest paid for the year to 30 September 2008 amounted to £112.25 per 1,000 units.

Capital entitlement:

The Company shall redeem the whole of the Index Stock on the tenth Stock Exchange dealing day after 31 March 2013, barring any circumstances which may lead to an earlier redemption, at its capital value. The capital value means, in respect of one unit of Index Stock, the higher of 10 per cent of its nominal amount of £1.74338 and the Index number at the date of calculation divided by 1,000 expressed in pounds and rounded up to five decimal places. If the Index Stock is redeemed by the Company early, payment will be effected at the capital value.

The capital value of the Index Stock as at 30 September 2008 amounted to £2.48367 per unit and the offer market price of the Index Stock as at 30 September 2008 was £2.05 per unit.

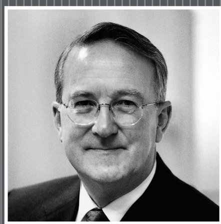
Voting entitlement:

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

Board of Directors

Philip Strone Stewart Macpherson (left)

Status: Independent Non-Executive Chairman
Age: 60 *Length of Service:* 6yrs
Experience: Chairman of Close Brothers plc, Tribal Group plc and JPMorgan Smaller Companies Investment Trust plc. Previously he had been a Director at Flemings and Executive Deputy Chairman of Misys plc.
Last re-elected to the Board: 2006
Committee membership: Audit Committee, Management Engagement Committee, Nomination Committee
Remuneration: £27,000 pa
Employment by the Manager: None
Other connections with the Trust or Manager: None
Shared Directorships with any other Trust Directors: JPMorgan Fleming Smaller Companies Investment Trust plc
Shareholding in Company: 40,000 Ordinary Shares

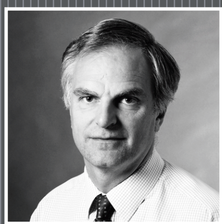


Peter Richard Allen (left)

Status: Independent Non-Executive Director
Age: 65 *Length of Service:* 6 yrs
Experience: Vice-Chairman of The South Downs Society, previously a Director of Lombard; Director and Chairman of the Audit Committee of Greenwich Capital; Finance Director of Corporate Banking and Financial Markets at The Royal Bank of Scotland
Last re-elected to the Board: Up for re-election in 2008
Committee membership: Audit Committee (Chairman), Nomination Committee
Remuneration: £21,000 pa
Employment by the Manager: None
Other connections with the Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 5,000 Ordinary Shares

Andrew Robson (right)

Status: Independent Non-Executive Director
Age: 49 *Length of Service:* 2 months
Experience: A Director of JPMorgan Smaller Companies Investment Trust plc, M&G Equity Investment Trust plc and Shires Income plc. He was formerly Group Finance Director of eFinancial Group Limited, and a Director of Robert Fleming & Co Ltd and SG Hambros.
Elected to the Board: Up for election in 2008
Committee membership: Audit Committee
Remuneration: £18,000 pa
Employment by the Manager: None
Other connections with the Trust or Manager: None
Shared Directorships with any other Trust Directors: JPMorgan Fleming Smaller Companies Investment Trust plc
Shareholding in Company: Nil



Rosamund Blomfield-Smith (right)

Status: Independent Non-Executive Director
Age: 59 *Length of Service:* 6yrs
Experience: Chairman of Moat Housing Group, a Non-executive Director of Thames Water and an independent Board member of the Wales Audit Office. Governor of The University of the West of England and of Hartpury Agricultural College. Formerly Head of Corporate Finance at Arbuthnot Latham Limited and a Director of N M Rothschild & Sons and ING Barings.
Last re-elected to the Board: Up for re-election in 2008
Committee membership: Audit Committee, Management Engagement Committee, Nomination Committee
Remuneration: £18,000 pa
Employment by the Manager: None
Other connections with the Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 3,100 Ordinary Shares

Steven Andrew Ralph Bates (left)

Status: Independent Non-Executive Director
Age: 51 *Length of Service:* 3 yrs
Experience: Director of Zephyr Management, an investment management business specialising in emerging markets. Non-executive Director of Baring Emerging Europe plc and Renaissance US Growth Investment Trust plc. Previously an Executive Director of JPMorgan Asset Management responsible for emerging markets investments
Elected to the Board: 2006
Committee membership: Audit Committee; Management Engagement Commitee
Remuneration: £18,000 pa
Employment by the Manager: None
Other connections with the Trust or Manager: None
Shareholding in Company: 20,000 Ordinary Shares

John Michael May (left)

Status: Non-Independent Non-Executive Director
Age: 53 *Length of Service:* 5 yrs
Experience: A Director of Caledonia Investments plc and, formerly an Executive Director of Hambros Bank Limited and Joint Managing Director of Hambro Countrywide plc
Last re-elected to the Board: 2007
Committee membership: Nomination Committee
Remuneration: £18,000 pa
Employment by the Manager: None
Other connections with the Trust or Manager: Director of Caledonia Investments, a substantial shareholder
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 6,900 Ordinary Shares

Attendance at meetings

Name	*Board*	*Audit*	*Management Engagement*	*Nomination Committee*
S Macpherson	8	3	2	2
P Allen	8	3	n/a	2
S Bates	8	3	2	2
R Blomfield-Smith	8	3	2	2
J May	8	n/a	n/a	2
A Robson	1	n/a	n/a	n/a
No. of meetings held	8	3	2	2

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 30 September 2008.

Status

The Company is registered as a public limited company under the Companies Act 1985. The Company is an investment company under Section 833 of the Companies Act 2006. It is a member of the Association of Investment Companies.

The Company has been approved as an investment trust company under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 September 2007. The Directors are of the opinion, under advice, that the Company has conducted its affairs for the year ended 30 September 2008 so as to be able to obtain approval as an investment trust under Section 842 for that year.

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

Investment Objective, Policy, Restrictions and Business Review

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

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

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

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

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

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

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

Reviews of the Company's NAV performance in comparison to the benchmark (the Company's key performance indicator) during the year are contained in the Chairman's Statement on pages 4 and 5 and the Investment Manager's Review on pages 9 to 15.

The principal financial risks facing the business and how these are managed are set out in note 19 in the Notes to the Accounts on pages 44 to 48.

The non-financial risks which can impact on performance are a loss of key personnel (especially within the investment management team); regulatory (principally breaches of either UKLA Listing Rules or Section 842 ICTA 1988); and failure of systems or controls. In managing these the Company reviews staffing and activity levels of the Investment Manager and Administrator at least annually to ensure there are adequate qualified staff/capacity available, and in particular requires the Investment Manager to promptly notify the Board of any changes in senior staff. The Company also reviews the systems of the Investment Manager and Administrator as part of its half yearly compliance checks; which is additionally reported on by the Company's independent auditor as part of the annual audit.

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

Results and Dividends

Group loss for the year was £171,904,000, which included a profit of £13,548,000 attributable to revenue (2007: profit of £122,797,000 of which £9,046,000 was attributable to revenue). The profit for the year attributable to revenue has been applied as follows:

	£'000	£'000
Revenue available for dividends (Company and Group)	13,553	13,548
Interim dividend of 1.75p per Ordinary Share paid on 6 June 2008	(2,801)	(2,801)
Recommended final dividend payable on 9 January 2009 to Shareholders on the Register as at 12 December 2008 (ex dividend 10 December 2008):		
- Final dividend of 4.00p per Ordinary share	(6,403)	(6,403)
- Special dividend of 1.50p per Ordinary share	(2,401)	(2,401)
	(11,605)	(11,605)

Directors

The current members of the Board are listed on page 21.

Mr PR Allen and Mrs R Blomfield-Smith retire by rotation in accordance with Article 100(2) of the Company's Articles of Association. Having conducted a review of their performance during the year, the Board considers that they have provided both commitment and a full contribution to the affairs of the Company throughout the year.

On 11 August 2008 Mr Andrew Robson, a Chartered Accountant, was appointed as a Director of the Company and joined the Audit Committee on 7 October 2008. In accordance with Article 71 Mr Robson, having been appointed since the last Annual General Meeting, retires and being eligible offers himself for election at the forthcoming Annual General Meeting. Mr Robson's nomination was approved by the Board as a whole in its capacity as Nomination Committee, following an in-depth research of available candidates using a third party search and selection consultancy.

The Board recommends that shareholders vote in favour of Mr Robson's election and the re-election of Mr Allen and Mrs Blomfield-Smith.

The interests (all beneficial) of the current Directors and their connected persons in the securities of the Company as at 30 September 2008 are set out below:

	Ordinary Shares 30/9/08	Ordinary Shares 1/10/07	Loan Stock 30/9/08	Loan Stock 1/10/07
PSS Macpherson	**40,000**	40,000	–	–
PR Allen	**5,000**	5,000	–	–
SAR Bates	**20,000**	20,000	–	-
R Blomfield-Smith	**3,100**	3,100	–	–
JM May	**6,900**	6,900	–	–
A Robson	**-**	n/a	–	–

There were no changes to the above interests between the year end and date of this report. Mr JM May is a Director of Caledonia Investments plc which owned at 1 November 2008 18.15 per cent of the Ordinary Shares of the Company. Save as aforesaid, no Director was a party to or had an interest in any contract or arrangement with the Company.

Information on the appointment of Directors and their compensation for loss of office, as required by the Takeover Directive, is given on page 49.

Subsidiary Companies

The Company owns one active dealing subsidiary, BEST Securities Limited. In the year to 30 September 2008, BEST Securities Limited made a loss after taxation of £4,678 (2007: loss £219).

Report of the Directors continued

The Investment Manager

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

Under the IMA the Manager is entitled to a base management fee of 0.55% of the net assets of the Company at the end of the preceding financial period, increasing to 0.6% where the Company outperforms the benchmark, or underperforms by not more than 5% in a financial period. A performance fee at 4% is also payable for any outperformance in the net asset value (on a total return basis) over the benchmark at the year end, with a cap on aggregate fees of 1% of net assets of the Company per annum. Any underperformance or outperformance in excess of the cap is carried forward for use in the next 3 years' fee calculations.

The Management Engagement Committee in conjunction with the Company's broker/advisor, Winterflood Investment Trusts, reviewed the IMA during the year and recommended that the management fee structure be simplified to reduce the possibility that the Manager might take undue risk to achieve the maximum performance fee payable. The Management Engagement Committee also recommended a change to the benchmark the Company uses. The Board accepted the Management Engagement Committee's findings and agreed a new benchmark and fee structure, as explained below, with effect from 1 October 2008, which it believes will incentivise the Manager better but ensure that risk taken is not excessive.

With effect from 1 October 2008 the Company has adopted the Fundamental Data Global Growth Investment Trust Index as the new benchmark against which the Company's performance is to be measured. This index has substantially the same elements as the Thomson Financial Datastream Global Growth Investment Trust Index but adopts the FTSE Actuaries' methodology in computing the index, which the Board considers to be a robust method, and is not survivor biased.

The new investment management fee structure, also effective from 1 October 2008, will comprise a base management fee of 0.6%, with no change for performance, and a performance fee at 6% on all outperformance of the index. Annual aggregate fees will remain subject to a cap at 1% of the Company's net asset value at the preceding year end, with any underperformance or outperformance in excess of the cap being available to carry forward for use in the next 3 years' fee calculations. Half the base management fee will be charged to revenue and the remainder, plus any performance fee, will be charged to capital.

Interests in Share Capital

Information on the structure, rights and restrictions relating to share capital, as required by the Takeover Directive, is given on pages 19 and 20.

At 30 September 2008 and 1 November 2008 the following holdings representing more than 3 per cent of the Company's issued share capital had been reported to the Company:

	Number held at 30 September 2008	Number held at 1 November 2008	Percentage Held
Caledonia Investments plc	**29,228,979**	**29,053,979**	18.15
Funds managed by Brewin Dolphin Securities Ltd	**10,330,936**	**9,848,856**	6.15
Legal and General	**7,238,472**	**6,943,829**	4.34
Axa Group	**4,942,072**	**-**	-
F&C Asset Management	**4,782,437**	**-**	-

Auditor

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

Special Business at the Annual General Meeting

Resolution 9 - Authority to allot Shares

Under Resolution 9 the Company seeks to renew the general and unconditional authority already granted to it to allot up to £2,400,000 in nominal value of Ordinary Shares of 10p each, representing approximately 15 per cent of the issued Ordinary Share capital. The Directors would only exercise this authority if they considered it to be in the best interests of the Company generally.

Resolution 10 - Change of Articles of Association

The Articles of Association have not required review for some years and the Companies Act 2006 has introduced a number of new requirements. As many of these are already in force the Board considers it prudent to amend the Articles immediately to accommodate these, although they may require further amendment in 2010 after the Act is fully implemented. Principal changes proposed from the current Articles can be found on page 56.

Resolution 11 - Authority to issue Shares outside of pre-emption rights

The Directors seek to renew their limited authority to allot, other than on a pre-emptive basis, new Ordinary Shares up to an aggregate nominal amount of £800,400, being approximately 5 per cent of the Ordinary Share capital currently in issue, and to the transfer or sale of Shares held in treasury. The Directors would only exercise this authority if they believed it to be advantageous to the Company.

Resolution 12 - Share Buy-Back Facility

This Resolution is to renew the authority granted to the Directors' each year to make market purchases of up to 23,996,005 Ordinary Shares (in accordance with the provisions of the Companies Act and Listing Rules) representing approximately 14.99 per cent of the issued Ordinary Share capital at the date of this Report. Ordinary Shares bought back up to a ceiling of 10 per cent of the Ordinary Share capital then in issue ("Ceiling"), may be held in treasury for cancellation or re-sale at a future date rather than being cancelled upon purchase. Ordinary Shares bought back in excess of the Ceiling would be cancelled. The Directors would not exercise the authority granted under this Resolution unless they considered it to be in the best interests of Shareholders or would result in an increase in net asset value per Share. Treasury shares would not be re-sold at a discount greater than 5% below the net asset value per Ordinary Share for the day preceding such sale.

Corporate Governance

The Terms of Reference for all Committees of the Board are available from the office of the Company Secretary.

By adherence to the Association of Investment Companies Code of Corporate Governance for Investment Trusts ("AIC Code" available at www.theaic.co.uk), which carries the endorsement of the Financial Reporting Council, the Company has complied with the Revised Combined Code on Corporate Governance ("Combined Code") throughout the period except as follows:

- as all Directors are non-executive the principles of the Combined Code on Directors' remuneration are not required to be applied;
- the Board has elected not to designate a senior non-executive Director, as it considers that each Director has different strengths and qualities on which they may provide leadership;
- instead of reading out proxy voting figures at General Meetings after Resolutions have been voted on, printed details of proxy voting will be provided to attendees. Details of proxy voting will also be made available on the Company's website after the relevant meeting.

Report of the Directors continued

The Board consists entirely of non-executive Directors all of whom, with the exception of Mr John May who is a Director of a major shareholder, are considered to be independent. Mr PSS Macpherson is Chairman of Close Brothers plc which is the ultimate parent of Winterflood Securities Limited, the Company's Corporate Broker. The Board is aware that Mr Macpherson and Mr Robson are both non-executive Directors of JPMorgan Smaller Companies Investment Trust plc, but does not consider that this affects their impartiality or independence in relation to the affairs of either Company.

The Board meets regularly and receives full details of the Company's income, assets, liabilities and other relevant information in advance of meetings. The Investment Manager and Company Secretary are in regular contact with Directors on a less formal basis and individual Directors have direct access to the Company Secretary. Directors may seek independent professional advice on any matter that concerns them, at the expense of the Company, in the furtherance of their duties. The number of meetings attended during the year by each Director is shown on page 21.

The Company has a defined list of matters specifically reserved for decision by the Board of Directors which was reviewed during the year. The Management Agreement between the Company and AVI sets out the matters over which the Investment Manager has authority and the limits above which Board approval must be sought.

Because the Investment Manager conducts extensive research into companies the Company invests in, the Board considers the Investment Manager to be most appropriately qualified to exercise voting rights attaching to investee company shares in the best interests of the Company. However, where an investee company proposes a contentious or sensitive issue, the Investment Manager will seek instruction from the Board before using a vote. As the Company has no employees and invests in diverse corporations and intermediate holding companies it has no direct impact on social, economic or environmental matters. However, where the Board deems an issue to be of importance or sensitivity it may, through the Investment Manager, use its voting rights and contact with senior executives of an investee company to make its views known.

The Management Engagement Committee, comprises three independent Directors, Mr PSS Macpherson (Chairman), Mrs R Blomfield-Smith and Mr SAR Bates. The Management Engagement Committee reviews both the terms of the Management Agreement to ensure they are appropriate for the Company and compliant with good industry practice, and the remuneration of the Investment Manager. It also reviewed the services and performance of the Company's other third party service providers and found all services provided to the Company to be satisfactory.

The Nomination Committee comprises the whole Board and convenes to consider the appointment of Directors in accordance with its defined terms of reference. Candidates for nomination may be sourced from outside of the Company using third party search and selection services as well as potential candidates known to Directors through their extensive knowledge of the industry. The Nomination Committee met twice during the year. Newly appointed Directors receive such tailored training and induction as they consider are suited to their needs.

The Board considers that, in view of its non-executive nature, it is not appropriate for Directors to be appointed for a specified term of not more than three years as recommended by the Code. The Articles of Association require that one third of the Directors retire by rotation at each Annual General Meeting and that each Director stands for re-election at least every three years. The Board considers that a long association with the Company and experience of a number of investment cycles can be valuable to its deliberations, and is not of the view that serving as a Director for nine or more years automatically results in that Director losing his/her independence. However, after nine years of service a Director will be subject to annual re-election.

The Audit Committee operates within clearly defined terms of reference, copies of which are available from the office of the Company Secretary and are reviewed annually. The Committee comprises Mr PR Allen (Chairman), Mr SAR Bates, Mrs R Blomfield-Smith, Mr PSS Macpherson and Mr A Robson. All members of the Committee have recent and relevant financial experience.

The Audit Committee's main functions are:

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

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. Following publication of 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Annual Report and Accounts, is regularly reviewed by the Board and accords with the guidance. The Board has reviewed the effectiveness of the systems of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The Committee confirms that the external auditor satisfies the tests of independence, objectivity, effectiveness, resources and qualification. In assessing the independence of the auditor the Committee has particular regard for the extent and levels of fees paid in respect of both audit and non-audit work.

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

- The Board has agreed a clearly defined investment criteria, which specifies levels of authority and exposure limits. Reports on these and performance statistics, are regularly submitted to the Board. The Investment Manager's procedures for investment evaluations include detailed appraisals and due diligence;
- The Investment Manager and Administrator prepare forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- Written agreements are in place which specifically define the roles and responsibilities of the Investment Manager and other third party service providers;
- As a matter of standard practice the Investment Manager's compliance department continually reviews the Investment Manager's operations;
- At its October and November meetings, the Audit Committee carried out assessments of internal controls for the year by considering documentation from the Investment Manager and Administrator, including their compliance functions, and events during the year. The results of these assessments are reported to the Board.

The Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Investment Manager and Administrator, it is satisfied that reliance can be placed on their systems and procedures. Also, as neither the Company nor the Group has any employees the Board does not feel that 'whistleblowing' procedures need to be put in place.

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

Since the year end, evaluations of the performance of the Board as a whole, the Committees and individual Directors were undertaken using structured questionnaires. The evaluations were led by the Chairman who, after receiving analyses of the results of the questionnaires, discussed the findings with each Director individually. The Board is satisfied from the results of the evaluation that the structure, mix of skills and operation of the Board continue to be satisfactory and appropriate for the Company.

Report of the Directors continued

Amendments to the Company's constitution or Articles of Association and material changes to the Company's Investment Policy require the approval of Shareholders in general meeting. A resolution to adopt new Articles of Association is to be put to the forthcoming Annual General Meeting. Information on the principal changes to the Articles is given on page 56.

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

The Directors welcome the views of all Shareholders and place considerable importance on communications with Shareholders. Board representatives and the Investment Manager meet with the Company's major Shareholders throughout the year. The Board recommends that Shareholders attend the Company's Annual General Meeting on 18 December 2008 and use the opportunity to ask questions of the Board and Investment Manager, either formally at the Meeting or informally at the buffet luncheon afterwards. At the Annual General Meeting the Investment Manager will make a brief presentation to Shareholders covering the investment performance and strategy of the Company.

Owing to the short period of time between the Company's financial year end, the annual report and accounts becoming available and the calendar year end, the Company is unable to comply with the recommendation in the Code that the accounts be sent out at least 20 working days prior to the Annual General Meeting.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms. The Company did not have any trade creditors at the year end.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare Group financial statements in accordance with those International Financial Reporting Standards which have been adopted by the EU ("IFRS") and have elected to prepare the parent Company financial statements on the same basis.

The Group and Company financial statements are required by law and IFRS to present fairly the financial position of the Group and Company and the financial performance and cash-flows of the Group and Company for the relevant period. The Companies Act 1985 ("Act") provides, in relation to such financial statements that, references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the Group and Company financial statements the Directors are required to:

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

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Act and Article 4 of International Accounting Standards. The Directors also have a general responsibility for taking such steps as are reasonably available to them, and for ensuring their third party service providers take similar reasonable steps, to safeguard the assets of the Group and to prevent/detect fraud and other irregularities.

Under applicable laws and regulations the Directors are responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement which comply with those laws and regulations.

Auditor Information

Each Director has taken all steps he/she ought to have taken in order to:

- make himself/herself aware of any information relevant to the audit;
- establish that the Group and Company's auditors are aware of that information; and
- ensure that, as far as the Director is aware, there is no information relevant to the audit of which the Group and Company's auditors are not aware.

Directors' Confirmation

The Directors listed on page 21, being the persons responsible within the Company, hereby confirm to the best of their knowledge:

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

By Order of the Board,

For and on behalf of
Phoenix Administration Services Limited
Secretary

Registered Office:
Bennet House
54 St James's Street, London
17 November 2008

Consolidated Income Statement of the Group for the year ended 30 September 2008

	Notes	2008 Revenue return £'000	2008 Capital return £'000	2008 Total return £'000	2007 Revenue return £'000	2007 Capital return £'000	2007 Total return £'000
Income							
Investment income	2	**23,352**	**-**	**23,352**	17,734	-	17,734
(Losses)/gains on investments held at fair value	8	**-**	**(181,055)**	**(181,055)**	-	116,818	116,818
Gains/(losses) on Index Stock		**-**	**2,825**	**2,825**	-	(1,281)	(1,281)
Realised exchange (losses)/gains		**-**	**(618)**	**(618)**	-	54	54
		23,352	**(178,848)**	**(155,496)**	17,734	115,591	133,325
Expenses							
Investment management fee	3	**(1,684)**	**(1,012)**	**(2,696)**	(2,438)	(3,049)	(5,487)
Other expenses (including irrecoverable VAT)	3	**(1,288)**	**-**	**(1,288)**	(1,124)	-	(1,124)
Profit/(loss) before finance costs and tax		**20,380**	**(179,860)**	**(159,480)**	14,172	112,542	126,714
Finance costs	4	**(2,442)**	**(7)**	**(2,449)**	(2,410)	(7)	(2,417)
Profit/(loss) before taxation		**17,938**	**(179,867)**	**(161,929)**	11,762	112,535	124,297
Taxation	5	**(4,390)**	**(5,585)**	**(9,975)**	(2,716)	1,216	(1,500)
Profit/(loss) for the period		**13,548**	**(185,452)**	**(171,904)**	9,046	113,751	122,797
Earnings per Ordinary Share							
Basic - Ordinary Shares	7	**8.46p**	**(115.84)p**	**(107.38)p**	5.65p	71.06p	76.71p

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The revenue return and capital return columns are supplementary to this and are prepared under the guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

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

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

Consolidated and Company Statements of Changes in Equity for the year ended 30 September 2008

Group	Ordinary share capital £'000	Capital redemption reserve £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
For the year ended 30 September 2007							
Balance as at 30 September 2006	16,008	2,927	28,078	594,385	41,406	18,487	701,291
Profit for the period	-	-	-	113,751	-	9,046	122,797
Ordinary dividends paid (see note 6)	-	-	-	-	-	(7,363)	(7,363)
Special dividend paid (see note 6)	-	-	-	-	-	(1,601)	(1,601)
Balance as at 30 September 2007	16,008	2,927	28,078	708,136	41,406	18,569	815,124
For the year ended 30 September 2008							
Balance as at 30 September 2007	**16,008**	**2,927**	**28,078**	**708,136**	**41,406**	**18,569**	**815,124**
(Loss)/profit for the period	**-**	**-**	**-**	**(185,452)**	**-**	**13,548**	**(171,904)**
Ordinary dividends paid (see note 6)	**-**	**-**	**-**	**-**	**-**	**(8,564)**	**(8,564)**
Special dividend paid (see note 6)	**-**	**-**	**-**	**-**	**-**	**(800)**	**(800)**
Balance as at 30 September 2008	**16,008**	**2,927**	**28,078**	**522,684**	**41,406**	**22,753**	**633,856**

Company	Ordinary share capital £'000	Capital redemption reserve £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
For the year ended 30 September 2007							
Balance as at 30 September 2006	16,008	2,927	28,078	596,167	41,406	16,705	701,291
Profit for the period	-	-	-	113,751	-	9,046	122,797
Ordinary dividends paid (see note 6)	-	-	-	-	-	(7,363)	(7,363)
Special dividend paid (see note 6)	-	-	-	-	-	(1,601)	(1,601)
Balance as at 30 September 2007	16,008	2,927	28,078	709,918	41,406	16,787	815,124
For the year ended 30 September 2008							
Balance as at 30 September 2007	**16,008**	**2,927**	**28,078**	**709,918**	**41,406**	**16,787**	**815,124**
(Loss)/profit for the period	**-**	**-**	**-**	**(185,457)**	**-**	**13,553**	**(171,904)**
Ordinary dividends paid (see note 6)	**-**	**-**	**-**	**-**	**-**	**(8,564)**	**(8,564)**
Special dividend paid (see note 6)	**-**	**-**	**-**	**-**	**-**	**(800)**	**(800)**
Balance as at 30 September 2008	**16,008**	**2,927**	**28,078**	**524,461**	**41,406**	**20,976**	**633,856**

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

Consolidated and Company Balance Sheets as at 30 September 2008

		Company		Group	
		2008	2007	2008	2007
	Notes	£'000	£'000	£'000	£'000
Non-current assets					
Investments held at fair value through profit or loss	8	**665,792**	843,083	**663,765**	841,051
Current assets					
Investments	10	**-**	-	**3**	8
Other receivables	11	**5,119**	8,321	**5,121**	8,321
Cash and cash equivalents		**3,380**	3,925	**3,381**	3,926
		8,499	12,246	**8,505**	12,255
Total assets		**674,291**	855,329	**672,270**	853,306
Current liabilities					
Other payables	12	**(11,314)**	(8,017)	**(9,293)**	(5,994)
Total assets less current liabilities		**662,977**	847,312	**662,977**	847,312
Non-current liabilities					
$10\frac{3}{8}$ per cent Debenture Stock 2011	13	**(8,515)**	(8,515)	**(8,515)**	(8,515)
$8\frac{1}{8}$ per cent Debenture Stock 2023	13	**(14,893)**	(14,886)	**(14,893)**	(14,886)
Equities Index Stock 2013	13	**(5,403)**	(8,463)	**(5,403)**	(8,463)
Provision for deferred tax	14	**(310)**	(324)	**(310)**	(324)
Net assets		**633,856**	815,124	**633,856**	815,124
Equity attributable to equity Shareholders					
Ordinary share capital	15	**16,008**	16,008	**16,008**	16,008
Capital redemption reserve	16	**2,927**	2,927	**2,927**	2,927
Share premium	16	**28,078**	28,078	**28,078**	28,078
Capital reserve	16	**524,461**	709,918	**522,684**	708,136
Merger reserve	16	**41,406**	41,406	**41,406**	41,406
Revenue reserve	16	**20,976**	16,787	**22,753**	18,569
Total equity	17	**633,856**	815,124	**633,856**	815,124
Net asset value per Ordinary Share - basic	17	**395.96p**	509.19p	**395.96p**	509.19p
Number of shares in issue		**160,080,089**	160,080,089	**160,080,089**	160,080,089

The financial statements on pages 30 to 48 were approved by the Board of Directors and were authorised for issue on 17 November 2008 and were signed on its behalf by:

PSS Macpherson *Chairman* PR Allen *Director*

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

Consolidated and Company Cash Flow Statements for the year ended 30 September 2008

		Company		Group	
	Notes	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Net cash inflow from operating activities (see below)		**9,672**	3,929	**9,672**	3,927
Financing activities					
Dividends paid	6	**(9,364)**	(8,964)	**(9,364)**	(8,964)
Buyback of Equity Index Stock	13	**(235)**	(336)	**(235)**	(336)
Cash outflow from financing activities		**(9,599)**	(9,300)	**(9,599)**	(9,300)
Increase/(decrease) in cash and cash equivalents		**73**	(5,371)	**73**	(5,373)
Exchange movements		**(618)**	54	**(618)**	54
Change in cash and cash equivalents		**(545)**	(5,317)	**(545)**	(5,319)
Cash and cash equivalents at beginning of year		**3,925**	9,242	**3,926**	9,245
Cash and cash equivalents at end of year	18	**3,380**	3,925	**3,381**	3,926

Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

	Company 2008	Company 2007	Group 2008	Group 2007
(Loss)/profit before taxation	**(161,927)**	124,297	**(161,929)**	124,297
(Gains)/losses on Equities Index Stock 2013 held at fair value	**(2,825)**	1,281	**(2,825)**	1,281
Losses/(gains) on exchange movements	**618**	(54)	**618**	(54)
Losses/(gains) on investments held at fair value through profit or loss	**181,060**	(116,818)	**181,055**	(116,818)
Purchases of investments	**(408,565)**	(495,697)	**(408,565)**	(495,697)
Sales of investments	**408,642**	493,838	**408,642**	493,838
Increase in other receivables	**(640)**	(658)	**(640)**	(658)
Decrease in creditors	**(898)**	(1,132)	**(896)**	(1,131)
Taxation	**(5,800)**	(1,135)	**(5,800)**	(1,135)
Amortisation of Debenture issue expenses	**7**	7	**7**	7
Decrease/(increase) in value of investments - current assets	**-**	-	**5**	(3)
Net cash inflow from operating activities	**9,672**	3,929	**9,672**	3,927

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

Notes to the Accounts

1. Accounting policies

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

The functional currency of the Group is pounds sterling because this is the currency of the primary economic environment in which the Group operates. The financial statements are also presented in pounds sterling.

(a) Basis of preparation

The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Companies ("the AIC") in January 2003 (revised in December 2005) is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

(b) Basis of consolidation

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

As permitted by Section 230 of the Companies Act 1985 no Company Income Statement has been prepared.

(c) Presentation of Income Statement

In order to reflect better the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 842 of the Income and Corporation Taxes Act 1988.

(d) Income

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

(e) Expenses

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

- The base management fee of 0.30% has been charged to revenue. The remainder of the base management fee at the rate of 0.25% (or 0.30% if the Company out-performs its benchmark index or under-performs by no more than 5%) together with the performance element of the management fee are charged to capital;
- Expenses which are incidental to the purchase or sale of an investment are recognised within the Income Statement as a capital item;
- Expenses are presented as capital where a connection with the maintenance or enhancement of the value of investments can be demonstrated.

(f) Taxation

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

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

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

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

Investment trusts which have approval as such under Section 842 of the Income and Corporation Taxes Act 1988 are not liable for taxation on capital gains.

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

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

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

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

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

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

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

(h) Movements in fair value

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

(i) Cash and cash equivalents

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

(j) Dividends payable

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

(k) Foreign currency translation

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

Notes to the Accounts continued

(l) Equities Index Unsecured Loan Stock 2013

In accordance with IFRS recognition and measurement principles, the Equities Index Unsecured Loan Stock 2013 is classified as a financial liability designated at fair value through profit or loss and is valued at the closing offer price. Changes in its fair value are recognised in the Income Statement as a capital item. On cancellation, realised gains and losses are also recognised through the Income Statement as capital items. Interest paid on the Index Stock is charged to the Income Statement as a revenue item.

(m) Finance costs

Finance costs are accounted for on an accruals basis and are recognised through the Income Statement as revenue items. This does not comply with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies, which would require the finance costs of the Debenture Stocks and the Index Stock to be allocated between revenue and capital in the same proportions as the Management Fee. However, the Directors consider that the treatment adopted, which is consistent with previous years, is the most appropriate given the liquidity of the Company and the nature of the Index Stock.

(n) Debenture pricing

The $8\frac{1}{8}$ per cent Debenture Stock 2023 and $10\frac{3}{8}$ per cent Debenture Stock 2011 are valued at amortised cost under the effective interest method and secured by a floating charge over all assets of the Company. Costs in relation to arranging the debt finance of the $8\frac{1}{8}$ per cent Debenture Stock 2023 have been capitalised and are amortised over the term of the finance. Further details of the Debenture Stocks are disclosed in notes 13 and 19.

2. Income

	2008 £'000	2007 £'000
Income from investments		
Listed investments	**22,954**	17,251
Other income		
Deposit interest	**403**	480
(Loss)/gain from dealing activities of subsidiary	**(5)**	3
	398	483
Total income	**23,352**	17,734
Income from investments:		
Equity securities	**17,550**	11,461
Fixed interest securities	**5,404**	5,790
	22,954	17,251
Total income comprises:		
Dividends	**17,550**	11,461
Interest	**5,807**	6,270
Other income	**(5)**	3
	23,352	17,734

3. Management fee and other expenses

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Management fee	**2,445**	**2,445**	**4,890**	2,438	2,450	4,888
Performance fee	**-**	**-**	**-**	-	599	599
Write back of VAT - prior year	**-**	**(127)**	**(127)**	-	-	-
Back VAT due from AVI (see note 20)	**(761)**	**(1,306)**	**(2,067)**	-	-	-
	1,684	**1,012**	**2,696**	2,438	3,049	5,487
Other expenses:						
Directors' emoluments - fees	**108**	**-**	**108**	120	-	120
Auditors' remuneration for:						
- audit	**30**	**-**	**30**	27	-	27
- taxation	**12**	**-**	**12**	15	-	15
- other services to the Group	**12**	**-**	**12**	10	-	10
Marketing costs	**338**	**-**	**338**	223	-	223
Other expenses (including irrecoverable VAT)	**788**	**-**	**788**	729	-	729
	1,288	**-**	**1,288**	1,124	-	1,124

For the year ended 30 September 2008, the fee calculated in accordance with the Investment Management Agreement amounted to 0.600% (there was no out-performance in excess of the cap or under-performance carried forward from 2007). Any out-performance in excess of the cap of 1% or under-performance in any year will be carried forward for use in the next three years fee calculations on a first-in first-out basis.

Performance fees of £nil (2007: £540,000) and management fees of £408,000 (2007: £790,000) were outstanding as at the balance sheet date.

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

4. Finance costs

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Bank overdraft interest	**39**	**-**	**39**	26	-	26
Interest on other loans	**2,403**	**-**	**2,403**	2,384	-	2,384
Amortisation of Debenture issue expenses	**-**	**7**	**7**	-	7	7
	2,442	**7**	**2,449**	2,410	7	2,417

5. Taxation

(a) Analysis of charge in year

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Corporation tax	**4,361**	**5,597**	**9,958**	2,929	(1,291)	1,638
Double taxation relief	**(1,297)**	**(2,620)**	**(3,917)**	(680)	-	(680)
	3,064	**2,977**	**6,041**	2,249	(1,291)	958
Foreign withholding tax	**1,723**	**2,620**	**4,343**	910	-	910
Overseas tax reclaimable	**(409)**	**-**	**(409)**	(248)	-	(248)
Prior year adjustment	**14**	**-**	**14**	(126)	-	(126)
Total current tax for period (see note 5(b))	**4,392**	**5,597**	**9,989**	2,785	(1,291)	1,494
Deferred tax	**(2)**	**(12)**	**(14)**	(69)	75	6
Total deferred tax for year	**(2)**	**(12)**	**(14)**	(69)	75	6
Total tax for year	**4,390**	**5,585**	**9,975**	2,716	(1,216)	1,500

Notes to the Accounts continued

(b) Factors affecting current tax charge for the period

The tax assessed for the period is the standard rate of corporation tax in the UK for a large company 29%*(2007: 30%).

	2008 £'000	2007 £'000
Net revenue return before taxation	**17,938**	11,762
Corporation tax at 29%* (2007: 30%)	**5,202**	3,529
Effects of:		
Non-taxable UK dividends	**(806)**	(700)
Disallowed expenses	**-**	13
Expenses charged to capital	**-**	(1,291)
Overseas dividends taxable on receipt	**(18)**	69
Tax relief to capital	**-**	1,291
Prior year adjustment	**14**	(126)
Current tax charge for the period (note 5(a))	**4,392**	2,785

*Under the Finance Act 2008, the rate of Corporation Tax was lowered to 28% from 30% on 1 April 2008. An average rate of 29% is applicable for the year ended 30 september 2008.

6. Dividends

	2008 £'000	2007 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 September 2007 of 3.60p (2006 - 3.20p) per Ordinary Share	**5,763**	5,122
Special dividend for the year ended 30 September 2007 of 0.50p (2006 - 1.00p) per Ordinary Share	**800**	1,601
Interim dividend for the year ended 30 September 2008 of 1.75p (2007 - 1.40p) per Ordinary Share	**2,801**	2,241
	9,364	8,964

Set out below are the interim, final and special dividends paid or proposed on Ordinary Shares in respect of the financial year , which is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered.

Interim dividend for the year ended 30 September 2008 of 1.75p (2007 - 1.40p) per Ordinary Share	**2,801**	2,241
Proposed final dividend for the year ended 30 September 2008 of 4.00p (2007 - 3.60p) per Ordinary Share	**6,403**	5,763
Proposed special dividend for the year ended 30 September 2008 of 1.50p (2007 - 0.50p) per Ordinary Share	**2,401**	800
	11,605	8,804

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

7. Earnings per Ordinary Share

	2008 Revenue	2008 Capital	2008 Total	2007 Revenue	2007 Capital	2007 Total
Basic	**8.46p**	**(115.84)p**	**(107.38)p**	5.65p	71.06p	76.71p

The total basic earnings per Ordinary Share is based on Group net losses for the financial year of £171,904,000 (2007: profit £122,797,000) and on 160,080,089 (2007: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

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

The basic revenue earnings per Ordinary Share is based on Group revenue after taxation for the financial year of £13,548,000 (2007: £9,046,000) and on 160,080,089 (2007: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

The basic capital earnings per Ordinary Share is based on Group net losses for the financial year of £185,452,000 (2007: profit £113,751,000) and on 160,080,089 (2007: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

8. Investments held at fair value through profit or loss

(a) Securities

	Listed investments £'000	Unlisted investments £'000	Group total investments £'000	Subsidiary £'000	Company total investments £'000
Opening book cost	**697,250**	**53**	**697,303**	**250**	**697,553**
Opening investment holding gains	**143,350**	**398**	**143,748**	**1,782**	**145,530**
Opening fair value	**840,600**	**451**	**841,051**	**2,032**	**843,083**
Movements in the year:					
Purchases at cost	**408,375**	**-**	**408,375**	**-**	**408,375**
Sales - proceeds	**(404,606)**	**-**	**(404,606)**	**-**	**(404,606)**
- realised gains on sales	**30,543**	**-**	**30,543**	**-**	**30,543**
(Decrease)/increase in investment holding gains	**(211,662)**	**64**	**(211,598)**	**(5)**	**(211,603)**
Closing fair value	**663,250**	**515**	**663,765**	**2,027**	**665,792**
Closing book cost	**731,562**	**53**	**731,615**	**250**	**731,865**
Closing investment holding (losses)/gains	**(68,312)**	**462**	**(67,850)**	**1,777**	**(66,073)**
Closing fair value	**663,250**	**515**	**663,765**	**2,027**	**665,792**

(b) Gains on investments

	Group £'000	Company £'000
Sales proceeds	**404,606**	**404,606**
Investments at cost	**(374,063)**	**(374,063)**
Realised gains on sales of securities based on historical cost	**30,543**	**30,543**
Less investment holding gains recognised as unrealised in previous year	**(40,241)**	**(40,241)**
Realised gains on sales of securities based on carrying value at previous year's balance sheet date	**(9,698)**	**(9,698)**
Investment holding losses for the year	**(171,357)**	**(171,362)**
Net losses on investments	**(181,055)**	**(181,060)**

(c) Transaction costs

Investment transaction costs on purchases and sales of investments during the year to 30 September 2008 amounted to £875,000 and £561,000 respectively (2007: £853,000 and £532,000 respectively).

Notes to the Accounts continued

9. Subsidiary undertaking

Name of undertaking	Principal activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held by: Company (%)	Group (%)
BEST Securities Limited	Dealing Subsidiary	England	Ordinary	100	100

10. Investments held by dealing subsidiary

	Group 2008 £'000	Group 2007 £'000
Listed (at fair value)	**3**	8

11. Other receivables

	Company 2008 £'000	Company 2007 £'000	Group 2008 £'000	Group 2007 £'000
Sales for future settlement	**-**	4,036	**-**	4,036
Overseas tax recoverable	**492**	339	**492**	339
Income tax recoverable	**92**	33	**92**	33
Prepayments and accrued income	**2,460**	2,338	**2,460**	2,338
VAT recoverable	**9**	-	**9**	-
Other debtors	**2,066**	1,575	**2,068**	1,575
	5,119	8,321	**5,121**	8,321

12. Other payables

	Company 2008 £'000	Company 2007 £'000	Group 2008 £'000	Group 2007 £'000
Purchases for future settlement	**2,732**	2,922	**2,732**	2,922
Amounts owed to subsidiary undertakings	**2,023**	2,024	**-**	-
Other creditors	**6,559**	3,071	**6,561**	3,072
	11,314	8,017	**9,293**	5,994

13. Non current liabilities: Debenture Stocks and Equities Index Stock

	Company 2008 £'000	Company 2007 £'000	Group 2008 £'000	Group 2007 £'000
$10^{3}/_{8}$ per cent Debenture Stock 2011	**8,515**	8,515	**8,515**	8,515
$8^{1}/_{8}$ per cent Debenture Stock 2023	**14,893**	14,886	**14,893**	14,886
Equities Index Stock 2013	**5,403**	8,463	**5,403**	8,463
	28,811	31,864	**28,811**	31,864

The movement on the $8^{1}/_{8}$ per cent Debenture Stock 2023 represents the amortisation of issue expenses. The combined market value of the two Debenture Stocks as at 30 September 2008 was £28.6 million (2007: £28.8 million). The effect on the net asset value of deducting Debenture Stocks at market value rather than par is disclosed in note 17.

The mid market prices of the $10^{3}/_{8}$ per cent Debenture Stock 2011 and $8^{1}/_{8}$ per cent Debenture Stock 2023 as at 30 September 2008 were 113.317p and 126.223p respectively.

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

During the year, 94,235 units of Index Stock were bought back by the Company for cancellation, at an average price of 249.25p per unit, leaving 2,635,996 units in issue at the year end. The consideration paid was £234,883 (2007: £335,617).

The mid market price of the Index Stock as at 30 September 2008 was 180.0p.

14. Provision for deferred tax

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

	Group and Company	
	2008 £'000	2007 £'000
Provided		
In respect of the origination and reversal of timing differences	**(14)**	6
The movement in the provision for deferred taxation is as follows:		
Opening balance	**324**	318
Charge to revenue account	**(2)**	(69)
Charge to capital account	**(12)**	75
Closing balance	**310**	324

The deferred tax provision is made up as follows:

	2008 £'000	2007 £'000
Income taxable in different periods	**298**	283
Double tax relief on accrued dividends	**(51)**	(34)
Equities Index Unsecured Loan Stock 2013 (restatement under IFRS)	**63**	75
	310	324

15. Called-up share capital

	Group and Company	
	2008 and 2007 Shares	2008 and 2007 £'000
Ordinary Shares of 10p each:		
Authorised	**245,000,000**	**24,500**
Allotted, called-up and fully paid:		
At 30 September 2008 and 30 September 2007	**160,080,089**	**16,008**

Notes to the Accounts continued

16. Reserves

Group	Capital redemption reserve £'000	Share premium account £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000
At 1 October 2007	2,927	28,078	708,136	41,406	18,569
Exchange losses	-	-	(618)	-	-
Losses on investments held at fair value	-	-	(181,055)	-	-
Gains on Index Stock	-	-	2,825	-	-
Amortisation of Debenture issue expenses	-	-	(7)	-	-
Performance element of management fee	-	-	-	-	-
Management fee charged to capital	-	-	(2,445)	-	-
Write back of VAT - prior year charged to capital	-	-	127	-	-
Back VAT due to capital	-	-	1,306	-	-
Tax charge to capital	-	-	(5,597)	-	-
Deferred tax charge to capital	-	-	12	-	-
Ordinary dividends paid	-	-	-	-	(8,564)
Special dividend paid	-	-	-	-	(800)
Revenue profit for the year	-	-	-	-	13,548
At 30 September 2008	**2,927**	**28,078**	**522,684**	**41,406**	**22,753**

Company	Capital redemption reserve £'000	Share premium account £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000
At 1 October 2007	2,927	28,078	709,918	41,406	16,787
Exchange gains	-	-	(618)	-	-
Losses on investments held at fair value	-	-	(181,060)	-	-
Gains on Index Stock	-	-	2,825	-	-
Amortisation of Debenture issue expenses	-	-	(7)	-	-
Performance element of management fee	-	-	-	-	-
Management fee charged to capital	-	-	(2,445)	-	-
Write back of VAT - prior year charged to capital	-	-	127	-	-
Back VAT due to capital	-	-	1,306	-	-
Tax charge to capital	-	-	(5,597)	-	-
Deferred tax charge to capital	-	-	12	-	-
Ordinary dividends paid	-	-	-	-	(8,564)
Special dividend paid	-	-	-	-	(800)
Revenue profit for the year	-	-	-	-	13,553
At 30 September 2008	**2,927**	**28,078**	**524,461**	**41,406**	**20,976**

17. Net asset value

The net asset value per share and the net asset value attributable to the Ordinary Shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Net asset value per Share attributable Company		Net asset value per Share attributable Group	
	2008 p	2007 p	2008 p	2007 p
Ordinary Shares (basic)	**395.96**	509.19	**395.96**	509.19

	Net asset values attributable Company		Net asset values attributable Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Ordinary Shares (basic)	**633,856**	815,124	**633,856**	815,124

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

	2008 Ordinary Shares (basic) £'000	2007 Ordinary Shares (basic) £'000
Total net assets attributable at beginning of year	**815,124**	701,291
Total (loss)/profit for the year	**(171,904)**	122,797
Dividends appropriated in the year	**(9,364)**	(8,964)
Net assets attributable at end of year	**633,856**	815,124

Basic net asset value per Ordinary Share is based on net assets and on 160,080,089 (2007: 160,080,089) Ordinary Shares being the number of Ordinary Shares in issue at the year end.

At the year end the net asset value per Share adjusted to include the Debenture Stocks at market value rather than par was 392.73p (2007: 505.82p).

Notes to the Accounts continued

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

	At 1 October 2007 £'000	Cash flow £'000	Exchange movement £'000	At 30 September 2008 £'000
Group				
Cash at bank and on deposit	3,926	73	(618)	**3,381**
Company				
Cash at bank and on deposit	3,925	73	(618)	**3,380**

19. Financial instruments and capital disclosures

Risk management policies and procedures

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

The Group's financial instruments comprise equity and fixed interest investments, cash balances and borrowings. The Group makes use of borrowings to achieve improved performance in rising markets. The risk of borrowings may be reduced by raising the level of cash balances or fixed interest investments held.

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

The Board sets out its investment policies on page 22.

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

Foreign currency exposure

At 30 September 2008	Sterling £'000	Euro £'000	JPY £'000	US$ £'000	Other £'000	Total £'000
Investments held at fair value through profit or loss that are monetary items	**110,285**	**-**	**-**	**-**	**-**	**110,285**
Current assets - Investments held at fair value through profit or loss	**1**	**-**	**-**	**-**	**2**	**3**
Other receivables	**3,577**	**423**	**478**	**323**	**320**	**5,121**
Cash and cash equivalents	**3,381**	**-**	**-**	**-**	**-**	**3,381**
Other payables	**(6,833)**	**(870)**	**-**	**(608)**	**(982)**	**(9,293)**
$10^3/_8$ per cent Debenture Stock 2011	**(8,515)**	**-**	**-**	**-**	**-**	**(8,515)**
$8^1/_8$ per cent Debenture Stock 2023	**(14,893)**	**-**	**-**	**-**	**-**	**(14,893)**
Equities Index Unsecured Loan Stock 2013	**(5,403)**	**-**	**-**	**-**	**-**	**(5,403)**
Provision for deferred tax	**(310)**	**-**	**-**	**-**	**-**	**(310)**
Foreign currency exposure on net monetary items	**81,290**	**(447)**	**478**	**(285)**	**(660)**	**80,376**
Investments held at fair value through profit or loss that are equities	**128,495**	**142,181**	**64,837**	**50,098**	**167,869**	**553,480**
Total net foreign currency exposure	**209,785**	**141,734**	**65,315**	**49,813**	**167,209**	**633,856**

At 30 September 2007	Sterling £'000	Euro £'000	JPY £'000	US$ £'000	Other £'000	Total £'000
Investments held at fair value through profit or loss that are monetary items	124,710	-	-	-	-	124,710
Current assets - Investments held at fair value through profit or loss	4	-	-	-	4	8
Other receivables	1,557	1,685	685	247	4,147	8,321
Cash and cash equivalents	2,983	943	-	-	-	3,926
Other payables	(3,072)	(166)	-	-	(2,756)	(5,994)
$10^3/_8$ per cent Debenture Stock 2011	(8,515)	-	-	-	-	(8,515)
$8^1/_8$ per cent Debenture Stock 2023	(14,886)	-	-	-	-	(14,886)
Equities Index Unsecured Loan Stock 2013	(8,463)	-	-	-	-	(8,463)
Provision for deferred tax	(324)	-	-	-	-	(324)
Foreign currency exposure on net monetary items	93,994	2,462	685	247	1,395	98,783
Investments held at fair value through profit or loss that are equities	176,181	148,842	61,327	49,570	280,421	716,341
Total net foreign currency exposure	270,175	151,304	62,012	49,817	281,816	815,124

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

Over the year sterling weakened against the Group's principal investing currencies, the US Dollar by 12.51% (2007: strengthened by 9.07%), the Euro by 11.42% (2007: weakened by 2.85%) and the Japanese Yen by 19.24% (2007: strengthened by 6.25%).

A 5% rise/decline of sterling against foreign currency denominated (i.e. non sterling) assets held at the year end would have decreased/increased the net asset value by £21,204,000 or 3.35% of net asset value (2007: £27,248,000 or 3.34% of net asset value).

Interest rate risk

Interest rate movements may affect:

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

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

The two series of debentures issued by the Company both carry fixed rates of interest and were issued as a planned level of gearing. These debenture stocks are carried in the Company's balance sheet at amortised cost rather than at fair value. Hence movement in interest rates will not affect equity but may have an impact on the Company's share price and discount/premium which is not likely to be material. Further information on the debenture stocks is shown in note 13.

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

Notes to the Accounts continued

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

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

	At 30 September 2008 £'000	At 30 September 2007 £'000
Exposure to floating interest rates:		
Cash and cash equivalents	**3,381**	3,926

If the above level of cash was maintained for a year, a 1% increase/decrease in LIBOR would increase/decrease the revenue return by £34,000 or 0.02p per share (2007: £39,000 or 0.02p per share).

Exposure to fixed interest rates:		
Investments held at fair value through profit or loss	**110,285**	124,710
$10\frac{3}{8}$ per cent Debenture Stock 2011 (fair value based on market prices)	**(9,649)**	(9,876)
$8\frac{1}{8}$ per cent Debenture Stock 2023 (fair value based on market prices)	**(18,933)**	(18,921)
	81,703	95,913

The maturity dates and the nominal interest rates on the fixed income investments held at fair value through profit or loss are shown in the portfolio statement on page 18. The weighted average effective interest rate on these investments is 4.48% (2007: 5.15%).

The Company's fixed income portfolio at the year end was valued at £110,285,000 and it had a modified duration (interest rate sensitivity) of approximately 0.88 years. A 1% increase/decrease in relevant market interest rates would be expected to decrease/increase the portfolio's value by approximately £970,000, all other factors being equal.

The fair value of the Company's debenture stocks at the year end was £28,582,000 and it had a modified duration (interest rate sensitivity) of approximately 6.3 years. A 1% increase/decrease in relevant market interest rates would be expected to decrease/increase the fair values of the debenture stocks by approximately £1,800,000, all other factors being equal.

Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with the objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out on pages 16 to 18.

If the fair value of the Group's investments at the year end increased/decreased by 10% then it would have had an effect on the Group's capital return equal to £66,377,000 or 41.46p per Ordinary Share (2007: £84,106,000 or 52.54p per Ordinary Share).

Liquidity risk

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

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

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 4 years but not more than 5 years £'000	In more than 14 years but not more than 15 years £'000	Total £'000
At 30 September 2008						
$10^3/_8$ per cent Debenture Stock 2011	**-**	**-**	**(8,515)**	**-**	**-**	**(8,515)**
$8^1/_8$ per cent Debenture Stock 2023	**-**	**-**	**-**	**-**	**(14,893)**	**(14,893)**
Equities Index Unsecured Loan Stock 2013	**-**	**-**	**-**	**(5,403)**	**-**	**(5,403)**
Other payables	**(9,293)**	**-**	**-**	**-**	**-**	**(9,293)**
Deferred tax	**-**	**(310)**	**-**	**-**	**-**	**(310)**
	(9,293)	**(310)**	**(8,515)**	**(5,403)**	**(14,893)**	**(38,414)**

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 3 years but not more than 4 years £'000	In more than 5 years but not more than 6 years £'000	In more than 15 years but not more than 16 years £'000	Total £'000
At 30 September 2007						
$10^3/_8$ per cent Debenture Stock 2011	-	-	(8,515)	-	-	(8,515)
$8^1/_8$ per cent Debenture Stock 2023	-	-	-	-	(14,886)	(14,886)
Equities Index Unsecured Loan Stock 2013	-	-	-	(8,463)	-	(8,463)
Other payables	(5,994)	-	-	-	-	(5,994)
Provision for defered tax	-	(324)	-	-	-	(324)
	(5,994)	(324)	(8,515)	(8,463)	(14,886)	(38,182)

Credit risk

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

The total credit exposure of the Group at the year end as shown on the Balance Sheet was £8,502,000 (2007: £12,247,000). Further details of the Group's credit exposure can be found within note 11 to the accounts.

Fair values of financial assets and financial liabilities

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

	2008 Book value £'000	2008 Fair value £'000	2007 Book value £'000	2007 Fair value £'000
$10^3/_8$ per cent Debenture Stock 2011	**(8,515)**	**(9,649)**	(8,515)	(9,876)
$8^1/_8$ per cent Debenture Stock 2023	**(14,893)**	**(18,933)**	(14,886)	(18,921)

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

The fair value of the Group's unquoted investments is measured by the Directors using valuation methodologies in accordance with International Private Equity and Venture Capital Valuation Guidelines.

Notes to the Accounts continued

Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value; through an appropriate balance of equity capital and debt.

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

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

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

The Group is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.

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

20. Contingencies, guarantees and financial commitments

In June 2007 the European Court of Justice ruled that investment management fees should be exempt from VAT, and in early November HM Revenue & Customs decided not to contest that ruling. The Board had ensured that appropriate steps were taken to reclaim Back VAT and, following the decision by HM Revenue & Customs, has recognised the Back VAT it expects to recover from the current Investment Manager, Asset Value Investors Limited in these financial statements. This has been allocated £761,075 as revenuue and £1,305,864 as capital within the Income Statement in line with VAT previously written off on investment management and performance fees previously charged by Asset Value Investors Limited.

The Company is liaising with previous investment managers to determine the quantum of Back VAT which might be recoverable and will continue to pursue recovery of Back VAT as far as is practicable. Accordingly the Directors consider it inappropriate to recognise any recoverable Back VAT with previous investment managers in these financial statements.

At 30 September 2008 the Group had no contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2007: £nil).

Directors' Remuneration Report

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

It is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfill in respect of Board and Committee responsibilities and the time committed to the Company's affairs. The Directors' attendance at meetings is given on page 21. Following a review in March 2007, the basic annual fees paid to the Chairman and each Director were increased to £27,000 and £18,000 respectively from 1 October 2006, with the chairman of the Audit Committee receiving an additional £3,000 for the extra work involved. The annual aggregate limit on fees payable to the Board of Directors under the Company's Articles of Association is currently £150,000 but will be increased to £200,000 if the proposed new Articles of Association are adopted at the forthcoming Annual General Meeting.

No element of the Directors' remuneration is performance related, no Director past or present has any entitlement to pensions and the Company has not awarded any share options or long-term performance incentives to any of the Directors. The Directors' interests in contractual arrangements with the Company are as shown on page 23. Subject to these exceptions, no other Directors were interested in contracts with the Company during the period or subsequently. None of the Directors has a service contract with the Company and no Director is entitled to compensation on leaving office.

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

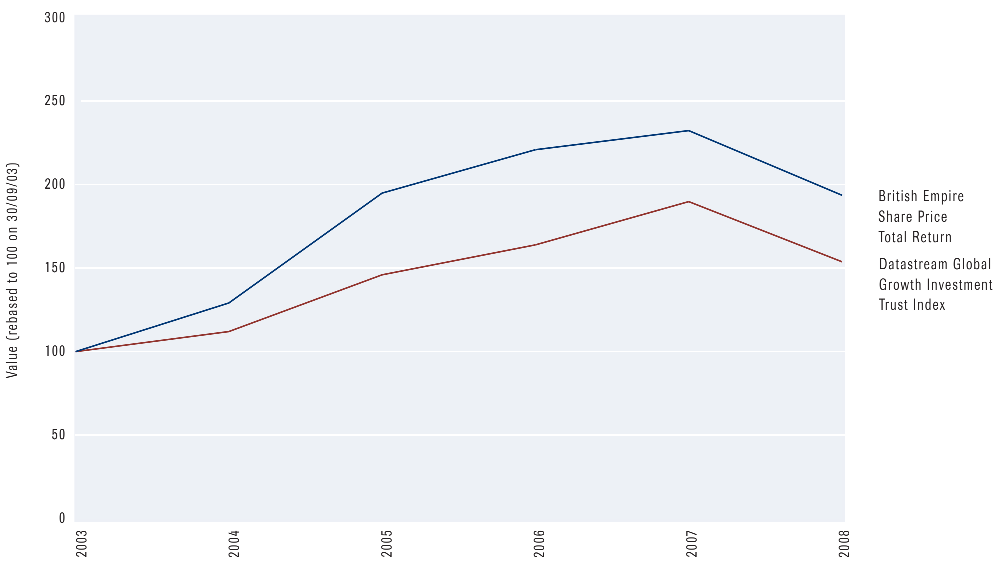
A resolution to receive and adopt the Directors' Remuneration Report will be proposed at the Annual General Meeting.

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

Total Shareholder return

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

Share Price total return vs Datastream Global Growth Investment Trust Index total return Five years to 30/09/08



Source: Fundamental Data & Thomson Financial Datastream

Directors' Remuneration Report continued

Directors' emoluments (audited information)

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

	2008 £'000	2007 £'000
P S S Macpherson	**25.1**	18.0
P R Allen	**21.0**	21.0
S A R Bates	**18.0**	18.0
R Blomfield-Smith	**18.0**	18.0
J M May	**18.0**	18.0
I S Robertson CBE*	**5.8**	27.0
A Robson†	**2.5**	-
	108.4	120.0

* Retired 18 December 2007.

† Appointed a Director 11 August 2008.

Sums paid to Third Parties (audited information)

Of the fees disclosed above, £18,000 (2007: £18,000) was payable to Caledonia Group Services Limited in respect of making available the services of Mr J M May.

By order of the Board

Phoenix Administration Services Limited

Secretary

17 November 2008

Independent Auditor's Report to the members of British Empire Securities and General Trust plc

We have audited the Group and Parent Company financial statements (the "financial statements") of British Empire Securities and General Trust plc for the year ended 30 September 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and as regards the Group financial information in accordance with Article 4 of the IAS Regulations. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions are not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Company Summary, Financial Highlights, Chairman's Statement, Company's History, Historical Record, Investment Manager, Investment Manager's Review, Investment Portfolio, Capital Structure, Board of Directors, Report of the Directors, the un-audited part of the Directors' Remuneration Report, Shareholder Information, Notice of Annual General Meeting and Company Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Independent Auditor's Report continued

Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2008 and of its net return for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 30 September 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.

ERNST & YOUNG LLP
Registered auditor
London
17 November 2008

Shareholder Information

Dividends

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Equiniti Limited, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ on request. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly into Shareholders' bank accounts, dividend tax vouchers are sent to Shareholders' registered addresses.

Share Prices

The Company's Ordinary Shares are listed on the London Stock Exchange under 'Investment Trusts'. Prices are given daily in *The Financial Times, The Times, The Daily Telegraph, The Scotsman* and *The Evening Standard.*

Change of Address

Communications with Shareholders are mailed to the last address held on the Share register. Any change or amendment should be notified to Equiniti Limited at the address given above, under the signature of the registered holder.

Daily Net Asset Value

The net asset value of the Company's shares can be obtained by contacting Customer Services on 0845 850 0181 or via the website: www.british-empire.co.uk

AVI ISA

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

AVI Share Plan

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

Financial Calendar 2008/2009

- 18 December 2008 — Annual General Meeting
- 9 January 2009 — Final and Special Dividends paid on Ordinary Shares
- May 2009 — Announcement of half year results
- May 2009 — Posting of Half Year Report
- June 2009 — Interim Dividend paid on Ordinary Shares
- November 2009 — Announcement of annual results
- November 2009 — Posting of Annual Report
- December 2009 — Annual General Meeting

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Nineteenth Annual General Meeting of British Empire Securities and General Trust plc will be held at Grocers' Hall, Princes Street, London EC2R 8AD at 12.00 noon on 18 December 2008 to consider the following business:

Ordinary Business

1. To receive and adopt the financial statements for the financial year ended 30 September 2008 together with the Reports of the Directors and the Auditors.
2. To approve a final Ordinary Dividend of 4.00 pence per Ordinary Share.
3. To approve a Special Dividend for the year of 1.50 pence per Ordinary Share.
4. To re-elect Mr Peter Allen, who retires under the Articles of Association, as a Director.
5. To re-elect Mrs Rosamund Blomfield-Smith, who retires under the Articles of Association, as a Director.
6. To elect Mr Andrew Robson, who was appointed subsequent to the last Annual General Meeting, as a Director.
7. To re-appoint Ernst & Young LLP as the Company's Auditor and authorise the Directors to determine the Auditor's remuneration.
8. To receive and adopt the Directors' Remuneration Report.

Special Business

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

9. THAT, the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ('Act') to allot relevant securities (as defined in the said Section 80 of the Act) up to an aggregate nominal amount of £2,400,000 provided that the authority hereby granted shall expire on 17 March 2010 unless otherwise renewed, varied or revoked.

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

10. To adopt new Articles of Association as laid before the meeting.
11. THAT the Directors be and they are hereby generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Act) pursuant to Section 95 of the Act as if Section 89(1) of the Act did not apply to any such allotment provided that this authority and power shall expire on 17 March 2010 unless otherwise renewed, varied or revoked and shall be limited to:
    (i) the allotment of any such securities having an aggregate nominal value not exceeding £800,400 being approximately 5 per cent of the equity share capital currently in issue;
    (ii) the allotment of equity securities at a price (excluding expenses) of not less than the net asset value per share on the day preceding allotment or, if earlier, the agreement to allot; and
    (iii) the transfer or sale of any Shares held by the Company as treasury Shares at prices (excluding expenses) not exceeding 5% below the net asset value per Share on the day preceding such transfer or sale;

save that the authority and power hereby granted shall permit the Company to make offers or agreements which would or might require any such securities to be allotted, transferred or sold after the expiry of such period and the Directors may allot, transfer or sell such securities in pursuance of such offers or agreements as if the authority hereby granted had not expired.

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

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

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

    (iii) the maximum price (exclusive of expenses) which may be paid for a Share shall be 5 per cent above the average of the mid market values of the Shares on the Daily Official List of the London Stock Exchange for the 5 business days immediately preceding the day of purchase;

    (iv) any Shares bought back may be placed in treasury or cancelled, and if held in treasury may be resold or cancelled, at the discretion of the Directors; and

    (v) unless otherwise varied or renewed, the authority hereby conferred shall expire on 17 March 2010 save that the Company may, prior to such expiry, enter into contract(s) to purchase Shares which will or may be completed or executed wholly or partly after such expiry and the Company may purchase such Shares as if the authority hereby granted had not expired.

By Order of the Board

For and on behalf of
Phoenix Administration Services Limited - Secretary
Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW

17 November 2008

Registered Office:
Bennet House, 54 St. James's Street
London SW1A 1JT

Company Number: 28203

Notes

1. A member entitled to attend and vote is entitled to appoint one or more proxies to represent them and vote in their stead, provided each votes in relation to different shares. Proxies need not be members of the Company. A Form of Proxy is enclosed which must be returned duly completed to the Registrar in accordance with the terms printed thereon by no later than 12.00 noon on 16 December 2008.
2. If more than one proxy is being appointed, the member should copy the Form of Proxy and complete a copy as appropriate for each proxy, and should also state on copy each that it is part of multiple Forms of Proxy for that member.
3. Completion and submission of Forms of Proxy will not preclude a member from attending and voting in person at the meeting.
4. Corporate members who propose appointing more than one person to represent them are strongly recommended to appoint multiple proxies rather than multiple corporate representatives since the votes of multiple corporate representatives risk nullification under the Companies Act 2006. To facilitate voting by corporate representatives at the meeting, the arrangements proposed by the Institute of Chartered Secretaries and Administrators (see guidance at www.icsa.org.uk) for corporate representatives will be implemented. Corporate members are further urged to nominate a designated corporate representative, which could be the Chairman of the meeting, to vote collectively for all of that corporate member's multiple corporate representatives.
5. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Register of Members at 6.00pm on the second day before the meeting or any adjournment will be entitled to attend and vote at the meeting and changes after that time will be disregarded.
6. Persons nominated under Section 146 of the Companies Act 2006 to enjoy information rights receiving this notice may have a right to be appointed, or have someone else appointed, as proxies if their nominating member so appoints them. The statements in Notes 1 & 2 above do not apply to nominated persons except where they are properly appointed as proxies.
7. The register of Directors' interests in the Ordinary Shares of the Company will be available for inspection at the registered office of the Company during normal business hours (Saturdays excepted) from the date of this notice until the date of the Annual General Meeting and at Grocers' Hall for fifteen minutes prior to and during the Meeting.
8. There are no service contracts between any of the Directors and the Company.

Addendum to the Special Business at the Annual General Meeting

Resolution 10 - Change of Articles of Association

As explained in the section on Special Business at the Annual General Meeting in the Report of the Directors on page 25 the Board, having received advice from its advisors, considers it prudent to adopt new Articles of Association which accommodate changes already in force brought about by the Companies Act 2006. The principal changes from the Company's existing Articles of Association are as follows:

General

The current Articles and definitions within them are being amended to accommodate the provisions of the Companies Act 2006 ("CA06").

Share Transfers

In the (unlikely) event that the Company refused to register a transfer of shares, it would now have to give the transferee an explanation of the reason for the refusal. This was not previously the case.

Convening General Meetings

The minimum notice required to convene General Meetings will be that prescribed by Statute. This is currently 21 days for the Annual General Meeting and 14 days for any other General Meeting.

Votes of Members

The New Articles provide for multiple proxies to be appointed, provided each exercises the rights attaching to different shares, and for proxies to speak and vote at meetings not just vote on a poll.

Conflicts of Interest

CA06 sets out Directors' general duties, which largely codify the existing law but with some changes. Directors must now avoid situations where they have, or might have, a direct or indirect interest which conflicts or might conflict with the Company's interests. This is a very wide requirement and merely holding a position as a trustee or being a director of another company might give rise to a potential conflict. CA06 accordingly permits the non-conflicted Directors of a public company to "authorise" conflicts and potential conflicts disclosed to them by a Director and the New Articles will give the Directors this authority. There are however safeguards. In exercising the authority the Directors must act in a way they consider, in good faith, to be most likely to promote the Company's success. They may also impose limits or conditions (eg prohibiting access to confidential information) on a conflicted Director where appropriate.

Electronic and web communications

Provisions have been inserted to enable communication with members by electronic means and/or a website.

Directors' indemnities

The Company's power to indemnify Directors and fund expenditure incurred in connection with legal action against Directors has been expanded in line with CA06.

Directors' fees

Under the current Articles the aggregate Directors' fees were last increased in 2003. Accordingly the Company proposes taking the opportunity to increase the aggregate from £150,000 to £200,000 to provide greater flexibility for the long term.

Company Information

Directors
Strone Macpherson (Chairman)
Peter Allen
Steve Bates
Rosamund Blomfield-Smith
John May
Andrew Robson

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54 St James's Street
London SW1A 1JT

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54 St James's Street
London SW1A 1JT

Registrars and Transfer Office
Equiniti Limited
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Finance House
Orchard Brae
Edinburgh EH4 1WQ

Registrar's Shareholder Helpline
Tel. 0871 384 2490
Calls charged at 8p per minute plus network charges.

Registrar's Broker Helpline
Tel. 0906 559 6025
Calls charged at £1 per minute plus network charges.

Corporate Broker
Winterflood Securities Limited
The Atrium Building
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Registered in England & Wales No. 28203

Design: Alembic Design Consultants Printing: Corporate Ink

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