

BRITISH EMPIRE SECURITIES AND GENERAL TRUST PLC

Results for the full year to 30 September 2011 and availability of Report & Accounts

Objective

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.

Financial Highlights

- Uncertain economic conditions continue to prevail
- Net asset value ('NAV') on a total return basis decreases by 10.3% impacted by widening of underlying discounts
- Benchmark* Index falls by 4.6%
- Total ordinary dividend increased by 13.3%
- Special dividend of 2.0p
- At the end of the year liquidity within the portfolio was 12.1% held in UK and US government securities

Performance Summary

	30 September 2011	30 September 2010	% change
Capital Return			
Net asset value per Share	462.51p	518.28p	(10.76)
Share price (mid market)	422.60p	465.50p	(9.22)
Net asset value per Share (total return)			(10.31)

Indices

Morningstar Investment Trust Global Growth Index*	263.29	276.02	(4.61)
Morgan Stanley Capital International World Index (£ adjusted total return)	2,428.27	2,496.31†	(2.73)

Revenue and Dividends

Income	£25.93m	£19.54m	32.70
Earnings per Share	11.50p	7.94p	44.84
Ordinary Dividends per Share	8.50p	7.50p	13.3
Special Dividend per Share	2.00p	–	–

Discount

(difference between share price and net asset value)	8.63%	10.18%	–
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Total Expense Ratio

(as percentage of average shareholders' funds)

Management, marketing and other expenses	0.72%	0.73%	–
Performance fee	0.00%	0.02%	–

2011 Year's Highs/Lows

	High	Low	
Net asset value per Share	565.70p	460.66p	–
Share price (mid market)	545.00p	422.60p	–

* The Morningstar Investment Trust Global Growth Index (total return basis), formerly known as Fundamental Data Global Growth Investment Trust Index, is subject to revision and the figures are as at 10 October 2011.

† Revised figure due to exchange rate error.

Buy-backs

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

Chairman's Statement

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

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

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

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

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

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

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

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

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

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

Between the year end and 9 November 2011 (the latest date for which data is available) the Company's net asset value increased by 4.1%, which is similar to the return of the benchmark.

On 2 July 2011, the Company's outstanding balance of £8.48 million of 10 3/8% Debenture Stock 2011 was, in accordance with the provisions of the Trust Deed governing the Stock, repaid in full, together with accrued interest to that date. Because it has been the Company's accounting policy to charge all of the interest on the Debenture Stock to the Revenue Account, repayment of the Stock will have a marginally beneficial account on the Company's revenue account in future years. The Board has reviewed with the Manager the current long term borrowing and the Company's cash position. The Board considers it unlikely that the Company will engage in any further long term or structural borrowing in the foreseeable future.

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

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

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

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

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

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

Strone Macpherson

Chairman

11 November 2011

Investment Manager's Review

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

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

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

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

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

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

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

Portfolio Review

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

European Investment Holding Companies (35.9%)

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

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

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

Asian Investment Holding Companies (14.1%)

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

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

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

Swire Pacific has significant exposure to aviation with its long term holding in Cathay Pacific, which it recently increased to 44%, along with its holding in HAECO, the Hong Kong based aviation maintenance company.

Despite the macro headwinds, the core business remains robust as demand for premium class travel to Asia remains high.

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

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

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

Investment Trusts and Funds (5.6%)

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

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

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

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

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

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

Resources (12.8%)

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

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

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

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

Other (12.1%)

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

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

Net Liquidity (12.1%)

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

Geographic Profile

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

Outlook

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

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

John Pennink

Asset Value Investors Limited
11 November 2011

Consolidated Statement of Comprehensive Income

of the Group for the year ended 30 September 2011

	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000	2010 Revenue return £'000	2010 Capital return £'000	2010 Total £'000
Income						
Investment income (note 2)	25,929	–	25,929	19,535	–	19,535
(Losses)/gains on investments held at fair value	–	(91,472)	(91,472)	–	97,769	97,769
Gains on forward currency contracts held at fair value	–	–	–	–	1,952	1,952
Gains/(losses) on Equities Index Stock 2013 held at fair value	–	145	145	–	(1,635)	(1,635)
Exchange losses on currency balances	–	(1,639)	(1,639)	–	(2,519)	(2,519)
	25,929	(92,966)	(67,037)	19,535	95,567	115,102
Expenses (note 3)						
Investment management fee	(2,471)	(2,471)	(4,942)	(2,187)	(2,187)	(4,374)
Performance fee	–	–	–	–	(170)	(170)
Back VAT on management and performance fees	111	69	180	231	165	396
Other expenses (including irrecoverable VAT)	(1,194)	–	(1,194)	(1,114)	(1)	(1,115)
Profit/(loss) before finance costs and tax	22,375	(95,368)	(72,993)	16,465	93,374	109,839
Finance costs (note 4)	(2,116)	(7)	(2,123)	(2,338)	(7)	(2,345)
Profit/(loss) before taxation	20,259	(95,375)	(75,116)	14,127	93,367	107,494
Taxation (note 5)	(1,854)	11	(1,843)	(1,415)	8	(1,407)
Profit/(loss) for the year	18,405	(95,364)	(76,959)	12,712	93,375	106,087
Earnings per Ordinary Share (note 6)	11.50p	(59.57)p	(48.07)p	7.94p	58.33p	66.27p

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

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

All items in the above statement derive from continuing operations.

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

Consolidated and Company Statements of Changes in Equity

for the year ended 30 September 2011

	Ordinary share capital £'000	Capital redemption reserve £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
Group							
For the year ended 30 September 2010							
Balance as at 30 September 2009	16,008	2,927	28,078	622,927	41,406	23,842	735,188
Total comprehensive income for the year	–	–	–	93,375	–	12,712	106,087
Ordinary dividends paid	–	–	–	–	–	(9,604)	(9,604)
Special dividend paid	–	–	–	–	–	(2,001)	(2,001)
Balance as at 30 September 2010	16,008	2,927	28,078	716,302	41,406	24,949	829,670
For the year ended 30 September 2011							
Balance as at 30 September 2010	16,008	2,927	28,078	716,302	41,406	24,949	829,670
Total comprehensive income for the year	–	–	–	(95,364)	–	18,405	(76,959)
Ordinary dividends paid	–	–	–	–	–	(12,326)	(12,326)
Special dividend paid	–	–	–	–	–	–	–
Balance as at 30 September 2011	16,008	2,927	28,078	620,938	41,406	31,028	740,385
Company							
For the year ended 30 September 2010							
Balance as at 30 September 2009	16,008	2,927	28,078	624,701	41,406	22,068	735,188
Total comprehensive income for the year	–	–	–	93,372	–	12,715	106,087
Ordinary dividend paid	–	–	–	–	–	(9,604)	(9,604)
Special dividend paid	–	–	–	–	–	(2,001)	(2,001)
Balance as at 30 September 2010	16,008	2,927	28,078	718,073	41,406	23,178	829,670
For the year ended 30 September 2011							
Balance as at 30 September 2010	16,008	2,927	28,078	718,073	41,406	23,178	829,670
Total comprehensive income for the year	–	–	–	(95,367)	–	18,408	(76,959)
Ordinary dividends paid	–	–	–	–	–	(12,326)	(12,326)
Special dividend paid	–	–	–	–	–	–	–
Balance as at 30 September 2011	16,008	2,927	28,078	622,706	41,406	29,260	740,385

Consolidated and Company Balance Sheets
as at 30 September 2011

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

Consolidated and Company Cash Flow Statements
for the year ended 30 September 2011

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

Notes

1. Accounting policies

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

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

(a) Basis of preparation

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

(b) Adoption of new and revised standards

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

<i>International Accounting Standards (IAS/IFRS)</i>		<i>Effective for periods beginning on or after</i>
IAS 24	Related Party Disclosures (revised 2009)	1 January 2011
IFRS 7	Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 9	Financial Instruments: Classification & Measurement	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interest in other Entities	1 January 2013
IFRS 13	Fair-Value Measurement	1 January 2013

(c) Basis of consolidation

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

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

(d) Presentation of Statement of Comprehensive Income

In order to reflect better the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010 (formerly Section 842 of the Income and Corporation Taxes Act 1988).

(e) Use of estimates

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

(f) Income

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

(g) Expenses

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

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

(h) Taxation

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

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

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

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

Investment trusts which have approval as such under Section 1158 of the Corporation Tax Act 2010 (formerly section 842 of the Income and Corporation Taxes Act 1988) are not liable for taxation on capital gains.

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

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

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

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

Fair values for unquoted investments, or investments for which the market is inactive, are established by using various valuation techniques in accordance with the International Private Equity and Venture Capital Valuation Guidelines. These may include recent arm's length market transactions, the current fair value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique

has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised. Where no reliable fair value can be estimated for such instruments, they are carried at cost subject to any provision for impairment.

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

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

(j) Movements in fair value

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

(k) Cash and cash equivalents

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

(l) Dividends payable

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

(m) Foreign currency translation

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

(n) Equities Index Unsecured Loan Stock 2013

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

(o) Finance costs

Finance costs are accounted for on an accruals basis and are recognised through the Consolidated Statement of Comprehensive Income as revenue items. This does not comply with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies, which would require the finance costs of the Debenture Stocks and the Index Stock to be allocated between revenue and capital in the same proportions as the Management Fee. However, the Directors consider that the treatment adopted, which is consistent with previous years, is the most appropriate given the liquidity of the Company and the nature of the Index Stock. Had the Company complied with the Statement of Recommended Practice, the result would have been an increase in revenue of £1,058,000.

(p) Debenture pricing

The 81/8 per cent Debenture Stock 2023 is valued at amortised cost under the effective interest method and secured by a floating charge over all assets of the Company. Costs in relation to arranging the debt finance of the 81/8 per cent Debenture Stock 2023 have been capitalised and are amortised over the term of the finance. Further details of the Debenture Stock are disclosed in notes 12 and 18.

(q) Capital Reserve

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

- Gains and losses on the disposal of investments;
- Gains and losses on Equities Index Stock 2013;
- Amortisation of issue expenses;
- Exchange difference of a capital nature;
- Expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies: and

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

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

(r) Segmental reporting

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

2. Income

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

3. Management fee and other expenses

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

†Net of the fee of £37,000 paid to Phoenix Administration Services Limited for company secretarial services.

For the year ended 30 September 2011, the fee calculated in accordance with the Investment Management Agreement amounted to 0.6%. Any out-performance in excess of the cap of 1% or under-performance in any year will be carried forward for use in the next three years fee calculations on a first-in first-out basis. There is an under-performance of 4.6639% to be carried forward for the period ending 30 September 2012.

4. Finance costs

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

5. Taxation

	2011 Revenue return	2011 Capital return	2011 Total	2010 Revenue return	2010 Capital return	2010 Total
(a) Analysis of charge in year						
Corporation tax	–	–	–	–	–	–
Foreign withholding tax	3,045	–	3,045	2,133	–	2,133
Overseas tax reclaimable	(1,185)	–	(1,185)	(718)	–	(718)
Prior year adjustment	(6)	–	(6)	–	–	–
Total current tax for period	1,854	–	1,854	1,415	–	1,415
Deferred tax	–	(11)	(11)	–	(8)	(8)
Total deferred tax for year	–	(11)	(11)	–	(8)	(8)
Total tax for year	1,854	(11)	1,843	1,415	(8)	1,407

(b) Factors affecting current tax charge for the period

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

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

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

6. Earnings per Ordinary Share

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

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

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

The basic revenue earnings per Ordinary Share is based on Group revenue after taxation for the financial year of £18,405,000 (2010: £12,712,000) and on 160,080,089 (2010: 160,080,089) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

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

7. Net asset value

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

	Net asset value per Share attributable Group and Company	
	2011	2010
	p	p
Ordinary Shares (basic)	462.51	518.28

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

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

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

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

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

8. Financial instruments and capital disclosures

Risk management policies and procedures

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

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

The Group may also enter into derivative transactions which comprise forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Group's investing activities) and quoted options on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings). The Group has used derivatives during the current financial year as part of its investment strategy.

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

Interest rate risk

Interest rate movements may affect:

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

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

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

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.

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.

Liquidity risk

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

Credit risk

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

The total credit exposure of the Group at the year end as shown on the Balance Sheet was £9,482,000 (2010: £8,707,000).

Fair values of financial assets and financial liabilities

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

	2011		2010	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
10 ³ / ₈ per cent Debenture Stock 2011	-	-	(8,484)	(9,044)
8 ¹ / ₈ per cent Debenture Stock 2023	(14,914)	(18,375)	(14,907)	(20,310)

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

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

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:

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

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

9. Contingencies, guarantees and financial commitments

In June 2007 the European Court of Justice ruled that investment management fees should be exempt from VAT, and in early November 2007 HM Revenue & Customs decided not to contest that ruling. The Board is taking steps to reclaim such back VAT on investment management fees as it can and has recovered £3,603,575 up to the date of this report. For the current period to 30 September 2011, £179,975 has been recovered and shown within these financial statements. This has been allocated £110,901 as revenue and £69,074 as capital within the Consolidated Statement of Comprehensive Income in line with VAT previously written-off on investment management and performance fees previously charged.

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

At 30 September 2011 the Group had no financial commitments (2010: £nil).

At 30 September 2011 the Group had no contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2010: £nil).

10. Related party disclosure

The related party transaction pursuant to the Investment Management Agreement with Asset Value Investors Limited is set out in the Directors' Report of the Company's Annual Report & Accounts for the year ended 30 September 2011. Management fees for the year amounted to £4,942,000 (2010: £4,374,000) and the performance fee for the year was £nil (2010: £170,000 of which £26,000 related to 2009 performance fee).

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

At 30 September 2011 the Group had a contingent liability pursuant to an Indemnity given to Caledonia Investments Limited (Caledonia) in respect of sums received from Caledonia by way of repayment of VAT (the VAT Refund) paid by the Company between 1991 and 1995 on investment management fees to Caledonia, against any amounts of VAT (including any interest or penalties) for which Caledonia is liable to repay to HM Revenue & Customs in respect of the VAT Refund together with all reasonable costs, charges and expenses incurred by Caledonia in enforcing its rights under the Indemnity. The Company's liability under the Indemnity shall not exceed the amount of the VAT Refund received from Caledonia which amounted to £619,178 (including simple interest of £263,337).

11. Investment objective and policy

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

Investments are principally in companies listed on recognised stock exchanges in the UK and/or overseas, which may include investment holding companies, investment trusts and other companies, the share price of

which is assessed to be below their estimated net asset value or intrinsic worth. Although listed assets make up the bulk of the portfolio the Company may also invest in unlisted assets with the prior approval of the Board.

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

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

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

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

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

12. Board Diversity

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

13. Comparative Information

The financial information contained in this announcement does not constitute statutory accounts for the year ended 30 September 2011 nor 30 September 2010 as defined by the Companies Act 2006 but is derived from those accounts. The statutory accounts for the year ended 30 September 2010 have been delivered to the Registrar of Companies and those for the year ended 30 September 2011 will be delivered following the Company's Annual General Meeting. The Independent Auditor's report on those accounts was unqualified and did not contain any statements under section 498 (2) or (3) of the Companies Act 2006.

14. Availability of Report & Accounts

A copy of the Company's Annual Report & Accounts for the year ended 30 September 2011 will shortly be available to view and download from the Company's website www.british-empire.co.uk. Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into or forms part of this announcement.

Printed copies of Report & Accounts will be sent to shareholders shortly. Additional copies may be obtained from the Corporate Secretary – Phoenix Administration services Limited, Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW.

The Annual General Meeting of the Company will be held on Thursday 15 December 2011 at 12 noon.

The Directors have proposed the payment of a final dividend of 6.5p (5.7p in 2010) per Ordinary share and the payment of a special dividend of 2.0p which, if approved by shareholders at the forthcoming Annual General Meeting, will be payable on 6 January 2012 to shareholders whose names appear on the register at the close of business on 9 December 2011 (ex-dividend 7 December 2011).

14. Declaration

The Directors of the Company, comprising Mr Strone Macpherson (Chairman), Mr Steven Bates, Mrs Rosamund Blomfield-Smith, Mr John May and Mr Andrew Robson, being the persons responsible, confirm to the best of their knowledge that:

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

Phoenix Administration Services Limited

11 November 2011